



2005
BUDGET
Investing in the Next Alberta

2005 - 06 Quarterly Budget Report

Q1 FISCAL UPDATE

August 2005

UPDATING ALBERTANS

The First Quarter Fiscal Update consists of two parts – the updated 2005-06 forecast and the actual results for the first three months of the fiscal year (April 1 to June 30, 2005).

TABLE OF CONTENTS

2005-06 Forecast

Highlights	1
Revenue	2
Expense	4
Alberta Sustainability Fund	6
Capital Plan	7
Net Financial and Capital Assets	8
Capital Account	8
Assets, Liabilities and Net Assets	9
Net Financing Requirements	9
Fiscal Year Assumptions	9
Capital Investment and Amortization	10
Capital Grants to Local Authorities and Other Infrastructure Support	10
Actual Results	11
Consolidated Fiscal Summary	12
Expense	13

2005-06 FORECAST

Highlights

- Energy prices reached record highs in August. They are considerably higher than expected by most energy analysts or estimated in the budget.
- Energy price assumptions for the fiscal year have been increased to US\$50 per barrel for oil and Cdn\$6.01 per gigajoule for natural gas. Current market conditions suggest there is still considerable upside potential to these revised assumptions.
- Based on the revised energy price assumptions, total revenue is forecast to be \$2 billion higher than estimated in the budget. Partly offsetting this is a \$760 million increase in total expense, including:
 - ♦ \$516 million increase in capital grants funded from the Capital Account. This includes funding for schools, post-secondary facilities, *Water for Life* projects, affordable housing and a \$100 million contingency for small capital projects.
 - ♦ \$226 million increase in disaster/emergency assistance, primarily for forest fires and floods.
 - ♦ \$18 million net increase in other expense.
- Capital investment in government-owned projects, primarily for provincial highways, has been increased by \$232 million. In total, 2005-06 Capital Plan spending (capital grants plus capital investment) is forecast to reach nearly \$4 billion.
- Net Revenue (revenue less expense, prior to Sustainability Fund and Capital Account transfers) is forecast at \$2.8 billion. This is \$1.2 billion higher than estimated in the budget.
- The \$2.8 billion surplus is primarily allocated to the Capital Account to help pay for the cost of capital projects in future years, and to the Heritage Fund and other endowments. The Sustainability Fund balance is currently forecast to remain at the budgeted \$2.5 billion level.

FISCAL SUMMARY^a

(millions of dollars)

	2005-06		Change from Budget
	Budget	1st Quarter Forecast	
1 Revenue	27,346	29,343	1,997
2 Expense			
3 Program	25,535	26,310	775
4 Debt servicing costs	291	276	(15)
5 Total Expense	25,826	26,586	760
6 Net Revenue	1,520	2,757	1,237
7 Transfer from Capital Account ^b	1,274	1,790	516
8 Net transfer from (to) Sustainability Fund	(2,546)	(4,318)	(1,772)
9 Contingency Allowance	248	229	(19)
10 Net Amount Available for Allocation			
11 Net Revenue	1,520	2,757	1,237
12 Retained in Contingency Allowance	(248)	(229)	19
13 Retained by funds and agencies and cash adjustments	(51)	21	72
14 Amount in Sustainability Fund above \$2.5 billion at March 31, 2005	998	998	-
15 Net Amount Available for Allocation^c	2,219	3,547	1,328
16 Allocation			
17 Heritage Fund - Advanced Education endowment	250	250	-
18 Heritage Fund - inflation-proofing	215	226	11
19 Medical Research Endowment Fund	200	200	-
20 Scholarship Fund	-	250	250
21 Capital Account (net increase in assets available for capital costs in future years) ^c	1,554	2,621	1,067
22 Total Allocation	2,219	3,547	1,328

a Subject to the *Fiscal Responsibility Act*. Does not include the change in pension obligations, forecast to be an increase of \$165 million.

b Includes only transfers for capital grants to local authorities.

c Does not include transfers to the Capital Account that are being spent in 2005-06 (budget estimate \$1.7 billion; first quarter forecast \$2.5 billion).

Revenue

NON-RENEWABLE RESOURCE REVENUE

Energy prices are much higher than energy analysts expected at the time the budget was prepared. The higher prices are due to a growing world demand for crude oil, the fear of supply disruptions and the absence of spare production capacity to offset any disruptions. Year-to-date (April to August), oil prices have averaged US\$56.67 per barrel and natural gas prices have averaged Cdn\$6.71 per gigajoule.

Non-renewable resource revenue is forecast at \$9 billion, an increase of \$1.3 billion from the budget estimate. The increase is based on oil prices averaging US\$50.00 per barrel over the fiscal year, an \$8.00 increase over the budget estimate. Natural gas prices are assumed to average Cdn\$6.01 per gigajoule, an increase of 41 cents from the budget estimate.

