Business Council *of* British Columbia

Submission to the Select Standing Committee on Finance and Government Services in Advance of the 2013 Provincial Budget

October 18, 2012

Suite 810
1050 West Pender St
Vancouver, BC
V6E 3S7

Telephone 604 684 3384
Facsimile 604 684 7957
info@bcbc.com
www.bcbc.com

Business Council of British Columbia

SUBMISSION TO THE SELECT STANDING COMMITTEE

ON FINANCE AND GOVERNMENT SERVICES

IN ADVANCE OF THE 2013 PROVINCIAL BUDGET

The Business Council of British Columbia is pleased to provide this submission to the Select Standing Committee on Finance and Government Services, outlining our views and advice in respect of the 2013 provincial budget.

By way of background, the Business Council, established in 1966, is an association representing more than 250 large and medium-sized enterprises. The Council's members are active in all major sectors of the provincial economy, including forestry, mining, manufacturing, oil and gas, chemicals, utilities, financial services, transportation, construction, telecommunications, information technology, hospitality and tourism, wholesale/retail, communications, agri-food, life sciences, film production, healthcare, education and the professions. Taken together, the corporate members and associations affiliated with the Business Council account for approximately one quarter of all jobs in British Columbia.

1. ECONOMIC OUTLOOK AND RISKS

More than four years into the recovery from the 2008 financial crisis and associated global recession, BC's economy appears to be on track for another year of modest growth. The main reason for our fairly subdued near-term outlook is that the past six months have seen a steady downgrading of prospects for the world economy. In the advanced economies, fiscal consolidation, private sector deleveraging and – in some countries – still weak financial systems are hindering growth. This is especially true in the

Table 1
Global Growth Outlook
(annual % change in real GDP)

	2011	2012 (projections)	2013 (projections)
US	1.8	2.2	2.1
Euro zone	1.4	-0.4	0.2
Japan	-0.8	2.2	1.2
China	9.2	7.8	8.2
UK	0.8	-0.4	1.1
India	6.8	4.9	6.0
World	3.8	3.3	3.6

Source: IMF, World Economic Outlook, October 2012.

Eurozone, which has slipped back into recession. The UK economy is also struggling. Although Eurozone output is expected to post slightly positive growth by 2013, Spain, Greece and Italy are likely to remain mired in recession. As the IMF noted earlier this month, the ongoing financial challenges in the Eurozone pose the most serious threat to the global economy.

The recovery in the United States continues to be uneven, but there are some reasons for optimism. From BC's perspective, the gradual recovery in US housing activity and homebuilding is a welcome development. After an epic slump, US housing markets have bottomed, with some of the regions hit hardest by the real estate collapse of 2006-10 now rebounding. Nationwide, housing starts are likely to reach 850,000-900,000 units in 2013, compared to less than 500,000 a few years ago.

American consumers are also showing signs of life, as household balance sheets continue to heal. Consumer debt levels have fallen appreciably since peaking in the third quarter of 2008. Retail spending is reviving from its recession lows, led by surging auto sales. Apart from student debt, delinquency rates for most types of household loans have eased since 2009. Most importantly, job creation has accelerated as private sector hiring picks up and the pace of public sector layoffs slows. The "fiscal cliff" and political gridlock in Washington D.C. are threats to the outlook for 2013, but leading forecasters anticipate that Congress will act to prevent this scenario from unfolding. Of note, the US was the only advanced country to see its 2012 growth forecast upgraded in the IMF's October 2012 World Economic Outlook (Germany's outlook was unchanged, while growth projections for all other major economies were trimmed).

