



# B.C. Budget 2023

March 1, 2023

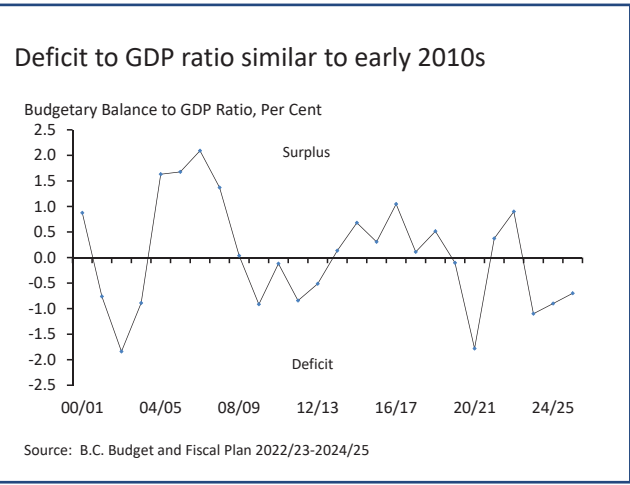
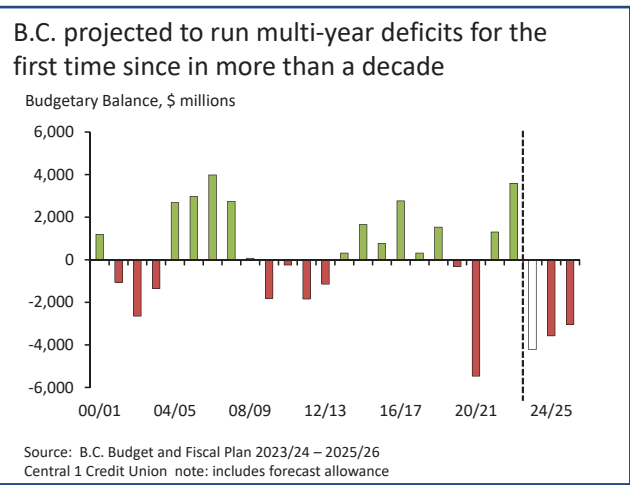
## Budget 2023: B.C. turns on spending tap but deficits to pool

It was expected that B.C. Budget 2023 would be a big spend plan, and the government did not disappoint as it anted up on health spending, lessened the financial weight on lower-income families, climate and to a lesser extent, addressed housing. At the same time, the Budget lacked measures to spur economic growth and enhance productivity, or plans to promote major resource projects, which is curious given the challenges stemming from a likely economic slowdown.

The government capitalized on stronger than expected revenues in the current 2022/23 fiscal year to deliver both a surplus and push through spending initiatives. The current fiscal year is expected to end with a budget surplus of \$3.5 billion. Recall that Budget 2022 had pegged a deficit of \$5.4 billion, with the latest Quarterly Financial update flipping this to a \$5 billion surplus due to strength in the economy and the tax base, resource revenues all lifted revenues. The surplus would have been higher if not for new spending measures moved into this fiscal year to make use of the extra revenue room, as well as pandemic recovery contingencies. This smaller surplus for 2022/23 reflects \$2.7 billion in supplementary spending for 2022/23 which includes \$1 billion for the Growing Communities Fund that supports community infrastructure, housing and economic development, \$450 million for critical community infrastructure, and \$500 million to support BC Ferries Fare Affordability among programs.

This favourable fiscal position is unlikely to last. The government expects this to give way to at least three years of red ink with deficits totaling about \$11 billion through 2025/26 as planned increases in program expense outpace revenue. After forecast allowance and contingencies, the deficit is projected to reach \$4.2 billion in 2023/24, \$3.57 billion in 2024/25 and \$3.0 billion in 2025/26. Expenses are projected to climb while some of the gains in 2022/23 revenues retrace. If this comes to pass, it would mark the first time in more than a decade of three straight deficits, while the deficit to GDP would climb levels last seen in 2009-2013.

