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Submission for pre-budget 2019 consultations

House of Commons Standing Committee on Finance

August 3, 2018

Recommendations

1. **Incentivize business growth**
 - a. Make “rewarding growth” a key principle in the design of business support and tax credit programs.
2. **Enhance regulatory competitiveness**
 - a. Reduce and simplify existing regulation, and harmonize federal and provincial regulations.
 - b. Expand the use of modern regulatory principles like risk-weighted or outcome-based regulation and “sandboxes” that prototype and test new approaches.
3. **Prepare our workforce for change**
 - a. In sectors facing specialized skills gaps, empower business to be an active partner in integrating workers and updating skills where necessary.
4. **Accelerate entry into Canada for innovative companies in emerging sectors**
 - a. Adopt corporate relocation frameworks that provide expedited, preferential pathways, including accelerated visa processing, to help selected companies move their businesses and their lives to Canada.

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As Canada's leading professional services firm, we at Deloitte pride ourselves on being at the forefront of thought leadership and public policy insights on issues that matter to our country and its businesses.

Businesses today are grappling with seismic shifts in the economic landscape and a frenetic pace of technological change. To be successful in this turbulent environment, it is crucial that Canada's economy is built on strong fundamentals, productive, and adaptable.

The government already has a number of important initiatives underway to protect Canada's economy from emerging challenges. Government should continue—and in fact accelerate and expand—its efforts to diversify trading relationships, reduce barriers to foreign investment, and invest in infrastructure by complementing public funds with private capital. These efforts are essential and should remain areas of focus for government.

At the same time, more needs to be done to improve business competitiveness and productivity in Canada. The federal budget presents an opportunity for government to focus on strengthening the fundamentals of the Canadian economy.

Our recommendations to the Committee focus on four policy areas where government can help create an environment where Canadians and businesses can thrive:

1. **Incentivize business growth**
2. **Enhance regulatory competitiveness**
3. **Prepare our workforce for change**
4. **Accelerate entry into Canada for innovative companies**

Deloitte believes that Canadian businesses have a crucial role to play in ensuring Canada remains the world's best place to live, work and belong over the next 25 years. Based on the significant industry expertise and experience of our people who work with businesses across all sectors and regions of the country, we recommend the government undertake the following actions.

Recommendations

1. Incentivize business growth

To build an economy that is agile and globally competitive, Canada needs to improve its attractiveness as a place to locate and grow a business to scale. While Canada has many promising rapidly growing SMEs, referred to as gazelles, which can be found in all sectors of the economy, too few maintain their growth momentum.ⁱ

Budget 2018 was a good start at addressing this challenge, with the introduction of programs like the Strategic Innovation Fund, targeted at helping businesses of all sizes invest and expand. But there remains too much emphasis on programs focused on small businesses, and too little emphasis on providing incentives for businesses to continue to pursue growth.

Going forward, rewarding sustained business growth should be a key principle in the design of business support and tax credit programs, including growth into new markets outside of Canada.

Support programs should also be targeted to facilitate the type of business re-investment, along with the development of talent and IP, required to scale a business. Furthermore, to attract business and encourage growth within Canada, the general corporate tax rate needs to be competitive, particularly with the United States, our largest trading partner.

To close Canada's productivity gap and spark growth, we must be more targeted and deliberate in our choices and actions. We don't have to focus on a single industry or increase the average size of our businesses, we need to focus our attention on supporting gazelles as they mature, and preventing them from turning into water buffalos.

2. Enhance regulatory competitiveness

The government has recently taken promising steps to simplify Canada's regulatory regime. These steps include a new cabinet directive on regulation that expanded the use of cost-benefit and other analyses of regulatory proposals, a commitment to targeted reviews of regulations that are bottlenecks to innovation and growth, and pursuit of a one-for-one rule in an effort to prevent regulatory burden expansion.

While these steps are in the right direction, they will not be enough. The pace of technological change is making effective regulation a growing challenge at a time when the system is already overburdened. The challenge is especially acute for smaller businesses that lack the resources required to navigate complicated regulations. An agile and modern regulatory regime is fundamental to a competitive business climate, and more resources and attention are needed to make this a reality.

Improving regulatory competitiveness begins with reducing and simplifying existing regulation, and harmonizing federal and provincial regulation across the country. Other OECD member countries are aggressively pursuing similar initiatives in an effort to become more competitive. Denmark, for example, has created a task force to challenge outdated legislation and regulations in the wake of disruptive business models. In the Danish Ministry of Environment and Food, this includes cutting the number of regulations in its portfolio by one-third, planning to slash the number of laws it administers from 90 to 43, and updating all existing laws to conform to the digital age.ⁱⁱ

But to truly drive competitiveness, we need new models and principles for the design of regulation, such as risk-weighted or outcome-based regulation, and regulatory "sandboxes" that prototype and test new approaches.ⁱⁱⁱ Regulators both at home and abroad have useful experience to share with implementing these techniques. Canada's own Office of the Superintendent of Financial Institutions (OSFI), for example, is a leader in this field. OSFI takes a principles-based approach to regulation that is more flexible than the prescriptive approach taken by regulators in many other jurisdictions. OSFI also has a reputation for open communication and high levels of comprehension of their industry—both of which are frequent sources of complaints from firms about regulators in other industries. Canada should draw from the experience of OSFI and leading regulators in other jurisdictions to help guide the implementation of modern regulatory techniques that help Canadians and their businesses succeed.

