Federal

2013-2014 Budget Analysis

Key Findings

- Without admitting it outright, the federal government has produced a budget with a strong focus on increasing productivity in Canada.
- There is a significant, stable and long-term commitment to investing in public infrastructure across Canada. This should be applauded.
- The budget rightly places a significant emphasis on skills training and better matching Canadians with available jobs. However, there was no significant commitment of new money to this goal and important questions remain about implementation.
- No new action was taken to address concerns about public confidence in pipelines and resource projects, although the proposed marine safety initiatives announced days before the budget was released are a welcome step.
- Trade and investment remains a stated government priority, but the budget contained few initiatives in this area.

The Canada West Foundation is dedicated to building a western Canada in which our children will thrive and prosper. Our focus on provincial and federal government budgets reflects that priority. We are primarily concerned with the long-term directions that governments are setting in their budgets and less preoccupied with year-to-year changes in spending or in fiscal balances.

Detailed Analysis

In its budget preview, the Canada West Foundation identified four steps the federal government could take that would lead toward a more prosperous future for all residents. Those steps were:

1) Long-term strategic investments in public infrastructure
2) Action to address current and future workforce needs
3) A plan to improve public confidence in pipeline and resource projects
4) Steps to remove barriers to trade and investment

1

Building for the Future: Long-term strategic investments in public infrastructure

The federal government's 2013 budget introduces a new Building Canada plan to replace the former plan of the same name that expires in the coming fiscal year. The new plan commits the government to delivering $47 billion in public infrastructure funding to provinces, territories and municipalities over 10 years. An additional $6 billion will be provided to those jurisdictions under existing programs.

The Building Canada plan has three main components. The first is the Community Improvement Fund which provides municipalities with $32.2 billion in funds through existing gas tax transfers and GST rebates. That money is intended for municipal roads, public transit, recreation facilities and other community infrastructure. The second component is the $14 billion Building Canada Fund to support key economic infrastructure projects. Finally, $1.3 billion is earmarked for the P3 Canada Fund to support public-private partnerships (P3s) in infrastructure investment.

In addition to the Building Canada plan, the federal government announced an additional $10 billion over five years for federal infrastructure, including money to advance a new, long-awaited bridge crossing between Windsor and Detroit.

In a recent report, *At the Intersection: The Case for Sustained and Strategic Infrastructure Investments,* the Canada West Foundation demonstrated the strong link between investment in public infrastructure and productivity growth – the key to long-term economic prosperity. The new federal Building Canada plan places an appropriate emphasis on core municipal infrastructure to maintain and enhance Canadians' quality of life and on infrastructure to improve economic performance. The renewed commitment to P3s also addresses our recommendation that governments encourage innovative approaches to the design and delivery of public infrastructure.

It is important to note that the Building Canada plan does not reflect an *increase* in federal infrastructure spending. In effect, it simply renews the government's existing commitments for another decade. However, this is not a serious criticism. Federal support for infrastructure investment has grown considerably over the past decade. The priority expressed by provinces, municipalities and other stakeholders has been a significant, stable and long-term federal commitment to supporting public infrastructure across Canada. The budget answers that call.

2

Addressing Labour Shortages: Acting now to meet current and future workforce needs

The federal budget contained a three-pronged strategy to address labour issues in Canada. The first, and most significant, of these is the creation of a new Canada Job Grant aimed at ensuring that Canadians have access to the training needed to fill available jobs. Second, the budget contains measures to support the hiring and accreditation of apprentices in skilled trades. Finally, it includes a number of smaller initiatives aimed at helping underrepresented groups participate more fully in the labour force.

The Canada Job Grant represents a significant change in how existing federal support for skills training is delivered. In 2007, the federal government signed Labour Market Agreements (LMAs) with the provinces and territories, providing $3 billion over six years to help train low-skill Canadians and those not eligible for Employment Insurance (EI) benefits. The 2013 budget proposes renegotiating the LMAs when they expire next year and repurposing $300 million of its $500 million annual contribution to supporting the new grant program. The remaining $200 million will continue to support existing employment services.

Under the Canada Job Grant, the federal government will provide up to $5,000 in contributions per person toward training at an eligible institution. These include community colleges, career colleges and trade union training centres. The Canada Job Grant will require matching funding from the provinces/territories as well as from businesses. A business with a plan to train an unemployed or underemployed Canadian can apply for the grant.

