

Legislative Costing Note

This is an independent cost estimate of a budgetary measure contained in the federal government's Fall Economic Statement 2020 (FES 2020). A list of the PBO's cost estimates of components of the FES 2020 can be viewed on [its website](#).

Publication Date: 2021-01-20

Short Title: Fiscal Stabilization Program – Indexing the maximum per capita payment

Description: In the 2020 Fall Economic Statement, the Government proposed to index the maximum payment of \$60 per capita (set in 1987) available to a province each year through the Fiscal Stabilization Program (FSP). This indexation increases the maximum payment to \$169.82 per capita for both fiscal years 2019-2020 and 2020-2021 and will grow with the Canadian economy, that is, nominal gross domestic product (GDP) per person, for subsequent years.

Data Sources:	Variable	Source
	Canadian nominal GDP	Statistics Canada, historical nominal GDP estimates and PBO September 2020 EFO projections
	Provincial population	Statistics Canada, July 1st population estimates
	Provincial GDP projections	PBO Fiscal Sustainability Report (FSR) November 2020
	Provincial government revenue projections	Provincial budgetary documents and PBO FSR November 2020
	Public debt charges	PBO public debt charge calculator (updated)
	Historical provincial government revenues	Fiscal Arrangements Certificates, Statistics Canada

Estimation and Projection Method: PBO estimated FSP payments to provinces using provincial government revenue projections and the FSP's formula from the *Federal-Provincial Fiscal Arrangements Act*. The maximum per capita payment is adjusted using Canadian nominal GDP as well as Canadian population projections.

PBO assumes that an FSP payment is booked one year after the province qualified for the payment. In addition, PBO assumes that any eligible revenue declines exceeding the maximum payment are requested by provinces in the form of interest-free loans from the federal government as is made possible through the FSP program.

Sources of Uncertainty: Provincial revenues are forecasted and therefore are subject to the continuing uncertainty linked to the COVID-19 pandemic. This fact compounds the uncertainty related to revenue adjustments due to policy changes made by provincial governments. Furthermore, resource revenues are volatile and as such may contribute to future FSP payments to some provinces.

Since 1987, no province has taken a loan as part of the FSP program. Given the uncertainty related to the up take of the interest free loans, the interest costs may be lower than estimated.

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Cost of proposed measure

\$ millions	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Total cost	-	2,910	-23	-26	-39	-55

Supplementary information

Cost of FSP program before proposed policy change

\$ millions	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Costs						
FSP payments (A)	-	1,600	-	-	-	-
Cost of interest free loan (loan amount of \$6.39B) (C)	-	40	51	57	85	119
Total cost after recovery	-	1,640	51	57	85	119

Cost of FSP program with policy change

\$ millions	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Costs						
FSP payments (B)	-	4,528	-	-	-	-
Cost of interest free loan (loan amount of \$3.47B) (D)	-	22	27	31	46	65
Total cost after recovery	-	4,550	27	31	46	65

Incremental cost of the policy change

\$ millions	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Incremental costs						
Changes to payments (B)-(A)	-	2,928	-	-	-	-
Changes to interest costs (D)-(C)	-	-19	-23	-26	-39	-55
Total cost after recovery	-	2,910	-23	-26	-39	-55

Notes

- Estimates are presented on an accruals basis as would appear in the budget and public accounts.
- Positive numbers subtract from the budgetary balance, negative numbers contribute to the budget balance.
- "-" = PBO does not expect a financial cost.
- Numbers may not add due to rounding.