

Returning Alberta to Balanced Budgets

Issue

The Government of Alberta's *Budget 2018* puts forward a path to return to balanced budgets by 2023. However, this plan is predicated on factors outside provincial control, and will leave Alberta with a debt of \$96 billion. The Province needs to establish a credible plan to restore to fiscal stability and balanced budgets.

Background

Dependence on Oil & Gas Revenues

Provincial revenues, like the Alberta economy itself, are heavily dependent on oil & gas. Resource revenues represented nearly 20% of total revenue in 2014/15. The decline in global oil prices between 2014 and 2016 saw non-renewable resource revenue drop from \$8.9 billion in 2014/15 to \$2.8 billion in 2015/16.¹² While prices have rebounded slightly since their February 2016 low of \$16.30, Alberta's oil still sells for roughly 30% less than its five-year average price.³

Operational Spending

Budget 2018 represents a 4.3% increase in operating expenses compared to *Budget 2017*.⁴ This continues the trend of growing government operating expenses well above population growth and inflation, which is forecast at 3.5% for 2018/19.⁵

If the Province continues down the path set out in *Budget 2018*, Alberta's debt will reach \$96 billion in 2023.⁶ Alberta's debt servicing costs will reach \$2.9 billion by 2020.⁷ This is larger than ministry budgets for Energy, Culture and Tourism, Environment and Parks, Economic Development and Trade, Labour, and Infrastructure combined.⁸

This continued trend of growing government spending without a clear plan to address the deficit was a major factor in Alberta's credit rating being downgraded by credit rating agency Standard and Poor's.⁹ With little fiscal restraint, the absence of a credible plan to end deficits, and no path forward on how the growing debt will be repaid, Alberta's current fiscal path is not sustainable.

¹ Government of Alberta Annual Report 2014-15, Executive Summary, Page 3

² Government of Alberta Annual Report 2015-16, Executive Summary, Page 3

³ <http://economicdashboard.alberta.ca/OilPrice>

⁴ *Budget 2018* Fiscal Plan, page 143

⁵ *Budget 2018* Fiscal Plan, page 14

⁶ <http://www.cbc.ca/news/canada/edmonton/alberta-budget-2018-reactions-1.4589249>

⁷ *Budget 2017* Fiscal Plan, page 143

⁸ *Budget 2018* Fiscal Plan, page 139

⁹ <http://finance.alberta.ca/business/investor-relations/credit-ratings/Standard-and-Poors-2016-0519-Credit-Analysis-Report.pdf>

Back to Balance

Considering local and global factors and the cumulative impact of policy decisions influencing Alberta in the coming years, the Alberta Chambers of Commerce urge the provincial government re-examine its fiscal priorities. The Province should focus on long-term economic sustainability, enabling businesses to remain competitive and confidently plan for the future.

Budget 2018 set out a plan to return to balanced budgets in 2023-24. This plan, however, depends heavily on factors outside the Province's control, including the completion of Trans Mountain and a resulting increase in royalties paid to the Province. Given the vocal and ongoing opposition to this project, and continued uncertainty surrounding future oil prices, growing oil royalties should not be relied upon for increasing public spending.

The Province should instead focus its path to balance on factors which are within government's control, like the growing operating costs of government. To that end, the Alberta Chambers of Commerce recommend the government consider all options for an appropriate mix of revenue tools and a sustainable program of expenditures without disadvantaging businesses. This begins with a review of programs and services. While results-based budgeting and other internal processes have been conducted in the past, with mixed results, municipalities are showing a new path forward.

Cities including Edmonton, Medicine Hat, and Calgary have undertaken extensive reviews of their programs and services. These reviews are aimed at ensuring municipal services are well-run, providing quality public services for residents while remaining cost-effective. When cost-saving measures are found, City administration is expected to implement those measures. A key element to this process is the inclusion of external stakeholders to participate in reviewing and improving City services. The Alberta Chambers of Commerce recommend the Province undertake a similar review.

The Alberta Chambers of Commerce recommends the Government of Alberta engage in meaningful consultations and work collaboratively with chambers of commerce and other relevant business, industry, community organizations, and municipalities to develop a fiscal plan that meets the following objectives

1. Establish a long-term plan to achieve a balanced budget by eliminating operational expenditure growth.
2. Adopt an ongoing position of fiscal restraint and controlled spending by launching a full program and service review, including input from external stakeholders, as is being done in Alberta's largest cities, and report publicly on the results of this review.
3. Consult broadly with external stakeholders regarding the optimal approach to stabilize government revenues and expenditures, including an assessment of all available revenue options and tools, as well as cost containment, service level examination and fiscal restraint measures.
4. Negotiate government labour agreements due for renewal with a target of no staffing increases and zero percent increases in salaries until the currently depressed labour market has turned positive and rebounded sufficiently to justify wage growth.