

**ISSUE NOTE**  
**FEBRUARY 10, 2010**  
**DRAFT**

**ISSUE: CURRENT BUDGET STATUS**

**ADVICE AND RECOMMENDED RESPONSE:**

- ◆ *Budget 2011* is a “status quo” budget that continues the expenditure management strategy first set out in *Budget 2009*, which emphasized that spending growth will be restrained.
- ◆ The *Budget 2011* plan is for a balanced budget by 2013/14 and a return to a downward-trending taxpayer-supported debt to GDP ratio, to protect BC’s AAA credit rating so that interest costs are minimized.
- ◆ Prudence contained in *Budget 2011* is comprised of an lower economic growth forecast than the private sector’s, a \$350 million forecast allowance over 3 years, and a \$600 million Contingencies Vote in 2011/12.
- ◆ While total provincial debt will reach over \$60 billion in 2013/14, this is mainly due to infrastructure requirements in the health, education, transportation, and hydro-generation (BC Hydro) sectors.

**CURRENT STATUS:**

| (\$ millions)                                     | 2010/11  |                     | Budget Estimate<br>2011/12 | Plan<br>2012/13 | Plan<br>2013/14 |
|---|----------|---------------------|----------------------------|-----------------|-----------------|
|   | Budget   | Updated<br>Forecast |                            |                 |                 |
| Revenue .....                                     | 39,153   | 39,893              | 41,337                     | 42,446          | 44,091          |
| Expense .....                                     | (40,568) | (41,008)            | (41,912)                   | (42,536)        | (43,566)        |
| Surplus (deficit) before forecast allowance ..... | (1,415)  | (1,115)             | (575)                      | (90)            | 525             |
| Forecast allowance .....                          | (300)    | (150)               | (350)                      | (350)           | (350)           |
| Surplus (deficit) .....                           | (1,715)  | (1,265)             | (925)                      | (440)           | 175             |
| Capital spending:                                 |          |                     |                            |                 |                 |
| Taxpayer-supported capital spending .....         | 5,388    | 4,905               | 4,105                      | 3,155           | 3,098           |
| Self-supported capital spending .....             | 2,771    | 2,688               | 3,243                      | 3,011           | 2,415           |
|   | 8,159    | 7,593               | 7,348                      | 6,166           | 5,513           |
| Provincial debt:                                  |          |                     |                            |                 |                 |
| Direct operating debt .....                       | 7,511    | 7,987               | 8,763                      | 9,267           | 8,599           |
| Taxpayer-supported debt .....                     | 33,748   | 33,388              | 36,816                     | 39,162          | 40,500          |
| Self-supported debt .....                         | 13,709   | 13,743              | 16,271                     | 18,060          | 19,505          |
| Total debt (including forecast allowance) .....   | 47,757   | 47,281              | 53,437                     | 57,572          | 60,355          |
| Taxpayer-supported debt-to-GDP ratio .....        | 17.2%    | 16.5%               | 17.5%                      | 17.8%           | 17.5%           |

- Most ministries have the same budgets as in *Budget 2010*, except for \$605 million more for Health in 2013/14, additional income assistance funding of \$65 million over 3 years, and a \$150 million larger Contingencies Vote in 2011/12 to provide flexibility.

## KEY FACTS REGARDING THE ISSUE:

### *Operating Expenses, Revenues, and Key Risks to the Fiscal Plan*

- Subject to revenue volatility, the plan is on track to have a \$175M surplus in 2013/14.
  - This is achieved by adhering to a projected 2%/yr. average spending increase 2011/12-2013/14, with a projected annual revenue growth of a 3.4%/yr.
- **Budget 2011** assumes continuation of the HST. Cancellation of the HST would greatly increase the risk of not balancing the budget by 2013/14, largely due to having to repay the \$1.6 billion in transitional payments to the federal government. It is also likely that replacing the HST with the former PST regime would result in lower annual revenues.
- **Budget 2011** includes no provision for wage increases for the public sector. Note a 1% increase in public sector compensation equals ~\$200 million/yr. in costs to the fiscal plan.

### *Capital Expenditures and Key Risks*

- In addition to a balanced budget, previously the government has emphasized a declining taxpayer-supported debt to GDP ratio. This ratio stood at 21.3% in 2002 and fell to 13.4% in 2008/09. Due to the accelerated capital program, recent operating deficits, and reduced GDP growth, it is estimated to reach 17.8% in 2012/13 as per **Budget 2011**.
- Since **Budget 2011** contains no funding for capital projects incremental to **Budget 2010**.
- However, there are capital pressures (mainly deferred maintenance in the Health & Education sectors) and previous commitments (mainly Health & Transportation).

