

Budget and Fiscal Plan 2011 – 2013/14

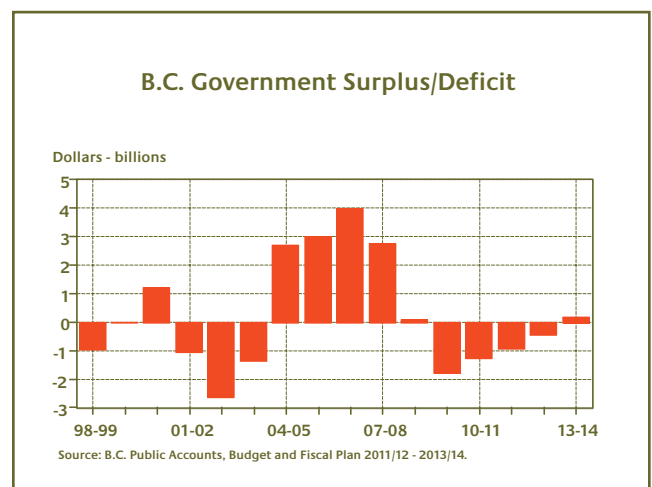
(\$ millions)	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Revenue	38,302	37,521	39,893	41,337	42,446	44,091
Expense	38,245	39,300	-41,008	-41,912	-42,536	-43,566
Surplus/Deficit	57	-1,779	-1,115	-575	-90	525
Forecast allowance	-	-	-150	-350	-350	-350
Surplus/Deficit ¹	75	-1,779	-1,265	-925	-440	175
Capital Spending:						
Taxpayer-supported	3,778	3,754	4,905	4,105	3,155	3,098
Total	5,587	7,112	7,593	7,348	6,166	5,513
Provincial Debt:						
Taxpayer-supported	26,446	30,021	33,388	36,816	39,162	40,500
Self-supported debt	11,568	11,864	13,743	16,271	18,060	19,505
Total debt ¹	38,014	41,885	47,281	53,437	57,572	60,355
Taxpayer-supported debt-to-GDP	13.40%	15.70%	16.50%	17.50%	17.80%	17.50%
Total debt-to-GDP	19.20%	21.90%	23.40%	25.40%	26.10%	26.10%

Source: B.C. Budget and Fiscal Plan 2011/12 – 2013/14 ¹. Includes forecast allowance

Summary: This is a status quo budget since the provincial government leadership is in transition. Budget revenue projections are conservative and expenses are controlled to grow at a modest pace resulting in the operating deficit disappearing in fiscal year 2013/14. Revenue surprises will be on the upside and there is a good chance of a surplus emerging one year earlier than in the fiscal plan. Actual debt levels look to come in lower than planned as well.

Fiscal Plan: The provincial government budget deficit is projected at \$1.265 billion in the current fiscal year, declining to \$925 million in fiscal 2011/12, \$440 million in 2012/13, and to a small surplus in 2013/14. The forecast allowance, expense and capital contingencies provide a \$1.125 billion buffer in 2011/12 and \$1.0 billion in each of the next two years. The total provincial debt rises each year in the fiscal plan and reaches \$60.4 billion or 26.1% of GDP in 2013/14.

Economic Forecast: Budget 2011 uses conservative economic growth projections through to 2013 with nominal GDP growing under 5.0% per year, personal income at around 4% yearly, job growth less than 2% per year, and the unemployment rate declines slowly to 7.1% in 2013.



Analysis: Budget 2011's economic and revenue forecasts are positioned conservatively. Central 1's economic forecast sees nominal GDP expanding about 6% annually while the Economic Forecast Council (EFC) average is just above 5%. In the Budget's fiscal sensitivities table, a 1% change in nominal GDP implies an annual fiscal impact of \$150 to \$250 million resulting in a cumulative revenue gain about \$0.6 to \$1.0 billion if Central 1's forecast is used. The deficit and provincial debt would be lower on this basis and since no forecast allowance would be

Ministry of Finance Economic Forecast: Key Economic Indicators

	2008	2009	2010	2011	2012	2013
Real GDP	0.2	-1.8	3.1	2.0	2.6	2.7
Nominal GDP	2.9	-3.4	5.6	4.1	4.9	4.8
Employment	2.1	-2.4	1.7	1.4	1.8	1.7
Unemployment rate (%)	4.6	7.6	7.6	7.5	7.2	7.1
Total migration (000s)	65.7	61.1	54	54.3	52.8	53.9
Personal Income	3.7	-0.1	3.0	3.5	4.5	4.4
Labour income	4.0	-1.7	3.4	4.0	4.7	4.6
Corporate pre-tax profits	5.7	-21.3	19.4	8.6	6.5	6.8
Housing starts, (units, 000s)	34.3	16.1	26.5	25	26.5	27.1
Retail sales	1.5	-4.4	4.3	4.1	4.5	4.4

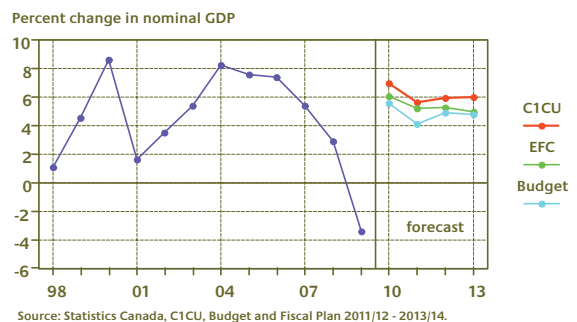
Note: Per cent change unless otherwise noted.

required, debt would decline further still. This conservative approach to growth forecasts provides an additional buffer to the fiscal plan.

