Business Council *of* British Columbia

Submission to the Select Standing Committee on Finance and Government Services in Advance of the 2014 Provincial Budget

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SUBMISSION TO THE SELECT STANDING COMMITTEE ON FINANCE AND GOVERNMENT SERVICES IN ADVANCE OF THE 2014 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 on the 2014 provincial budget to be presented next February.

By way of background, the Business Council, established in 1966, is an association representing more than 260 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

The global economic setting remains fragile. Throughout the course of 2013 growth projections for both advanced and emerging economies have been steadily downgraded. In its July World Outlook, the IMF trimmed its growth forecast for emerging markets by three-tenths of a percentage point, for both 2013 and 2014, compared to its outlook in

April. For the advanced economies collectively, the IMF also slightly scaled back its GDP growth forecasts. These reductions followed similar downward adjustments at the time of the IMF's April update. For 2013 as a whole, the IMF now expects global growth to come in at a disappointing 3.1%, followed by 3.8% next year. Two key reasons for the more subdued economic scenario are weaker-than-anticipated domestic demand in many emerging economies and the effects of the protracted (but recently ended) recession and ongoing sovereign debt crisis in Europe. Since the economic recovery began in 2009, the general pattern globally has been for growth to fall short of forecasters' and central banks' expectations.

As BC's first and second largest export markets, respectively, the outlook for the United States and China is of particular interest. The $16 trillion American economy is gradually "healing" and seems to be edging toward a stronger expansion path. Although the pace of growth since the 2008-09 recession and financial crisis has been sub-par, a number of factors are now lining up favourably for the US. Households have made notable progress in paring debt and rebuilding their finances. A revival of the beleaguered housing market is well underway and should continue for another few years. The net worth of American households is now comfortably above its previous 2007 peak. A boom in US oil and gas production is providing jobs, improving the trade balance, and keeping energy prices contained as the economy gains momentum. In several industry sectors, the US is becoming more competitive, a change that's confirmed by the repatriation of some manufacturing production previously outsourced to China and other emerging markets. Improved US manufacturing competitiveness reflects falling land and construction costs, stable labour costs, and low energy costs compared with Europe, Japan and – in the case of electricity – Canada.[1]

[1] For a discussion of America's underlying economic strengths, improved competitiveness, and growth prospects, see McKinsey Global Institute, Game Changers: Five Opportunities for US Growth and Renewal, July 2013, available at www.mckinsey.com/mgi. Also see Deloitte, Manufacturing Opportunity: A Deloitte Series on Making America Stronger, 2012 and Boston Consulting Group, "The US As One of the Developed World's Lowest-Cost Manufacturers," BCG Perspectives, August 20, 2013.

Most big US corporations boast healthy balance sheets, with sizable amounts of cash that can be deployed to expand production, build new facilities and increase payrolls. The fact that the Federal Reserve recently decided to delay any "tapering" of its unprecedented bond-buying program suggests that US monetary policy will continue to be very supportive of economic growth. This should help to keep interest rates down and facilitate the resurgence of the US housing market.

China's economic trajectory has downshifted from the 10% plus annual growth rates recorded during the pre-2008 period. The IMF recently revised its GDP growth forecast for China down by six-tenths of a percentage point for next year. While the outlook for China remains a risk for Canada (and particularly for BC), the good news is that earlier fears of a more pronounced slowdown have largely abated. According to the IMF, China's economy is projected to expand by 7.8% this year and by 7.7% in 2014. It is worth noting that because China's economy is so much larger today than it was a decade ago, even with a 6-7% annual real GDP growth rate China will be adding more to global demand than it did in the early 2000s when the country's output was galloping ahead by more than 10% per year.

Although it has only limited direct trade linkages with BC, the European Union (EU) remains important in the global picture, not least because the 28-nation bloc represents almost one-quarter of world output. Some EU member states are still in recession, but the common currency Euro-zone as a whole has now returned to positive (albeit feeble) growth.[2] Most importantly, growth has resumed in Germany, France and the UK – the three biggest EU economies. Next year the region as a whole is expected to see GDP edge higher by around 1%.

