

## B.C. BUDGET 2011

February 16, 2011

### A whole lot of wiggle room...

B.C. Finance Minister Colin Hansen kicked off the provincial budget season yesterday by following through on his promise to deliver a largely uneventful ‘status quo’ budget. The timing of this budget is, in reality, somewhat awkward given the current political situation in British Columbia – both Premier Gordon Campbell and the leader of the opposition Carol James resigned late last year and the governing Liberal Party will elect a new leader (and Premier) on February 26 – however, it was dictated by provincial legislation. Therefore, yesterday’s exercise, with no new measures of any significance was, in effect, a placeholder designed to bridge the management of provincial fiscal affairs until the next premier sets a potential new fiscal course for the province. In other words, until the next premier comes up with his or her own budget in, perhaps, a few months.

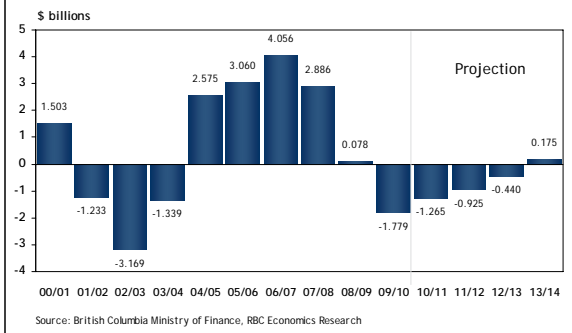
Yesterday’s budget did, however, include revisions to the Province’s fiscal plan, which now extends to 2013/14. The budget deficit for the current 2010/11 period was revised lower to \$1.3 billion from \$1.7 billion. The deficit forecast for 2011/12 was also reduced but much more modestly to \$925 million from \$945 million previously; although this new projection incorporates higher contingency funds (up \$150 million to \$600 million) and forecast allowance (up \$50 million to \$350 million). On the other hand, the 2012/13 deficit was revised higher to \$440 million from \$145 million. The extension of the fiscal plan to the 2013/14 fiscal year shows a return to the black with a projected surplus of \$175 million. The latter two years of the plan each include contingencies of \$450 million and forecast allowance of \$350 million.

#### Budget highlights

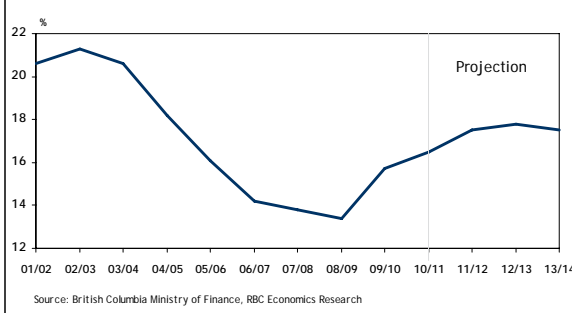
**Total revenues** are projected to rise 3.6% in 2011/12 to \$41.3 billion. Own-source revenues (taxes, fees and crown corporation revenues) are expected to increase 5.5% to \$33.8 billion, including a 6.6% rise in provincial sales tax revenues. On the other hand, federal transfers are set to fall 4.1% to \$7.6 billion, reflecting drops in HST transition payments and other federal transfers. Total revenue growth is projected to moderate to 2.7% in 2012/13, with HST transition payments from the federal government ending, before re-accelerating by 3.9% in 2013/14. There is, however, some uncertainty with respect to federal transfers in 2013/14, as the prevailing agreements between the federal and provincial governments will expire.

For the current 2010/11 fiscal year, total revenues have been boosted by \$650 million (or 1.7%) relative to last year’s budget to \$39.9 billion, reflecting higher revenue estimates from corporation income taxes, provincial sales taxes, improvements in ‘other revenue’ sources and ‘other federal contributions’. Providing a partial offset are lower estimates for personal income tax revenue, natural resource revenue and Crown corporation net income.

British Columbia budget balance



Taxpayer-supported debt-to-GDP ratio



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**Total expenses** are projected to rise 2.2% to \$41.9 billion in 2011/12, followed by increases of 1.5% in 2012/13 and 2.4% in 2013/14. These rates of increases would represent significant slowing from the average growth of 5.6% in the past five years. In 2011/12, rises of \$920 million (5.6%) for health care and \$122 million (1.1%) for education will push program expenses higher by 1.6% to \$39.4 billion. Excluding health care and education, program spending will actually drop by 2.0% in the province. Meanwhile, debt servicing will jump by \$277 million (12.2%) to \$2.5 billion.

For the fiscal year ending March 31, 2011, total expenses have been revised up by \$440 million (1.1%) relative to Budget 2010 to \$41.0 billion. This primarily reflected added income assistance funding, higher spending on programs funded by third parties and post-secondary institutions, as well as higher than expected forest firefighting and emergency program costs.

**Taxpayer-supported capital spending** is projected to plunge 16.3% to \$4.1 billion in 2011/12 from the current year's elevated \$4.9 billion level (revised lower from \$5.4 billion in last year's budget). Including self-supported capital expenditures by provincial crown corporations (which are expected to rise by 20.6% to \$3.2 billion thanks to a significant investment rebound by BC Hydro), total capital spending by provincial public entities is expected to decline 3.2% to \$7.3 billion. Total capital spending is slated to moderate even more in the remainder of the fiscal plan, dropping to \$5.5 billion by 2013/14.

The run of deficits combined with continued (though diminishing) capital spending will result in the province accumulating higher levels of debt. **Taxpayer-supported debt** is projected to rise from \$33.4 billion (16.5% of nominal GDP) in 2010/11 to \$40.5 billion (17.5% of GDP) by 2013/14.

The B.C. government expects to borrow \$9.3 billion and retire \$3.3 billion worth of debt in 2011/12. For the entire three-year plan, the province anticipates total borrowings of \$21.4 billion and retirements of \$8.5 billion.

#### A balanced budget sooner than we think?

Assumptions imbedded in the fiscal plan presented yesterday were, once again, conservative. For instance, the B.C. government assumes real GDP growth of 3.1% in 2010, 2.0% in 2011 and 2.6% in 2012 for the province, which is weaker than our own forecasts of 3.1%, 2.9% and 3.2%, respectively. For added prudence, as mentioned earlier, the fiscal plan contains substantial allowances for contingencies and forecast 'misses' to the tune of \$950 million altogether in 2011/12 and \$800 million in each of the following two years. Therefore, if provincial finances behave according to plan and contingencies are left untapped, it would be possible for the B.C. budget to be balanced as soon as 2012/13, a year ahead of schedule. Of course, such a prospect will need to be confirmed when the next premier takes the helms of the Province. On top of the next premier's agenda will be the fate of the HST, which is facing a referendum in September of this year. In the budget presented yesterday, the HST is projected to represent more than 17% of the B.C. government's own-source revenues. Any change to it could have serious implications for the provincial finances.

#### British Columbia's fiscal plan

\$ billions	Actual	Estimate	Plan	Plan	Plan
	<u>09/10</u>	<u>10/11</u>	<u>11/12</u>	<u>12/13</u>	<u>13/14</u>
Revenue	37.5	39.9	41.3	42.4	44.1
Expense	39.3	41.0	41.9	42.5	43.6
Surplus (before fcst allowance)	-1.779	-1.115	-0.575	-0.090	0.525
Forecast allowance	0	-0.15	-0.35	-0.35	-0.35
Surplus	-1.779	-1.265	-0.925	-0.440	0.175
Total capital spending	7.1	7.6	7.3	6.2	5.5

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