Manitoba's 2017–18 Budget … The Deficits Narrow Through Fiscal 2019–20

Manitoba's Budget Balances

FY16 final: -$846mn (-1.3% of GDP)

FY17 Budget:-$911mn Q2:-$1.0bn **Q3:-$872mn(-1.3% of GDP)**
FY18 Budget:-$840mn (-1.2% of GDP) **FY19 Budget:-$698mn (-0.9% of GDP)**
FY20 Budget:-$549mn (-0.7% of GDP)

- **The government is balancing multiple objectives:** protecting and enhancing front line services; making Manitoba by 2020 the most improved Province for family tax relief; providing strategic infrastructure investment; and moving towards balanced books (chart 1).
- **The rise in net debt during FY18** is expected to be similar to the estimated FY17 increase (chart 2).
- **Borrowing in FY17,** both general and self-sustaining, was an estimated $6.6 billion. In the Q3 *Update,* required financing for FY17 was revised $0.9 billion lower to $5.6 billion. As a result, in the planned FY18 borrowing of $6.7 billion, $1.1 billion of financing has been completed to date.

OVERVIEW

The Fiscal Responsibility and Taxpayer Protection Act will require that a defined FY18 base line deficit of $924 million be trimmed each year. This deficit metric begin with the annual Summary deficit and excludes Manitoba Hydro's net income due to its volatility and the funds set aside to rebuild the Fiscal Stabilization Account to protect core government operations ($10 million in FY18; $50 million in both FY19 and FY20). Targets for reducing Manitoba's debt will be set once balanced books are re-established.

For each fiscal year that a deficit is projected, Cabinet Ministers will forgo 20% of their salary until the deficit is narrowed. If there is no deficit progress, the salary repayment will be reduced or forfeited, and the withheld amount will be 40% in future years until the deficit is narrowed.

For Manitoba taxpayers, the right to vote on major tax increases is restored. The government continues to aim for no tax rate hikes as it reduces the deficit.

REVENUE DETAIL

Revenues, after a stronger-than-expected 3.9% rise in FY17, are expected to climb 2.9% in FY18. Growth in Manitoba's FY18 own-source receipts is forecast to quicken to 3.6% from 2.6% in FY17, but the rise in federal transfers is projected to slow to 1.1% from 7.8% last year.

With an anticipated rebound in corporate income tax (CIT) after two years of decline plus a solid 4.4% gain in personal income tax (PIT), income tax receipts in

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Chart 1

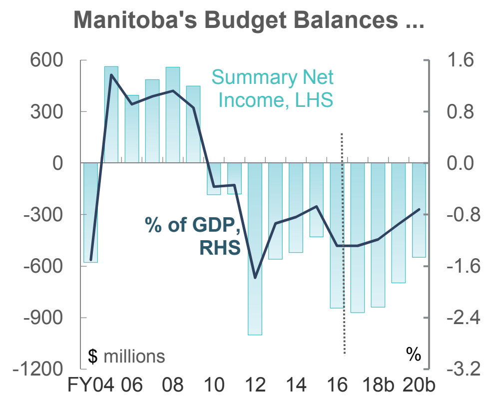
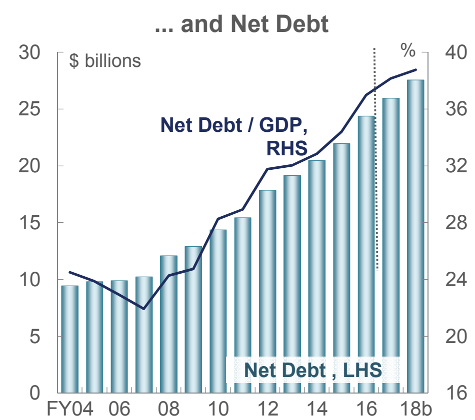


Chart 2



Sources for charts: Historical net debt: Moody's Investors Service; Manitoba Finance; Statistics Canada; nom.GDP forecasts: Scotiabank Economics.

FY18 are forecast to surge 6.2%, while other taxes edge 2.3% higher. Government business enterprise net income is forecast to jump 9.5% in FY18 with stronger results from the Manitoba Hydro-Electric Board and a turnaround at the Manitoba Public Insurance Corporation.

Underlying the *Budget* estimates is the Province's reasonable assumption that Manitoba's real GDP growth will strengthen from an estimated 1.4% in calendar 2016 to 2.0% annually in 2017 and 2018, reflecting the Province's survey of private-sector forecasts. Nominal GDP is expected to advance 3.6% this year and 3.8% next.

Tax measures are expected to raise FY18 revenues by $77 million ($89 million for a full year). Tax relief in FY18 from ongoing measures totals $34 million, with PIT indexed to CPI inflation for a second year, and the Manufacturing Investment, Mineral Exploration, Book Publishing and Interactive Digital Media Tax Credits renewed. Business tax changes, yielding $15½ million in additional FY18 receipts, include more closely aligning to other Provinces the Research and Development Tax Credit rate by trimming it from 20% to15%. PIT adjustments, notably phasing out the Tuition Fee Income Tax Rebate by 2018 as the Manitoba Bursary Program is re-profiled, raise FY18 government revenues by an estimated $61½ million.