[2] The euro-zone is made up of 17 of 28 EU member states that share a common currency and a single central bank. The other EU member states retain separate national currencies and have their own central banks.

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

	2012	2013 (projections)	2014 (projections)
US	2.2	1.7	2.7
Euro area	-0.6	-0.6	0.9
Japan	1.9	2.0	1.2
China	7.8	7.8	7.7
UK	0.3	0.9	1.5
India	3.2	5.6	6.3
World Output	**3.1**	**3.1**	**3.8**

Source: IMF World Economic Outlook (July 2013).

Canada's economy continues to advance at a modest pace, largely mirroring US performance. As with the US, real GDP growth is expected to accelerate from 1.7% this year to 2.4% in 2014. This forecast assumes that the US will gain economic traction over the next 12-18 months. While Canada outpaced the United States on most economic indicators in the five years ending in 2012, the next half decade is likely to see a reversal of this pattern, with the US registering bigger gains in output, employment, incomes, business investment and housing market activity. This is partly explained by the fact that America experienced a deeper economic downturn and a slower recovery than Canada over the 2008-2011 period and so has more ground to make up – particularly in the labour market. But it also reflects significant improvements in US manufacturing competitiveness and the widespread economic benefits stemming from rapidly rising domestic oil and gas production.[3]

Underpinning the anticipated pick-up in Canadian economic growth is a rebound in exports and increased business investment. While the Canadian consumer may be tired, there are recent indications that consumer spending and housing market activity are holding up better than many economists envisaged 6-12 months ago. One risk to the outlook is that heavily indebted BC and other Canadian households could face a hit if interest rates jump in the next 12-24 months. Fortunately, most forecasters believe interest rates will not be rising materially until 2015 – and even then will climb at a very gradual pace. This scenario should give debt-burdened households time to improve their finances and (hopefully) reduce outstanding debt balances, before interest rates "normalize" later in the decade.

[3] See the sources cited in footnote 1.

Focus on the BC Economy

Chart 1

Source: BC Stats seasonally adjusted. Latest August 2013.

Turning to British Columbia, softer economic conditions emerged in the second half of 2012 and have remained in place so far this year. At this stage there is little indication that the economy is on an upswing, although we do expect a somewhat better performance in 2014 – partly owing to the gains that will mechanically come off of 2013's weak base.

Table 2

BC Economic Forecast

(% change unless noted)

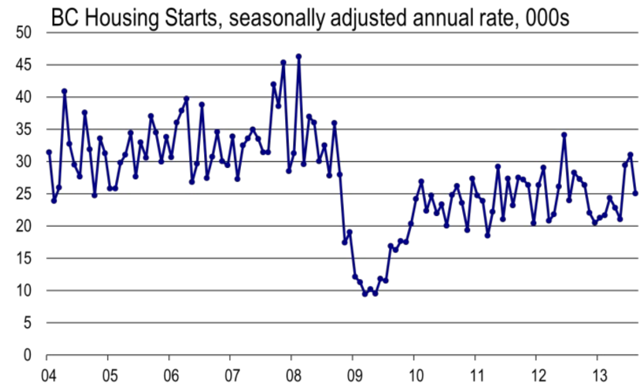
	2012	2013 (forecasts)	2014 (forecasts)
Real GDP	1.9	1.6	2.5
Employment	1.7	0.4	1.9
Retail sales	2.8	3.0	4.0
Housing starts (000s)	27.0	24.5	25.0

Source: Business Council, Statistics Canada for history.

It would be an overstatement to say that exports have been an especially bright spot for BC, but the 6.2% increase in the value of foreign sales through August of this year has certainly been welcome. Merchandise exports to both China and the US are up by approximately 12% year-to-date, but these gains have been tempered by decreases in the value of shipments to other markets. The hoped-for improvement in the US economy and slightly stronger global growth should pave the way for a further rebound in BC's merchandise exports. On the services side, buoyant Gateway-related activity (last year saw record business volumes at both Port Metro Vancouver and the Port of Prince Rupert) and a rise in international tourism should also contribute to an expansion of BC's total exports in 2014 and 2015. In short, the province's export sector is poised for a stronger performance going forward.

