

Manitoba: 2018–19 Budget

A BROAD, MEASURED PLAN

- Manitoba is accelerating its deficit reduction.** Relative to last year's *Budget* projections, Summary Net Income Losses in this *Budget* are narrowed by \$114 million for fiscal 2017–18 (FY18), \$177 million for FY19 and \$161 million for FY20—an aggregate bottom line improvement of \$452 million. By FY22, the forecast shortfall puts balanced books in sight (bottom chart).
- The government's focus** remains achieving a sustainable fiscal position while improving key provincial services and rebuilding the economy.
- Growth in net debt**, as measured by the Province, slows in FY18 from a *Budget* estimate of \$2.1 billion to \$1.3 billion (+5.5%). For FY19, net debt is forecast to climb \$1.1 billion (+4.6%), edging up from 33.9% of GDP in March 2018 to 34.2% a year hence (chart, p.3).
- From Manitoba's FY18 borrowing of \$6.4 billion**, only \$5.8 billion is allocated to FY18. The remaining \$0.6 billion represents pre-borrowing on the estimated \$6.4 billion financing requirement projected for FY19.

OVERVIEW

As a relatively small economy relying upon trade, Manitoba anticipates considerable uncertainty over the next few years, given the potential for rising interest rates, slowing global and North American growth entering the next decade and ongoing NAFTA negotiations. Manitoba aims to enhance its competitiveness relative to the other Western provinces, a challenge now magnified by the recent US tax reform.

With the current environment underlining the importance of its fiscal repair, Manitoba is building on its initial efforts to streamline its public sector, as outlined in last year's *Budget* ([here](#)). Efficiencies undertaken in core government operations are being rolled out across the 180 entities and reduced duplication is sought, particularly with municipalities.

The Province reports that its core government management is trimmed by more than 15% and through attrition core staff will be decreased by 8% over four years, alongside major efforts to update, renew and incent its civil service. In health care, the government's review found the governance model overly complex for Manitoba's size, resulting in fractured and inadequate accountability. A further overarching goal is decreasing the public sector's financial volatility.

REVENUE AND EXPENDITURE DETAILS

Revised revenues for FY18 net to a \$27 million increase with personal income tax receipts, as in other Provinces, weaker than forecast but other components such as federal transfers and net income of government business enterprises ahead of *Budget*. Driving the FY18 deficit improvement is a projected \$252 million in-year decrease in expenditures, lowering estimated spending growth from 3.5%

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Manitoba's Budget Balances

Fiscal 2016–17 (FY 17)

Final: -\$764mn (-1.1% of GDP)

FY18

Budget: -\$840mn (-1.2% of GDP)

Q2: -\$827mn

Q3: -\$726mn (-1.0% of GDP)

FY19

Budget: -\$521mn (-0.7% of GDP)

FY20

Budget: -\$388mn

FY21

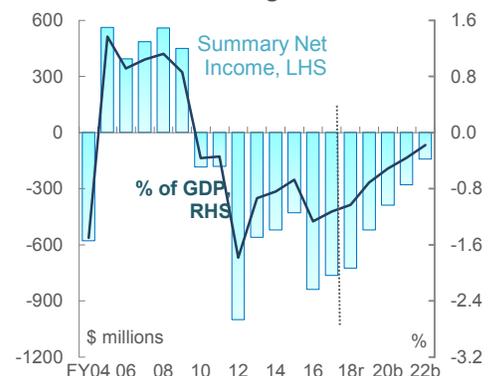
Budget: -\$280mn

FY22

Budget: -\$142mn (-0.2% of GDP)

Sources: Manitoba Finance; Statistics Canada; nominal GDP fcsts: Scotiabank Economics.

Manitoba's Budget Balances



Sources: Manitoba Finance; Statistics Canada; nom.GDP forecasts: Scotiabank Economics.

to 1.9% with the savings primarily related to lower outlays for the Manitoba Agricultural Services Corporation (table, p.2).

The anticipated FY18 expenditure savings are considered sufficient to provide a \$50 million contingency for the writedown of assets whose book values are expected to exceed their actual values. Further details on this fiscal repair initiative will be provided in the FY18 *Public Accounts*.

