



B.C. Budget 2021

April 20, 2021

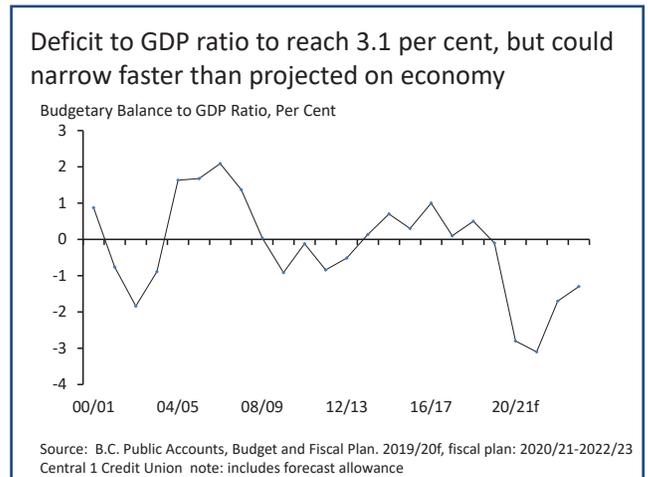
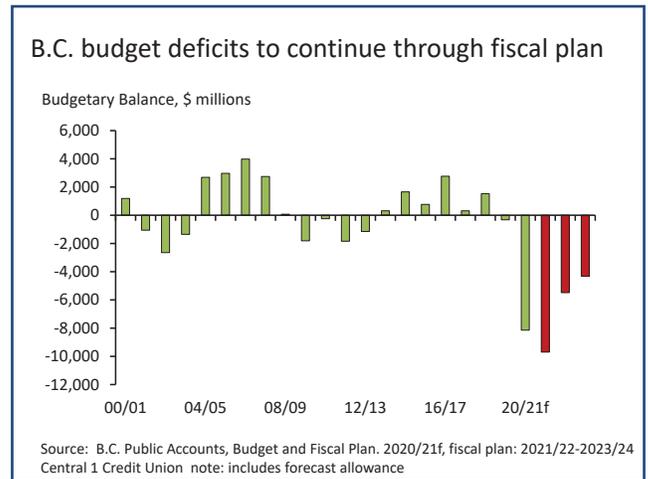
B.C. Budget 2021: Few new announcements as government navigates pandemic deficit era

The B.C. government's 2021 budget and fiscal plan was a muted affair with way of significant new spending announcements as the government focused on continued navigation the pandemic, while building on temporary support measures implemented in 2020. New spending measures were largely focused on extending current programs supporting small businesses, while also increasing funding for income and disability assistance, seniors, early childhood education, and climate measures via funding through CleanBC. Broadly, it is was a prudent plan focused on managing the deficit, but with little in the way of pro-growth announcements.

Although the province has entered an extended period of large deficits and debt accumulation due to the pandemic impacts on revenue and higher expenses, performance is better than projected in the Fall 2020 Economic and Fiscal Update. The provincial deficit for 2020/21 is forecast at \$8.1 billion, compared to Fall update forecast for a \$13.6 billion deficit. The deficit for 2021/22 is projected to reach \$9.7 billion, before trending lower to \$4.3 billion. Pre-pandemic, the government was on sitting on a near seven year run of surpluses. As a share of nominal GDP, the deficit peaks at 3.1 per cent in 2021/22, which declines to 1.3 per cent by the end of the fiscal plan. That said, narrowing of future deficits could come quicker than projected.

Government expenses include \$8.7 billion of permanent spending increase by the end of the fiscal period on top of temporary funds for COVID-19 measures.