In the domestically-driven parts of the BC economy most indicators have been sluggish. The job market stands out as a particularly weak area. Taking the average employment level for January through September compared to the same period in 2012 shows essentially zero net job growth year to date.

Chart 2



Source: Statistics Canada. *Latest August 2013.*

Consumers in BC are cautious, with many facing financial constraints. High household debt, a soft labour market, and spending leakages via dramatic increases in cross-border shopping are all weighing on consumer expenditures in the province. So far this year retail spending is up by just 0.6%. The Business Council's latest forecast calls for a 3% increase in retail spending for 2013 as a whole, which we believe is still attainable because growth over the final months of this year will be flattered by the weakness evident at the end of 2012. However, it's worth noting that after taking inflation and population growth into account, retail sales in BC have been falling – an unusual development outside of a recession context.

Chart 3

Source: Statistics Canada. *Latest: September 2013.*

One positive development is the recent stabilisation and recovery in the province's housing sector. After dropping significantly in 2012, home sales have picked up this year. The number of homes sold through the MLS system has now risen for six consecutive months. A faster-growing economy, including better employment conditions, should lead to a 5-8% increase in sales in 2014. In spite of higher home sales, new home construction is down by almost 9% over last year. The Business Council forecasts that housing starts will trend essentially flat over the next two years, in part due to relatively slow population growth.

Non-residential construction was an important economic driver for BC prior to this year, but it too has shifted into lower gear. The value of non-residential building permits through July is down 28% over the same period last year. However, a long list of active, proposed or imminent major infrastructure, commercial and resource development projects promises to push investment spending higher over the next several years, beginning in 2014. Currently, the capital cost of all major projects under construction in the province stands at $83 billion.[4] The value of "proposed" projects sits at a remarkable $195 billion, up from $133 billion last June. These figures signal the likelihood of a multi-year construction boom over the next half decade.

We expect that public sector fiscal restraint – consisting of a combination of declining real government spending on a per person basis, along with higher taxes at the provincial level – will dampen economic growth over the next two years. Both the federal and the BC governments are committed to eliminating budget deficits. In the short-term this will translate into slower GDP growth, even as it bolsters the public sector's fiscal position from a longer-term perspective.

[4] Major projects are those with capital costs exceeding $15 million ($20 million in Greater Vancouver). British Columbia Major Projects Inventory, June 2013.

Finally, we would note that shifting migration trends and reduced overall population growth are affecting BC's economy. Net interprovincial migration has turned negative, owing to the robust Alberta and Saskatchewan economies – and perhaps the high cost of housing in urban regions of BC. International migration has held up better, but again Alberta and Saskatchewan are attracting larger numbers of Canadian immigrants. Overall, BC's population growth rate has slipped just below 1%. If this continues, it will temper gains in consumer spending and the housing market going forward.

Summary and Risks

Reflecting the decelerating global economy and mixed domestic conditions, the Business Council has downgraded our near-term economic forecast. We now expect the BC economy to grow by 1.6% (in real terms) this year. Other private sector economists have also scaled back their projections.[5] The government's latest forecast, as reported in the September 2013 First Quarterly Report, looks for real GDP growth of 1.4% this year, rising to 2.4% in 2014. We are broadly in alignment with the Ministry of Finance on the near-term outlook. The export sector is expected to strengthen over 2014-15, and some elements of the domestic economy should make modest gains (notably retail spending and major project construction). We would note, however, that because of the unsettled global environment and the economic and political uncertainties present in major external markets (especially the US and the EU), the risk to the BC outlook is tilted to the downside.

2. BUDGET 2014 AND SOME MEDIUM-TERM PRIORITIES

The Business Council supports the government's plan to eliminate the operating deficit by 2013-14, as outlined in Budget 2013, even though – as noted above – fiscal restraint is weighing on the economy in the near-term. As we have observed in previous submissions, the government has managed to keep the province's finances on a sound footing at a

[5] For example, see TD Economics, Provincial Economic Forecast, October 11, 2013.

time of global economic weakness. This included containing the size of the deficit during the downturn and following through with a commitment to balance the operating budget notwithstanding a somewhat muted economic recovery.