Operational deficits and capital spending adds to provincial debt to over the fiscal plan. Taxpayer- supported debt climbs to \$75.6 billion in 2023/24, \$88.4 billion in 2024/25 and \$99.4 billion in 2025/26. This contributes to a rising debt-to-GDP ratio of 18.9 per cent in 2023/24 to 23 per cent by 2025/26. This compares to 15 per cent pre-pandemic and drivers



higher interest payments, but is still not especially high. While Budget 2023 projected deficits and debt levels does and should raise eyebrows, it should be noted that governments tend to outperform budget projections. Budgets include considerable cushions, including forecast allowances, contingencies, and more conservative economic forecasts. We would not be surprised if the fiscal position becomes rosier by late year.

### The details

#### Expenses surge as government targets health and cost of living

Annual program expenses are projected to exceed \$80 billion annually over the planning horizon, reaching about \$84.8 billion by 2025/26. For fiscal year 2023/24, this marks an 8 per cent increase from 2022/23. Average expenses over the fiscal plan are 10 per cent higher than projected in

Budget 2022. Taking a longer view, expenses are 35 per cent higher than the average seen from 2017/18 to 2021/22. The pandemic has institutionalized higher spending on the part of the government.

There are significant contingencies in place to cover unexpected or unbudgeted expenses captured in these amounts related to the pandemic other labour negotiations. The contingency line is \$5.5 billion in 2023/24, \$4.8 billion the following year and \$3.9 billion in 2024/26.

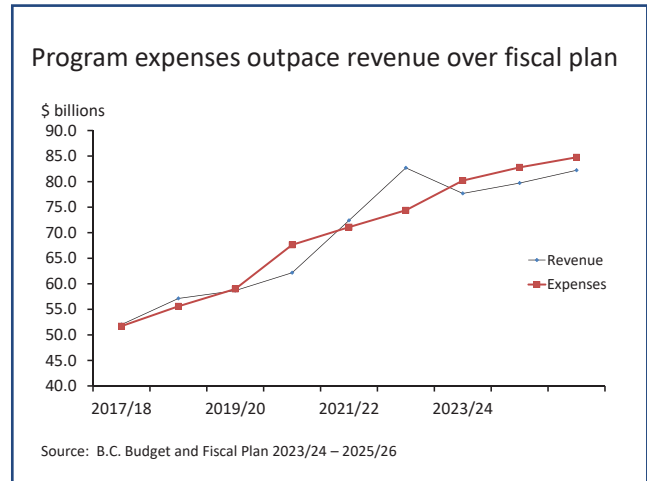
Not surprisingly, the government is kept to its message from recent months, focusing heavily on social measures in this year's budget. Specifically, health spending climbs 18 per cent from 2022/23 through the end of the fiscal plan. Additional spending for health comes in at \$6.4 billion over the planning period including \$2.6 billion for direct health services, alongside support for primary care, and mental health spending which including funding and wages. Education spending climbs 10 per cent. Higher wages are feeding through some of these figures.

In other notable, and applaudable spending focused on cost of living for lower income households, the government announced \$214 million for food programs for K-12 programs, \$558 million for income and disability assistance such as a higher shelter rate.

Modest funds were added to the plank of sustainable and clean growth of about \$900 million over three years for a mish-mash of skills training, forest landscape planning, CleanBC enhancements and other programs.

Housing policy was relatively quiet despite being a key plank for governments across Canada. The B.C. government allocated \$4.2 billion although this represents a combination of operational and capital funding to spur home construction, protection of the aging stock, and creation of shelter through non-profits and social housing, as well as creation beds for students through post-secondary institutions.

