



Province of Prince Edward Island  
Fiscal Update 2004/2005

Honourable Mitch Murphy  
Provincial Treasurer  
Released November 25, 2004

	<u>2004-2005</u> <u>Budget</u> (\$ million)	<u>2004-2005</u> <u>Forecast</u> (\$ million)	<u>2004-2005</u> <u>Variance</u> (\$ million)
<b><u>OPERATING ACCOUNT</u></b>			
<b>Revenues</b>			
Departmental Revenues	1,017	1,056	39
Sinking Fund Earnings	<u>14</u>	<u>14</u>	<u>-</u>
<b>Total Revenues</b>	<b><u>1,031</u></b>	<b><u>1,070</u></b>	<b><u>39</u></b>
<b>Expenditures</b>			
Program Expenditures	934	953	19
Interest Charges on Debt	<u>107</u>	<u>105</u>	<u>(2)</u>
<b>Total Expenditures</b>	<b><u>1,041</u></b>	<b><u>1,058</u></b>	<b><u>17</u></b>
<b>OPERATING ACCOUNT SURPLUS(DEFICIT)</b>	<b><u>(10)</u></b>	<b><u>12</u></b>	<b><u>22</u></b>
<b><u>CAPITAL ACCOUNT</u></b>			
Capital Revenue	1	1	-
Capital Expenditures	<u>25</u>	<u>25</u>	:
<b>Net Capital Expenditures</b>	<b><u>(24)</u></b>	<b><u>(24)</u></b>	<b>:</b>
<b>Net Surplus (Deficit) of Crown Entities</b>	<b>1</b>	<b>(7)</b>	<b>(8)</b>
<b>CONSOLIDATED DEFICIT AND INCREASE IN NET DEBT</b>	<b><u>(33)</u></b>	<b><u>(19)</u></b>	<b><u>14</u></b>



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**Highlights:**

**Overview**

The Province will be forecasting an increase in Net Debt of \$ 19 million compared to \$ 33 million recorded in the current year budget. This is a decrease of \$ 14 million. The major factors for the variance in Net Debt are revenue increases in Equalization and CHST payments and overexpenditures in Health, Pension expense and Crown Corporation Deficits.

**Revenue**

Revenues are up \$ 39 million as a result of increased Federal funding of \$ 40 million and a decrease in Own Source Revenues of \$ 1 million. A break down of revenue variances are as follows:

Equalization	32.9 Million
Health Reform Funding (CHST)	8.4 Million
Personal Income Tax	3.3 Million
Corporate Income Tax	3.0 Million
Sales Tax Revenue	(6.7) Million
Tourism P.E.I.	(1.3) Million
Other	(0.6) Million
	<u><b>39.0 Million</b></u>

**Expenditure**

Total expenditures are up \$17 million which represents a variance of only 1.6% of total expenditures. The major increases in expenditures are in Health and Social Services of \$12 million and a \$7 million increase in pension expense relating to the unfunded pension liability. Interest charges on the debt are under budget by \$2 million.

Crown Corporations deficits are up \$8 million primarily due to Island Waste Management Corporation, P.E.I. Lending Agency, and the Agricultural Insurance Corporation.

<u>Effect of Tangible Capital Asset Policy</u>	<u>2004-2005 Budget</u>	<u>2004-2005 Forecast</u>	<u>2004-2005 Variance</u>
Consolidated Deficit and increase in Net Debt	(33)	(19)	14
Add: Amortization Expense	(24)	(38)	(14)
Less: Increase In Net Tangible Capital Assets	<u>24</u>	<u>24</u>	-
<b>Consolidated Deficit After Change In Tangible Capital Assets Policy</b>	<u>(33)</u>	<u>(33)</u>	<u>-</u>

The Public Sector Accounting Board of the CICA requires that Governments record Tangible Capital Assets similar to ordinary businesses. This requires the Province to start recording Tangible Capital Assets on the balance sheet and amortizing assets over their estimated useful life. Since the Province's overall change in Net Debt is only effected by the "**Consolidated Deficit and Increase in Net Debt**", this additional information has been presented separately so as to highlight the actual impact on the Province's financial position from this policy change.