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Fiscal Pulse

Canadian Governments' Fiscal 2008-09 Consolidated Financial Results

... Evidence of the Economic Downturn

The Financial Management System data, illustrating the budget gaps starting to emerge across Canada in FY09, point to the spending cutbacks, intergovernmental adjustments and increased levies that will be required for Canadian governments to eventually regain black ink.

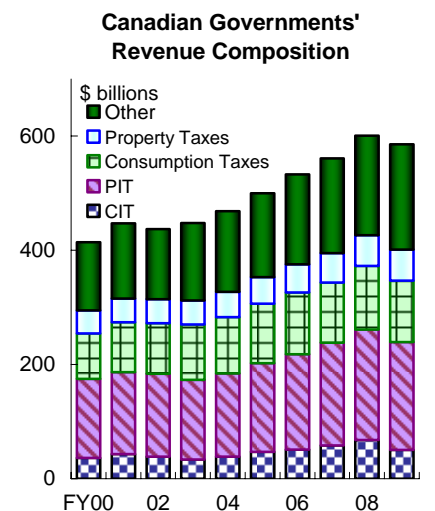
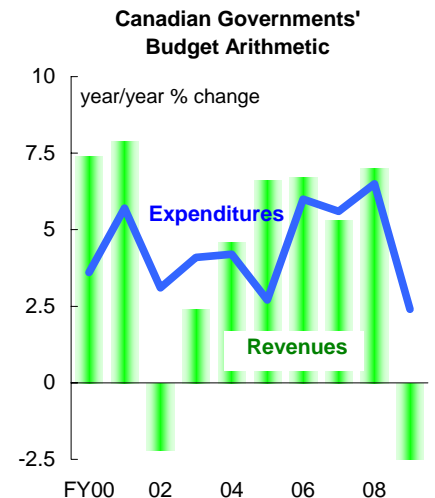
Statistics Canada's Financial Management System (FMS), applying a standardized accounting framework to governments' *Public Accounts* data, offers financial information for the entire public sector and each level of government that is more consistent over time and between jurisdictions.

Preliminary data for fiscal 2008-09 (FY09)¹ indicate a sharp erosion of Canadian governments' bottom line as expenditures climbed and revenues declined with the economic downturn. Aggregating across the three levels of government, an \$8.8 billion deficit is estimated for FY09, following a \$19.7 billion surplus in FY08. Together, provincial, territorial and local governments sourced 58% of the deterioration, with the federal government reporting the remainder. Adding in the FMS estimates of a Canada Pension Plan (CPP) surplus of \$9.6 billion and a Quebec Pension Plan (QPP) surplus of \$1.6 billion in FY09, an overall \$2.4 billion surplus is estimated for the entire government sector, a fraction of the \$31.5 billion FY08 balance.

Government Budgets this spring had already signaled a considerable softening in revenues. The FMS estimates that receipts for the three levels of government slipped 2.5% in FY09, after a 7.0% rise in FY08. Reflecting both tax relief and a slowing economy, personal income tax (PIT) revenues slid 2.2% in FY09, general sales taxes dropped 7.1% and corporate income tax (CIT) receipts plunged 25.7%. Importantly, the FMS offers details on other less-documented government revenue streams. Growth in property and related taxes, for example, cooled to 1.8% in FY09, following annual gains averaging 5.1% over the prior four years.

Expenditures in FY09 contributed to the budget gap with a 2.4% increase, though this rise was subdued compared with the 6.0% average annual advances from FY06 to FY08. Health outlays continued to surge with a 6.4% jump last year that accounted for almost 54% of the total FY09 absolute spending increase.

Debt charges across all three levels of government, after hovering in the \$47-\$47½ billion range from FY05 to FY08, fell to \$45.4 billion in FY09, reflecting debt repayment plus a healthy assist



¹ Fiscal years for the federal, territorial and provincial governments plus the CPP and QPP end March 31; fiscal years for local governments end December 31. For each level of government, data are consolidated to include related entities.

from historically low interest rates. As a share of each revenue dollar, Canadian governments' combined debt service dropped from 14½¢ in FY00 to 9½¢ in FY05 and 7¼¢ in FY09, reflecting the sector's relative fiscal strength entering the current downturn.

The FMS data document the financial results for selected groups of government institutions. For FY09, health and social service institutions posted a combined \$723 million deficit. Although this is less than half their shortfall from FY02 to FY06 that averaged \$1.7 billion, it represents a significant drag on the provincial governments' bottom line. For hospital care, that accounted for 52% of health institutions' total outlays, expenditures climbed 7.7% in FY09. Social services institutions also have witnessed spending pressures, with a 7.7% rise in FY09 and increases averaging 8.4% over the prior three years. Only in Newfoundland and Labrador, Prince Edward Island, Quebec and British Columbia have health and social service institutions reported surpluses for at least the past three years.

