

The Honourable Kevin Doherty  
Minister of Finance



SASKATCHEWAN BUDGET UPDATE

**17-18**

**MEETING THE  
CHALLENGE**

**FIRST QUARTER  
FINANCIAL REPORT**

2017-18 First Quarter Financial Report  
Government of Saskatchewan  
August 25, 2017

# INTRODUCTION

## 2017-18 First Quarter Financial Report

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At first quarter, expectations of the province's 2017 economic performance and 2017-18 financial position remain consistent with budget estimates.

The Saskatchewan economy is performing well through the first half of 2017 and remains on track to post positive growth for the first time in two years.

While challenges remain, particularly in terms of employment growth and crop production, most economic indicators have been positive thus far in 2017, including:

- the second-highest growth in the number of new motor vehicle sales;
- the third-highest growth in average weekly earnings;
- the third-highest growth in manufacturing sales; and,
- the third-highest growth in population.

The private sector has recognized this strength in Saskatchewan's economic performance by boosting real GDP growth forecasts for 2017 from an average of 1.7 per cent at budget to 2.1 per cent.

Utilization-driven spending increases, primarily for medical and blood services, income assistance and child and family services, are largely offset by modest revenue increases reflecting greater-than-

expected 2016-17 results for provincial sales tax and fuel tax.

A stronger-than-expected exchange rate, buoyed by the Bank of Canada's recent interest rate increase, is expected to have a negative effect on resource revenue.

The effect of lower-than-expected oil prices is largely offset by higher-than-expected potash prices and a surge in both the number of new oil wells drilled and a corresponding increase in oil production.

As a result, the combined impact from government operations is now expected to be about \$40 million higher than in the 2017-18 Budget.

Negotiations to achieve the Human Resources compensation measures continue. As resolution is unlikely prior to the end of September, projected 2017-18 savings have been reduced by one-half.

The contingency will be used to offset both the \$125 million reduction in the value of savings from the compensation measures and the approximately \$40 million net deterioration in operations, leaving \$135 million in contingency against potential further deterioration through the remainder of the fiscal year.

# ECONOMIC UPDATE

## 2017 Performance

The Saskatchewan economy is performing well so far this year and remains on track to post positive growth overall.

However, there are still challenges. Employment growth, while positive, has been relatively weak. As well, the effect of the hot and dry conditions of this summer on crop production remains unclear.

Most economic indicators have been positive so far this year. The province's oil and potash sectors have improved, following a disappointing 2016. Through the first seven months of 2017, the price of West Texas Intermediate (WTI) oil averaged US\$49.60 per barrel, up about 23.0 per cent from the same period last

year. This led to a significant increase in the number of new oil wells drilled in the province. In addition, oil production was up by 4.4 per cent through the first five months of 2017 over the same period last year, while potash production through the first four months of 2017 was up by 10.4 per cent.

Between April 1, 2016 and April 1, 2017, Saskatchewan's population increased by 1.4 per cent, the third-highest percentage increase among provinces.

In the first five months of the year, Saskatchewan had the third-highest growth in average weekly earnings.

### SASKATCHEWAN ECONOMIC INDICATORS

	2017 YTD	2017 Estimate*	2017 (YTD)		2011 to 2017		
			% Change	Rank	Saskatchewan % Change	Rank	Canada % Change
Population (April 1, 2017, 000s)	1,161.4	1,161.4	1.4	3rd	9.4	2nd	6.9
Employment (000s)	568.1	568.9	0.1	9th	6.2	5th	6.8
Unemployment Rate (%)	6.6	6.6	6.6	5th lowest	5.0	lowest	7.1
Consumer Price Index (2002=100)	133.6	133.5	1.0	8th	9.5	3rd	8.8
Average Weekly Earnings (\$)	1,008.9	1,010.6	2.2	3rd	15.5	2nd	11.2
Retail Sales (\$B)	7.8	20.1	4.9	7th	23.9	5th	28.5
Wholesale Trade (\$B)	14.1	27.3	8.2	8th	27.6	7th	31.4
New Motor Vehicle Sales (# of Units)	28,323	58,024	11.4	2nd	13.6	6th	28.5
Manufacturing Sales (\$B)	8.4	16.5	15.9	3rd	30.3	3rd	15.4
International Exports (\$B)	14.7	31.0	16.0	5th	5.0	8th	26.0
Building Permits (\$B)	1.1	2.1	8.0	8th	(18.6)	9th	32.7
Housing Starts (# of Units)	2,154	5,158	8.0	7th	(26.6)	8th	9.4
Investment (\$B)							
New Housing Construction	0.4	1.2	(1.6)	8th	(18.2)	8th	38.0
Non-residential Building Construction	0.8	1.7	(13.1)	8th	9.1	4th	3.8