Capital spending is expected to rise sharply over the fiscal plan. Driven mostly my taxpayer supported spending, total capital spending allocation climbs to \$13.5 billion in 2021/22 from \$10.1 billion in the 2020/21 fiscal year reflecting taxpayer-supported investments in school, hospitals and transportation outlined in previous budgets. Operating deficits and capital spending pushes total taxpayer- supported debt to nearly \$60 billion in 2021/22, which rises to \$92.7 billion by 2023/24. Taxpayer-supported debt as a share of GDP rises to 20.3 per cent in 2021/22 and climbs to 26.9 per cent by 2023/24. Pre-pandemic this was closer to 15 per cent.

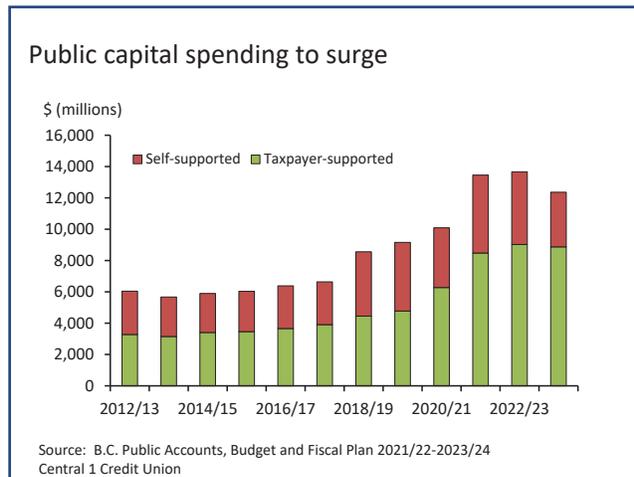


Policy highlights

As noted, there were few major announcements in the Budget.

On the COVID-19 recovery plan, the province allocated **\$3.25 billion in Pandemic and Recovery Contingencies** for 2021/22, \$1 billion in 2022/23, and \$300 million in 2023/24. These funds support temporary program related to the pandemic that fluctuate with health orders, vaccines and other factors. Allocations of the funds include the Small and Medium Sized Business Recovery Grant Program (\$195 million), B.C. Recovery Benefit (\$100 million), health-related management (\$900 million), tourism supports (\$120 million), and other programs.

On the **health spending front**, the province is ramping up health spending by \$2.6 billion over the fiscal plan. This includes spending on expansion of urgent care



services, cancer care and reduce system backlogs. Funding will also be increased for mental health and addictions (\$500 million over three years).

Spending was also targeted at vulnerable groups in the population. Adding to recent year increases, **income and disability assistance rates** will increase by \$175 per month and the **Senior's Supplement** increases by \$50. A focus on homelessness also includes \$265 million in funds from the **Pandemic and Recovery Contingencies fund** in 2021/22.

Similar to the federal government, **childcare was also on the docket**, expanding funding from previous years. An additional \$233 million is spent over the fiscal period to increase spaces for childcare spaces, alongside \$94 million for wage enhancements for ECE providers, also \$111 million to expand the no-to-low cost spaces. Like the federal announcements, B.C. has embarked a childcare strategy which should boost labour force participation for women and help household finances.

There were **few business-oriented** announcements. Funding was provided to extend previously announced programs including \$195 million for the Small and Medium Sized Business Recovery Grant, which provides up to \$30,000 to support recovery, with tourism businesses eligible for higher grants. The Increased Employment Incentive tax credit continues to support hiring, while PST tax exemptions continue for machinery and equipment.

The government announced \$649 million in post-secondary and training initiatives, but this also covers sector wage increases.

The **CleanBC** initiative received a substantial increasing in funding of \$506 million over the fiscal plan. This is allocated to shifting to green infrastructure,

electrification of school buses and government vehicles. Incentives are also provided to industrial emitters to lower carbon footprints.

Deficit could narrow faster than expected

Despite uncertainties related to the pandemic, specifically the third wave and potential future health measures that could impede the economic recovery, the fiscal outlook is reasonable. In fact, notwithstanding future policy announcements, a return to a balanced budget may be quicker than anticipated.

