

Alberta Budget 2023: Surplus, spending and a Spring election

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A first glance

Introduction

On Feb. 28, 2023 Finance Minister Travis Toews tabled Alberta's fiscal budget for 2023, titled [Securing Alberta's Future](#) (Budget 2023). Introduced against the backdrop of a rapidly-approaching provincial election scheduled to take place on May 29, 2023, Budget 2023 updates the Government's forecasts in the [2022-23 Mid-Year Fiscal Update and Economic Statement](#) (the Mid-year Update).

Budget 2023 follows a \$10.3 billion surplus fuelled in large part by non-renewable resource revenue (record resource revenues were, in turn, driven by high commodity prices and favourable demand conditions caused by relaxing pandemic restrictions and energy instability in Europe). Budget 2023 includes the Government's fiscal and capital plans along with an economic outlook for the Province.

Five main themes emerge from Budget 2023:

- Higher natural resources revenue through commodity price and demand recovery.
- Public infrastructure investment, including \$23 billion in capital project funding.
- Maintaining corporate tax and lowering personal tax rates, coupled with a range of tax incentives and rebates.
- Sector and regionally focused spending measures, including health care, policing and post-secondary education.
- A fiscal framework, including mandated annual balanced budgets, limits on operating expenses and changes to Alberta's Heritage Fund.

Updates since Mid-year fiscal Update

Budget 2023's projected surplus is less than the \$12.3 billion forecast in the Mid-year Update. The difference is the result of reduced royalty revenues and the impact on fuel tax revenue of the affordability relief provided.¹ Furthermore, revenue dropped \$876 million in 2022-23 but resource revenues are expected to bounce back once global inflation wanes and interest rates stabilize.

Other significant Budget 2023 highlights, including those that may have changed since the Mid-year Update, include:

- \$6.4 billion in corporate income tax revenue, the highest ever, and \$2.4 billion more than Budget 2022.
- Lower investment income of \$2.2 billion and \$160 million than estimated in Budget 2022 and the Mid-year Update respectively, resulting in negative investment income for the Heritage Fund and endowment funds.
- Repayment of \$13.4 billion of maturing debt using surplus cash with \$1.4 billion expected to be repaid in 2023-24.²
- A 2023-24 surplus of \$2.4 billion due to higher-than-expected resource royalties – with West Texas Intermediate (WTI) trading at just under US\$80 a barrel – and oils and operations reaching high post-payouts phases of production.
- Surpluses of \$2 billion and \$1.4 billion are forecast for 2024-25 and 2025-26 respectively, with an expectation of global economic slowdown and lower inflation.

Energy

In many ways, Budget 2023 focuses on the oil and gas sector as a primary source of funding for other investments and programs (such as healthcare, infrastructure and social programs) rather than as the target of new programs or investments itself.

While limiting its specific objectives, Budget 2023 includes general plans to: (a) facilitate Indigenous investment in resource development projects; (b) advance oil and gas site rehabilitation; (c) attract investment in carbon capture utilization and storage (CCUS); (d) advocate for access to new markets; (e) invest in LNG, hydrogen, petrochemicals and recycled plastics; and (f) create a regulatory environment that encourages LNG, hydrogen, helium, lithium and geothermal development.

Resource revenue is forecast to reach a record \$27.5 billion in 2022-23. These revenues are due largely to high global commodity prices and demand recovery. Projected revenues for 2023-24 are \$18.4 billion.

With respect to specific commodities, Budget 2023 forecasts average oil and gas prices as follows:

Oil		Natural Gas	
US\$79/bbl	2023-24	C\$4.10/GJ	2023-24
US\$76/bbl	2024-25	C\$3.60/GJ	2024-25
US\$73.50/bbl	2025-26	C\$3.80/GJ	2025-26

These prices reflect the Government’s expectation that global oil prices are likely to soften this year due to slower global economic growth, while nonetheless remaining buoyed by a tight supply-demand balance. The Government also expects the WTI-WCS differential to narrow as new pipeline capacity, such as TMX (the Trans Mountain Expansion project), comes online later in 2023, further supporting resource revenue.

The Government also anticipates that short-term factors that weighed down previously high natural gas prices will fade in the near-term, keeping the Alberta Reference Gas price at a relatively strong pre-pandemic price (supported by power plant conversions and gas fired power plants along with growing demand from the oil sands).

These forecasted price assumptions are an important variable for future resource revenue and budget expectations.

The Government is expecting the oil and gas sector to take the lead in a solid 2.8 per cent GDP growth in 2023, with strong cash flow generated from high energy prices supporting drilling, production and investment activity, followed by a more moderate growth in the two years thereafter. Without new greenfield oil sands projects on the horizon, the Government is expecting investment in oil sands will focus on optimization, CCUS and clean energy projects. As growth in exports moderate into 2026, less of GDP will be based on exports and growth in exports will come primarily from natural gas instead of oil.

