

NAVIGATOR

Budget 2021 – Insights & Analysis

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MANAGING PRINCIPAL

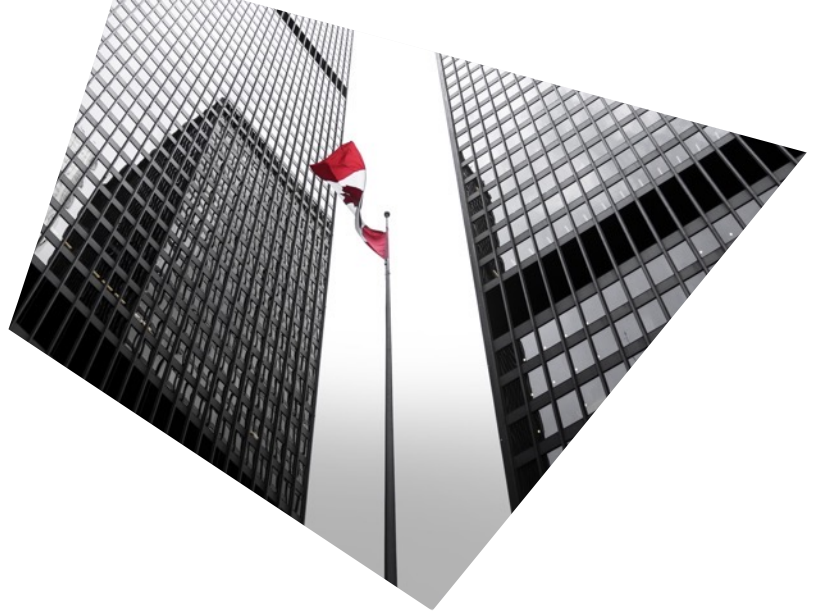
Never Let a Good Crisis Go to Waste

It would seem the Trudeau government has taken Sir Winston Churchill's advice to heart. More than a response to the COVID-19 pandemic, the 2021 budget has the potential to fundamentally change the role of the federal government and transform its relationship with Canadians.

Assuming all the initiatives announced today are implemented, this budget will multiply Ottawa's touch points with citizens: unprecedented federal engagement in social policy via early childhood education and long-term care; direct support for small- and medium-sized enterprises (SMEs); and a comprehensive policy response to the unequal impact of the pandemic on women, Indigenous peoples, Black and racialized Canadians.

Reconciling this budget with the federal fact of Canada will be a tremendous challenge. More than the reactions of opposition parties, it is the negotiations with the provinces that will determine the ambition of the measures announced today and, ultimately, the success of the government's long-term intention to build back better.





What you need to know

Today, Canada's Minister of Finance Chrystia Freeland delivered her first budget. This is also the first budget since the minority Liberal government was elected in October 2019 and the first budget in over two years.

Main Themes

Finishing the Fight Against COVID-19

- The federal government will be extending COVID-19 aid with a \$12 billion plan. This includes the already existing programs as well as some funding to create training and employment opportunities.
- In a nod to the paid sick days debate in Ontario, the government announced that they will be extending EI sickness benefits from 15 to 26 weeks.
- To fight the COVID-19 pandemic, the Liberals announced new spending measures for seniors, biomedical research and capacity, and funding for mental health interventions:
 - \$3 billion over five years, starting in 2022-23 to support the provinces and territories in creating and upholding high standards of care inside long-term care facilities;
 - \$2.2 billion over the next seven years on boosting Canada's biomedical and life sciences research sector to in part increase vaccine development;
 - \$424 million in 2021-22 to ensure the safe reopening of Canada's borders, through funding further air travel protections and mandatory quarantine measures;
 - \$100 million over the next three years, to support projects for mental health interventions for populations disproportionately impacted by COVID-19, such as health care and front-line workers; and
 - \$41.3 million over six years starting in 2021-22, for Statistics Canada to improve data infrastructure and data collection.



What you need to know

Creating Jobs and Growth

- To deal with unemployment, the 2021 federal budget promises to create 500,000 new training and work opportunities over the next five years and sets aside billions in new spending aimed at fostering innovation.
- Budget 2021 proposes to provide \$700 million over three years, starting in 2021-22, for the regional development agencies to support business financing.
- The government has also announced an increase to the Canada Workers Benefit by \$8.9 billion over the next six years. The government expects this will make one million more Canadians eligible and incentivize second earners to return to the workforce by raising the income level at which the benefit starts being reduced to \$22,944 for single individuals without children.
- To support entrepreneurs and small businesses, the budget earmarks \$214 million in the next year, as part of an overall allocation of \$921 million over the next five years to help entrepreneurs, including dedicated funding for women and racialized entrepreneurs.
- The government will also create a Canada Digital Adoption Program to help businesses with the cost of new technology and provide them with the help of young Canadians who will be trained to help set up new e-commerce opportunities.
- Finally, there will be an additional \$7.2 billion put into the Strategic Innovation Fund over the next seven years, including specific amounts to go into projects within the life sciences, automotive, aerospace and agriculture sectors.
 - \$5 billion will be funneled towards the Fund's Net Zero Accelerator, which supports projects to help reduce domestic greenhouse gas emissions.



