

The Honourable Donna Harpauer
Deputy Premier and Minister of Finance



21-22

PROTECT. BUILD. GROW.

FIRST QUARTER
FINANCIAL REPORT

2021-22 First Quarter Financial Report
Government of Saskatchewan
August 26, 2021

2021-22 First Quarter HIGHLIGHTS

Overview

Challenges facing the agriculture sector, funding to help make child care more affordable, better-than-expected commodity prices and increased federal transfers will impact the province's financial situation in 2021-22.

The net result is a projected deficit of \$2.74 billion, up \$126.5 million from budget.

Despite ongoing uncertainty around the impact of drought conditions and the lingering impacts of the pandemic, Saskatchewan's economic performance through the first quarter is consistent with budget expectations, with aspects of the provincial economy showing strength.

Revenue

Revenue is forecast to increase from budget by \$757.3 million (5.2 per cent).

\$359.9 million of this revenue increase is from non-renewable resources—primarily due to higher oil and potash prices.

Federal transfers are up \$401.1 million from budget, including \$131.6 million for early learning and child care, \$124.1 million for Saskatchewan's share of the Helping Our Health Systems Recover program and \$62.6 million in one-time top-up funding for the Canada Community-Building Fund.

Expense

Total expense is up \$883.8 million (5.2 per cent) from budget.

\$706.6 million of that increase is due to pressures in the agriculture sector, along with increases of \$131.6 million for early learning and child care, and \$62.6 million for municipalities.

This is partly offset by a forecast \$44.4 million decrease in pension expense.

Debt

Public debt is forecast to be \$90.7 million higher than budget, primarily due to higher General Revenue Fund (GRF) operating debt due to the increase in the operating deficit resulting from higher agriculture support payments, offset partially by higher expected revenue from resource royalties.

Economy

According to private-sector forecasters, Saskatchewan's real GDP is now expected to grow by 5.6 per cent in 2021 and by 3.8 per cent in 2022.

Employment in the first seven months of 2021 increased by 15,029 or 2.8 per cent compared to the first seven months of 2020, and Saskatchewan's unemployment rate dropped from an average of 9.4 per cent to 7.3 per cent, fourth lowest among the provinces.



2021-22 BUDGET UPDATE - FIRST QUARTER

(Millions of Dollars)

	Budget	First Quarter Forecast	Change
Revenue			
Taxation	7,238.0	7,238.0	-
Non-renewable resources	1,328.5	1,688.4	359.9
Net income from government business enterprises	899.2	850.9	(48.3)
Other own-source revenue	2,104.1	2,148.7	44.6
Transfers from the federal government	2,908.5	3,309.6	401.1
Total Revenue	14,478.3	15,235.6	757.3
Expense			
Agriculture	879.3	1,585.9	706.6
Community development	690.4	753.0	62.6
Economic development	527.0	540.3	13.3
Education	3,753.2	3,867.1	113.9
Environment and natural resources	414.9	414.9	-
Financing charges	755.0	755.0	-
General government	524.6	499.9	(24.7)
Health	6,535.3	6,535.3	-
Protection of persons and property	845.1	857.2	12.1
Social services and assistance	1,556.7	1,556.7	-
Transportation	607.7	607.7	-
Total Expense	17,089.2	17,973.0	883.8
Deficit	(2,610.9)	(2,737.4)	(126.5)



REVENUE UPDATE

At first quarter, revenue is forecast to be \$757.3 million (5.2 per cent) higher than budget.

Non-Renewable Resources

Forecast revenue from non-renewable resources is up nearly \$360 million from budget, primarily due to higher oil and potash revenue.

Oil and natural gas revenue is expected to be nearly \$205 million higher, primarily due to higher West Texas Intermediate (WTI) oil prices, a narrower light-heavy oil price differential and an increase in oil production, partly offset by a higher average exchange rate forecast.

Potash revenue is expected to be \$149 million higher, primarily due to higher average prices (US\$231 per KCl tonne, up US\$40 from budget), partly offset by a higher exchange rate.

In addition, the First Quarter Financial Report includes a \$10 million increase in the resource surcharge, reflecting higher-than-budgeted oil and potash value of sales forecasts, and a \$3 million increase in Crown land sales, reflecting a higher-than-expected April subsurface mineral rights sale.