China remains a source of strength for the world economy, but the slowdown in Europe is affecting it as well as many other emerging markets.[1] China's exports have been blunted by the return of recession in much of Europe, and by slower growth in some of its other export markets. The Chinese purchasing managers' index (PMI) slipped for the 11th consecutive month in September. China's export-oriented manufacturing sector has slowed. While the export figures for September were better-than-expected, the 9.7% year-over year gain is down from the 20% plus growth seen throughout 2011. Even though China is likely to retain its status as the world's leading economic engine, the IMF now expects its real GDP to increase by 7.8% in 2012, down from 9.2% in 2011 and 10% or more in the years before 2008. India's growth rate is also retreating. Meanwhile, in Japan the massive post-disaster rebuilding effort is providing a short-term boost, but going forward the country's structural challenges (unfavorable demographics, high public debts, an overvalued currency, and deflationary pressures) promise to keep its economy in the slow lane.

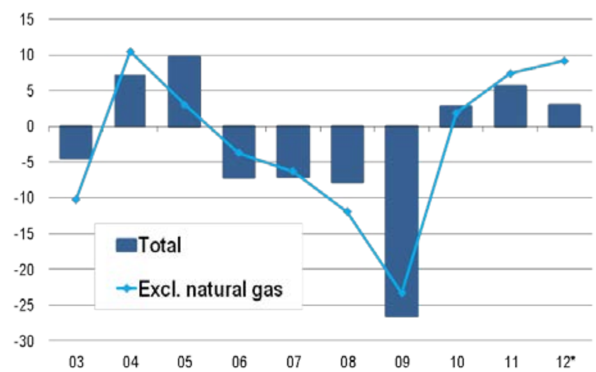
Canada's economy continues to advance, albeit quite tepidly, with business non-residential investment now a primary source of growth as governments retrench, consumer outlays soften, and the export sector grapples with a sluggish global economy and the strong Canadian dollar. Real GDP is on course to expand by slightly less than 2% in 2012, with a similar performance in store for next year. Alarmingly high levels of household debt point to a moderation in the growth of consumer spending over the next few years. Indeed, many Canadian households will be under pressure to cool borrowing activity and re-build savings. The good news for indebted consumers is that interest rates are expected to remain near record lows through 2013.

The weaker global economy is showing up in the data on BC's exports, which have lost momentum this year, particularly in the case of China. The shift in the export dynamic vis-a-vis China is especially visible if coal is excluded, with the value of BC's remaining exports

[1] The EU is China's single biggest export market.

to the Middle Kingdom down 1.9% year-to-date. Apart from coal, all of BC's other major export categories to China are trending lower in 2012 – something not seen since the province's sales to China started to take off a decade ago. It remains to be seen whether China's economic cooling is temporary or instead reflects a shift to a slower growth trajectory.

Chart 1
Growth in BC Exports to the US
(per cent)



*Source: BC Stats *year to date – January-August*

Table 2
BC Economic Forecast
(% change unless noted)

	2011	(forecasts) 2012	2013
Real GDP	2.9	1.9	2.2
Employment	0.8	2.0	1.9
Retail sales	3.1	4.3	4.5
Housing starts (000s)	26.4	27.0	24.5

Source: Business Council, Statistics Canada for history.

On a more positive note, the pick-up in new home construction and the recovery of the US economy more generally have bolstered BC's exports to our southern neighbour. The soft North American pricing environment for natural gas is dampening US-bound exports, but if gas is excluded from the figures, the export picture looks healthier. Year-to-date, BC has registered a 25% jump in US-bound lumber shipments; exports of machinery and equipment have also risen at an impressive clip.

Unfortunately, decreases in sales to other foreign markets – including South Korea, Taiwan, and Europe – mean that BC's overall merchandise exports are down so far this year. Going into 2013, we anticipate a further improvement in US economic conditions that should offset part of the weakness in exports to Asia-Pacific and European markets. However, on balance BC's export sector isn't expected to add much to the province's economic growth rate over the next year or so.

