



# B.C. Budget 2022

February 23, 2022

## B.C. budget in the red despite higher revenues as government focuses on climate response, and clean and inclusive growth

The B.C. government published its 2022 Budget and Fiscal Plan with a focus on investments in inclusive growth, climate investments, clean- and bio- tech sectors, and a smattering of capital investments. This was well projected in the government's recently released [Economic Plan](#).

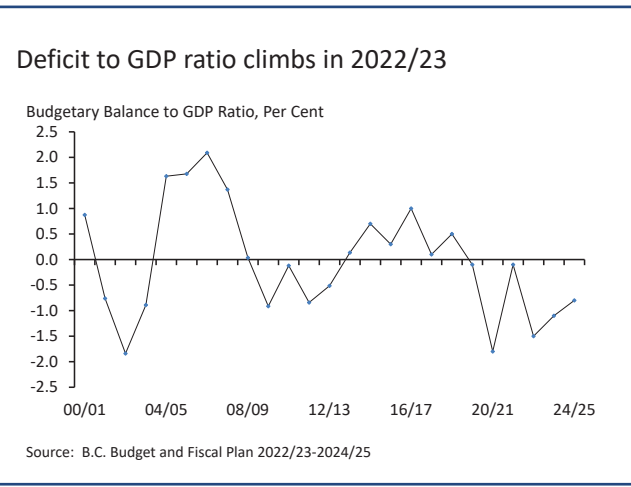
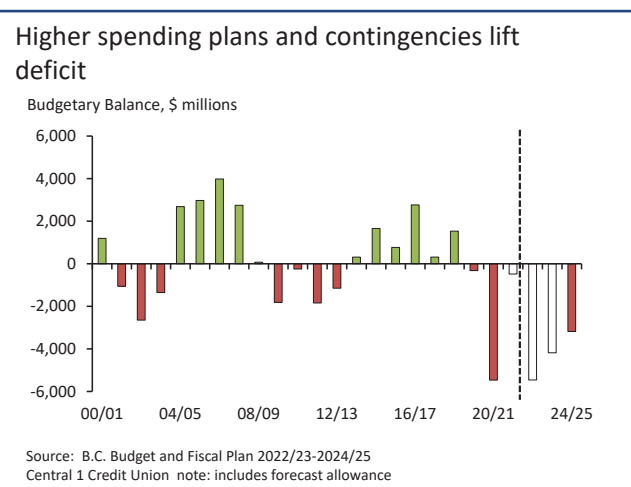
B.C.'s fiscal outlook improved dramatically over the past year, which came as no surprise given a rapid rebound in the economy, strong property markets and commodity prices. **From an originally budgeted deficit of \$9.7 billion, the forecast improved to a \$483 million shortfall.** Despite higher expected revenue compared to the 2021 Budget and Fiscal Plan, **elevated deficits are projected through 2024/25** reflecting higher program spending as well as substantial contingency funds to cover unbudgeted costs associated with flood-related costs and public-sector wage negotiations. Deficits of \$5.4 billion is projected for 2022/23, \$4.18 billion for 2023/24 and \$3.18 billion in 2024/25.

**As a share of nominal GDP**, the deficit narrows to 0.1 per cent in 2021/22 from 1.8 per cent in 2020/21. The share increases to 1.5 per cent of GDP in 2022/23 before declining to about 0.8 per cent by the end of the fiscal plan. This remains manageable and significantly lower than projected in Budget 2021.

That said, this budget like those before it builds in **significant prudence** including lower than consensus economic growth assumptions. Meanwhile, given magnitude of contingencies and forecast allowances, it is often the case that the B.C. government's financial position ends up exceeding budget plans.

**Government investment in capital projects** will remain elevated with \$39.4 billion in investment over the three-year fiscal plan, \$27.4 billion of which is taxpayer supported. Budget 2022 added marginally to spending with another \$1.1 billion in projects.

Operational deficits and capital spending lifts provincial debt to over the fiscal plan. **Taxpayer-supported debt** climbs to \$73.5 billion in 2022/23 and toward \$90.85 billion by 2024/25. This lifts taxpayer debt-to-GDP ratio to 22.8 per cent from 19.3 per cent in 2020/21 and 15 per cent in 2019/20. That said, this remains affordable given persistence of low interest rates.



