Note: Due to technical issues, the wrong report was previously uploaded

As anticipated, today's Budget Update and the first under the NDP banner, was primarily an update on fiscal performance with a modest sprinkling of new spending and tax measures in line with election platform commitments– some announced in advance of the update. Given the short time that has elapsed since forming of government and fiscal plans are typically prepped and costed for a February release, take this update as set of measures to whet the appetite for February.

The government fiscal plan maintains a modest surplus through the fiscal plan period but new spending measures lift expenses with new tax measures providing an offset. A smattering of initiatives included cuts to MSP, investment in education, rental housing, and social services, with new funding sources from the low hanging fruit of higher income taxes on high income earners and a hike in corporate income taxes. That said, small businesses received a tax break and credit unions saw the restoration of a tax benefit.

Underscoring the fact this was a budget update rather than a new fiscal plan was what was missing from the document. Specifically, key election planks such as the $400 Renter Rebate, $10/day daycare, and housing policies (revenue measure) such as an empty house tax on speculative housing were not addressed. The former two are big ticket items, with a combined cost of more than $500 million per year according to the election platform, which doesn't include prospects of further cuts to MSP premiums. As this exceeds the current surplus projections, the government will need to examine offsetting funding sources, run a deficit, a combination of both or cut back on some of the policies. Expect these questions to be addressed leading into the February budget.

The numbers

The government's budget project a fiscal balance that is broadly in line with the previous government's fiscal plan from February. Including forecast allowance, B.C.'s books remain in the black with a $246 million surplus in fiscal 2017/18, $228 million in 2018/19 and $257 million in 2018/20. However, both revenue and expense projections are roughly three per cent higher over the projection period. as announced government spending measures are offset by projected increases in revenue.

Expense projections for fiscal 2017/18 through 2019/20 exceed levels projected in the February budget by about $4.5 billion. Only a portion of this is due to new measures announced by the government. Extreme wildfires added $668 million to fiscal 2017/18, with just over $1 billion over the three year period reflecting higher than previously projected public-sector compensation costs and other operational spending.

Newly announced expense measures add a projected $658 million in 2017/18, and just under $900 million annually in 2018/19 and 19/20. These relate in large part to elimination of tolls for the Port Mann and Golden Ears bridge, enhanced social assistance rates, and housing. Required increased funding for K-12 schooling averaging more than $200 million annually over the fiscal period and funding in response to the Fentanyl crisis are significant costs over the fiscal period.

Offsetting revenue growth of $4.5 billion over the fiscal period reflects a combination of income tax hikes to higher earning individuals and a higher general corporate tax rate, and cyclical factors associated with a stronger than anticipated economy including higher than previously budgeted income and property transfer taxes. New personal and corporate income tax measures add about $130 million to revenues in fiscal 2017/18, $500 million in 18/19 and 19/20. Rising carbon taxes add $212 million in 18/19 and $428 million in 19/20 relative to the February budget. Cuts to MSP premiums is a partial offset at $100 million in 2017/18, and $400 million in 18/19 and $415 million in 19/20.

A significant driver of government revenue is the state of the economy. The government's projections for the economy remain prudent, if not overtly conservative. Real growth is assumed to rise 2.9 per cent this year and about two per cent in 2018 and 2019, with nominal GDP (the best indication for the taxable base) at 5.1 per cent this year and four per cent thereafter. Central 1 is currently forecasting real growth of about 3.5 this year, and average of 2.7 per cent thereafter and significantly stronger nominal growth than the government. Revenue projections are attainable.

On the debt front, the taxpayer debt-to-GDP ratio is higher than the prior fiscal plan due to reclassification of Port Mann bridge debt from self-supported debt after elimination of tolls. The total debt and debt-to-GDP ratio is lower than the February fiscal plan largely reflecting cancellation of the Massey Tunnel project. That said, as alternatives may be forthcoming, this could change in the future.

Key Policy Measures

Households

- Eliminate tolls on Port Mann and Golden Ears Bridges (Effective September 1, 2017)
- Increase individual tax rate to 16.8 per cent from 14.7 per cent on taxable income above $150,000
- Cut MSP Premiums by 50 per cent, with plans to eliminate over four years
- Increase income and disability assistance by $100 per month

Housing:

- Announcement of $208 million capital investment to support 1,700 units of rental housing construction geared to seniors, and those with disabilities
- $291 million for construction modular housing focused on homelessness plus operational costs

Businesses

- Increase general corporate income tax rate to 12 per cent
- Increase carbon tax rate by $5/tonne in each of the next four years
- Restore tax benefit for credit unions
- Reduce small business income tax rate from 2.5 per cent to 2 per cent
- Phase out PST on electricity for businesses
- Establish Innovation Commissioner, Emerging Economy Taskforce and Fair Wages Commission

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Budget 2017 - September Update 2017/18 – 2019/20					
($ millions)	2015/16	2016/17 2016/17	Estimate 2017/18	2018/19	2019/20
Revenue	47,602	51,459	52,407	52,557	53,677
Expense	46,791	48,722	51,861	52,029	53,070
Surplus (deficit) before forecast allowance	**811**	**2,737**	**546**	**528**	**607**
Forecast allowance			300	300	350
Surplus (deficit)	**811**	**2,737**	**246**	**228**	**257**
Capital spending:					
Taxpayer-supported	3,459	3,659	4,956	4,855	4,814
Self-supported	2,573	2,725	2,701	2,635	3,154
Total	6,032	6,384	7,657	7,490	7,968
Provincial debt:					
Taxpayer-supported debt	42,727	41,506	44,853	47,031	48,642
Self-supported debt	22,565	24,377	21,624	22,509	23,764
Total debt (including forecast allowance)	**65,292**	**65,883**	**66,777**	**69,840**	**72,756**
Taxpayer-supported debt-to-GDP ratio (%)	**17.1**	**15.8**	**16.2**	**16.4**	**16.3**
Total debt-to-GDP ratio	**26.1**	**25.1**	**24.2**	**24.3**	**24.3**
Economic Forecast:	2015	2016	2017	2018	2019
Real GDP growth	3.30%	3.60%	2.90%	2.10%	2.00%
Nominal GDP growth	3.80%	5.10%	5.10%	4.10%	3.90%

Source: Budget 2017 - September Update 2017/18 – 2019/20