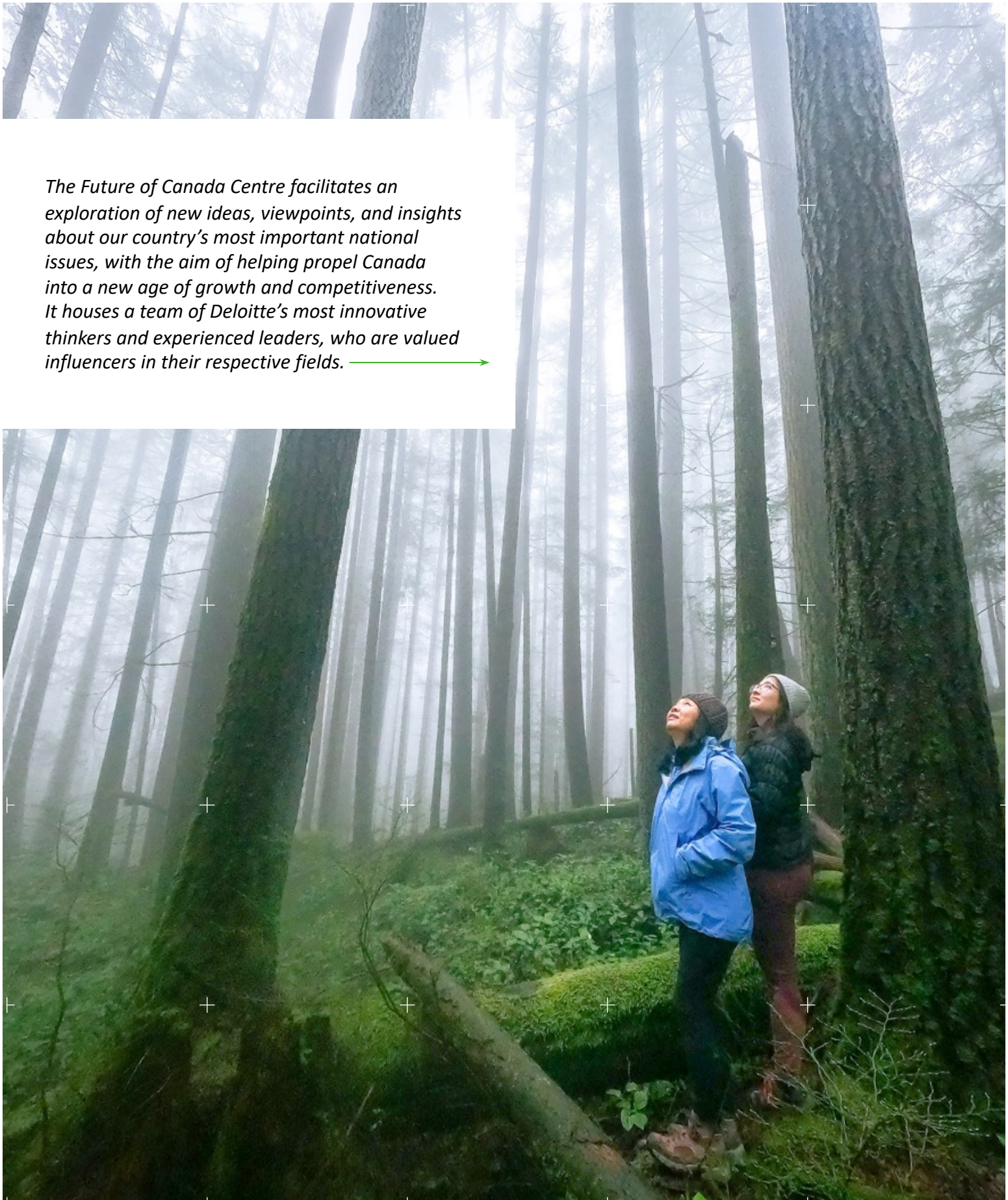


FEDERAL BUDGET 2022

FUTURE OF CANADA CENTRE —————> CANADA AT 2030

Opportunity and uncertainty on the path ahead



A full-page photograph of a misty forest. Tall, slender trees with thick, moss-covered trunks rise vertically, creating a sense of height and scale. The ground is covered in a dense layer of green moss and fallen branches. Two people are standing in the lower right, looking up at the trees. The overall atmosphere is serene and contemplative.