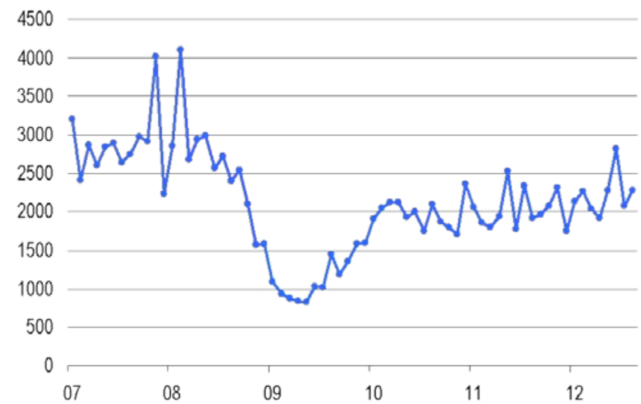
A Closer Look at the BC Economy

As with the export sector, conditions in the domestically-driven parts of the BC economy are mixed. Consumers remain tentative and somewhat cautious amid considerable global uncertainty. Rising household debt is also restraining consumer outlays. Statistics Canada reports that nationally, household credit market debt is now equal to 159% of income, a record high; and while we don't have a current figure for BC, the debt burden here is certainly greater, given higher housing costs. Retail spending is up about 4% so far this year, but this is shy of the 5-6% y/y increases recorded before the financial crisis and 2008-09 recession. After taking inflation and population growth into account, the average BC household is not spending any more than it did a year ago.

Chart 2

BC Housing Starts

(units, seasonally adjusted)



Source: CMHC, BCBC for seasonal adjustment. *latest September*

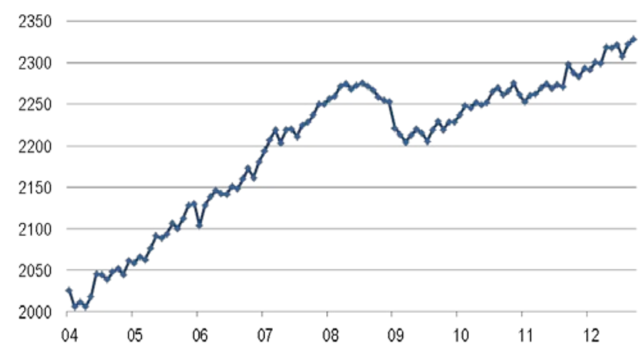
An important development from a fiscal policy perspective is the slowdown in the housing sector now underway in BC. The number of homes sold through the MLS system has dropped 25% from year-ago levels, and the average price of a home sold is off by 9%. While it is difficult to say how long the downshift in housing sales will last, we believe the weak sales environment is likely to persist through 2013. New home building will also feel the pinch from more subdued real estate markets – although we don't project a material change in the number of housing starts next year.

In contrast to the residential segment, the non-residential construction sector is a notable bright spot for the province, and should support economic growth through 2013 and beyond. Non-residential building permits have trended higher over the past two years, with the total value of permits now back to the levels of the 2006/07 building boom. The capital cost of all of the major projects under construction in BC stands at $78 billion.[2] Together with increased commercial building activity in Metro Vancouver, the numerous large engineering and infrastructure projects across the province will help to underpin a robust expansion of non-residential construction activity over the next 18 months.

Chart 3

BC Employment

(thousands)



Source: Statistics Canada, BCBC for trend data. *latest: September.*

Despite varied conditions on both the domestic and external fronts, BC's job market has managed to gain some traction. Job growth for 2012 (through September) is running at 1.8%, which is a decent performance in today's slow growth world. Our sense is that hiring activity is somewhat stronger than the top-line figures suggest, because the number of self-employed has fallen while payroll jobs have jumped – typically these are signs of underlying buoyancy in the labour market. The fact that full-time jobs are increasing while part-time positions have dwindled is another favorable sign.

Finally, we would note that shifting migration patterns are likely to weigh on economic growth in BC over the next year or two. Net interprovincial migration has turned negative, a reflection of the strength of the Alberta and Saskatchewan economies – and perhaps to some extent of the high cost of housing in the lower mainland and Greater Victoria. International migration has held up, but with the net loss of people to other provinces, BC's population growth rate has slipped to 1%. This will temper gains in consumer outlays and housing market activity in the near-term.