What you need to know

A Resilient and Inclusive Recovery

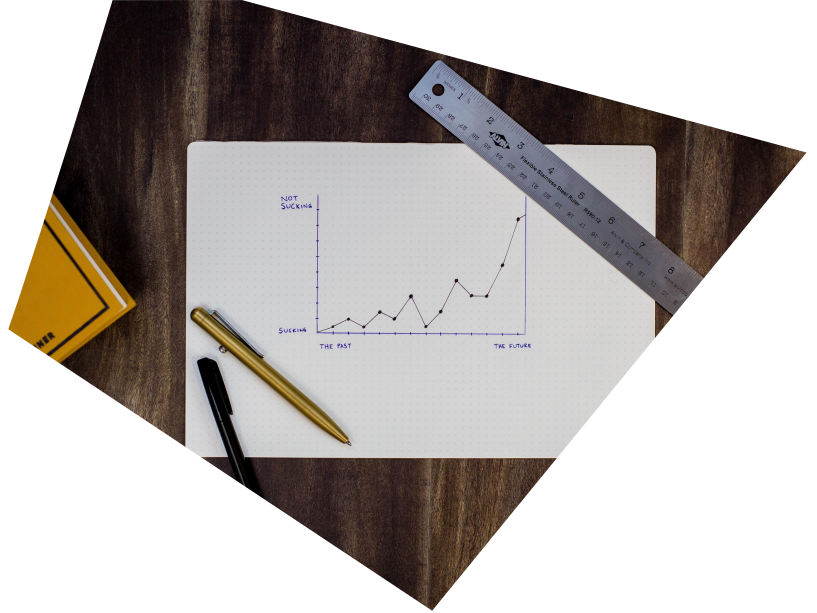
- The federal government has announced \$30 billion over the next five years for early childhood education, with permanent ongoing funding to enact the national plan and create more childcare spaces, including for Indigenous families and children with disabilities. The goal is to reach an average cost of \$10 per day by 2026.
- On seniors, the government is keeping its promise to increase Old Age Security for seniors ages 75 and older, providing up to \$766 more for eligible seniors in the first year.
- On climate change, the government proposes:
 - A plan for a federal green bond framework allowing investors to help finance Canada's climate change initiatives;
 - \$4.4 billion over the next five years to offer interest-free loans of up to \$40,000 for environmentally-friendly home retrofit projects; and
 - Reducing, by 50%, the general corporate and small business income tax rates for businesses that manufacture zero-emission technologies, effective in 2022.



What you need to know

Fair and Responsible Government

- To address the deficit, the Deputy Prime Minister also announced ways the government could increase revenues and reduce spending, including:
 - A national tax on vacant property owned by non-Canadian, non-residents that is estimated to bring in \$700 million over four years, starting in 2022-23;
 - A luxury tax on items like high-priced cars and private aircraft with a sale price over \$100,000 and for personal use boats that cost \$250,000 or more. The government estimates this will bring in \$604 million over five years;
 - Implementing a Digital Services Tax at a rate of three per cent on revenue from web giants that rely on Canadian content. It is estimated that this will raise \$3.4 billion in revenue over the next five years, starting this year; and
 - A reduction in travel costs for the highest-travelling departments, aiming for savings of \$1.1 billion over five years, starting this year.



What it means

The Path for Canada's Economic Recovery

With a third wave of COVID-19 sweeping the country, Canada's economic recovery and growth projections remain largely reliant on incomplete data. The survey of private sector economists, which form the basis of the government's budget projections, was completed prior to the latest lockdown measures and predicts a healthy 5.8 per cent growth in real GDP in 2021 and four per cent in 2022 – a significantly more optimistic outlook compared to the Fall Economic Statement.

The government's recovery plan is ambitious, but it contains a great deal of uncertainty. Aiming to restore Canada's pre-pandemic employment levels, the government unleashing a full three per cent of GDP, or \$100 billion in stimulus over three years. The Deputy Prime Minister hasn't pulled many punches – spending on the high-end of what was predicted in the fall and exceeding the planned stimulus by many of Canada's international peers.

The stimulus plan casts a wide net, with significant new spending in early learning and childcare (\$30B), fighting climate change (\$17.6B), new SME supports (\$16.3B) and Indigenous communities (\$18B). Predominantly though, the government is putting its faith in the ability of new and expanded employment supports to get Canadians back to work en masse.

