

B.C. BUDGET ANALYSIS - UPDATE 2017

Government strikes a pragmatic balance



Overview

This week, the new NDP government delivered its first fiscal plan in the form of an interim “budget update.” While the new budget retains many of the key spending commitments and long-overdue investments outlined in [the BC Liberals’ previously introduced plan](#), it provides significant additional planning and resources in a number of important areas. These include:

- Housing and homelessness
- Poverty reduction
- Education
- Mental health and addictions
- Tax fairness

Finance Minister Carole James presented these changes and additions as “first steps” toward meeting the NDP’s broader and more ambitious vision for the province. Rather than dispensing entirely with the previous government’s pre-election spending vision, Budget 2017 Update strikes a more humble approach by acknowledging and making use of the advantageous fiscal position of the province, addressing oversights in the existing budgetary framework, building upon its strengths in a few areas, and then laying down important pathways for more significant changes to come in the government’s first full budget expected in February 2018.

Budget 2017 Update is faithful to both the NDP’s election platform and their confidence and supply agreement with the BC Greens

The BCGEU supports the new government in this conscientious, measured, and pragmatic approach. It sees significant improvement in Monday’s update and meaningful signs of progress toward implementing a fiscal plan for the province that truly puts families, communities and workers first.

The following is a brief summary and analysis of the updated budget’s key measures, including specific actions and choices for the fiscal year of 2017/18 that directly affect the work of our members and the services our province relies on.

Economic outlook

Budget 2017 Update benefits from the favourable economic performance recently seen in B.C., including a significantly larger than expected surplus from the previous fiscal year. The plan sees final growth for 2016 at 3.6% of real GDP instead of the 3.0% predicted in the Liberals’ original February budget. This has contributed to a substantial \$2.7 billion surplus for the fiscal year just ended (2016/17). Similarly, growth in 2017 is now expected reach 2.9% of GDP, significantly exceeding an earlier forecast of 2.1%.

Other performance measures show expected growth in employment for the province of roughly 3% in 2017, slowing somewhat to between 1.0-1.5% for 2018/19 and 2019/20. Most recently, the unemployment rate dropped to 5.4% in August (year-to-date average), nearing its lowest mark since 2008.

This strong macroeconomic performance continues to be driven by housing activity, consumer spending and exceptional retail growth. In her budget day presentation to media and stakeholders, the Finance Minister cautiously noted the direct (and concerning) linkage between this growth and an overheated housing and real estate market, low interest rates and the availability of credit to households and consumers. These are correctly identified as significant risks to both the fiscal plan and future economic outlook for the province.

New expenditure

The budget update builds upon a variety of overdue investments and increases in neglected areas that were finally introduced by the BC Liberals prior to the spring election. It also takes first steps toward

implementing the NDP's key platform initiatives and sets the groundwork for introducing more significant reforms and improvements in the months ahead—beginning with a full budget and fiscal plan in February 2018.

The notable spending commitments offered in Budget 2017 Update include:

- \$472 million over three years to account for the previously announced \$100/month increase to the income assistance and disability assistance rates
- \$208 million over four years to create 1,700 new affordable rental housing units
- \$291 million over two years for the construction of 2,200 modular housing units for the homeless, and \$170 million to operate and maintain them
- \$7 million in 2017/18 for the Residential Tenancy Branch for additional staff needed to reduce waitlists for dispute resolution services, and to create a new compliance unit
- \$322 million over three years to address the fentanyl and opioid crisis in B.C.
 - \$265 million is earmarked for services delivered through the Ministry of Health
 - \$32 million to support law enforcement resources and the BC Coroners Service
 - \$25 million to establish the new Ministry of Mental Health and Addictions
- \$19 million to restore tuition-free Adult Basic Education (ABE) and English Language Learning (ELL)
- \$681 million over three years for the Ministry of Education for staffing and classroom supports, enrollment growth and other pressures
- \$668 million combined in 2017/18 for additional wildfire management costs, including:
 - \$506 million for direct wildfire fighting costs
 - \$100 million to the Canadian Red Cross to support people and communities affected by wildfire
 - \$15 million in new capital spending for wildfire infrastructure

- \$140 million over three years to invest in wildfire prevention and habitat restoration
- \$20 million in 2017/18 for additional child care space
- \$1.6 million in 2017/18 to begin the initial planning phase of a comprehensive poverty reduction strategy, including a basic income pilot
- \$5 million in 2017/18 to support new economic initiatives that include appointing an Innovation Commissioner, Emerging Economy Task Force, and Fair Wages Commission

Cumulatively, these investments represent roughly \$1.8 billion over three years in additional operational spending (above the previous BC Liberal budget introduced in February 2017) to improve housing, education and social programs.

