Could Do Better - West:

Grading Western Canada's 2006/07 provincial budgets

By Ian Munro &
David Murrell

August 2007

Produced in partnership with the Frontier Centre for Public Policy

Atlantic Institute for Market Studies

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EXECUTIVE SUMMARY

This study evaluates the fiscal year 2006/07 provincial finances for Western Canada and Ontario, using a standardized grading system developed at the Atlantic Institute for Market Studies (AIMS). With this approach, AIMS has evaluated the finances of the Atlantic provinces in three previous studies. Part of the grading methodology involves a retrospective assessment of budget forecast accuracy; this is why this paper assesses budgets for fiscal year 2006/07 that were delivered in the spring of 2006. Assessments of the spring 2007 budgets for the fiscal year 2007/08 will follow in the future.

To determine a single overall grade for each province, we first construct three separate subgrades:

- a measure of the *fiscal health* of each province just before the tabling of the fiscal year 2006/07 budget in spring 2006;
- a measure of the *fiscal accuracy*, or transparency, of the 2005/06 budget, which allows us to assess how the province has adhered to its 2005/06 budget forecast according to the revised data in the 2006/07 budget, and how the province's data deviate from the more comprehensive statistics published by the Dominion Bond Rating Service; and,
- a *budget impact* grade, which is the assessment of the 2006/07 budget itself. We then average the three subgrades to derive an overall grade for each of the four western provinces and Ontario, with a C+ representing an average grade across all ten provinces.

As a group, the western provinces and Ontario generally score better than the ten-province average. Ontario leads the way with the highest overall 2006/07 grade, a B. Alberta and British Columbia are tied with the second-highest mark, a B–. Manitoba comes in next with an overall mark of C+/B–. Saskatchewan registers the lowest mark among the five provinces west of the Ottawa River with an average C+.

All five provinces earn better public finance grades than Quebec and the Atlantic provinces, which collectively registered a below-average 2006/07 mark of C. Nevertheless, the 2006/07 grades of the westernmost five declined a bit from the revised marks they received in 2005/06. Alberta's grade fell the most, from a revised B in 2005/06 to B– in 2006/07. Manitoba's mark declined slightly (to C+/B–, from B– in 2005/06), as did Saskatchewan's (to C+, from C+/B– in 2005/06). Both Ontario, with a B, and British Columbia, with a B–, receive the same grade as in 2005/06.

Looking at the three subgrades, we note that Alberta boasts a stellar A/A+ mark for fiscal health as a result of its high surpluses and very low interest paid on its minuscule debt. Ontario records the second-highest fiscal health mark, at B+. British Columbia comes in third with a B–/B. Manitoba and Saskatchewan have the lowest 2006/07 fiscal health marks of the five provinces, at C+ and C, respectively. Since Saskatchewan's fiscal health mark is lower than the ten-province average, we strongly recommend that the province begin a program to cut spending and reduce its debt.

On the fiscal accuracy, or transparency, of the 2005/06 budgets, we note that there is less disparity among the five provinces west of the Ottawa River. Ontario and British Columbia lead the way with slightly better than average B– grades, Manitoba comes in third with a C+/B–, Alberta is fourth with a C/C+, and Saskatchewan again comes in last with a sub-par C mark.

Finally, in evaluating the spring 2006/07 budgets, we award Saskatchewan the highest mark among the five provinces, a B+. This mark stems from the province's plans to limit spending and lower some business taxes. Ontario and Manitoba come in tied for second with identical B– marks, and British Columbia is fourth with a below-par C–/C grade. Alberta, in our judgment, tabled the poorest 2006/07 budget of any of the ten provinces, with high spending increases and no announced tax reductions, for which we award it a poor D–/D mark. Recall, however, that here we grade the taxation *changes* announced in the budget, not the overall tax regime. On the latter, Alberta of course compares very favourably to other provinces.

In summary, the economies of Ontario and the four western provinces face considerable uncertainty. Ontario is in the midst of a noticeable slowdown in growth, given troubles with its auto and non-auto manufacturing exports. A possible slowdown in the economies of China and other Asian nations could depress natural resource prices.

A growth slowdown — and possible economic recession — could lead to very little growth of provincial own-source revenues, not only for Ontario and the west, but for all ten provincial governments. Given the consensus among forecasters that an economic slowdown is imminent, the governments of Ontario and the western provinces should undertake tighter discipline, particularly to limit spending. The four western provinces must continue to record annual budget surpluses, and Ontario — which could fall into recession as soon as this year — must end its fiscal deficits. All five provinces should strive to improve their finances through fiscal year 2007/08 and beyond.

INTRODUCTION

This study, a shared venture by the Atlantic Institute for Market Studies (AIMS) and the Frontier Centre for Public Policy, is the first to evaluate the spring budgets of the four western provinces and Ontario. Our grading philosophy remains the same as that used in AIMS' previous report cards on the fiscal health of the Atlantic Canadian provinces: *Could Do Better: Grading Atlantic Canada's 2004/05 Provincial Finances* (Murrell 2005) and *Could Do Better 2: Grading Atlantic Canada's 2005/06 Provincial Finances* (Murrell and Winchester 2006).[1] We use the same data and grades calculated for a companion study, *Could Do Better 3: Grading Atlantic Canada's 2006/07 Provincial Finances* (Murrell and Munro 2007).

Part of the grading methodology involves a retrospective assessment of budget forecast accuracy; this is why this paper assesses budgets for fiscal year 2006/07 that were delivered in the spring of 2006. Assessments of the spring 2007 budgets for the fiscal year 2007/08 will follow in the future.

In making our assessments, we proceed from the assumption that careful, well-planned, cautious budgetmaking has a positive impact on provincial development. More important, avoiding debt and encouraging growth contribute to long-term solutions for the western provinces and Ontario, just as they do for the five eastern provinces. Accordingly, we believe that pointing out deficiencies in the provinces' finances can help the public, opinionmakers, and policymakers in their demands that the five governments take prudent action to secure their provinces' economic future.

We grade each province's budget relative to the average of all ten provinces. To do so, however, we need to look beyond the merits of the budgets themselves. A budget is simply a statement of how the province intends to collect and spend revenue in the following year. To place these intentions in context, we must measure the state of a province's public finances before the budget is tabled and compare that state with the national average. For example, a province that cuts government spending might not do so out of a sense of frugality or fiscal conservatism but because it is attempting to deal with a high deficit and debt load. Thus, the context in which a province undertakes a spending cut must be taken into account. Accordingly, we assign a *fiscal health grade*, which is a measure of the state of the province's fiscal finances for the year 2005/06, prior to the tabling of the spring 2006 budget; this component is worth 40 percent of the total grade.

[1] For a detailed explanation of the grading scheme, see Murrell (2005, 7–11); here, we present only a brief summary of our approach.