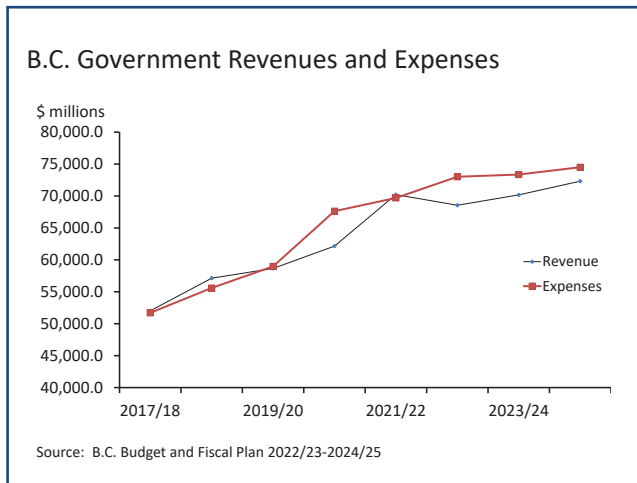
### Increased spending drives deficit

Persistence of elevated **deficits through the fiscal plan reflect significantly higher operating expenses** given the strong rebound in revenues. After a forecast three per cent increase in expenses in 2021/22, expenses climb 4.7 per cent in 2022/23 to \$73 billion with mild growth in the subsequent two years of 0.5 per cent and 1.6 per cent. It is worth noting that this is 25 per cent higher than that observed in 2019/20 prior to the pandemic when expenses exploded by nearly 15 per cent during the first year of the pandemic. Expenses in healthcare (5.4 per cent in 2022/23) remain the key driver of growth, followed by education.

As noted, there are **significant contingencies in place to cover unexpected or unbudgeted expenses** related to the pandemic, flood-costs and other labour negotiations. Pandemic Recovery Contingencies are \$2.0 billion in 2022/23 and \$1.0 billion in 2023/24. General Program Contingencies which reflect flood-related costs (\$1.15 billion

currently allocated), uncertain costs related to collective bargaining, and other spending uncertainties for new and existing programs is \$2.8 billion in 2022/23, \$3.4 billion in 2023/24 and \$4.0 billion in 2024/25.

That said, hard budgeted costs are still 18 per cent higher than pre-pandemic levels, and this indeed the deficit reflects increased program spending. Core program expenses rise \$6.6 billion over the fiscal plan. Expenses as a share of GDP remains near 20 per and declines to 18.7 per cent by 2024/25.



**Higher spending is supported by elevated government revenues are on pace for a banner year** with a forecast increase of 13 per cent for 2021/22 reflecting strong growth in nominal GDP owing to rebounding employment, hot property markets, commodity prices and federal transfers. Levels are 20 per cent above 2019/20. Total revenue reaches \$70.2 billion for 2021/22 driven by a 17 per cent increase in tax income and 72 per cent increase in resource revenue. Of the former, personal income tax revenue increased 23 per cent to \$13.68 billion, while property transfer taxes surged by a third to \$3.2 billion. Resource revenues surged on natural gas royalties, metals and minerals and stumpage fees as lumber prices surged. Revenue expectations flatten over the fiscal plan, including a dip in 2022/23 owing to a pull back in resource revenue and commercial crown corporation revenue (ICBC specifically) but remains elevated through the fiscal plan with gains of 2.4 per cent and 3.1 per cent in 23/24 and 24/25.

Unlike expenses, **revenues are dictated by economic conditions and to a lesser extent government policies** and taxation levers. For the most part, economic conditions remain supportive under the government's economic forecasts with real growth of 4.0 per cent in 2022 and 2.5 per cent in 2023, and a range of 2.1 – 2.4 per cent from 2024 – 2026. Nominal GDP falls back from 12.4 per cent in 2021 to 5.8 per cent in 2022 and tracks near 4.0 per

cent thereafter. That said, these forecasts are generally set below consensus of the Economic Forecast Council for prudence suggesting positive risk for revenue, although global uncertainties persist. Home sales and housing starts are forecast to decline 20 per cent in 2022 and ease into 2023 pointing to lower transfer tax revenues.

### Key budget tax and spending announcements

As noted, budget measures were modest and targeted largely at themes related to inclusive growth and climate-oriented spending. On the **health and social services** front, the government announced new spending of \$102 million over three years for Primary Care, as well as \$303 million over three years for surgeries and diagnostics. A total of \$633 million was earmarked for services and supports related to homelessness.

In **childcare and education**, \$284 million in additional funding was allocated to the ChildCare BC Plan to adding on to current programs to reduce fees and create spaces, while an additional \$664 million will be spent on K-12 education to support rising enrolment.

