

British Columbia's Fiscal 2017–18 Mid-Year Update

... Sustaining Black Ink

Budget Balances

FY17 Final: +\$2.7bn (+1.0% of GDP)
 FY18 Feb.Bud: +\$295mn Sept.Update: +\$246mn (+0.1% of GDP) **Q2: +\$190mn (+0.1% of GDP)**
 FY19 Feb.Bud: +\$244mn Sept.Update: +\$228mn (+0.1% of GDP)
 FY20 Feb.Bud: +\$223mn Sept.Update: +\$257mn (+0.1% of GDP)

Taxpayer-Supported Debt, March 31

FY17 Final: \$41.5bn (15.7% of GDP)
 FY18 Feb.Bud: \$43.3bn (15.5% of GDP) Sept.:\$44.9bn (16.0% of GDP) **Q2: \$44.7bn (16.0% of GDP)**
 FY19 Feb.Bud: \$45.2bn (15.4% of GDP) Sept.:\$47.0bn (16.1% of GDP)
 FY20 Feb.Bud: \$47.2bn (15.5% of GDP) Sept.:\$48.6bn (16.0% of GDP)

Gross Borrowing Requirements

FY17 Final: \$1.995 bn
 FY18 Sept.Update: \$3.484bn **Q2: \$3.111bn**
 FY19 Sept.Update: \$6.874bn
 FY20 Sept.Update: \$5.248bn

- **Black ink is maintained for fiscal 2017–18 (FY18)** despite a \$283 million in-year decrease to forecast revenues and a further \$152 million rise in estimated forest fire management costs (side charts).
- **Taxpayer-supported capital spending** for FY18, given timing changes for transportation and education projects, is revised \$0.3 billion lower to \$4.6 billion, which still represents a hefty 27% annual increase.
- **Taxpayer-supported debt** by March 2018 is unchanged at 16.0% of GDP, though the absolute increase is trimmed by \$0.2 billion to \$3.2 billion.
- **Projected FY18 borrowing** is lowered by \$0.4 billion to \$3.1 billion which includes the \$100 million Forecast Allowance. Only \$1.0 billion of the \$3.1 billion remains to be financed in FY18.

REVENUE AND EXPENDITURE DETAILS

To hold the FY18 surplus close to \$200 million, lower FY18 revenues are partially offset by a \$27 million overall saving on expenditures and a reduction in the Forecast Allowance from \$300 million to \$100 million (table, p.2).

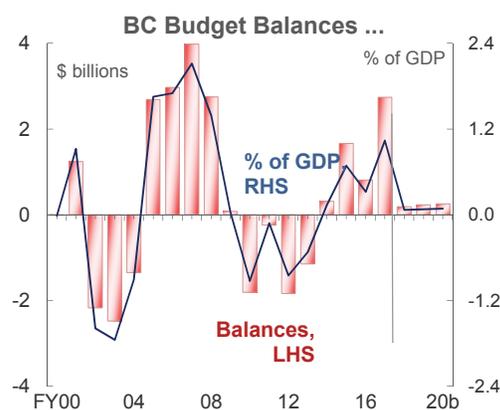
Revenue growth for FY18 is scaled back to 1.3%. The surprise is a \$0.3 billion reduction in both personal and corporate income taxes relative to the September estimates largely due to weaker-than-anticipated 2016 assessments. Conversely, buoyant year-to-date retail sales led to a \$51 million hike in projected Provincial Sales Tax receipts and a recovery in housing market activity prompted a \$175 million rise in the Property Transfer Tax to a record \$2.05 billion.

Natural resource receipts are edged up towards \$2.5 billion, with higher metallurgical coal prices and forest stumpage revenues more than offsetting somewhat lower natural gas royalties. As the government reviews the Insurance Corporation of British Columbia after a \$612 million FY17 loss, the estimated FY18 loss is steepened to \$364 million as increased claims costs continue.

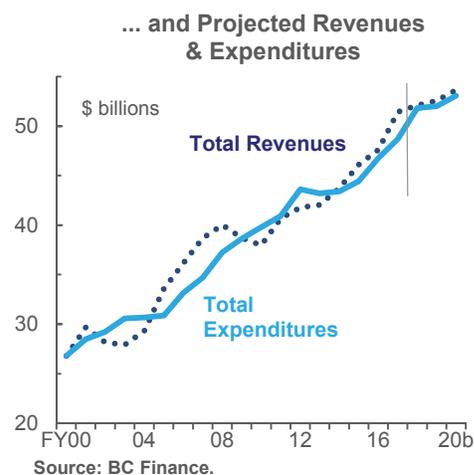
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Sources: BC Finance; Statistics Canada; nominal GDP forecasts: Scotiabank Economics.



Source: BC Finance.

