

What Changed in Alberta from the Fall 2021 Mid-year Update to Budget 2022

by Tegan Hill and Joel Emes



SUMMARY

■ Alberta's provincial government is experiencing a windfall from resource revenue. According to Budget 2022 (released February 24, 2022), total nominal revenue from 2021/22 through 2023/24 will be \$17.0 billion higher than projected in the 2021-22 Mid-year Fiscal Update (released November 30, 2021) excluding COVID-related revenue. Of that increase, total nominal resource revenue accounts for \$9.4 billion (or 55.3 percent).

■ When resource revenue is relatively high, the provincial government faces added pressure to increase spending. Excluding COVID-related measures, Alberta's Budget 2022 increased projected nominal program spending by \$5.7 billion (over the three-year period) since the 2021 mid-year update.

■ Some of the increase in total program spending can be explained by the expectation that inflation rates and population growth rates will be higher. Of the total \$5.7 billion increase in total program spending, \$1.7 billion or 30.5 percent can be explained by the expected higher rates of inflation and population growth.

■ That means that \$4.0 billion of the increase in program spending from mid-year 2021 to February's Budget 2022 was above and beyond anything linked to changes in expected inflation or population growth.

■ Put simply, the provincial government used higher revenues to increase spending at the expense of paying down debt, reducing taxes, or saving.

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Introduction

Alberta's provincial government is currently experiencing a windfall due to increased revenue from its resources. In Budget 2021 (released February 25, 2021), nominal resource revenue was projected to average \$4.5 billion annually from 2021/22 to 2023/24. That figure increased to \$10.0 billion by the Mid-year update (released November 30, 2021) and to \$13.1 billion by Budget 2022 (released February 24, 2022). During times of relatively high resource revenue, the provincial government faces added pressure to increase spending, making it more difficult for the province to pursue other policies such as paying down debt, reducing taxes, and/or saving.¹ Private sector forecasts, current prices, and forward markets for commodities indicate that resource revenue will likely be even higher than forecast in Budget 2022, which means an increased temptation for higher spending.²

¹ Hill and Emes (2022) recommended the government prioritize saving a portion of resource revenue to reintroduce a “rainy-day” account and renew contributions to the Heritage Fund to prepare for a potential permanent decline in resource revenue in the future. For more details, see <https://www.fraserinstitute.org/sites/default/files/new-fiscal-framework-for-alberta.pdf>. Notably, Budget 2022 states that “any surplus up to the value of the annual earnings of the Heritage Savings Trust Fund be retained and re-invested in the fund” and that “any surplus in excess of those savings will be allocated between the Heritage Savings Trust Fund and/or debt repayment” (Alberta, 2022: 13).

² For instance, a J.P. Morgan report (2022) forecasts that the Brent crude oil price could end the year at \$185 per barrel. As of April 5, 2022, the spot market price for crude was well above the assumed average price in the budget (OilPrice.com, 2022) and forward markets were indicating that higher prices will remain (CME Group, 2022).

This brief analysis compares the fiscal plan in the mid-year update presented in November 2021 (and referred to hereafter as “the mid-year”) to the budget presented in February 2022 (referred to hereafter as “the budget”).

Comparing the mid-year update to budget 2022

This analysis excludes both COVID-related program spending and associated revenue to present a clearer picture of the structural state of provincial finances.³ These adjustments are particularly important when assessing the change in the spending plan from the mid-year to the budget.