[2] Major projects are those with capital costs exceeding $15 million ($20 million in Greater Vancouver). British Columbia Major Projects Inventory, June 2012. The $78 billion figure does not include proposed pipeline or liquefied natural gas projects, as these have not yet started or received regulatory approval.

Summary and Risks

In line with the decelerating global economy and mixed domestic conditions, the Business Council has downgraded our economic outlook. We now foresee the BC economy expanding by 1.9% (in real terms) this year. Other private sector forecasters have also scaled back their near-term projections.[3] The government's latest forecast, as reported in the September 2012 First Quarterly Report, looks for real GDP growth of 2.0% this year, falling to 1.8% in 2013. While we are generally in alignment with the Ministry of Finance, we see slightly stronger growth (2.2%) for 2013, based on our expectation that China's current stimulus efforts will have some success, that US homebuilding will improve, and that much of BC's planned non-residential construction work will get underway. We would note, however, that owing to the unsettled global economy, the risk to the outlook is tilted to the downside.

2. SOME PRIORITIES FOR BUDGET 2013

The Business Council has supported the government's commitment and plan to eliminate the operating deficit by 2013-14, as outlined in Budget 2012. As we have articulated in previous submissions, the government generally has done a good job of managing the province's finances since 2001 – a period which included a few years of brisk economic growth and an investment boom, followed by a serious global downturn and then a somewhat muted recovery. Looking back to the mid-2000s, the decision to pay down a portion of the accumulated provincial debt during an era of budget surpluses helped to put British Columbia in a position to successfully navigate the turbulent economic waters of recent years. Post-2009, the actions taken by government to contain public sector wage increases, reduce the growth of health care outlays, and limit other program expenditures have assisted in keeping budget deficits comparatively modest.

In light of the restrained growth outlook, heightened global uncertainty, and numerous resource-related revenue challenges, the Business Council believes Budget 2013 should

[3] For example, see TD Economics, Provincial Economic Update, October 5, 2012.

essentially be a stay-the-course effort. As we see it, the overriding fiscal policy priority is responsible stewardship of the province's finances. We think it's worth considering the adoption of a supplementary "anchor" for fiscal policy, one that's based on management of the taxpayer-supported debt rather than just the operating budget. Meeting the 2013-14 balanced budget target remains the preferred course. At the same time, the government should be cautious about implementing tax increases or instituting further substantial spending cuts to meet the target if revenues continue to fall.

As outlined in recent quarterly updates, in the current fiscal context the plunge in natural gas prices and revenues has made it tougher to return to a balanced budget. A decline in both the price and volume of natural gas together with reduced land sales have resulted in a revenue shortfall of more than $1.1 billion over the current fiscal plan. While the province has taken appropriate steps in response, and still appears to be on track to balance the operating budget in 2013-14, further revenue slippage cannot be ruled out. A more pronounced economic slowdown in China, for example, would hurt revenues linked to coal and metal mining. Within the domestic economy, declining home sales could trigger a sharper fall in property transfer tax – and also affect other revenue sources that are influenced by real estate and home-building activity. The First Quarterly Report projects $893 million in property transfer tax in 2012-13, which is 5.5% less than last year. So far in 2012 home sales are off by 8%-10% compared to 2011 levels. The volume of home sales in September was down 15% from the same month last year, with the dollar value of all residential transactions tumbling by 25%. All of this could well presage a steeper decline in property transfer tax revenues in the next 12 months.

In summary, given the fiscal pressures and economic uncertainties, we believe it makes sense for the government to continue with its expenditure management plan, while recognizing that there is a risk of more downside adjustments on the revenue front in the coming months. For Budget 2013, the Business Council is not proposing any major new revenue or expenditure measures – although we do want to emphasize the need to ensure that the Ministries and agencies responsible for overseeing economic activities on the land base are sufficiently resourced to manage the large volume of investment projects on the Major Projects Inventory list. Ensuring adequate funding of post-secondary education and training institutions should also be a top a priority.