Another complication is that, although a province might promise a spending cut in its budget, it might not deliver on that promise during the fiscal year. Alternatively, the province might forecast a balanced budget but end up with a deficit at the end of the fiscal year. To assess the government's fiscal accountability we assign a *fiscal accuracy grade*, which we determine in two ways. First, we gauge the believability of the province's budget data using comparable statistics from the Dominion Bond Rating Service (DBRS), which we believe provides the best, most complete picture of a provincial government's fiscal status. We do this for per capita deficits and surpluses, as well as for per capita total spending. Second, we measure the forecasting error of the numbers in the fiscal year 2005/06 budget as determined by the revised data for 2005/06 contained in the 2006/07 budget. The fiscal accuracy grade is also worth 40 percent of the total grade. Finally, we assign a *budget impact grade* for the fiscal year 2006/07 budget itself, based on the extent to which, in our judgment, it promotes the province's economic growth. We determine that grade according to whether the budget holds spending growth to a modest rate, reduces the deficit or maintains a surplus, and keeps provincial tax rates down. In particular, we look for a provincial government to cut the most pernicious taxes — such as those levied on capital, followed by those on businesses and corporations — as well as corporate payroll taxes and personal income taxes. This component is worth the final 20 percent of the total grade.

Figure 1: ***Definition of the Fiscal Indicators Used to Compile the Three Grades***

Indicator	Definition
Indicator 1	2005/06 per capita debt interest paid
Indicator 2	2005/06 per capita deficit (or surplus)
Indicator 3	2005/06 per capita ordinary expenditures less debt interest
Indicator 4	Number of provincial employees per 1000 population in 2005
Indicator 5	Negative of the absolute value of the 2005/06 per capita deficit error (DBRS vs. budget documents)
Indicator 6	Negative of the absolute value of the 2005/06 per capita spending error (DBRS vs. budget documents)
Indicator 7	2005/06 surplus estimate error (2005/06 vs. 2006/07 estimates)
Indicator 8	2005/06 expenditure estimate error (2005/06 vs. 2006/07 estimates)
Indicator 9	Change in per capita deficit (or surplus) from 2005/06 to 2006/07 (from budget documents)
Indicator 10	Change in per capita debt interest from 2005/06 to 2006/07 (from budget documents)
Indicator 11	Change in per capita dollar expenditures from 2005/06 to 2006/07 (from budget documents)
Indicator 12	Qualitative estimate of tax rate and tax base changes announced in the 2006/07 budget documents

Each of the three subgrades is determined by four indicators — 12 in all (see Figure 1). Indicators 1 to 11 are calculated using a statistical measure known as a "z-score," which permits data from all ten provinces to be graded relatively. Indicator 12 is based on a subjective estimate of tax changes offered in each province's budget, since no good correlation model has been developed to determine the effects of tax changes on economic growth (see Figure 2).

Figure 2: ***Announced Tax Changes by Province, fiscal-year 2006/07 Budget***

	Business Taxes	Personal Income Taxes	Sales and Excise Taxes	Other Taxes and User Fees	Indicator 12 Grade	Reason for Grade
NL			Tobacco taxes increased by 1 cent per cigarette		C	Net increase in taxes levied when nearly all the other provinces are reducing taxes
PE	Small business corporate tax rate reduced from 6.5% to 5.4%				B–	Continuing cuts in business taxes, but some other provinces have done more
NS	Large and small corporation taxes reduced				B–	Modest reduction in business taxes earns modestly higher-than-average mark
NB	Large and small corporation taxes reduced				B–	Modest reduction in business taxes earns modestly higher-than-average mark
QC	Small corporation tax rate reduced	Tax deductions for workers increased			B–	Modest reductions in corporate and personal income taxes
ON	Capital tax rates gradually being reduced				C	Only slight business tax reductions; phase-out of capital tax scheduled for 2012
MB	Continued reductions in small business, manufacturing taxes	Continued reductions in middle personal income tax brackets			B–	Continuing effort to reduce broad-based taxes
SK	Steep cuts to capital and large and small corporation taxes				A–	Commendable effort to cut broad-based business taxes
AB	Small cut in large corporation taxes				C	Minor tax cuts when other provinces are doing more
BC					D+	No tax changes when all provinces except Newfoundland and Labrador are reducing taxes

Finally, the availability of revised and more up-to-date estimates from DBRS allowed us to recalculate the grades we assigned in last year's report card on provincial finances. We present these revised grades in Appendix Table A-4. Four of the five provinces under consideration, witnessed a slight rise in their respective grades, with their revised grades shown in parentheses: Ontario (B), Manitoba (B–), Saskatchewan (C+/B–), and Alberta (B). British Columbia's mark (B–) was unrevised. Note that the 2005/06 revised marks for all five provinces west of the Ottawa River were above the average, standardized C+ grade. This means of course that the five provinces east of the Ottawa River, taken as a group, performed worse than average.

THE RECENT ECONOMIC BACKGROUND

In terms of economic growth, the five westernmost provinces differ from one another considerably — such that we cannot really speak of a homogeneous region. In 2002, the real gross domestic product (GDP) of the three prairie provinces grew at rates lower than the national rate of 2.9 percent rate — indeed, Saskatchewan's actually shrank by 0.4 percent. Ontario and British Columbia, in contrast, grew at rates above the national figure. Since 2003, however, the energy-producing provinces of Alberta, Saskatchewan, and British Columbia have grown faster than Canada as a whole (except for a Saskatchewan in 2006), while Ontario and Manitoba often have lagged. Ontario's growth, in fact, has been consistently below the overall Canadian rate and is expected to continue to lag through 2007. (See Figure 3.) In per capita terms, the disparity between Ontario's and Canada's growth rates is even more marked.

Figure 3: ***Estimated and Forecast Growth in Real GDP, Ontario, the Western Provinces, and Canada, 2002-07***

	ON	MB	SK	AB	BC	Canada
			(year-over-year percentage change)			
2002	3.1	1.6	(0.4)	2.2	3.6	2.9
2003	1.3	1.3	4.1	2.9	2.8	1.8
2004	3.2	2.5	3.3	5.4	4.6	3.3
2005	2.8	2.7	3.1	4.6	3.7	2.9
2006	1.9	3.3	0.4	6.8	3.6	2.7
2007	1.8	3.4	3.7	4.5	3.4	2.4

Sources: Statistics Canada (CANSIM 384-0002); economic forecasts from BMO Capital Markets (Summer 2007)

Much of the softness in the Ontario economy since 2005 can be explained by weakness in manufacturing output due to the high Canadian dollar, high energy costs, and competition from Chinese exports. Auto manufacturing cutbacks portend further weakness in the province's economy. Lower manufacturing exports have led to slower growth in consumption (retail sales, housing starts, consumer services). Non-residential construction also has slowed in the province.