To match the Liberal's ambition, public dollars will have to move quickly into the hands of Canadians and the provinces, who will carry the weight of meeting their targets. At the same time, much of the stimulus spending is time-limited funding to see the country through until the end of the pandemic, with the projected deficit shrinking to \$101 billion or one per cent of the country's GDP in 2022-23.



What it means

Building Back Better Businesses

With the ongoing pain of lockdowns across the country, the Liberals have their work cut out to incentivize employers to hire back many of the workers they've had to lay off or let go due to business shutdowns. Policies like the new Canada Recovery Hiring Program, cutting credit card merchant fees, and further extending the rent and wage subsidy programs are aimed at both helping businesses rehire and make ends meet.

Equipping businesses with the tools needed to stay competitive in a digital economy is another key focus of this budget. The success of the Digital Main Street Program has inspired the government to launch micro-grants to help small businesses adopt digital technologies and hire more digitally savvy young professionals to support growth. For larger businesses, the government has introduced write-offs for up to \$1.5 million of capital investments, including new technologies, digital assets, or intellectual property.

Self-sufficiency and resilience remain a key theme woven throughout the healthcare portion of the budget. In order to avoid being caught flat-footed again, the Government of Canada is investing \$2.2 billion over the next seven years in the life sciences sector, ostensibly to help develop and boost domestic vaccine production capacity.

Businesses who pursue green policies will clearly be rewarded by this budget. The government is making \$1 billion available over five years for investments in large-scale clean technology projects, as well as \$319 million over seven years for carbon capture, utilization, and storage projects. The government is also setting aside \$1.5 billion over five years to establish a Clean Fuels Fund, as it continues its work to implement a clean fuel standard.



What it means

Addressing the Social Dimensions of Recovery

Announcements to address the social costs of the pandemic are probably this budget's most meaningful departure from the status quo.

Inspired by the Quebec program that has existed since 1997, a Canada-wide childcare system will gradually be developed across the country to cut the costs currently paid by parents in half and allow more women to go back to work. Access to low-cost regulated childcare could add 240,000 workers to the Canadian labour market and increase real gross domestic product by 1.2 per cent over 20 years.

Almost \$30 billion is expected to be spent to implement the system over the next five years but will be dependent on forthcoming negotiations with the provinces – including Quebec – who have had their sights set on increases to other transfers, which were noticeably absent from the budget.

The federal government has also committed to infrastructure investments to boost trade, support specific communities and resolve long-standing infrastructure deficits. It has increased its support for affordable housing, and post-secondary education.

In all these initiatives, the federal government has blurred the line between economic and social policy and has recognized the unequal impact the pandemic has had on specific individuals and communities. The proposed approach, however, will require meaningful collaboration with the provinces and territories, and the federal government's approach to the upcoming negotiations will be a critical test of the Finance Minister's political skills and a key determinant of the government's success.



What it means

An Election Budget

Budget 2021 is an election budget. In addition to the urgent business of addressing the COVID-19 pandemic, the Liberals have put several election-worthy proposals in the window – no doubt preserving the option of campaigning on them if the opportunity arose.

That said, in light of the intensity of the third wave, an election is considerably more likely in the fall than spring. Vaccine rollout should be complete by then, income supports like the Canada Recovery Benefit will have run their course and businesses have transitioned from the Canada Emergency Wage Subsidy to a new Canada Recovery Hiring Program. In short, it should feel like an opportune timing for Canada's Liberals.

But a lot can happen in a few months, and the budget has certainly left ample room for criticism. Notably absent are increased ongoing health care transfers, progress on pharmacare, a wealth tax or a concrete fiscal anchor. While NDP Leader Jagmeet Singh has already stated that his party will not oppose the budget, he will call for more aggressive action on wealth inequality and climate change. We can also expect the Conservatives to oppose long-term structural overspending and the Bloc Quebecois to criticize the federal government's intrusion into traditional areas of provincial jurisdiction and lack of new healthcare spending.



What now?

The Liberal government will be looking to engage with businesses, organizations and Canadians to determine whether the budget adequately meets their needs and consult on how best to deliver on the finer points of these proposals.

Businesses and organizations should now be thinking about their federal election advocacy plans and how they can move the needle on public policy. What would they like to see become a ballot box issue? What would they like their members, clients, partners, industry or sector advocating for? How can they influence major political parties to take action on their most pressing issues?

At Navigator, we have over 20 years of experience building and delivering winning high-stakes public affairs strategies and campaigns for clients. Our team of seasoned public affairs professionals has advised prime ministers, premiers, ministers and mayors from coast to coast to coast. We can work with you to develop a tailored plan for advocacy and engagement that will help deliver results for your business, organization or members.

If you require any assistance in your federal election planning, please reach out to our Navigator Ottawa office at info@navltd.com.

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**When
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afford
to lose.®**