

REPORT

Office of the Mayor

To: Mayor Johnstone and Members of Council,
Regular Council Meeting

Date: April 24, 2023

From: Denise A Tambellini Intergovernmental and Community Relations Manager

File:

Item #: 2023-284

Subject: 2023 Federal Budget Overview

RECOMMENDATION

THAT Council accept the following report for information.

PURPOSE

On March 28, 2023 the Government of Canada tabled a budget for the upcoming fiscal year and a three year plan. This report outlines the federal funding commitments over the three year fiscal plan of interest to local governments.

BACKGROUND

Deputy Prime Minister and Finance Minister Chrystia Freeland's budget was released on March 28, 2023. It outlines the allocation of nearly \$70 billion more between now and 2027-28—with \$59.5 billion rolling out over the next five years— while offsetting this with close to \$25 billion in cuts and savings.

The budget— titled [“A Made-in-Canada Plan”](#)— shows that the federal deficit is projected to be \$43 billion this fiscal year, and they are no longer forecasting that the federal financial forecast could be back in the black by 2027-28. A copy of the press release is included for information (attachment 1).

The deficit is set to gradually decline over the next five years but still sit at \$14 billion in 2027-28. The Liberals are presenting the budget as about choosing how to move the dial on growth, without exacerbating inflation.

Canada had the strongest economic growth in the G7 over the last year. 830,000 more Canadians are employed than before the pandemic with near-record low unemployment. There is a record 85.7 per cent labour force participation rate for Canadian women in their prime working years, supported by our Canada-wide system of affordable early learning and child care. Inflation has fallen for eight months in a row, and the Bank of Canada predicts that it will fall to just 2.6 per cent by the end of the year.

With these strong economic fundamentals, Budget 2023 comes at an important moment for our country and at an important moment for the world. In the near-term, it is anticipated there will be a slowing global economy, elevated interest rates around the world, and inflation that is still too high.

Budget Priorities

According to Budget 2023, the strategy released is a direct response to these essential challenges, and it proposes to deliver:

1. New, targeted inflation relief for the Canadians who need it most.
2. Stronger public health care, including dental care for millions of Canadians.
3. Significant investments to build Canada's clean economy, create good middle class careers, and help usher in a new era of economic prosperity for Canadians.
4. A responsible fiscal plan that will see Canada maintain the lowest deficit and the lowest net debt-to-GDP ratio in the G7.

The 2023 federal budget is proposing spending to make life more affordable, encourage investments in green energy, provide improved health-care services and roll out the next stage of the federal dental care program. It also offers targeted funding for students, workers, science and defense.

Some of the more significant funding initiatives in Budget 2023 include:

- \$43B **in net new spending** over six years.
- 3 main priorities: health care/dental, affordability and clean economy.
- Doubling of GST rebate extended for lower income Canadians, up to \$467 for a family.
- \$13B over five years to implement dental care plan for families earning less than \$90K.
- \$20B over six years for **tax credits to promote investment in green technologies.**
- \$4B over seven years for an Indigenous housing strategy.
- \$359 million over five years for programs addressing the opioid crisis.
- \$158 million over three years for a suicide prevention hotline, launching Nov. 30.

- Creation of new agency to combat foreign interference.
- Deficit for 2022-23 expected to be \$43B, higher than projected in the fall.
- Higher than expected deficits projected for next 5 years.
- Federal debt hits \$1.18 trillion. Debt-to-GDP ratio will rise slightly over next 2 years. ¹

General Affordability

The federal government is rolling out a number of small measures to help Canadians that amount to about \$3.3 billion in new spending since the fall economic update. The measures are meant to help Canadians meet the growing cost of living as rising interest rates and inflation impact budgets. These include:

- The "grocery rebate," will be a one-time hike to the GST rebate which will provide up to \$467 for families, \$234 for singles and up to \$255 for seniors, at a cost of \$2.5 billion.
- A 27 per cent reduction in the interchange fees Visa and Mastercard charge small businesses to save eligible small businesses in Canada approximately \$1 billion over five years.
- \$814 million in 2023-24 will help students starting their academic year on Aug. 1, 2023. The measures include increasing the student loan limit from \$210 to \$300 a week and increasing student grants by 40 per cent.
- Divorced parents will now be allowed to open up joint RESPs.
- Mature students aged 22 and older will no longer have to undergo credit screening when applying for first-time student grants and loans.