Infrastructure and capital projects

Significant investment in infrastructure and capital projects is set to occur over the next three years. These are highlighted on the table below and can be found in the Budget 2023 Capital Plan.³

Calgary	\$3 billion for LRT in Edmonton and Calgary
	\$120 million in 2024-2025 for two continuing care modernization projects in Calgary (Bethany Care) and Edmonton (Good Samaritan Society)
	\$2.3 billion to expand and enhance Alberta's roads and bridges, including \$430 million for upgrades to Deerfoot Trail in Calgary
	\$282 million for the Springbank Off-Stream Reservoir, which will provide flood protection along the Elbow River in Calgary and downstream communities
Edmonton	\$3 billion for LRT in Edmonton and Calgary
	\$35 million for MacEwan University's new School of Business
	\$634 million for the new south Edmonton hospital
	\$120 million in 2024-2025 for two continuing care modernization projects in Calgary (Bethany Care) and Edmonton (Good Samaritan Society)
Red Deer	\$30 million for the Red Deer Regional Airport Expansion
	\$321 million for the Red Deer Regional Hospital Centre redevelopment
	\$83 million for continued investment in the Red Deer Justice Centre, which will provide a new courthouse
Rural	\$369 million for the Alberta Broadband Strategy, which will be used to improve high-speed internet access in rural, remote, and Indigenous communities
	\$2.3 billion to expand and enhance Alberta's roads and bridges, including \$117 million for the twinning of Highway 63 north of Fort McMurray

Other capital expenditures, that do not neatly fit into the geographical areas above, include:

- \$246 million for the Carbon Capture and Storage Initiative to support the construction and operation of CCUS projects.
- \$372 million for the design and construction of new and modernized schools.

- \$155 million for communities across Alberta to offer long-term residential addiction treatment and recovery.
- \$387 million over five years will be reserved in the TIER Fund for investments in future CCUS projects.

As a further land management initiative under Budget 2023, \$100 million has been allocated over the next three years to Service Alberta to be used, in part, to modernize the Land Titles Registration System and to address the backlog of registrations at the Alberta Land Titles Office. The additional funding will be used to replace paper-based manual processes with new technologies to automate processes.

Taxes and tax incentives

a. Fuel tax relief

Since April 1, 2022, the provincial fuel tax of 13 cents/litre has not been collected and will not be collected until at least June 30, 2023. The fuel tax relief will be determined quarterly based on average oil prices. Fuel tax rates are established based on the average per barrel price, in U.S. dollars of WTI as follows:

WTI price of \$90.00 or more:	0 cents/litre
WTI price of \$85.00 to \$89.99:	4.5 cents/litre
WTI price of \$80.00 to \$84.99:	9 cents/litre
WTI price of \$79.99 or less:	13 cents/litre

Budget 2023 confirms that this approach will continue. At present WTI pricing, the fuel tax relief for the next quarter (starting July 1, 2023) will be either fully or partially reduced and the Provincial fuel tax will again be applicable.

b. Agri-processing investment tax credit (AGP-ITC)

Originally announced Feb. 7, 2023, Budget 2023 reaffirms the development of the AGP-ITC. This incentive is a 12 per cent non-refundable tax credit eligible for capital investments in value-added agri-processing facilities in Alberta with a minimum spend of \$10 million made on or after Feb. 7, 2023. Any unused tax credits may be carried forward for 10 years. Applications will be accepted starting in Spring of 2023. This program is still being developed and further details will follow.

c. Electricity and natural gas rebates

The Government previously implemented the Electricity Rebate Program (ERP) and Natural Gas Rebate Program (NGRP) to combat high energy prices. The ERP was a temporary measure that applied to electricity customers who consumed less than 250 megawatt hours within 2022. For consumers on a variable rate plan, rebates vary based on monthly consumption. The rebates extend to April 2023 for such variable rate plan consumers. For those on a regulated rate option, rebates will be paid until December 2024 on any charges exceeding 13.5 cents per kilowatt hour.

Budget 2023 indicates that the NGRP will be made permanent. Rebates arising from the NGRP will be provided when natural gas prices exceed \$6.50 per gigajoule. However, the Government does not expect such rate to be exceeded within the next three years.

d. Film and television tax credit (FTTC)

Budget 2023 provides for an additional \$100M over the next three years for FTTC certificate recipients. The FTTC is a refundable credit for eligible applicants who wish to receive a tax credit for Alberta production and labour costs. It is available for eligible production and labour costs incurred by corporations who produce films, television series and other eligible screen-based productions in the province. Applicants may apply for either a 22 per cent or 30 per cent tax credit based on certain eligibility criteria.

e. Individual tax rates (indexation) and personal income tax credit amounts

Budget 2023 emphasizes low personal tax rates in light of rising costs from worldwide inflation.