Manitoba's GDP for the near term is forecast to grow at a slightly higher rate than Canada's as a whole, but more slowly than those of the other three western provinces. Agricultural and construction activity is expected to be fairly strong. Production in services is expected to help the province's economy, paced by increases in transportation and wholesaling. Oil exploration, mining production, and electricity exports are accelerating.

Saskatchewan's economic growth, despite higher energy prices, slowed in 2006 to an increase of only 0.4 percent following three years above the 3 percent level. Much of the deceleration is accounted for by a drop in agricultural, potash, and forest goods production. However, activity is forecast to pick up in 2007. Crop output is forecast to return to normal levels, and uranium and oil exploration activity is increasing. Manufacturing remains strong.

Alberta's GDP increased by 6.8 percent in 2006 — the fourth year in a row of accelerated expansion. High energy prices and the fast pace of oil sands expansion have created all the hallmarks of a surging growth-pole economy. There are, however, some worrisome signs of a deceleration in Alberta's white-hot growth. Increased labour costs (and shortages of skilled labour) have led to a rescheduling of oil sands development. It is probable that Kyoto-inspired regulation of carbon emissions will slow (or even halt) some oil sands investment. Provincial government energy revenues are expected to decline in fiscal year 2005/06, which could lead to a sharp slowdown in government provincial spending. Some observers also foresee a slowing housing market, given skyrocketing home costs.

British Columbia posted a solid 3.6 percent growth rate in real GDP in 2006 — the second highest of the ten provinces. Much of this growth has been fuelled by strong population in-migration (both interprovincial and international). The province's economic strength also stems from strong consumer spending and construction (both residential and nonresidential). Increased trade with Asian countries and with Alberta has spurred construction in new port facilities at Prince Rupert and Vancouver. Forestry exports to the United States could decline this year, given weakness in that country's housing sector, which suggests that the province's growth rate could decelerate in 2007. Counteracting the softness in forestry is expected strength in metal and energy mining, and service output (film production and high-technology).

TRENDS IN PROVINCIAL GOVERNMENT REVENUES

Looking at the pattern of the actual and forecast percentage change of per capita provincial government revenues for Ontario, the four western provinces, and Canada (Table 4), three points emerge. First, for three of the five provinces, total per capita revenues (shown in the bottom panel) were forecast to decline in absolute terms in fiscal year 2006/07, after two years of sharp revenue increases. Second, the pattern for total revenue growth follows closely that of "own-source" revenue growth (shown in the top panel of the table). With own-source revenues, much of the decline can be accounted for by absolute declines in natural resources revenues and corporate income tax inflows. Third, a sharp decline in the growth rate of federal transfer payments was expected in 2006/07. Thus, federal transfers will not meaningfully offset the expected drop in the provinces' own–source revenues.[2]

[2] Note that these figures come from an October 2006 DBRS publication and thus do not take into account the changes in federal-provincial transfer payments that were announced in the March 2007 federal budget.

Figure 4: ***Growth Rates in Components of Provincial Government Revenue Per Capita, Ontario, the Western Provinces, and Canada, fiscal years 2003/04 to 2006/07***

Component	ON	MB	SK	AB	BC	Canada
		(year-over-year percentage change)				
Own-source revenue						
2003/04	(3.3)	(5.9)	2.0	11.1	6.0	2.8
2004/05	13.9	22.1	9.7	12.8	8.7	9.8
2005/06	6.0	9.3	10.2	25.4	6.2	8.6
2006/07	1.0	(0.3)	(3.8)	(16.7)	(2.1)	(2.0)
Transfers						
2003/04	9.8	12.1	29.1	39.1	(6.3)	7.3
2004/05	18.6	15.2	61.3	8.5	42.9	14.5
2005/06	10.0	(2.3)	(24.6)	3.1	7.2	5.7
2006/07	1.7	4.5	6.4	(2.7)	(0.4)	2.4
Total revenue						
2003/04	(1.5)	(0.1)	5.4	13.7	4.2	3.5
2004/05	14.6	19.6	17.6	12.3	13.1	10.6
2005/06	6.6	5.2	2.9	23.0	6.3	8.3
2006/07	1.1	1.3	(2.2)	(15.4)	(1.8)	(1.2)

Source: Dominion Bond Rating Service.

The predicted decline in natural resources revenues is related to volatility in the energy sector. In February 2007, oil prices had declined significantly from the highs of mid-summer 2006; more recently, however, prices have in fact surpassed last year's peaks. The Alberta government forecasted a decline of close to $3 billion in energy-related revenues for fiscal year 2006/07. This, along with a $710 million drop in corporate income tax revenues, accounts for the 16.7 percent decrease in per capita own-source revenue for Alberta (see the top panel of Figure 4).

After Alberta, Saskatchewan is the next most important energy-producing province. Its natural resources royalties were predicted to drop by $216 million, to about $1.51 billion, in fiscal year 2006/07, while corporate income taxes were projected to decline by roughly $100 million. These decreases mean that Saskatchewan's total own-source revenues would fall by almost 4 percent on a per capita basis. The province expected an increase in federal transfers, particularly in equalization benefits, but total per capita provincial revenues were still expected to decline by more than 2 percent in 2006/07.

Manitoba and Ontario, neither of which is a significant energy producer, are the only provinces west of the Ottawa River that expected a rise in total provincial revenues in fiscal year 2006/07. For Manitoba, a modest decline in natural resource revenues would be counterbalanced by slight increases in other own-source revenues (personal, corporate, and sales taxes). The province also expected a rise in equalization payments, giving it an increase in total per capita provincial revenues of about 1.3 percent. Ontario's total per person provincial revenues were expected to rise by 1.1 percent. Given the continued economic slowdown in Ontario, the province forecasted slower growth in tax revenues during 2006/07.

To summarize, the percentage changes in total per capita provincial revenues (the bottom panel of Figure 4) should be a cause of worry for each of the five jurisdictions under consideration. Either absolute declines or sharp decelerations in growth were expected. These trends imply that governments ought to be considering a careful retrenchment of provincial spending, which we review next.

Trends in Provincial Expenditure

Taken together, the ten provincial governments were expected to increase total per capita provincial spending by about 2.6 percent in 2006/07 (see Figure 5). This is a slower rate of increase than the 5.7 and 6.1 percent growth rates seen in fiscal years 2004/05 and 2005/06. Thus, there is some evidence that Canada's provinces are aware of the drop-off in provincial revenues and have adjusted their spending accordingly. Spending is not being curtailed in step with reduced revenues, however, so that declines in provincial surpluses (or increases in deficits) are possible for 2006/07. In this section, we examine changes in provincial spending for the five provinces under review.

