

Budget 2023: Navigator Insights

March 28, 2023



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A (Too?) Timid Response to Challenging Times

Budget 2023 notionally delivers the response that had been expected of the government to address affordability issues facing Canadian families, reflects recent intergovernmental agreements on health care funding, and addresses the US administration's "green industrial policy" investments. In actuality, the budget seems too timid a response to too many disparate policy and political imperatives to make a meaningful impact on any single one of them.

From a political perspective, the suite of measures aimed at addressing the rising cost of living is understandable. Exclusive public opinion data collected by *Discover by Navigator* in the days leading up to today's budget confirm that addressing cost of living issues was the top priority of Canadians at 39 per cent, beating out lowering taxes (21 per cent) and reducing government spending (20 per cent). These measures will also serve to buttress the deal negotiated a year ago with the New Democratic Party, notably the additional investments in dental care – a long-standing NDP priority.

Like Budget 2022, which was shaped by rising inflation and Russia's invasion of Ukraine, Budget 2023 is more a response to outside pressures than the expression of the Government of Canada's desired policy direction. The question is whether the measures announced today will constitute a robust enough response to the Biden Administration's *Inflation Reduction Act*, the demands of our increasingly strained health care system or the still-too-heavy burden of the rising cost of living on family budgets to make a meaningful difference. Only time will tell, which may, in the end, be the one thing the government was playing for in designing this budget.





What you need to know

Budget 2023 is focused, yet unambitious, with previously announced investments in healthcare and dental care leaving the government out of reach of any sort of fiscal anchor. The green economy remains the government's exclusive economic growth prospect, with notable new investments to incentivize growth in the clean tech and resource sectors. Other industries are likely to find little to feel positive about. The government also takes little action to combat the affordability crisis – likely out of fears of creating further inflationary pressures – but a “Grocery Rebate” will give the Liberals enough to promote as they try to sell an otherwise thin document.

The Top Line

- A projected 2023-24 deficit of \$40.1 billion continues to far surpass pre-pandemic levels, but demonstrates the government is working slowly to improve the fiscal track.
- Private sector economists predict a shallow recession in early 2023.
- The Liberal-NDP Supply and Confidence Agreement influenced the budget meaningfully, with \$13 billion committed to dental care, as well as a new grocery rebate for low-income families.
- **The Canadian clean tech sector is the big winner**, with a new tax credits for Clean Electricity, Clean Hydrogen, Clean Manufacturing, Carbon Capture, and Geo-Thermal technology, as well as renewed investments in the popular Strategic Innovation Fund.
- Businesses will take note of regulatory changes to support workers and improve tax fairness. This includes prohibiting the use of replacement workers, investing in Canada's Labour Market Transfer Agreements.
- New revenue tools include changes to the tax paid on Canadian dividends, a tax on share buybacks, and increasing the Alternative Minimum Tax from 15 to 20.5 per cent.

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Betting on the Green Economy

The federal government is betting big on the green, clean, economic machine with a series of new or enhanced tax credits. In hopes of encouraging new private sector investment in clean technology, more than \$80 billion in new tax credits has been proposed and includes refundable tax credits for expenditures in clean hydrogen and clean electricity, as well as more environmentally friendly manufacturing processes, inching closer to net zero-emission clean tech and infrastructure.

With great tax credits comes great responsibility. Many of the new measures are met with a requirement to pay fair wages and apply certain labour requirements. Needless to say, the federal Liberals are trying to make it impossible to say no to moving companies into a greener space, by making it very difficult for any future governments to repeal them without substitution. However, introducing rebates and attracting global capital have yet to make a meaningful impact in Canada's ability to inch any closer to its climate targets.

A welcome update from last year's budget was provided with a renewed timeline for businesses interested in the planned review of the Scientific Research and Experimental Development Tax Incentive Program. Finance Canada is expected to continue engagement with stakeholders in the coming months regarding next steps, to ensure the program achieves its goals. Similarly, companies looking to capitalize on their investments will be pleased to hear about the Strategic Innovation Fund's newly added \$500 million over ten years, while reallocating \$1.5 billion of its existing funding to projects geared towards clean tech, critical minerals, and industrial transformation.

While the Green Economy comes out on top in this year's budget, the rest of the Canadian economy is left begging for scraps, with little to no broader economic stimulus. While the remaining sectors will have to rely on existing on-going measures from previous budgets, and less promising new opportunities on the horizon, Navigator's insights show that only 10 per cent of Canadians see the clean economy as a top priority. Budget 2023 is now looking to change that.