Deficits and Debt Management

We believe that eliminating the deficit in the current fiscal year is an attainable goal. The First Quarterly Report indicates the plan to do so is on course. However, retaining a degree of flexibility on this year's budget target would be prudent. The economic setting is on the soft side and coupled with very low inflation, this is putting pressure on provincial revenues. If revenues are further undermined by weaker-than-anticipated economic conditions in the fourth quarter and into 2014, running a small deficit may be a sensible course, one that we believe would have little effect on the government's overall financial health or credit rating. We are concerned that additional spending cuts in Ministries with economic mandates could lead to delays in important regulatory and permitting undertakings – an outcome that would reduce economic activity and hinder investment in industries that depend on timely government decision-making and efficient regulatory oversight.

With respect to the debt, at 18.4% of GDP BC's taxpayer-supported debt remains manageable. The net debt/GDP ratio is the third lowest among the provinces, and well below Ontario's 37%. In a recent report, Moody's Investor Services reconfirmed British Columbia's Aaa credit rating. While the agency cited the government's record of sound fiscal management, it also emphasized that a debt/GDP ratio below the median for the ten provinces affords BC a measure of flexibility that some Canadian jurisdictions don't enjoy. In any case, it is important to recognize that operating deficits are not the main contributor to BC's growing public sector debt. The vast majority of the debt accumulated in the past decade is attributable to capital spending to acquire, build and maintain long-lived physical assets. While balancing the operating budget can contribute to keeping debt levels manageable, small operating deficits would have little impact on BC's debt burden given the scale of current and planned capital spending and the associated borrowing. Credit-rating agencies and economic analysts focus more on the trend in the debt/GDP ratio and the underlying resiliency of the tax base than on whether a province records a small operating deficit or surplus in any particular year.

For this reason, and as we noted last year, the Business Council believes it is worth considering the adoption of a supplementary "anchor" for provincial fiscal policy, one that is based on the status of the taxpayer-supported debt rather than simply the operating budget. An upper limit on the net or taxpayer-supported debt – e.g., 20% of GDP – could provide useful long-term fiscal guidance. To be clear, we continue to believe that meeting the government's 2013-14 budget goal of a slim operating surplus is desirable. However, if less favourable economic circumstances materialize, we would urge the government to reconsider its short-term fiscal stance – and to steer clear of additional tax increases to meet this year's budget target.

Core Review

The Business Council welcomes the decision to launch a core review. Given the size and complexity of the provincial public sector, and the fact that priorities necessarily change over time, it is useful periodically to take a fresh look at government operations and spending in order to identify areas where tax dollars can be saved or re-allocated and where policy and institutional changes are needed. We are confident the core review can produce cost savings that match or exceed the target ($30-50 million) that has been set. In addition, the review may generate valuable insights on better ways to organize and deliver public services and programs for citizens and businesses. A recent examination of public sector reforms by the McKinsey consulting firm found that jurisdictions which achieved "significantly higher levels of government performance did so by explicitly designing and executing multiyear reforms that push beyond everyday initiatives…to improve management capability."[6] We would add that, as part of the core review, it will be important to ensure that Ministries and agencies responsible for overseeing economic activities on the land base are resourced to manage the large volume of projects slated for development and adopt processes and technologies that allow them to operate efficiently.

As the core review continues, the Business Council would welcome opportunities to engage with Ministers and officials charged with overseeing the work.