Figure 5: ***Growth Rates in Components of Provincial Government Expenditures Per Capita, Ontario, the Western Provinces, and Canada, fiscal years 2003/04 to 2006/07***

Component	**ON**	**MB**	**SK**	**AB**	**BC**	**Canada**
		(year-over-year percentage change)				
Health						
2003/04	10.3	6.8	7.5	9.0	1.8	7.5
2004/05	6.5	5.0	10.2	16.8	1.2	6.3
2005/06	5.0	6.5	8.8	5.0	7.5	5.2
2006/07	4.7	4.0	6.4	4.6	1.6	4.6
Interest						
2003/04	(6.3)	(1.5)	(1.2)	(42.1)	(2.0)	(3.1)
2004/05	6.6	(2.0)	(4.0)	9.2	(4.7)	2.8
2005/06	(4.8)	6.2	(4.9)	(47.1)	(3.9)	(2.2)
2006/07	2.7	4.3	1.0	13.9	5.8	2.0
Residual						
2003/04	6.5	3.0	7.5	4.4	(4.7)	2.5
2004/05	8.8	(1.3)	3.8	6.4	6.9	5.9
2005/06	8.0	16.0	13.8	13.8	9.3	8.2
2006/07	(1.5)	3.2	(4.1)	2.1	5.1	1.3
Total						
2003/04	6.4	4.3	6.7	5.1	(2.2)	3.7
2004/05	7.6	1.2	5.5	10.1	4.0	5.7
2005/06	5.4	11.5	10.4	9.9	8.0	6.1
2006/07	1.4	3.5	0.3	3.0	3.8	2.6

Sources: Dominion Bond Rating Service.

Health spending is a key domestic policy problem all provinces face. Given the aging of Canada's population, shortages of health care resources, and lengthening waiting lists, provincial governments sharply increased health budgets, especially during the late 1990s and early 2000s. In 2003, the First Ministers Accord on Health Care Renewal announced sharply increased federal money for the provinces over the next ten years. The 2003 federal budget earmarked $35 billion in new transfer money over the next two years, and the 2004 federal budget provided another $2 billion. These generous policies were translated into hefty spending increases in the fiscal year 2003/04 provincial budgets. Notice, though, that there has been a steady deceleration in health spending since that year (right-hand column, top panel, Table 5). Indeed, in 2005/06, the increase in per capita health spending (at 5.2 percent) was actually lower than the increase in total per capita outlays (at 6.1 percent), a curious result given the alleged importance of health care.

For fiscal year 2006/07, per capita health spending increases in Ontario and Alberta are near the national rate of growth (4.6 percent); the increase in Saskatchewan is larger, at 6.4 percent; in Manitoba, it is below the national average, at 4.0 percent; and in Ontario, the 1.6 percent increase is sharply lower than the national average.

We include interest payments on the provincial debt as a key indicator of provincial expenditures. Debt-servicing costs for the ten provinces as a whole (right-hand column, second panel, Figure 5) show that such spending has held reasonably steady for the four fiscal years under consideration. In fiscal year 2006/07, the per capita cost of servicing the provincial debt is forecast to increase for all five provinces, after having declined the previous year in all provinces except Manitoba. Comparing the 2006/07 forecasts with figures from 2003/04, these costs have declined in Saskatchewan, British Columbia, and dramatically so in Alberta, but risen in Ontario and Manitoba.

"Residual" spending — total spending minus health expenditures and interest payments on the debt — actually accelerated in fiscal years 2004/05 and 2005/06. This suggests that the increase in health care transfers was somewhat fungible: a glance at the third panel of Table 5 shows that large per capita increases for these two fiscal years are evident for Ontario and the four western provinces (except for Manitoba in 2004/05). Only in 2006/07 was such spending brought under greater control, given the sharp drop-off in provincial revenues.

PRESENTING THE GRADES

In grading the fiscal year 2006/07 spring budgets of Ontario and the four western provinces based on our relative grading scheme (see Figure 6), we first highlight the overall findings.

Figure 6: ***The Grading Scheme***

Grade	Z-Score Interval	Grade Interpretation
A+	1.11 and above	outstanding
A	0.91 to 1.1	excellent
A–	0.71 to 0.90	excellent-to-very good
B+	0.51 to 0.70	very good
B	0.31 to 0.50	good
B–	0.11 to 0.30	moderately-above-average
C+	–0.10 to 0.10	average
C	–0.11 to –0.3	moderately-below-average
C–	–0.31 to –0.5	mediocre
D+	–0.51 to –0.7	mediocre-to-poor
D	–0.71 to –0.9	poor
D–	–0.91 to –1.1	very poor
F	–1.11 and below	failure

Taken as a group, the five provinces merit a higher grade than Quebec and Atlantic Canada together. Four of the five provinces west of the Ottawa River are above the ten-province average of C+, and one (Saskatchewan) is right on the ten-province average. Conversely, four of the five provinces to the east of the Ottawa River are below the ten-province average, and one (New Brunswick) is right at the national average. The marks for the three prairie provinces slipped slightly in 2006, while those for Ontario and British Columbia are unchanged from 2005. Conversely, the marks of three of the easternmost provinces rose from 2005 to 2006, while Nova Scotia's fell and New Brunswick's stayed the same.

As Figure 7 shows, Ontario leads the way with a commendable overall grade of B. The province does well in all three areas, with a mark of B+ for its fiscal health grade, a B– for fiscal accuracy, and a B– for its 2006/07 budget. The provinces with the fastest economic growth, Alberta and British Columbia, are tied for second place with better-than-average B– grades. British Columbia earns a credible B–/B mark for its fiscal health grade before the 2006/07 budget and garners a good B– mark for its fiscal accuracy, but the province slipped somewhat in its 2006/07 budget, earning only a C–/C. Alberta boasts a solid A/A+ fiscal health grade, based on its high surpluses and very low debt interest paid. Facing difficult-to-predict revenues, however, the province posts only a C+ mark for fiscal accuracy. Also, the province's high spending and declining surplus caused its budget impact grade to fall noticeably, to a D–/D.

Figure 7: ***Grades for Provincial Government Finances and Budgets, fiscal year 2006/07***

	Fiscal Health Grade	Fiscal Accuracy Grade	Budget Impact Grade	Overall Grade
ON	B+	B–	B–	B
MB	C+	B–	B–	C+/B–
SK	C	C	B+	C+
AB	A/A+	C+	D–/D	B–
BC	B–/B	B–	C–/C	B–
NL	F/D–	B+	B/B+	C/C+
PE	D/D+	B–	B–	C
NS	C	D+	C–/C	C–
NB	C+	C	B	C+
QC	C+	C–	C+	C

Manitoba, with a C+/B–, and Saskatchewan, with a C+, post the lowest overall 2006 grades among the five provinces west of the Ottawa River. Manitoba registers an average C+ for its fiscal health grade; a B– for its fiscal accuracy mark, and a B– for its 2006/07 budget. Saskatchewan, despite its bountiful resources, does not register high marks. The province earns a sub-par C for both its fiscal health and fiscal accuracy grades, but the province did table a commendable 2006/07 budget that featured fiscal restraint and lower business taxes, for which it earns a B+ grade.