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### *Contingencies Vote and other Prudence Provisions Included in Budget 2011*

- **GDP Growth Forecasts:** In order to cushion against potential revenue losses, GDP growth assumptions are lower than those of the independent Economic Forecast Council.
- **Forecast Allowance:** In order to mitigate against additional unanticipated revenue losses, the fiscal plan contains a Forecast Allowance of \$350 million in each year.
- **Contingencies:**

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**ISSUE NOTE**  
**FEBRUARY 10, 2010**  
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**ISSUE: RISKS TO GOVERNMENT'S 3-YEAR FISCAL PLAN**

**ADVICE AND RECOMMENDED RESPONSE:**

- ◆ The government is still planning to balance its budget by 2013/14.
- ◆ The world economic situation is still somewhat unstable, and therefore our revenue forecasts are prudent and we remain committed to a tough expenditure management regime.
- ◆ The future of the HST is an area that presents risks to our revenue projections, requiring new revenue sources if the HST were removed.

**SECONDARY MESSAGES:**

- ◆ Elimination of the HST would adversely affect the investment climate due to removal of the benefits it provides for BC business and the economy.

**CURRENT STATUS:**

- *Budget 2010* committed to a balanced budget by 2013/14, as does *Budget 2011*.
- At the time of writing, the Ministry of Finance is finalizing the *Budget 2011* fiscal plan for 11/12, 12/13, and 13/14.
- Currently, the fiscal plan is on track to have a small budget surplus in 2013/14, but the current world economic situation / HST uncertainty presents a risk to that forecast.
- That said, the fiscal plan attempts to be prudent by building in conservative economic growth assumptions relative to private sector forecasts, a \$450 million contingencies vote for unanticipated expenditures (\$600M in 2011/12), and a forecast allowance of \$350 million to cushion against future revenue declines.
- General risks to the plan include a potential "double-dip" recession, the European debt crisis, unstable commodity markets/prices, a sudden weakening of the US dollar, the future of the HST, and any departure from the current "net-zero" public sector wage mandate (a 1% compensation increase across the public sector = ~\$200 million/yr.)
- Annual spending from 2011/12 to 2013/14 is projected to grow at an average of only 2% annually, much lower in than during the previous several years. Keeping ministry / public expectations in line with this plan will be challenging.
- In addition to a balanced budget, previously the government has been concerned about the taxpayer-supported debt to GDP ratio. This ratio stood at 21.3% in 2002 and fell to 13.4% in 2008/09. Due to the accelerated capital program, recent operating deficits, and reduced GDP growth, it is estimated to reach 17.8% in 2012/13 as per *Budget 2011*.

## KEY FACTS REGARDING THE ISSUE:

- While there is some volatility, forecasted expenditures are very consistent with **Budget 2010** projections out to 2013/14.
- However, while the 2010/11 First Quarterly Report (Sept 14, 2010) suggested improved revenues vs. **Budget 2010**, external events have caused economic growth / revenue forecasts to be less optimistic. **Budget 2011** forecasts a surplus budget by 2013/14 of \$175 million (with a forecast allowance of \$350 million and contingencies of \$450 million.)
- There are also significant capital pressures (mainly for maintenance in the Health and Education sectors) and previous commitments (mainly Health and Transportation):

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- Risks that relate to whether government eliminates the HST are as follows:
  - If BC withdraws from the sales tax harmonization agreement with Ottawa and eliminates the HST prior to July 1, 2015 (would take at least 18 months to implement), \$1.6 billion must be re-paid.
  - The HST is expected to raise \$5.8 billion in 2011/12 and is a faster growing revenue than the PST. If it were replaced with the previous PST, there would be a continually growing revenue gap:

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- There could also be adverse impacts on the economy:
  - Net business costs would increase by about \$2 billion annually due to the elimination of input tax credits claimed by business under the HST and the increased red tape of having two sales tax systems.
  - A tax burden shift to manufacturers, the resource sectors and other providers of taxable and zero-rated goods and services
- The Ministry of Finance would also have to increase revenue collection staff to administer the PST, costing up to \$30 million annually. The ministry is in the process of transferring up to 280 staff to the Canada Revenue Agency.

