

British Columbia: 2019–20 Budget

SUMMARY

- The Province of British Columbia's 2019 Budget (*Budget 2019*) outlines a fiscal surplus of \$374mn¹ for fiscal year 2018–19 (FY19), with balance expected to be maintained through FY22 (chart 1, p.2; table).
- New policy measures include enhanced support for child care, a range of initiatives that target pocketbook relief; further details of the Province's climate plan were also provided.
- Capital spending, borrowing requirements, and taxpayer-supported debt are forecast to climb throughout the forecast horizon, but BC's surpluses look secure at this time.

ECONOMIC CONDITIONS

BC continues to forecast 2.2% real GDP growth in 2018, but revised its projections higher in the ensuing two years. It continues to base its fiscal planning on growth lower than the average of private-sector forecasts. The Province now anticipates a 2.4% expansion in 2019—0.6 pts higher than expected in the Q2 update—and in 2020 foresees a 2.3% advance instead of the 2% gain outlined in Budget 2018. The Government largely attributes these changes to stepped-up economic activity related to the LNG Canada project and the alleviation of uncertainty following signing of the Canada-United States-Mexico Agreement (CUSMA) trade pact. Outer-year forecasts are in line with prior expectations.

Downside risks to the outlook identified in *Budget* were largely unchanged from BC's FY19-Q2 *Fiscal Update*. The global rise of protectionism, the prospect of slowing growth in Asia, and uncertainty via the UK's exit from the European Union continue to present threats to economic growth. The Province also noted that changes to LNG Canada project hiring and investment timing may impact its revenue profile.

NEW POLICY MEASURES

Budget 2019's signature policy was the introduction of the *BC Child Opportunity Benefit*, which replaces the existing Early Childhood Tax Benefit. As of October 2020, the new *Benefit* provides families with children under the age of 18 up to \$1,600 per annum for their first child, and delivers annual payments of \$2,600 and \$3,400 per year for families with two and three children, respectively. The measure builds on fee reductions, subsidies, and investments in licensed child care spaces announced in *Budget 2018*.

The Province outlined a range of other new measures to improve affordability. Interest on BC student loans will be eliminated this fiscal year; for a typical undergraduate student loan debt in the province, the move is expected to save \$2,300 in interest over a 10-year repayment period. Monthly disability assistance payments will be increased by \$50. And following last year's 30-point *Homes for*

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| Updated Fiscal Forecast | | | | |
|---------------------------------|---------------|---------------|---------------|---------------|
| \$ millions except where noted | | | | |
| | FY19 | FY20 | FY21 | FY22 |
| | Q3 | Bud. | Bud. | Bud. |
| Tax Revenue | 32,637 | 33,732 | 35,179 | 37,080 |
| Natural Resource Revenue | 2,970 | 2,623 | 2,438 | 2,380 |
| Commercial Crown Corp. Net Inc. | 1,971 | 3,311 | 3,503 | 3,620 |
| Other Own-Source Revenue | 9,996 | 9,958 | 9,153 | 9,260 |
| Total Own-Source Revenue | 47,574 | 49,624 | 50,273 | 52,340 |
| Federal Transfers | 9,062 | 9,423 | 9,765 | 10,118 |
| Total Revenue | 56,636 | 59,047 | 60,038 | 62,458 |
| Health | 21,996 | 22,983 | 23,572 | 24,266 |
| Education | 14,273 | 14,609 | 14,781 | 14,918 |
| Social Services | 5,329 | 5,760 | 6,098 | 6,307 |
| Other Program Spending | 11,549 | 12,124 | 12,049 | 12,966 |
| Program Spending | 53,147 | 55,476 | 56,500 | 58,457 |
| Debt Service* | 2,615 | 2,797 | 2,951 | 3,116 |
| Total Expenditure | 55,762 | 58,273 | 59,451 | 61,573 |
| Forecast Allowance | 500 | 500 | 300 | 300 |
| Surplus | 374 | 274 | 287 | 585 |
| Capital Outlays: | | | | |
| Taxpayer-Supp. | 4,771 | 6,340 | 6,837 | 6,911 |
| Self-Supported | 4,192 | 4,274 | 3,333 | 3,361 |
| Taxpayer-Supported Debt | 43,957 | 46,384 | 50,454 | 53,986 |
| Annual Change, % | | | | |
| Tax Revenue | 15.2 | 3.4 | 4.3 | 5.4 |
| Natural Resource Revenue | 10.2 | -11.7 | -7.1 | -2.4 |
| Total Own-Source Revenue | 10.7 | 4.3 | 1.3 | 4.1 |
| Federal Transfers | 0.1 | 4.0 | 3.6 | 3.6 |
| Total Revenue | 8.9 | 4.3 | 1.7 | 4.0 |
| Health | 5.1 | 4.5 | 2.6 | 2.9 |
| Education | 9.0 | 2.4 | 1.2 | 0.9 |
| Social Services | 12.5 | 8.1 | 5.9 | 3.4 |
| Other Program Spending | 11.7 | 5.0 | -0.6 | 7.6 |
| Program Spending | 8.3 | 4.4 | 1.8 | 3.5 |
| Total Expenditure | 7.8 | 4.5 | 2.0 | 3.6 |
| Memo Items, % | | | | |
| Own-Source Revenue / GDP | 16.1 | 16.0 | 15.3 | 15.7 |
| Program Spending / GDP | 18.0 | 17.9 | 17.2 | 17.5 |
| Total Expenditure / GDP | 18.9 | 18.8 | 18.1 | 18.5 |
| Budget Balance/ GDP | 0.1 | 0.1 | 0.1 | 0.2 |
| Taxpayer-Supported Debt / GDP | 14.9 | 15.0 | 15.4 | 16.2 |
| Taxpayer-Supp. Debt / Revenue | 77.6 | 78.6 | 84.0 | 86.4 |
| Debt Service* / Revenue | 4.6 | 4.7 | 4.9 | 5.0 |

