

Still on track to a balanced Budget

Highlights

- Elimination of the deficit is still scheduled for 2013-14. This timetable assumes spending growth capped at an average 2% over the next three fiscal years.
- Real economic growth is assumed at 2.0% in 2011, 2.6% in 2012 and 2.7% in 2013. The corresponding nominal rates are 4.1%, 4.9% and 4.8%.
- Natural gas is assumed at C\$3.02 per gigajoule in 2011-12, \$3.60 in 2012-13 and \$4.20 in 2013-14.
- The USD/CAD exchange rate is assumed to remain close to par in 2011 and 2012.
- The ratio of taxpayer-supported debt to GDP is projected to top out at 17.8% in 2012-13 and then decline.
- The forecast deficit of \$925 million in 2011-12 includes major buffers of a \$600 million contingency and a \$350 million forecast allowance, and the projected \$440 million 2012-13 deficit also includes a \$350 million forecast allowance and a \$450 million contingency.
- Mainly because of forecast deficits and infrastructure investment, the financing requirement is budgeted at \$9.2 billion in 2011-12, and then is projected to fall to \$5.5 billion in 2012-13 and \$6.1 billion in 2013-14.

Commentary

The budget tabled today by B.C. finance minister Colin Hansen reiterates the government's commitment to return its budget to balance in 2013-14. The deficit for the fiscal year just ending is estimated at \$1.265 billion, \$450 million less than was budgeted last March. Revenues are running \$740 million over budget. The difference matches the rise in tax revenues, with shortfalls in resource revenues and Crown corporation net income offset by higher federal transfers and other revenues. Revenues from corporate income taxes and to a lesser extent from the Harmonized Sales Tax were higher than expected, more than offsetting lower-than-forecast revenues from personal income taxes and property taxes. Expenditure is \$440 million above estimates (including a \$105-million downward revision in debt service), and the contingency fund has been reduced by \$150 million.

On the path to the budget balance projected for 2013-14, the deficits of the next two fiscal years – \$925 million in 2011-12 and \$440 million in 2012-13 – are in total slightly higher than those projected last March. However, the forecast deficit of \$925 million in 2011-12 includes major buffers of a \$600 million contingency and a \$350 million forecast allowance, and the projected \$440 million 2012-13 deficit also includes a \$350 million forecast allowance and a \$450 million contingency. In addition, the difference is due mainly to a downward revision of resource revenues from the 2010 Budget's outlook as projected growth over the next three fiscal years (an average 9.4% annually) will now start from a lower base. Today's budget contains only one measure affecting revenues: An increase of about 6% in Medical Services Plan premiums, effective on January 1, 2012, expected to bring in \$118 million in its first full year of application. Program spending growth is to be held to an average 1.5% annually over the next three fiscal years. A rise in the cost of debt service will bring total spending growth to 2% annually.

Provincial debt is projected to grow an average 8.5% annually. The ratio of taxpayer-supported debt to GDP, estimated at 16.5% at the end of the current fiscal year, is projected to top out at 17.8% in 2012-13, the point when

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government investment is projected to fall to a level closer to the historical average. Meanwhile, debt service, amounting to 5.6% of revenues in the current fiscal year, is expected to take 7.1% of revenues in 2013-14.

The economic assumptions of the budget seem prudent to us. The effect on the budget balance of a 1% variation in nominal GDP is estimated at \$150 million to \$250 million. The effect of a \$1 variation in the price of natural gas is estimated at \$315 million to \$365 million. By way of comparison, the annual forecast provision is \$350 million. Equally important, program spending also includes contingency provisions of \$600 million in the coming year and \$450 million in each of the following two years.

Marc Pinsonneault

British Columbia	Budget	Updated	Budget	Plan		Percentage change		
	2010/11	Forecast 2010/11	Estimate 2011/12	2012/13	2013/14	2011/12	2012/13	2013/14
\$000,000								
Taxation revenue	17 422	18 166	19 014	20 388	20 944	4.7	7.2	2.7
Resource revenue	3 208	2 754	3 100	3 269	3 609	12.6	5.5	10.4
Other	7 826	8 147	8 702	8 641	8 982	6.8	-0.7	3.9
Federal transfers	7 685	7 903	7 580	7 215	7 559	-4.1	-4.8	4.8
Commercial Crown corporation net income	3 012	2 923	2 941	2 933	2 997	0.6	-0.3	2.2
Total revenue	39 153	39 893	41 337	42 446	44 091	4.1	5.6	2.7
Program spending	38 187	38 732	39 359	39 770	40 471	0.7	3.1	1.0
Debt servicing costs	2 381	2 276	2 553	2 766	3 095	7.0	7.2	8.3
Total spending	40 568	41 008	41 912	42 536	43 566	1.1	3.3	1.5
Forecast allowance	(300)	(150)	(350)	(350)	(350)			
Surplus	(1 715)	(1 265)	(925)	(440)	175			
		(105)						
Provincial debt								
Deficit (surplus)	1 715	1 265	925	440	(175)			
Taxpayer-supported capital spending	5 388	4 905	4 105	3 155	3 098			
Increase (decrease) in cash		(173)	(23)	115	205			
Amortization		(2 005)	(2 089)	(2 176)	(2 182)			
Change in Crown Corporations debt		1 377	3 038	2 130	1 655			
Other items		27	200	471	182			
Net increase in total provincial debt	6 439	5 396	6 156	4 135	2 783			
Total provincial debt	47 757	47 281	53 437	57 572	60 355	12.8	11.9	7.7
Total provincial debt / GDP	24.3%	23.2%	25.4%	26.1%	26.1%			
Tax-payer supported	17.2%	16.5%	17.5%	17.8%	17.5%			
Borrowing requirements								
Deficit (surplus)	1 715	1 265	925	440	(175)			
Refinancing requirements	2 620	2 685	2 620	869	2 873			
Capital spending including Crown Corporations	8 159	7 593	7 348	6 166	5 513			
Other financing sources	(3 464)	(3 453)	(1 691)	(1 971)	(2 121)			
	9 030	8 090	9 202	5 504	6 090			
Ratios								
Taxation / Total revenue	44.5%	45.5%	46.0%	48.0%	47.5%			
Resource revenue / Total revenue	8.2%	6.9%	7.5%	7.7%	8.2%			
Other / Total revenue	20.0%	20.4%	21.1%	20.4%	20.4%			
Federal Transfer / Total revenue	19.6%	19.8%	18.3%	17.0%	17.1%			
Allowance + surplus / revenue	-3.6%	-2.8%	-1.4%	-0.2%	1.2%			
Large spending items								
Education	10 820	11 141	11 263	11 383	11 419	-0.7	4.1	1.1
Health services	16 474	16 557	17 477	17 914	18 519	3.5	6.1	2.5
Subtotal	27 294	27 698	28 740	29 297	29 938	1.8	5.3	1.9
Total education / total expenses	26.7%	27.2%	26.9%	26.8%	26.2%			
Health services / total expenses	40.6%	40.4%	41.7%	42.1%	42.5%			
Debt servicing costs / total expenses	5.9%	5.6%	6.1%	6.5%	7.1%			

Source: Budget documents, British-Columbia Ministry of Finance