Finance Department
Office of the Budget

MEMORANDUM

TO: Regional Chair and Members of Council

FROM: Bill Hughes, Commissioner of Finance and Regional Treasurer

DATE: March 5, 2014

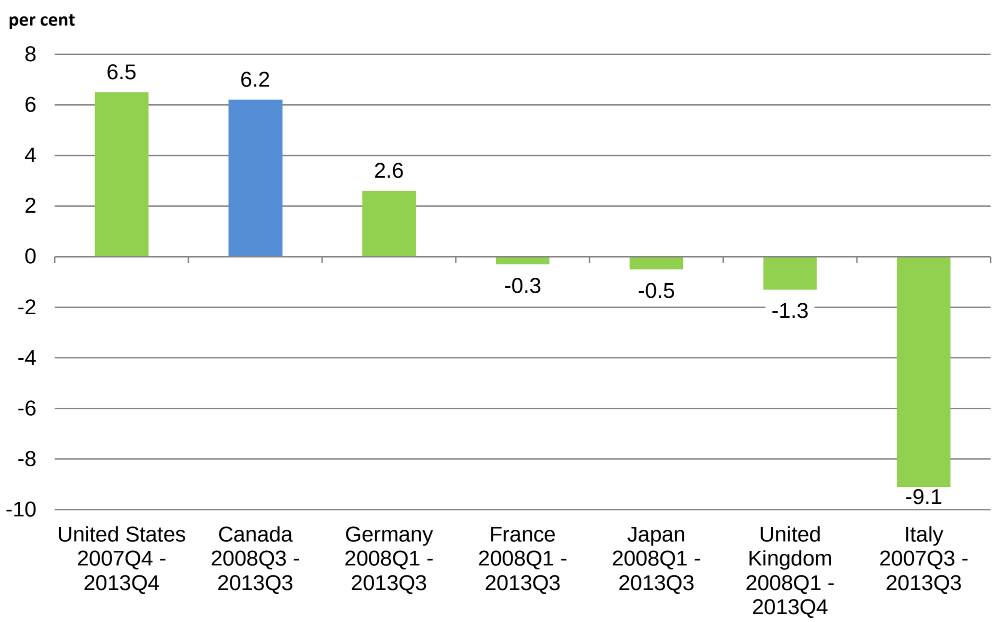
RE: **The 2014 Federal Budget**

The purpose of this memorandum is to provide Council with information about key measures in the 2014-15 federal budget. The themes of the budget are jobs and growth, supporting families and communities, and a return to balanced budgets.

The Canadian economy has recovered well

The Canadian economy has performed well, having recorded the second strongest increase in real GDP from the pre-recession peak among G-7 countries.