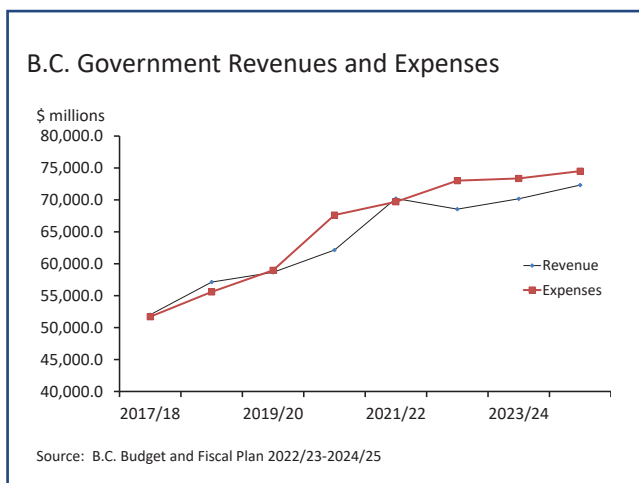
On the **housing front**, an additional \$166 million goes to support affordable housing. There was no discussion of rent rebates for broad households, but partnership with the federal government to provide supplements related to homelessness.

On the **economic front**, only modest spending was put forward and wrapped around climate-oriented spending. On the **forestry front**, \$185 million was allocated to help forestry workers rotate out of the sector given a ban on logging old growth. There was little mention of broader resources. In the new- economy, the government provided a one- year \$195 million life sciences research. Funding for expansion of high- speed internet across the province was allocated an additional \$289 million over five years. Modest additional funding was provided to increase seats for training at post-secondary institutions and trades.

Not surprisingly, **climate-oriented spending increased in latest budget**. CleanBC received significant increases in funding of \$1 billion over the fiscal plan. This includes \$125 million for clean transportation, and \$310 million for decarbonization of industry. Climate change and weather events were allocated \$1.5 billion over three years, which includes \$400 million for Emergency Management BC and \$1.1 billion in General Program Contingencies, and funding for BC Wildlife Service also increased in shifting it into a proactive rather than reactive agency.

Taxation measures were similarly quiet. Highlights included exemption of zero- emissions vehicles from the provincial sales tax. Tobacco is subject to PST on July 1, 2022.

## Capital spending remains elevated



Government investment in capital projects will remain elevated with \$39.4 billion in investment over the three-year fiscal plan, \$27.4 billion of which is taxpayer supported. Budget 2022 added marginally to spending with another \$1.1 billion in projects. This remains conducive of growth, although there was no mention of potential infrastructure projects to replace the boost from LNG or Site C later in the decade.

Taxpayer- supported capital spending reaches \$9.28 billion in 2022/23 compared to \$7.16 billion in 2021/22. Levels are steady in 2023/24 before decreasing to \$8.81 billion in 2024/25. Capital spending remains growth is driven largely by health, education and transportation infrastructure. Recent announcements have included \$163 million for the British Columbia Institute of Technology.

## Provincial Debt

Operational deficits and capital spending lifts provincial debt to over the fiscal plan. Taxpayer- supported debt climbs to \$73.5 billion in 2022/23 and toward \$90.85 billion by 2024/25. This lifts taxpayer debt- to- GDP ratio to 22.8 per cent from 19.3 per cent in 2020/21 and 15 per cent in 2019/20. Total debt-to-GDP which includes self- supported debt climbs from 23 per cent in 2019/20 to 31.6 per cent by 2024/25. While this could be problematic if interest rates spike, it remains affordable with a projected interest rate bite for taxpayer-supported debt (interest costs/provincial revenue) rising to 3.7 cents per dollar, from 2.8 cents in 2021/22. This remains lower than recent decades.

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## Summary Table: Budget and Fiscal Plan 2022/23 - 2024/25

(\$ millions)	2017/18	2018/19	2019/20	2020/21	Forecast		Budget & Fiscal Plan	
					2021/22	2022/23	2023/24	2024/25
Revenue	52,020	57,128	58,660	62,156	70,220	68,552	70,177	72,325
Expense	51,706	55,593	58,981	67,624	69,703	73,013	73,359	74,506
Surplus (deficit) before forecast allowance	314	1,535	-321	-5,468	517	-4,461	-3,182	-2,181
Forecast allowance					1,000	1,000	1,000	1,000
Surplus (deficit)	314	1,535	-321	-5,468	-483	-5,461	-4,182	-3,181
Capital spending:								
Taxpayer-supported	3,908	4,452	4,772	5,428	7,157	9,279	9,333	8,815
Self-supported	2,729	4,106	4,386	3,475	3,828	4,374	4,437	3,144
Total	6,637	8,558	9,158	8,903	10,985	13,653	13,770	11,959
Provincial debt:								
Taxpayer-supported debt	43,607	42,681	46,229	59,750	61,731	73,475	83,302	90,846
Self-supported debt	21,312	23,281	25,932	27,350	28,814	30,956	33,004	33,930
Total debt (including forecast allowance)	64,919	65,962	72,161	87,100	91,545	105,431	117,306	125,776
Taxpayer-supported debt-to-GDP ratio (%)	15.4	14.4	14.9	19.3	17.8	20.0	21.8	22.8
Total debt-to-GDP ratio	23.0	22.2	23.2	28.2	26.3	28.7	30.6	31.6