* Taxpayer-supported basis. Sources: BC Finance, Statistics Canada; nominal GDP forecasts: Scotiabank Economics.

¹ Figures reported in Canadian dollars unless otherwise stated.

BC plan that announced historic investments in affordable housing, the Province will offer additional incremental funding for homelessness and housing affordability.

For health care, *Budget 2019* includes supports that aim to improve access to mental health care, assistance for health and life sciences research organizations, and enhanced drug coverage under PharmaCare. As well, more than \$550 mn will be allotted to BC's public education system over FY20–22, which includes funding to hire more than 4,000 new teachers.

This year's fiscal blueprint also provided details on the CleanBC plan to lower BC carbon pollution and incent clean energy use, which was announced in December 2018. The plan subsidizes clean energy home retrofits, electric vehicle purchases, and charging stations for zero-emissions vehicles, as well as support for the clean energy sector. BC will also enhance its Climate Action Tax Credit—which offsets carbon taxes payments—from \$350 per family to \$400 on July 1st, 2019, and then to \$500 on July 1st, 2021.

Other key initiatives included new funding for reconciliation with First Nations and wildfire prevention. The Province will apportion more than \$3 bn towards a range of supports for First Nations communities over the next 25 years, with nearly \$300 mn provided for revenue-sharing agreements in the three years to FY22. Over the same period, it will allot \$111 mn to assist BC's efforts to prevent and respond to wildfires. Mirroring federal policies to support business competitiveness, the BC will contribute 800mn over the fiscal planning horizon to investment incentives in capital assets.

FISCAL PROJECTIONS

The new initiatives announced in Budget 2019 are expensive. Enhanced childcare benefits and measures to improve affordability, for instance, come with a price tag of \$860 mn from FY20 to FY22, with the *Child Opportunity Benefit* alone expected to provide a \$250 mn hit to the government's bottom line in the latter year. As well, CleanBC initiatives plus Climate Action Tax Credit enhancements are forecast cost \$902 mn during FY20–22.

For BC Hydro and the Insurance Corporation of British Columbia (ICBC), financial forecasts reflect recent reforms. The elimination of dividend payments—to support rate stabilization and capital structuring—is expected to contribute to flat BC Hydro net incomes beyond FY20. With respect to ICBC, strategies to mitigate rising costs for accident claims are projected to drive modest operating surpluses in FY21 and FY22 following significant losses during FY18–19 and a more modest shortfall in FY20.

