

Ontario Small Business Opinions on Local Government

Ontario municipalities have work to do to improve business competitiveness

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With the upcoming 2018 municipal elections in Ontario, the Canadian Federation of Independent Business (CFIB) has collected opinion data from member businesses in 49 municipalities to identify key areas of concern business owners have with their municipal governments. CFIB has produced a series of policy options for the consideration of municipal leadership aiming to help boost job creation and economic growth in their municipality. This report highlights potential policy options that help to address small business concerns.

Introduction

When we think of the impact government has on small- and medium-sized businesses, too often municipal government's role is overlooked. Municipal bylaws, property taxes and bureaucracy have a major impact on a small business's ability to grow and thrive, and as such, can be the source of significant concern for business owners. Excessive red tape, unfair taxation and feeling unheard at the city or town council table can be the difference between business success and having to close up shop. This report aims to identify CFIB-member businesses' concerns and provide local leaders with a set of policy options to address them. All recommendations are evidenced-based and focused with the intent of helping foster a stronger business environment. With more than 6,500 responses, there is a wide variety of viewpoints represented, so individual municipalities should view their data as an indicator of where to focus small business-oriented policy. The report will focus on addressing improvement in the following five areas:

- ▶ **Fair Taxation**
- ▶ **Controlled Municipal Spending**

- ▶ **Fair Bylaws and Regulations**
- ▶ **Quality Public Service**
- ▶ **Understanding the Realities of Running a Business**

Each section of this report will aim to describe the challenges that business owners are facing at the municipal level, why these challenges might exist, and identify policy options to help overcome and improve them.

Methodology

To compile this report, CFIB collected responses through face-to-face meetings with our field team between January 2016 and December 2016. CFIB members were asked to give their opinion on how well their business was being served by their respective local government.

The question was phrased as follows: *Does your local government do a good job on each of the following?*

Similar to the design of this report, the business issues identified included **fair taxation, effective control of local spending, fair bylaws and regulations, quality public service, and understanding the realities of running a business**. All respondents were given the option of saying *yes, no or not sure*.

Businesses were also asked: *Which business issues are of a serious concern to your company?*

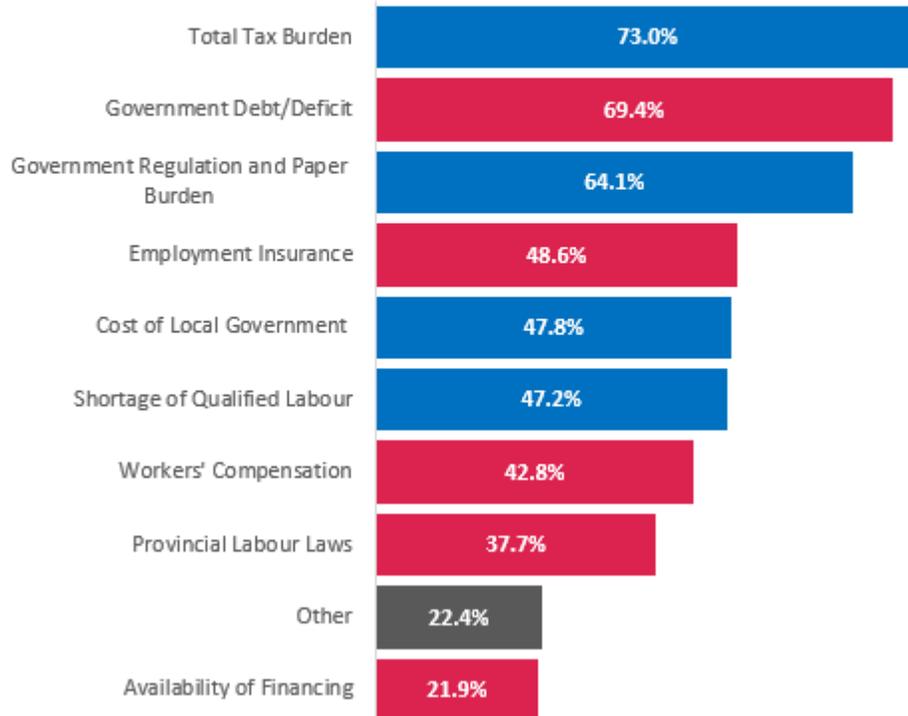
The options presented included **employment insurance, total tax burden, availability of financing, cost of local government, government debt/deficit, shortage of qualified labour, government regulation and paper burden, workers' compensation, provincial labour laws, and 'other'**.

Only communities that received a minimum of 40 responses were selected for this report. The breakdown can be seen in Appendix 1.

Results

The results for *the Our Members Opinions Survey* are split into two sections corresponding to the two questions that were asked to members.