The Future of Canada Centre facilitates an exploration of new ideas, viewpoints, and insights about our country's most important national issues, with the aim of helping propel Canada into a new age of growth and competitiveness. It houses a team of Deloitte's most innovative thinkers and experienced leaders, who are valued influencers in their respective fields. —————→

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INTRODUCTION

The 2022 federal budget has been presented at a time of great change and opportunity for Canada and for the world. Amid the ongoing pandemic, increasing geopolitical instability, natural disasters fuelled by climate change, supply chain shortages, and economic shocks to global markets, Canadians are living with perpetual ambiguity.





→ Deloitte has over 165 years of experience working with clients and communities to embrace the uncertainties of the age: fragmenting economies, disruptive technologies, rapidly evolving talent expectations, and continual turbulence in domestic and international environments.

Given our history, diversity, and reach within the business community, Deloitte offers unique insights on government and industry policy to help propel Canada toward a new path of inclusive growth and competitiveness. In our first Catalyst report, *A vision for a thriving Canada in 2030*, released in 2020, we showed that an aging population, slow productivity growth, low investment, and poor economic outcomes for equity-denied communities were already slowing economic growth, stagnating gains in standards of living, and stalling progress on national priorities, all while the global economy was becoming increasingly competitive. The outlook for economic growth in Canada two years later is still dependent on enhancing productivity, inclusion, and momentum to improve resilience among our people, industries, and societal systems.

In the pages ahead, thought leaders from Deloitte's Future of Canada Centre examine Budget 2022 from the perspective of its ability to augment prosperity and promote inclusion and participation. While Canada will face further challenges shaped by forces and events beyond previous human experience, embracing uncertainty as a mindset for opportunity, and being unwavering in our commitment to equity, will enable all Canadians to participate and to thrive.

ANTHONY VIEL

Managing Partner and Chief Executive
Deloitte Canada

CANADA AT 2030:

A PROGRESS UPDATE



Canada at 2030



High-level context

Even before the COVID-19 pandemic, Canada was not on a promising path. With long-standing trends limiting Canadian productivity and economic growth, Deloitte consulted with business leaders and youth from across the country to explore a new path to a prosperous, resilient future, which we set out in [A vision for a thriving Canada in 2030](#) (Catalyst 2030).

Our vision focused on improving resilience in three areas: people, industries, and societal systems. We recommended that Canada start working toward more equitable and inclusive economic outcomes for all Canadian workers, more globally competitive Canadian businesses, and more preparation for the next health, economic, or environmental crisis.

In [last year's analysis](#), Deloitte found that Budget 2021 concentrated on investments to help support an equitable post-pandemic recovery for as many Canadians as possible. Yet we also felt there was a lack of focus on boosting productivity and competitiveness.

Now, Budget 2022 sets out to ensure that Canada's economy grows, even amid waves of new COVID-19 variants and geopolitical shocks. Deloitte's assessment of Budget 2022 is mixed when evaluated on the imperative to foster stronger economic growth.

While less than anticipated, it is still a spending budget. There is close to \$60 billion in new measures over the next five years—with much of the funding coming from the sharp rise in economic activity and surge in additional government revenues. While spending will help boost near-term growth, the Canadian economy continues to experience the highest inflation in three decades and record low unemployment. With the Bank of Canada signalling that it will raise interest rates, the implication is that monetary and fiscal policy are not aligned. Budget 2022 shows deficit decline over the next five years, however five more budgets will be presented in that time and there are currently unfunded pressures. It also shows that net debt as a share of the economy will fall from 46.5% in 2021-22 to a projected 41.5% in 2026-27. This is much higher than the roughly 30% debt-to-GDP ratio before the pandemic but will keep Canada looking favourable relative to many of its international peers.