School boards² for fiscal 2008 (FY08) reported a \$525 million shortfall, their fourth consecutive year of red ink. However, assisted by a boost in transfers, particularly from provincial governments, the boards did succeed in limiting their FY08 budget gap to less than one-third of their FY06 and FY07 deficits that had widened beyond \$1.7 billion. The narrower deficit among Ontario's school boards in FY08 accounted for much of the progress. Nova Scotia's boards returned to black ink last year, but only the boards in Saskatchewan and Alberta have reported several consecutive years of surpluses. In contrast, universities and colleges across Canada reported their fourth annual surplus in FY09, with a \$475 million positive balance reflecting post-secondary black ink in six of the Provinces.

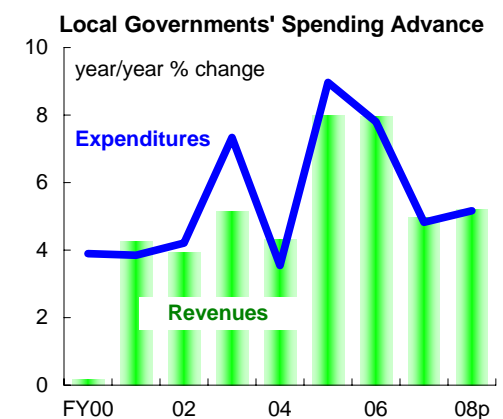
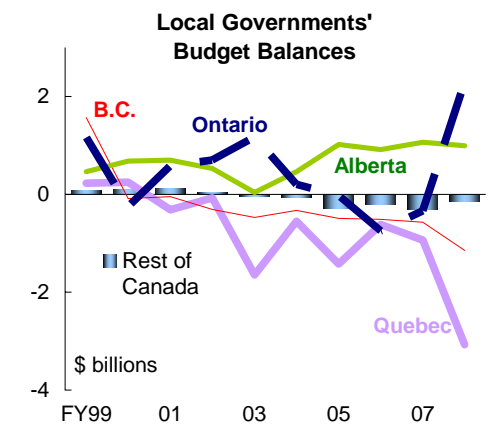
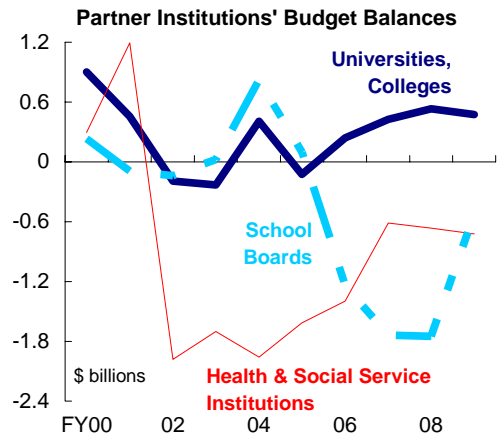
Local governments across Canada in FY08 posted a \$1.1 billion deficit, the fourth in a string of shortfalls wider than \$1 billion. While local governments' 5.2% revenue gain in FY08 outstripped Ottawa's and the Provinces' experience, it was matched by a similar rise in municipal expenditures. Local governments' property and related taxes, which account for nearly two-thirds of their own-source receipts, rose 3.8% in FY08, with less legislated reductions than provincial property levies. However, local governments' biggest revenue boost last year came from the federal and provincial governments through general and specific purpose transfers, up 12.2% and 7.9% in FY08 to \$2.5 billion and \$49.2 billion, respectively. Over the past four years, total transfers to local governments have surged just over 36%, a pace that almost certainly will not be maintained as Ottawa and the Provinces shift to fiscal restraint over the next two years to limit their own deficits.

Expenditures by local governments have tracked steadily higher. The average 5.0% annual increases for FY07 and FY08 follow annual gains averaging 8.4% over the previous two years. In FY08, their spending on transportation and communication surged 9.8%, police protection climbed 7.0%, expenditures related to the environment advanced 6.7% and general government services rose 9.1%. Yet municipal debt charges remain modest, absorbing just 2.6¢ of each revenue dollar in FY08, with many cities continuing to fund a share of their capital investments from their operating budgets to limit their borrowing.

² School boards in New Brunswick, administered by the provincial general government, are not included in the national aggregate school board data.

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