Saskatchewan

2013-2014 Budget Analysis

Key Findings

- → The budget contains a moderate emphasis on supporting long-term growth and prosperity.
- → The Saskatchewan government took several important steps to attract, develop and retain a skilled workforce. These include action to:
  - recruit more immigrants to the province;
  - provide more support for Aboriginal education and training; and
  - expand support for technical schools and apprenticeship programs.
- → The government missed an opportunity to begin weaning the province off of volatile non-renewable resource revenues.
- → Export development remains a stated government priority, but the budget contained few initiatives in this area.
- → No action was taken on corporate income taxes, although the government remains committed to its reduction plan once it is on a more solid fiscal footing.
- → The budget makes a bold move toward greater innovation in infrastructure financing through the creation of a new Crown corporation called SaskBuilds.

The Canada West Foundation is dedicated to building a western Canada in which our children will thrive and prosper. Our focus on provincial and federal government budgets reflects that priority. We are primarily concerned with the long-term directions that governments are setting in their budgets and less preoccupied with year-to-year changes in spending or in fiscal balances.

Detailed Analysis

In its budget preview, the Canada West Foundation identified four steps the Saskatchewan government could take that would lead toward a more prosperous future for all residents. Those steps were:

1) Measures to address dependence on resource revenues.
2) Action to address current and future labour shortages.
3) Strategic investments in export-related infrastructure and market development initiatives.
4) Tax reforms to improve business competitiveness.

1

Measures to Address Dependence on Resource Revenues

It is critically important that, at some point in the near future, Saskatchewan begin to set aside some share of its non-renewable resource revenue so that future generations can also benefit from the sale of the province's assets. Doing so has the added benefit of helping to insulate Saskatchewan against the short-term volatility characteristic of resource-based revenues. The Saskatchewan government missed an opportunity in the 2013 budget to take a first step in this direction.

This is consistent with the government's policy of first eliminating the provincial debt before moving on to saving for the future. However, it is worth noting that government debt levels in Saskatchewan have been rising since 2008/09, led by growth in Crown corporation debt and unfunded pension liabilities.

For the Canada West Foundation, a plan to begin saving today would have been a bold step forward, but as clearly indicated in the *Saskatchewan Plan for Growth*, saving resource revenues continues to be a medium-term policy priority for the provincial government.

2

Action to Address Current and Future Labour Shortages

The 2013 budget recognized that economic growth and competitiveness in Saskatchewan depends on the province's ability to attract, develop and retain a skilled labour force. The budget contained several important measures that address a range of issues related to skills training and labour force participation.

Among these was a renewed emphasis on attracting immigrants. The province committed to supporting at least five labour recruitment missions to attract foreign workers to Saskatchewan to address urgent skills shortages. It also provided more money for immigrant settlement support programs.

The budget also identified the need to better engage Aboriginal people in the workforce. It included new money for education-related initiatives coming from the *Joint Task Force on Improving Education and Employment Outcomes for First Nations and Métis People*. Funding was also added to eliminate on-reserve education waitlists and for early education and skills training programs.

The Saskatchewan government also provided additional funds for post-secondary education, apprenticeship training and for its incentive program to retain graduates. Of particular note, the province increased its operating funding of technical institutes by 3.1% compared to 2.1% for universities. This emphasis on technical schools suggests that Saskatchewan recognizes the need for skilled tradespeople in the province and is taking steps to address that need.

The 2013 budget shows that the Saskatchewan government is clearly committed to labour force development. What is also needed is a parallel emphasis on performance to ensure that the funds being spent produce results and drive value in the system.

3

Strategic Investments in Export-Related Infrastructure and Market Development Initiatives

The budget highlighted the importance of exports and competitiveness to the Saskatchewan economy. Finance Minister Krawetz noted in his speech that the budget included support for trade missions, market development and advocacy.