The most substantial issue from an economic perspective is the lack of a strong long-term growth framework for the new spending measures. While the priorities align with the key concerns of voters, some will be more impactful than others in terms of boosting Canada's long-term prosperity.

The additional funding for reconciliation, including measures to improve housing and infrastructure, is key to addressing the unacceptable outcomes that Indigenous peoples are experiencing. There are not only social gains but also sizeable economic returns to addressing Indigenous inequality. If done in true partnership, reconciliation will create more prosperity for all Canadians.

Budget 2022 also includes \$7.5 billion in green initiatives to help Canada reach its goal of net-zero emissions by 2050 with support for carbon capture and storage (CCUS). In Deloitte's modelling for *Catalyst 2030*, we determined that CCUS is essential for the transition of Canada's energy sector in a manner that lowers emissions and reduces costs. The meaningful tax credits Budget 2022 sets out will help eliminate many of the investment barriers to both large- and small-scale CCUS opportunities.

Also of note, the federal government's previously announced funding for early education and childcare is now embedded in Budget 2022's fiscal projections and can help raise long-term economic growth by improving the labour participation and upskilling of Canadian women. Finally, the budget sets out additional funding to help with the settlement of newcomers, which is an economic benefit given that immigrants are the biggest contributors to labour force growth and total GDP.

Other measures, however, lack the same long-run returns. An economic argument can be made that the high price of housing is a competitive disadvantage, jeopardizing our nation's ability to attract talent, grow our workforce in key economic engines, and contribute to increased equality. While we are pleased to see a package of initiatives on this important priority, the new budget announcements will likely have limited effect. Any measures that boost demand—such as the new tax-free savings account for first-time home buyers — may also raise prices. Meanwhile, the federal governments' ability to shift housing supply is limited. Budget 2022's commitment to building 100,000 new housing units over the next five years is unlikely to substantially improve affordability. It might also prove inflationary because of the increased demand for construction when the sector and its workers are already fully employed. The Home Buyers' Bill of Rights is promising, but careful design is needed to ensure all buyers across the country can benefit.

Other key takeaways from this budget relative to the vision presented in *Catalyst 2030* include:

People

Creating a modern and adaptable labour force is critical to Canada's long-term economic growth. Growing and maintaining a talented, diverse workforce through immigration is rightfully acknowledged in this budget, but we would have liked to see more support to help transition to an inclusive workforce that is prepared for both a digital and green economy.

To do this, governments should secure Canadians' access to digital infrastructure and modernized employment supports. Attention should continue to be paid to those at risk of being excluded from participating equitably in the labour force, including women, low-income households, older people, Indigenous peoples, rural residents, newcomers to Canada, and people with disabilities. Additional investments are still needed in education and training for Indigenous youth, who will contribute to greater prosperity and growth to the Canadian economy and real gains in GDP.

Budget 2022 invests \$272.6 million over five years in an employment strategy for people with disabilities to fully participate in an inclusive economy. Of this funding, \$20 million is allocated to the Ready, Willing and Able program to help people with an autism spectrum disorder or intellectual disability find employment. In Deloitte's

new report, [*Embracing neurodiversity at work: How Canadians with autism can help employers close the talent gap*](#), we found that many autistic adults face barriers to finding employment, even though they offer skills and qualities employers need. We are pleased to see the government's meaningful investment in this space. Investing in overall labour force participation would increase Canada's average real GDP growth and lift the annual trend pace of economic growth.