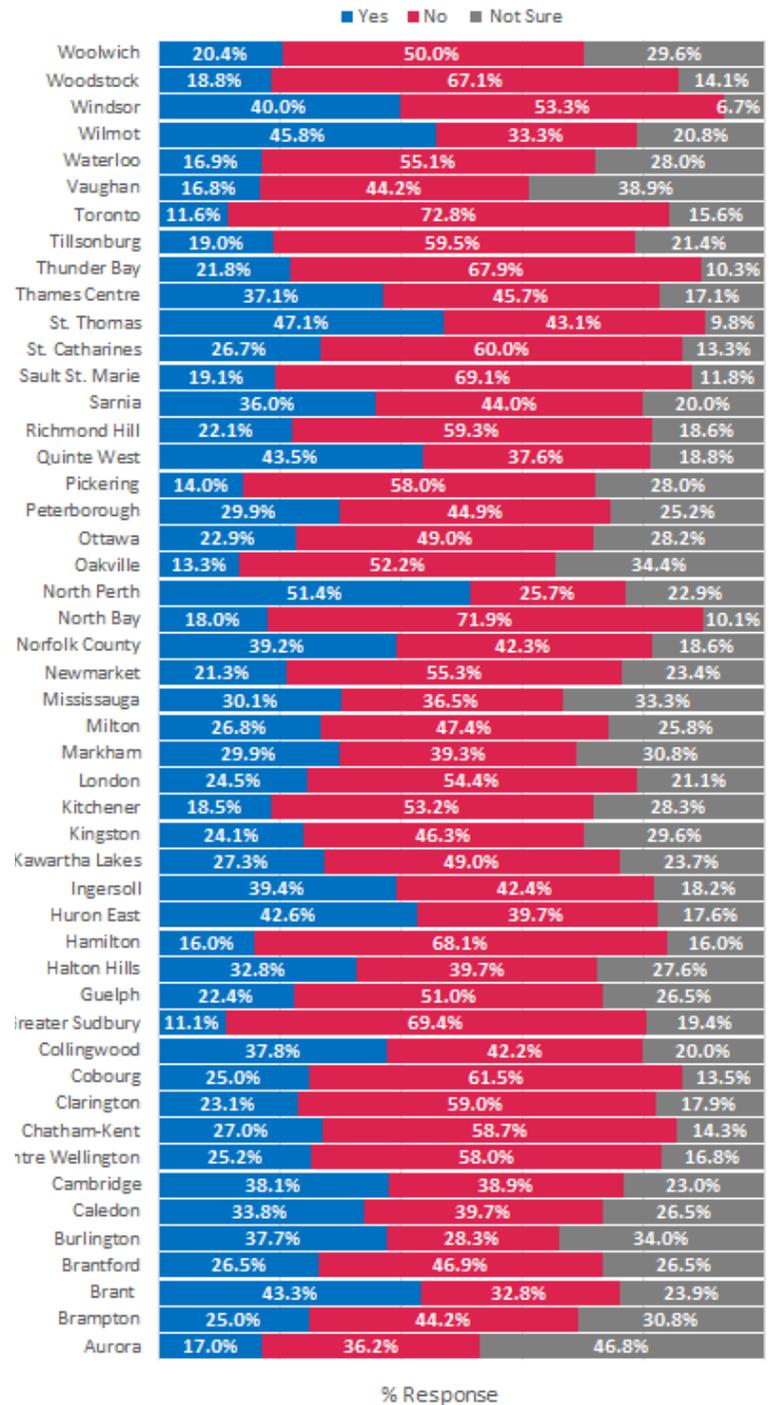
Which of the Following are a Serious Concern for your Business?



The “which business issues are of serious concern” question deals with general business concerns and has some important, while unsurprising results. Seventy-one per cent of businesses within this sample rate the total tax burden as a serious concern for their business, while government regulation and the cost of local government come in at 64.1% and 47.8% respectively.