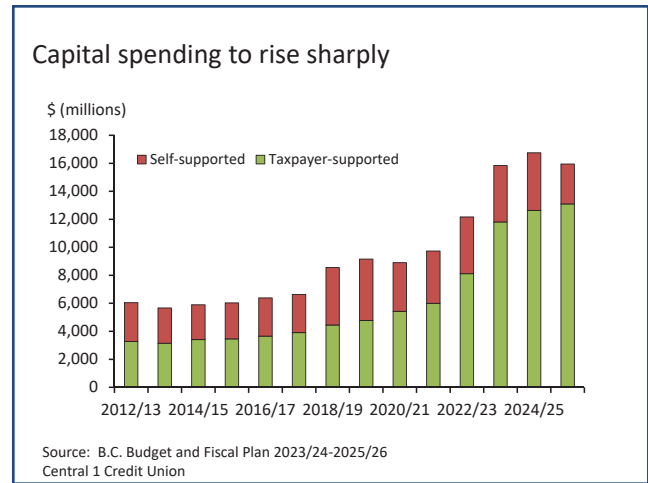
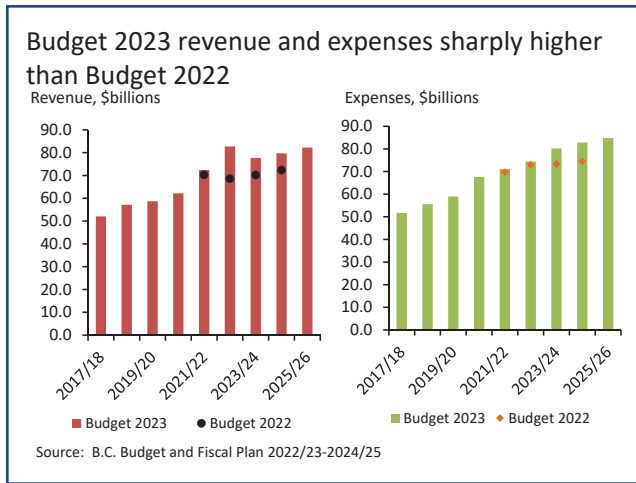
There was little support for market-based supply of housing, although this reflects the tools the province may have at its disposal related to land use planning and the province is focused on legislating supply in communities. The government will also rely on tax measures to tackle some issue like housing affordability. The Renter's tax credit will provide households with up to \$60,000 per year with a maximum \$400, which is reduced as incomes reach \$80,000. Lower income households also receive a higher climate action tax credit. Property transfer taxes on new rental building will be partially exempted, although this is a minor policy.



**Revenues to slide in 2023/24, fall short of expenses over budget period**

Higher expenditures need to be funded, and while revenues far exceeded expenses for 2022/23 due to much stronger than expected personal and corporate income tax revenues and one-time accounting settlement payments adjustments, revenues will lag going forward according to planning assumptions. Revenue is forecast to decline 6.1 per cent in 2023/24 to \$77.6 billion owing largely to lower taxation revenue (-11 per cent) and natural resource revenue (-21 per cent). This is still lower than levels projected in Budget 2022 but lags growth in spending. Lower tax revenue reflects one-time adjustments, and impacts of lower profits and real estate property transfer tax. However, carbon taxes will provide an offset with growth of 15 per cent annually over the next three years as pricing gradually climbs to \$170 per tonne by 2030. Resource revenue declines reflect the downturn in the forest sector.

Unlike expenses which are driven by government, revenues are driven in large part by economic conditions and growth in the tax base. Budget 2023 economic assumptions by design align with private sector forecasts as real GDP outlooks are based on input from the Economic Forecast Council (which includes Central 1) and normally adjusted lower for prudence. While this is the case for 2023 and 2024 with the Budget assuming 0.4 and 1.5 per cent growth compared to EFC at 0.5 and 1.6 per cent, the government's outlook is set higher in 2024 at 2.4 per cent compared to 2.3 per cent by the EFC due to assumption about natural gas exports. This aligns with the slower revenue growth, but it should be noted that Central 1's economic outlook for B.C. is higher than most other forecasts. Nominal GDP falls back from 11 per cent in 2022 to 2.8 per cent in 2023 and averages near 4.0 per cent thereafter. Home sales (-20 per cent) and housing starts (-16 per cent) are this year, with the former bouncing up in 2024 and starts further declining impacting transfer tax revenue. Broadly we see this as a reasonable basis for the revenue outlook if not a bit pessimistic.



