



700 - 9990 Jasper Avenue,  
WORLD TRADE CENTRE EDMONTON  
Edmonton, Alberta Canada T5J 1P7  
tel 780.426.4620 fax 780.424.7946

## Alberta Budget 2011/2012

### October 2010

#### Background

Overall growth in Alberta is rebounding solidly from an estimated 4.5% decline in 2009. Most forecasters are predicting Alberta is now on course to post real growth in the 3.5% range for 2010 and to then recover all lost ground with growth of over 4% in 2011. However, Alberta's current strength is based almost entirely on a turnaround taking place in the energy sector that has been prompted by improved market conditions (specifically for oil) and *Alberta Competitiveness Act* changes to the provinces royalty regime which restored Alberta's royalty competitiveness against other jurisdictions.

Downside risks to the recovery are still evident and the Alberta Government must remain sensitive to these challenges. Overall employment gains and in-migration have been slow in coming and despite improved affordability home re-sales have suffered the consequences. In spite of a strong start to the year, consumer confidence and demand, with the exception of auto sales, has been relatively soft as evidenced by the recent slowdown in other retail sales. Although manufacturing sales are on the upswing the increase is modest when measured by volume as opposed to price and because of our relatively strong Canadian dollar, the still fragile U.S. economy and our limited access to other markets, exports are only slowly rebounding to pre 2008 levels.

As a result, the Edmonton Chamber of Commerce fiscal recommendations are for the provincial government to stay the course with tightly controlled spending, very strategic investments in the economy and continued improvements to the overall business environment.

#### Controlled Spending

Again this year and notwithstanding our continued support for the three year business planning process that feeds into the current budget, the government should continue with thorough and critical assessments of program needs and public requests for services to determine how government can deliver the highest quality of service through the most effective use of taxpayer's dollars.

As a major area of focus and especially in light of the still precarious economic recovery, the Chamber urges the Government to ensure that every dollar spent is necessary, effective, efficient and strategic. This can be accomplished by using realistic revenue forecasts based on robust industry supported estimates of commodity prices and economic growth while ensuring that spending is in line with revenue, subject only to some allowance for access to the Stabilization Fund. A strategic approach should also be taken to plan for the scope of deficit in the current budget cycle as the Stabilization Fund could easily be expended should there be an unforeseen drop in revenues.

Upon a return to more favourable revenues due to recovery in the price and production volumes for oil and gas, which we are slowly seeing, the Chamber continues to urge for more stringent and disciplined control of spending with a view to placing a more substantial portion of royalty revenues – not only surpluses – into savings.

It may be that the most appropriate action will be restoration of the Stabilization Fund to substantial levels. Long term, it is clear that greater savings are required to both provide short term stability and long term substitution of the resource revenue stream.

### **Strategic Investments**

There are several expenditure envelopes in this year's budget that must be viewed as investments as opposed to costs and that should be approached very strategically. For starters, strong municipalities are the foundation of our province.

To succeed, municipalities require stable, predictable and sustainable funding to address their service and infrastructure needs. Due to the importance of a financing program, the Chamber is supportive of the Municipal Sustainability Initiative and believes that re-confirming the funding commitment is vital to the health of Alberta communities.

The Chamber believes the province also has an important role to play in expediting the flow of federal infrastructure grants to communities. And, now is also the time to start working seriously with the municipalities and the federal government to establish a new fiscal framework that will provide municipalities with those revenue sources that are stable, secure and responsive to economic growth.

Capital spending is another area that must be even more strategic than in the past. A significant component of the province's economic growth is closely associated with the development of the oil sands regions and the domestic bitumen processing industry contained within the Alberta Industrial Heartland region. In order to facilitate the growth and development of heavy industrial projects within producing regions, it will be critical for the province to advance capital investments

within the transportation and utilities strategy to ensure the efficient movement of equipment, labour, materials and power. It is essential that infrastructure be developed to link and empower Alberta's communities so that regions effectively function as an economic force on a regional, national and international scale, and as a hub through which much northern and central Alberta development is carried on.

Consistent with the Chamber's strategic priority on economic diversification, the development of the Capital Region as a fully functional and efficient in-land port is another key strategic investment toward the successful diversification and development of Alberta's economy. By coordinating and developing transportation and logistics centers, such as: warehousing, distribution, and multi-modal and pipeline hubs we would be linking our province and region via road, rail pipelines and air with marine ports on the west coast.

By taking this on, Alberta would become a significant North American component of global supply chains. Furthermore, the port strategy is consistent with the Government of Alberta's goals for economic diversification, opening new markets and enhancing Alberta's international presence and trade relations.

Another vital area for strategic investments is in education, training and further developing the workforce that will be needed when world demand for Alberta products and resources again accelerates industrial development in the province. Underutilized labour pools such as aboriginal peoples, females, persons with a disability and visible minorities deserve special emphasis.

### **Business Environment Improvements**

Making sure Alberta has a viable investment climate means ensuring Alberta is at forefront of where the global economy is heading. With that in mind it is imperative the government invest and as well incent industry to invest in reducing carbon emissions.

Especially by investment in emerging technologies such as carbon capture and sequestration, investment in green initiatives in power generation and supporting municipal initiatives in green refit and refurbishment of public facilities.

Alberta must also look to increasing its revenues in order to fund operating expenditures such as health care which will inevitably grow beyond our current capacity to fund them without significant revenue growth. An aggressive strategy focused on creating an overall business environment that will accelerate economic recovery and development and open new markets thus generating increased provincial revenues through real economic growth is the only realistic option for moving forward on this front.

## **In preparing the 2011/2012 Provincial Budget, The Edmonton Chamber of Commerce recommends the Government of Alberta:**

1. Focus on controlled spending by continuing to review existing government priorities as identified within the three-year business plans to ensure spending decisions deliver strategic infrastructure and essential services of the highest quality through the most effective use of taxpayer's dollars;
2. Continue to target for balanced budgets by 2013 by limiting operational expenditure growth to population growth plus inflation and by using realistic revenue forecasts based on robust industry supported estimates of commodity prices and economic growth;
3. Avoid "real" deficits requiring borrowing by limiting withdrawals from the provincial Sustainability Fund in accordance with a plan that will achieve a balanced budget prior to full depletion of the fund and thereafter to, at a minimum, fully replenish the fund with planned transfers from revenues;
4. Continue to provide predictable and sustainable funding to municipalities to ensure investments in local infrastructure are adequate without a downloading of costs onto businesses and residents. Specifically, this should include a reconfirmation of the provincial funding commitment to the Municipal Sustainability Initiative and a commitment to begin negotiations toward establishing a new fiscal framework for funding municipalities in Alberta;
5. Target transportation, utilities and communications investments in northern Alberta to facilitate the efficient, responsible and unencumbered development of our northern resources and engines of growth;
6. Target education and training expenditures to accelerate the development of local but non-traditional labour pools including aboriginal peoples, females, persons with a disability and visible minorities;
7. Strategically focus capital expenditures on areas that will facilitate economic diversification, enhance industry competitiveness and productivity, improve environmental stewardship and support value-added activity in Alberta; and
8. Build on the success of the *Alberta Competitiveness Act* with an aggressive strategy focused on creating an overall business environment that will accelerate economic recovery and development and open new markets thus generating increased provincial revenues through real economic growth.