The forecast increase in non-renewable resource revenue is partly offset by a \$7 million decrease in other non-renewable resources revenue—including uranium, coal and other minerals—primarily due to the larger-than-budgeted impact of the Cigar Lake mine closure on uranium royalties.

Key Assumptions

WTI

WTI is now forecast to average US\$68.04 per barrel in 2021-22, up from US\$54.33 at budget. WTI averaged US\$67.66 from April to the end of July. A US\$1 per barrel change in the fiscal-year average WTI oil price results in an estimated \$14 million change in 2021-22 oil royalties (all else being equal).

Oil Differential and Production

The light-heavy oil differential forecast at first quarter is 13.3 per cent, down from 19.7 per cent at budget. A lower differential results in higher oil revenue for Saskatchewan (all else being equal). Oil production is forecast to be 163.1 million barrels at first quarter, up from 160.0 million barrels at budget.

Exchange Rate

The exchange rate is now forecast to average 82.2 U.S. cents in 2021-22, up from 79.1 U.S. cents at budget. From April through the end of July, the Canadian dollar averaged 81.0 U.S. cents. A 1 U.S. cent change in the fiscal-year average exchange rate results in an estimated \$28 million change in 2021-22 non-renewable resource revenue (all else being equal). A lower exchange rate results in higher revenue and a higher exchange rate results in lower revenue, as resource exports are priced in US dollars.

2021-22 NON-RENEWABLE RESOURCES FORECAST ASSUMPTIONS

	2020-21 Actual	2021-22 Budget	First Quarter	Change
WTI Oil Price (US\$/barrel)	42.32	54.33	68.04	13.71
Light-Heavy Differential (% of WTI)	16.9	19.7	13.3	(6.4)
Well-head Oil Price (C\$/barrel) ¹	36.54	49.31	65.41	16.10
Oil Production (million barrels)	152.5	160.0	163.1	3.1
Potash Price (mine netback, US\$/KCl tonne) ²	180	191	231	40
Potash Price (mine netback, C\$/K ₂ O tonne) ²	390	396	465	69
Potash Sales (million K ₂ O tonnes) ²	14.1	14.3	14.1	(0.2)
Canadian Dollar (US cents)	75.75	79.12	82.17	3.05

¹ The average price per barrel of Saskatchewan light, medium and heavy oil.

² Ministry of Finance calculations derived from calendar-year forecasts.



Federal Transfers

Transfers from the federal government are forecast to be up \$401.1 million from budget, largely due to:

- \$131.6 million for Saskatchewan's share of the Canada-wide Early Learning and Child Care Agreement and the Early Learning and Child Care one-time workforce investment;
- \$124.1 million for Saskatchewan's share of the Helping Our Health Systems Recover program;
- \$62.6 million in one-time top-up funding for the Canada Community-Building Fund;
- \$31.2 million increase due to a higher federal portion of Crop Insurance premiums as a result of an increase in insured acres and higher prices; and
- \$31.0 million for Saskatchewan's share of Canada's COVID-19 Immunization Plan.

Government Business Enterprises (GBEs) Net Income

Net income from GBEs is forecast to be down \$48.3 million from budget reflecting reductions of:

- \$18.2 million at SaskPower, primarily due to higher operating costs, partially offset by higher electricity sales;
- \$14.7 million at SaskEnergy, mainly reflecting lower natural gas sales and lower profit margins; and
- \$11.2 million at the Workers' Compensation Board, mainly due to higher claims costs, partially offset by higher investment income.

Other net changes across the GBE sector amount to a decrease of \$4.2 million.

Other Own-Source Revenue

Other own-source revenue is forecast to be up \$44.6 million from budget, due to a \$34.6 million increase in insurance revenue (mainly due to higher Crop Insurance producer premiums as a result of an increase in insured acres and higher prices) and a \$10.0 million increase in forestry fee revenue.

Taxation

The forecast for taxation revenue is unchanged from budget. Forecasts will be updated at mid-year when more data is available.