Total oil royalties are forecast at \$1.9 billion, \$562 million higher than estimated in the budget while natural gas royalties are forecast at \$6.1 billion, up \$730 million from budget. Other non-renewable resource revenue is forecast at \$1 billion, \$50 million higher than budget.

The *Fiscal Responsibility Act* requires that non-renewable resource revenue above \$4.75 billion be transferred to the Sustainability Fund. This transfer is now forecast to be \$4.3 billion.

TAX REVENUE

Personal income tax revenue is \$83 million higher than estimated in the budget and corporate income tax revenue is \$118 million higher. This reflects stronger-than-expected economic activity resulting primarily from higher energy prices.

Other tax revenue is forecast at \$3.2 billion, \$23 million higher than estimated in the budget. The increase reflects higher revenue from the freehold mineral rights tax and insurance taxes partially offset by lower tobacco tax revenue.

TRANSFERS FROM GOVERNMENT OF CANADA

Transfers from the Government of Canada are \$102 million higher than budgeted. The increase consists of:

- \$122 million for flood disaster assistance.
- \$70 million for the Early Learning and Child Care Agreement (ELCC). The specific allocation of these funds has not yet been determined and no related expense increases have been included in this update.
- \$19 million for the New Deal for Cities and Communities and other infrastructure.
- \$9.5 million for Phase II of the Canada/Alberta Affordable Housing Agreement.
- \$93 million decrease in health transfers, of which \$62 million is due to some of the allocation for the Wait Times Reduction Fund being recognized in 2004-05 rather than in 2005-06, and \$31 million is a result of higher income tax revenue.
- \$20 million decrease in Canada Social Transfer due to higher income tax revenue.
- \$6 million reduction in federal agriculture transfers for crop and hail insurance.

INVESTMENT INCOME

Investment income is forecast at \$1.7 billion, \$310 million higher than estimated in the budget. This increase is due mainly to stronger-than-expected equity market performance. The increase consists of:

- \$250 million in Heritage Fund income.
- \$38 million increase in endowment fund income.
- \$20 million increase in Sustainability Fund income, due to higher temporary balances in the Fund.
- \$2 million net increase in other investment income.

OTHER REVENUE

Other revenue is \$19 million higher than budgeted. The increase comprises:

- \$10 million increase in gaming revenue related to higher slot and video lottery terminal revenue.
- \$12 million net increase in timber rentals and fees due to higher-than-expected market prices for solid wood products and a revenue reduction from updating Alberta's Softwood Stumpage System, effective January 1, 2006. This update reduces 2005-06 revenue by \$6 million, which is charged to the Contingency Allowance.
- \$9 million increase in health care insurance premiums revenue.
- \$18 million decrease in crop and hail insurance premiums due to a \$10 million reduction in Spring Price Endorsement premiums, charged to the Contingency Allowance, and to lower commodity prices and participation rates.
- \$6 million net increase in other revenue.