Source: Statistics Canada. As of August 21, 2017.

\* 2017 estimates based on 2017 year-to-date growth and 2016 actual, except for the unemployment rate which is the year-to-date average and population which is the April 1, 2017 estimate released by Statistics Canada on June 15, 2017.

**SURVEY OF CANADIAN DOLLAR FORECASTS\***  
(In U.S. Cents)

	2017	2018	Release Date
IHS Global Insight	76.2	76.9	Jul 2017
Conference Board of Canada	76.5	78.6	Jul 2017
The Centre for Spatial Economics	76.9	78.1	Aug 2017
TD Bank	77.5	78.6	Jul 2017
RBC	77.5	77.7	Aug 2017
BMO	76.6	77.7	Aug 2017
CIBC	76.4	76.0	Jul 2017
Scotia Bank	76.8	79.2	Aug 2017
Laurentian Bank	77.3	n/a	Jun 2017
<b>Private Sector Average</b>	<b>76.9</b>	<b>77.9</b>	
<b>2017-18 Budget Assumption</b>	<b>74.7</b>	<b>75.7</b>	
<b>2017-18 First Quarter Assumption</b>	<b>75.8</b>	<b>76.8</b>	

\* As of August 16, 2017.

In addition, in the first six months of 2017, Saskatchewan had:

- the second-highest growth in number of new motor vehicle sales;
- the third-highest growth in manufacturing sales;
- the fifth-highest growth in international merchandise exports; and,
- the fifth-lowest unemployment rate.

The Canadian dollar averaged 75.5 U.S. cents through the first seven months of 2017, but has since been bolstered by the Bank of Canada's July rate increase.

The private sector has revised its 2017 real GDP outlook for Saskatchewan. Currently, the private sector is forecasting 2.1 per cent growth this year, compared to a forecast of 1.7 per cent in the 2017-18 Budget. For 2018, the average of private sector forecasts is 2.0 per cent.

**PRIVATE SECTOR REAL GDP FORECASTS FOR SASKATCHEWAN\***  
(Per Cent Change)

	2017	2018	Release Date
IHS Global Insight	2.2	2.3	Jul 2017
Conference Board of Canada	2.5	2.2	May 2017
The Centre for Spatial Economics	2.1	1.7	Aug 2017
TD Bank	1.8	2.0	Jun 2017
RBC	1.8	2.3	Jun 2017
Bank of Montreal	2.0	1.4	Jun 2017
CIBC	2.4	1.8	May 2017
Scotiabank	1.9	1.7	Aug 2017
Laurentian Bank	2.1	2.3	Aug 2017
<b>Average of Private Sector Forecasts</b>	<b>2.1</b>	<b>2.0</b>	
<b>Ministry of Finance (2017-18 Budget)</b>	<b>0.8</b>	<b>2.0</b>	

\* As of August 16, 2017.

# 2017-18 BUDGET UPDATE

## First Quarter

### OVERVIEW

At first quarter, a deficit of \$684.7 million is forecast – unchanged from budget – prior to the adjustment to account for pensions on an accrual basis.

Total revenue is forecast to increase \$42.0 million from budget while total expense is

forecast to increase \$81.9 million.