In addition to funds transferred under the LMAs, the federal government also provides the provinces and territories with nearly $2 billion in EI revenues to offset the cost of training people eligible for EI benefits. Budget 2013 indicates that that transfer arrangement will be renegotiated along similar lines to the Canada Job Grant.

The specific details of how the Canada Job Grant will work are not yet known, as the LMAs have yet to be renegotiated. However, the federal government's intent is clear. Instead of transferring money to the provinces and territories to finance service providers, the new program shifts control directly to businesses and prospective workers. This represents a radical departure from existing skills training programs as it puts the onus on businesses to identify their own labour needs and take action to address them. For their part, workers would no longer receive training in a vacuum – upgrading their skills and then hoping that training lands them a job.

While this idea is a bold one, it is difficult to foresee how it will work in practice. Not only are details scarce, but the implementation of the plan as currently laid out could be challenging. It is unclear, for example, how much of an additional burden the provinces will face from the requirement for matching contributions. In addition, there would need to be extensive consultation with, and participation from, the business community for this program to be successful.

The federal budget rightly places a significant emphasis on skills training and better matching unemployed and underemployed Canadians with available jobs. While there is no significant new financial commitment to this initiative, it does represent an effort to improve the use of existing funds.

3

Improving Public Confidence: A plan to address concerns about pipeline and resource projects

The federal budget did not contain any new initiatives to address the concerns that are fuelling public resistance to resource and pipeline development. It merely highlighted action taken in past budgets, including reforms aimed at streamlining the review process for major projects as well as small initiatives aimed at improving pipeline and marine safety.

However, just days before the release of the budget, the federal government announced measures intended to improve tanker safety in Canada. These measures, recently introduced in federal legislation, are:

- Increasing inspection of foreign tankers;
- Expanding the aerial surveillance system to monitor shipping traffic and detect oil spills;
- Establishing a new Coast Guard Incident Command System;
- Reviewing the existing tanker escorting system;
- Designating more ports for traffic control measures;
- Conducting more research on the behaviour of non-conventional petroleum in a marine environment;
- Installing new and modified navigation aids; and
- Modernizing the existing navigation system.

According to the federal government, the proposed *Safeguarding Canada's Seas and Skies Act* would also amend the *Canada Shipping Act* to strengthen the current requirements for pollution prevention and response at oil handling facilities; increase Transport Canada's oversight and enforcement capacity; increase penalties for contravention of the Act; and enhance response to oil spill incidents.

The budget did not contain any measures to improve public confidence in resource and energy transportation projects. However, the new Act represents a positive step toward addressing the concerns that many Canadians have about marine safety and the potential risks of an oil spill on the BC coast.

4

Accessing New Opportunities: Removing barriers to trade and investment

There were a few modest proposals in the budget to increase trade, including support for the international expansion of Canada's financial institutions and small amounts of money to help the forestry sector find new markets. The budget also announced measures to implement Canada's economic and security commitments under the *Canada-US Beyond the Border Action Plan*, as well as steps to improve its foreign trade zone programs and policies.[1] As noted earlier, the budget also provided some funding in support of a new Windsor-Detroit bridge – a vital and strategic border crossing.

None of these measures are objectionable. In fact, several will materially improve Canada's trading relationship with its most important market – the United States. However, there was a disappointing lack of focus in the budget on building stronger economic ties with Asia, which will be the largest driver of future trade and investment growth in Canada. As noted in our pre-budget analysis, the Government of Canada has committed to updating its Global Commerce Strategy in the near future. A revised strategy that includes a strong Asia focus, along with meaningful steps to remove barriers to a properly-functioning trade and investment system in Canada, would be welcome.

Federal Budget by the Numbers

Overview

The federal government delivered a budget that projects an $18.7 billion deficit for 2013/14. The budget reasserts the government's intent to balance the books by 2015/16, although it is tracking well behind the targets set out in previous fiscal plans. For the past three years, the federal government projected a deficit for 2013/14 in the range of $8-10 billion. The deficit in the most recent budget is about twice that level.

There are two main factors contributing to this gap. The first is weaker-than-expected revenue growth. The second is the new infrastructure plan discussed above. Last year's budget assumed a wind-down of infrastructure transfers, leading to lower overall federal spending. Since those transfers were in effect renewed under the new Building Canada plan, spending in 2013/14 did not fall as expected in last year's budget.

