

# BACKGROUNDER

# Three-year Budget Plan

"This plan must be balanced. It must take into account Government's role in our economic fabric – while pointing the way for a vigorous private sector. A careful blend of revenue and expenditure measures will achieve that balance."

- Honourable Wes Sheridan, Budget Address, April 18, 2012

The 2012 budget sets a clear direction over the next three years. The three-year budget plan follows four fundamental principles:

- Foster and develop private sector growth and job creation
- Continue to shift the educational focus to a greater emphasis on student achievement
- Continue the focus of our modernized health care system on sustainability and on patient needs
- Restore fiscal balance by 2015

### Fiscal pressures

The provincial government is faced with three major fiscal pressures which, if left unaddressed, would increase the deficit to \$150 million or more into the foreseeable future.

Health care spending continues to rise by some seven percent annually, going from \$425 million in 2007-08 to \$556 million in 2011-12. This is not sustainable.

Prince Edward Island has the lowest fiscal capacity of any province in Canada. Overall federal revenues are forecast to decline in the coming year. Renewal of the Equalization program in 2014-2015 is critically important for Islanders to receive reasonable comparative services at reasonably comparative levels of taxation.

Because of the global decline in equity markets, there are shortfalls in public service pension plans. To offset these shortfalls, government contributions have increased from \$8 million over the past five years to more than \$40 million. During the same time, corporate tax revenues have declined from \$43.3 million to under \$30 million.

### Expenditure measures

The three-year budget plan will hold expenditure growth lower than growth in revenue.

To achieve this target, and to preserve key priorities, expenditure growth will vary by sector:

- Funding for the health are system will increase by 4.1 percent in 2012-13 and will be capped at 3.5 percent in subsequent years.
- Education expenditures will increase by 1.8 percent this year, with no further increases in years two and three.
- Expenditures in most other government departments will be reduced between three and five percent this year, and will hold the line in subsequent years.

In so doing, the government is guided by three key principles:

- Maximize efficiency and cost-effectiveness in operations and find possible savings from within
- Maintain most-needed services and protecting vulnerable members of society
- Maintain some flexibility in order to invest in critical priorities and meet new and changing needs.

#### Revenue measures

In developing revenue measures, government set three objectives:

- Balance the budget while protecting public services
- Improve economic growth in the private sector
- Protect low and modest income families

To this end, government will negotiate an agreement to introduce the harmonized sales tax. The rate will drop from the current 15.5 percent to 14 percent, and some critical exemptions will be made. Other fee and tax increases will be released in the coming weeks.

## The three-year budget plan

The three-year budget plan is aimed at restoring the fiscal health of the province. Over that time, revenues are projected to grow at an annual rate of 3.4 percent, while expenditure growth will be held to 1.6 percent.

In 2012-2013, revenues will increase by 1.3 percent, and expenditures will grow by 0.9 percent. This will result in a deficit of \$74.9 million.

In 2013-2014, revenues are expected to grow by 4.6 percent, with expenditure growth held to 1.8 percent. The projected deficit is \$34.2 million.

In 2014-2015, with revenue growth of 4.2 percent and expenditure growth again at 1.8 percent, there will be a surplus of \$3.6 million.

Three-year Budget Plan (\$ millions)				
	2012	2013	2014	2015
Revenue	\$1,490.4	\$1,510.1	\$1,580.2	\$1,647.2
Expenditures	\$1,569.0	\$1,585.0	\$1,614.4	\$1,643.6
(Deficit) Surplus	(78.6)	(74.9)	(34.2)	3.6