Saskatchewan: 2019–20 Budget

SUMMARY

- **In a stay-the-course fiscal plan largely in line with expectations, the Province of Saskatchewan tabled a fiscal year 2019–20 (FY20) budget (*Budget*) that promises surpluses[1] from FY20 to FY23** (chart 1)**.**
- **Changes in economic conditions over the last year are expected to result in only minor changes to the revenue, expenditure, and debt outlook.**
- **New policy measures consisted of modest targeted tax credits, funding for health and education, and higher outer-year infrastructure spending with help from the Federal Government.**

ECONOMIC OUTLOOK

Saskatchewan's new fiscal plan is based on a weaker economic outlook than last year's budget. The Province forecasts real GDP growth of just 1% in 2018, lower than the 1.3% anticipated in the prior fiscal plan but stronger than the 0.7% projected as of the mid-year update released in November 2018. Expectations of softer employment growth and oil prices underpinned more modest downward revisions to the outer-year economic growth trajectory.

Oil and gas sector headwinds, concentrated in persistent transportation capacity issues, remain the key downside risk to Saskatchewan's economic outlook. The Province forecasts a decline in both production and investment in calendar year 2019 before rebounding over the medium-term. On the plus side, it noted robust manufacturing sector activity in 2018, a resumption of job creation after early-2018 doldrums, higher-than-anticipated potash sales and prices, and expectations of another strong crop yield in 2019.

NEW POLICY MEASURES

Budget offered few new tax measures. Modest pocketbook relief will be provided via new non-refundable personal income tax credits for volunteer firefighters and emergency medical first responders. As of the 2020 taxation year, individuals who accumulate 200 or more hours of volunteer service annually in either role will be able to claim a $3,000 tax credit amount. With respect to tax simplification, the Province will eliminate various deductions related to the Potash Production Tax as of April 1st, 2019. *Budget* also moved to increase school division funding but will not change Education Property Tax rates.

Following consultations with municipalities, a new agreement between the Province and urban, rural and northern communities will provide $10.5 mn increase in revenue sharing funding increase versus FY19. The rise is expected to follow a $16.6 mn decrease forecast for this fiscal year.

Other announcements largely consisted of annual spending increases related to health and education. Capital grants to post-secondary institutions are expected to

[1] Figures reported in Canadian dollars unless otherwise stated.

CONTACTS

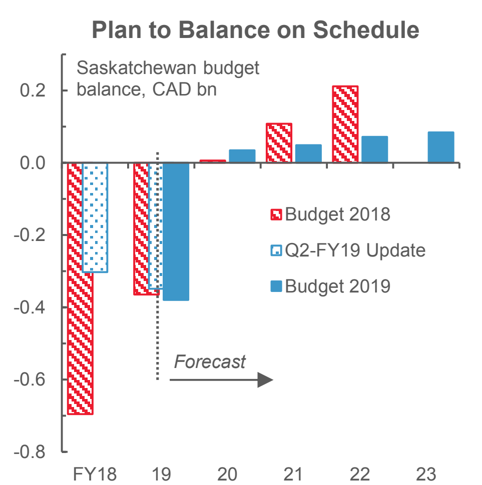
Marc Desormeaux, Provincial Economist
416.866.4733
Scotiabank Economics
marc.desormeaux@scotiabank.com

Updated Fiscal Forecast
$ millions except where noted

	FY19 Budget	FY19 Q3	FY20 Budget
Tax Revenue	7,215	7,170	7,589
Non-Renewable Resource Rev.	1,482	1,706	1,827
Gov't Bus. Enterprises: Net Income	1,078	909	1,081
Other Own-Source Revenue	2,007	2,043	2,062
Total Own-Source Revenue	**11,782**	**11,828**	**12,558**
Federal Transfers	2,462	2,503	2,467
Total Revenue	**14,244**	**14,330**	**15,025**
Total Program Spending	13,954	14,076	14,296
Debt Service	655	634	694
Total Expenditure	**14,609**	**14,710**	**14,991**
Summary Surplus/Deficit	**-365**	**-380**	**34**
Own-Source Revenue / GDP	14.3	14.4	14.7
Program Spending / GDP	16.9	17.1	16.8
Budget Balance / GDP	-0.4	-0.5	0.0
Debt Service / Revenue	4.6	4.4	4.6
Annual Change, %			
Tax Revenue	*6.4*	*5.7*	*5.8*
Non-Renewable Resource Rev.	*1.7*	*17.0*	*7.1*
Total Own-Source Revenue	***2.2***	***2.6***	***6.2***
Federal Transfers	*1.7*	*3.4*	*-1.4*
Total Revenue	***1.6***	***2.2***	***4.8***
Program Spending	*1.4*	*2.3*	*1.6*
Total Expenditure	***2.0***	***2.7***	***1.9***

* Sources: Saskatchewan Finance; Statistics Canada; nominal GDP forecasts: Scotiabank Economics.

