The Province of Saskatchewan is projecting a $71.4 million surplus on a summary basis for FY14/15 (which includes the activities of government organizations and business enterprises), or a small 0.1% of GDP, down from $591 million expected in FY13/14—a drop in GBE net income accounts for much of the decline. Note that the Province is now choosing to highlight its fiscal plan on a summary basis, at least for the upcoming year. On a General Revenue Fund basis, the surplus is pegged at $105.4 million (0.1% of GDP) in FY14/15 before transfers to the Growth and Financial Security Fund (GFSF), improved from the $127.8 million deficit expected in FY13/14. The latter is unchanged from the most recent update—recall that weaker-than-expected resource prices and sales forced the Province to cut its estimate from a $64.8 million surplus in the original budget plan. The Province is also projecting pre-transfer surpluses through the 4-year forecast horizon averaging just under $140 million per year, which will build up the GFSF to $706 million by the end of FY16/17 from $531 million at the end of FY13/14. As expected, there are no major revenue initiatives in this budget, and the Province is holding the line on spending growth.

Summary of Notable Policy Measures

- Modest summary spending growth of 1.5% in FY14/15; a 4.7% increase in infrastructure spending.
- Resource revenues in excess of 26% of core revenues will go toward debt reduction ($3.8 billion in operational debt), and thereafter into a new “Futures Fund”. This is not expected to have an impact in FY14/15 with resource revenues pegged at 22.6% of operational revenues.

Revenues Slip on Lower GBE Income

Total revenue is projected to dip 2.2% to $14.1 billion in FY14/15, as a drop in GBE net income offsets modest increases in taxation and resource revenues. Resource revenues will total $2.7 billion, a 5.6% increase from prior-year levels. WTI oil prices are expected to average $94.25 in FY14/15, down from the prior fiscal year, but production is forecast to rise again—at $1.6 billion, oil is by far the largest (almost 60%) resource revenue source. Meantime, potash prices are expected to slip to US$274 in FY14/15, but production is poised to pick up. Overall, resource revenues are projected to make up just over 19% of total revenues, or just under 23% of core revenues. As for the risks to the fiscal plan, a $1 drop in oil prices would cut revenues by $20 million, a $50 drop in potash would shave $109 million, and a 1 cent increase in the value of the.....
Canadian dollar (forecast at 91.5 US cents in FY14/15) would cut $31 million. Longer term, the Province assumes core revenue growth of 3.0% per year through FY17/18, amid relatively stable resource prices and an eventual downward drift in oil production beginning in 2016.

The revenue outlook is based on reasonable economic growth assumptions. Real GDP is projected to grow 2.2% in 2014 and 2.3% next year. Our call is for real GDP growth of 2.5% this year and 2.7% in 2015, slightly ahead of the national average in both years. While still comparatively solid, that’s down from the average pace of more than 3.5% seen between 2010 and 2013. Job growth has levelled off in the past year, though largely due to declines in the public sector. And, while population growth remains near postwar-era highs, resource-sector investment is expected to ebb somewhat in the year ahead—StatsCan’s annual capital spending intentions survey flagged a 14% decline in non-oil & gas mining investment, with weaker fundamentals in the potash sector. Indeed, resource prices and production, through their direct impact on royalties and indirectly through nominal GDP growth, remain the key risk to the revenue plan.

**Spending Restraint Ongoing**

Total spending is projected to rise a modest 1.5% in FY14/15 to $14.0 billion. Health care will continue to see firm growth (+4.3%), while education will grow a more modest 2.8%. Saskatchewan continues to see historically high population growth and, while spending has risen in recent years, it has been edging down in real per-capita terms since 2009 (admittedly from elevated stimulus levels). Looking ahead, the Province plans to hold core government spending growth to 2.3% annually through FY17/18, which will continue to apply modest downward pressure to real per-capita outlays. The budget also provides an $887 million infrastructure spending program for FY14/15, up 4.7% from the prior fiscal year, while Crown Corporation capital spending will rise 5.3% to $2 billion.

**Debt Levels Relatively Low; Borrowing Down**

Core government net debt will rise by $287 million to $4.5 billion, or about 5.4% of GDP—modest compared to its provincial peers. Total public debt, which includes Crown Corporations and GBEs, will near $12 billion, or a still-modest 14.2% of GDP. Total borrowing requirements are expected to be $1.5 billion in FY14/15 down from $2.1 billion in FY13/14. Crown corporations will again do most of the borrowing, totalling $962 million, while the government will borrow $550 million.

**The Bottom Line:** Another stay-the-course budget will allow the Province of Saskatchewan to balance the books on both a core and summary basis in FY14/15, barring any major trip up in resource prices.
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