While expenses have surged since fiscal 2019/20 much of this naturally is due to the pandemic. Total expenses rose 17 per cent if fiscal year 2020/21 and expected to hold slip in 2021/22 on less COVID-19 related spending. Moreover, once factoring out pandemic and recovery contingency allocations, growth in operating expenses is lower than pre-pandemic trends at about 4.5 per cent annually. Pandemic expenses are temporary and will roll off once the health crisis ends. Growth is led by social services (six per cent), while education grows at two per cent. Health expenditures grow at four per cent.

Meanwhile revenue forecasts are coming in much better than previously expected. The government expects average revenue growth of 4.7 per cent over the fiscal horizon despite a slip in 2021/22 on less federal COVID-19 funding, after a strong than expected 2020/21. Tax revenue is projected to be flat in 21/22 but this is likely conservative given stellar home sales, while income taxes pick up, specifically in 2022/23 by 11 per cent as tax relief ends. The government expects some slip in resource revenues as lumber prices ease.

A key driver of revenue is nominal gross domestic product, which is a broad measure of the tax base. While the government applies a discount to Economic Forecast Council consensus (which Central 1 is contributor) for budget purposes, economic outlooks have generally moved higher since that time. Real growth in B.C. is likely to range closer to 5.5 per cent this year compared to a 4.4 per cent budget forecast, while commodity price growth is also lifting B.C. nominal output. Nominal GDP could reach 7.5 per cent. This will likely lift tax revenues for the province, while the housing market has thus far shown few signs of slowing. A spike in COVID-19 and increased restrictions is a negative risk, but vaccine deployment is rolling out quickly.

Adding to this is additional buffers or contingencies of more than a billion annually provide buffers against

unexpected swings in revenues or expenses. This suggests the government will see smaller than projected deficits.

Capital spending and Debt

Government capital investment remains elevated and significant source of economic growth. Annual taxpayer supported debt average \$8.8 billion from 2021/22 through 2023/24. This up from \$4.8 billion in 2019/20 and \$6.3 billion 2020/21. Capital spending over the fiscal plan is \$26.4 billion. Major projects include St. Paul's Hospital in Vancouver, Royal Inland Hospital in Kamloops, K-12 and post-secondary institutions, Patullo Bridge, and Broadway Subway among others. Operating deficits and capital spending push total

taxpayer- supported debt to nearly \$92.7 billion in 2023/24, up 54 per cent over the fiscal planning period. Taxpayer-supported debt rises from 20.3 per cent in 2021/22 to 26.9 per cent by 2023/24. Pre-pandemic this was closer to 15 per cent. While the numbers are large, it should be noted that this is manageable, particularly given a low rates on long-term bonds that while rising will remain accommodative. The interest bite, which is the ratio of interest cost to each dollar of revenue rises only slightly from 3.1 cents to 3.6 cents over the fiscal plan. While higher than prior years, it is still lower than observed in 2015/16.

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Summary Table: Budget and Fiscal Plan 2021/22– 2023/24

(\$ millions)	2017/18	2018/19	2019/20	Forecast		Budget & Fiscal Plan	
				2020/21	2021/22	2022/23	2023/24
Revenue	52,020	57,128	58,660	60,967	58,929	63,286	65,074
Expense	51,706	55,593	58,981	69,111	67,627	68,020	68,997
Surplus (deficit) before forecast allowance	314	1,535	-321	-8,144	-8,698	-4,734	-3,923
Forecast allowance					1,000	750	400
Surplus (deficit)	314	1,535	-321	-8,144	-9,698	-5,484	-4,323
Capital spending:							
Taxpayer-supported	3,908	4,452	4,772	6,277	8,479	9,025	8,872
Self-supported	2,729	4,106	4,386	3,812	4,976	4,640	3,489
Total	6,637	8,558	9,158	10,089	13,455	13,665	12,361
Provincial debt:							
Taxpayer-supported debt	43,607	42,681	46,229	59,962	71,642	82,771	92,732
Self-supported debt	21,312	23,281	25,932	27,524	30,238	32,688	33,882
Total debt (including forecast allowance)	64,919	65,962	72,161	87,486	102,880	116,209	127,014
Taxpayer-supported debt-to-GDP ratio (%)	15.4	14.4	15.0	20.3	22.8	25.0	26.9
Total debt-to-GDP ratio	23.0	22.3	23.3	29.6	32.7	35.1	36.9

