

# B.C. Budget 2010

**Summary:** 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. Barring a fallback into recession or another financial calamity, revenue surprises will be on the upside and there is a reasonable chance of a surplus emerging one or two years earlier than in the budget.

**Fiscal Plan:** The provincial government budget deficit is projected at \$2.775 billion in the current fiscal year, declining to \$1.715 billion in fiscal 2010/11, \$0.945 billion in 2011/12, and to a negligible deficit in the following year. A surplus is projected in 2013/14. A forecast allowance and contingencies provides a \$0.781 billion buffer in 2010/11 and a \$1.050 billion in each of the next three years. The total provincial debt rises each year in the fiscal plan and reaches \$58.7 billion or 25.9% of GDP in 2013/14.

Five Year Fiscal Plan						
(\$ millions)	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Revenue	38,328	37,050	39,190	40,957	42,800	44,280
Total Expense	38,250	39,700	40,605	41,602	42,545	43,470
Surplus (Deficit) before forecast allowance	78	(2,650)	(1,415)	(645)	255	810
Forecast allowance	-	(125)	(300)	(300)	(400)	(400)
<b>Surplus (Deficit)</b>	<b>78</b>	<b>(2,775)</b>	<b>(1,715)</b>	<b>(945)</b>	<b>(145)</b>	<b>410</b>
Taxpayer-supported capital expenditures	3,778	4,013	5,414	3,609	3,073	3,053
Total capital expenditures	5,540	7,270	8,159	6,528	6,058	5,914
Direct Operating Debt	5,744	6,182	7,511	8,209	7,838	6,976
Total Taxpayer-supported Debt	26,446	29,093	33,748	36,720	38,329	39,618
Total Debt	38,014	41,318	47,757	52,363	55,862	58,667
Taxpayer-supported debt-to-GDP	13.4%	15.5%	17.2%	17.9%	17.8%	17.5%

*Source: Budget and Fiscal Plan 2010/11 – 2012/13*

**Economic Forecast:** Budget 2010 incorporates modest economic growth projections through to 2014 with nominal GDP growing 4.5% to 5.0% per year. The unemployment rate declines slowly to 7.0% in 2014. No recession is foreseen, which is consistent with the consensus view and in any case is difficult to accurately predict and the main reason for forecast allowances and contingencies.



## Ministry of Finance Economic Forecast: Key Economic Indicators

	2009	2010	2011	2012	2013	2014
Real GDP	-2.7 <sup>e</sup>	2.2	2.3	2.7	2.8	2.8
Nominal GDP	-5.0 <sup>e</sup>	4.5	4.7	5.0	4.9	4.8
Employment	-2.4	0.9	1.4	1.8	1.8	1.8
Unemployment rate (%)	7.6	7.9	7.7	7.3	7.1	7.0
Total net in-migration (persons, 000s)	57.7 <sup>1</sup>	53.9	53.6	52.2	52.8	54.0
Personal Income	5.2 <sup>e</sup>	-1.0	2.1	3.8	4.5	4.5
Corporate pre-tax profits	-35.8 <sup>e</sup>	12.7	9.8	7.6	7.5	7.3
Housing starts (units, 000s)	16.1	20.5	23.6	25.8	27.2	27.8
Retail sales	-5.1	3.9	4.1	4.6	4.7	4.7
<i>Per cent change unless otherwise noted. Forecasts 2010 to 2014. <sup>e</sup> Ministry of Finance estimate. <sup>1</sup> BC STATS estimate.</i>						
<i>Source: Budget and Fiscal Plan 2010/11 – 2012/13</i>						

**Analysis:** Generally, the Ministry of Finance's forecasts are positioned conservatively. Central 1's forecast is more robust in each year of the fiscal plan so that nominal GDP in 2013 is higher by 6.6% or \$14.9 billion. Nominal GDP growth averages 6.1% per year in Central's forecast versus 4.8% in the fiscal plan. In the Budget's fiscal sensitivities table, a 1% change in nominal GDP implies an annual fiscal impact of \$150 to \$250 million. If Central 1's forecast is used, revenues would be about \$0.85 to \$1.4 billion higher in total to 2013/14.

The forecast averages of the Economic Forecast Council are also higher than the Ministry of Finance forecasts in each year of the fiscal plan. This applies not only to nominal and real GDP but also to other key indicators such as the unemployment rate, corporate profits, retail sales, housing starts, U.S. GDP and Canada GDP. The Ministry's approach provides a downside buffer to the revenue projections.

