

Increased deficit in 2009-10

Highlights

- In 2008-09, a deficit of \$41.4 million (3.1% of revenue).
- In 2009-10, a budgeted deficit of \$85.3 million (6.0% of revenue), of which almost half is due to a pension adjustment which reflects the downturn in the international financial markets.
- Program spending to rise 9.8%, or 7.5% without the pension fund adjustment. Revenue to rise 6.7%.
- 2009 real GDP growth projected at 0.5%.
- Borrowing requirement to rise from \$180 million in 2008-09 to \$230 million in 2009-10.

Opinion

The excess of the estimated actual deficit for 2008-09 over last year's budget was due almost entirely to a pension fund adjustment required to offset the downturn in international financial markets. The operating deficit (i.e. excluding the pension fund adjustment) is quite close to last year's budget. A shortfall in revenue (mostly own-source) was offset in large part by under-budget debt service.

For 2009-10, the budgeted deficit increase is due to a larger pension fund adjustment and to growth in other program spending in excess of revenue growth. The budgeted revenue increase of 6.7% or \$89 million includes \$63 million from the federal government under various programs. The rise in program spending (other than the pension fund adjustment) is concentrated in health, education and training. Health spending is budgeted to increase 6.8% or \$28 million, with much of the increase earmarked for modernization. An additional \$21 million will go to infrastructure in communities and an additional \$22 million to labour-market development and postsecondary education.

The 2009-10 spending increases can be described as focused on essential programs and development projects. However, the budgeted deficit, combined with a five-year, \$510-million investment program announced last November (\$130 million to be spent in 2009-10), will mean increased recourse to debt.

The budget papers included no projections for subsequent years, leaving unknown the government's intentions for reducing the operating deficit. It will no doubt be obliged to rein in spending growth.

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Prince Edward Island

Millions	Budget	Update	Budget
	2008-2009	2008-2009	2009-2010
Gross Consolidated Revenue	1,353.6	1,340.2	1,429.7
Provincial own sources	771.5	761.9	784.4
Federal sources	556.4	553.5	616.6
Sinking fund earnings	16.5	14.4	14.9
Net consolidated surplus of crown corporations	9.3	10.4	13.7
Gross Consolidated Expenditure	1,388.5	1,387.6	1,515.0
Program expenditures	1,230.2	1,238.6	1,359.6
Debt Servicing	117.3	110.1	114.3
Depreciation	40.9	38.9	41.2
Consolidated Surplus (Deficit) before restatement	(34.9)	(47.4)	(85.3)
Restatement of Provincial Paving to Capital Budget	6.0	6.0	-
Consolidated Surplus (Deficit)	(28.9)	(41.4)	(85.3)
Pension Fund market Adjustment	-	(10.1)	(39.4)
Consolidated surplus (deficit) from operations	(28.9)	(31.3)	(46.0)
Cash Requirements	160.7	180.0	230.4
Consolidated Surplus (Deficit)	34.9	47.4	85.3
Net acquisition of tangible capital assets	66.5	88.6	127.4
Amortization	(40.9)	(38.9)	(41.2)
Net borrowings on behalf of Crown Corporations	21.5	7.6	54.0
Sinking Fund Earnings	16.5	14.4	14.9
Sinking Fund Provisions	14.5	14.5	14.5
Change in Short-Term Payables/Receivables	(6.4)	(7.7)	(45.7)
Transfer to Pension Fund	21.2	21.2	21.2
Maturing debt not financed by Sinking Fund	33.0	33.0	-
Sources of Cash			
Short-term Financing	60.7	80.0	130.4
Long-term Financing	100.0	100.0	100.0
Debt Servicing / Gross Consolidated Revenue	8.7%	8.2%	8.0%

Source: Prince Edward Island 2009 Budget