Challenges to BC's Competitiveness

In light of the still-uncertain economic backdrop and the balanced-budget target, the Business Council is not proposing any major new revenue or expenditure measures in the short term. We do, however, want to emphasize the need to build and maintain a competitive business climate. Unfortunately, the cost of doing business in the province has increased recently. The re-establishment of the PST raised the cost of producing goods and services in BC by more than $1.5 billion per year, and also added an extra $150 million in annual sales tax compliance costs for businesses. With the PST re-instituted, BC now has the highest average marginal effective tax rate on new business investment among the ten provinces.[7] The corporate income tax rate was recently hiked by one percentage point, albeit this move is intended to be temporary. WorkSafeBC premiums are rising after several years of relative stability, the minimum wage has been boosted, and electricity rates for households and firms are marching higher. Local government property taxes on major industry and private sector utilities in some BC municipalities remain out of line with the province-wide average and are higher than similar taxes levied

[6] McKinsey & Company, "Government Designed for New Times," 2012.

[7] As estimated by the federal Department of Finance. 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, sales and other consumption-related taxes on business inputs, and depreciation rules. 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.

in other parts of Canada. And while we support the government's decision to freeze the carbon tax, at $30 per tonne, this tax has left BC with the highest fossil fuel energy costs in North America – a situation that is creating competitive difficulties for a number of energy-intensive and trade-exposed industries within the Business Council's membership.

The investment climate is further complicated by significant regulatory and permitting issues and unresolved First Nations rights, title and land claims. All of these factors drive up costs and pose investment risks, notably for resource and other land-based industries, and need to be carefully monitored by policy-makers as they work to improve British Columbia's competitive position and realize the goals embodied in the Jobs Plan. We reiterate our message from last year's pre-budget submission, that "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."

As fiscal circumstances permit, the Business Council believes an early useful step to lessen the negative impact of the PST on investment and competitiveness would be to establish a fully refundable tax credit for PST paid on the acquisition of machinery, equipment (including computers and software) and advanced process technologies for use in all types of business. Over time, the province should also explore whether and how a made-in-British Columbia value-added tax – one that would not be fully harmonized with the federal GST – might be designed so as to encourage private sector investment and create a more stable and resilient revenue base for the provincial government. As one option, it should be recalled that the Expert Panel on BC's Business Tax Competitiveness recommended a BTT (business transfer tax), which would largely eliminate PST-related sales tax on business inputs.[8] Under a BTT regime, sales tax is not paid on goods and services exported from the province, thus restoring many of the key competitiveness

[8] Report of the Expert Panel on BC's Business Tax Competitiveness, August 31, 2012, pp. 25-29.

benefits associated with the HST. The concept of a BTT warrants attention as the government considers future tax policy changes to help grow the economy and achieve the objectives set out in the BC Jobs Plan.

Education and Training

Today, it is widely understood that developing human capital by investing in education and training is fundamental to economic success for any advanced jurisdiction. Although government resources are presently constrained, investment in human capital is an area that should be top priority for additional spending by the province over the medium term. An educated and skilled workforce is essential to improving prosperity, lifting wages and incomes, spurring innovation, mitigating inequality, and enhancing long-term competitiveness. As our recently completed BC Agenda for Shared Prosperity report observed, the social mobility that is enabled through improved educational opportunities is strongly supported by the public.[9] Over time, as the economy grows, we hope the government will undertake a detailed review of the recommendations touching on education, skills and early childhood development found in the Business Council's recent BC Agenda report.

Across the province, there are a large number of major development projects, including multi-billion dollar investments in LNG facilities, which will need to be built over the next five to seven years. Having a sufficient number of skilled workers to complete these projects in a timely manner will be critical to the province's prosperity. A strategy for education and training also must take account of the diverse nature of BC's economy and the need for talent in areas such as the sciences, advanced technology, engineering and project management, and professional services.

[9] The BC Agenda project was jointly undertaken with the BC Chamber of Commerce. A copy of the report is available at: www.bcbc.com.

From the Business Council's perspective, there are a few important trends that will shape education and training requirements and any changes to the system over the next decade. One is the current and expected demand for skilled tradespeople. The Council supports the recently announced review of the Industry Training Authority (ITA). As a high level comment, we believe there is a need for more flexibility and adaptability in the training system governing skilled trades and technical occupations. One challenge is where to locate training facilities. For some industries a greater capacity to train in smaller communities is essential. Training people who live in these communities can increase the local talent pool. However, some commentators point to excess demand at existing facilities such as BCIT, and argue that it may be better to expand capacity in the larger population centers.