The \$250.0 million budget allocation for human resources compensation measures is reduced to \$125.0 million at first quarter as negotiations continue. Consequently, the \$300.0 million budget contingency is reduced to \$135.1 million to also reflect realized expense pressures.

### 2017-18 BUDGET UPDATE - FIRST QUARTER

(Millions of Dollars)	Budget	First Quarter Forecast	Change
<b>Revenue</b>			
Taxation	7,286.6	7,326.6	40.0
Non-renewable resources	1,406.4	1,370.8	(35.6)
Other own-source revenue	1,964.9	1,980.3	15.4
Transfers from the federal government	2,453.5	2,479.1	25.6
Net income from government business enterprises	1,053.7	1,050.3	(3.4)
<b>Total Revenue</b>	<b>14,165.1</b>	<b>14,207.1</b>	<b>42.0</b>
<b>Expense</b>			
Agriculture	800.5	841.2	40.7
Community development	700.6	704.0	3.4
Debt charges <sup>1</sup>	380.9	380.9	-
Economic development	246.0	246.0	-
Education <sup>1</sup>	3,643.3	3,641.1	(2.2)
Environment and natural resources	247.9	247.9	-
Health <sup>1</sup>	5,627.4	5,663.9	36.5
Protection of persons and property	643.7	643.7	-
Social services and assistance	1,356.7	1,379.6	22.9
Transportation	567.4	548.0	(19.4)
Other <sup>1</sup>	585.4	585.4	-
<b>Total Expense before Adjustments</b>	<b>14,799.8</b>	<b>14,881.7</b>	<b>81.9</b>
<b>Adjustments</b>			
Human resources compensation measures	250.0	125.0	(125.0)
Contingency	(300.0)	(135.1)	164.9
<b>Deficit<sup>1</sup></b>	<b>(684.7)</b>	<b>(684.7)</b>	<b>-</b>

<sup>1</sup> Before adjustment to account for pensions on an accrual basis.

## REVENUE UPDATE

At first quarter, revenue is forecast to be \$14.2 billion, an increase of \$42.0 million (0.3 per cent) from budget.

<b>2017-18 REVENUE RECONCILIATION</b>	
(Millions of Dollars)	
<b>2017-18 Budget</b>	<b>14,165.1</b>
First Quarter Changes:	
Taxation	40.0
Federal Transfers	25.6
Other own-source	15.4
Non-Renewable Resources	(35.6)
GBE Net Income	(3.4)
<b>Total First Quarter Change</b>	<b>42.0</b>
<b>2017-18 First Quarter Forecast</b>	<b>14,207.1</b>

**Taxation revenue** is forecast to increase \$40.0 million from budget, reflecting the impact of 2016-17 actual Fuel Tax and Provincial Sales Tax receipts on the pre-tax measures 2017-18 tax bases.

**Transfers from the federal government** are forecast to increase \$25.6 million from budget. The increase is primarily federal flow-through funding for the Early Learning and Child Care Agreement as well as an increase in the federal share of Crop Insurance premiums.

**Other own-source revenue** is forecast to increase \$15.4 million from budget, mainly as a result of higher producer premiums for increased acreage insured through Crop Insurance.

**Non-renewable resources revenue** is forecast to decrease \$35.6 million from budget. This decrease primarily reflects the impact of lower-than-budgeted oil and uranium price forecasts, and an increase in the exchange rate, partially offset by higher-than-expected potash prices and Crown land sales revenue.

The value of the Canadian dollar is currently expected to average 76 U.S. cents in 2017-18, up from 75 U.S. cents at budget.