REVENUE*(millions of dollars)*

	2005-06		Change from Budget	Main Reasons for Change from Budget
	Budget	1st Quarter Forecast		
Income Taxes				
Personal income tax	5,199	5,282	83	Stronger economic growth
Corporate income tax	2,278	2,396	118	Stronger corporate profits
	<u>7,477</u>	<u>7,678</u>	<u>201</u>	
Other Taxes				
School property tax	1,273	1,273	-	
Tobacco tax	735	730	(5)	Reduced consumption
Fuel tax	645	645	-	
Freehold mineral rights tax	310	320	10	Higher oil and natural gas prices
Insurance taxes	186	204	18	Higher 2004-05 industry premium revenue
Tourism levy	50	50	-	
	<u>3,199</u>	<u>3,222</u>	<u>23</u>	
Non-Renewable Resource Revenue				
Natural gas and by-products royalty	5,418	6,148	730	Higher natural gas prices
Crude oil royalty	923	1,178	255	Higher oil prices
Synthetic crude oil and bitumen royalty	393	700	307	Higher oil prices
Coal royalty	8	10	2	Revised forecast
Bonuses and sales of Crown leases	886	939	53	Higher price per hectare
Rentals and fees	145	146	1	Revised forecast
Royalty tax credit	(93)	(99)	(6)	Higher royalties
	<u>7,680</u>	<u>9,022</u>	<u>1,342</u>	
Transfers from Government of Canada				
Health transfers	2,048	1,955	(93)	Revenue recognized in 2004-05
Canada Social Transfer	690	670	(20)	Higher income tax revenue
Agriculture support programs	355	349	(6)	Lower production insurance contribution
Other	408	629	221	Disaster assistance/ELCC Agreement
	<u>3,501</u>	<u>3,603</u>	<u>102</u>	
Net Income from Commercial Operations				
Alberta Gaming and Liquor Commission:				
Gaming and lottery revenue	1,202	1,212	10	Higher slot and VLT revenue
Liquor revenue	560	560	-	
Alberta Treasury Branches	162	162	-	
Other	5	5	-	
	<u>1,929</u>	<u>1,939</u>	<u>10</u>	
Premiums, Fees and Licences				
Health care insurance premiums	875	884	9	Revised forecast
Motor vehicle licences	291	292	1	Revised forecast
Crop and hail insurance premiums	157	139	(18)	Spring Price Endorsement premium reduction
Timber rentals and fees	81	93	12	Higher prices/stumpage update
Land titles	50	50	-	
Other ^a	285	284	(1)	Revised forecast
	<u>1,739</u>	<u>1,742</u>	<u>3</u>	
Investment Income				
Alberta Heritage Savings Trust Fund	669	919	250	Strong equity markets
Alberta Capital Finance Authority	287	287	-	
Agriculture Financial Services Corporation	86	83	(3)	Lower lending activity
Sustainability Fund	80	100	20	Higher temporary balance in the Fund
Debt Retirement Account	115	115	-	
Endowment Funds:				
Medical Research	37	58	21	Strong equity markets
Science and Engineering Research	20	31	11	Strong equity markets
Scholarship	13	19	6	Strong equity markets
Capital Account	28	28	-	
Other	41	46	5	Revised forecast
	<u>1,376</u>	<u>1,686</u>	<u>310</u>	
Other				
Refunds of expense	82	83	1	Revised forecast
Fines and penalties	72	72	-	
Miscellaneous ^a	291	296	5	Dedicated third party revenue
	<u>445</u>	<u>451</u>	<u>6</u>	
Total Revenue	27,346	29,343	1,997	

a Budget numbers have been restated to reflect an \$8 million reallocation of revenue from "Other Premiums, Fees and Licences" to "Miscellaneous" revenue.

Expense

Total expense is \$760 million higher than the budget estimate. Changes include:

- \$516 million for increased capital grants from the Capital Account.
- \$226 million for increased emergency/disaster assistance from the Sustainability Fund.
- \$30 million net increase in dedicated revenue/expense.
- \$3 million net increase for in-year initiatives drawn against the Contingency Allowance.
- A \$15 million decrease in debt servicing costs.

SUSTAINABILITY FUND

Disaster/Emergency Assistance – \$359 million is being provided, including:

- \$151 million for flood disaster assistance, partially offset by \$122 million in federal transfers.
- \$148 million for Bovine Spongiform Encephalopathy (BSE) assistance, an increase of \$15 million from budget, partially offset by \$34 million in federal transfers.
- \$57 million for forest fire-fighting costs.
- \$3 million for detection and control of mountain pine beetle infestations.

The costs of flood assistance, forest fires and mountain pine beetle infestations are to be funded through the Sustainability Fund, pending declaration of disasters and emergencies under the *Fiscal Responsibility Act*.

Natural Gas Rebates – \$285 million in rebates are forecast to be paid, unchanged from the budget estimate. Winter rebates are paid during the November to March period. This forecast is based on the first tier trigger price (\$5.51 to \$7.50 per gigajoule) being reached in all five eligible months. The first tier provides a \$1.50 per gigajoule rebate.

CAPITAL ACCOUNT

Capital grants funded from the Capital Account have been increased by \$516 million: \$352 million for schools and post-secondary capital projects; \$100 million for a contingency for small capital projects; \$54 million for the *Water for Life* strategy; \$9.5 million for Alberta's contribution under the Canada/Alberta Affordable Housing Agreement.

FUNDING FROM THE CONTINGENCY ALLOWANCE

\$248 million was set aside in the budget for in-year, non-emergency initiatives. In-year initiatives include a \$24 million increase for school operations and maintenance and \$19 million for increased Revenue

Insurance Coverage co-payments. These expenses are partly offset by \$36 million in lapses in various ministries and a net of \$4 million in transfers from operating expense to capital investment. \$16 million in in-year revenue reduction initiatives have also been charged against the Contingency Allowance. There is \$229 million remaining in the Contingency Allowance.

MINISTRY CHANGES

Agriculture, Food and Rural Development – \$10 million net increase from budget. This includes a \$15 million increase for BSE-related initiatives, a \$19 million increase in Revenue Insurance Coverage co-payments and a \$5 million increase in dedicated revenue/expense.

Offsetting this is a \$28 million decrease in crop insurance and other lapses and a \$1 million transfer from operating expense to capital investment.

Education – \$24 million increase for school operations and maintenance.

