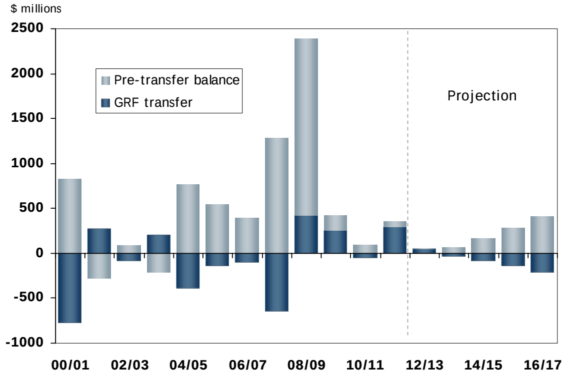
RBC ECONOMICS | **RESEARCH**

Saskatchewan budget balance



Source: Saskatchewan Ministry of Finance, RBC Economics Research

Robert Hogue
Senior Economist
(416) 974-6192
Robert.hogue@rbc.com

Laura Cooper
Economist
(416) 974-8593
Laura.cooper@rbc.com

SASKATCHEWAN BUDGET 2013
March 21, 2013

Staying in the black

The nearly two decade-long string of consecutive balanced budgets or surpluses in Saskatchewan will be extended by four more years. Yesterday, Saskatchewan's Finance Minister Ken Krawetz announced a projected $32.4 million General Revenue Fund (GRF) surplus for the 2013/2014 fiscal year in the province, followed by surpluses growing from $81.9 million in 2014/2015 to $205.4 million by 2016/2017. These surpluses are the sums being reported after equally-sized transfers are made to the Growth and Fiscal Security Fund (GFSF), Saskatchewan's rainy day and economic development fund, as required by provincial legislation. Thus, the operational surpluses are, in fact, twice these amounts.

Small surplus in 2012/2013

For the fiscal year ending this month, yesterday's budget document reiterated the monitoring provided in the third quarter fiscal update published in February, which projected a pre-transfer surplus of $8.8 million or $86.2 million less than forecasted in the 2012 budget. Because the government is now withdrawing from the GFSF (to the tune of a net $45.6 million) instead of depositing into it, the GRF surplus for the year is now pegged at $54.4 million or $6.9 million *higher* than at budget 2012. Last year, the government expected to transfer a net $47.5 million *to* the GFSF. The slippage in the pre-transfer results in 2012/2013 was due to higher than expected expenses (including $110 million for the Provincial Disaster Assistance Program) and lower than expected non-renewable resource revenues (down $563 million or nearly 18%) – although total provincial revenues have been revised upward thanks to higher taxation revenue and a larger dividend from Crown Investments Corporation of Saskatchewan.

Modest rise in revenues in 2013/2014

For the upcoming 2013/2014 fiscal year, total revenues are projected to rise 1.9% to $11.6 billion, as non-renewable resource revenues partly rebound and tax revenues continue to strengthen. Non-renewable resource revenues are projected to increase 3.3% to $2.7 billion, driven higher by a nearly 31% increase in potash revenue (to $519.9 million). A strong expected recovery in potash sales will boost potash royalties despite potash price assumptions being downwardly revised. With the price discount for Saskatchewan oil expected to ease somewhat in 2013, oil revenues are projected to rise 9%. Natural gas revenues are projected to see a 17% lift. Tax revenues, which make up 52% of total revenues in the province, are expected to rise 5.6% to $6.0 billion in 2013/2014 with corporate income taxes surging 16.7% to $986.8 million. A tax rate increase on tobacco products, from 21 cents to 25 cents per cigarette, is slated to boost tobacco tax revenues 18.1% to $295.3 million. A reduction in the general Corporate Income Tax rate however, (from 12% to

10%) has been deferred until "it is deemed sustainable" with the government renewing its commitment to reducing the rate by 2015. The gains in taxes and non-renewable resource revenues are expected to be partially offset by lower transfers from Crown entities and federal transfers.

Slight downward revision to the medium-term revenue growth profile

Weaker-than-expected non-renewable resource revenue in 2012/2013 resulted in a slight downward shift to the revenue growth profile with total revenues projected to rise on average 3.9% through the forecast horizon (down from 4.1% in Budget 2012). Non-renewable resource revenue is estimated to make up 23% of total revenues in 2013/2014, a drop of 5 percentage points from 2012/2013; however, this share is projected to increase to 25% later in the fiscal plan as non-renewable resource revenues are slated to rise 8.8% annually, on average, during the out-years of the plan. Tax revenue growth will be more subdued with a projected 2.7% increase annually through to 2016/2017.

