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B.C. BUDGET 2010

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Back to deficit reality

Just two days after the curtain closed on the world's biggest winter sport celebration — and with the province still feeling that rush of Olympic adrenaline — it was back to business for the British Columbia government yesterday. Finance Minister Colin Hanson presented the government's 2010 budget, a considerably more low-key affair than the spectacle that riveted global attention in the previous few weeks. In many ways, it was a low-key event by budget standards as well. It featured little in the way of new measures or even estimates relative to the September update, looking more like a mid-year tweaking exercise. In fact, the two appear to have been switched, with the September budget update having had all the characteristics of a full-fledged budget. Moreover, some of the few new measures in yesterday's budget had already been pre-announced — in November, the government raised the threshold for HST rebates on new housing and, in January, it extended partial HST rebates to qualifying institutions in the school, university, college and healthcare (SUCH) sector.

In short, the 2010 budget contained few surprises. The B.C. government maintained its deficit projections announced in September for the current fiscal year and in the next three. It sees shortfalls of $2.8 billion in the fiscal year ending March 31, $1.7 billion in 2010-11, $945 million in 2011-12 and $145 million in 2012-13. However, the forecast allowance profile has been modestly altered, implying a slightly higher underlying deficit in 2009-10 and slightly smaller ones in the next three years. The return to the black is scheduled for the 2013-14 fiscal year. Relative to GDP, the deficits will peak at 1.5% in 2009-10 (the highest since 2002-03) and then steadily decline to 0.9% in 2010-11, 0.5% in 2011-12 and 0.1% in 2012-13, before turning into a small surplus of 0.2% in 2013-14.

Budget highlights

Total revenues are projected to rise by 5.8% in 2010-11 to $39.2 billion. Own-source revenues (taxes, fees and Crown corporation revenues) will increase by 4.3% to $31.5 billion and transfers from the federal government by 12% to $7.7 billion, mainly reflecting the impact of HST transition payments. Revenue growth is expected to slow moderately in the following years, growing by 4.5% in both 2011-12 and 2012-13.

Compared to the September budget update, total revenues for 2010-11 have been revised up by $520 million (or 1.3%) to reflect higher revenue estimates from natural resources other than natural gas and forests ($282 million), increased federal transfers tied to HST transition payments ($395 million) — although this is a reallocation of funds that were previously budgeted to be transferred during the 2009-10 fiscal year — and higher revenues from "other sources" ($311 million). This is partly offset by lower estimates for personal income tax (down $66 million), corporate income tax (down $252 million), harmonized sales tax (down $227 million, related to additional rebates for new housing and the SUCH sector) and natural gas royalties (down $190 million, due to lower forecast prices).

Total expenditures are projected to increase by 2.3% in 2010-11 to $40.6 billion, followed by increases of 2.5% in 2011-12 and 2.3% in 2012-13. These rates compare to an average growth of 5.1% in the previous three years. Healthcare and education will see their budgets expand by $2.0 billion and $240 million, respectively, over the three-year fiscal plan.

Relative to the September update, expenditures have been boosted by $460 million in 2010-11, largely to reflect a $343 million increase in "spending funded by third party recoveries" (including additional grants to local governments funded by the federal government).

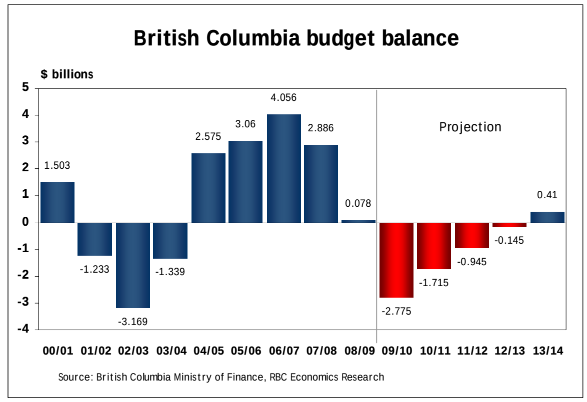
As part of its plan to balance the books, the government projects to reduce the size of the civil service by 11% over three years (mostly through attrition), with the total wage bill targeted to be flat. The government is also seeking to make efficiency gains in the range of $320 million over three years by centralizing services and reducing spending on "non-priority" areas.

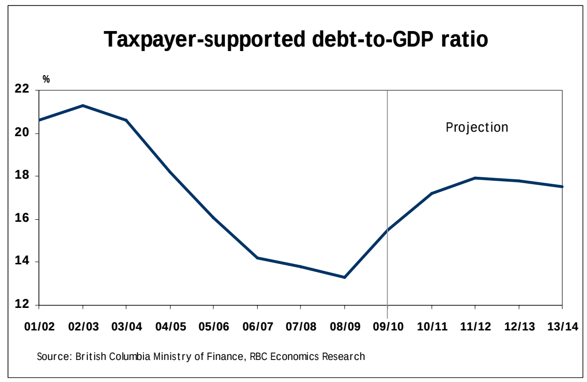
Taxpayer-supported capital spending is projected to surge by 35% to $5.4 billion in 2010-11, with large increases for health care facilities and the transportation infrastructure. Capital spending is then scheduled to decline to $3.6 billion in 2011-12 and $3.1 billion in 2012-13. Including expenditures by provincial crown agencies, total capital spending is expected to rise by 12% to $8.2 billion in 2010-11, then moderate to $6.5 billion in 2011-12 and $6.1 billion in 2012-13.

The string of deficits and capital spending boost will result in higher provincial debt. Taxpayer-supported debt is projected to rise from $29.1 billion (15.5% of GDP) in 2009-10 to $38.3 billion (17.8% of GDP) by 2012-13.

Extremely cautious budget?

Overall, Minister Hanson presented a stay-the-course budget with plenty of padding to minimize the risk of the government missing its projections. While some amount of uncertainty still persist in the global economy and in key commodity markets for the province, his budget assumptions appear extremely cautious. A case in point is the government's real GDP forecast for the province, which, at 2.2% in 2010 and 2.3% in 2011, is 0.7 percentage points lower than the average of private-sector economists (members of the government's Economic Forecast Council) in both years. This compares to RBC's forecast rates of 3.2% and 3.4% in 2010 and 2011, respectively. Budget assumptions for other economic variables and commodity prices also look quite conservative.





As an added cushion, the government has boosted its forecast allowance to $300 million in each of the next two fiscal years from $250 million previously, and raised it to $400 million in 2012-13. Contingencies totalling $450 million are also included in each of the next three year to "protect against unforeseen and unbudgeted costs that may arise". Similarly, the three-year capital plan also contains significant contingencies: $300 million in 2010-11 and $200 million in each of the subsequent two fiscal years.

All in all, the high prudence factor embedded in this budget provides strong safeguard against unexpected shocks or failure to fully achieve the intended cost savings. If anything, this could open the door to downward revisions to the deficit projections in the period ahead, especially if our more upbeat economic scenario unfolds in the province. This would probably not rival the Olympic games in terms of adrenaline rush but it would be cause to celebrate nonetheless.

British Columbia's fiscal plan

$ billions	Actual	Forecast	Estimate	Plan	Plan
	08/09	**09/10**	**10/11**	**11/12**	**12/13**
Revenue	38.33	37.1	39.2	41.0	42.8
Expense	38.25	39.7	40.6	41.6	42.5
Surplus (before fcst allowance)	0.078	-2.650	-1.415	-0.645	0.255
Forecast allowance	0	-0.125	-0.3	-0.3	-0.4
Surplus	0.078	-2.775	-1.715	-0.945	-0.145
Total capital spending	5.5	7.3	8.2	6.5	6.1