Infrastructure and Transportation – \$527 million increase from budget. This includes \$207 million for school capital projects, \$145 million for post-secondary facilities, \$100 million for a contingency for small capital projects, \$54 million for projects in the *Water for Life* strategy and \$21 million in dedicated revenue/expense increases for the New Deal for Cities and Communities and for the Calgary Children's Hospital interchange.

Municipal Affairs – \$151 million increase for flood disaster assistance. The increase relates to the 2005 Southern Alberta Disaster Recovery Program, which is partly offset by a \$122 million increase in federal transfers, and the 2005 Lesser Slave River Disaster Recovery Program.

Seniors and Community Supports – \$19 million increase for Phase II of the Canada/Alberta Affordable Housing Agreement, which is partly offset by a \$9.5 million increase in federal transfers.

Sustainable Resource Development – \$60 million increase, consisting of \$57 million for higher forest fire-fighting costs and \$3 million to detect and control mountain pine beetle infestations.

DEBT SERVICING COSTS

Debt servicing costs have decreased \$15 million from budget due to lower borrowings and lower interest rates.

EXPENSE SUMMARY*(millions of dollars)*

	2005-06		Change from Budget
	Budget	1st Quarter Forecast	
Program Expense			
Budget	25,117	25,117	-
Disaster/emergency assistance (from Sustainability Fund) ^a	133	359	226
Natural gas rebates (from Sustainability Fund)	285	285	-
Increase in capital grants from Capital Account	-	516	516
In-year Contingency Allowance net expense ^b	-	3	3
Dedicated expense changes (net) ^c	-	30	30
Total Program Expense	25,535	26,310	775
Debt Servicing Costs	291	276	(15)
Total Expense	25,826	26,586	760

a The costs of flood assistance, forest fires and mountain pine beetle infestations are to be funded through the Sustainability Fund, pending declaration of disasters and emergencies under the *Fiscal Responsibility Act*.

b In addition, the Contingency Allowance is being used to provide \$16 million for in-year revenue reduction initiatives for the Spring Price Endorsement premium (\$10 million) and the Softwood Stumpage System update (\$6 million).

c Dedicated revenue/expense changes – Infrastructure and Transportation: \$20.1 million for the New Deal for Cities and Communities and for the Calgary Children's Hospital interchange; Seniors and Community Supports: \$9.5 million for the Canada/Alberta Affordable Housing Agreement; Agriculture, Food and Rural Development: \$5.3 million for the Agriculture Policy Framework and the Canadian Agricultural Income Stabilization Program; Gaming: \$4 million decrease for the First Nations Development Fund; Finance: \$0.6 million decrease for Alberta Pensions Administration.

EXPENSE BY MINISTRY*(millions of dollars)*

Program	2005-06		Change from Budget	Main Reasons for Change from Budget
	Budget	1st Quarter Forecast		
Legislative Assembly	70	70	-	
Aboriginal Affairs and Northern Development	39	39	-	
Advanced Education	1,658	1,658	-	
Agriculture, Food and Rural Development	1,151	1,161	10	BSE response initiatives
Children's Services	799	799	-	
Community Development	247	248	1	Transfer from capital investment
Economic Development	80	80	-	
Education ^a	4,507	4,531	24	School operations and maintenance
Energy	203	203	-	
Environment	138	138	-	
Executive Council	26	26	-	
Finance	588	579	(9)	Lower endowment fund requirements
Gaming	169	165	(4)	Delay in operation of First Nations casinos
Government Services	90	90	-	
Health and Wellness	8,977	8,977	-	
Human Resources and Employment	778	778	-	
Infrastructure and Transportation ^a	3,068	3,595	527	Capital grants/capital contingency
Innovation and Science	181	177	(4)	Transfer to capital investment
International and Intergovernmental Relations	10	10	-	
Justice	314	314	-	
Municipal Affairs	127	278	151	Flood disaster assistance
Restructuring and Government Efficiency	80	80	-	
Seniors and Community Supports	1,605	1,624	19	Canada/Alberta Affordable Housing Agreement
Solicitor General and Public Security	405	405	-	
Sustainable Resource Development	225	285	60	Forest fires/mountain pine beetles
Total Program Expense	25,535	26,310	775	
Debt Servicing Costs	291	276	(15)	Lower borrowings and interest rates
Total Expense	25,826	26,586	760	

a Budget numbers have been restated to reflect a \$352 million transfer of responsibility for School Facilities Operations from Infrastructure and Transportation to Education, authorized by Order-in-Council 366/2005.

Alberta Sustainability Fund

ASSETS OF THE SUSTAINABILITY FUND

Sufficient assets will be maintained in the Fund to offset the cost of emergencies, disasters and natural gas rebates in 2005-06 and maintain the Fund at the \$2.5 billion level. Assets above this level have been allocated to:

- The Capital Account to help pay for capital projects in 2005-06 and future years.
- The Heritage Fund and endowment funds.

