

SASKATCHEWAN BUDGET 2012
March 22, 2012

Return to the high life

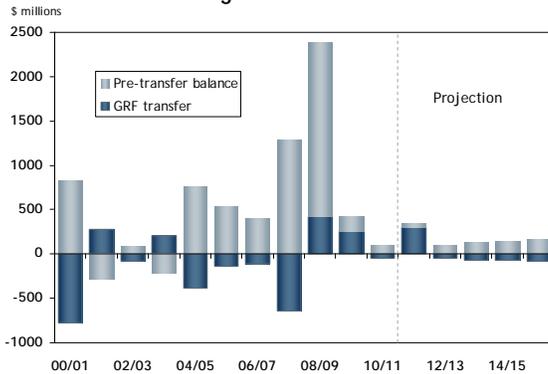
Last year, the Saskatchewan government presented an austerity budget that planned for outright declines in program expenditures. The 2012 Budget, presented yesterday, shows that this austerity was short lived. Excluding special one-time expenditures related to flood relief last year, program spending is projected to rise by 5.3% in 2012/13. The provincial budget is expected to remain in the black, due to increases in revenues from natural resources and solid economic performance: the budget plan shows a small surplus of \$47.5 million once an equally-sized transfer (required by legislation) is made to the province's rainy day fund, the Growth and Financial Security Fund (GFSF.) However, the profile of surpluses out to 2014/15 has been revised downward in each year relative to the four-year plan presented in the 2011 Budget.

The province's third-quarter report, released in February, showed that the 2011/12 surplus would come in much smaller than expected in the 2011 budget due to expenses related to flood relief measures last year that added \$360 million to expenses. The pre-transfer surplus is now expected to be \$55.8 million as opposed to \$115 million planned in the 2011 budget. This lower starting point accounts for the majority of the downward revisions to the surpluses shown from 2012/13 to 2014/15.

Revenues are forecast to increase by 1.9%, to \$11.3 billion in 2012/13. Excluding special dividends and federal transfers related to the sharing of flood relief costs in 2011/12, revenues in the coming year will be up by a stronger 5.0%. Tax revenues are anticipated to rise by 3.9%, while non-renewable revenues are expected to surge by 14.0%. This increase is led by a projected 56.3% increase in potash royalties, due to higher projected potash prices and declines in industry capital spending (the Saskatchewan royalty system provides credits for capital spending beyond a certain threshold; as such, high levels of capital spending can depress royalty payments.) The budget contained a number of small changes on the revenue side, including the introduction of a corporate rental housing rebate and a first-time homebuyer's tax credit; these tax expenditures were offset by revenue-enhancing measures such as the cancellation of the film employment tax credit. On net, tax changes were expected to lower revenues by a negligible \$9 million. Revenue growth is expected to average 4.2% from 2013/14 to 2015/16.

Program expenditures are forecast to increase by 1.8%; however, if we exclude the one-time flooding-related costs that inflated expenditures in 2011/12 (by \$360 million according to the province's third quarter finan-

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Source: Saskatchewan Ministry of Finance, RBC Economics Research

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cial report), program expenditure growth are a much stronger 5.3%. The two biggest areas of the budget, health and education, have planned expenditure growth of 5.8% and 2.8%, respectively. Total expenditure growth (i.e., including debt service) will be 5.0% in 2012/13 if we exclude flood-related costs in 2011/12; beyond this point, expenditures are forecast to grow at an average pace of 4.0% annually, which would be slower than the 5.3% average in the last five years.

Provincial general government debt is expected to remain at \$3.8 billion throughout the forecast period. In the past, the provincial government has used the GFSF to reduce the province's debt, including a \$325 million payment in 2011/12. No further transfers are shown in the fiscal plan. **Borrowing requirements** will be \$204 million, for the purpose of refinancing existing debt.

Capital spending is expected to be \$787.7 million, an increase of 192.8 million (or 25.4%) over spending in 2011/12. \$581 million of this is expected to be spent on highway improvements.

The Growth and Financial Security Fund balance is planned to grow to \$756 million by the end of 2012/13 and to \$980 million by 2015/16. This represents a downward revision to the path shown in the last budget (which had the balance increasing to \$1.0 billion by 2014/15), reflecting the lower surpluses projected each year.

The economic assumptions built into the budget are conservative on the whole; however, the potash price forecasts contained in the budget could be on the optimistic side – RBC forecasts declines whereas the government assumes further increases in 2012 and 2013. The GDP growth forecasts in the budget are significantly lower than our own: the budget forecasts real GDP growth of 2.8% and 2.6% in 2012 and 2013, respectively, compared to our 4.6% and 4.7% forecasts. Other key assumptions such as WTI oil and exchange rate projections are broadly in line with our views. While there could be some downside risk to revenues if potash prices are not as strong as the provincial government projects, we believe that the cautious approach to other assumptions underlying the budget projections will enable the government to meet its surplus targets.

Saskatchewan's fiscal plan

| (\$ millions) | Actual | Forecast | Estimated | Projected | | |
|----------------------|---------|----------|-----------|-----------|---------|---------|
| | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 |
| Total revenues | 11,061 | 11,075 | 11,291 | 11,771 | 12,252 | 12,758 |
| Total expenditures | 10,965 | 11,019 | 11,196 | 11,640 | 12,106 | 12,590 |
| Pre-transfer surplus | 95 | 56 | 95 | 131 | 146 | 168 |
| Transfer to GFSF | (48) | (28) | (47) | (66) | (73) | (84) |
| Transfer from GFSF | | 325 | | | | |
| Net transfers | (48) | 297 | (47) | (66) | (73) | (84) |
| GRF Surplus | 48 | 353 | 47 | 66 | 73 | 84 |

Source: Saskatchewan Ministry of Finance, RBC Economics Research

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