One small item that the Business Council would like the government to follow through on is making the port property tax cap permanent, as was promised in Budget 2012. The transportation and logistics industry is an important economic engine for BC, and the province's role as Canada's gateway to the Asia-Pacific is of course one of our principal strategic advantages. It is vital that our ports are as competitive as possible and that governments do what they can to encourage timely investments in port expansion and related infrastructure development. In this regard, we believe it is essential to provide long-term property tax certainty for port operators. In terms of Budget 2013, making the existing property tax cap permanent is a minor revenue item that has already been built into the three-year operating plan.

As for other tax measures in Budget 2013, the Business Council recently submitted a detailed commentary on the carbon tax as part of the review being undertaken by the Ministry of Finance. While we support the principle of "pricing" greenhouse gas emissions, the reality is that British Columbia has moved far ahead of other provinces and American states by raising its carbon tax to $30 tonne since it was introduced in 2008. At this level, the made-in-BC carbon tax is creating competitive difficulties for a number of energy-intensive and trade-exposed industries (EITEIs), including refineries, cement and chemical manufacturers, the oil and gas sector, pipelines, mining, parts of the agri-food industry, pulp and paper, and transportation, among others. Looking ahead, the Business Council's advice is to retain the carbon tax but find ways to address the situation of vulnerable industry sectors whose BC-based production and transportation costs have increased significantly as a result of the tax. We note that the interim report of the Jobs and Investment Board contains recommendations aimed at mitigating the adverse impact of the carbon tax.[4]

The Expert Tax Panel on BC's Business Tax Competitiveness recently issued its report.[5] We encourage the Standing Committee and the government to carefully review the Panel's analysis and recommendations. With the antiquated PST slated to replace the more efficient HST next April, an initial priority is to act on all of the Panel's recommendations relating to streamlining the administration of the PST, which can be done quickly and at little cost to the treasury. Providing a fully refundable tax credit for PST paid on the acquisition of machinery and equipment (including computers and software) for use in all types of business is also a key Panel recommendation that should be pursued as soon as finances permit.

The Panel's mandate included adhering to "revenue neutrality" in its package of recommendations. For the Panel, this was achieved by proposing increases in mining and oil and gas royalties and a 0.5 point hike in the corporate income tax rate. Here, we caution the province to proceed very carefully. While we appreciate the Panel's desire to respect revenue neutrality and acknowledge that its proposed tax changes, if fully implemented, would benefit the province's economy over the long-term, legislators need to recognize that many businesses operating in BC today are facing cost pressures on a number of fronts.

Rising business costs are due not just to the looming re-establishment of the PST, which the Business Council estimates will increase the cost of producing goods and services in the province by more than $1.5 billion per year; they also reflect higher Employment Insurance and WorkSafeBC premiums, a carbon tax that is the highest in North America,

[4] British Columbia Jobs and Investment Board, Interim Report, 2012, pp. 4, 9.
[5] Report of the Expert Panel on BC's Business Tax Competitiveness, August 31, 2012.

escalating electricity rates, substantial increases in the minimum wage, and – for some industries – uncompetitive municipal property taxes. The effect of these trends is amplified by significant regulatory and permitting issues that continue to impede investment and to raise business costs in natural resource and other industry sectors – as recently noted by the Jobs and Investment Board. All of the policy-related factors that are driving up costs must be monitored and considered as part of an ongoing review of British Columbia's competitive position in a North American context. This task takes on added urgency in light of the fact that that when the PST is re-instituted next spring, BC will be saddled with the highest average marginal effective tax rate on new business investment among the ten provinces.[6] **Our message is clear: the intense global competition for capital to grow the economy, create jobs, and sustain BC's standard of living is a fundamental reality that should be front and centre for government decision-makers and all members of the Legislature.**