Source: Budget and Fiscal Plan 2022/23 - 2024/25

## Revenue By Source, Budget and Fiscal Plan 2022/23– 2024/25

(\$ millions)	2016/17	2017/18	2018/19	2019/20	2020/21	Forecast	Budget & Fiscal Plan		
						2021/22	2022/23	2023/24	2024/25
Taxation	27,093	28,321	32,714	33,266	34,166	40,052	40,070	41,679	43,646
Natural resource revenue	2,711	2,695	3,108	2,268	2,403	4,123	3,387	2,798	2,606
Other revenue	10,953	10,893	10,249	10,673	8,729	9,550	9,991	10,210	10,314
Federal government contributions	8,167	9,055	9,052	9,535	12,894	11,482	11,340	11,742	11,932
Comm. Crown Corporation net income	2,525	1,056	2,005	2,918	3,964	5,013	3,764	3,748	3,827
<b>Total revenue</b>	<b>51,449</b>	<b>52,020</b>	<b>57,128</b>	<b>58,660</b>	<b>62,156</b>	<b>70,220</b>	<b>68,552</b>	<b>70,177</b>	<b>72,325</b>

Source: Budget and Fiscal Plan 2022/23 - 2024/25

## Expense by Function, Budget and Fiscal Plan 2022/23– 2024/25

(\$ millions)	2017/18	2018/19	2019/20	2020/21	Forecast	Budget & Fiscal Plan		
					2021/22	2022/23	2023/24	2024/25
Health	20,927	22,151	23,449	25,605	26,268	27,685	28,461	29,247
Education	13,091	14,085	14,735	14,943	16,061	16,673	16,887	17,117
Social Services	4,737	5,343	5,887	7,789	7,242	7,916	7,972	8,032
Protection of persons and property	1,930	2,004	2,126	2,258	2,454	2,479	2,094	2,097
Transportation	1,931	2,021	2,126	3,360	2,373	2,454	2,379	2,446
Resources and economic development	3,374	3,825	3,778	4,191	4,008	3,748	3,954	4,054
Other	1,553	1,810	2,501	2,841	2,446	2,636	2,299	2,316
Contingencies					1,000	2,848	3,412	3,987
Pandemic and Recovery Contingencies					3,250	2,000	1,000	
General government	1,540	1,670	1,653	3,915	1,905	1,648	1,646	1,644
Debt servicing	2,623	2,684	2,727	2,722	2,696	2,926	3,255	3,566
Operating expense	51,706	55,593	58,981	67,624	69,703	73,013	73,359	74,506

Source: Budget and Fiscal Plan 2022/23 - 2024/25

## Capital Spending, Budget and Fiscal Plan 2022/23– 2024/25

(\$ millions)	2016/17	2017/18	2018/19	2019/20	2020/21	forecast	Budget & Fiscal Plan		
						2021/22	2022/23	2023/24	2024/25
Education	1,266	1,546	1,650	1,813	1,848	2,090	2,319	2,602	2,437
Health	1,004	890	904	1,009	1,162	2,051	2,584	2,818	3,164
Transportation	864	832	938	1,028	1,392	1,798	2,822	2,819	2,331
Government direct (ministries)	301	430	421	520	389	457	755	492	441
Social Housing	40	41	56	355	572	672	572	426	254
Other	184	169	483	47	65	89	227	176	188
Taxpayer-supported	3,659	3,908	4,452	4,772	5,428	7,157	9,279	9,333	8,815
BC Hydro	2,444	2,473	3,826	3,082	3,207	3,632	4,131	4,244	2,967
Others	281	256	280	1,304	268	196	243	193	177
Self-supported	2,725	2,729	4,106	4,386	3,475	3,828	4,374	4,437	3,144
<b>Total capital spending</b>	<b>6,384</b>	<b>6,637</b>	<b>8,558</b>	<b>9,158</b>	<b>8,903</b>	<b>12,723</b>	<b>13,653</b>	<b>13,770</b>	<b>11,959</b>

Source: Budget and Fiscal Plan 2022/23– 2024/25