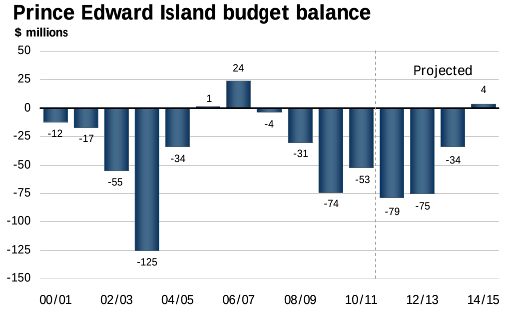
PRINCE EDWARD ISLAND BUDGET 2012

April 18, 2012



Source: Prince Edward Island Ministry of Finance, RBC Economics Research

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Return to balance delayed

The PEI budget, released today, contained significant austerity measures in an attempt to put the province back on solid fiscal footing after a disappointing result last year. The budget showed that the 2011/12 deficit is now expected to be $78.6 million, more than twice as large as originally planned. This was the result of unexpected top-ups to public sector pension plans in the face of poor investment returns, as well as higher-than-budgeted program expenditures in a number of areas. In response, the government today pledged to cut spending in most program areas, and has announced significant job cuts in the upcoming fiscal year. In spite of these measures, the target date for the return to balance has been extended by one year to 2014/15. The deficit for the current fiscal year is expected to be $74.9 million, falling to $34.2 million in 2013/14; the planned surplus for 2014/15 is $3.6 million.

On a more positive note, today's budget announced that the province would transition to the HST by the start of the next fiscal year, and would lower its portion of the rate to 9% from an effective 10.5% (the rate is technically 10%, but applies on top of the federal GST.) The government also presented for the first time explicit estimates of revenues and expenditures beyond the current fiscal year, with the plan extending to 2014/15.

Budget highlights

Program expenditures are forecast to increase by just 0.7% in 2012/13, to $1.48 billion. This is the result of moderate spending increases for the ministries of health and education (up 4.1% and 1.7%, respectively), combined with a 2.6% decline in other areas. The three year plan indicates that all expenditures area except health will see zero growth up in the following two years; health expenditures are budgeted to increase by 3.5% per year. Total expenditures will be $1.59 billion in 2012/13, with total expenditure growth averaging 1.6% over the three-year plan. This is down from the 4.8% average over the past ten years. Among the measures announced to achieve this lower expenditure growth was a reduction in government employment of 200 positions this year and 50 in each of the next two years (to be reached largely through attrition.)

Revenues are projected to increase by 1.3% in 2012/13, to $1.51 billion. Own-source revenues are forecast to increase by 4.9%, while federal transfers are expected to fall by 2.1% due to the end of federal infrastructure funding. Revenue growth is expected to average 3.4% over the course of the three-year plan, lower than the 4.6% average over the past ten years. In terms of new revenue measures, this budget announced that the government would implement a harmonized sales tax starting April 1st, 2013. The provincial portion of the rate will be lowered to 9%, taking the overall HST rate down to 14.0% from the combined PST-GST rate of 15.5% currently. Although explicit forecasts of the impact of this measure were not indicated, CBC reports suggest that it is expected to generate extra revenues of around $25 million. Additionally, the province is expected to receive $39 in transition support from the federal government over the next two years.

Capital spending estimates, released in the province's capital budget last November, suggest that capital spending will be $101 million in 2012/13. The largest components of this spending are for transportation and infrastructure and health.

The government's real GDP growth forecast for 2012 is 1.4%, slightly below the RBC forecast of 1.8%. A forecast for 2013 was not provided.

Although the deficit result for 2011/12 and the delay in the return to balance contained in today's budget was disappointing, the government's plan to return the province back to balance appears credible. In particular, it is "front-loaded" – expenditure growth is expected to be at its slowest this year, and the jobs cuts will also be primarily concentrated in 2012. When combined with the relatively conservative GDP growth and revenue estimates, this enhances our confidence that the government will be able to stick with its plan and return to balance according to its adjusted timeline.

Prince Edward Island fiscal plan

$ millions	Actual	Estimate	Forecast	Projection		
	2010-11	2011-12	2011-12	2012-13	2013-14	2014-15
Revenue	1,546	1,488	1,490	1,510	1,580	1,647
Expense	1,599	1,530	1,569	1,585	1,614	1,644
Surplus/ (deficit)	-53	-42	-79	-75	-34	4

Source: Prince Edward Island Ministry of Finance, RBC Economics Research