We now discuss the results of the five provinces under review in turn.

Ontario

Overall Grade: B

Ontario's overall 2006 grade of B is commendable, and represents the same mark achieved in 2005. Both marks represent a distinct improvement from the revised mark of C– Ontario received in 2004. The province does reasonably well on fiscal accuracy, earning a B– in 2006. We also award the province a B– for its 2006/07 budget, a modest improvement from its corresponding 2005 mark.

Much of Ontario's improvement is attributable to its having reduced the size of its longstanding deficits and the interest paid on its debt. In the 2006 budget address, Finance Minister Dwight Duncan stated that "the McGuinty government is on track to eliminate the fiscal deficit no later than 2008/09. A balanced budget will be achieved a year earlier in 2007-08 if the reserve is not required...We are on track to begin paying down Ontario's infrastructure deficit. We are paying down the mortgage, but we have to make sure that the foundation is fixed" (Ontario 2006, 2).

While Ontario's marks reflect its slowly improving fiscal position, we warn that the province's economy, in the short run, is in the midst of a noticeable deceleration, and declining revenues could put Ontario's fiscal projections in jeopardy.

Fiscal Health Grade: B+

Ontario earns mixed marks on deficit and debt financing, but stellar marks for the relatively small size of its government.

The province has decreased the size of its longstanding run of deficits, from $172 per capita in fiscal year 2004/05 to $109 per capita in 2005/06. Given the budget surpluses most other provinces recorded, though, Ontario's 2005/06 deficit is worse than the ten-province average, giving the province a D+/C– for Indicator 2. Ontario's interest payments have been reduced to slightly under $640 per capita, just below the national average of $668, a performance that earns the province a C+/B– for Indicator 1. Perhaps it is due to Ontario's relatively large size and the resulting economies of government scale, but the province spends $5480 per person, considerably less than the $6125 figure for the ten provinces taken as a group. And Ontario employs 75 workers per thousand residents, a figure lower than the Canada-wide average of 85. Both size-of-government measures earn the province noteworthy A+ marks for Indicators 3 and 4.

Fiscal Accuracy Grade: B–

In its fiscal year 2005/06 budget, Ontario did a very good job of reconciling its budget numbers with those of DBRS: its deficit numbers were only $2 per capita different than DBRS's standardized numbers (and much smaller than the national difference of $168), while its total per capita spending numbers differed from those of DBRS by only $161 (compared with the national average difference of $240). Ontario's good showing earns it A– grades for both Indicators 5 and 6. The provincial government's budget forecasting, however, was decidedly mixed. The province did register a deficit in 2005/06 deficit that was lower than forecast (by $111 per person), but this achievement pales in comparison with the unexpectedly high surpluses recorded by Alberta, Saskatchewan, Newfoundland and Labrador, and others. Consequently, Ontario earns only a C– for Indicator 7. The province underestimated 2005/06 spending by $143 per person, right at the ten-province average, earning it a C+ for Indicator 8.

Budget Impact Grade: B–

Ontario's deficit increased in fiscal year 2006/07, to about $130 per Ontarian. The per capita increase in the deficit over the previous year was fairly small — therefore, under our relative-marking scheme, Ontario beats the ten-province average and earns a B for Indicator 9. Ontario's rising deficit did force it to pay more in debt-servicing charges: a per capita increase of $24. This projected increase is larger than the ten-province average, so the province earns a below-par C– for Indicator 10. On a brighter note, Ontario plans to increase spending by a lower amount, $143 per capita, than the $230 per capita forecast average increase for all ten provinces. This performance gives Ontario a commendable A– for Indicator 11. On the tax front, Ontario has promised only modest reductions in its capital tax, with a complete phase-out planned by 2012. Meanwhile, other provinces are cutting business taxes more competitively, and some are cutting other taxes. Thus, Ontario receives only a C for Indicator 12.

To summarize, Ontario is making some headway in managing its deficit and debt, and the province does plan to limit the size of its spending increases. Set against five straight years of below-average growth in per capita real GDP, however, these moves are insufficient. They are also matched by a worrisome short-run forecast: difficulties in the auto and other manufacturing sectors could signal weak performance by the Ontario economy in 2007. Consequently, Ontario's 2006/07 budget forecasts could prove too optimistic. We recommend that the province keep spending increases to a minimum by seeking out cost savings in order to minimize any unexpected jump in the government deficit.

Manitoba

Overall Grade: C+/B–

In 2006, Manitoba earns an overall grade of C+/B–, a slight decline from the revised B– it received in 2005. The drop stems from the sharp decline in the province's fiscal health grade from a commendable B in 2005 to an average C+ in 2006. We consider the fiscal health mark to be extremely important, since it measures a province's overall fiscal development just before the 2006/07 budget is tabled. Since Manitoba has been growing more slowly than the national average, we urge it to plan future budgets carefully, build up its rapidly decreasing surplus, cut taxes, and limit spending growth.

In his 2006 budget speech, Minister of Finance Gregory F. Selinger said "we are delivering on our commitments within a responsible, balanced fiscal framework...I am pleased to announce that Budget 2006 is our seventh consecutive balanced budget, under balanced budget legislation. Furthermore, Budget 2006 anticipates a surplus of $148 million on a summary basis" (Manitoba 2006, 3). While it is true that the 2006 budget estimates a $148 million surplus for fiscal year 2006/07, this is considerably smaller than the $251 million surplus recorded the previous year. Furthermore, the province forecasts a still smaller $112 million surplus for 2007/08. Nevertheless, we welcome Manitoba's projected surpluses, however small, since the province has reduced taxes to spur the economy.

Fiscal Health Grade: C+

We award Manitoba only an average C+ for its fiscal health grade, a decline from the B– it earned in 2005. The warning signs of Manitoba's declining fiscal health are evident from DBRS's statistics. The province traditionally does well with respect to per capita interest payments on its debt, this year paying slightly more than $290 per capita — much lower than the $668 national average, and the second lowest of the ten provinces (only energy-rich Alberta has lower per capita interest payments). Thus, Manitoba earns a commendable A– for Indicator 1. Unfortunately, Manitoba's debt-servicing costs rose, from $276 per capita in fiscal year 2004/05 to $305 per capita in 2006/07. That amount is still well below the national average, however, which is projected to hold steady at around $680 from 2004 to 2006. The province posted a DBRS-adjusted surplus of $179 per capita in 2005/06 — but that was below a national average of $236 boosted by big surpluses in energy-rich jurisdictions, so Manitoba receives only a C for Indicator 2.