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**ISSUE NOTE**  
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**ISSUE: HIGH LEVEL OVERVIEW OF GOVERNMENT EXPENSES**

**ADVICE AND RECOMMENDED RESPONSE:**

- ◆ As a proportion of total government spending, the health and education (SUCH<sup>1</sup> sector) spending accounts for 68% in 2011/12 (see attachment).
- ◆ 42% is accounted for by Health alone, with this percentage expected to continue to grow, potentially "crowding out" other programs.
- ◆ K-12/Post-secondary is the next largest component, at 27% followed by Social Services/Housing at 8%.
- ◆ Since at least 2004/05, every government function shown in the chart other than Health has declined as a proportion of overall spending.

**CURRENT STATUS OF KEY EXPENSE SECTORS:**

**Health Sector**

| <i>\$ millions</i>                         | 2010/11  | 2011/12  | 2012/13  | 2013/14  |
|--|----------|----------|----------|----------|
| Ministry of Health Services (HSER) Budget* | \$14,796 | \$15,713 | \$16,160 | \$16,765 |
| % Change from Prior Year                   |          | 6.2%     | 2.8%     | 3.7%     |
| \$ Change from Prior Year                  |          | \$917    | \$447    | \$605    |

\*Less than "health spending by function" which includes non-HSER health spending.

- From 2004/05-2011/12, health spending by function has grown by an average annual amount of 6.2%/yr. In Budget 2011, it is forecasted to grow by only an average 3%/yr. to 2013/14.

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S17 That said, the aging population will continue to place pressures on the health budget, as will wage demands from health care professionals.

- A current key issue for HSER is "patient-focused funding," which provides additional allocations for Health Authorities to find efficiencies and reduce wait lists.

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<sup>1</sup> SUCH refers to "School Districts, Universities, Colleges, and Health Authorities"

## K-12 Sector

- From 2004/05-2011/12, K-12 spending grew by an average annual amount of 3.2%/yr, in spite of declining enrolment of 46,000 students since 2001. In Budget 2011, spending is forecasted to grow by only an average 0.1%/yr. to 2013/14.
- Funding for School Districts (SDs) is stable in **Budget 2011** at \$4.7 billion for 3 years. Note that the move to Full Day Kindergarten for 5-year olds is fully funded.

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- In addition, the teachers' collective agreement expires in Spring 2011, and is technically part of the "net-zero" compensation mandate established for collective agreements expiring in 2010 and 2011, thus there is no funding allocated in **Budget 2011** for the next contract or any other public sector contract expiring before or after December 31, 2011.
- As with the Health sector, deferred maintenance, leaky building envelopes in some coastal schools, and completion of seismic upgrades are creating capital pressures.

## Post-Secondary Sector

- From 2004/05-2011/12, Post Secondary Institution (PSI) spending grew by an average annual amount of 4.6%/yr. For 2011/12-2013/14, spending is forecasted to grow by only an average 1.1%/yr.
- Unlike the Health and K-12 sectors, a significant portion of PSI spending (mainly the larger universities) is funded by own-source revenues – netting this out, provincial funding to PSIs in **Budget 2011** is flat-lined during the fiscal plan period at \$1.9 billion/yr.

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## Other Government Functions