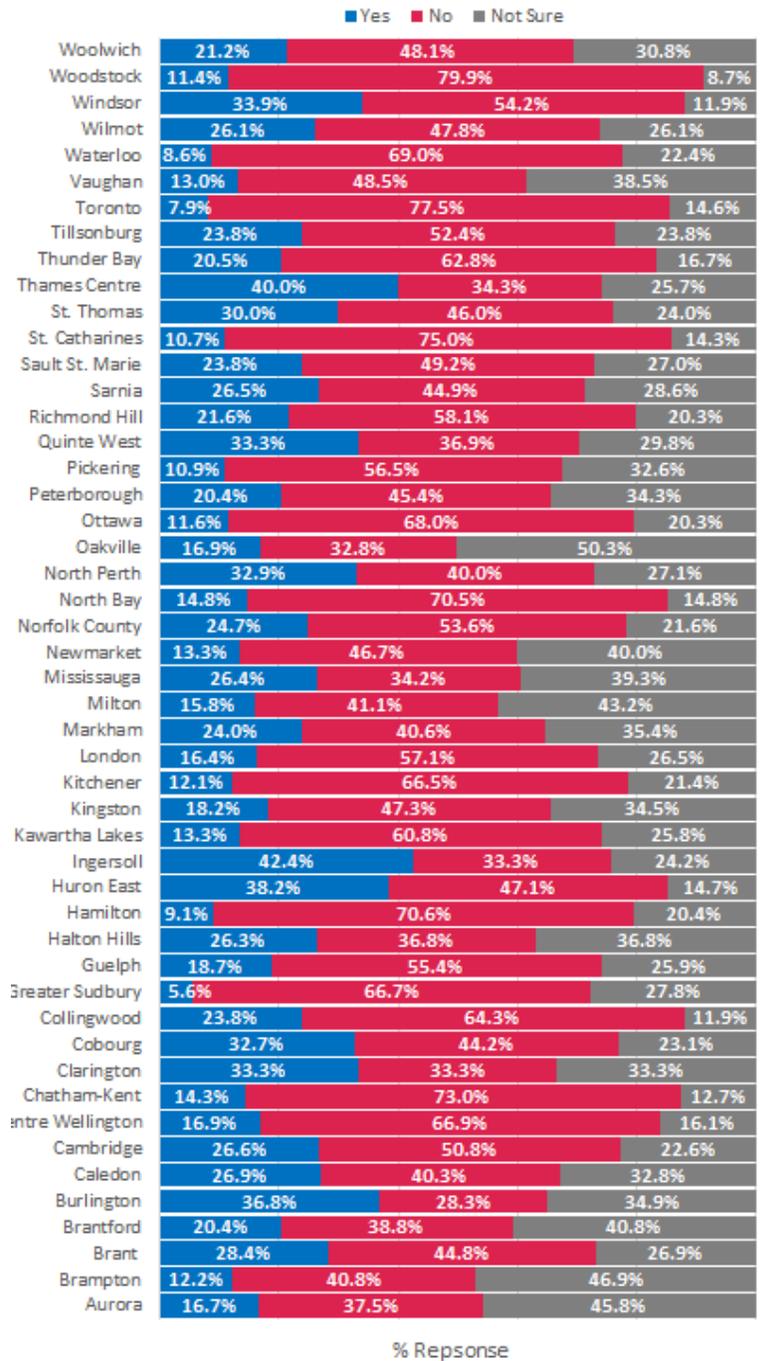
Fair taxation is a major issue for CFIB members in Ontario. Businesses generally responded with a negative view with respect to their local government's impact on fair taxation. Some of the negative responses came from Toronto, North Bay, and Greater Sudbury. Among some of the strongest performers in this category were Burlington, Brant, and North Perth.

Fair Taxes



Controlled municipal spending is a critical issue for CFIB members. Growth in municipal spending has steadily increased well beyond the rate of inflation for many years in municipalities across the country¹. Small businesses across the province are increasingly concerned about the impact of increased municipal spending on their business's success, particularly how it might impact their municipal tax burden.