Revenues and Expenditures

The budget projects revenues to grow by 3.8% next fiscal year, reflecting expectations of a relatively modest economic performance in 2013. The budget is based on private-sector forecasts of 1.6% growth in real GDP in 2013. Growth is projected to accelerate to 2.5% in 2014.

Slow economic growth affects most government income sources, but especially the GST which relies on consumer activity to generate revenues. Weak consumer activity kept GST revenue growth at just 1.8% last year. For 2013/14, growth is expected to be better – at 3.5% – but will remain below more typical growth rates in the 5% range.

[1] Foreign trade zones are designated areas where tariffs, other trade barriers and administrative requirements are reduced or eliminated in order to attract foreign investment.

Although not as important a revenue source as income taxes or the GST, EI premiums are expected to be the fastest-growing source of revenue for the federal government for the next two years. To eliminate an accumulated deficit in the EI operating account, the government is increasing EI premiums by the maximum allowable rate of five cents per $100 of earnings every year until 2015. Once the cumulative deficit is eliminated, EI premiums are scheduled to begin dropping again.

There were no significant changes to the tax system in this year's budget. The most notable adjustments include the extension of the accelerated capital cost allowance tax credit for machinery and equipment, steps to close a number of tax loopholes and a tightening of the dividend tax credit.

As in many provinces, the federal government's plan to return to budget balance focuses on containing spending and allowing revenues to increase as the economy grows. The federal government will essentially hold the line on expenditures in 2013/14. Program spending is expected to increase by just 0.8% next year.

Federal program expenditures are divided into three categories: transfers to persons; transfers to provinces/territories; and direct program spending. Transfer programs account for a little more than half of overall federal operational spending. Transfers to persons are expected to grow by 4.3% in 2013/14, while transfers to other levels of government will rise by 3.1%. These increases represent the operation of pre-existing funding mechanisms or fiscal agreements and not year-to-year spending decisions by the federal government. The federal government cannot alter its spending on transfers without changing the transfer programs themselves. No such changes were made in the 2013 budget.

By contrast, direct federal spending on government operations, defence and other activities are budgeted to fall by 2.4% in 2013/14. This decrease is primarily the result of decreases in the size of the public service, as well as other spending reductions announced in previous budgets.

Budget Reporting Issues and Concerns

Although guilty of sometimes egregious self-aggrandizement in its budget documents, the federal government generally presents its budget information clearly and effectively. However, a major weakness of the federal fiscal plan is that, unlike provincial budgets, federal documents do not include a breakdown of expenditures by ministry. This makes it impossible to highlight, or comment on, any changes in the government's operations spending priorities.

In addition, the federal government does not include any balance sheet information in its budgets. Its measure of government debt is an "accumulated deficit," which does not reflect the stock of outstanding debt. There is also no information on the financial assets that offset the government's liabilities. Without that information (which is only published in the Public Accounts at the end of the fiscal year), it is impossible to determine how the deficit or surplus relates to changes in the federal government's net financial worth.

Fiscal Information and Budget Projections → Federal Government
($billions)

	2011-2012	2012-2013e	2013-2014b	2014-2015p	2015-2016p	2016-2017p	2017-2018p
Tax Revenue	202.9	208.5	216.4	230.2	242.7	254.6	266.8
Non-Tax Revenue	45.9	45.6	47.5	49.4	52.2	53.5	52.1
Total Revenues	248.8	254.2	263.9	279.6	294.9	308.1	318.9
Program & Capital Expenditures	244.0	251.0	252.9	256.0	262.6	270.4	278.1
Interest on Debt	31.0	29.0	29.7	30.2	31.5	33.8	35.7
Total Expenditures	275.0	280.1	282.6	286.2	294.1	304.2	313.8
Reported Balance	**-26.2**	**-25.9**	**-18.7**	**-6.6**	**0.8**	**3.9**	**5.1**
Federal debt (accumulated deficit)	582.2	608.7	627.4	634.0	633.2	629.3	624.2
as a % of GDP	33.0	33.5	33.8	32.6	31.1	29.6	28.1

Source: Government of Canada Budget 2013.

Note: Totals may not add due to rounding.

Note: e= estimated, b=budgeted, p=projected.

This budget analysis was prepared by Canada West Foundation Senior Economist Michael Holden. The opinions expressed in this report are those of the author and are not necessarily those of the Canada West Foundation's Board of Directors, funders or advisors.

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