SUSTAINABILITY FUND TRANSFERS

Total net transfers to the Sustainability Fund are forecast at \$4.3 billion. This includes:

- Non-renewable resource revenue – The *Fiscal Responsibility Act* requires resource revenue in excess of \$4.75 billion to be transferred to the Fund.
- Withdrawals – Transfers from the Fund are permitted to pay for costs of emergencies, disasters and natural gas rebates.
- Other net transfers – Includes revenue increases (excluding resource revenue, revenue reductions charged to the Contingency Allowance, and dedicated revenue/expense changes) and the reduction in debt servicing costs.

ADJUSTMENTS

The net transfer to the Fund is adjusted for:

- Retained income of funds and agencies – primarily Alberta Treasury Branches.
- Capital cash requirements for capital investment – partly met through a transfer from the Capital Account.
- Differences of when cash is accrued and received, non-cash expenses/revenue, and when cash is transferred to the Fund. These primarily relate to energy revenue and finalization of year-end results.

ALLOCATION

Approximately \$6 billion is available for allocation in 2005-06. This includes the \$1 billion available as of March 31, 2005 and \$696 million from the final year-end results for 2004-05 (transferred to the Fund in 2005-06). The \$6 billion has been allocated as follows:

- \$926 million to the Heritage Fund and other endowment funds.
- \$5.1 billion to the Capital Account to help pay for capital projects in 2005-06 and future years. Nearly \$2.5 billion is being used in 2005-06 for capital grants and capital investment and \$2.6 billion is being held in the Capital Account for capital costs in future years.

ALBERTA SUSTAINABILITY FUND

(millions of dollars)

	2005-06		Change from Budget
	Budget	1st Quarter Forecast	
Assets at start of year	3,498	3,498	-
Transfers to (from) Sustainability Fund			
Non-renewable resource revenue transfer from general revenue	2,930	4,272	1,342
Other net transfers	34	690	656
Transfers for disaster and emergency program expense	(133)	(359)	(226)
Transfers for Natural Gas Rebate Program expense	(285)	(285)	-
Total transfers to (from) Sustainability Fund	2,546	4,318	1,772
Adjustments			
Cash adjustments	82	(501)	(583)
Retained income of funds and agencies	(133)	(174)	(41)
Cash not transferred in 2004-05 from fourth quarter results	-	696	696
Capital Account transfer for capital investment	435	658	223
Total adjustments	384	679	295
Assets Prior to Allocation	6,428	8,495	2,067
Allocation to:			
Capital Account	(3,263)	(5,069)	(1,806)
Heritage Fund - inflation proofing	(215)	(226)	(11)
Heritage Fund - Advanced Education endowment	(250)	(250)	-
Scholarship Fund	-	(250)	(250)
Medical Research Endowment Fund	(200)	(200)	-
Assets at End of Year	2,500	2,500	-

Capital Plan

- Capital asset acquisitions (capital grants to local authorities and capital investment in provincial government-owned projects) are forecast to increase by \$788 million from budget to almost \$4 billion. Most of the increase is being funded through the Capital Account from higher-than-forecast 2004-05 fourth quarter results and increased 2005-06 revenue.
- **Municipal Infrastructure Support** – Total allocation of \$1.1 billion, an increase of \$71 million from budget. This includes \$54 million for *Water for Life* projects and \$17 million for the New Deal for Cities and Communities.
- **Provincial Highway Network** – Total allocation of \$851 million, an increase of \$167 million from budget. This increase consists of \$100 million to accelerate projects in resource development regions, \$30 million for the 2005-06 allocation of the \$200 million announced to accelerate construction in the Fort McMurray area, and \$37 million in other increases and the carry-over of funding for unfinished 2004-05 projects.
- **Schools** – A total allocation of \$431 million, an increase of \$230 million from budget for various school projects and for portables and portable moves.
- **Post-Secondary Facilities** – Total allocation of \$256 million. This is a \$145 million increase from budget.
- **Government Facilities, Housing and Equipment** – Total allocation of \$420 million, an increase of \$66 million from budget. This includes funding for Phase II of the Canada/Alberta Affordable Housing Agreement, the carry-over of funding for unfinished 2004-05 projects and other increases.
- **Other Infrastructure Programs** – Total allocation of \$904 million, an increase of \$109 million from budget. This includes:
 - **Capital Contingency** – \$100 million for a contingency for small capital projects.
 - **Other** – \$9 million increase from budget for the Canmore Nordic Centre Facility and water and wastewater connections for slaughter facilities.