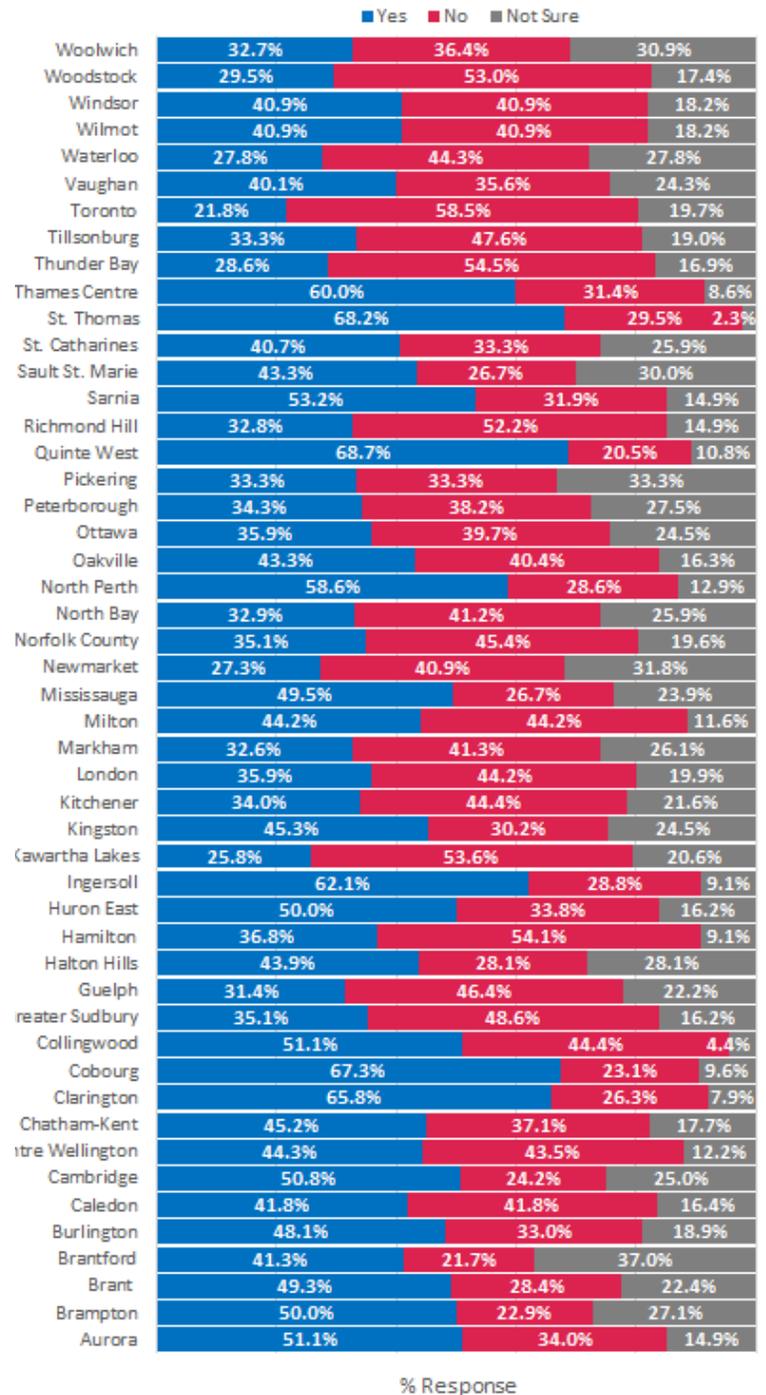
Controlled Spending



Bylaws, regulations and the paper burden they create is also a continuing concern for Ontario's small businesses.

While there are some standout municipalities like St. Thomas, Quinte West and Ingersoll, the general trend showcases that most municipalities have more work to do on this file. CFIB estimates that the cost for businesses to comply with regulations at all levels of government is about \$37.1 billion. Local governments must ensure they are doing their part to reduce the burden.

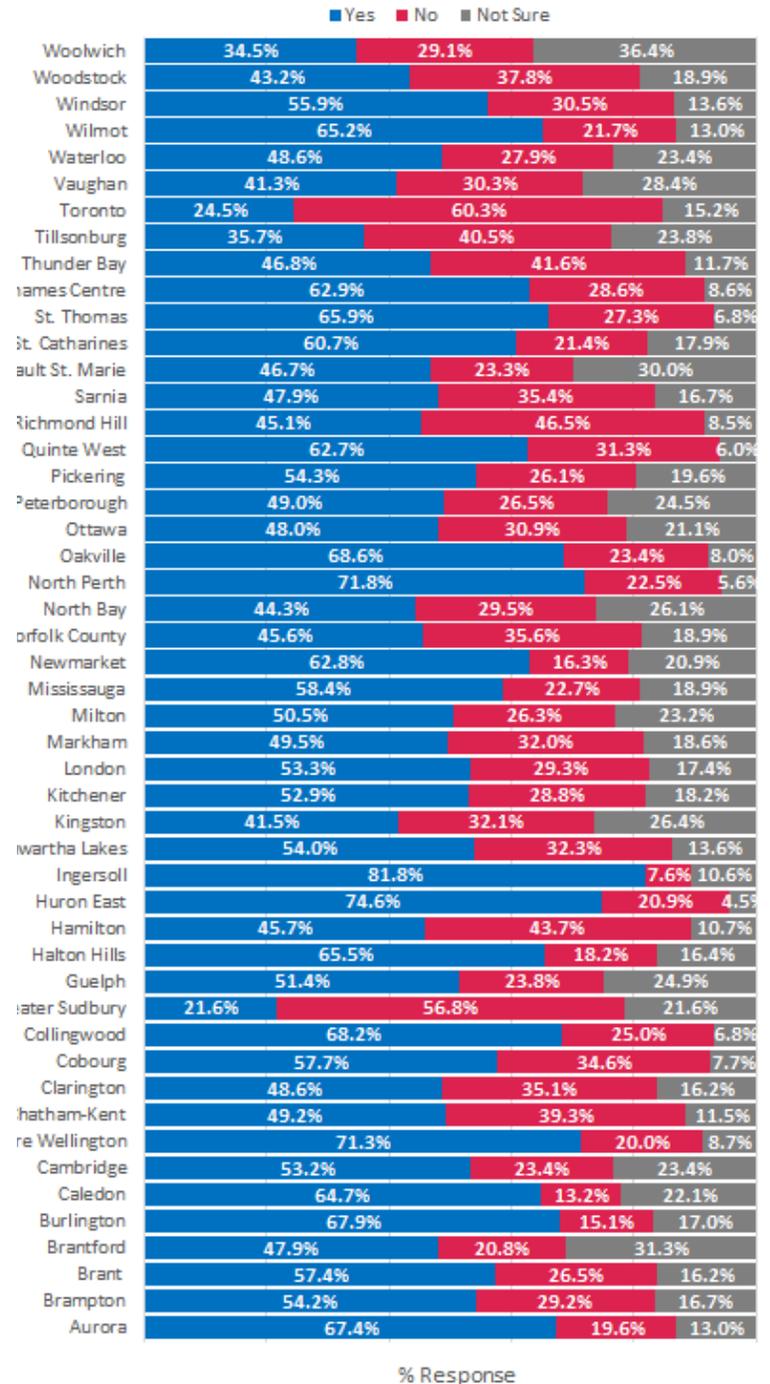
Fair Bylaws & Regulations



Quality Public Service

The assumption of many would be that those municipalities that have better-controlled their spending, did so to the detriment of the quality of their public service. However, our data found otherwise.