For FY19, revenue growth is expected to pick up to 4.1%, driven by a jump of almost 12% in Equalization that lifts total federal transfers 7.2% (side chart). Program spending in FY19 is expected to rise 3.5% to cover specific new initiatives such as the establishment of a *Conservation Trust Fund*. For major expenditure envelopes, FY19 increases are held to 1.8% for Health, 1.1% for Education and Training and 0.8% for Family Services.

Assisting Manitoba's fiscal repair is its solid economic growth outlook. While the Province expects its real GDP expansion to ease from 2.2% in calendar 2017 to 2.0% this year and 1.8% in 2019, annual gains in nominal GDP gains remain 3.5% or higher.

The Province's *Made-in-Manitoba Climate and Green Plan*, presented last Fall, intends to avoid the federal backstop carbon price slated to begin at \$10/tonne of carbon dioxide equivalent (CO₂e), rising to \$50/tonne over the following five years. Instead, Manitoba will introduce its own carbon tax at a flat \$25/tonne of emissions on gas, liquid or solid fuels (table, p3). To 2022, the Province estimates that its annual real GDP growth will average close to 1.9% compared with projected increases of just over 1.8% under the federal carbon levy that starts at a lower rate but rises significantly higher.

TAX DEVELOPMENTS

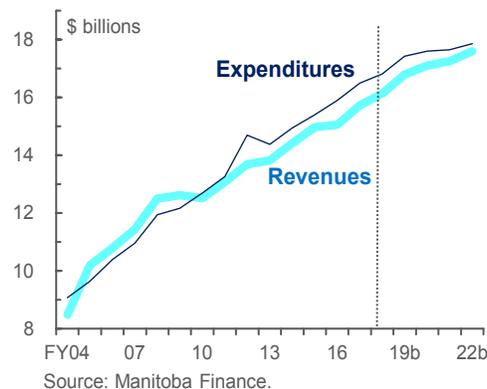
Manitoba's carbon tax is expected to generate \$248 million during its first twelve months (\$143 million during FY19). Importantly, all carbon tax revenues received over the next four years will be returned to Manitobans through tax reductions. In FY19, the carbon tax is expected to cover the cost of the *Budget's* targeted tax relief and still generate additional receipts of \$118 million.

This year's *Budget* provides additional personal income tax relief, adding to prior relief that included bracket indexation. The Basic Personal Amount is now scheduled to rise by \$1,010 in both 2019 and 2020, offering full-year savings of \$156 million.

For small businesses paying Manitoba's 0% rate, the eligible income threshold is raised from \$450,000 to \$500,000 as of 2019.

Energy-intensive and trade-exposed firms with annual GHG emissions over 50,000 tonnes of CO₂eq will not pay Manitoba's carbon tax. Instead, these firms will be subject to an Output-Based Pricing System that applies a carbon price only to the portion of each firm's emissions exceeding a designated industry emissions intensity benchmark.

Manitoba's Revenue & Expenditure Plan



Manitoba's Budget Arithmetic

Summary Income Basis*, \$ millions except where noted

	FY18		FY19
	Budget	Q3	Budget
Tax Revenue	8,691	8,560	8,841
Gov't Enterprise Net Income	705	758	842
Other Own-Source Revenue	2,542	2,615	2,608
Own-Source Revenue	11,938	11,933	12,291
Federal Transfers	4,163	4,195	4,496
of which: Equalization	1,820	1,820	2,037
Total Revenue	16,101	16,128	16,787
Health	6,681	6,633	6,751
Education	4,410	4,405	4,453
Family Services	2,131	2,128	2,144
Other Program Spending	2,843	2,674	3,041
Program Spending	16,065	15,840	16,389
Debt Service	991	964	1,034
Total Expenditures	17,056	16,804	17,423
Contingency for Writedown		50	
In-Year Adjustments/Lapse	-115		-115
Summary Net Income	-840	-726	-521
Borrowing Requirements, \$bn	6.7	6.4	6.4
Pre-Borrowing for FY19, \$bn		0.6	
Memo Items, %			
Summary Net Income / GDP	-1.2	-1.0	-0.7
Own-Source Revenue / GDP	16.9	16.9	16.8
Program Spending / GDP	22.8	22.4	22.4
Annual Change, %			
Tax Revenue	4.0	2.5	3.3
Total Own-Source Revenue	3.0	2.9	3.0
Federal Transfers	0.8	1.6	7.2
Total Revenue	2.4	2.6	4.1
Program Spending	3.3	1.8	3.5
Total Expenditures	3.5	1.9	3.7