Notable Measures

- \$20 billion invested to support the building of major clean electricity and clean growth infrastructure projects through the Canada Infrastructure Bank.
- The government is looking to the EU for inspiration as they announce they're exploring the implementation of a standard charging port for devices used across Canada.
- A refundable tax credit up to 15 per cent for non-emitting electricity systems, abated LNG, and inter-provincial transmission infrastructure to expedite clean energy implementation.
- A refundable tax credit up to 30 per cent for investments in manufacturing and equipment that support extraction, production, or recycling or critical minerals.
- Details announced for the Clean Hydrogen Investment Tax Credit include a tax credit up to 40 per cent for those investing in the creation of clean hydrogen, with an extra 15 per cent tax credit for equipment used in the hydrogen-to-ammonia conversion process.



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No Surprises in Healthcare

Back in February, all the Canadian Premiers agreed to accept the 10-year health-care funding offer that the Prime Minister made, so it is absolutely no surprise to see investments in healthcare capturing most of the new spending in Budget 2023.

In a veiled attack on Conservative Premiers and opposition leaders, the Budget also cited how important it was to uphold the *Canada Health Act* and how proud Canadians are of the universal publicly funded health care system. As bilateral deals are struck now with each of the provinces and territories, the focus will turn to data collections and an investment to develop health indicators to improve the quality of health care in the country.

One significant boost in this Budget was to dental care, a key demand of the NDP-Liberal accord. The investment in dental care, plus the grocery rebate, will make this budget easy for the NDP to support and ensure the survival of this minority government. The new dental funding will be administered by Health Canada, with support from a third-party benefits administrator and will create a new Oral Health Access Fund. And in responding to a national crisis on opioids, additional funds for mental health and addictions are also included in this Budget.

Notable Measures

- A 9.3 per cent increase to the Federal Health Transfer in 2023-24.
- An additional \$195.8 billion over the next decade, including \$46.2 billion in new spending through Canada Health Transfer measures.
- \$2 billion over ten years to work with Indigenous partners to provide support for Indigenous health priorities, distributed through the Indigenous Health Equity Fund.
- Dental Care grows to a \$13 billion program over the next 5 years with an additional \$7.1 billion, an increase that is more than originally expected and is being spent to extend coverage to lower income families.
- \$359.2 million will be made available over the next five years to address safe supply and harm reduction programs, to help support jurisdictions across Canada as they combat the impact drug addictions are having on Canadians.
- \$46.2 billion for provinces and territories to help provide Canadians with access to timely, equitable mental health and substance use services.



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A Restrained Response to the Affordability Crisis

In Navigator's pre-Budget research, direct relief to help families deal with the rising cost of living emerged as the top priority for this budget, but those Canadians will most likely be disappointed. While Budget 2023 communicates an understanding of the inflationary pressures facing Canadians, the government appears largely content with its current suite of measures, such as the Canada Child Benefit, Old Age Security and Guaranteed Income Supplement. The marquee new investment – a “Grocery Rebate”, comes off as largely political, offering a one-time payment to 11 million Canadians.

The real highlight on affordability is a suite of new regulatory changes which demonstrate the government's commitment to restrict expenditures where possible. New financial protections, as well as restrictions on junk fees and predatory lending help address affordability without new federal dollars.

Notable Measures

- In their effort to offset the increasing cost of groceries, the government has introduced a “grocery rebate” that will see eligible couples receive a one-time payment up to \$467, single Canadians up to \$234, and seniors up to \$225.
- The only new funding allocated to the housing sector is a \$4 billion investment over seven years, beginning in 2024-25, to implement an Urban, Rural, and Northern Indigenous Housing Strategy developed in collaboration with Indigenous communities.
- The government is increasing student grants by 40 per cent, which will provide up to \$4,200 for full-time students.
- The government proposed a suite of regulatory changes, including working with various jurisdictions to reduce junk fees, amending the criminal code to fight predatory lending, giving consumers the “right to repair” electronics and home appliances, and protecting struggling homeowners with mortgage guidelines.



What's Next?

With the government's roadmap for the next year now in place, ministers and departments across government will be working to quickly develop the specifics for new spending and deliver on key new commitments.

Businesses and organizations should now be thinking about how they can influence the development of these new spending priorities. How can you ensure that new programs benefit your organization? What new wins or losses will be determined in the fine print? With only a year to deliver on important spending programs, government will be looking to the private sector for both expertise and cooperation.

For more analysis or support engaging government on any of the budget announcements, contact your Navigator team or reach out at info@navltd.com.

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you can't
afford
to lose.[®]**