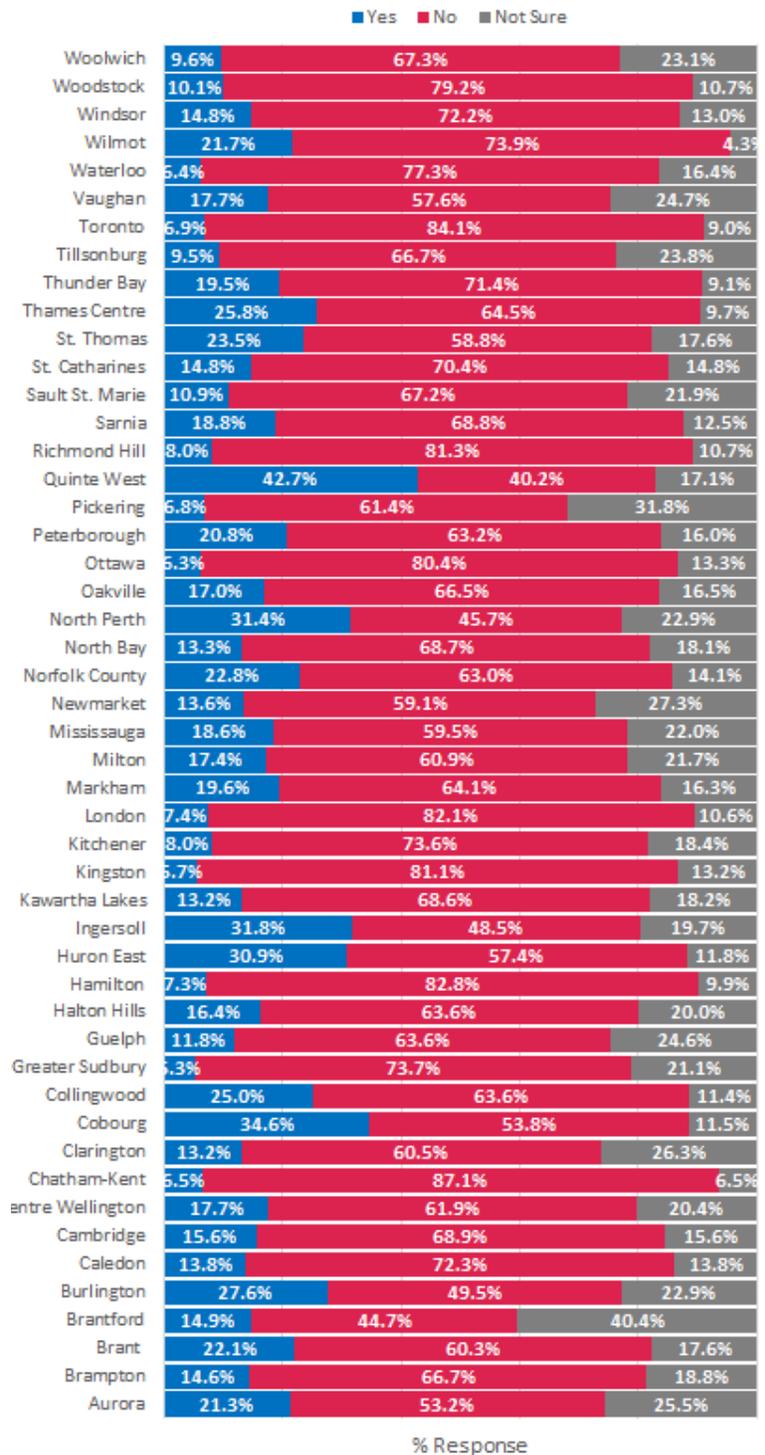
CFIB members felt that strong management, taking control of costs and focusing on customer service seem to have a much larger impact on quality than the total dollar value spent.



Understanding the realities of running a business is the largest area for potential improvement for most municipalities.

Business owners represent a critical constituency for local leaders in Ontario, yet they feel overwhelmingly under-represented in most municipalities. Ensuring the local small business community has a voice at the table would go a long way towards demonstrating that municipal leadership understands the realities of running a small business.

Understanding the Realities of Running a Business



Fair Taxes

Business owners tend to pay a significant portion of the property tax bill, even though it is residents who tend to benefit most from municipal services. In Ontario, business owners often pay two to three times as much in property taxes when compared to what residents in their local municipality pay on property of the same value. Property taxes are profit insensitive – they do not increase or decrease with income and/or consumption. This varies significantly from sensitive taxation measures like income or sales taxes. Profit insensitive taxes can be challenging for a small business to absorb, especially during times when they are struggling and property values increase. Considering it is both common and reasonable for start-up companies and growth-heavy companies to operate at a loss, or near-loss, for the first several years of the business, significant spikes in property taxes can be especially damaging.