Chart 1

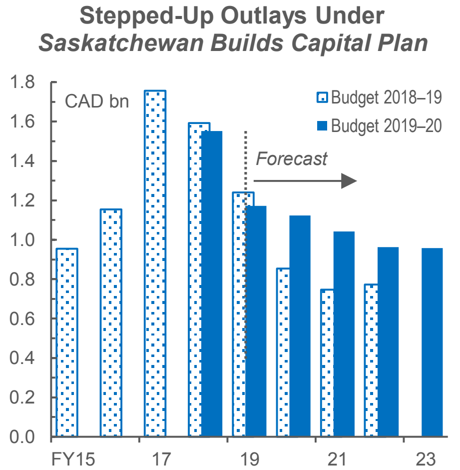


Sources: Scotiabank Economics, SK Finance.

total $673 mn in FY20. New funding will be provided for hospitals, mental health and addictions services, improved care for seniors, and long-term care facilities.

For infrastructure, *Budget* projects a cumulative $755 mn increase in capital outlays via the *Saskatchewan Builds Capital Plan* relative to last year's forecast (chart 2). Nearly half of that climb is sourced from federal funding via Ottawa's *Investing in Canada Infrastructure Plan.*

Chart 2



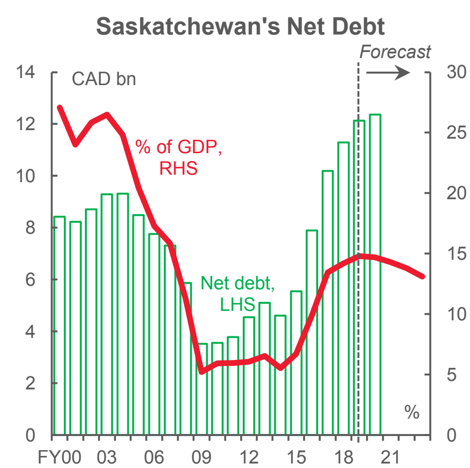
Sources: Scotiabank Economics, SK Finance.

REVENUE AND EXPENDITURE DETAILS

While Saskatchewan's economic growth is seen to have underperformed in calendar year 2018, the province's continued expansion off of a weaker base is expected to translate into stronger revenue growth in FY20. Taxation revenues are forecast to rise nearly 6% next fiscal year. The Government anticipates that uncertain energy conditions will weigh on oil and gas royalties, but that this soft patch will be outweighed by stronger potash sales and prices. FY21–23 revenues are forecast to advance at an annual rate of just 2.1%—slower than the 2.8% outlined for FY20–22 last year—a change that mirrors the forecast of modestly lower medium term economic growth.

Plans announced this year set expenditures in most categories on a slightly higher trajectory than outlined in *Budget 2018–19*. Total expenditures are forecast to advance by just 2% per year during FY21–23, a moderately faster pace than expected last year.

Chart 3



Sources: Scotiabank Economics, SK Finance, Statistics Canada.

DEBT AND BORROWING

The Province's debt outlook is modestly improved. Net debt is forecast to reach $12.1 bn by the end of FY19—slightly lower than the mid-year projection. It is expected to climb to $12.4 bn in FY20, but a return to balance puts its share of GDP on a downward path (chart 3) from 14.3% next fiscal year to 13.1% by FY23. These portions are expected to remain among the lowest of any Province in Canada.

FY20 borrowing requirements for the General Revenue Fund, which borrows on behalf of the Government entity, are estimated at $2.3 bn. Some $203 mn is allotted towards refinancing of maturing debt, with most of the remainder likely to be used to finance capital expenditures. Sinking funds, employed for government debt repayment, are expected increase by $208 mn to $2.4 bn next fiscal year.

With respect to the *Capital Plan*, the Government will continue its practice of setting aside and investing at least 2% of the value of related borrowings to ensure sufficient cash on hand for debt repayment.

OUR TAKE

This was a stay-the-course budget that is unlikely to impact Saskatchewan's credit ratings or economic growth outlook. Plans for balance remain intact. New tax credits do not appear large enough to generate a significant boost in consumer spending. Federal infrastructure funding should soften the drag from the moderation of capital expenditures built into the current Provincial plan, but outlays remain on a downward path. If projections hold, Saskatchewan should be able to maintain a healthy financial position relative to most other Provinces.

Reducing reliance on oil and gas sector revenues remains a key challenge, and one that is front-and-centre given ongoing pipeline transportation issues. Yet agricultural and potash developments suggest Saskatchewan will continue to benefit from a diversified natural resource sector. As oil patch uncertainty abounds and the labour market recovery remains nascent, the Province's caution with respect to its fiscal position looks appropriate.