Revenue: Total revenue grows 6.3% in 2010/11 slowing to 3.6% in 2011/12 and 2.7% in 2012/13. Higher taxation revenue and a jump in federal government contributions, mainly the HST transition payment, are behind revenue growth in 2010/11. Total revenue declined 2.0% in the prior fiscal year and 3.7% in 2008/09 during the economic recession. Natural resource revenue increases 12.6% in 2011/12, mainly on higher volumes and prices in natural gas, forestry, and minerals. Global economic growth is driving up commodity prices while supply slowly expands.

Analysis: Taxation revenues are likely to come in higher than projected based on Central 1 and EFC forecasts. Personal and corporate income taxation along with higher HST revenues will be the main sources of revenue outperformance. Estimates put taxation revenue higher than in the fiscal plan by about \$250 – 350 million per year.

B.C. Economic Growth, Current Dollars



Spending: Total spending increases 2.2% in 2011/12 and 1.5% in 2012/13. Spending on health services and transportation grow faster than the overall rate. Debt servicing costs are the fastest growing expense line since debt and interest rates will rise during the fiscal plan but they remain relatively low.

Revenue by Source, Budget and Fiscal Plan 2011 – 2013/14

(\$ millions)	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Taxation	18,197	17,102	18,166	19,014	20,388	20,944
Natural resource revenue	3,807	2,646	2,754	3,100	3,269	3,609
Other revenue	7,409	7,836	8,147	8,702	8,641	8,982
Federal government contributions	5,985	6,917	7,903	7,580	7,215	7,559
Comm. Crown Corporation net income	2,904	3,020	2,923	2,941	2,933	2,997
Total revenue	38,302	37,521	39,893	41,337	42,446	44,091

Source: B.C. Budget and Fiscal Plan 2011/12 – 2013/14

Expense by Function, Budget and Fiscal Plan 2011 – 2013/14

(\$ millions)	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Health	15,038	15,459	16,557	17,477	17,914	18,519
Education	10,452	11,046	11,141	11,263	11,383	11,419
Social Services	3,148	3,268	3,402	3,375	3,391	3,381
Protection of persons and property	1,429	1,380	1,507	1,321	1,316	1,317
Transportation	1,401	1,453	1,527	1,616	1,657	1,755
Resources and economic development	1,658	1,883	1,630	1,379	1,323	1,284
Other	1,637	1,418	1,411	1,216	1,217	1,235
Contingencies	-	-	450	600	450	450
General government	1,321	1,224	1,107	1,112	1,119	1,111
Debt servicing	2,161	2,169	2,276	2,553	2,766	3,095
Total expense	38,245	39,300	41,008	41,912	42,536	43,566

Source: B.C. Budget and Fiscal Plan 2011/12 – 2013/14

Full-Time Equivalent (FTEs): *Budget 2011* projects a 14% reduction in FTEs to 29,610 in 2013/14 from 34,432 in 2010/11. About 60% of this decline is due to a shift of about 3,000 FTEs of the BC Ambulance Service to the Provincial Health Services Authority from the Ministry of Health in the upcoming fiscal year. Excluding this re-allocation, the decline in FTEs is 5.8% through to 2013/14.

Analysis: No new spending (or tax) measures appeared in *Budget 2011* since it was largely a 'caretaker' exercise as the current premier and cabinet will be shortly replaced. Most ministry expense amounts, with the exception of Health, were straight-lined or 'no change' during the three-year projected fiscal plan. The contingencies of \$600 million in 2011/12 and \$450 million in the following two years are higher than normal (about 1% of overall government expense) but are a regular feature in the budget process.

Capital Spending: Infrastructure spending peaks in 2010/11 and declines in each year to 2013/14, reflecting the completion of the federal and provincial government's economic stimulus programs. Transportation and BC Hydro will experience rising or high spending throughout the fiscal plan. Two notable transportation projects are the Port Mann Bridge/Highway 1 project and the Evergreen Line. BC Hydro has many planned projects to increase generation and transmission capacity. Contingencies of between \$200 million per year provide a buffer against unforeseen costs.

Analysis: Capital spending provides an economic boost for the construction industry and the economy in addition to providing vital services to the population and economic agents. The return on public capital is considerable and similar to the rate of return on private capital. The financing of public capital accounts for the bulk of the provincial debt.