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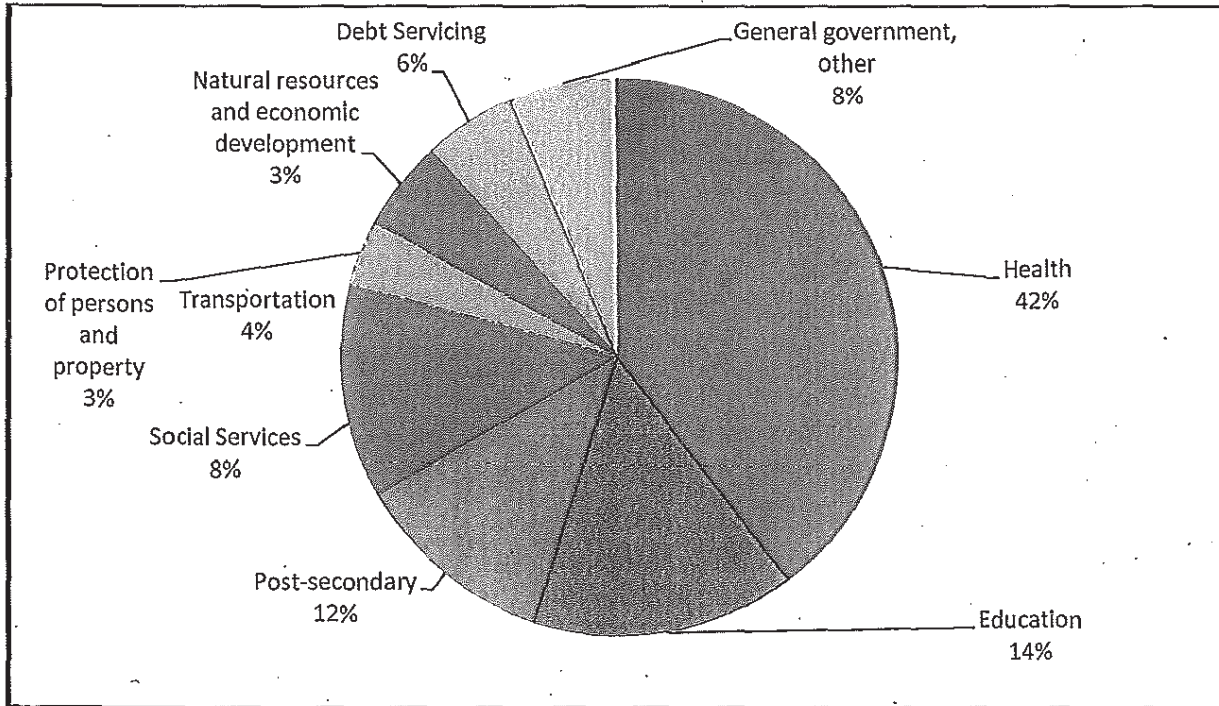
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## ISSUE NOTE

### ATTACHMENT

#### 2011/12 Government Expenses by Function Total Operating Expenses = \$41.9 Billion



**ISSUE NOTE**  
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**ISSUE: IMPLICATIONS OF A FALL ELECTION**

**ADVICE AND RECOMMENDED RESPONSE:**

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**CURRENT STATUS:**

Elections currently are legislated to occur in May of every fourth year.

Estimates must be presented to the Legislature on the third Tuesday of February.

If government is operating under Interim Supply during an election, as has been the case in the last two elections, then Estimates must be presented within 90 days or 13 weeks of the post-election appointment of a new Executive Council.

**KEY FACTS REGARDING THE ISSUE:**

Recent experience shows that a new government results in a reorganization of the pre-election structure. Over the last two elections, government has needed the entire 90 day period provided for in the BTAA to complete the reallocation of resources and prepare Estimates.

In general, 3 weeks elapse between Election Day and the appointment of a new Executive Council; 13 weeks is required to implement the new government structure and prepare Estimates, and Christmas holidays run a minimum of 2 weeks – a total of 18 weeks.

February 15 is the earliest a budget has to be presented under the current BTAA requirement. Working backwards 18 weeks results in an election date of October 12. Given a 4 week campaigning period, the election would have to be called on September 14.

Deferring Budget Day for two weeks (i.e. first Tuesday in March) would enable a late October election, but would likely result in the Legislature sitting until mid-June in order for the Estimates debate to be concluded. This is what occurred in 2010 when the budget was delayed two weeks for the Olympics.

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February 9, 2011

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## ISSUE NOTE

### JANUARY 11, 2011

#### ISSUE: HARMONIZED SALES TAX (HST)

##### ADVICE AND RECOMMENDED RESPONSE:

- ◆ **No recommended response is possible. The new Premier will be best able to express his or her position on the future of the HST. See key facts below.**

##### CURRENT STATUS:

On July 1, 2010 the Provincial Sales Tax (PST) was eliminated and the HST came into effect. A referendum to determine the future of the HST is scheduled for September 24, 2011.

##### KEY FACTS REGARDING THE ISSUE:

In April 2010, former Premier Bill Vander Zalm and FightHST launched an anti-HST petition with the aim of repealing the Harmonized Sales Tax. The petition was initiated under the *Recall and Initiative Act* introduced by the NDP. The petition campaign gathered more than 557,000 signatures.