Source: Budget and Fiscal Plan 2021/22 - 2023/24

Revenue By Source, Budget and Fiscal Plan 2021/22– 2023/24

(\$ millions)	2016/17	2017/18	2018/19	2019/20	Forecast		Budget & Fiscal Plan	
					2020/21	2021/22	2022/23	2023/24
Taxation	27,093	28,321	32,714	33,266	33,533	33,782	37,543	38,448
Natural resource revenue	2,711	2,695	3,108	2,268	2,215	2,532	2,377	2,389
Other revenue	10,953	10,893	10,249	10,673	8,798	9,220	9,468	9,696
Federal government contributions	8,167	9,055	9,052	9,535	13,360	10,530	10,464	10,910
Comm. Crown Corporation net income	2,525	1,056	2,005	2,918	3,061	2,865	3,434	3,631
Total revenue	51,449	52,020	57,128	58,660	60,967	58,929	63,286	65,074

Source: Budget and Fiscal Plan 2021/22– 2023/24

Expense by Function, Budget and Fiscal Plan 2021/22– 2023/24

(\$ millions)	2017/18	2018/19	2019/20	Forecast	Budget & Fiscal Plan		
				2020/21	2021/22	2022/23	2023/24
Health	20,927	22,151	23,449	24,339	26,106	26,844	27,580
Education	13,091	14,085	14,734	15,438	15,805	15,952	16,172
Social Services	4,737	5,343	5,887	6,782	7,172	7,330	7,365
Protection of persons and property	1,930	2,004	2,126	1,954	1,935	1,942	1,943
Transportation	1,931	2,021	2,126	2,172	2,336	2,393	2,374
Resources and economic development	3,374	3,825	3,778	3,262	3,467	3,544	3,674
Other	1,553	1,810	2,501	2,719	2,218	2,257	2,223
Contingencies				736	1,000	800	700
Contingencies - Caseload pressures and priority initiatives						1,500	2,000
Pandemic and Recovery Contingencies				7,510	3,250	1,000	300
General government	1,540	1,670	1,653	1,499	1,531	1,525	1,536
Debt servicing	2,623	2,684	2,727	2,700	2,807	2,934	3,131
Operating expense	51,706	55,593	58,981	69,111	67,627	68,020	68,997

Source: Budget and Fiscal Plan 2021/22– 2023/24

Capital Spending, Budget and Fiscal Plan 2021/22– 2023/24

(\$ millions)	2016/17	2017/18	2018/19	2019/20	forecast	Budget & Fiscal Plan		
					2020/21	2021/22	2022/23	2023/24
Education	1,266	1,546	1,650	1,813	1,903	2,460	2,385	2,448
Health	1,004	890	904	1,009	1,533	2,245	2,603	2,972
Transportation	864	832	938	1,028	1,639	2,275	2,738	2,521
Government direct (ministries)	301	430	421	520	435	641	521	457
Social Housing	40	41	56	355	679	671	574	335
Other	184	169	483	47	88	187	204	139
Taxpayer-supported	3,659	3,908	4,452	4,772	6,277	8,479	9,025	8,872
BC Hydro	2,444	2,473	3,826	3,082	3,573	4,738	4,413	3,305
Others	281	256	280	1,304	239	238	227	184
Self-supported	2,725	2,729	4,106	4,386	3,812	4,976	4,640	3,489
Total capital spending	6,384	6,637	8,558	9,158	10,089	13,455	13,665	12,361

Source: Budget and Fiscal Plan 2021/22– 2023/24