Another challenge for policy-makers and education leaders is determining the optimal mix of degrees and other credentials provided by universities, colleges and technical and training institutions. Some labour market researchers are beginning to examine the issue of underemployment and over-education. This is a particular form of "skill mismatch" where the education and training provided exceed what is required to perform the jobs on offer. Although we are not aware of any empirical research on this topic in the BC context, it is common to hear anecdotes about university graduates being underemployed or finding it very difficult to secure appropriate career-oriented positions.[10] Looking at the higher education and training system as a whole, there may be a need to adjust the mix of degrees and other credentials being granted to better align labour supply with projected market demand as well as with the government's economic development priorities. However, as a practical matter this is easier said than done; predicting future patterns of employment growth is not easy, and neither government agencies nor private sector experts have proven to be particularly adept at the task. This

[10] For a discussion of education/skill mismatches in the Canadian context, see Philip Bergevin, "Who is Still Standing in Line? Addressing a Mismatch of Skills and Jobs in the Canadian Labour Market," C.D. Howe Institute E-Brief, March 6, 2013; and CIBC Economics, "Degrees of Success: The Payoff to Higher Education in Canada," August 26, 2013.

suggests that policy-makers should exercise a degree of caution in considering any major overhaul of the province's education/training system. Incremental reforms and small-scale resource re-allocations may well be warranted; but dramatic or poorly planned changes are likely to be fraught with the risk of unanticipated consequences.

Any move to modify post-secondary education and training policies and the mix or distribution of programs offered by various institutions should also reflect the growing diversification of the provincial economy. It is of course true that, in large part, BC's economy is still driven by resource industries. And there is no doubt that the production and sale of resource-based products continue to be important for both existing economic activity and future growth, especially if a new LNG industry emerges in BC. The reality, however, is that the technology sector, post-secondary education and research, parts of health care, tourism, advanced manufacturing, and a host of professional, technical and environmental services all play important roles in BC's increasingly diverse economy. The resource sectors are tangible, and their activities and benefits readily identifiable. On the other hand, services and the impact of research can be harder to quantify. As such, there is a risk, one that has long been present, that the province's economic development agenda may become unduly preoccupied by opportunities in resource-based sectors, notably LNG. To remain competitive and support the growth of high-paying jobs in the lower mainland and other urban centres, the government will also need to nurture research and innovation broadly and support the further development of service-oriented export industries, advanced manufacturing, and the high technology sector.

LNG and the Management of Natural Resource Revenues

Finally, the Business Council notes that Budget 2014 may be the first three-year budget plan to include new revenues (potentially in 2016/17) realized from the development of an LNG industry. The government is already looking ahead to this possibility, with its Throne Speech announcement of a provincial "Prosperity Fund." While few details have been provided, the Business Council endorses the idea of establishing a fund to save a portion of the economic rents derived from the LNG industry (and possibly other non-renewable resource industries as well). Indeed, this was one of the recommendations included in our recent BC Agenda for Shared Prosperity report. What we there described as a Natural Resource Revenue Fund that would receive a portion of direct revenues from the development of the province's non-renewable resource wealth is an idea previously proposed by the Canadian International Council and one that's also favoured by many economists.[11]

Since an LNG industry may have a substantial impact on the province's economy and lead to a marked increase in the volume of energy exports, it makes sense to review how the province manages the revenue streams associated with the exploitation and sale of non-renewable resources. That said, it is critical that the province first define and implement the competitive fiscal and regulatory frameworks necessary to secure the large investments required to build out a global-scale LNG industry in British Columbia. LNG, like most other industries, is global in its scope and operations, with many other supply options available to meet the growing demand for natural gas in Asia and other offshore markets.