In September 2010, having been advised by the Chief Electoral Officer that the petition campaign had gathered the number of signatures required for the initiative to proceed, the select standing committee on Legislative Initiatives, the committee of the Legislature tasked with considering the petition, voted to hold a province wide referendum on the HST in accordance with the *Recall and Initiative Act* which sets out September 24, 2011 as the referendum date. The referendum is estimated to cost about \$30 million.

Under the *Recall and Initiative Act* an initiative vote must be declared successful if:

- more than 50 percent of the total number of registered voters in British Columbia vote in favour of the initiative, and
- more that 50 percent of the total number of registered voters for each of at least two-thirds of the electoral districts in British Columbia vote in favour of the initiative.

The total number of registered voters must be calculated as of the date of the vote. A referendum under the *Recall and Initiative Act* is non-binding.

Despite the requirements of the *Recall and Initiative Act*, Premier Campbell said government will accept the decision of a simple majority (50 percent plus 1 vote) of those voting in the referendum.

Current candidates for leadership of the Liberal Party are George Abbott, Christy Clark, Mike de Jong, Kevin Falcon, Ed Mayne and Moira Stilwell. Their announced positions on the HST as of this date are as follows. All candidates have accepted that a simple majority of voters will determine the outcome of the referendum.

George Abbott plans to move the date of the HST referendum to no later than June 24, 2011.

Kevin Falcon is committed to a binding referendum on the HST and will abide by its outcome. He also agrees with the earlier date proposed by George Abbott. He believes the HST is sound tax policy for a more competitive economy but would consider cutting the rate to 10 percent in stages; perhaps a one percent reduction in 2011 and a further 1 percent reduction when provincial revenues are sufficient to accommodate it.

Mike de Jong supports moving the date of the referendum up but says the government should find a way to hold the vote that does not cost \$30 million. He does not support reducing the HST rate.

Christy Clark believes the HST should be put to a free vote in the legislature.

Ed Mayne agrees with the HST in principle.

Moira Stilwell supports the HST but believes people should have their say. She will request that the referendum be held earlier than currently planned and will honour the commitment to get rid of the HST if more than 50 percent vote to do so.

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**ISSUE NOTE**  
**JANUARY 17, 2011**

**ISSUE: REMOVING UNIVERSITIES FROM THE GOVERNMENT REPORTING ENTITY (GRE)**

**ADVICE AND RECOMMENDED RESPONSE:**

- ◆ In the February 2010 Throne speech, government indicated that they “could not let accounting policy stand in the way of our students’ interest or hold our universities back from pursuing their unique areas of excellence in partnership with others.”

**SECONDARY MESSAGES:**

- ◆ There are five key areas that result in the universities current inclusion in the GRE:
  - Board governance – although government does not hold a majority of seats on the Board, we do hold significant influence and we can also remove an appointed member at our discretion.
  - Revenue generation – history of government to impose tuition restrictions.
  - Asset control – universities must obtain government approval to dispose, mortgage and sell land.
  - Borrowing – universities must obtain government approval to borrow.
  - Deficits – government approves university budgets (or disapproves deficit budgets).

**CURRENT STATUS:**

- The Ministry of Science and Universities (MSU) is continuing to develop a framework to be passed through legislation that will define the new relationship of government with qualifying universities. Not all universities are expected to choose to leave the government’s reporting entity.
- Negotiations have been undertaken by government with UBC, SFU and UVIC to work on a new service level agreement that will meet the policy objectives of government, but allow universities a reasonable opportunity for success outside of the government’s reporting entity.
- The following issues still remain:
  - Land and assets: framework continues to have land and assets owned by the universities; however, through legislation the ministry would have to approve mortgaging of properties agreed to be for educational purposes and approve leasing or disposing of any assets or land. This is only a minor change from current status (i.e. mortgaging approval is on educational purpose land, not all land.) MSU is continuing to explore other legal options that allow the universities to mortgage, lease or dispose of

- land without ministry approval.
  - Repayment from universities for capital grants provided so far. Government would like repayment equal to the unamortized balance of their provincial capital grants; universities do not want to pay anything.
  - Ability to appoint a trustee under force majeure – it is more difficult to frame as this item is focused on continuation of service/protection of public interest assets versus at ministry discretion.
- Discussions with the Auditor General have not occurred as we are waiting for pending resolution of the land and repayments issues.

### KEY FACTS REGARDING THE ISSUE:

- Exclusion from the government reporting entity could be a qualification point on the Auditor's opinion to the Summary Financial Statements if the control factors are not dealt with correctly.

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