The Government built on its [Budget 2019](#) commitment to resume the indexation of the personal income tax system to avoid “bracket creep,” with effect as of Jan. 1, 2022.⁴ Budget 2023 increases Alberta’s personal tax brackets by 2.3 per cent in 2022 (from 2021) and 6.0 per cent in 2023 (from 2022).

In addition to the indexation of personal tax brackets, Budget 2023 confirms that the Government is also indexing personal income tax credit amounts. These include non-refundable tax credits⁵ such as the basic personal amount, spousal amount, disability amount and medical expenses. Indexation will occur at 6.0 per cent for 2023.

f. Charitable donations tax credit

Effective in 2023, Albertans receive an increased rate (from 10 per cent to 60 per cent) on the charitable donations tax credit rate for the first \$200 of contributions. With the passing of the *Alberta Personal Income Tax (Charitable and Other Gifts) Amendment Act, 2022*, the Government anticipates this rate increase will provide an additional \$56 million in tax savings.

Healthcare and social policy

Social policy – and spending - in health, education, safety, feature predominantly in Budget 2023. Previously announced affordability measures, such as fuel tax relief and electricity rebates, continue.

The core social policy expenditure in Budget 2023 is healthcare. The Government is committing to an increase in healthcare investment over the next three years, with Budget 2023 forecasting a bump in health operating expenses of 4.1 per cent from the 2022-23 forecast. Specifically, the Government has announced investments into Emergency Medical Services, investments to reduce surgical wait times, funding to address front line and rural staffing challenges, and a \$3.1 billion investment into capital funding for healthcare facilities.

Over half of the \$965 million increase in healthcare investment in Budget 2023 is offset by the increase in the Canada Health Transfer announced by the federal government in December of last year. Additionally, Budget 2023 includes an indication that the Government is willing to develop targeted bilateral agreements with the federal government to continue to shore up spending gaps in Alberta’s healthcare system. On Feb. 27, 2023, the day before Budget 2023 was released, [an announcement was made](#) that Alberta and Ottawa had reached an agreement in principle with respect to increased healthcare funding worth more than \$24 billion over 10 years. Those increased funding details were not included in Budget 2023.

Fiscal and heritage fund management

Budget 2023 introduces a new fiscal framework for future provincial budgets designed to prevent short-term, temporary spikes in resource revenues from leading to permanent and unsustainable increases to spending. This framework will mandate:

- Annual balanced budgets.
- Year-to-year expense increases limited to population growth and inflation.
- In-year expense increases limited to a "budgeted and voted contingency" (\$1.5 billion for the current tax year).
- Surplus cash policies, mandating that 50 per cent must go to repayment of debt, with the remainder allocated to the new "Alberta Fund".

The new Alberta Fund may only be used for debt repayment, deposits to the Alberta Heritage Savings Trust Fund (the Heritage Fund), or one-time initiatives which do not result in further government spending.

We expect that this framework would not necessarily be binding on future governments, however there may be a political cost to deviating from this framework.

Budget 2023 provides that the Heritage Fund will retain all of its net income, rather than the current requirement to only retain an amount equal to inflation.

Conclusion

Surplus, spending, and a Spring election drive Budget 2023. Sector and regionally-targeted incentives and investments feature prominently. Budget 2023 addresses what will likely be election issues such as healthcare, while maintaining low individual tax rates and expanding the architecture of financial prudence. It offers not only a fiscal blueprint, but also a roadmap for the current government to navigate the shoals of an upcoming election campaign.

For more information on Budget 2023 for Alberta and how it may impact you, please reach out to a member of our Alberta Budget Team including any of the key contacts listed below.

¹ Budget 2023 page 62.

² Budget 2023 page 146.

³ Budget 2023 at page 101.

⁴ Generally, indexing is a reactive approach to inflation, whereby tax brackets undergo an upward adjustment. The objective is to avoid "bracket creep", which occurs when inflation pushes one's income into a higher tax bracket. In theory, despite paying an increased tax bill, there has been no increase in personal purchasing power. By adjusting the tax brackets accordingly, the intention is that purchasing power does not remain stagnant while inflation increases.

⁵ As opposed to a deduction that decreases one's taxable income, tax credits operate to reduce one's tax liability in a given year. By indexing the personal income tax credit amounts, the Government is attempting to reduce the total amount owed by Alberta taxpayers. That said, it is important to note that indexation applies to "non-refundable" tax credits, meaning such credits can only reduce one's tax liability to \$0; if the tax credits exceed the total tax owed, there is no refund to the taxpayer.

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