Chart 1
Change in Real GDP Since Pre-Recession Peak

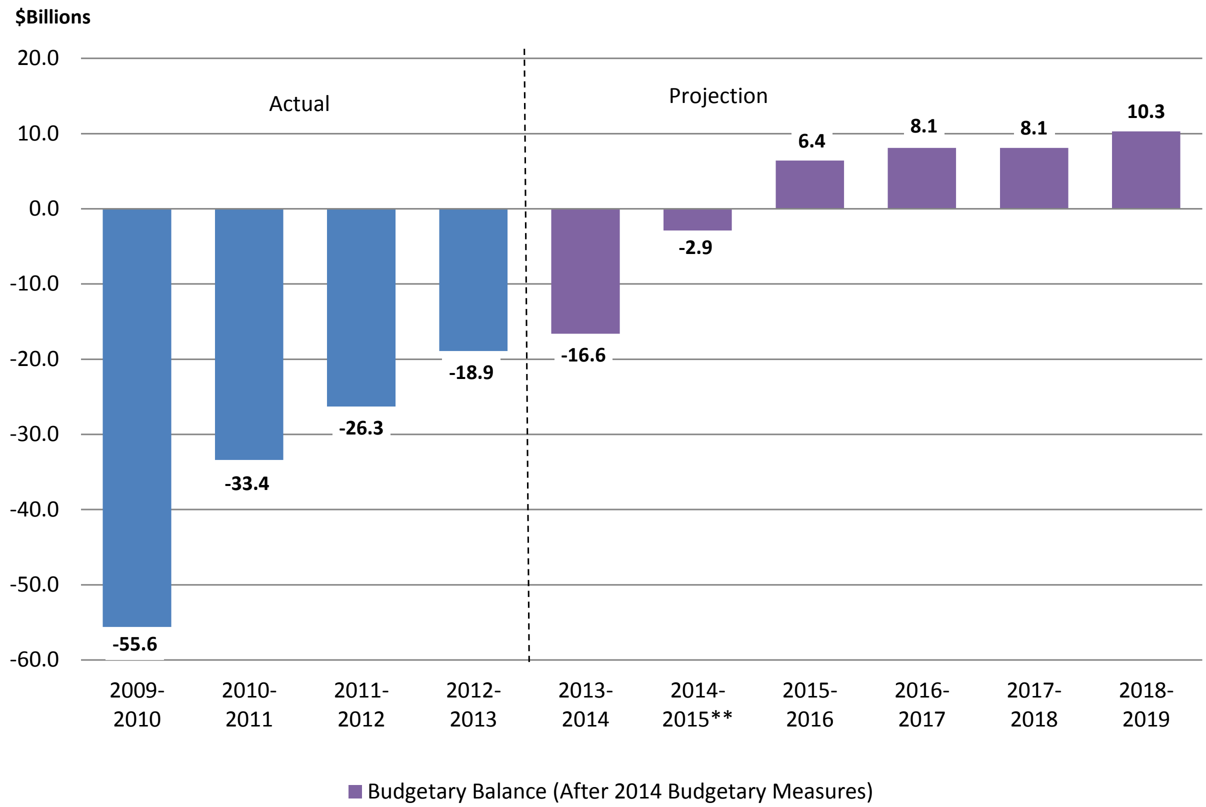


Source: Federal Budget 2014, Chart 2.16

The Federal Government is maintaining a tight fiscal policy stance to return to balanced budgets by 2015-16

Based on a cautiously optimistic economic outlook, the 2014-15 budget largely maintains previously announced measures, with minimal fiscal gains for the municipal sector. As illustrated in Chart 2, the federal government plans to return to a balanced budget by 2015-16.

Chart 2
Budgetary Balance* after Implementing 2014 Budget Measures



Source: 2014 Federal Budget, Table 4.2.3
*Budgetary Balance is the amount a government spends minus the amount it collects over a given period of time. For example, a negative number reflects expenditures exceeding revenues and is called a deficit which, typically results in higher debt.
**The 2014-15 budget includes a $3.0 billion contingency for unforeseen risks, which means that the budgetary balance is technically in a surplus position a year ahead of plan.

The deficit in 2013-14 is projected to be $16.6 billion. As a percentage of GDP, the budgetary balance is projected to improve from a deficit of -0.9 per cent in 2013-14 to a surplus of 0.4 per cent in 2018-19.

The return to balanced budgets relies in part on tax increases and reductions in direct program spending since the 2010 budget, which will improve the budgetary balance by $15.5 billion over the next six years. Increasing the excise tax on tobacco products will account for $3.3 billion of the budgetary balance improvement. Measures to defer National Defence capital to future years, reduce spending on federal public service employee compensation, and revise the tax system (e.g., addressing international tax evasion), will save $3.2 billion, $7.3 billion, and $1.7 billion respectively.

The 2014-15 budget also includes new spending of $5.8 billion over the next six years to support job creation, skills training, and infrastructure. As a result, the net improvement in budgetary balance is $9.7 billion over six years.

The 2014-15 budget largely maintains recent levels of support for municipal infrastructure by extending measures that are already in place

In 2013, the Federal Government announced a $53.5 billion, ten-year infrastructure plan to replace the seven-year “Building Canada Plan”, which is set to expire at the end of 2013-14. The new infrastructure plan comes into effect on April 1, 2014 and includes the following key components:

- Community Improvement Fund
- New Building Canada Fund
- P3 Canada Fund
- Existing Infrastructure Program Funding

Of the $53.5 billion, approximately $36 billion is attributable to measures previously in place as summarized in Table 1.