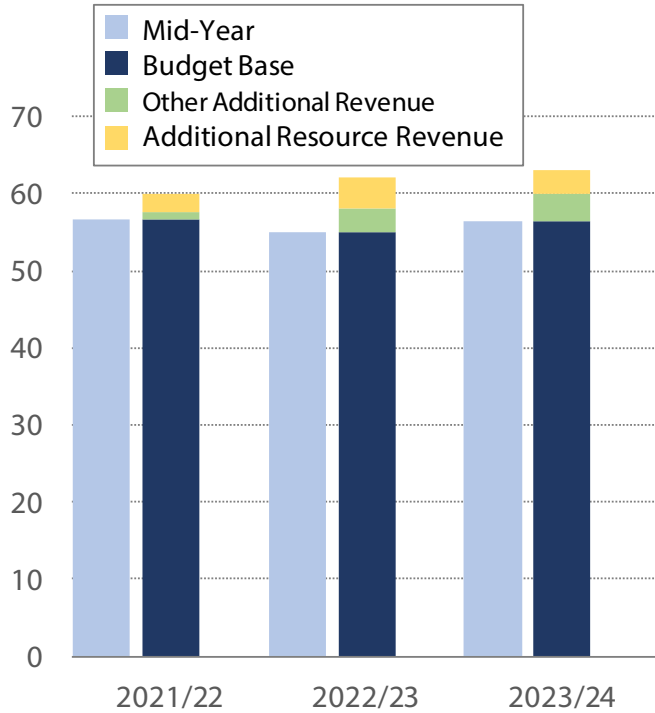
The first step is to review revenues. Figure 1 shows projected total nominal revenues from the mid-year and budget after removing COVID-related measures. As shown, the mid-year projected total nominal revenue would decline from \$56.5 billion in 2021/22 to \$55.0 billion in 2022/23 and would increase to \$56.4 billion by 2023/24. In the budget, total nominal revenue is projected to be \$59.9 billion in 2021/22, increasing to \$62.0 billion in 2022/23, and \$63.1 billion in 2023/24. Overall, total nominal revenue in the budget is projected to be \$17.0 billion higher over the three-year period than projected in the mid-year.

As figure 1 shows, resource revenue accounts for a significant share of the higher expect-

³ To adjust for COVID, this study follows the methodology in Hill and Emes (2022). Note that Budget 2022 provides sufficient detail to update estimates for COVID-related spending; however, there is insufficient detail to update estimates for COVID-related revenues. As such, estimates for COVID-related spending in Budget 2022 are based on data from the mid-year. See Hill and Emes (2022) for more information.

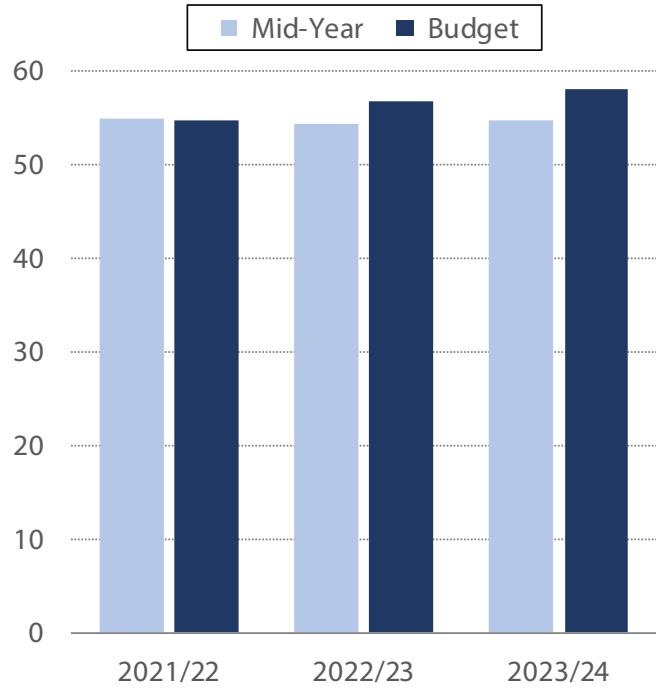
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Figure 1: Total Revenue, Mid-Year and Budget, Billions \$ (Nominal)



Sources: Government of Alberta, 2021b; Government of Alberta, 2022; calculations by authors.

Figure 2a: Total Program Spending, Mid-Year and Budget, Billions \$ (Nominal)



Sources: Government of Alberta, 2021b; Government of Alberta, 2022; calculations by authors.

ed revenue. The mid-year projected nominal resource revenue would be \$10.9 billion in 2021/22, declining to \$9.9 billion in 2022/23, and dropping further to \$9.2 billion in 2023/24. The budget projects that nominal resource revenue will be \$13.2 billion in 2021/22, \$13.8 billion in 2022/23, and \$12.3 billion in 2023/24. Overall, total nominal resource revenue is projected to be \$9.4 billion higher over the three-year period than projected in the mid-year, accounting for 55.3 percent of the \$17.0 billion increase in total revenue.⁴

⁴ Higher commodity prices also contribute to higher corporate income tax revenue, personal income tax revenue, and other tax revenue.