### Capital spending remains elevated

Government investment in capital projects will remain elevated with \$48.5 billion in investment over the three-year fiscal plan, \$37.5 billion of which is taxpayer supported. Capital plans are driven by progression of projects, with large investments in transportation (including projects like the Patullo Bridge replacement), schools, hospitals across the province, and social housing.

### Provincial Debt

Operational deficits and capital spending lifts provincial debt considerably. Taxpayer-supported debt climbs to \$75.6 billion in 2023/24, \$88.4 billion in 2024/25 and \$99.4 billion in 2025. This pushes the taxpayer debt-to-GDP ratio on a rising trend after slipping this fiscal year to 18.9 in 2023/24, 21.3 per cent in 2024/25 and 23 per cent in 2025/26. This is not

especially high but is heading in the wrong direction given higher interest rates. This is still lower than projected in Budget 2022. The interest rate bite on taxpayer-supported debt (interest costs/provincial revenue) remains modest at 2.9 cents per dollar in 2023/24 to 3.9 cents by 2025/26, the highest since the mid-2010s, but is predicated on a normalization of interest rates to about 2.5 per cent. A slower pullback would lift debt financing costs.

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### Summary Table: Budget and Fiscal Plan 2023/24 - 2025/26

(\$ millions)	2019/20	2020/21	2021/22	Forecast		Budget & Fiscal Plan	
				2022/23	2023/24	2024/25	2025/26
Revenue	58,660	62,156	72,392	82,700	77,690	79,724	82,223
Expense	58,981	67,624	71,086	74,393	80,206	82,798	84,766
<b>Fiscal Balance before forecast allowance</b>	<b>-321</b>	<b>-5,468</b>	<b>1,306</b>	<b>8,307</b>	<b>-2,516</b>	<b>-3,074</b>	<b>-2,543</b>
Forecast allowance					700	500	500
Pandemic Recovery Contingencies				2,000	1,000		
Supplementary Estimates				2,715			
<b>Fiscal Balance</b>	<b>-321</b>	<b>-5,468</b>	<b>1,306</b>	<b>3,592</b>	<b>-4,216</b>	<b>-3,574</b>	<b>-3,043</b>
<b>Capital spending:</b>							
Taxpayer-supported	4,772	5,428	6,002	8,117	11,813	12,634	13,098
Self-supported	4,386	3,475	3,730	4,055	4,027	4,116	2,853
Total	<b>9,158</b>	<b>8,903</b>	<b>9,732</b>	<b>12,172</b>	<b>15,840</b>	<b>16,750</b>	<b>15,951</b>
<b>Provincial debt:</b>							
Taxpayer-supported debt	46,229	59,750	62,341	63,701	75,617	88,436	99,395
Self-supported debt	25,932	27,350	28,325	29,788	31,607	33,671	34,405
<b>Total debt (including forecast allowance)</b>	<b>72,161</b>	<b>87,100</b>	<b>90,666</b>	<b>93,489</b>	<b>107,924</b>	<b>122,607</b>	<b>134,300</b>
<b>Taxpayer-supported debt-to-GDP ratio (%)</b>	<b>15.0</b>	<b>19.5</b>	<b>17.8</b>	<b>16.4</b>	<b>18.9</b>	<b>21.3</b>	<b>23.0</b>
<b>Total debt-to-GDP ratio</b>	<b>23.4</b>	<b>28.4</b>	<b>25.9</b>	<b>24.0</b>	<b>27.0</b>	<b>29.6</b>	<b>31.1</b>