Industry

Deloitte's vision for thriving industry in Canada centres on more globally competitive businesses and industries. With investments in innovation and intellectual property (IP), Canada could raise capital stock and become a global leader. Budget 2022 makes a few significant announcements to support this vision, including the creation of the Canada Growth Fund to attract private-sector investment in Canadian technologies and sectors, and a new innovation and investment agency to commercialize and scale Canadian innovation and research and development (R&D). The budget also allocates \$750 million over six years to further the growth of Canada's Global Innovation Clusters and their development of innovation ecosystems across the Canadian economy.

In our report [*Innovation at scale: Establishing Canada as a global leader*](#), we heard directly from leaders of Canada's fastest-growing companies about their main growth challenges: attracting and retaining talent,

developing and commercializing new products and services, and expanding internationally. While the talent issue has yet to be sufficiently addressed, Budget 2022's innovation announcements may help create the conditions for the emergence of global champions and boost Canada's GDP. The government has committed to providing further details.

Innovation is increasingly dependent on the ownership of valuable IP and data, yet when it comes to filing and strategically using patents, Canada lags behind other developed countries. To try to address this deficiency, the budget commits to developing a world-class IP regime by investing \$96.6 million over five years, starting in 2022-23, and \$22.9 million ongoing, to help students, researchers, and businesses take their IP to market and generate commercial outcomes. In *Catalyst 2030*, we recommended that the federal government expand its IP strategy to provide a centralized resource for universities and colleges to continue their research efforts, and give Canadian companies access to cutting-edge, made-in-Canada technology, so we are pleased to see this investment. Budget 2022 also endeavours to ensure that more public-sector IP helps Canadian businesses and to make it easier to access basic IP services. In *Catalyst 2030*, we also urged the government to provide researchers with access to IP education initiatives, and help colleges and universities manage the costs of IP generation, protection, and strategy, which were missing from this budget.

Societal systems

If Canada is to thrive over the next decade, we must become a resilient society, prepared to respond to the next crisis. This includes making real progress on emissions and improving Canadians' quality of life and the country's overall fiscal health.

In *Catalyst 2030*, we highlighted the need to reform existing income-security programs to cover more Canadians, including part-time gig workers, self-employed workers, and contract workers. In that report, we also noted that while the federal government had promised to expand access to Employment Insurance (EI), doing so would require an approach backed by evidence and in coordination with provincial security systems. The budget indicates that more substantial changes to the EI system are to come and we look forward to examining this long-term plan once it's released.

Although the dental care program for lower-income families set out in this budget has limited economic growth potential, Deloitte believes that it will help address inequality. It includes \$5.3 billion over five years, starting in 2022-23, and \$1.7 billion ongoing, to provide free dental care for those under 12 years old in 2022, and then expands to those under 18 years old, seniors, and people living with a disability in 2023, with full implementation by 2025.



BUDGET 2022

RAMIFICATIONS FOR

TWO KEY INDUSTRIES:

Government & Public Services

Energy, Resources & Industrials





Government & Public Services



Shannon Lundquist
Federal Account Leader
Deloitte Canada

“In this year’s budget, we see substantial government investment in areas that will impact Canada’s ability to thrive, including defence and cybersecurity, health, immigration, and infrastructure. This is a necessary injection of federal funding at a time when our country has been through so much. The core question Deloitte now seeks to answer is, how can Canada utilize the investments within this budget to keep the momentum going so all levels of government serve Canada, and all Canadians, effectively? How will it help us thrive?”

Defence and security spending

The federal budget allocated \$8 billion over five years to the Department of National Defence. Precipitated by the need to boost NATO deterrence amid Russia's invasion of Ukraine and the resulting geopolitical instability, the increase brings Canada up to 1.5% of GDP—still under the NATO target of 2%. Deloitte will be looking for strategic investments to modernize and enhance the defence sector to accompany the commitment to a renewed defence policy review.

Canada is vulnerable to cyberattacks, so we are pleased to see cybersecurity as a priority in this budget as a matter of national security. \$875.2 million over five years beginning in 2022-23 is earmarked for cybersecurity, along with \$238.2 million to boost the Communication Security Establishment's (CSE) capacity to prevent and respond to cyberattacks and expand the cybersecurity defences of key government systems.