2021-22 SCHEDULE OF REVENUE

(Millions of Dollars)

	Budget	First Quarter Forecast	Change
Taxation			
Corporation income	754.6	754.6	-
Fuel	477.9	477.9	-
Individual income	2,420.8	2,420.8	-
Property	784.8	784.8	-
Provincial sales	2,144.0	2,144.0	-
Tobacco	201.8	201.8	-
Other	454.1	454.1	-
Total Taxation	7,238.0	7,238.0	-
Non-Renewable Resources			
Crown land sales	9.2	12.1	2.9
Oil and natural gas	505.1	710.0	204.9
Potash	431.8	581.1	149.3
Resource surcharge	302.6	312.6	10.0
Other	79.8	72.6	(7.2)
Total Non-Renewable Resources	1,328.5	1,688.4	359.9
Net Income from Government Business Enterprises			
Municipal Financing Corporation	1.1	1.1	-
Saskatchewan Auto Fund	192.1	192.1	-
Saskatchewan Gaming Corporation	11.5	6.0	(5.5)
Saskatchewan Government Insurance	40.0	40.0	-
Saskatchewan Liquor and Gaming Authority	423.4	428.9	5.5
Saskatchewan Power Corporation	16.7	(1.5)	(18.2)
Saskatchewan Telecommunications Holding Corporation	100.0	100.0	-
Saskatchewan Water Corporation	7.0	7.1	0.1
SaskEnergy Incorporated	49.7	35.0	(14.7)
Saskatchewan Workers' Compensation Board	(1.3)	(12.5)	(11.2)
Consolidation adjustments	59.0	54.7	(4.3)
Total Net Income from Government Business Enterprises	899.2	850.9	(48.3)
Other Own-Source Revenue			
Fees	1,170.0	1,180.0	10.0
Insurance	282.7	317.3	34.6
Investment income	88.4	88.4	-
Transfers from other governments	73.2	73.2	-
Miscellaneous	489.8	489.8	-
Total Other Own-Source Revenue	2,104.1	2,148.7	44.6
Transfers from the Federal Government			
Canada Health Transfer	1,330.4	1,330.4	-
Canada Social Transfer	477.4	477.4	-
Other	1,100.7	1,501.8	401.1
Total Transfers from the Federal Government	2,908.5	3,309.6	401.1
Total Revenue	14,478.3	15,235.6	757.3



EXPENSE UPDATE

At first quarter, total expense is forecast to be \$883.8 million (5.2 per cent) higher than budgeted.

The increase in expense is primarily due to an additional \$706.6 million in **agriculture**. This includes a \$588 million increase to expected Crop Insurance indemnities resulting from the impact of drought conditions (bringing the total indemnity forecast this year to \$1.1 billion). It also includes \$119 million through the AgriRecovery program, to help producers maintain breeding stock and address the high costs they face due to current drought conditions.

Education expense is forecast to increase by \$113.9 million, including \$131.6 million to help make child care more affordable and increase support for early childhood educators, partially offset by a \$17.7 million decrease in pension expense for the Teachers Superannuation Plan.

There is also a \$62.6 million increase in **community development** related to the Canada Community-Building Fund announced in March 2021 by the federal government.

In addition, **economic development** expense is now forecast to be \$13.3 million higher than budgeted, primarily due to increased payments through the Small Business Emergency Payment program.

Protection of persons and property expense is forecast to be \$12.1 million higher than budgeted, primarily due to increased costs incurred by the Saskatchewan Public Safety Agency for response activities related to wildfires in Northern Saskatchewan.

Expense for **general government** is forecast to be \$24.7

2021-22 PUBLIC DEBT UPDATE -FIRST QUARTER

As at March 31
(Millions of Dollars)

	Budget	First Quarter Forecast	Change
General Revenue Fund			
- Operating	9,400.0	9,525.0	125.0
- Saskatchewan Capital Plan	8,142.0	8,142.0	-
Other Government Service Organizations	313.4	309.9	(3.5)
Government Service Organization Debt	17,855.4	17,976.9	121.5
Government Business Enterprise Debt	9,910.9	9,880.1	(30.8)
Public Debt	27,766.3	27,857.0	90.7
Guaranteed Debt	0.1	0.1	-

million lower than budgeted primarily due to a \$26.7 million decrease in pension expense for the Public Service Superannuation Plan offset partially by \$2.0 million to the Federation of Sovereign Indigenous Nations to support research into undocumented deaths and burials on formerly federally operated residential school locations in Saskatchewan.