In terms of structure, a number of options exist for how to design a "Prosperity Fund." However, a handful of principles should be central to any new initiative in this area. First, a resource revenue/prosperity fund should be for the long-term benefit of the province. Second, the fund should secure a meaningful share of the non-renewable resource revenue derived from the LNG industry (and potentially other resource industries as well). There is a tension between using newly realized revenue to pay down existing provincial debt and saving this revenue in a "heritage type" fund. However, the establishment of a fund, appropriately structured, should provide an element of fiscal discipline and strengthen BC's long-term competitive position on metrics such as the government

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

debt/GDP ratio. Third, the fund should not enable or incent future governments to spend large portions of future revenue windfalls, as has often happened in Alberta.[12] To this end, it would be wise to adopt legislation that spells out the proportion of eligible direct resource revenues that will be earmarked for the Prosperity Fund. Fourth, to minimize the potential impact on the province's operating budget, we envision that contributions to the fund would come from additional or incremental revenues beyond a defined baseline, and thus not necessarily constitute a draw on the province's existing resource revenues. Fifth, a new Prosperity Fund would need to include strict guidelines on what the revenues would be utilized for and under what conditions they could be withdrawn. From our perspective, using the fund to help pay for things like infrastructure, particularly regional infrastructure, as well as further investments in human capital, would be appropriate. Sixth, we would recommend a governance and legal structure that includes a regular review, perhaps every five years, of the size and sources of revenue contributions to the fund, and their use. Given the geographic distribution of BC's natural resource wealth, it may be wise to consider regional factors in deciding on the structure and governance of a Prosperity Fund. British Columbia has some useful experience in this regard with the existing regional trusts. Finally, to assist in doing the due diligence necessary to create a well-designed Prosperity Fund, the government should consider striking a special legislative committee to explore the relevant issues and review the experiences of other jurisdictions with similar funds.

[12] For an overview of past practice in Alberta, see Michael Holden, Hedging Our Bets: Making the Case for Saving Alberta's Natural Resource Revenues, Canada West Foundation, October 2013.

3. SUMMARY AND RECOMMENDATIONS

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

- Our base case forecast for the provincial economy sees real GDP increasing by 1.6% this year and by 2.4% in 2014. This forecast is similar to the most recent projections published by the BC Ministry of Finance.

- Assuming our base case forecast is broadly accurate and that the province does not experience additional significant declines in revenues, we support the government's stated goal to balance the operating budget in 2013-14. If further revenue shortfalls materialize, the government should remain flexible in how it responds and avoid any additional tax increases beyond those confirmed in the revised budget tabled in June.

- We welcome the government's core review. The review should aim to achieve efficiencies, improve service delivery, and address emerging issues of capacity in Ministries and agencies responsible for overseeing economic activities and new development on the land base. The core review presents an opportunity to restructure and re-engineer government processes and administrative procedures in a way that supports the goals of business certainty and economic growth.

- The business community views balanced budgets as part of a sound general fiscal policy, with some flexibility built in to account for economic shocks and unexpected revenue shortfalls. However, the net debt/GDP ratio is the most important metric of fiscal sustainability. Adopting explicit debt management targets/limits would strengthen the framework for fiscal policy decision-making and help to safeguard BC's top-ranked credit rating.

- As fiscal circumstances permit, the province should introduce a refundable tax credit for PST paid on the acquisition of machinery, equipment (including computers and software) and advanced process technologies for use in all types of business, as proposed by the Expert Panel on BC's Business Tax Competitiveness.

- 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. Further work is needed to determine to what extent the mix of degrees and other credentials and certified skills being produced by the province's education and training institutions is sufficiently aligned with labour market demand and the province's economic development priorities.

- The Business Council encourages the province to advance its work on a "Prosperity Fund" that will save a portion of direct resource revenues from LNG, and possibly other resource industries, to benefit future generations.

- Finally, the provincial government should focus more attention on BC's competitive position in North America. All policy and regulatory decisions in the provincial public sector should be assessed through a competitiveness lens to gauge their likely impacts on the investment climate, the cost of doing business, and the development of a more innovative BC economy.

The Business Council appreciates the opportunity to share our advice on Budget 2014 with the Legislative Standing Committee on Finance and Government Services.

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