3. Prepare our workforce for change

With an aging workforce and low birth rate, combined with solid economic growth, the unemployment rate in Canada has fallen to levels traditionally consistent with full employment and as a result, skills shortages are apparent. A Conference Board of Canada survey shows that roughly 4-in-10 firms cannot find workers with the skills they need.^{iv} The challenge is particularly acute in specialized industries, where businesses struggle to find enough qualified workers.

Despite efforts to address these issues—including roughly \$14 billion in government programs and available tax credits at the federal level alone—evidence suggests that Canada’s skills gap is expanding and already acting as a drag on growth.^v To equip Canadians with the skills needed for a knowledge- and technology-driven economy, both government and business need to work together to make fundamental changes to how we educate, train, and retrain the Canadian workforce.

In sectors facing specialized skills gaps, business should be empowered to be an active partner in integrating workers into the workplace and updating skills where necessary. For example, government and business could collaborate to create an employer-based system that places the onus on employers to ensure the talent they hire meet required standards. Business could be tasked, and trusted, to procure the training programs, courses, and exams needed to upgrade talent. This approach will help new workers start working in their field of training as quickly as possible, helping to fill the skills gap.^{vi} Government should put more retraining dollars in the hands of employers, transferring funding that would have been paid in employment insurance benefits and training for the job seeker to the new employer to defray the cost of training.

Prioritizing employer-led training will better link training to job market needs, address skills gaps hindering company growth, and instill a learning-focused culture among employers and employees.

4. Accelerate entry into Canada for innovative companies

To foster competitiveness and growth, Canada must attract not only the best and brightest talent, but also the most innovative and fastest-growing companies. In a highly globalized world, companies are mobile and looking for the best places to do business. To make Canada the preferred choice, we need to reduce the barriers for companies that will contribute to a competitive edge for the Canadian economy.

One option is a broad-based corporate relocation framework. Such a framework would target companies of all sizes that operate in areas of Canada’s competitive advantage, and would provide expedited, preferential pathways to help applicants move their businesses and their entire lives to Canada. Entire companies, including founders, management teams, and their families would receive white-glove treatment—accelerated visa processing, resettlement assistance, and sector networking opportunities.

Across the world, competition for promising companies is becoming increasingly fierce. Canada can draw inspiration from France’s recently announced Tech Visa, which offers successful applicants a four-year visa on the condition that they launch their business in France. It also awards 45,000 euros for relocation costs and 12 months of mentorship, funding, and office space from one of 41 partner incubators.

Applicants' spouses receive identical treatment, including labour market access. Canada's policies to attract global talent must be designed to compete with programs like this one, especially in areas that build on our competitive advantage.

In addition, Canada's personal tax rates should be competitive with those of our trading partners (in particular, the United States). Our top rate is now significantly higher than that of most of our global trading partners and the threshold for reaching that top rate is much lower than that of many of those countries. This may discourage immigration to Canada and make it much more challenging for Canadian businesses to recruit top talent as tax is one of the factors that will have to be taken into account in establishing competitive remuneration.

Conclusion

In an increasingly complex and fast-paced world, we must think strategically about the challenges and opportunities we face as a country, and the actions we need to take to move us toward our desired future.

With courageous leadership and bold decision-making from government and business, we are confident that in 25 years Canada will be a land of opportunity, prosperity, and inclusion for all of its people.

References

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- ⁱⁱⁱ For a description and examples of recommended regulatory approaches, see the Deloitte research from endnote ii.
- ^{iv} Sorin Cohn and Bruce Good, "2012 Survey Findings: The State of Firm-Level Innovation in Canada," Conference Board of Canada, July 16, 2013, <<https://www.conferenceboard.ca/e-library/abstract.aspx?did=5515>>
- ^v For data on skills training see Institute of Fiscal Studies and Democracy, "Skills and Innovation: Where's the Money?" For the relationship between skills and growth see Richard Blackwell, "Canada's Skills Gap Widening, Survey Shows," The Globe and Mail, October 17, 2013; Gillian Livingston, "Skills Gap Hurting Top Economies," The Globe and Mail, March 2013.
- ^{vi} Jeff Moir, "Deloitte Insight: Economic diversity key to Canada's future", Financial Post, May 7, 2013, <<https://business.financialpost.com/executive/deloitte-insight-economic-diversity-key-to-canadas-future>>