## 2017-18 NON-RENEWABLE RESOURCES FORECAST ASSUMPTIONS

	Budget	First Quarter Forecast	Change
WTI Oil Price (US\$/barrel)	56.25	49.75	(6.50)
Light-Heavy Differential (% of WTI)	19.5	18.5	(1.0)
Well-head Oil Price (C\$/barrel) <sup>1</sup>	55.30	48.54	(6.76)
Oil Production (million barrels)	163.8	180.1	16.3
Potash Price (mine netback, US\$/KCl tonne) <sup>2</sup>	176	183	7
Potash Price (mine netback, C\$/K <sub>2</sub> O tonne) <sup>2</sup>	386	395	9
Potash Sales (million K <sub>2</sub> O tonnes) <sup>2</sup>	11.8	11.8	-
Uranium Price (C\$/Kg) <sup>2</sup>	124	107	(17)
Canadian Dollar (US cents)	74.95	76.00	1.05

<sup>1</sup> The average price per barrel of Saskatchewan light, medium and heavy oil.

<sup>2</sup> Ministry of Finance calculations derived from calendar-year forecasts.

A one U.S. cent increase in the fiscal year average exchange rate results in about a \$26 million decrease in resource revenue.

At first quarter, oil and natural gas revenue is forecast to decrease \$58.2 million from budget. The decline is primarily due to a lower West Texas Intermediate (WTI) oil price forecast and an increase in the exchange rate, partially offset by an increase in production and a lower light-heavy differential.

WTI oil prices are forecast to average US\$49.75 per barrel in 2017-18, a decrease of US\$6.50 from budget. A US\$1 per barrel change in the fiscal year average WTI oil price results in about a \$17 million change in oil revenue.

An increase in production and a narrower light-heavy differential partially offsets the decline in WTI oil prices and the increase in the average exchange rate. Oil production is now forecast at 180.1 million barrels, an increase of 16.3 million barrels (10.0 per cent) from budget, while the light-heavy differential has decreased from 19.5 per cent to the current forecast of 18.5 per cent.

Other non-renewable resources revenue, including uranium, coal and other minerals, is forecast to decrease \$33.8 million from budget largely due to lower-than-budgeted uranium prices.

Potash royalties are forecast to increase \$29.3 million from budget, primarily due to higher average realized prices and the positive impact of a decreased forecast for

capital spending deductions. Prices are now forecast to average US\$183 per KCl tonne (C\$395 per K<sub>2</sub>O tonne), up from the budget assumption of US\$176 (C\$386).

Crown land sales revenue is forecast to increase \$27.1 million from budget, primarily reflecting a larger-than-expected June sale and increased forecasts for the final three sales of the fiscal year.

**Government Business Enterprise (GBE) net income** is forecast to decrease \$3.4 million from budget. The decrease is largely a result of lower net income at SaskPower (mainly due to lower revenue from Saskatchewan electricity sales) as well as slightly lower net income at SaskEnergy, Saskatchewan Government Insurance, Saskatchewan Liquor and Gaming Authority and Saskatchewan Gaming Corporation. These decreases are mostly offset by higher net income at the Workers' Compensation Board (primarily related to lower claims) and Saskatchewan Auto Fund (mainly due to higher investment income).



## EXPENSE UPDATE

At first quarter, expense is forecast to be \$14.9 billion, an increase of \$81.9 million (0.6 per cent) from budget.

<b>2017-18 EXPENSE RECONCILIATION</b>	
(Millions of Dollars)	
<b>2017-18 Budget</b>	<b>14,799.8</b>
First Quarter Changes:	
Agriculture	40.7
Health	36.5
Social Services and Assistance	22.9
Community Development	3.4
Transportation	(19.4)
Education	(2.2)
<b>Total First Quarter Change</b>	<b>81.9</b>
<b>2017-18 First Quarter Forecast</b>	<b>14,881.7</b>

**Agriculture** expense is forecast to be up \$40.7 million from budget, largely due to higher Crop Insurance expense based on higher insured acres and higher program spending for Growing Forward 2.

**Health** expense is forecast to be up \$36.5 million from budget, mainly due to utilization of medical services.

**Social Services and Assistance** expense is forecast to be up \$22.9 million from budget, largely due to increases for Child and Family Services and Income Assistance and Disability Services, partially offset by savings in Saskatchewan Housing Corporation.

**Community Development** expense is forecast to be up \$3.4 million from

budget, largely due to the restoration of funding for public libraries, partially offset by savings in other areas.