Source: Budget and Fiscal Plan 2023/24- 2025/26

### Revenue By Source, Budget and Fiscal Plan 2023/24– 2025/26

(\$ millions)	2019/20	2020/21	2021/22	Forecast	Budget & Fiscal Plan		
				2022/23	2023/24	2024/25	2025/26
Taxation	33,266	34,166	40,717	50,714	45,324	47,821	49,952
Natural resource revenue	2,268	2,403	4,471	6,064	4,764	4,151	4,005
Other revenue	10,673	8,729	9,800	10,124	10,520	10,583	10,766
Federal government contributions	9,535	12,894	11,980	12,485	13,593	13,184	13,481
Comm. Crown Corporation net income	2,918	3,964	5,424	3,313	3,489	3,985	4,019
<b>Total revenue</b>	<b>58,660</b>	<b>62,156</b>	<b>72,392</b>	<b>82,700</b>	<b>77,690</b>	<b>79,724</b>	<b>82,223</b>

Source: Budget and Fiscal Plan 2023/24– 2025/26

### Expense by Function, Budget and Fiscal Plan 2023/24– 2025/26

(\$ millions)	2019/20	2020/21	2021/22	Forecast	Budget & Fiscal Plan		
				2022/23	2023/24	2024/25	2025/26
Health	23,449	25,605	27,584	27,972	30,927	32,119	32,959
Education	14,735	14,943	15,795	16,615	17,600	18,108	18,383
Social Services	5,887	7,789	7,268	9,508	9,158	9,607	9,963
Protection of persons and property	2,126	2,258	2,937	2,711	2,324	2,340	2,351
Transportation	2,126	3,360	4,453	2,867	2,616	2,550	2,608
Resources and economic development	3,778	4,191	5,213	4,476	4,432	4,282	4,335
Other	2,501	2,841	3,058	5,160	3,485	3,536	3,383
Contingencies				4,848	5,500	4,800	3,900
General government	1,653	3,915	2,036	2,092	1,929	1,922	1,935
Debt servicing	2,727	2,722	2,742	2,859	3,235	3,714	4,149
<b>Operating expense</b>	<b>58,981</b>	<b>67,624</b>	<b>71,086</b>	<b>79,108</b>	<b>81,206</b>	<b>82,978</b>	<b>84,766</b>

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

### Capital Spending, Budget and Fiscal Plan 2023/24– 2025/26

(\$ millions)	2019/20	2020/21	2021/22	forecast	Budget & Fiscal Plan		
				2022/23	2023/24	2024/25	2025/26
Education	1,813	1,848	1,900	1,870	2,735	3,055	3,143
Health	1,009	1,162	1,555	2,782	3,243	3,637	4,291
Transportation	1,028	1,392	1,431	2,194	4,179	4,645	4,472
Government direct (ministries)	520	389	386	638	701	500	459
Social Housing	355	572	642	430	808	665	686
Other	47	65	88	203	147	132	47
<b>Taxpayer-supported</b>	<b>4,772</b>	<b>5,428</b>	<b>6,002</b>	<b>8,117</b>	<b>11,813</b>	<b>12,634</b>	<b>13,098</b>
BC Hydro	3,082	3,207	3,475	3,878	3,815	3,924	2,653
Others	1,304	268	255	177	212	192	200
<b>Self-supported</b>	<b>4,386</b>	<b>3,475</b>	<b>3,730</b>	<b>4,055</b>	<b>4,027</b>	<b>4,116</b>	<b>2,853</b>
<b>Total capital spending</b>	<b>9,158</b>	<b>8,903</b>	<b>9,732</b>	<b>13,434</b>	<b>15,840</b>	<b>16,750</b>	<b>15,951</b>

Source: Budget and Fiscal Plan 2023/24– 2025/26