All other expense themes are forecast to be on budget.

PUBLIC DEBT UPDATE

At first quarter, public debt is now forecast to be \$27.9 billion at March 31, 2022, which is \$90.7 million higher than budgeted.

The increase in forecast public debt from budget is primarily attributable to \$125.0 million of higher GRF operating debt and \$87.6 million of incremental debt at SaskTel, partially offset by \$102.7 million of lower debt at SaskPower.

The higher forecast GRF operating debt pertains to the increase in the operating deficit resulting from higher agriculture support payments partially offset by higher expected revenue from resource royalties.

The additional debt at SaskTel is due to obligations arising from the recently completed 5G spectrum auction.

The lower forecast debt at SaskPower is largely due to lower-than-expected cash needs on contracts that hedge the price of natural gas, and lower-than-expected carbon tax obligations for 2019 and 2020 due to maximizing lower emission power generation, as well as timing differences with respect to 2021 carbon tax obligations.

Debt charges are unchanged from budget at \$755 million.



2021-22 SCHEDULE OF PUBLIC DEBT

As at March 31

(Millions of Dollars)

	Budget	First Quarter Forecast	Change from Budget
Government Service Organization Debt			
General Revenue Fund			
-Operating	9,400.0	9,525.0	125.0
-Saskatchewan Capital Plan ¹	8,142.0	8,142.0	-
Boards of Education	136.9	134.4	(2.5)
Global Transportation Hub Authority	40.2	40.2	-
Health Sector Affiliates	9.6	9.6	-
Saskatchewan Health Authority	59.7	59.7	-
Saskatchewan Opportunities Corporation	49.3	48.3	(1.0)
Water Security Agency	14.3	14.3	-
Other	3.4	3.4	-
Government Service Organization Debt	17,855.4	17,976.9	121.5
Government Business Enterprise Debt			
Municipal Financing Corporation of Saskatchewan	243.8	243.8	-
Saskatchewan Gaming Corporation	5.0	5.0	-
Saskatchewan Liquor and Gaming Authority	89.8	89.8	-
Saskatchewan Power Corporation	6,413.2	6,310.5	(102.7)
Saskatchewan Telecommunications Holding Corporation	1,335.3	1,422.9	87.6
Saskatchewan Water Corporation	80.9	77.5	(3.4)
SaskEnergy Incorporated	1,742.9	1,730.6	(12.3)
Government Business Enterprise Debt ²	9,910.9	9,880.1	(30.8)
Public Debt ³	27,766.3	27,857.0	90.7
Guaranteed Debt	0.1	0.1	-

¹General Revenue Fund - Saskatchewan Capital Plan consists of amounts borrowed by the General Revenue Fund to finance investment in infrastructure assets.

²GBE debt includes both general debt and GBE-specific debt. General debt of GBEs is the amount transferred from the General Revenue Fund to a GBE and recorded as a loan receivable in the Summary Financial Statements. GBE-specific debt is debt issued by, or specifically on behalf of, GBEs. GBE-specific debt is included in "Investment in government business enterprises" in the Summary Financial Statements.

³Public debt is shown net of sinking funds.



ECONOMIC UPDATE

At first quarter, Saskatchewan's economic performance remains on track with budget expectations, with many aspects of the provincial economy performing well. However, there are risks posed by prolonged drought conditions and by the increasing spread of the Delta variant of COVID-19 around the world and especially in the United States.

Key Economic Measures

Employment in the first seven months of 2021 increased by 15,029 or 2.8 per cent compared to the first seven months of 2020, and Saskatchewan's unemployment rate dropped from an average of 9.4 per cent to 7.3 per cent, fourth lowest among the provinces.

Wholesale trade, average weekly earnings, international goods exports, and retail sales have increased in 2021 compared to the same period in 2020.

Saskatchewan has also posted the second-strongest growth in manufacturing sales and new housing starts among Canadian provinces so far this year.