Capital Spending, Budget and Fiscal Plan 2011 – 2013/14

(\$ millions)	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Education	1,071	1,154	1,358	1,119	856	594
Health	892	927	1,049	859	599	451
Transportation	958	1,068	1,388	1,148	1,225	1,654
Other	857	605	981	779	275	199
Contingencies	-	-	129	200	200	200
Taxpayer-supported	3,778	3,754	4,905	4,105	3,155	3,098
BC Hydro	1,397	2,406	1,566	2,195	2,037	2,020
Others	412	952	1,122	1,048	974	395
Self-supported	1,809	3,358	2,688	3,243	3,011	2,415
Total capital spending	5,587	7,112	7,593	7,348	6,166	5,513

Source: B.C. Budget and Fiscal Plan 2011/12 – 2013/14

Provincial Debt: Taxpayer-supported debt is projected to increase 10.3% or \$3.4 billion to \$36.8 billion in 2011/12 following an 11.2% increase in 2010/11. These larger-than normal increases largely reflect the fiscal stimulus capital spending efforts. Taxpayer-supported debt growth slows to 3.4% in the last year of the fiscal plan.

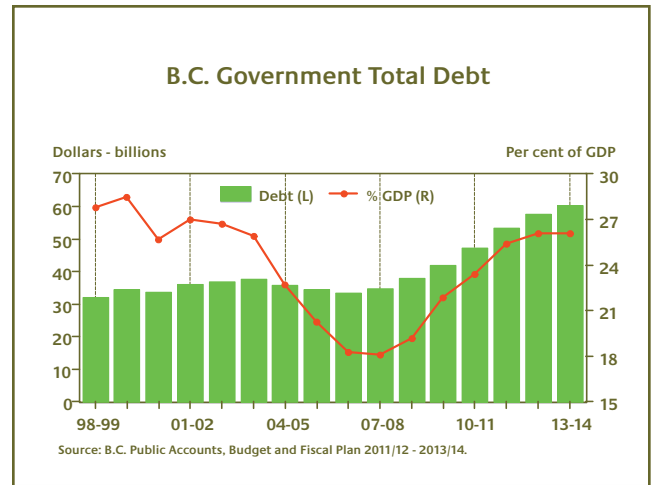
Total provincial debt, which includes commercial Crown self-supported debt, grows 13.0% or \$6.2 billion to \$53.4 billion in 2011/12. Growth in total debt slows to 7.7% and 4.8%, respectively, in the last two years of the fiscal plan reaching \$60.4 billion.

More than 80% of taxpayer-supported debt is for public infrastructure with the remaining portion for government operating deficits. About 90% of total provincial debt is to pay for capital investments.

In relation to the size of the economy, the taxpayer-supported debt-to-GDP ratio increases to 17.8% in 2012/13 and declines to 17.5% in 2013/14. The total provincial debt-to-GDP rises to 26.1% in 2013/14 from 21.9% in 2009/10.

The interest bite, or cents per revenue dollar, to service the debt rises to 5.1 cents in 2013/14 from 4.4 cents in 2009/10 due to a combination of more debt and higher interest rates. The interest bite on taxpayer-supported debt is 4.9 cents in 2013/14 compared to 4.2 cents in 2009/10.

Analysis: Debt levels are rising mainly due to capital spending, which is a public good and comparable to a personal mortgage. There is a higher probability that debt levels will be lower than projected since there



are a number of prudence factors built into the fiscal plan. For example, should the forecast allowance not be needed, it would go directly to reduce the debt. The province's debt situation is manageable and affordable and should not result in a debt downgrade by the bond rating agencies. While the provincial debt is and will be at record highs in level terms, it is below previous highs in relation to the size of the economy. The total debt-to-GDP ratio broke through 30% in the mid-1980s following the severe 1982 recession and subsequent below-normal growth period.

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Provincial Debt, Budget and Fiscal Plan 2011 – 2013/14

(\$ millions)	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Provincial government direct	5,744	7,359	7,987	8,763	9,267	8,599
Education	9,148	9,620	10,131	10,717	11,117	11,355
Health	3,936	4,389	4,895	5,411	5,830	6,109
Transportation	6,831	7,502	8,222	8,883	9,643	10,727
Other	787	1,151	2,153	3,042	3,305	3,710
Total Taxpayer supported debt	26,446	30,021	33,388	36,816	39,162	40,500
Per cent of Nominal GDP	13.4	15.7	16.5	17.5	17.8	17.5
BC Hydro	9,054	10,792	11,647	13,537	14,742	15,632
Others	433	1,072	2,096	2,734	3,318	3,873
Total Self-supported debt	9,487	11,864	13,743	16,271	18,060	19,505
Forecast allowance	-	-	150	350	350	350
Total provincial debt	38,014	41,885	47,281	53,437	57,572	60,355
Per cent of Nominal GDP	19.2	21.9	23.4	25.4	26.1	26.1

Source: B.C. Budget and Fiscal Plan 2011/12 – 2013/14