Program spending growth for FY18 remains 6.4%, with lower refundable tax credits and favourable prior-year liability adjustments helping to offset the higher forest fire management costs. The number of full-time equivalent staff is now expected to rise in FY18 by 1,000 positions (+3.0%) to 33,790 employees across Ministries and service delivery agencies.

Under the Province's Economic Stability Mandate (ESM), unionized employees with ESM agreements receive a general wage increase equal to half of any positive difference between BC's reported real GDP growth and the Economic Forecast Council's projection. For 2016, Statistics Canada reports 3.5% real GDP growth, 0.8 percentage points higher than the Council's forecast, resulting in a 0.4% wage increase. For FY18, this represents an additional \$7 million expense and the cost in future years will be covered in the upcoming *Budget*.

Work continues on the government's promised initiatives. For the George Massey Tunnel, the Province has commissioned an independent technical review, and options after the final report this spring will be reviewed with Vancouver area Mayors. A task force is established to advise on revenue replacement as *Medical Service Plan* premiums are eliminated over the next four years after they are halved as of January 2018. For the 1,100 MW Site C hydroelectricity project already under way, the Cabinet is considering the BC Utilities Commission's final report laying out the net expense of completing the project, likely at a total cost over the \$8.3 billion budget with a start-up later than the 2024 target, or terminating the project, involving the expense of site remediation and gradually augmenting BC's existing power supply with demand management and renewable power alternatives. A third option, suspending construction to possibly restart in 2024 has a significantly higher estimated cost. BC's power rates are now frozen for one year as the slated 3.0% rate hike in April 2018 is deferred to allow an operational review of BC Hydro.

OUTLOOK

Sheltering the FY18 surplus is BC's practice of embedding substantial "prudence" in its budget estimates. Though the FY18 Forecast Allowance is reduced, other insurance remains, including the \$600 million Contingencies vote allocation and the continued assumption on BC's real GDP growth of 2.9% for 2017 and 2.1% for 2018, significantly lower than the early-November average of private-sector forecasts at 3.3% and 2.3%, respectively. Yet the Q2 report underlines the challenge in the upcoming *Budget* of retaining surpluses over the next three fiscal years, with the traditional layers of prudence, and still making substantive progress on the new administration's expanded priority list.

British Columbia's Budget Arithmetic \$ millions except where noted

	FY17	FY18	
		Sept. Update	Q2
Tax Revenue	27,093	28,180	27,762
Natural Resource Revenue	2,711	2,413	2,471
Commercial Crown Corp. Net Inc.	2,525	2,959	2,850
Other Own-Source Revenue	10,963	10,483	10,548
Federal Transfers	8,167	8,372	8,493
Total Revenue	51,459	52,407	52,124
Health	19,689	20,747	20,782
Education, K-12&Post-Secondary	12,468	13,376	13,393
Social Services	4,243	4,745	4,732
Other Program Spending	10,679	11,224	11,174
Program Spending	47,079	50,092	50,081
Debt Service*	1,643	1,769	1,753
Total Expenditure	48,722	51,861	51,834
Forecast Allowance	0	300	100
Surplus**	2,737	246	190
Capital Outlays: Taxpayer-Supp.	3,659	4,956	4,645
Self-Supported	2,725	2,701	2,689
Taxpayer-Supported Debt	41,506	44,853	44,674
Absolute Annual Increase	-1,221	3,347	3,168
Annual Change, %			
Tax Revenue	11.4	4.0	2.5
Natural Resource Revenue	5.4	-11.0	-8.9
Total Own-Source Revenue	8.4	1.7	0.8
Federal Transfers	6.8	2.5	4.0
Total Revenue	8.1	1.8	1.3
Health	2.5	5.4	5.6
Education	2.1	7.3	7.4
Social Services	3.3	11.8	11.5
Other Program Spending	13.9	5.1	4.6
Program Spending	4.9	6.4	6.4
Total Expenditure	4.1	6.4	6.4
Memo Items, %			
Own-Source Revenue / GDP	16.4	15.7	15.6
Program Spending / GDP	17.9	17.9	17.9
Total Expenditure / GDP	18.5	18.5	18.5
Budget Balance/ GDP	1.0	0.1	0.1
Taxpayer-Supported Debt / GDP	15.7	16.0	16.0
Taxpayer-Supp. Debt / Revenue*	81.8	87.8	87.7
Debt Service* / Revenue*	3.2	3.5	3.4
Resource Price Assumptions			
Natural Gas, Plant Inlet, C\$/GJ	1.19	1.60	1.22
Production, % ch	3.4	11.3	6.3
Western Lumber****2x4s, US\$/mfbm	308	377	389

* Taxpayer-supported basis. ** Includes allocations of \$100 mn in FY16 & \$400 mn in FY17 to the Prosperity Fund. *** Spruce-pine-fir, calendar year. Source: BC Finance; Statistics Canada; nominal GDP forecasts: Scotiabank Economics.

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