* Includes core gov't, Crown & gov't business entities and schools, universities, colleges & health authorities. Source: Manitoba Finance; Statistics Canada; nom.GDP fcsts: Scotiabank Economics.

No new net revenues from the legalization of cannabis are incorporated in this *Budget's* estimates. Manitoba maintains that legalized cannabis must be priced competitively to effectively curtail black market activity. Expected revenues, therefore, are uncertain and are assumed to be approximately offset by the anticipated health, education and other expenses related to cannabis.

CAPITAL SPENDING, BORROWING AND NET DEBT

Strategic Infrastructure investment is now expected to total \$1.27 billion in FY18, well above the Province's \$1 billion annual objective, but \$412 million (-24.6%) less than *Budget*. Spending delays and reductions have resulted from the government's efforts to develop tools as a return on investment test to prioritize projects and assure taxpayer value.

In FY19, a planned 23½% rebound in Strategic Infrastructure outlays is still almost 7% less than the FY18 *Budget* plan. Composition changes include increased attention to schools. Though public-private partnership models were explored to build five new schools, time constraints and a lack of scale led to an enhanced conventional tender process, using new practices such as tendering multiple schools simultaneously.

A concern is Manitoba's rising net pension liability. It is forecast to climb 7.4% during FY18 and a further 6.5% in FY19 to top \$2.9 billion as of March 2019.

Manitoba Hydro is expected to account for roughly 65% of the Province's total FY19 borrowing requirement, though over one-third of its need is refinancing. The power utility is well advanced in reducing its staff by 900 positions and consolidating the vacated office space. Further operational and capital efficiencies are under way, including streamlining executive management. Annual power rate increases of 7.9% for the next five years also anchor the plan to rebuild the Corporation's financial strength.

OUTLOOK

Manitoba's government is now well-started on a broad ambitious repair plan that seeks to balance competing needs, including service pressures in areas such as Health and Child Care. To afford provincial services in the future, a key initiative over the next year is overhauling existing economic development policy to better support Manitoba's expansion and diversification. An independent review found overlapping mandates, limited coordination among government entities and a lack of clearly defined goals. Senior business leaders in the Province are now developing an action plan to implement the review's recommendations.

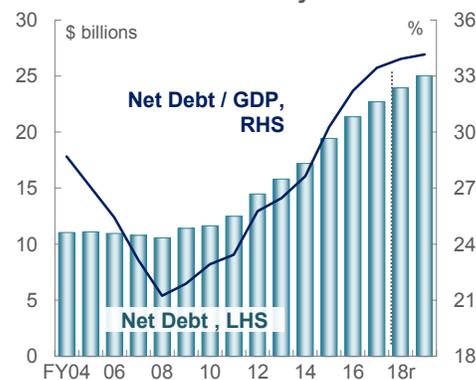
The Province recognizes current economic risks and the likelihood of significantly slower provincial real growth as 2020 approaches. An added challenge is the government's election commitment to return the Provincial Sales Tax to 7.0% from its current 8.0% rate by 2020. To ensure diminishing deficits, with revenue growth from FY20 to FY22 forecast to average a modest 1.6% annually, expenditure increases are held to 0.8%—a tall order over an extended period.

Manitoba's Carbon Tax Rates by Fuel Type

Fuel Type	Carbon Tax Rate Per Unit
Gasoline	5.32¢/L
Diesel	6.71¢/L
Natural Gas	4.74¢/m ³
Propane	3.87¢/L

Source: Manitoba Finance.

Manitoba's Summary Net Debt



Sources: Manitoba Finance; Statistics Canada; nom.GDP forecasts: Scotiabank Economics.

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