While the revenue outlook has improved, the key for this analysis is to determine the extent to which the provincial government has used these additional revenues to finance higher spending. Figure 2a shows nominal program spending (total spending excluding interest costs) in the mid-year and budget after removing COVID-related measures. We review program spending rather than total spending to avoid conflating any changes in the government's spending plan with changes in expected debt-servicing costs.⁵

⁵ Notably, debt-servicing costs from 2021/22 to 2023/24 are projected to be \$728 million lower in the budget than were projected in the mid-year update.

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In the mid-year, nominal program spending was projected to decline from \$54.9 billion in 2021/22 to \$54.2 billion in 2022/23. In 2023/24, nominal program spending was expected to increase to \$54.7 billion. In the budget, total nominal program spending is projected to increase from \$54.7 billion in 2021/22 to \$56.7 billion in 2022/23 and to \$58.1 billion in 2023/24. While projected nominal program spending in the budget is \$155 million lower than in the mid-year update in 2021/22, it's \$2.5 billion higher than the mid-year in 2022/23 and \$3.4 billion higher in 2023/24. Put differently, in the three-month period between the mid-year update and the budget, projected nominal program spending increased by \$5.7 billion (over the three-year period).

It's important to recognize that there was a material increase in the government's expectations for inflation and population growth between the mid-year update and budget 2022 (see Table 1). Specifically, inflation in the budget is 0.1 percentage points higher than in the mid-year in 2021/22, 0.6 percentage points higher in 2022/23, and 0.2 percentage points higher in 2023/24. Population growth is unchanged in 2021/22, but 0.6 percentage points higher in the budget in 2022/23 and 0.3 percentage points higher in 2023/24. Overall, budget projections for inflation and population growth (combined) are 0.1 percentage points higher than the mid-year in 2021/22, 1.2 percentage points higher in 2022/23, and 0.5 percentage points higher in 2023/24. Some of the increase in total program spending can therefore be explained by the fact that the province is now expecting higher rates of inflation and population growth.

The simplest way to determine how much of the increase can be explained by the changes in expected inflation and population growth is

Table 1: Assumptions for Inflation and Population Growth, Mid-Year and Budget

	2021/22	2022/23	2023/24
Mid-Year			
Inflation	3.1%	2.6%	2.2%
Population Growth	0.5%	0.8%	1.3%
Budget			
Inflation	3.2%	3.2%	2.4%
Population Growth	0.5%	1.4%	1.6%

Sources: Government of Alberta, 2021b; Government of Alberta, 2022.

to hold per-person inflation-adjusted spending constant based on the plan from mid-year (see table 2). In other words, what amount of additional spending would be required to maintain the level of per-person spending presented in the mid-year plan given the increase in expected inflation rates and population growth?⁶ Of the total \$5.7 billion increase in total program spending over the three-year period, \$1.7 billion or 30.5 percent can be explained by the expected higher rates of inflation and population growth. That means there is a \$4.0 billion increase in program spending from the mid-year to the budget above and beyond anything linked to changes in expected inflation or population growth.

⁶ To be clear, this analysis does not hold per-person spending constant after adjusting for inflation. Rather, it keeps the level of per-person spending presented in the mid-year, adjusted for inflation, constant.

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Table 2: Spending Analysis

	2020/21	2021/22	2022/23	2023/24	Total 2021/22 to 2023/24
Mid-year nominal program spending (\$ millions)	51,334	54,870	54,226	54,656	163,752
Growth		6.9%	-1.2%	0.8%	
Mid-year assumption for inflation + population growth	2.4%	3.6%	3.4%	3.5%	
Budget assumptions for inflation and population growth	2.4%	3.7%	4.6%	4.0%	
Difference	0.0%	0.1%	1.2%	0.5%	
Growth, holding mid-year inflation-adjusted per person spending constant (Growth + Difference)		7.0%	0.0%	1.3%	
Nominal program spending, holding mid-year inflation-adjusted per person spending constant (\$ millions)		54,921	54,936	55,646	165,503
				Total difference:	1,751

Sources: Government of Alberta, 2021b; Government of Alberta, 2022; calculations by authors.

Figure 2b adjusts the data presented in Figure 2a to show how much of the overall increase in program spending could potentially be explained by the changes in expected inflation and population growth. Figure 3 focuses specifically on the changes in program spending between the update and budget to better illustrate how the changes in the expected inflation and population growth could explain a portion of the increase in overall program spending.