The Province's 30+ existing tax credits represent an annual $600 million outlay, roughly 15% of Manitoba's total income tax receipts. These credits add to household and business compliance costs and raise the administration fees paid by Manitoba to the federal government, hence the ongoing review of all tax benefits, deductions, rebates and exemptions.

Manitoba's Budget Arithmetic
Summary Basis*, $ millions except where noted

	FY17		FY18
	Budget	Q3	Budget
Tax Revenue	8,264	8,345	8,691
Gov't Enterprise Net Income	674	644	705
Other Own-Source Revenue	2,429	2,537	2,542
Own-Source Revenue	**11,367**	**11,526**	**11,938**
Federal Transfers	4,108	4,117	4,163
Total Revenue	**15,475**	**15,643**	**16,101**
Program Spending	**15,625**	**15,577**	**16,065**
Debt Service	911	938	991
Total Expenditures	**16,536**	**16,515**	**17,056**
In-Year Adjustments/Lapse	-150	0	-115
Summary Net Income	**-911**	**-872**	**-840**
Borrowing, $bn	6.5	6.6	6.7
Memo Items, %			
Summary Net Income / GDP	-1.3	-1.3	-1.2
Own-Source Revenue / GDP	16.7	16.9	16.8
Program Spending / GDP	23.0	22.9	22.6
Annual Change, %			
Tax Revenue	*3.0*	*4.0*	*4.1*
Total Own-Source Revenue	*1.2*	*2.6*	*3.6*
Federal Transfers	*7.5*	*7.8*	*1.1*
Total Revenue	***2.8***	***3.9***	***2.9***
Program Spending	***3.9***	***3.5***	***3.1***
Total Expenditures	***4.0***	***3.9***	***3.3***

* 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.

EXPENDITURES

Program spending growth is forecast to slow from 3.5% in FY17 to 3.1% in FY18, as the government works towards a more efficient expenditure framework. It is guided by three reports on different aspects of Manitoba's health care and a *Fiscal Performance Review* of its other core government departments. The consolidated health envelope in FY18 will be held to a 3.2% spending increase, while Education and Training advances by 2.7% and outlays on Families rise 6.0%. For post-secondary student financial assistance, expanded bursary programs are expected to leverage private-sector contributions.

The *Public Services Sustainability Act* will establish a four-year sustainability period with percentage limits on pay increases across the 120,000 employees of the broader public sector. Additional legislation will establish a framework to cut the number of bargaining units in health care from the existing level of more than 180 and enhance flexibility. Government and opposition MLAs have already agreed to a voluntary pay freeze until the end of the current term for this administration.

INFRASTRUCTURE INVESTMENT AND BORROWING

Although a deferred infrastructure maintenance liability of more than $8 billion has been identified for core government infrastructure, the Province aims to hold capital investment to a sustainable level. In FY17, outlays for "Strategic Infrastructure" were reduced by $0.2 billion to $1¾ billion and they will be maintained at roughly that level in FY18, though this is still well above the $1 billion minimum annual commitment.

Pushing up the Province's borrowing needs in FY18 is Manitoba Hydro's new cash requirement of close to $3.0 billion as construction proceeds on the Keeyask hydro-electricity station. Across the public sector, refinancing of $2.1 billion is expected to represent 31% of the total borrowing.

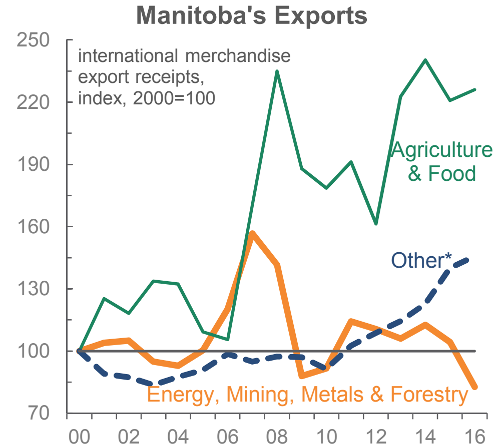
Growth in pension liabilities continues to outstrip pension assets, causing the FY18 net pension liability to climb from $2.6 billion as of March 2017 to almost $2.8 billion a year later, up from $1.8 billion five years earlier. The government expects to borrow $350 million in FY18 for the Civil Service Superannuation Plan.

OUTLOOK

The government aims to encourage private-sector investment with several different strategies, including a sizeable reduction of its regulatory burden. This, in fact, represents a timely response to initiatives under the Trump administration to roll back regulations.

Manitoba's return to solid economic expansion, that underpins the *Budget's* estimates, is in fact underpinned by several encouraging factors, including a strengthening US economy, a relatively low Canadian dollar vis-à-vis the US currency and commodity prices recovering from recent lows. The Province continues to have the advantage of diversified goods producers and private-sector services (chart 3).

Chart 3



* Largely manufactured goods such as consumer, motor vehicles and parts, indsutrial machinery chemicals and plastics. Source: Statistics Canada.

The government's mid-term fiscal path assumes that annual revenue growth in FY19 and FY20 remains at 3.0%, while the increase in total expenditures is curtailed to 2.0%, as spending efficiencies are realized. The required restraint on program spending is likely to be tighter than 2.0%, with the anticipated expansion of the debt service as the Province's net debt climbs and interest rates trend higher. Rebalancing the books, within the framework of the government's multiple objectives, is inherently challenging.