The budget also includes:

- A policy pledge to instill "a right to repair," making it more affordable for Canadians to repair rather than replace their home appliances and electronics; and
- Plans to explore imposing a standard USB charging port for cell phones, laptops and other electronic devices.

Housing

The budget indicates financial institutions can start offering the Tax-Free First Home Savings Account to Canadians starting on April 1, 2023. The budget also proposes to spend \$4 billion over seven years, starting in 2024-25, to implement a co-developed Urban, Rural and Northern Indigenous Housing Strategy.

Dental Care Program

The largest allocation of funding in the budget is for health and dental care — \$3.6 billion in new spending in 2023-24. The budget launches the next stage of the dental care plan, agreed to as a condition of its supply and confidence agreement with the

¹ CBC [Peter Zimonjic](https://www.cbc.ca/news/politics/highlights-from-2023-federal-budget-1.6792512) March 28, 2023 <https://www.cbc.ca/news/politics/highlights-from-2023-federal-budget-1.6792512>

New Democrats. Last year, the government opened the program to low-income Canadians under the age of 12. This year, the program is being expanded to people under 18, persons living with a disability and seniors. It's set to be fully implemented by 2025. An additional \$250 million over three years will establish an Oral Health Access Fund starting in 2025-26, with \$75 million annual funding after that. The program is meant to target gaps in vulnerable populations.

Clean Economy and Business Incentives

A main focus of Budget 2023 was the economic growth anticipated from Canada's clean energy sectors, through investment tax credits, low-cost strategic financing, and targeted programs to spur growth in critical minerals and other key sectors such as electric vehicles.

This portion of the federal spending plan includes:

- A refundable 15 per cent clean electricity investment tax credit for investments in non-emitting electricity generation systems, and electricity storage or transmission, at a cost of \$6.3 billion over 4 years;
- A refundable clean technology manufacturing tax credit equal to 30 per cent of the cost of investments in machinery used to manufacture or process clean technologies, at a cost of \$4.5 billion over five years;
- A clean hydrogen investment tax credit first signaled in the 2022 fall update, with support ranging from 15 to 40 per cent of eligible project costs; and
- At least \$20 billion coming from the Canada Infrastructure Bank to support building major clean electricity and clean growth infrastructure projects.

The Federal Government is intending to invest in opportunities from two fundamental shifts in the global economy:

1. "the race to build the clean economies of the 21st century, and
2. our allies' accelerating efforts to friend shore their economies by building their critical supply chains through democracies like our own,"²

The federal government views its approach to climate change and clean growth as a pyramid, with the price on carbon at the base, followed by the new tax incentives, concessional financing, and "bespoke" support for certain projects at the peak.

Overall, the government is expected to spend \$80 billion over the next decade on clean economy-focused initiatives.

Tax Implications

Budget 2023 puts forward a number of policy and tax changing efforts aimed at providing Canadians and businesses relief.

This includes cracking down on hidden or unexpected consumer fees known as "junk fees" that inflate the overall cost of a product or service, in partnership with regulators

² Budget 2023 <https://www.budget.canada.ca/2023/report-rapport/intro-en.html>

and provincial governments. This includes telecom roaming charges, event and concert fees, excessive baggage fees, and unjustified shipping fees.

The government is moving to temporarily cap the planned April 1 increase to the excise duty on alcohol at two per cent, instead of the scheduled six per cent rise. This move will remain in effect for one year.