As for measures of the size of its government, the province's $6610 per capita non-interest, ordinary spending in fiscal year 2005/06 was above the ten-province average of $6125. The provincial government also employed a hefty 104 workers per 1000 population, a figure below only Saskatchewan (at 106) and tiny Prince Edward Island (at 122), and much greater than leaders Ontario and Alberta (at 75 and 78, respectively). Thus, when graded relative to the other provinces, Manitoba garners a B– for Indicator 3 and a poor D for Indicator 4. These two size-of-government indicators show mixed results, as do the A– and C marks earned for Indicators 1 and 2, respectively.

Fiscal Accuracy Grade: B–

Manitoba, like other provinces with relatively small populations, does not have a large "number crunching" staff in its Department of Finance. Yet the province does provide accurate numbers as measured against the corresponding figures from DBRS. Its estimated surplus differs from the DBRS accounting by only $35 per Manitoban, a discrepancy far smaller than the $168 nationwide average. Similarly, the province's estimated total spending figure differs by only $158 from the corresponding DBRS estimate, considerably smaller than the $240 per capita error at the national level. Both efforts earn Manitoba commendable A– grades for Indicators 5 and 6. Manitoba's budget forecasting, however, is decidedly below par and it earns only a D+ in our relative grading system for Indicator 7. Manitoba revised its total spending upward by $234 per capita, an amount much larger than the $133 per capita ten-province average. Thus, Manitoba receives only a C– for Indicator 8. This last mark is indicative of Manitoba's increasingly weak fiscal performance. The province should monitor its expenditures strictly in order to prevent large spending overruns.

Budget Impact Grade: B–

Manitoba projected a decline of $88 per capita in its surplus in fiscal year 2006/07, but that decline is not as severe as that reported by the energy-rich provinces. Thus, Manitoba receives a B for Indicator 9, based on our relative grading scheme. Per capita debt interest payments were projected to rise in 2006/07, so the province earns only a C for Indicator 10. Manitoba forecast expenditures to increase by $240 per person, but this is only slightly higher than the $230 ten-province average, so the province earns a C+ for Indicator 11. Finally, Manitoba did reduce small business taxes and the middle tax rate bracket of its personal income taxes, two noteworthy measures that earn the province a B for Indicator 12.

To summarize, we detect some noticeable and worrisome slippage in Manitoba's provincial finances. The province's per capita surplus has been falling and is expected to continue to do so. Its traditional, well-deserved advantage in having small debt-interest expenditures relative to the rest of the country is shrinking as interest costs rise steadily, another troubling trend. Finally, the province has had to revise its spending estimates upward, suggesting that stricter intra-fiscal year cost control is warranted.

Manitoba's economy has significant agricultural and manufacturing components. Both sectors face considerable uncertainty as a result of increasing competition from industrializing countries and a high Canadian dollar. Manitoba's fiscal advantage is not as strong as it once was. To help meet these challenges, Manitoba should aggressively pursue improved fiscal policy – lower taxes and interest payments on the provincial debt – to attract industry to the province.

Saskatchewan

Overall Grade: C+

Saskatchewan earns an overall grade of C+ in this year's report card, down slightly from the revised C+/B– mark it earned last year. Although Saskatchewan's mark is average for the ten provinces under our grading scheme, it is the lowest of the five westernmost provinces. The slight decline in the mark from last year comes from a drop in the province's fiscal health mark (from C+ in 2005 to C in 2006) and in its fiscal accuracy mark (from B– in 2005 to C in 2006). We nevertheless commend the Saskatchewan government for its solid fiscal year 2006/07 budget, for which we award a B+, up from the revised mark of C it earned in 2005.

Fiscal Health Grade: C

Saskatchewan's fiscal health grade in 2006 is a below-average mark of C, a performance of some concern for a province rich in energy and other resources and one that has to compete with ever-growing Alberta for scarce capital and skilled-labour resources. This sub-par grade reflects two difficulties: the province's deficit and debt picture is mixed, and its government is still too big. To its credit, Saskatchewan pays less interest per capita on its debt ($554), than the ten-province average ($668), a good performance that earns it a B–/B for Indicator 1. However, the province tabled a surplus of only $197 per capita in 2005/06, compared with the nationwide average of $236, for which it receives a C for Indicator 2. (Indeed, we are puzzled as to why this energy-rich province, in an oil-boom year, could not have tabled a larger surplus.) The provincial government is too large, spending $6875 per capita and employing nearly 106 people per 1000 residents. Both statistics are above the average for the ten province, garnering Saskatchewan grades of C/C+ and D, respectively, for Indicators 3 and 4.

Fiscal Accuracy: C

Saskatchewan's fiscal accuracy grade, a sub-par C, is a bit of a puzzle. Looking at Table A-2 in the Appendix, the province scores fairly good B–, B, and B– marks for the first three indicators of this subgrade, yet scores a dismal F for Indicator 8. The four marks do average to a C, so it is only the failing grade for Indicator 8 that brings the government's mark down. In its "Statement of Operations and Accumulated Deficit" (Saskatchewan 2006b, 10), the province budgeted $6593.9 million for operating expenses during fiscal year 2005/06, but actually spent a revised amount of $7142.2 million. This $548.3 million overrun, huge for a province of Saskatchewan's size, translates into overspending of $514 per capita, by far the largest of the country, for which we give the province a failing mark for Indicator 8. We recommend that Saskatchewan exert strict control over spending going forward.

Saskatchewan did well, however, on the other three indicators of fiscal accuracy. Comparing its per capita surplus and expenditure estimates with the corresponding DBRS numbers, the discrepancies were better than the ten-province average, earning the province grades of B– and B for Indicators 5 and 6, respectively. Saskatchewan underestimated its 2005 surplus by $465 per person, better than the national average, which earned the government a B– for Indicator 7.

Budget Impact Grade: B+

In preparing its 2006/07 budget, Saskatchewan seems to have taken account of its spending overrun difficulties in the previous fiscal year, because the province promised considerable spending control. Operating expenses were scheduled to rise only 0.1 percent — by far the most fiscally conservative spending plan of any province. Such parsimony earns Saskatchewan an A+ for Indicator 11. Moreover, the province scheduled some meaningful tax cuts, particularly to capital and corporate income taxes, earning it an A– for Indicator 12.

Saskatchewan's debt and budget balance plans, however, could be improved upon. Given a downward forecast in the price of oil at the time, Saskatchewan (like Alberta) expected lower energy-related royalties in fiscal year 2006/07, and expected a corresponding fall in its surplus by more than $290 per capita. This pessimistic scenario earns the province a C– for Indicator 9. Similarly, Saskatchewan projected a slight rise in debt-servicing payments —at a time when other provinces were lowering their interest costs — for which it earns only a C for Indicator 10.