CAPITAL PLAN SUMMARY

(millions of dollars)

	2005-06		Change from Budget
	Budget	1st Quarter Forecast	
Municipal infrastructure support	1,021	1,092	71
Provincial highway network	684	851	167
Health facilities and equipment	561	561	-
Schools	201	431	230
Post-secondary facilities	111	256	145
Community facilities and centennial projects	176	181	5
Water and wastewater management	58	62	4
Government facilities, housing and equipment	354	420	66
Capital contingency for small projects	-	100	100
Total Capital Plan	3,166	3,954	788
To be funded by:			
Current-year revenue	1,348	1,387	39
Capital Account	1,709	2,448	739
Sustainability Fund	-	10	10
Alternative financing including P3s	109	109	-
Total Capital Plan	3,166	3,954	788

Net Financial and Capital Assets

- **Net Assets** – Net assets are forecast at \$28.7 billion as at March 31, 2006. This includes capital assets of \$11.7 billion.
- **Accumulated Debt/Debt Retirement Account** – The *Fiscal Responsibility Act* requires assets in the Debt Retirement Account to be equal to or greater than the remaining unmatured accumulated debt.
- **Capital Account** – The Capital Account is forecast at \$3.3 billion, a \$1.1 billion increase from budget.
- **Heritage Fund** – The book value of the Heritage Fund (value of external investments) is forecast at \$11.8 billion, an increase of \$484 million from March 31, 2005. The increase includes allocations for the Advanced Education endowment and inflation proofing, and changes to internal holdings of provincial corporation debt.

BALANCE SHEET

AT MARCH 31

(millions of dollars)

	2005 <i>Actual</i>	2006			
		1st Quarter		Change from 2005	
		Budget ^a	Forecast	Budget	Actual
Financial Assets					
Heritage Fund external investments ^b	11,274	11,747	11,758	11	484
Self-supporting lending organizations	6,037	5,915	6,209	294	172
Alberta Sustainability Fund	3,498	2,500	2,500	-	(998)
Endowment funds	1,658	1,827	2,122	295	464
Capital Account	674	2,228	3,295	1,067	2,621
Debt Retirement Account	3,479	2,230	2,230	-	(1,249)
Other financial assets	7,227	7,104	6,833	(271)	(394)
Total Financial Assets	33,847	33,551	34,947	1,396	1,100
Liabilities					
Accumulated debt	3,475	2,226	2,226	-	(1,249)
Pension obligations	5,235	5,376	5,400	24	165
Self-supporting lending organizations	4,928	4,819	5,198	379	270
Other liabilities	5,049	5,109	5,120	11	71
Total Liabilities	18,687	17,530	17,944	414	(743)
Net Financial Assets	15,160	16,021	17,003	982	1,843
Capital assets and inventories of supplies	10,921	11,439	11,670	231	749
Net Assets	26,081	27,460	28,673	1,213	2,592
Adjustment for pension obligations	5,235	5,376	5,400	24	165
Net Assets for Fiscal Policy Purposes	31,316	32,836	34,073	1,237	2,757

a Budget numbers have been restated to reflect 2004-05 actual results.

b Includes Advanced Education endowment.

CAPITAL ACCOUNT

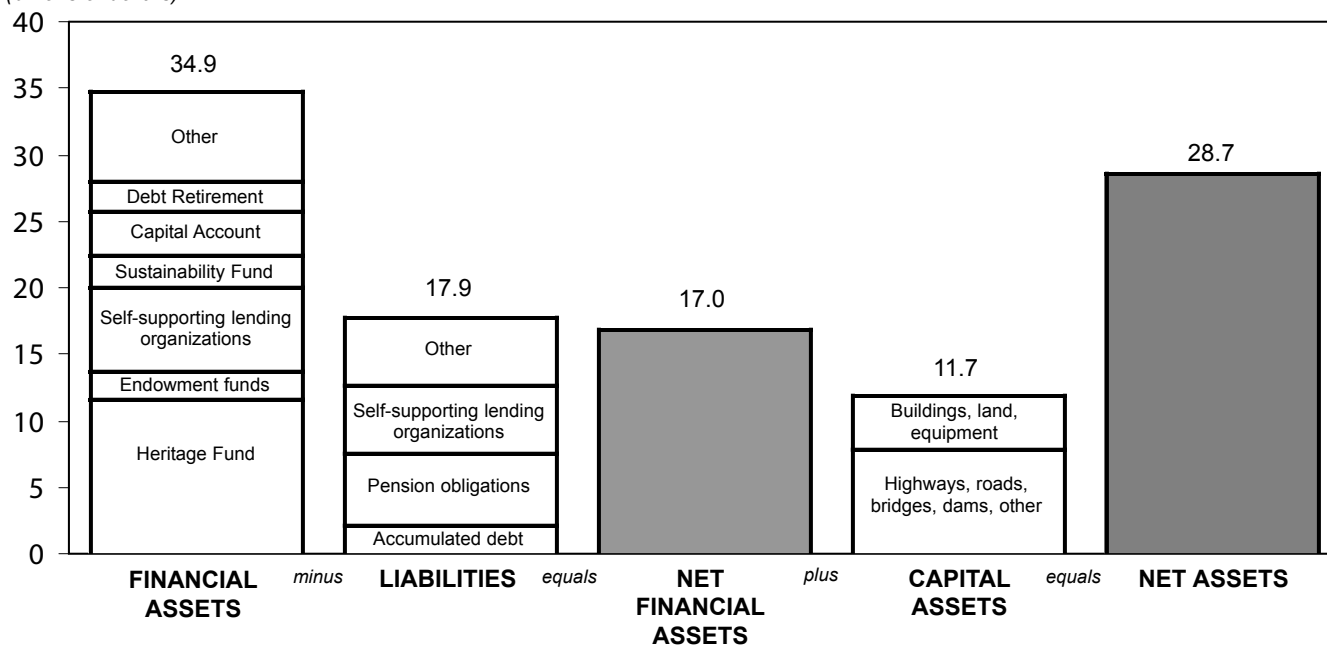
(millions of dollars)