**Revenue:** Projected total revenue grows 5.8% in 2010/11 slowing to 4.5% in the next two years resulting in \$42.8 billion in 2012/13, up 15.5% from 2009/10. The largest contributor to total revenue is from taxation with a \$3.0 billion increase or up 17.7% from 2009/10. Taxation revenue grows mainly from personal income and consumption taxes, the HST and carbon taxes in particular. Natural resource revenue increases \$1.2 billion or 46.2%, mainly on natural gas activity. MSP premiums are increasing Jan. 1, 2011 helping lift other revenue line

### Revenue by Source

(\$ millions)	Actual 2008/09	Updated Forecast 2009/10	Budget Estimate 2010/11	Plan 2011/12	Plan 2012/13
Taxation revenue	18,197	17,023	17,422	18,658	20,039
Natural resource revenue	3,848	2,705	3,280	3,683	3,954
Other revenue	7,389	7,640	7,874	8,251	8,732
Contributions from the federal government	5,989	6,834	7,685	7,283	6,979
Commercial Crown Corporation net income	2,905	2,848	3,001	3,082	3,096
<b>Total revenue</b>	<b>38,328</b>	<b>37,050</b>	<b>39,190</b>	<b>40,957</b>	<b>42,800</b>

*Source: Budget and Fiscal Plan 2010/11 – 2012/13*

by 14.3%. The government is reallocating the timing of the HST transition payment from the federal government so that most appears in the next two years. Previously, \$750 million was allocated to 2009/10 compared to \$250 currently.

**Analysis:** Taxation revenues will likely come in higher than projected based on Central 1's forecasts. Personal and corporate income taxation along with higher HST revenues will be the main sources of revenue outperformance.

**Tax Measures:** Very few new measures were announced in *Budget 2010*. A couple of notable tax changes were the increase in MSP premiums effective Jan. 1, 2011 and a northern and rural benefit of \$200 for homeowners beginning in the 2011 tax year.

**Spending:** Total government expense increased 3.8% during the recession and is projected to increase 2.3% in the coming fiscal year followed by a comparable amount in the years to 2012/13. Total spending rises 7.2% between 2009/10 and 2012/13 to \$42.5 billion. Spending on health services grows 13.8% and accounts for 76.5% of the total increase of \$2.84 billion. In contrast, education spending increases 2.6% and social services by 0.6%. Debt servicing costs are projected to rise 33.6% or \$0.74 billion to \$2.95 billion.

Expense by Function					
(\$ millions)	Actual 2008/09	Updated Forecast 2009/10	Budget Estimate 2010/11	Plan 2011/12	Plan 2012/13
Health	15,050	15,717	16,474	17,426	17,893
Education	10,470	10,734	10,820	10,949	11,011
Social Services	3,150	3,399	3,454	3,419	3,418
Protection of persons and property	1,406	1,433	1,426	1,365	1,364
Transportation	1,402	1,448	1,515	1,670	1,739
Natural resources and economic development	1,578	1,916	1,314	1,389	1,416
Other	1,732	1,227	1,395	1,203	1,219
Contingencies	-	456	450	450	450
General government	1,336	1,162	1,376	1,110	1,085
Debt servicing costs	2,144	2,208	2,381	2,621	2,950
<b>Subtotal</b>	<b>38,268</b>	<b>39,700</b>	<b>40,605</b>	<b>41,602</b>	<b>42,545</b>
Other	(18)	-	-	-	-
<b>Total expense</b>	<b>38,250</b>	<b>39,700</b>	<b>40,605</b>	<b>41,602</b>	<b>42,545</b>

Source: Budget and Fiscal Plan 2010/11 – 2012/13

**Full-Time Equivalent (FTEs):** *Budget 2010* put forward a three-year plan to reduce the number of FTEs in the provincial government by 10.4% or 3,720. This is a large change from the plan in Budget 2009 and in the September Budget Update in which the current 2011/12 FTE projection is 9.6% and 6.5% lower, respectively. Ministries and special offices will face an 11.4% reduction while FTEs in special delivery agencies are to decline by 3.8%. Voluntary exits, including retirements, are expected to result in attrition-based reductions in the public service. *Budget 2010* does not include funding for wage increases as collective agreements are renewed, consistent with the net-zero cost mandate for the collective bargaining cycle already underway.