In addition, building construction investment increased, driven by a significant increase in residential construction investment, which has been positively impacted by low interest rates.

SASKATCHEWAN ECONOMIC INDICATORS IN 2021

(as of first quarter)

	Saskatchewan			Canada	
	Level	% Change	Rank	% Change	Period
Population at Apr. 1 (000s)	1,179.9	0.0	9	0.4	April
Employment (000s)*	552.1	2.8	10	5.1	Jan-Jul
Unemployment Rate (%)*	7.3	n.a	4th lowest	8.3	Jan-Jul
Employment Rate (%)*	62.1	n.a	2	59.5	Jan-Jul
Consumer Price Index (2002=100)*	143.2	2.1	lowest	2.6	Jan-Jul
Average Weekly Earnings (\$)*	1,103.1	1.2	7	4.8	Jan-May
Retail Sales (\$B)**	8.5	19.3	9	21.6	Jan-May
Wholesale Trade (\$B)**	15.4	9.0	10	19.4	Jan-Jun
New Motor Vehicle Sales (# of Units)**	22,572	26.6	9	31.1	Jan-Jun
Food Services & Drinking Places Sales (\$M)**	681.5	16.9	4	1.0	Jan-May
Manufacturing Sales (\$B)**	9.8	37.1	2	20.3	Jan-Jun
International Goods Exports (\$B)**	17.8	20.1	6	22.1	Jan-Jun
Building Permits (\$B)**	0.8	34.6	6	35.5	Jan-Jun
Housing Starts (# of Units)**	2,237	101.9	2	46.7	Q1 & Q2
Investment in Building Construction (\$B)**	1.9	26.6	6	28.2	Jan-Jun
Residential (\$B)**	1.5	73.8	4	46.9	Jan-Jun
Non-residential (\$B)**	0.4	(33.8)	10	(5.2)	Jan-Jun

Source: Statistics Canada, August 2021

*Year to date average

**Year to date total



Non-Renewable Resources

Potash production increased by 6.5 per cent in the first six months of 2021.

The increase in global oil demand has seen the benchmark WTI oil price increase from an average of about US\$39.40 per barrel in 2020, to an average of about US\$63.45 from January through the end of July 2021.

The value of oil sales increased by more than 109 per cent in the first five months of 2021 compared to the same period last year.

The recent surge in oil prices, driven by strong demand, will help stimulate the recovery of Saskatchewan's oil and gas industry.

Agriculture

Saskatchewan's farm and intermediate food product exports have increased by more than 15.6 per cent so far in 2021, compared to the same period in 2020. The impact of drought, however, is a major risk for this sector.

Real GDP

According to private-sector forecasters, Saskatchewan's real GDP is now expected to grow by 5.6 per cent in 2021 and by 3.8 per cent in 2022.

At budget, these private-sector forecasters expected Saskatchewan's real GDP to grow by 4.6 per cent in 2021 and by 3.6 per cent in 2022, after an estimated 5.2 per cent decline in 2020.

Government's real GDP forecast at budget was 3.4 per cent growth in 2021, followed by growth of 3.2 per cent in 2022. This is after an estimated 4.2 per cent decline in real GDP forecast for 2020.

Population

Saskatchewan's population grew marginally—by 288 persons—between April 1, 2020, and April 1, 2021. The province's population now stands at about 1,179,900 persons (as of April 1, 2021).

CURRENT PRIVATE SECTOR REAL GDP FORECASTS FOR SASKATCHEWAN*

	2021	2022	Release Date
IHS Markit	5.6	4.4	21-May
CBOC	6.3	4.2	21-Jun
TD Bank	5.7	4.0	21-Jun
Royal Bank of Canada	5.7	4.0	21-Jun
Bank of Montreal	5.3	3.2	21-Aug
CIBC	5.6	3.4	21-Jul
Scotiabank	5.5	3.6	21-Jul
National Bank	5.4	3.5	21-Jul
Laurentian Bank	5.6	3.5	21-Jul
Average	5.6	3.8	
2021-22 Budget Forecast	3.4	3.2	

*Per cent increase in Real GDP