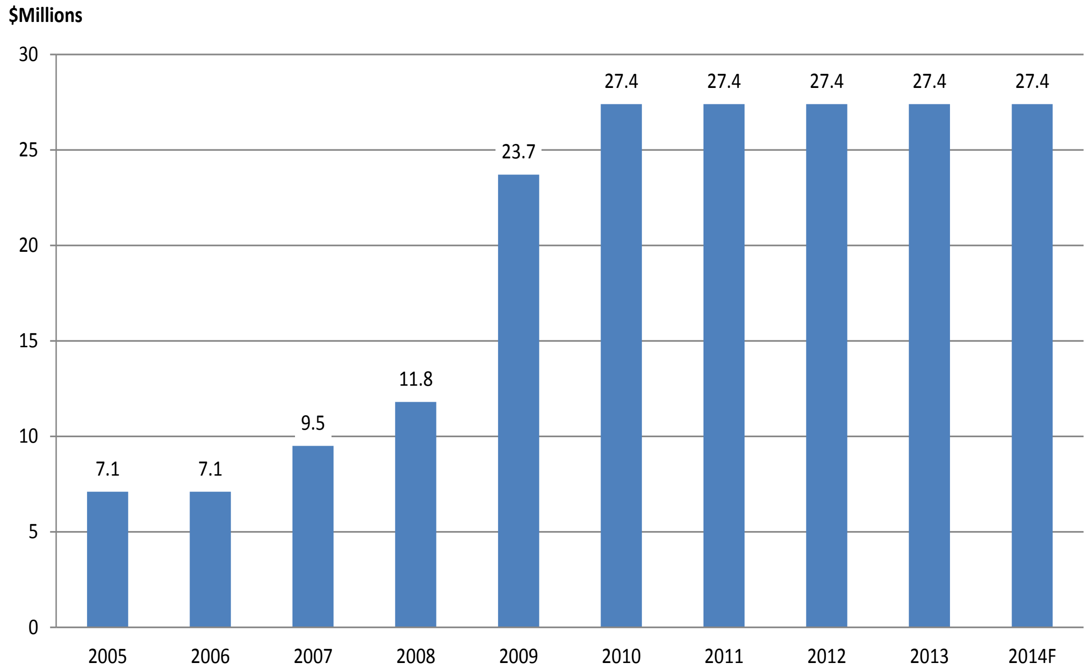
Table 1
Estimated Net New Infrastructure Funding from the New Building Canada Plan

New Building Canada Plan Components (Starting in 2014-2015)	Announced Amount, $ Billions	Estimated Net New Amount, $ Billions	Allocation Method
Community Improvement Fund (2014 – 2023)			
Federal Gas Tax Fund	21.80	1.80	Per Capita Claim
GST Rebate for Municipalities	10.40	-	Per Capita Claim
New Building Canada Fund (2014 – 2023)			
National Infrastructure Component	4.00	4.00	Merit
Provincial-Territorial Infrastructure			Base + per capita
National and Regional	9.00	9.00	(provincial) then
Small Community Fund[1]	1.00	1.00	application based
P3 Canada Fund			
Projects > $100 million, over 5 years only	1.25	1.25	Application Based
Existing Infrastructure	6.03	-	Already Allocated
Total new Building Canada Plan	**53.48**	**17.05**	

Source: Treasury Office, Finance Department, York Region
1. Small Community Fund provides funds for projects in communities under 100,000 residents.

The 2013-14 budget includes a new provision to increase the Federal Gas Tax transfer to municipalities by 2 per cent per year starting in 2014-15, with increases to be applied in $100 million increments. On a nominal basis, this provision adds $1.8 billion over a ten-year period. In addition, the list of eligible project categories has been expanded to include almost all types of municipal infrastructure. Between 2005 and 2013, York Region received approximately $169 million in Federal Gas Tax transfers. The 2014 York Region budget includes $27.4 million in Federal Gas Tax revenue.

Chart 3
Federal Gas Tax Revenues Received by the Region



Source: Office of the Budget, Finance Department, York Region

The renewed Federal Gas Tax will be allocated to provinces and territories over the first five years of the New Building Canada Plan (2014-2019) based on Census 2011 data. Allocations for 2019-2024 will be based on Census 2016 data. Specific allocations to municipalities will be determined through federal-provincial-territorial agreements. As a result, the exact impact on the Region is not known but current data suggest gas tax revenues received by the Region could increase as illustrated in Table 2.