In his budget speech, then Finance Minister Andrew Thompson stated that "Saskatchewan was the first Canadian province to balance its books in the 1990s and we are proud to have continued to do so in each subsequent year" (Saskatchewan 2006a, 2). We remain puzzled, however, by the methodology the province uses to compute its data. For fiscal year 2006/07, the province claims an operational surplus of $578 million (Saskatchewan 2006b, 10), but this figure does not include debt-servicing charges of $551 million. Once those payments are factored in, the province's real surplus is only $27 million. It then draws $75 million from the Fiscal Stabilization Fund to claim a "surplus" of $102 million. We suggest that this claim is overstated.

Moreover, the real surplus, $26 million, is rather small given the province's buoyant energy economy.

Saskatchewan should be recording larger real surpluses and putting more money into its Fiscal Stabilization Fund. One way to do this would be to reduce the size of its government. A more aggressive fiscal policy would also help to keep more of Saskatchewan's educated young citizens in the province.

Alberta

Overall Grade: B–

Alberta's overall 2006/07 grade of B– might seem surprising for a province benefiting from a classic energy boom, huge surpluses, and a rich Sustainability Fund. Indeed, the province's overall grade has declined steadily over the three years in which we have undertaken this grading exercise, recording an A– in 2004 and a B in 2005. Perhaps the dropoff reflects the well-publicized malaise in Alberta's government, which has admitted to having difficulties in coping with the ongoing economic boom.

On the positive side, Alberta's fiscal health mark has improved to an A/A+ as a result of buoyant surpluses and lower debt-servicing costs. On the negative side, erratic budget estimates lower the province's fiscal accuracy mark to a C+, and a smaller surplus and high spending depress the 2006/07 budget mark to a D–/D. In total, the three subgrades give Alberta an overall mark of B–, which could be improved upon with more aggressive budget-making.

Fiscal Health Grade: A/A+

As expected, given its energy-driven wealth, Alberta earns exemplary marks for its surpluses and debt financing. In fiscal year 2005/06, the province paid only $41 per Albertan in debt-interest costs and posted a per capita surplus of $2926 — two budget achievements that earn the province A+ marks for both Indicators 1 and 2.

A mixed picture emerges, however, on indicators of government size. The province employs only 78 workers per 1000 residents, compared with the ten-province average of 81, for which it earns an A for Indicator 4. But in terms of non-capital, program spending, Alberta's expenditure of slightly more than $7200 per Albertan is considerably higher than the national average of $6125. Such a large spending figure earns the province a D+ for Indicator 3. Altogether, however, Alberta earns an outstanding A/A+ for its 2006 fiscal health grade, a solid increase over the revised A– mark it registered in 2005.

Fiscal Accuracy Grade: C+

Alberta's grade for fiscal accuracy is made up of extremely erratic subgrades: for Indicators 5 through 8, it earns marks of F, A+, A+, and F, respectively (see Table A-2 in the Appendix). Given the large year-to-year swings in energy prices, it is understandably difficult for Alberta to predict revenue and surpluses. This difficulty in forecasting affects Indicators 7 and 8, which govern forecast errors for surpluses and spending. The province underestimated its 2005 budget surplus by $1786 per person, giving it an A+ for Indicator 7. On the negative side of the ledger, the province underestimated total spending by $427 per capita, the second-worst overspending of the ten provinces. Alberta thus earns an F for Indicator 8, a sign that the province ought to undertake more careful cost control.

Indicators 5 and 6 — which compare budget data from Alberta's books with those of DBRS — also show dramatically mixed results. The province's estimate of its surplus differs from DBRS's estimate by a very large $675 per person, a discrepancy that gives the province an F. However, Alberta's estimate for its fiscal year 2005/06 spending differs from that of DBRS by only $85 per capita, a figure much lower than the corresponding ten-province average error. as a result, the province earns an A+. The disparate marks of F and A+ average out to a fiscal accuracy mark of C+, on which Alberta should work hard to improve.

Budget Impact Grade: D–/D

The "Fiscal Summary" table in Alberta's budget mentions that declining energy prices would cause total government revenue to fall from about $34.6 billion to $32.4 billion (Alberta 2006b, 42). Yet despite this projected fall in revenue, the government still pushes up program spending by close to 4 percent and cuts transfers to the Sustainability Fund from $9.2 billion in fiscal year 2005/06 to $5.7 billion in 2006/07. Scanning through the topics in finance minister Shirley McClellan's budget speech, one is struck by the many references to increasing spending: "Investing in Infrastructure," "Investing in People," "Investing in Communities," Investing in Alberta's Economy" (Alberta 2006a). Indeed, virtually all of McClellan's speech was devoted to spending, with very little to tax cuts and budget balance management. Given the predicted drop in Alberta's revenues, its fiscal year 2006/07 surplus is set to fall by $1000 per capita, an unwelcome forecast that gives the province an F for Indicator 9.

Surprisingly, given Alberta's stress on the virtual elimination of its debt as a government goal, it managed to reduce interest service changes by a mere $5 per person, earning it only a C for Indicator 10. The province also promises to raise total spending by $331 per Albertan, an amount considerably larger than the $229 ten-province average; it therefore receives a poor D+ for Indicator 11.

Finally, Alberta has announced merely a few minor cuts to large corporation taxes when other provinces are doing much more. However, Alberta does have comparatively low tax rates to begin with, a booming economy, and large migration in-flows. But the province needs to improve its control of expenditures (where we see overruns) and to make better use of the

Sustainability Fund (where we see the government contributing to it as an afterthought, with no strong preconceived plan). If Alberta is satisfied with its tax rates, it should strive to limit per capita spending increases and aim for higher savings in the Sustainability Fund.

British Columbia

Overall Grade: B–

British Columbia, at first glance, seems a model of above-average consistency, earning an overall grade of B– in 2006, just as it did in 2005 and 2004. We are concerned, however, about the province's below-average budgets. British Columbia records creditable grades for its fiscal health (B–/B) and fiscal accuracy (B–), but its lacklustre 2006/07 budget earns it only a C–/C. In 2005, in similar fashion, the province earned a revised B for both fiscal health and fiscal accuracy, but its poor budget garnered only a D+/C–. So, whereas the overall grade appears consistent on the surface, there are warning signs that the province should tighten its slack budgetmaking.

Fiscal Health Grade: B–/B

For debt and budget balance indicators, British Columbia does comparatively well, with debt-servicing costs that average $371 per capita, considerably lower than the national average of $668. This achievement earns the province a B+ for Indicator 1. But it allowed its surplus to decline to $270 per resident, down from $365 the year before, meriting the province only a C+ for Indicator 2.

As does Alberta, British Columbia gives mixed signals about the relative size of its government. It spends more per capita ($6833) than the national average ($6125), but it employs a relatively small provincially funded workforce of 82 per 1000 residents. Thus, British Columbia earns a C+ and an A– for Indicators 3 and 4, respectively.