Yet with steady economic growth anticipated throughout the forecast period, and a major assist in FY19 via one-time prior-year adjustments to personal and corporate income tax receipts, BC remains poised to cover its costs. Total revenues are forecast to expand by an average of 4.7% from FY19–22, with a steep 8.8% climb anticipated in FY19. Total spending, by contrast, is estimated to witness a 4.5% annual average rise during FY19–22 (chart 2). The Province also maintains a forecast allowance of at least \$300 mn in every year of the planning horizon.

Some \$31.1 bn in capital outlays are planned FY20–22—of which an estimated \$20.1 bn will be taxpayer-supported—a three-year total that exceeds the FY19–21 estimate in *Budget 2018*. The total capital spending figure includes \$2.7 bn for existing K–12 schools, \$3.3 bn for post-secondary institutions, \$4.4 bn for health sector infrastructure and \$6.6 bn to support the Government's Transportation Investment Plan.

Chart 1

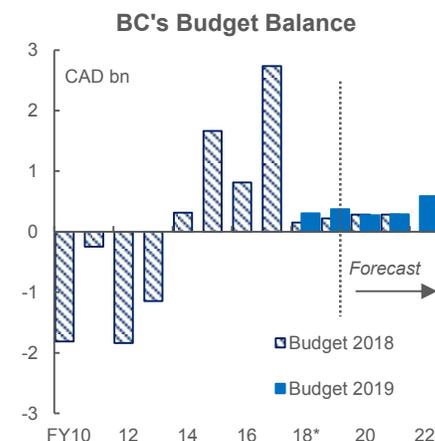
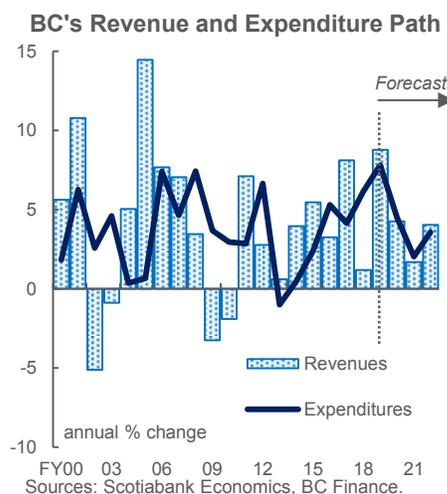


Chart 2



The Province's borrowing requirements are expected to increase throughout the forecast horizon to total \$24.6 bn (table, p.3). Some \$10.1 bn of this sum is needed to finance new taxpayer-supported investments, while \$9.6 bn and \$5.0 bn are required for self-supported capital outlays and refinancing of existing debt maturities, respectively. Approximately \$5.0 bn in maturing debt is forecast to offset these needs. Taxpayer-supported debt is forecast to rise modestly from 14.9% in FY19 to a rate nearer to 16% by FY22.

OUR TAKE

BC's fiscal plan appears to be based on reasonable assumptions and its surpluses look secure. Its GDP projections are conservative: our forecast calls for more substantial economic growth via the LNG Canada project in 2020—which could translate into even stronger revenues than those outlined here—and substantial forecast allowances through FY22 should safeguard against potential negative economic events. All told, BC continues to hold one of the most enviable financial positions of any province in Canada.

New initiatives to provide pocketbook relief are also prudent in our view. Housing affordability remains the chief concern in this respect, but the experience of other global cities highlights the depth of effort and extended time period required to rebalance housing markets. As the *Homes for BC* plan progresses, and as the Province looks poised for continued, solid expansion, attention to costs related to health care and child care seem an appropriate way to alleviate near-term affordability issues.

| BC's Borrowing Requirements | | | | |
|---|---------------|---------------|---------------|---------------|
| \$ millions except where noted | | | | |
| | FY19 | FY20 | FY21 | FY22 |
| Total provincial debt at beginning of year | 64,919 | 67,916 | 72,548 | 77,659 |
| New Borrowing | 6,337 | 7,454 | 8,279 | 8,596 |
| Direct borrowing by Crown corp. & agencies | 75 | 45 | 114 | 85 |
| Retirement provision requiring refinancing | (2,745) | (905) | (1,928) | (2,087) |
| Retirement provision funded internally | (1,170) | (1,962) | (1,154) | (1,877) |
| Change in Forecast Allowance | 500 | - | (200) | - |
| Net change in total debt | 2,997 | 4,632 | 5,111 | 4,717 |
| Total provincial debt at year end | 67,916 | 72,548 | 77,659 | 82,376 |

Source: BC Finance

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