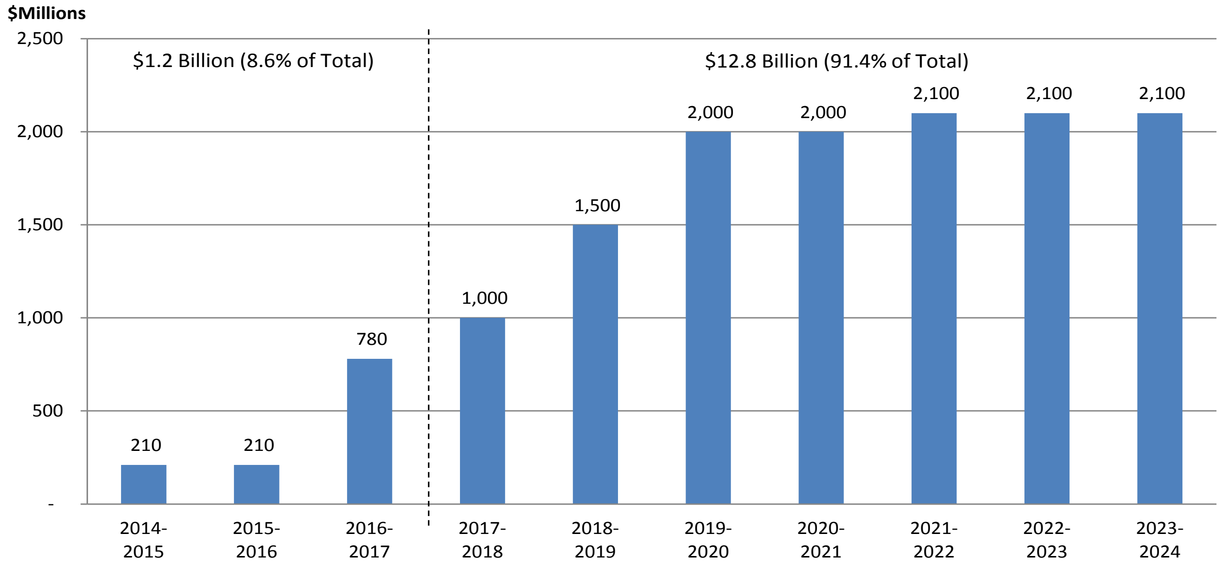
Table 2
Estimated Ontario and York Region Share of Federal Gas Tax
2014-2023

Program	Total $ Millions	Ontario Share[1] $ Millions	York Share[2] $ Millions		
			Total, $ Millions	Upper Tier $ Millions	Lower Tier $ Millions
Federal Gas Tax	21,800	8,120	682	341	341

Source: Treasury Office, Finance Department, York Region
1. Estimated based on Ontario's share of Canada's 2011 Census Population (38.5%). Actual amounts will differ as details of the new fund are finalized.
2. Total estimated based on the Region's share of Canada's 2011 Census Population (3.13%). Upper and Lower Tier shares based on allocation split of 50/50 used over 2010to2014 period. Actual amounts will differ as details of the new fund are finalized.

On an annualized basis, the New Building Canada Fund will provide slightly more funding than its predecessor. However, the new fund is heavily back end-loaded. As illustrated in Chart 4, 91 per cent of the $14 billion program is planned for after 2016-17. From 2014-15 to 2016-17, the planned annual spending under the New Building Canada Fund will increase from $210 million to $780 million. This funding profile is consistent with the federal government's desire to eliminate the deficit by 2015-16, and with the length of time it typically takes to negotiate and approve projects.

Chart 4
Allocation Timing under the New Building Canada Fund



Source: 2013-14 Federal Budget, Table 3.3.1

The application process and project parameters for the Building Canada Plan are under development, and will be available before March 31, 2014.

Projects with eligible costs over $100 million will be required to undergo a P3 screen to be administered by PPP Canada. New Building Canada Fund funding will be conditional on the project being delivered as a P3, if the P3 screen determines that a project could be successfully procured through a public-private partnership and P3 procurement would generate better value for money.

The P3 Canada Fund has been extended for another five years. Starting in 2014-15, the fund will provide $1.25 billion in merit-based funding for provincial/territorial and local infrastructure projects with capital costs exceeding $100 million. Projects must be delivered through a P3 procurement approach. The maximum federal contribution from the P3 Canada Fund is 25 per cent.

The 2014-15 budget does not commit any new long-term funding for social and affordable housing

The 2014-15 budget notes the Federal Government's previous funding commitments to housing announced as part of the 2013 Budget.

The Investment in Affordable Housing has been renewed at status quo levels of $253 million per year nationally, for five years beginning in April 2014. The Region is currently receiving up to $22 million over four years (2011-12 to 2014-15). Regional staff are reviewing and assessing this initiative and will provide more information on Regional impacts as it becomes available. The $600 million Homelessness Partnership Strategy has been renewed for five years. The Homelessness Partnership Strategy is administered by the United Way of York Region in partnership with York Region. Details of York Region's Homelessness Partnership Strategy allocation have not been confirmed; however, preliminary figures indicate an annual amount of approximately $0.53 million beginning April 1, 2014.