The Expert Panel was also tasked with examining "municipal taxation of business and its impact on business competitiveness and investment." From the business community's perspective, BC's property tax system has fostered inequitable treatment across different property classes. The Panel concluded that "[i]n general, municipal taxes on business are not one of the primary influences on BC's overall competitive position," but it went on to say that such local taxes are "a serious concern to firms in specific situations." The Panel observed that "the combination of higher than average [industrial] tax rates and capital intensive operations can present problems which are pronounced where these firms are in a position of earning low returns on investment or operating at a loss."[7]

[6] As estimated by the federal Department of Finance, and discussed in ibid. p. 21. The marginal effective tax rate is a comprehensive measure of the tax burden on capital investment and takes into account corporate tax rates, capital taxes, other asset-based taxes, and sales and other consumption-related taxes on business inputs. For further detail, see Duanjie Chen and Jack Mintz, 2012 Annual Global Tax Competitiveness Ranking – A Canadian Good News Story, University of Calgary School of Public Policy, SPP Research Papers, September 2012.

[7] Report of the Expert Panel on BC's Business Tax Competitiveness, August 31, 2012, p. 52.

The Business Council believes the government should act on the Panel's recommendations relating to business property taxation, which focus on the need to develop benchmarks and best practices for municipalities. The Panel also recommends negotiating a framework with the UBCM to develop an appropriate action plan for remedial steps to be undertaken when particular local taxes move outside the benchmarked range. We note that working within a revenue neutral mandate, the Panel's recommendations on property taxation do not carry any fiscal price tag. The Business Council supports these measures, but we believe it is also necessary for the province to develop a more binding framework for municipal property taxation that will provide greater certainty for companies making or considering long-term capital investments. A balanced property tax regime is a key ingredient in ensuring that BC has a diversified economy and a competitive business climate. At present the province falls short of meeting this standard in the area of municipal property taxation.

As a final comment in this section, in preparing Budget 2013 we suggest that the government retain the option of advancing its plans for capital spending on transportation and other infrastructure projects. Upgrades to the George Massey Tunnel and Highway 1 to the Alberta border that the Premier recently highlighted should be priorities. Highway 99 and the George Massey Tunnel are heavily congested throughout much of the day, causing long delays for commercial and other traffic. The government has overseen large-scale investments in infrastructure over the past decade; we are confident these will generate significant economic benefits in the years ahead. Additional capital investments that promise positive returns can be accelerated if macroeconomic conditions deteriorate over the short-term. While this would add to the provincial debt, as noted earlier British Columbia has a relatively low debt level – and carefully selected infrastructure spending can support the goal of building a more competitive and productive economy.

3. MEDIUM-TERM POLICIES AND FISCAL RULES

Looking beyond Budget 2013, we offer some thoughts on medium-term policies and fiscal rules, including the province's approach to budget and debt management.

To begin with, we believe the government should act on the Expert Panel's recommendation to "appoint a task force to explore and fully develop the design of a BTT (business transfer tax)." As the Panel describes it, the BTT would be simple to administer and largely eliminate sales tax on business inputs. Critically, under a BTT regime sales tax is not paid on goods and services exported from the province, thus restoring many of the competitiveness benefits associated with the HST. A BTT would apply on a broader base than the HST, and thus probably be set at a lower rate. A comprehensive review and overhaul of the province's sales tax system, post-HST, is likely to take a number of years. We urge the Standing Committee to include a recommendation to start this important work in its pre-budget report.

Turning to the topic of fiscal rules, there are several ways to provide an "anchor" for fiscal policy. Legislation stipulating an annual balanced operating budget is one approach. A statutory requirement to avoid deficits focusses attention on expenditure management and reinforces internal government discipline. However, in practice balanced budget legislation can be modified when circumstances dictate, as has happened in British Columbia. So even though it serves a useful purpose, a balanced budget law is not binding and may not be sufficient to achieve fiscal sustainability.

The recent global financial crisis underscored the budgeting challenges facing jurisdictions that experience large "shocks." According to an IMF study, one quarter of 70 countries with legislated fiscal rules altered or suspended them in response to the crisis, while another quarter acknowledged a conflict between the rules and the appropriate fiscal policy stance and pledged to change their rules.[8] Most of the countries that did not revise their fiscal rules benefitted by having flexibility built into the relevant laws – for example, extended timeframes for eliminating deficits, access to "rainy day" funds set aside to cope with economic downturns, or various "escape clauses."