The “tax gap” provides an assessment of the discrepancies between property tax classes by measuring commercial and industrial taxes against residential taxes. The tax gap for each municipality is calculated by dividing the commercial or industrial tax rate by the residential property tax rate. The larger the number, the larger the distortion and unfairness in the property tax system.

Challenges arise when our tax systems create significant barriers for businesses to succeed. Municipalities need to create economies where innovation and growth are incentivized. Actively pursuing taxation innovation can help to achieve this goal.

For more information on the Ontario tax gap and comprehensive views on this issue, read CFIB’s 2014 report [Big Property Tax Burden for Small Business](#).

Policy Options for Municipal Government

▶ **Cap the Property Tax Gap Between Businesses and Residents at a Maximum of 2 to 1**

As long as municipalities continue to move in the right direction, CFIB recommends this be a voluntary commitment, rather than having the provincial government legislate a cap, and proposes local governments set a timeline of a decade for all municipalities to achieve a gap ratio of no more than two to one.

▶ **Provide Earlier Property Tax Notices for Commercial Taxpayers**

Municipal governments should provide earlier property tax notices for commercial taxpayers. Property taxes can represent major one-time payments that can reach tens of thousands of dollars. Earlier notice for these taxpayers allows more time to arrange financing if necessary.

▶ **Allow Commercial Taxpayers to Remit Taxes in Monthly or Quarterly Instalments**

Municipal governments should allow commercial taxpayers to remit taxes in monthly or quarterly installments. Greater payment flexibility eases the financial burden on small business owners facing large tax bills.

▶ **Adopt a “User Fee” philosophy**

Any introduction or increase in user-fee arrangements should be met with a commensurate reduction in property tax rates. Holding those who consume municipal services responsible for paying for those services would eliminate inefficient cross-subsidization by one property class in favour of another.

▶ **Introduce a “Hard Cap” on Tax Rate Increases on Businesses**

Municipalities should take the lead on introducing hard caps within their jurisdictions in order to combat the inequalities that business property owners face. Similar to the provincial “hard cap” implemented between 2001 and 2004, municipalities should require that the tax gaps not be

permitted to increase if they are above the municipal average across all classes. This would protect commercial and industrial property owners from unfair increases in property tax rates, and would more evenly distribute the property tax burden.

Controlled Municipal Spending

Controlled spending is an important responsibility for local leaders. As populations and bureaucracies grow, it is increasingly important for leadership to be fiscally responsible when managing the public purse.

CFIB's 2014 report *Canada's Municipal Spending Watch* provides a more in-depth look into key areas for municipal governments to consider when making spending decisions. Overall, municipalities in Ontario increased inflation-adjusted (i.e., real) operating expenses from 2001 to 2013 by 54%. This excludes money spent on infrastructure (capital) projects. Over this same period, population growth was only 13%. What drives this operating spending growth is important. The *Canada's Municipal Spending Watch* report found that the lion's share of operating spending in municipalities comes from employee compensation. Largely, spending has far outpaced the reasonable benchmark of inflation and population growth. Municipalities should increase their focus on spending control.

For more information on CFIB's position on municipal spending, read [2014 Canada's Municipal Spending Watch](#).

Policy Options for Municipal Government

▶ **Keep increases in operating spending to (or below) inflation and population growth**

It is reasonable that operating expenses will grow to accommodate a growth in population and in the cost of goods with respect to inflation. However, increases beyond inflation and population growth are not sustainable and only further burden taxpayers and job creators.

▶ **Implement compensation systems that better compare with those of private sector workers**

Keep salaries, wages and benefits of municipal employees in line with those of equivalent roles in the private sector. This can be accomplished by limiting all increases to inflation, and hiring new employees at comparable private sector compensation.

Fair Bylaws & Regulations

According to CFIB's monthly Business Barometer®, over-regulation and red tape are consistent, significant impediments to Ontario's business growth. The expression "red tape" refers to any unnecessary or redundant regulation that hinders productivity. Today, the phrase equates to a variety of frustrations, including complying with rules that make no sense or deliver little benefit and much cost; wasting time waiting in line to get a form approved, or on the telephone waiting for advice; wading through complicated language to try to figure out compliance obligations; filling out cumbersome, unnecessary paperwork; and suffering the uncertainty and delays that can come with waiting for permit or licence approvals.

Small- and medium-sized businesses are the main drivers of Ontario's economy and employ 87.3 per cent of the private sector workforce in the province. Red tape and customer service challenges at the municipal level present a barrier for entrepreneurs trying to start or grow a business. When a municipality mandates a business to fill out a 10-page form, the cost of paying an employee to do so

or the opportunity cost of an employer doing it themselves is significant. Finding ways to streamline the process can be a major boon to business productivity.