Immigration

As mentioned, immigration will remain [the primary source](#) for growth in the Canadian labour force and total GDP. The federal government has announced an ambitious immigration Levels Plan, equal to 1.3 million newcomers over the next three years, putting Canada on track to reach 42 million people by 2030. With a commensurate level of infrastructure investment, this has the potential to add to our productivity and

reduce the impact of our aging population, as highlighted in our *Catalyst 2030* report.

We are pleased to see dedicated funding for tackling the backlog of skilled immigration applicants, as current wait times are between 20 and 36 months. We are also happy to see how the budget addresses the competition between humanitarian and economic objectives at Immigration, Refugees and Citizenship Canada (IRCC) through increased staffing and technology investments, so neither objective will have to suffer when there is focus on the other.

Deloitte is also pleased to see continued investment in post-arrival services for immigrants. Previous [research](#) has shown that employment plans and financial services for newcomers help them achieve higher incomes. *Catalyst 2030* outlines how this can help empower new immigrants to become contributors and beneficiaries of a thriving Canadian economy.

Modernizing health care

As the COVID-19 pandemic has made painfully clear, Canada must modernize its health care system. There are substantial opportunities for health care investments to create a more resilient system, including a well-supported labour force and protected supply chains. The major health care item in this year's budget is the universal dental care program, with general system modernization

taking a back seat. Only \$1.2 billion has been allocated for the Safe Restart Agreement to increase health care capacity.

By 2030, the share of Canadians over the age of 65 is expected to nearly double, so the number of people with chronic health conditions such as dementia and demand for support of the aging population will continue to increase. It is therefore critical to transform Canada's aged care ecosystem. In Deloitte's [aged care policy brief](#), we recommended establishing pan-Canadian standards, utilizing responsible data collection, and building a strong aged care workforce. We are pleased to see \$68.2 billion in increased funding for the Old Age Security program, a consideration of an aging-at-home benefit, and the allocation of \$20 million over two years for an expanded New Horizons for Seniors Program to help seniors fully participate in their communities. We would like to see more collaboration to boost the workforce that will care for seniors. In addition to being the right thing to do, a more holistic approach to aged care now will help manage future health care costs.

Substantial and dedicated investment is required to close the gap in health outcomes for First Nations, Inuit, and Métis peoples. Budget 2022 commits \$268 million in 2022-23 for health care in First Nations communities on remote reserves and \$190.5 million for mitigating ongoing COVID-19 impacts. This falls short of the \$1.44 billion requested by the Assembly of First Nations (AFN) in its 2022 pre-budget submission for health transformation.

Indigenous investment

To help fulfill reconciliation commitments, there is a massive need for infrastructure investment in Indigenous communities. Critical areas include affordable housing, water, wastewater, and electricity and other utilities. Budget 2022 provides \$398 million over two years for Indigenous community infrastructure, with a focus on water infrastructure. An additional \$173 million over 10 years will be spent to support the transfer of water services back to the Atlantic First Nations Water Authority, a positive step toward self-determination. However, the commitments in this year's budget are only a start to bridging the gaps between Indigenous communities and the rest of Canada. The federal government should consider investing in the creation of new Indigenous financial institutions and loan supports so that local Indigenous governments can begin to access long-term, stable loans. This will enable funding for the large investments needed and attract new investors to do business in and with these communities.

Adequate, accessible, and affordable housing is also critical to ensure that all First Nations, Inuit, and Métis peoples can live in dignity regardless of location. We are encouraged to see a number of investments totalling \$4 billion over five years to support housing for Indigenous peoples—but they fall short of the immediate health and safety shelter needs identified by organizations representing Indigenous peoples.