**Transportation** expense is forecast to be down \$19.4 million from budget, primarily due to the wind-up of operations at Saskatchewan Transportation Company.

**Education** expense is forecast to be down \$2.2 million from budget, mostly due to savings by the Boards of Education, partially offset by federal flow-through funding for the Early Learning and Child Care Agreement.

The adjustment to account for pension costs on an accrual basis is estimated at \$97.6 million, an improvement of \$108.9 million from budget.

Consistent with the 2017-18 Budget presentation, the pension adjustment is not included in expense. Government's current cash pension payment requirements are included in the expense budget and forecasts.

## DEBT UPDATE

The Province's debt consists of:

- Government Service Organization Debt – all debt of government entities other than government business enterprises; and,
- Government Business Enterprise Debt – amounts borrowed by self-sufficient government organizations.

Government business enterprises have the financial and operating authority to sell goods and services to individuals and organizations outside government as their principal activity. Amounts borrowed by these entities are classified separately because they are expected to be repaid from cash flows generated by these business enterprises. In other words, this debt has been incurred to finance the business activities of Crown corporations, and it is supported by revenue from those Crown business activities.

Public debt is comprised of:

- Gross Debt – the amount of money owed to lenders; less,
- Sinking Funds – the amount of money which has been set aside for the repayment of debt.

Public debt at March 31, 2018 is forecast to be \$414.8 million lower than budgeted, primarily due to decreased debt for government business enterprises.

### 2017-18 PUBLIC DEBT UPDATE - FIRST QUARTER

As at March 31

(Millions of Dollars)

	2017-18		
	Budget	First Quarter Forecast	Change
General Revenue Fund			
- Operating	5,750.0	5,750.0	-
- Saskatchewan Builds Capital Plan	2,755.6	2,755.6	-
Other Government Service Organizations	556.9	511.4	(45.5)
<b>Government Service Organization Debt</b>	<b>9,062.5</b>	<b>9,017.0</b>	<b>(45.5)</b>
<b>Government Business Enterprise Debt</b>	<b>9,137.5</b>	<b>8,768.2</b>	<b>(369.3)</b>
<b>Public Debt</b>	<b>18,200.0</b>	<b>17,785.2</b>	<b>(414.8)</b>
<b>Guaranteed Debt</b>	<b>27.0</b>	<b>22.5</b>	<b>(4.5)</b>

## 2017-18 SCHEDULE OF PUBLIC DEBT

As at March 31

(Millions of Dollars)

	2017-18		
	Budget	First Quarter Forecast	Change from Budget
<b>Government Service Organization Debt</b>			
General Revenue Fund			
- Operating	5,750.0	<b>5,750.0</b>	-
- Saskatchewan Builds Capital Plan <sup>1</sup>	2,755.6	<b>2,755.6</b>	-
Boards of Education	174.8	<b>175.2</b>	0.4
Global Transportation Hub Authority	26.0	<b>23.3</b>	(2.7)
Regional Health Authorities	154.0	<b>107.0</b>	(47.0)
Saskatchewan Housing Corporation	17.4	<b>17.4</b>	-
Saskatchewan Immigrant Investor Fund Inc.	89.6	<b>89.6</b>	-
Saskatchewan Opportunities Corporation	56.0	<b>56.0</b>	-
Water Security Agency	37.1	<b>37.1</b>	-
Other	2.0	<b>5.8</b>	3.8
<b>Government Service Organization Debt</b>	<b>9,062.5</b>	<b>9,017.0</b>	<b>(45.5)</b>
<b>Government Business Enterprise Debt</b>			
Municipal Financing Corporation of Saskatchewan	208.9	<b>208.9</b>	-
Saskatchewan Liquor and Gaming Authority	104.7	<b>104.7</b>	-
Saskatchewan Power Corporation	6,422.4	<b>6,098.6</b>	(323.8)
Saskatchewan Telecommunications Holding Corporation	967.4	<b>967.4</b>	-
Saskatchewan Water Corporation	78.3	<b>66.8</b>	(11.5)
SaskEnergy Incorporated	1,355.8	<b>1,321.8</b>	(34.0)
<b>Government Business Enterprise Debt<sup>2</sup></b>	<b>9,137.5</b>	<b>8,768.2</b>	<b>(369.3)</b>
<b>Public Debt<sup>3</sup></b>	<b>18,200.0</b>	<b>17,785.2</b>	<b>(414.8)</b>
<b>Guaranteed Debt</b>	<b>27.0</b>	<b>22.5</b>	<b>(4.5)</b>