It is clear that more countries are relying on rules of various kinds to guide and anchor fiscal policy. Based on a data-set developed by the IMF, as of 2012 there were 76 countries with national and/or supranational fiscal rules; in 1990, only five countries had such rules in place covering at least the central/national government level.[9] The IMF finds that, over time, countries have moved away from a single rule and toward a "combination of rules," often designed to constrain both the debt and the near-term budget balance.[10] We agree with the IMF that overall debt sustainability should be part of any framework aimed at delivering sound fiscal management.

Experience during the crisis shows that adherence to a simple balanced budget rule can be problematic for jurisdictions susceptible to big swings in resource or other revenue sources. We would also note that for a jurisdiction like BC, where a majority of the accumulated provincial debt reflects borrowing to fund capital spending rather than the build-up of operating deficits, balanced budget legislation by itself may not ensure long-term fiscal sustainability. While the intent of such legislation is to limit the growth of debt and encourage disciplined day-to-day expenditure management, capital outlays are not captured. This means that the debt/GDP ratio can continue to climb, even if the operating budget is balanced (or in surplus). One way to deal with this lacuna is to have the relevant fiscal rule(s) stipulate that all annual operating surpluses must be applied to repaying debt; as noted earlier, the BC government took action consistent with this

[8] International Monetary Fund, Fiscal Rules – Anchoring Expectations for Sustainable Public Finances, December 2009, p. 34.
[9] International Monetary Fund, Fiscal Rules in Response to the Crisis – Toward 'Next Generation' Rules: A New Dataset, July 2012, p. 10.
[10] Ibid., p. 15.

principle in the mid-2000s. Policy-makers may want to consider incorporating the concept into legislation. But even this kind of provision wouldn't necessarily prevent outsized spending growth during periods of buoyant revenues (as seen in Ontario over 2002-2008). To address the always-present risk of excessive spending growth, it is important to have explicit expenditure management targets as part of an overall fiscal plan.

The Business Council is comfortable with retaining a goal to balance the operating budget as part of a suite of policies aimed at securing long-term fiscal sustainability. However, as noted above, a rule mandating a balanced budget won't necessarily keep the debt from growing faster than the economy (thus yielding a rising debt/GDP ratio). In this connection, the government should look at other options to "anchor" fiscal policy. One promising approach might be to set, by law, an upper limit on the provincial debt-to-GDP ratio.[11] For BC, we believe a sensible upper limit on the tax-supported debt would be in the vicinity of 20% of GDP – a bit higher than today, but well below the debt/GDP ratios of the most heavily indebted provinces.[12] The upper limit could scale down over time based on the performance of the economy, or it could be maintained at 20% of GDP to create fiscal room to deal with a future (significant) shock.

Table 3

Provincial Net Debt/GDP Ratios, 2012-13

Alberta	-4.2%
Saskatchewan	+4.9%
British Columbia*	+17.4%
Newfoundland	+25.1%
Manitoba	+27.6%
Prince Edward Island**	+34.0%
New Brunswick	+34.1%
Nova Scotia	+34.8%
Ontario	+39.5%
Quebec	+51.5%

*The BC government expects the ratio to reach 18.3% of GDP by 2014-15.
** Data for PEI are for 2011.

Source: RBC Economics, September 17, 2017.

At present BC has the third lowest net debt/GDP ratio in Canada, at a little more than 17%. Table 3 provides further details on provincial debt/GDP burdens. A legislated

[11] This could be set in relation to the total provincial debt or to the portion of the debt that is treated as "tax-supported."
[12] RBC Economics, Provincial Fiscal Tables, September 17, 2012.

upper limit to the net debt/GDP ratio could be established in conjunction with a requirement to balance the operating budget over an appropriate time period.[13] Another option may be to introduce a rule limiting the annual growth of government outlays – for example, by tying program spending to some combination of population growth and inflation, or to changes in nominal GDP.