Energy, Resources & Industrials



Sippy Chhina
Vice Chair
Deloitte Canada

“In Canada, we have the natural resources and the ability to produce them sustainably and responsibly. We also have the talent and drive to become a leader in clean technology. This, plus the fact that we are located next to the largest consumer market, gives us an opportunity to simultaneously be a key partner in global energy security, be a solution to effectively take carbon out of supply chains, and make progress toward achieving our climate goals. Many of investments made in Budget 2022 will allow Canada to take advantage of this important opportunity.”

Energy, Resources & Industrials



Climate change

Canada is at a critical juncture in our journey to decarbonize. Though more details are needed, we were pleased when the federal government released its 2030 Emissions Reduction Plan (ERP), which commits \$9.1 billion in new investments to help Canada achieve its emissions reduction target of 40-45% below 2005 levels and net-zero emissions by 2050.

Budget 2022 builds on the investments made in the 2030 ERP by committing \$15 billion toward the new Canada Growth Fund. Deloitte's report, *Building Canada's future: Maximizing clean-energy infrastructure to reach net-zero emissions by 2050*, emphasized the important role the federal government plays in coordinating climate action and making investments. This fund could be instrumental in catalyzing the private-sector investments needed for the transition to a thriving clean economy.

Nature-based solutions

Budget 2022 proposes \$780 million over five years to expand the Nature Smart Climate Solutions Fund to support nature-based solutions that contribute to removing emissions and building Canada's climate change resilience. Deloitte's report, [*Promises, promises: Living up to Canada's commitments to climate and Indigenous reconciliation*](#), underscored the importance of the participation and consent of Indigenous peoples, who are leaders in climate change mitigation and land relationship planning, in the success of

nature-based solutions. Though Budget 2022 does not provide many details, we hope to see the funds go toward federal government reconciliation efforts by supporting Indigenous-led conservation projects.

Power, utilities, and renewables

Budget 2022 commits \$250 million to support clean electricity projects and \$600 million to renewable electricity and grid modernization. The Liberal government's [*goal*](#) of building a net-zero electricity system by 2035 will be a massive challenge, particularly given the projected increase in power consumption resulting from the electrification and digitalization of our economy. Any solution will require public- and private-sector coordination with the federal government bringing together stakeholders to improve renewable electricity sharing and innovation across the country.

Critical minerals

Budget 2022 commits \$3.8 billion over eight years toward implementing a Critical Minerals Strategy to expand Canada's zero-emission vehicle value chain. Growing Canada's mineral industry can help create sustainable job opportunities and more resilient supply chains, while also growing and diversifying our economy. We believe this strategy could be a key factor in decarbonizing Canada's transportation sector, but the success of this transformation will rely on the federal government taking the lead with a cohesive, national road map for net-zero transportation.

CONCLUSION

Budget 2022 contains investments that are aimed at addressing the issues and anxieties Canadians are facing as we enter the third year of the COVID-19 pandemic.



→ Budget 2022

contains investments that are aimed at addressing the issues and anxieties Canadians are facing as we enter the third year of the COVID-19 pandemic, including on health, defense and climate change.

And while there are measures to support Canadians and the economy, Deloitte's assessment of budget 2022 is mixed when evaluated against the imperative to foster stronger economic growth, especially in a time of economic uncertainty and in preparation for the next crisis. Investments in support of reconciliation, the green transition, and childcare stand to have the greatest impact on boosting prosperity in the long term. From an economic perspective, we would recommend a stronger long-term growth framework to account for new spending measures .

As Deloitte [has previously expressed](#), Canada must honour treaties and support Indigenous peoples seeking self-determination and economic independence. There is substantially more work to do toward resolving land claims and implementing Indigenous self-governance. We encourage Canada to build on the progress made on the reconciliation journey so far by making further commitments of resources with firm targets and timelines and working in partnership with Indigenous peoples and communities to empower and strengthen economic prosperity.

As the implementation details of this budget are finalized in the months ahead, we encourage the government to focus on creating a modern and adaptable labour force that is prepared for digital and green futures, more globally competitive businesses and industries, and social systems that are prepared to absorb future crises and shocks.

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