Figure 3, for instance, shows that in 2021/22, all the higher program spending (\$51 million) could be accounted for by the higher expected inflation and population growth. In 2022/23 and

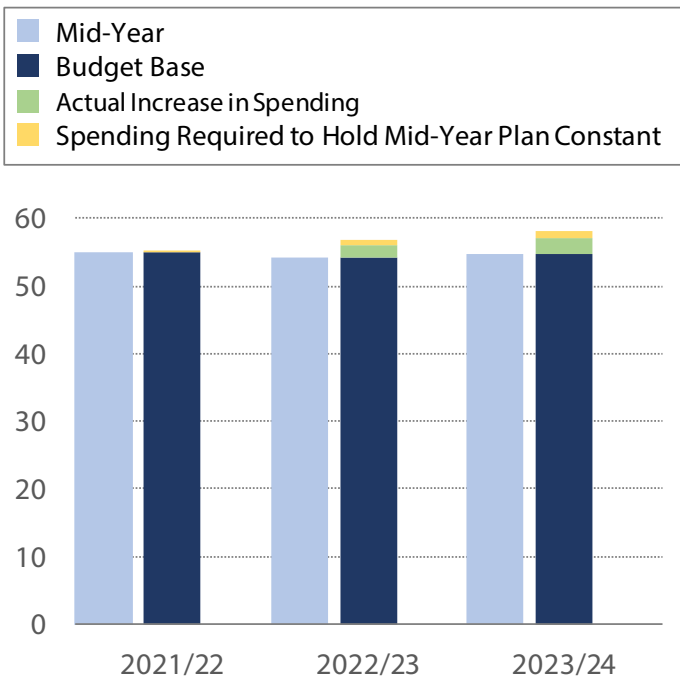
2023/24, however, program spending increases go well beyond the level required to account for higher expected inflation and population growth. In 2022/23, \$710 million of the nominal program spending increases of \$2.5 billion could be accounted for by higher expected inflation and population growth. In 2023/24, \$990 million of the nominal program spending increases of \$3.4 billion could be linked with higher expected inflation and population.

Conclusion

This analysis shows that since the mid-year update, Alberta's provincial government has used

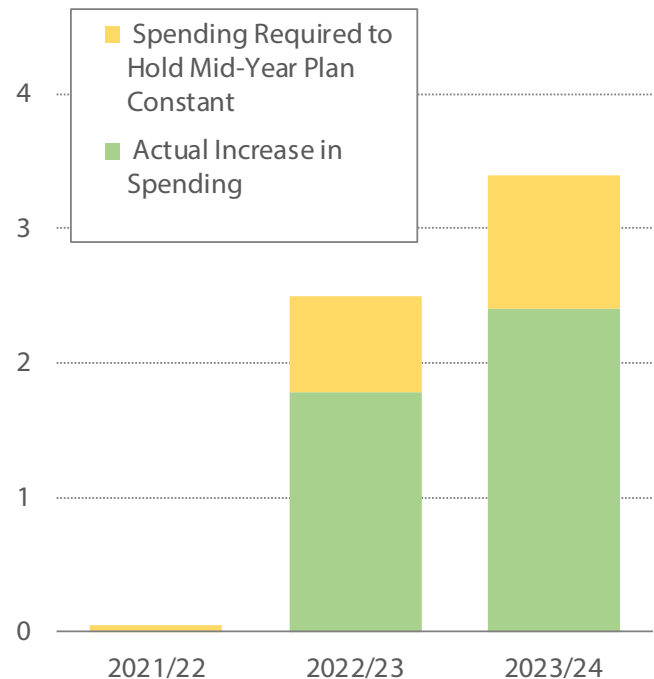
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Figure 2b: Total Program Spending, Mid-Year and Budget with Breakdown of Additional Spending, Billions \$ (Nominal)



Sources: Government of Alberta, 2021b; Government of Alberta, 2022; calculations by authors.

Figure 3: Difference in Program Spending, Mid-Year to Budget, Billions \$ (Nominal)



Sources: Government of Alberta, 2021b; Government of Alberta, 2022; calculations by authors.

higher projected revenues to increase spending beyond what would be required to maintain the levels of per-person spending, adjusted for inflation, presented in the mid-year plan in late 2021.

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