Realignment of Labour Market Agreements could reduce provincial flexibility in the allocation of funding for employment and skills training

Building on commitments made in the 2013-14 Budget, the Federal Government is moving forward with the Canada Job Grant. The grant was designed as a tripartite funding approach among the federal government, provincial governments and employers to provide up to $15,000 ($5,000 each) per person[1] for training costs, including tuition and training materials. The federal contribution of $300 million would be drawn from the $500 million existing Labour Market Agreement (LMA) transfers from Ottawa to the provinces. Ontario has identified a resulting funding loss of approximately $116 million for other skills training programs. The consequent reduction in training programs could put upward pressure on Ontario Works caseloads that would eventually pass through as increased costs to Regional support services.

At the time of writing, the federal government and the provinces/territories (except Quebec) have reached an agreement in principle over the structure of the Canada Job Grant. Final details will be resolved on a one-to-one basis through bilateral agreements with each of the provinces and territories over time. Various media outlets have reported the primary areas of change from the details noted above as follows[2]:

- The provincial cost matching requirement has been removed leaving the federal government to fund up to $10,000 of each individual grant with employers funding the remaining $5,000[3]
- The program will be phased in over four years
    - 10 per cent of the existing LMA will be shifted towards the job grant in each of the first 4 years, up to 40 per cent

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[1] Businesses with a plan to train unemployed and underemployed Canadians for a new or a better job will be eligible to apply for a Canada Job Grant. All Canadians seeking training can, in partnership with an employer, benefit from the Canada Job Grant.
[2] CBC Canada, "Canada Job Grant notably different from take it or leave it offer", http://www.cbc.ca/news/politics/canada-job-grant-notably-different-from-take-it-or-leave-it-offer-1.2555173
[3] Small businesses with 50 employees or less have the flexibility to put up only 15 per cent of the cost of the grant with "cash or in-kind contributions". The specific details of this concession are not known at this time.

- The phase in allows provinces to allocate a greater proportion of the LMA funds to train vulnerable workers over the phase-in period. Nevertheless, redirecting LMA funds towards the new grant will put existing programs at risk. To address this, the agreement gives the provinces more flexibility by allowing them to take those funds from either the LMAs, Labour Market Development Agreements[4], or a source of their own choosing
- Provinces will be allowed to review the program in two years to ensure the grant is meeting the intended objective and make changes as necessary
- The implementation date has been extended from April 1, 2014 to July 1, 2014.

The budget also includes other measures intended to help connect workers with unfilled jobs:

- Canada Apprentice Loan, which expands the Canada Student Loans Program by allowing apprentices enrolled in a Red Seal[5] apprenticeship to apply for up to $4,000 in interest-free loans "per period" of training
- $75 million over three years to expand the Targeted Initiative for Older Workers program, to help unemployed older Canadians in smaller communities find jobs
- $40 million for the Canada Accelerator and Incubator Program for entrepreneurs creating new businesses
- $40 million over two years for up to 3,000 internship positions in "high-demand fields"
- $15 million over three years to connect persons with developmental disabilities with jobs
- $11.4 million over four years to expand vocational training programs for Canadians with Autism Spectrum Disorders.

The 2014-15 budget includes other initiatives that could benefit York Region

The 2014-15 budget introduces the following initiatives that are relevant to the Region but difficult to quantify at this time, as details have yet to be finalized:

- $1.5 billion to create the Canada First Research Excellence Fund to help Canadian post-secondary institutions to excel in research areas creating long-term economic advantages for Canada
- $500 million over two years to the Automotive Innovation Fund to support significant new strategic research and development projects in the Canadian automotive sector
- $305 million over 5 years to extend and enhance broadband service in northern and rural communities for up to an additional 280,000 Canadian households, which represents near universal access

[4] A complement to LMA's, Labour Market Development Agreements provide federal funding to provinces and territories to assist with employment programs for unemployed Canadians, particularly for those who are eligible for Employment Insurance (EI) benefits.
[5] The Interprovincial Standards Red Seal Program was established to provide greater mobility for skilled workers across Canada. The Red Seal program allows qualified tradespeople to practise their trade anywhere in Canada where the trade is designated without having to write further examinations. To apply for federal apprenticeship grants, you must be registered in or have completed an apprenticeship program in a trade that is designated as a Red Seal trade in the province or territory where you become certified.

- $200 million over five years to establish a National Disaster Mitigation Program. Disaster mitigation projects are also eligible for federal cost-sharing under the new Building Canada Plan.

Regional staff will continue to monitor and assess these initiatives and will provide more information on Regional impacts when appropriate.

Bill Hughes, Commissioner of Finance and Regional Treasurer

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