The business community generally views balanced budgets as desirable and as a useful tool to shape and discipline spending decisions. Seeking to balance the budget every year is one way to anchor fiscal policy. A legislated framework to limit and manage the tax-supported debt also merits consideration, particularly since it would be less susceptible to short-term revisions arising from transitory shocks or sudden shifts in macroeconomic conditions. And however the fiscal anchor may be defined, it is important that the province commit to maintaining BC's current top-notch credit rating regardless of changing economic conditions.

Finally, the Business Council notes that Budget 2013 is the first (potential) three-year budget plan to include – by 2015/16 – possible "new" revenues tied to the development of an LNG industry in the province. While it is too early to allocate potential new revenues from LNG, it is not too early to start thinking about how to prudently deal with such revenues from a longer-term perspective. We encourage legislators to study options for establishing a dedicated Resource Revenue Fund that would receive a portion of the direct revenues derived from the development of the province's non-renewable resource wealth – an idea recently proposed by the Canadian International Council, and supported by many academic economists.[14] Since LNG development may have a substantial impact on the province's economy and lead to a dramatic increase in the volume of energy

[13] Some jurisdictions with legislated requirements to balance the budget aim to do so annually, while others focus on a longer time period (e.g., a business cycle). See the previously cited IMF papers.

[14] The 9 Habits of Highly Effective Resource Economies: Lessons for Canada, Canadian International Council, 2012, chapter 1.

exports, it makes sense to review how the province manages the revenue streams associated with the exploitation and sale of non-renewable resources.

4. SUMMARY AND RECOMMENDATIONS

In summary, the Business Council wishes to highlight the following points from this pre-budget submission.

- Our base case forecast for the provincial economy is for real GDP to increase by 2% this year and by slightly more than 2% in 2013.

- Assuming that our base case forecast is broadly accurate, and that the province does not experience additional significant declines in revenue, we support the government's stated goal to balance the operating budget in 2013-14.

- The government should ensure that Ministries and agencies responsible for overseeing economic activities on the land base are properly resourced to manage their growing workload.

- The province should ensure that the post-secondary education and training system is adequately funded to meet the rising demand for educated and skilled workers and to support the development of a more innovative and competitive economy.

- We urge the government to act on its previous commitment to make the port property tax cap permanent.

- To strengthen the framework for fiscal policy decision-making and safeguard BC's excellent credit rating, the province should consider legislating an upper limit to the taxpayer-supported debt, measured as a share of GDP. The Business Council's proposed upper limit is 20% of GDP.

- We endorse the recommendations of the Expert Panel on BC's Business Tax Competitiveness with respect to streamlining the administration of the PST once it is re-established next spring.

- As soon as possible, the province should introduce a refundable tax credit for PST paid on the acquisition of machinery and equipment (including computers and software) for use in all types of business, as proposed by the Expert Panel.

- We urge the Standing Committee to include in its pre-budget report a recommendation that the province begin work on the development of a "Business Transfer Tax" as outlined in the Expert Panel's report.

- It is time to review how the province manages the revenue streams associated with the development of non-renewable natural resources. Some leading jurisdictions have established dedicated investment funds that receive a portion of direct revenues derived from the production and sale of non-renewable natural resources. We believe BC should start thinking about following a similar path.

- The province should look at ways to mitigate the negative economic impact of the carbon tax on energy-intensive and trade-exposed industry sectors. It should also take the lead in overhauling the municipal property tax regime to address in inequities that have developed in the tax treatment of business and industry in some communities.

- In light of the re-establishment of the PST next spring – a step that will increase the cost of producing goods and services in BC by approximately $1.5 billion per year – the province should avoid other tax and fee increases on businesses.

The Business Council appreciates the opportunity to share our advice on Budget 2013 with the Legislative Standing Committee on Finance and Government Services.

* * * * *