Municipalities need to be bold in their steps to change the regulatory environment. As we approach the 2018 elections, CFIB encourages local leaders to create a fair and business-friendly regulatory environment. Ontario's municipalities should figure out the number of existing regulations, establish mechanisms for limiting the number of regulations, create red tape reduction targets, and work to create an environment where business owners clearly understand their obligations. Further, it is critical that municipalities strive to make it easy to start and grow a business with accessible, understandable and well-communicated regulations backed by a supportive and customer service-centric public sector.

Business owners know that there are many key areas where regulations at the municipal level can make significant strides in supporting job creators. The following regulatory sectors are areas of potential improvement for municipal governments:

- Building and Renovation Permits
- Property Assessment
- Garbage and Recycling
- Business Licensing
- Land Use and Development
- Sign Bylaws
- Parking Bylaws

To maximize the economic impact of regulatory reduction exercises and mechanisms, municipal leaders should focus on areas of regulation and red tape that might be considered most harmful to business. For example, with respect to building and renovation permits, the importance of the construction of safe facilities is paramount. However, the regulatory burden of this process is not only expensive and burdensome, it can also disrupt timelines for a business. For certain sectors, like the restaurant industry, missing out on seasonal business because of regulatory delays can be devastating. At a time when the province needs new business growth, it is pertinent that municipalities make this a priority.

Policy Options for Municipal Government

▶ Set Red Tape Reduction Targets

The first step to addressing red tape and unfair bylaws and regulations is to measure them and set reduction targets. Leading by example, many provinces and cities have created regulatory benchmarks to determine the number of individual regulations affecting small businesses, against which they can measure red tape reduction. Establishing a regulatory baseline and setting a reduction target for individual municipalities is the first step to easing the red tape burden.

▶ Establish a One-for-One Rule or Better

One-for-one rules enforce restraint and caution when establishing new regulations. These rules require that to implement a new regulation, a government must remove an existing regulation. One of the largest challenges with regulatory frameworks is that in many cases, governments continue to add restrictions but don't take away old restrictions when they are outdated. As

economies continue to evolve, establishing a mechanism that weeds out the overgrowth of regulations that dampen innovation, prosperity and entrepreneurship is important.

▶ **Make Regulations Easy to Understand, Accessible and Measurable**

Where regulation is necessary, it is critically important for business owners to be made aware of and understand their obligations. CFIB recommends that regulations be easily accessible and understandable, and that red tape reduction measures be publicly reported to maintain accountability.

▶ **Merge Business Licences, Occupancy and Other Permits**

CFIB recommends that where possible, municipalities merge their many licences and permits. A simple one-stop shop for both new and existing businesses would streamline the process and ensure compliance.

▶ **Create Accountable, Accessible Customer Service Standards**

Transparent and clear communication between city employees and citizens is critical to ensuring that small business owners and city residents understand the various regulatory requirements that impact their livelihoods. Key recommendations include establishing clear customer service standards for city processes, requiring staff to provide ID numbers when talking to taxpayers if asked, allowing taxpayers to receive written rulings on city decisions, and honouring written rulings if they are later to be found inaccurate.

Quality Public Service

Small business owners understand the importance of quality government services, whether it is a tech company that relies on strong internet connections, a manufacturer who relies on roads and bridges to ship products, or an urban business that requires labourers to commute to work every day. Business owners are concerned about a public service that costs a lot, but is not very effective at serving their needs. Identifying and focusing on core services, creating stronger public-private partnerships and investing in infrastructure that is cost-effective can help to ensure quality public service.

Poor public service/customer service can make a big difference when it comes to the decision of where to start and grow a business. If you can't receive a business licence in a reasonable time period, it gives job creators little faith when they move forward with expansion. If local leaders can place an emphasis on effective, customer service-centric approaches in their bureaucracies, business owners and business prospects will be more likely to see opportunity, instead of aggravation.

Policy Options for Municipal Government

▶ **Identify and Focus on Core Services**

Increasingly, CFIB members have identified that governments' lack of focus on core services has resulted in inefficient and poor quality social services. Municipalities should not try to do everything, but rather identify core services that are not being duplicated and invest in ensuring those services are effective for public use.

▶ **Build Stronger and More Transparent Public-Private Partnerships (P3s)**

CFIB members are generally supportive of more private sector involvement in the delivery of public services. When deemed necessary, they see this as an appropriate way to help control spending in government and provide more efficient public services. Municipal infrastructure is a

great area where a P3 approach could benefit all parties involved. Processes for engagement on P3s should be transparent, well-advertised, and fair.

▶ **Create a Customer Service-Centric Approach to Public Service**

Transparent and clear communication between city employees and citizens is critical to ensuring small business owners and city residents can focus on their lives and businesses, instead of investing hundreds of hours in navigating conversation and correspondence with public servants. Municipalities should evaluate training programs, make effective hiring decisions, and invest in leadership that can make a difference.

