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Government addresses growth pressures in 2007-08

Surplus allocated to savings and capital

2007-08 Annual Report Highlights

- **The 2007-08 surplus was \$4.6 billion. This is \$550 million higher than last forecast (April 2008).**
- **\$1.8 billion of the surplus was allocated to savings.**
- **\$1.4 billion of the surplus has been allocated to the Capital Account for future requirements.**
- **Another \$312 million will be allocated to savings and another \$616 million will be allocated to the Capital Account in 2008-09 from the higher-than-forecast fourth-quarter results.**

Edmonton... High oil prices and the country's highest population growth, second-highest economic growth and lowest unemployment rate kept Alberta at the front of the fiscal pack in 2007-08.

Details of Alberta's fiscal results for 2007-08 were released by Finance and Enterprise Minister Iris Evans in the *Government of Alberta 2007-08 Annual Report*.

"Alberta continues to benefit from strong economic growth and high oil prices," said Evans. "The government remains committed to taking advantage of this opportunity by increasing our savings and building and maintaining Alberta's infrastructure to address ongoing growth pressures."

Surplus

On a budget presentation basis, the surplus in 2007-08 was \$4.6 billion. This is \$550 million higher than forecast when Budget 2008 was delivered in April. The higher-than-forecast results are due to an increase in revenue and a decrease in spending in the fourth quarter.

On a fully consolidated basis - taking into account an increase in pension obligations and an increase in net income of schools, universities, colleges and hospitals - the surplus is \$2.4 billion. This is primarily due to a January 2008 agreement with teachers that resulted in the government assuming their \$2.2 billion pre-1992 obligation for the Teachers' Pension Plan. These pension obligations are not a cash requirement in 2007-08 and therefore did not affect the surplus cash available for allocation.

This year's surplus is considerably smaller than the \$8.9 billion surplus recorded in 2006-07. This was due to flat revenue growth and higher operating and capital spending to meet the demands of a growing province.

Surplus Allocation

In 2007-08, cash available from the surplus was allocated to build up the province's savings and meet infrastructure needs. Based on initial budget allocations and the application of government's in-year surplus allocation policy, \$1.8 billion was allocated to savings and \$1.4 billion was allocated to the Capital Account for future-year requirements.

The \$1.8 billion committed to savings was allocated as follows:

- \$918 million deposited into the Heritage Fund and an additional \$466 million for inflation proofing;
- \$227 million was added to the Scholarship Fund; and
- \$150 million to the Medical Research Endowment Fund.

Including the \$550 million increase to the surplus, there is an additional \$928 million in cash available from the higher-than-forecast fourth-quarter results. This will be allocated in 2008-09 to savings (\$312 million) and to the Capital Account (\$616 million). This is in accordance with the in-year surplus allocation policy announced last year, which requires one-third of unanticipated cash surplus to go to savings and two-thirds to go to capital infrastructure. The remainder of the cash from the surplus was used for capital investment and other requirements.

Revenue

Revenue for 2007-08 was \$38.2 billion, down about one per cent from the previous year but about \$2.7 billion higher than estimated in the budget, due mainly to higher-than-estimated income tax revenue. Resource revenue was \$11 billion in 2007-08, \$1.2 billion less than 2006-07. Oil royalties were higher as a result of higher oil prices but natural gas royalties declined reflecting flat prices. An increasing Canadian dollar and lower sales of Crown leases also reduced revenue.

Meeting Growth Pressures

The Alberta government committed \$35.7 billion to meet the needs of Albertans in 2007-08. This is \$6.1 billion higher than in 2006-07. Excluding the \$2.3 billion pension provision, the increase in expense was 13.3 per cent. This included a 10-per-cent increase in operating spending and a nearly 50 per-cent increase in capital grants. Investments in health and education accounted for 63 per cent of total expenses, not including pension provisions.

Health expense totalled \$12.3 billion in 2007-08, an increase of 13 per cent over 2006-07. This reflected higher funding for health services, prescription drug costs, community-based health services and health facilities infrastructure. Major initiatives over the last year included a new Health Workforce Action Plan, designed to help retain, recruit and train qualified health professionals; strengthening public health and wellness through a new cancer screening program, a ban on smoking in public places and workplaces, and the establishment of a 10-year immunization program; and capital funding for new community health centres, health facility upgrades and improvements and support for new health facilities.

Education expense was \$8.9 billion in 2007-08, an increase of 11 per cent from 2006-07. This reflected greater operating support and increased capital grants for K-12 and post-secondary education. Major initiatives for K-12 included increased support to the Small Class Size Initiative and support for school capital facilities. Initiatives for post-secondary education included a 21 per cent increase in apprenticeship seats and improvements to affordability, including placing a limit on annual tuition increases.

Social services expense was \$3.1 billion in 2007-08, an increase of six per cent from 2006-07. This reflects increased financial benefits and caseloads in the Assured Income for the Severely Handicapped program, increased funding to the Persons with Developmental Disabilities Boards for agency staff recruitment and retention, and increased supports for children's services including increased child care staff wages.

Investing in Infrastructure

Support to the Capital Plan increased by 46 per cent, or \$2.2 billion, from 2006-07. This included major increases for schools, post-secondary and health facilities, housing, municipal infrastructure and provincial highways. Almost all areas received an increase in capital spending. Alberta's per capita spending on infrastructure is about three times the per capita average of other provinces.

Attachments: [Backgrounder - Fiscal tables](#)

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