ACC Alberta Chambers of Commerce
The Advocate for Alberta Business

Dogged Commitment To Deficit Spending & Reliance On Uncertain Revenues Spells Poor Fiscal Management

No pipeline, no balance, more spending, more debt. A sequence of simple budgeting choices that sum to poor fiscal management.

From the perspective of Alberta business, Alberta Budget 2018 does not present a credible path to fiscal balance. It does not improve the investment environment in Alberta.

Operational spending from 2015-16 through the 2018-19 increased 14.5% and will grow by a further 16% by 2020-21. The 2018-19 deficit is projected at $8.8 billion and by 2020-21 will still sit at $7 billion with debt servicing costs of $2.9 billion per year. By 2023-24, provincial debt will have accumulated to $96 billion.

“This year Alberta’s deficit will be nearly half that of the Government of Canada’s. And going forward, everything gambles on pipelines despite the recent trend of projects getting killed or investors walking away, say’s Ken Kobly, Alberta Chambers of Commerce (ACC) President and CEO. “It’s a wing and a prayer - and it’s overly optimistic on pipelines.”

The provincial government claims that the fiscal plan is not overly-reliant on new pipelines. Alberta business would disagree. And, in the current Canadian regulatory environment, is deeply concerned with the dependence on new energy infrastructure for new revenues.

The Trans Mountain project is nearly three years from being completed and a year behind schedule. The ACC doesn’t believe it is reasonable to budget provincial revenues on anticipated revenues until the project has shovels in the ground with clear lines of sight past any potential hurdles. The Line 3 pipeline project is equally uncertain for provincial budgeting as it depends on external decision makers in the United States for approval.

“Price volatility in world oil prices alone are risky in projecting royalty revenues. Add in the risks of a continued bitumen bubble, our recent record of energy project completion in Canada, and it’s anybody’s guess what royalties will be. I’m not really sure how the province can be so confident when every market indicator, including the scale back of production taking place today, says otherwise. Given the current levels of capital flight out of the province, especially in the energy sector, it defies logic.”

Additional revenues the province anticipates collecting from the Carbon Levy are also contingent on the Trans Mountain project. No project, no increases beyond the current price per tone of $30 price to match the federal carbon tax plan. But the provincial fiscal plan also banks on revenue boosts from increases to the Carbon Levy which currently sits at $30 per tonne. The province anticipates carbon costs to increase to $40 in 2021 and $50 in 2022 and will divert these increases into general revenues. But no Trans Mountain no project, no carbon price increases to match the federal government’s carbon tax.

“If the Kinder Morgan Trans Mountain pipeline project isn’t built, or built on time in 2021, the pathway to achieve fiscal balance by 2023-24 will be blown out of the water," say’s Kobly "Meanwhile, operational spending continues to grow. It’s risk-laden math and a game of pipeline roulette with the public finances on the line.”

The province will also scale back capital spending from $7.5 billion this year to $5.2 billion by 2021. This makes sense from the perspective of counter-cyclical stimulus spending as the economy grows and the province moves out of a recessionary position. But municipal capital funding will be affected which doesn’t make sense if the province is going to continue borrowing money for operational spending increases. Spending borrowed money on capital projects would at least contribute to ongoing economic activity.

The one bright spot for business is the expansion of the Alberta Investor Tax Credit and the Capital Investment Tax Credit which will support small business and manufacturing. A second round for the Petrochemical Diversification Program is also a positive, but funding further intakes to this successful investment attraction initiative will not come online until 2021. The ACC has hopes for the Petroleum Diversification Program as a whole, but awaits further details to be released.

Overall, the competitive position of the province will continue to decline with this budget. Cumulative cost-burdens on businesses will increase with minimum wage hikes, carbon pricing and changes to labour and employment laws. Small businesses and individuals will continue to face higher costs going forward.

Kobly: “Businesses, individuals, families, non-profits – all need to budget according to their means. The principles of financial management are the same for governments. Continuing to run deficits by increasing operational expenditures is a choice. Budgeting using far from certain revenues to improve the optics of a financial forecast is a choice. We don’t agree with either decision.”

“If the provincial government disagrees with this perspective, it would be worthwhile to ask: is this budget the kind of financial management model we would want to teach our kids? We don’t think so. Transparency, accountability, prudence - principles the public should reasonably expect from stewards of the public purse simply aren’t represented in this budget. It’s disappointing.”

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