Understanding the Realities of Running a Business

Among CFIB members' opinions, this was by far the area of greatest concern. Business owners do not feel they are being heard at the municipal table. What business owners are seeking is a municipal government that will listen to them. One of the strongest complaints among the business community is a lack of action from government on important issues. The small business community wants to see municipal leaders who are clear about their objectives in supporting small- and medium-sized enterprises and how they plan to achieve them. Further, SMEs want to see local leaders be more accountable, engage meaningfully with local job creators, and commit to an ongoing conversation.

Policy Options for Municipal Government

▶ **Create a Small Business Platform**

CFIB recommends that all candidates for local government create and run for office on a comprehensive small business platform. Small business success is not a political or partisan issue; it is a necessity for healthy and vibrant communities.

▶ **Commit to Engaging the Small Business Community**

CFIB recommends that candidates connect with business owners and business groups like CFIB and local business organizations to ensure that the small business community voice is heard. To claim that your platform is well-researched means that stakeholders have had the opportunity to comment and provide input.

▶ **Ensure Accessible, Accountable Consultation with Business Owners**

It is important to understand that while ongoing engagement and consultation is critical to ensuring that local leaders understand the realities of running a small business, they must do so in a way that reflects the reality of being a business owner. Committee meetings that only happen during business hours and council or committee meetings that might go well into the wee hours of the morning are unrealistic measures of engagement. Business owners are busy running their businesses and living their lives; local leaders must understand that an approach of stakeholders coming to them at their sole convenience will not always work. Further, since effective consultation needs action to back it up, local leaders should be accountable by publishing objectives and progress reports.

Summary of Recommendations

The impact of local governments on small business cannot be overstated. Since local governments are a key driver in many major business decisions, they have a tremendous impact - both positive and negative - on whether a business succeeds or fails. We hope that local candidates and incumbents

thoroughly review our recommendations as a comprehensive blueprint to creating a better business environment for all municipalities in Ontario.

Spanning five key areas of improvement (fair taxation, controlled municipal spending, fair bylaws and regulations, quality public service, and understanding the realities of running a business), this document is a valuable tool to shape the discussion on supporting small business.

1. **Cap the property tax gap between businesses and residents at a maximum of 2 to 1**
2. **Provide earlier property tax notices for commercial taxpayers**
3. **Allow commercial taxpayers to remit taxes in monthly or quarterly instalments**
4. **Adopt a “User Fee” philosophy**
5. **Introduce a “hard cap” on tax rate increases on businesses**
6. **Keep increases in operating spending to (or below) inflation and population growth**
7. **Implement compensation systems that better compare with those of private sector workers**
8. **Set red tape reduction targets**
9. **Establish a One-for-One rule or better**
10. **Make regulations easy to understand, accessible and trackable**
11. **Merge business licences, occupancy and other permits**
12. **Create accountable, accessible customer service standards**
13. **Identify and focus on core services**
14. **Build stronger and more transparent public-private partnerships**
15. **Create a customer service-centric approach to public service**
16. **Create a small business platform**
17. **Commit to ongoing engagement with the small business community**
18. **Ensure accessible, accountable consultation with business owners**

The Canadian Federation of Independent Business is Canada's largest association of small- and medium-sized businesses, representing 109,000 businesses in all sectors of the economy, including 42,000 in Ontario. Taking direction only from its members through regular surveys on a variety of issues, CFIB is a strong and influential voice at all levels of government.

Appendix 1

Aurora	Brampton	Brant	Brantford	Burlington	Caledon	Cambridge	Centre Wellington	Chatham-Kent	Clarington
n = 49	n = 55	n = 70	n = 51	n = 128	n = 70	n = 129	n = 119	n = 65	n = 41
Coburg	Collingwood	Greater Sudbury	Guelph	Halton Hills	Hamilton	Huron East	Ingersoll	Kawartha Lakes	Kingston
n = 50	n = 44	n = 40	n = 205	n = 55	n = 374	n = 68	n = 67	n = 249	n = 62
Kitchener	London	Markham	Milton	Mississauga	Newmarket	Norfolk County	North Bay	North Perth	Oakville
n = 277	n = 480	n = 134	n = 105	n = 404	n = 51	n = 96	n = 94	n = 71	n = 184
Ottawa	Peterborough	Pickering	Quinte West	Richmond Hill	Sarnia	Sault St. Marie	St. Catharines	St. Thomas	Thames Centre
n = 266	n = 116	n = 61	n = 91	n = 100	n = 62	n = 69	n = 40	n = 72	n = 44
Thunder Bay	Tilsonburg	Toronto	Vaughn	Waterloo	Wilmot	Windsor	Woodstock	Woolwich	TOTAL
n = 122	n = 43	n = 925	n = 220	n = 164	n = 53	n = 82	n = 152	n = 61	n = 6630

End Notes

¹ <http://www.cfib-fcei.ca/english/article/7802-cities-cry-poor-while-spending-so-much.html>