In spite of this mention, the specific initiatives included in the budget do not suggest that there is a comprehensive export strategy at play. The most notable development was a large increase in support for Innovation Saskatchewan for the stated goal of boosting exports and building competitiveness. Most of that money will go to the province's nuclear research and development strategy. In addition, more money was provided for the Global Institute for Food Security, signalling that the government continues to support innovation and diversification in food and food services exports.

There was little in the budget on the subject of export-related transportation infrastructure. However, it is worth noting that the 2013 budget announced the creation of SaskBuilds, a new Crown corporation to drive innovation in infrastructure financing, design and delivery through initiatives such as public-private partnerships (P3s). The initial projects that SaskBuilds will be exploring focus on schools, highways and hospitals.

The Canada West Foundation supports innovative financing, design and delivery of major infrastructure projects. We look forward to seeing where this new initiative leads and whether the P3 model can be successfully applied to trade-related infrastructure development.

4

Tax Reforms to Improve Business Competitiveness

In the *Saskatchewan Plan for Growth*, the provincial government highlighted the need for business taxes in Saskatchewan to remain competitive with those in Alberta and BC. To that end it committed to lowering the province's corporate income tax rate from 12% to 10% over three years, beginning in the 2013 budget.

However, in light of the province's tight fiscal situation, Minister Krawetz announced in the budget speech that the government will not begin this process in 2013. Saskatchewan remains committed to reducing the business tax rate, but will not do so until the provincial budget balance is a little less tenuous.

While corporate taxes were frozen, the government did include some small measures to increase revenues. On the business side, the Saskatchewan Resources Credit (SRC) – a credit against Crown royalties and production taxes payable – was reduced slightly. On the consumer side, "sin taxes" were raised.

The tax measures presented in this budget are modest and unlikely to have a significant effect on business competitiveness in the province in the short-term. Reducing business taxes may not be prudent in the current, somewhat precarious, fiscal environment. However, the Saskatchewan economy would benefit from the government honouring its commitment on business taxes within the next two years, once fiscal conditions in the province are stronger.

Saskatchewan Budget by the Numbers

Overview

The Saskatchewan government once again presented a balanced budget for 2013/14, both on the General Revenue Fund (GRF) as well as on a summary basis. The task was made harder this year compared to last because of a significant shortfall in resource revenues in 2012/13, notably in oil and potash.

Last year, the government expected a $95 million surplus on the GRF, half of which would be used to top up its fiscal sustainability fund – the Growth and Financial Security Fund (GFSF). However, faced with an estimated $563 million shortfall in resource revenues, Saskatchewan needed to withdraw $46 million from the GFSF, as well as transfer an unscheduled $120 million in Crown corporation earnings to the GRF, in order to reach a balance in 2012/13.

Conditions in 2013/14 are expected to be moderately better. Largely by containing expenditure growth, Saskatchewan anticipates a GRF surplus of 64.8 million next year, half of which will be re-invested in the GFSF.

Fiscal Information and Budget Projections → Saskatchewan
($millions)

	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013e	2013-2014b
Tax Revenue	4,889	5,209	5,493	5,487	6,309	6,480
Non-Tax Revenue	7,436	5,059	5,568	5,632	5,086	5,127
Total Revenues	12,325	10,268	11,061	11,119	11,395	11,607
Program and Capital Expenditures	9,835	9,620	10,542	10,652	10,994	11,202
Interest on Debt	520	480	424	412	392	340
Total Expenditures	10,355	10,100	10,966	11,064	11,386	11,542
Reported Balance	**1,970**	**168**	**95**	**55**	**9**	**65**

Source: CWF calculations using data from Saskatchewan Budget 2013 and prior years' budgets.

Note: e= estimated, b=budgeted

Revenues and Expenditures

The 2013 budget projects revenues to grow by 1.9% next year over 2012/13 levels. On the tax side, income tax growth is expected to be modest following a surge last year, while the government anticipates more corporate tax revenue and additional funds from higher "sin taxes."

Saskatchewan also expects resource revenues to recover from last year's disappointing performance, although projected growth next year reflects more tempered expectations compared to the 2012/13 budget.