	2004-05 <i>Actual</i>	2005-06			
		1st Quarter		Change from 2004-05	
		Budget	Forecast	Budget	Actual
Assets at start of year	1,180	674	674	-	(506)
Allocations from Sustainability Fund	1,136	3,263	5,069	1,806	3,933
Withdrawals					
Capital grants to local authorities	(1,209)	(1,274)	(1,790)	(516)	(581)
Government-owned capital investment	(433)	(435)	(658)	(223)	(225)
Assets at End of Year	674	2,228	3,295	1,067	2,621

ASSETS, LIABILITIES AND NET ASSETS

AT MARCH 31, 2006

(billions of dollars)



NET FINANCING REQUIREMENTS

(millions of dollars)

	2005-06		
	Budget	1st Quarter Forecast	Change from Budget
Requirements:			
General Revenue Fund term debt maturities	1,153	1,153	-
School construction loan repayments	70	70	-
Adjustments	26	26	-
Accumulated debt financing requirements	1,249	1,249	-
Provincial corporations' term borrowing requirements	180	160	(20)
Gross financing requirements	1,429	1,409	(20)
Cash applied to accumulated debt repayment	(1,249)	(1,249)	-
Net Term Debt Financing Requirements	180	160	(20)

FISCAL YEAR ASSUMPTIONS

	2005-06				Assumptions	
	Sensitivities (\$ million)				1st Quarter	
	Annual Change	Revenue	Spending	Net Change	Budget	Forecast
Oil Price (WTI US\$/bbl)	-\$1.00	-99	-	-99	42.00	50.00
Natural Gas Price (Cdn\$/GJ)	-10c	-99	-	-99	5.60	6.01
Exchange Rate (US\$/Cdn\$)	+1c	-117	-2	-115	83.50	81.00
Interest Rates:	+1%	-85	+5	-90		
3-month Canada treasury bills					2.90	2.75
10-year Canada bonds					4.50	4.20

CAPITAL INVESTMENT AND AMORTIZATION^a*(millions of dollars)*

	2005-06			2005-06		
	Capital Investment			Capital Amortization		
	Budget	1st Quarter Forecast	Change from Budget	Budget	1st Quarter Forecast	Change from Budget
Legislative Assembly	-	-	-	-	-	-
Aboriginal Affairs and Northern Development	-	-	-	-	-	-
Advanced Education	8	8	-	5	5	-
Agriculture, Food and Rural Development	8	9	1	8	8	-
Children's Services	-	-	-	1	1	-
Community Development	45	52	7	11	11	-
Economic Development	-	-	-	-	-	-
Education	5	5	-	1	1	-
Energy	13	13	-	15	15	-
Environment	3	3	-	20	20	-
Executive Council	-	-	-	-	-	-
Finance	6	6	-	7	7	-
Gaming	-	-	-	-	-	-
Government Services	10	10	-	4	4	-
Health and Wellness	74	74	-	29	29	-
Human Resources and Employment	4	4	-	3	3	-
Infrastructure and Transportation	823	1,041	218	315	315	-
Innovation and Science	4	10	6	3	2	(1)
International and Intergovernmental Relations	-	-	-	-	-	-
Justice	1	1	-	3	3	-
Municipal Affairs	1	1	-	2	2	-
Restructuring and Government Efficiency	3	3	-	35	35	-
Seniors and Community Supports	1	1	-	25	25	-
Solicitor General and Public Security	-	-	-	-	-	-
Sustainable Resource Development	28	28	-	11	11	-
Total Capital Investment/Amortization	1,037	1,269	232	498	497	(1)
Funded from the Capital Account	435	658	223	-	-	-
Alternatively financed	83	83	-	-	-	-

a Capital investment includes purchases of inventory. Amortization includes consumption of inventories.