<sup>1</sup> General Revenue Fund - Saskatchewan Builds Capital Plan consists of amounts borrowed by the General Revenue Fund to finance investment in infrastructure assets.

<sup>2</sup> GBE debt includes both general debt and GBE-specific debt. General debt of GBEs is the amount transferred from the General Revenue Fund to a GBE and recorded as a loan receivable in the Summary Financial Statements. GBE-specific debt is debt issued by, or specifically on behalf of, GBEs. GBE-specific debt is included in "Investment in government business enterprises" in the Summary Financial Statements.

<sup>3</sup> Public debt is shown net of sinking funds.

## 2017-18 SCHEDULE OF REVENUE

(Millions of Dollars)	Budget	First Quarter Forecast	Change
<b>Taxation</b>			
Corporation Income	729.4	729.4	-
Fuel	515.4	535.4	20.0
Individual Income	2,540.6	2,540.6	-
Property	753.9	753.9	-
Provincial Sales	2,049.5	2,069.5	20.0
Tobacco	280.3	280.3	-
Other	417.5	417.5	-
<b>Total Taxation</b>	<b>7,286.6</b>	<b>7,326.6</b>	<b>40.0</b>
<b>Non-Renewable Resources</b>			
Crown Land Sales	52.0	79.1	27.1
Oil and Natural Gas	670.4	612.2	(58.2)
Potash	260.6	289.9	29.3
Resource Surcharge	272.5	272.5	-
Other	150.9	117.1	(33.8)
<b>Total Non-Renewable Resources</b>	<b>1,406.4</b>	<b>1,370.8</b>	<b>(35.6)</b>
<b>Other Own-Source Revenue</b>			
Fees	1,124.4	1,124.4	-
Insurance	282.3	297.7	15.4
Investment Income	80.7	80.7	-
Transfers from Other Governments	89.7	89.7	-
Miscellaneous	387.8	387.8	-
<b>Total Other Own-Source Revenue</b>	<b>1,964.9</b>	<b>1,980.3</b>	<b>15.4</b>
<b>Transfers from the Federal Government</b>			
Canada Health Transfer	1,161.2	1,161.2	-
Canada Social Transfer	429.8	429.8	-
Other	862.5	888.1	25.6
<b>Total Transfers from the Federal Government</b>	<b>2,453.5</b>	<b>2,479.1</b>	<b>25.6</b>
<b>Net Income from Government Business Enterprises</b>			
Municipal Financing Corporation	0.8	0.8	-
Saskatchewan Auto Fund	65.3	74.5	9.2
Saskatchewan Gaming Corporation	23.5	22.9	(0.6)
Saskatchewan Government Insurance	37.2	33.2	(4.0)
Saskatchewan Liquor and Gaming Authority	523.3	521.3	(2.0)
Saskatchewan Power Corporation	179.5	159.6	(19.9)
Saskatchewan Telecommunications Holding Corporation	122.1	122.1	-
Saskatchewan Water Corporation	5.8	5.9	0.1
SaskEnergy Incorporated	90.6	85.2	(5.4)
Saskatchewan Workers' Compensation Board	11.2	30.4	19.2
Consolidation Adjustments	(5.6)	(5.6)	-
<b>Total Net Income from Government Business Enterprises</b>	<b>1,053.7</b>	<b>1,050.3</b>	<b>(3.4)</b>
<b>Total Revenue</b>	<b>14,165.1</b>	<b>14,207.1</b>	<b>42.0</b>

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