Potash revenues are expected to be 31% higher next year compared to estimated levels in 2012/13 (which were well below expectations in last year's budget). While 31% growth may seem high, the Saskatchewan government has more reason to be confident this year. Last year's expected surge in potash royalties did not materialize because anticipated supply agreements with China and India were not reached until late in the fiscal year.

Oil revenues are forecast to increase by 9% in 2013/14, but will remain well below last year's forecasts; last year, the government expected oil revenues of more than $1.6 billion and they came in at closer to $1.3 billion. This year, oil revenues are expected to be a little over $1.4 billion. It is worth noting that Saskatchewan's projected oil revenues are based on price expectations that are slightly above many private sector forecasts.

Offsetting these gains are lower federal transfers, which were inflated last year because of disaster relief assistance and infrastructure support. In addition, the government hopes to rely less on dividends from Crown corporations to pad the bottom line on the GRF. Crown dividends are budgeted at $197 million in 2013/14 compared to $273 million last year.

The Saskatchewan government will essentially hold the line on operational spending in 2013/14. The budget included a number of new initiatives aimed at skills training and sharing the benefits of economic growth, but these measures were largely offset by lower spending elsewhere, reflecting an ongoing process of reprioritization within the government.

Projected expenditure growth of 1.3% is well below inflation expectations next year. Health and education, by far the two largest expenditures lines in any province, are expected to consume an even greater share of Saskatchewan's operational spending next year, with projected growth of 4.2% and 5.0%, respectively. The social services budget is also up 5.1%.

Some of the ministries that will have fewer funds at their disposal next year include agriculture, economy and government relations. Saskatchewan also expects to save $52 million next year in lower debt-servicing costs.

Infrastructure spending in Saskatchewan is expected to be only slightly higher than last year. In the 2013 budget, the government announced that infrastructure investment for 2013/14 would be $848 million – 7.6% higher than in last year's budget. However, actual spending on infrastructure last year was higher than budget forecasts – $837 million compared to $788 million. The actual increase in infrastructure investment for next year is just 1.3%.

Budget Reporting Issues and Concerns

Generally speaking, the Saskatchewan government presents its budget information clearly and effectively. There are, however, a few areas where the presentation and accuracy could be improved.

First, the province highlights the GRF balance as its main indication of budget balance. A more complete view of the province's finances would include all net income from the Crown Investments Corporation (CIC) and not just the dividends paid into the GRF. In addition, removing amortization expenses and adding the full value of capital expenditures would provide a better measure of the budget balance on a more consolidated basis.

Second, unlike other provinces, the Saskatchewan budget does not include any actual results of prior performance. This makes it difficult to compare current budget initiatives and commitments with past revenue and expenditure levels.

Finally, the province presents no balance sheet information in its budgets. It does provide a schedule of "net long-term debt," but no information on the financial assets that offset those liabilities. Without that information (which is only published in the Public Accounts at the end of the fiscal year), it is impossible to determine how the deficit or surplus relates to changes in the province's net financial worth.

Long-Term Debt → Saskatchewan
($millions)

	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013e	2013-2014b
Net Direct Tax-Supported Debt	4,145	4,140	4,136	3,808	3,808	3,808
Net Indirect Tax-Supported Debt	491	529	577	657	819	988
Total Net Tax-Supported Debt	4,636	4,669	4,713	4,465	4,627	4,796
Unfunded Pension Liabilities	5,417	5,761	6,005	6,114	6,793	6,995
Total Tax-Supported Debt	**10,053**	**10,430**	**10,718**	**10,579**	**11,420**	**11,791**

Source: Canada West Foundation calculations using data from Saskatchewan Budget 2013 and prior years' budgets.

Note: e = estimated, b = budgeted

This budget analysis was prepared by Canada West Foundation Senior Economist Michael Holden. The opinions expressed in this report are those of the author and are not necessarily those of the Canada West Foundation's Board of Directors, funders or advisors.

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