Fiscal Accuracy Grade: B–

British Columbia's Department of Finance does a good job of crunching its budget numbers, with three of the relevant indicators earning grades of B (the fourth falls short, with a C). The accuracy of the province's calculation of its fiscal statistics is commendable: its fiscal year 2005/06 surplus number differs from the DBRS calculation by only $76 per person, and its total spending number is only $240 per capita off the corresponding DBRS data. This success earns British Columbia B+ and B– for Indicators 5 and 6, respectively.

As for its own budgetary predictions, the province revised its 2005/06 surplus upward by nearly $300 per capita. But since the energy-rich provinces revised their per capita surpluses upward by even more, British Columbia earns only a C for Indicator 7. Total spending was revised upward by only $59 per capita, however, a worthy achievement for which we award the province a B for Indicator 8.

Budget Impact Grade: C–/C

Again, we worry about the direction of recent British Columbia budgets. The province predicted its surplus to fall from $1,475 million in fiscal year 2005/06 to $600 million in 2006/07. Given that surpluses also have been reduced in other provinces, however, British Columbia earns an average mark of C+ for Indicator 9. The province also said it would be paying more to service its debt, a telling indicator that all is not well; as a result, it earns a below-average C– for Indicator 10. The province projected an increase in total spending of $283 per resident, considerably higher than the ten-province average increase of $229. British Columbia thus earns a C for Indicator 11. Finally, the province did not reduce any taxes in its 2006/07 budget, earning a D+ for Indicator 12.

To summarize, British Columbia has improved its fiscal state over the past several years to the point where now it runs surpluses and pays comparatively less in debt-servicing costs than most other provinces. In her 2006 budget speech, finance minister Carole Taylor praises her government's recent achievements, and goes on to say that "We cannot become complacent. We cannot ever stop striving to improve. Because if we ever stop pushing forward, the province will start slipping backwards again" (British Columbia 2006, 12). Yet our analysis suggests this is precisely what British Columbia is doing. We find its 2006/07 budget troubling. Increasing debt-servicing charges, a decline in the surplus, sharply increased spending, and no tax reduction — these telling indicators suggest complacency among British Columbia's budgetmakers.

SUMMARY AND CONCLUSIONS

Canada's economy will probably undergo a deceleration through 2007 (e.g., BMO Capital Markets' "Provincial Monitor" for Summer 2007 projects GDP growth of 2.4 percent in 2007 versus 2.8 percent in 2006 while *The Economist* (www.economist.com) predicts a reduction from 2.8 percent in 2006 to 2.2 percent in 2007). This slowdown will likely be led by a recession in Ontario's automobile and auto parts sector and possible cutbacks, for environmental and other reasons, in energy-related industries in Alberta and Saskatchewan. British Columbia faces slowdowns in its traditional natural resources sectors. All ten provinces expect declines in their provincial revenues, with declines forecast to be most severe for the energy-producing provinces. As a result, provincial governments, as a whole, are restraining their total spending.

In this context of slower economic growth and slower revenue and spending growth, the five westernmost provinces are adjusting in different ways. Alberta, the most energy-rich province, faces the most exposure to volatility in petroleum prices. Yet Alberta, benefiting from past buoyant revenues, continues to increase per capita spending at too high a rate. In contrast, Saskatchewan (with some energy revenues) and Ontario (with no such revenues and facing a 2007 slowdown) are planning to restrict provincial spending, while Manitoba and British Columbia are scheduling per person spending increases at about the national rate. As for tax relief, only Manitoba and Saskatchewan have reduced taxes in a meaningful way in their fiscal year 2006/07 budgets.

To summarize, looking at the provinces' budgetary spending, tax, and balance decisions, Ontario (B–), Manitoba (B–), and Saskatchewan (B+) record the better budget impact grades. Alberta (D–/D) and British Columbia (C–/C) receive below-average grades. However, going into the spring 2006/07 round of budgets, Ontario already had a high fiscal health grade (B+), while Manitoba (C+) and Saskatchewan (C) did not. Alberta's fiscal health grade (A/A+) was very high, and British Columbia's (B–/B) was better than average.

We emphasize that, although the five westernmost provinces, as a group, have better overall grades for their provincial finances than do Quebec and the Atlantic provinces, our results suggest a gradual convergence is afoot. Ontario and British Columbia maintain their respective better-than-average grades, but those of Manitoba, Saskatchewan, and Alberta have slipped a bit. We hope our assessment signals these provinces to be careful about their spending and budget balances and at least to consider innovative tax cutting.

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APPENDICES

Table A-1: ***Scores for Indicator Components of Fiscal Health Grade***

	Indicator 1	Indicator 2	Indicator 3	Indicator 4	Grade
ON	C+/B–	D+/C–	A+	A+	B+
MB	A–	C	B–	D	C+
SK	B–/B	C	C/C+	D	C
AB	A+	A+	D+	A	A/A+
BC	B+	C+	C+	A–	B–/B
NL	F	C+	F	C	F/D–
PE	C+	C–	C–	F	D/D+
NS	C–	C–	B+	C	C
NB	B	C–	C	B–/B	C+
QC	D–	D/D+	A	A–	C+

Table A-2: ***Scores for Indicator Components of Fiscal Accuracy Grade***

	Indicator 5	Indicator 6	Indicator 7	Indicator 8	Grade
ON	A–	A–	C–	C+	B–
MB	A–	A–	D+	C–	B–
SK	B–	B	B–	F	C
AB	F	A+	A+	F	C+
BC	B+	B–	C	B	B–
NL	B	D–	A+	A+	B+
PE	B+	B+	D+	B–	B–
NS	C	F	D+	B–	D+
NB	B–	C–	D+	C	C
QC	D+	D+	D+	B+	C–

Table A-3: ***Scores for Indicator Components of Budget Impact Grade***

	Indicator 9	**Indicator 10**	**Indicator 11**	**Indicator 12**	**Grade**
ON	B	C–	A–	C	B–
MB	B	C	C+	B	B–
SK	C–	C	A+	A–	B+
AB	F	C	D+	C	D–/D
BC	C+	C–	C	C–	C–/C
NL	B–	A+	D–	C	B/B+
PE	A–	D+	B–	B–	B–
NS	B	C	F	B–	C–/C
NB	B–	C+	A–	B–	B
QC	B+	D+	C–	B–	C+

Table A-4: ***Changes to Total Grades, fiscal years 2005/06 to 2006/07***

	Total Grade 2005/06	Revised Total Grade 2005/06	Total Grade 2006/07	Direction of Change
ON	B–/B	B	B	no change
MB	C+	B–	C+/B–	slight decrease
SK	C+	C+/B–	C+	slight decrease
AB	B–	B	B–	slight decrease
BC	B–	B–	B–	no change
NL	D+/C–	D	C/C+	strong increase
PE	C	C–	C	slight increase
NS	C+	C+	C–	strong decrease
NB	C+	C+	C+	no change
QC	C	C+	C	decrease

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