Keeping a lid on expense growth

Expenses are slated to rise by $156 million (or 1.4%) to $11.5 billion in 2013/2014, marking a significant slowing from the average annual 6.6% growth since 2002/2003. Operating expenses (excluding capital transfers) are forecast to rise by $137 million (or 1.2%) to $11.3 billion in 2013/2014. Excluding capital transfers, health expenditures are projected to rise 3.8% to $4.8 billion, representing 43% of total operating expenses. At nearly 12% of operating expenses, spending for education is forecast to increase 1.3% to $1.3 billion and is largely the result of a 9% increase to Teachers' Pensions and Benefits, rising to $322 million. A 6.4% boost to Advanced Education spending (to $762.2 million) in part reflects the Government's plans to "attract, develop and retain a skilled" labour force with funding allocated for programs for First Nations training while the province's universities and colleges are expected to see a 2.1% funding increase to $448.6 million. Over the fiscal plan, total expenses are projected to rise by an average of 3.0% annually, reaching $12.6 billion in 2016/2017 and down from the 4.0% annual average projected in Budget 2012.

Modest increase in capital spending

Capital spending is forecasted to reach $847.5 million in 2013/2014, a $20.5 million increase (2.5%) from 2012/2013. Capital transfers are expected to rise 7.6% (making up about a third of capital spending) while investments in government owned infrastructure are slated to increase a more modest 0.2%. With a projected investment of $322.1 million, highways and infrastructure make up 38% of total capital investment, though the level of investment represents an 11.9% drop from 2012/2013. Capital spending in health is projected to rise 129% to $163.9 million on account of increased funding for hospital projects, long term care facilities and health facilities. Capital expenditures in education investment are expected to reach $126.8 million, an increase of 5.5%, with capital transfers for school facilities largely offsetting a modest pullback in capital asset acquisitions.

More money into the Growth and Fiscal Security Fund

The GFSF balance is projected to rise from $662.7 million at the end of 2012/2013 to $695.1 million at the end of 2013/2014 and again in the following three years to reach $1.1 billion by the end of 2016/2017. Starting in 2013/2014, the Fund will be segmented explicitly into two components to better reflect its dual mandate: 'GFSF – Security' to provide financial assistance as needed in the face of budget volatility; and 'GFSF – Growth' to provide a source of funds to promote the economic development of the province. The opening balances will be $512.7 million for the security component and $150 million for the growth component. The government indicated that, in the future, new transfers to the GFSF will accrue to the growth component, provided that the security component remains above $500 million.

Provincial debt under control

Provincial general government debt is projected to remain unchanged at $3.8 billion for the third consecutive year in 2013/2014. It will then decline slightly throughout the remainder of the fiscal plan to reach $3.4 billion by the end of 2016/2017. Total public debt – which includes debt from crown corporations and government enterprises – is projected to rise from $9.3 billion at March 31, 2013, to $10.1 billion at March 31, 2014, and to $10.8 billion by the end of the 2016/2017 fiscal year.

Borrowing requirements rising modestly

The budget documents show borrowing requirements for general government of $468 million in 2013/2014 (up from $222 million in 2012/2013) for the purpose of refinancing maturing debt. There are also borrowing requirements of $1.13 billion for crown corporations (down from $1.17 billion in the previous year) that will target the financing of capital expenditures.

Prudent assumptions

The Saskatchewan government forecasts real GDP growth to be 2.6% in 2013 and 3.1% in 2014, which is more conservative than RBC's latest forecasts of 2.9% and 3.7%, respectively. Similarly, commodity price assumptions underlying the 2013 budget are generally in line or slightly more conservative than RBC's forecasts. We believe, thus, that the government continues to display some degree of prudence in the way it projects key drivers of provincial revenues. As the substantial unexpected downswing in non-renewable resource revenue clearly highlighted in the past year, however, the province's heavy dependence natural resource revenue makes the fiscal situation inherently vulnerable to volatility in the commodity sector. Although it managed to stay in the black despite this downswing in 2012/2013, the provincial government would do well to add an additional layer of prudence by introducing more explicit forecast or contingency reserves into its budgetary planning framework – like most other provinces do. This addition would contribute to maintaining the strong health of the province for many more years to come.

Saskatchewan's fiscal plan

($ millions)	Actual	Forecast	Estimated	Projected		
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Total revenues	11,120	11,395	11,607	12,053	12,529	13,024
Total expenditures	11,066	11,386	11,543	11,889	12,246	12,613
Pre-transfer balance	54.7	8.8	64.8	163.8	283.2	410.8
Transfer to GFSF	(27.3)	(4.4)	(32.4)	(81.9)	(141.6)	(205.4)
Transfer from GFSF	325.0	50.0				
Net transfers	297.7	45.6	(32.4)	(81.9)	(141.6)	(205.4)
GRF Balance	352.3	54.4	32.4	81.9	141.6	205.4

Source: Saskatchewan Ministry of Finance, RBC Economics Research

The material contained in this report is the property of Royal Bank of Canada and may not be reproduced in any way, in whole or in part, without express authorization of the copyright hol¬der in writing. The statements and statistics contained herein have been prepared by RBC Economics Research based on information from sources considered to be reliable. We make no representation or warranty, express or implied, as to its accuracy or completeness. This publication is for the information of investors and business persons and does not constitute an offer to sell or a solicitation to buy securities.

®Registered trademark of Royal Bank of Canada.
©Royal Bank of Canada.