CAPITAL GRANTS TO LOCAL AUTHORITIES AND OTHER INFRASTRUCTURE SUPPORT^a*(millions of dollars)*

	2005-06		
	Budget	1st Quarter Forecast	Change from Budget
Agriculture, Food and Rural Development	27	37	10
Community Development	31	31	-
Environment	1	1	-
Finance	4	4	-
Gaming	45	45	-
Health and Wellness	109	109	-
Infrastructure and Transportation	1,861	2,388	527
Innovation and Science	2	2	-
Municipal Affairs	3	3	-
Seniors and Community Supports	25	44	19
Total	2,108	2,664	556
Funded from the Capital Account	1,274	1,790	516

a Included in program expense.

Includes capital financing grants to local authorities
Excludes the value of alternatively financed projects

5	5	-
26	26	-

ACTUAL RESULTS

FOR THE FIRST THREE MONTHS OF 2005-06

METHOD OF CONSOLIDATION

This financial summary is prepared on the same basis as used in *Budget 2005*.

The results of all government departments, funds and agencies, except those designated as commercial enterprises, are consolidated on a line-by-line basis. Revenue and expense transactions between consolidated entities have been eliminated.

The accounts of Crown-controlled corporations and provincial agencies designated as commercial enterprises are consolidated on the modified equity basis, the equity being computed in accordance with generally accepted accounting principles.

BASIS OF FINANCIAL REPORTING

The consolidated fiscal summary reports revenue (including gains and losses from sale of capital assets), expense (including amortization of capital assets), and net revenue.

Expense includes the province's annual cash payments towards the unfunded pension obligations. Expense excludes the annual change in the unfunded pension obligations, which is a non-cash expense that does not affect borrowing requirements.

Revenue and expense are recorded using the accrual basis of accounting. Cash received for goods or services which have not been provided by period end is recorded as unearned revenue. Debt servicing costs include interest payable, amortization of discount on debt issues, and amortization of unrealized exchange gains and losses on unhedged foreign currency debt.

Comparative 2004-05 figures have been restated where necessary to conform to the 2005-06 presentation.

CONSOLIDATED FISCAL SUMMARY^a

for the three months ended June 30, 2005 (unaudited)

(millions of dollars)

	First Three Months		
	2005-06	2004-05	Change
Revenue			
Income taxes	2,024	1,829	195
Other taxes	744	766	(22)
Non-renewable resource revenue	2,645	2,398	247
Transfers from Government of Canada	969	1,092	(123)
Premiums, fees and licences	577	585	(8)
Net income from commercial operations	539	494	45
Investment income	538	507	31
Other	122	83	39
Total Revenue	8,158	7,754	404
Expense			
Program	6,116	5,428	688
Debt servicing costs	74	98	(24)
Total Expense	6,190	5,526	664
Net Revenue	1,968	2,228	(260)

a Includes the province's annual cash payments towards the unfunded pension liability, which will be eliminated over a longer term under a separate legislated plan. Does not include the annual change in the unfunded pension obligations, which is a non-cash expense that does not affect borrowing requirements.

EXPENSE

for the three months ended June 30, 2005 (unaudited)

(millions of dollars)

	First Three Months		
	2005-06	2004-05	Change
Program			
Legislative Assembly	14	14	-
Aboriginal Affairs and Northern Development	19	18	1
Advanced Education	295	282	13
Agriculture, Food and Rural Development	136	272	(136)
Children's Services	191	181	10
Community Development	90	60	30
Economic Development	16	13	3
Education ^a	1,089	1,049	40
Energy	43	41	2
Environment	32	30	2
Executive Council	6	4	2
Finance	131	141	(10)
Gaming	25	26	(1)
Government Services	18	18	-
Health and Wellness	2,144	1,900	244
Human Resources and Employment	178	178	-
Infrastructure and Transportation ^a	948	542	406
Innovation and Science	19	25	(6)
International and Intergovernmental Relations	2	2	-
Justice	76	74	2
Municipal Affairs	44	44	-
Restructuring and Government Efficiency	20	15	5
Seniors and Community Supports	391	332	59
Solicitor General and Public Security	92	83	9
Sustainable Resource Development	97	84	13
Total Program Expense	6,116	5,428	688
Debt Servicing Costs	74	98	(24)
Total Expense	6,190	5,526	664

a Includes transfer of the School Facilities Program totalling \$69 million (2004-05 \$65 million) from Infrastructure and Transportation to Education, which was approved by Order in Council 366/2005 on July 26, 2005.

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