### Full-Time Equivalents (FTEs)

	Actual 2008/09	Updated Forecast 2009/10	Budget Estimate 2010/11	Plan 2011/12	Plan 2012/13
Ministries and special offices (CRF)	31,874	31,284	30,096	28,501	27,732
Service delivery agencies	4,403	4,436	4,204	4,249	4,268
<b>Budget 2010</b>	<b>36,277</b>	<b>35,720</b>	<b>34,300</b>	<b>32,750</b>	<b>32,000</b>
September Budget Update 2009	36,277	36,427	35,589	35,043	
Budget 2009	36,205	36,564	36,448	36,232	
<i>Sources: Budget and Fiscal Plan 2009/10 to 2011/12, September Budget Update 2009/10 to 2011/12,</i>					
<i>Budget and Fiscal Plan 2010/11 to 2012/13</i>					

**Analysis:** According to the budget document, staffing costs represent about 7% of consolidated revenue fund expenses (about \$34 billion) implying a total cost of around \$2.4 billion per year. An 11.4% reduction in FTEs in 2012/13 results in a lower total staffing cost of about \$275 million. During the three-year plan, lower staffing costs amount to about \$575 million.

**Capital Spending:** Infrastructure spending climbs to \$8.1 billion in the coming year from \$7.3 billion last year. Spending declines in 2010/11 to \$6.5 billion and \$6.0 billion in 2012/13. Contingencies of between \$200 and \$300 million per year provide a buffer against unforeseen costs.

### Capital Spending

(\$ millions)	Actual 2008/09	Updated Forecast 2009/10	Budget Estimate 2010/11	Plan 2011/12	Plan 2012/13
Total taxpayer-supported	3,778	4,031	5,414	3,609	3,073
Total self-supported commercial	1,762	3,257	2,745	2,919	2,985
Total capital spending	5,540	7,270	8,159	6,528	6,058
<i>Source: Budget and Fiscal Plan 2010/11 – 2012/13</i>					

**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.

**Provincial Debt:** Taxpayer-supported debt is forecast to increase 31.7% or \$9.2 billion to \$38.3 billion by 2012/13, reflecting the capital investments planned over the next three years and the projected deficits. Total provincial debt, which includes commercial Crown self-supported debt, is forecast to increase 35.2% or \$14.5 billion to \$55.9 billion by 2012/13.

The ratio of taxpayer-supported debt, which excludes commercial Crown corporations' debt, to GDP ratio is forecast to increase from 15.5% in 2009/10 to 17.2% in 2010/11 and to 17.9% in 2011/12 before returning to a downward trend by falling to 17.8 per cent in 2012/13. Total provincial debt-to-GDP rises to 25.9% in 2012/13 from 22.0% in 2009/10.

### Provincial Debt Summary

(\$ millions unless otherwise indicated)	Actual 2008/09	Updated Forecast 2009/10	Budget Estimate 2010/11	Plan 2011/12	Plan 2012/13
Total taxpayer-supported debt	26,446	29,093	33,748	36,720	38,329
Total self-supported debt	11,568	12,100	13,709	15,343	17,133
Total debt before forecast allowance	38,014	41,193	47,457	52,063	55,462
Forecast allowance	-	125	300	300	400
<b>Total provincial debt</b>	<b>38,014</b>	<b>41,318</b>	<b>47,757</b>	<b>52,363</b>	<b>55,862</b>
<b>Debt as a percent of GDP</b>					
Taxpayer-supported	13.4%	15.5%	17.2%	17.9%	17.8%
Total provincial	19.2%	22.0%	24.3%	25.5%	25.9%
<i>Source: Budget and Fiscal Plan 2010/11 to 2012/13</i>					

**Analysis:** Debt levels are rising at a faster pace following as a result of the recession, operating deficits and stepped up capital spending. The provincial government's starting point for this cyclical upturn came from a low point following the surplus years earlier this decade. The projected debt burden is not onerous and a plan is in place to control its trajectory. The bond rating agencies will view the plan as credible and not make any changes to the province's AAA rating. There is a greater than 50:50 chance debt levels will be lower than projected since there are a number of prudence factors built into the fiscal plan.

The 2010/11 deficit could come in below \$1 billion and there is a small chance the 2011/12 deficit disappears assuming the economy grows sufficiently to generate more revenues than in the plan. An operating surplus very likely emerges in 2012/13 and the surplus in 2013/14 could well top \$1.5 billion. Should these results prevail, the provincial debt would be correspondingly lower so that by 2012/13, the total debt could be closer to \$50 billion and down to 21% of GDP.