



*November 22, 2010*

## **Weak revenue and increased spending for disasters and emergencies push deficit higher**

### ***2nd Quarter Update highlights challenges ahead as government plans for balanced budget in 2012-13***

#### **Second Quarter Fiscal Highlights**

- Revenue for 2010-11 is forecast at \$34.1 billion, up \$127 million from budget
- Expense for 2010-11 is forecast at \$39.1 billion, an increase of \$384 million from budget - mainly for disaster and emergency funding
- Deficit for 2010-11 is forecast at \$5.0 billion, an increase of \$257 million from budget
- Sustainability Fund assets forecast at \$11.0 billion for year-end, an increase of \$2.8 billion from budget

*Edmonton...* Increased spending for disaster and emergency assistance and continued revenue uncertainty has driven Alberta's forecast deficit for 2010-11 to \$5.0 billion.

"We said we would control our spending and we have done that," said Ted Morton, Minister of Finance and Enterprise. "In fact, when you factor out spending for disasters and emergencies, government expense is forecast to be \$150 million lower than budgeted. We can't control forest fires, floods and drought, but we still have to pay for them.

"We also can't control what happens to energy prices, the Canadian dollar, equity markets or the U.S. economy—all of which affect our revenues. But we will continue to control what we can and we are resolved to getting back in the black in 2012-13."

Operating expense remains relatively flat compared to budget, while expense for capital grants decreased \$190 million. However, a spending increase of \$534 million was required for disaster and emergency assistance for municipal flooding, wildfires, the agricultural sector and mountain pine beetles—pushing up the forecast for overall expense by \$384 million.

Revenue projections, meanwhile, are \$127 million higher than forecast in Budget 2010, but nearly \$500 million lower than forecast at First Quarter. As a result, the projected deficit is up \$257 million over the budget forecast of \$4.7 billion. The deficit will be covered by the Sustainability Fund, an account that government built up from past savings to help deal with revenue volatility in order to fund priority public programs and services during difficult economic times.

"Alberta is in a stronger fiscal position than any other province and that has enabled us to

continue to support the programs and services Albertans value,” said Lloyd Snelgrove, President of Treasury Board. “However, if we want to maintain that fiscal advantage, regardless of how volatile our revenue streams are, we will have to get better value on the spending side and make sure we are focused on the most important initiatives

**Revenue** in 2010-11 is forecast to be \$34.1 billion, an increase of \$127 million from budget. This is due to increased revenue from land lease sales (\$1.4 billion), corporate income tax (\$577 million) and federal transfers (\$412 million). This total is offset by lower personal income tax revenue (\$1.1 billion) and investment income (\$216 million), as well as the increased cost of drilling stimulus initiative claims (\$788 million).

**Expense** in 2010-11 is forecast to be \$39.1 billion, an increase of \$384 million compared to the budget estimate. This relates primarily to emergency and disaster assistance for municipal flooding, wildfires, agricultural programs, forest fire-fighting costs and mountain pine beetles (\$534 million). Operating expense remains relatively flat compared to budget forecasts, while expense for capital grants is down \$190 million.

### Summary (\$ millions)

	<b>Budget 2010-11</b>	<b>2nd Quarter Forecast</b>	<b>Change from Budget</b>
<b>Revenue</b>	\$33,968	\$34,095	\$127
<b>Non-Renewable Resource Revenue</b>	\$7,315	\$7,721	\$406
<b>Total Expense</b>	\$38,716	\$39,100	\$384
<b>Operating Expense*</b>	\$33,215	\$33,256	\$41
<b>Surplus (Deficit)</b>	(\$4,748)	(\$5,005)	(\$257)

\*Net of \$240 million in in-year savings to be found

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**Backgrounder:** Heritage Fund Second Quarter Update

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## Heritage Fund Second Quarter Update

*Edmonton...* The Alberta Heritage Savings Trust Fund earned \$391 million in the second fiscal quarter due to positive returns in world equity markets.

The gains more than offset a first quarter loss of \$164 million, bringing to \$227 million the total income earned by the fund in the first six months of the 2010-11 fiscal year.

At September 30, 2010, the fund's fair value was \$14.8 billion—and increase of \$444 million. This increase includes the net income of \$227 million plus unrealized portfolio gains of \$291 million, less expenses of \$74 million. (Unrealized gains represent the profit that would be made if the assets involved were sold at current prices.)

The Heritage Fund's assets are managed by the Alberta Investment Management Corporation (AIMCo), an arm's length entity formed in 2008 to manage the province's investment portfolio.

AIMCo matched the overall policy benchmark over the first six months, with a net return on investments of 3.4 per cent. On a fair value basis, the fund's investments gained 5.7 per cent in the second quarter, compared to a loss of 2.1 per cent in the first quarter. Losses from the fund's timber portfolio were offset by gains in every other asset class.

The Heritage Fund is now expected to earn investment income after expenses of \$741 million for 2010-11, a decrease from the original forecast of \$976 million. The annual amount forecast to be retained from investment income in the Fund for inflation-proofing has been increased to \$304 million. The remaining income of \$437 million will be transferred to the General Revenue Fund to support programs and services for Albertans. The Heritage Fund's book value is forecast to be \$14.1 billion at March 31, 2011.

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