The federal government says it will also be amending the Criminal Code to stamp out predatory lending that targets Canadians in perilous financial situations with high interest rate loans, by lowering the amount of interest that can legally be charged, to 35 per cent.

For small businesses, this budget announces that after some work, the federal government has secured deals with Visa and MasterCard to lower credit card transaction fees, resulting in more than 90 per cent of businesses who accept credit cards seeing their interchange fees reduced by up to 27 per cent. This move is expected to save eligible small businesses approximately \$1 billion over five years.

A KPMG analysis on tax implications is included for background (attachment 2).

ANALYSIS

There are opportunities for municipalities in this stimulus budget. All levels of government are facing significant social and environmental challenges and this budget is investing in areas such as housing, infrastructure and clean energy projects – essential to the needs of municipal governments.

The Federation of Canadian Municipalities (FCM) prepared a summary of recommendations to guide Federal budget priorities and is included for information (attachment 3).

Many of the FCM priorities align with New Westminster's objectives and include:

- Building infrastructure to improve the resiliency of cities through increase investment in the Disaster Mitigation and Adaptation Fund (DMAF);
- Helping to build affordable housing through the Implementation of the Housing Accelerator Fund to support cities with affordable housing costs; the National Housing Co-investment Fund, the Rental Construction Fund, continued Rapid Housing Initiatives and scaled up Reaching Home funding;
- Investing in the Canada Community Building Fund over the next 10 years to improve basic infrastructure in communities including roads, water and active transportation;
- Investing in the municipal community, culture and recreation infrastructure annually for the next 10 years;
- Ensuring permanent Public Transit Funding;
- Supporting access to pharmaceutical alternatives; and
- Increasing access to mental health and addictions services.

While not all of the FCM priorities were met by Budget 2023, there is a recognition that this budget is a move in the right direction for much needed funding for infrastructure,

housing and support for the mental health and opioid crisis faced by local governments. There appears to be a will for a collaborative effort to work with municipal governments, and the not for profit sector to ensure resources are coordinated and ramped up to match the scale of municipal needs. Investments will need to be sustained and increased to achieve meaningful and visible progress on the ground.

The recently announced Housing Accelerator Fund, administered by the Canada Mortgage and Housing Corporation (CMHC), is one example of the federal government responding to the direct needs of municipal governments to support the often hidden costs of local governments to develop affordable housing in their communities.³

With the current funding available, the City will need to continue to prioritize current capital projects that align with federal (and provincial) priorities in order to be competitive for funding programs to secure support. Once priorities are confirmed, a strong advocacy plan will be implemented.

The next federal election will take place on or before October 20, 2025 but there is some speculation that an election could be called sooner particularly based on this stimulus nature of Budget 2023.

SUSTAINABILITY IMPLICATIONS

With current priorities of Budget 2023, funding from the Government of Canada for infrastructure will provide opportunities for the city of New Westminster to advance sustainability targets.

FINANCIAL IMPLICATIONS

The 2023 Federal Budget provides opportunities to support the financial well-being of the city and improve the financial viability of qualified capital projects.

INTERDEPARTMENTAL LIAISON

This report was created in liaison with Finance Department.

OPTIONS

1. Council accept to the following report for information.

CONCLUSION

On March 28, 2023 the Government of Canada tabled a budget for the upcoming fiscal year and a three year plan. This report outlines the federal funding commitments over the three year fiscal plan of interest to local governments.

³ Housing Accelerator Fund <https://www.cmhc-schl.gc.ca/en/professionals/project-funding-and-mortgage-financing/funding-programs/all-funding-programs/housing-accelerator-fund>

ATTACHMENTS

Attachment 1: Budget 2023 News Release

Attachment 2: KPMG Tax Implications 2023 Federal Budget Summary

Attachment 3: FCM 2023 Budget Recommendations

APPROVALS

This report was prepared by:

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This report was approved by:

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