The Finance Minister has emphasised that many of these improvements should be understood as immediate, interim measures while the new government works toward designing and delivering a number of more comprehensive strategies and programs committed to in its electoral platform.

Taken in this context, the first steps offered by Budget 2017 Update show a government willing to listen carefully to its voters, and to act decisively, yet responsibly, in its measures to initiate meaningful change for British Columbians.

The BCGEU is also pleased by the attention Budget 2017 Update offers to improving services for vulnerable children, youth and families, and how it formalizes existing budget proposals to significantly improve staffing and resources in a number of key areas. The union continues to believe strongly, however, that lasting improvement to the recruitment and retention of skilled social workers requires enhanced compensation and benefits.

Public Service

Budget 2017 Update predicts that total government FTEs will grow by a further 660 to a total of 28,600

this fiscal year. These forecasted staffing increases are based primarily on the need to hire additional social workers; records management as well as financial and real estate oversight staff; park rangers; wildfire fighters and support staff; and employees for other environmental management, compliance and enforcement activities.

This expanded staffing in 2017/18 will temporarily reduce the ratio of population per FTE, but will resume its growth by 2019/20—notwithstanding hoped-for plans from the new government to continue rebuilding the public service.

Revenue

The budget update provides the improvements and expenditures noted above not by exploiting a large one-time surplus, but primarily through the creation of new and expanded revenue sources. These will continue to deliver added fiscal capacity to the government, and at the same time, serve to advance its important commitment to improving tax fairness in B.C.

Although the BC Liberals' pre-election budget offered many increases that were welcomed by the BCGEU at that time, the former government's unwillingness to secure the required funding in the longer term—through fair and progressive personal and corporate income tax increases—presented a tenuous bottleneck for sustaining these desperately needed investments. This BCGEU noted this publicly in its report [B.C. Budget Analysis 2017/18](#).

The current update, however, provides some initial solutions for this problem, and it does so while offering additional improvements to the BC Liberal plan in several key areas, along with greater equity in the tax system. These changes include:

- Reinstating the top personal income tax rate at 16.8% (from 14.7%) on individual incomes greater than \$150,000 (a measure first introduced by the previous government, but on a temporary basis)
- Increasing the corporate income tax rate from 11% to 12%
- Reintroducing \$5/tonne annual increases to the B.C. Carbon Tax and eliminating its revenue neutrality

Although these changes amount to only \$169 million for the remainder of this fiscal year, combined they generate nearly \$800 million in additional tax revenue in 2018/19 to fund programs and services. It should be noted that the new top rate for personal income tax will affect only richest 2% of earners in the province, and that after raising the corporate income tax rate by 1%, B.C. will still have the third-lowest corporate tax rate in the country after Saskatchewan, Ontario (both at 11.5%) and Quebec (11.8%).

Restoring annual increases to the carbon tax is essential for addressing the province's growing emissions, and government has also increased the climate action tax credit to support low and middle income families and to mitigate additional household costs. Also, by eliminating the unnecessary requirement of revenue neutrality, government will have access to needed revenue for investing in high-value, job-creating opportunities in renewable energy development, public transit infrastructure, and other climate adaptation programs.

These are changes that the BCGEU has called for repeatedly in its budget consultation submissions to government over the past several years. They help raise needed revenue for programs and services, support our province's climate and environmental commitments, and improve equity and fairness in our tax system.

The update also introduces some changes on the expenditure side of B.C.'s tax and revenue system. These include:

- 50% cut to Medical Service Plan (MSP) premiums for all British Columbians starting January 2018, costing \$915 million over three years

- \$531 million over three years to cover the elimination of Port Mann and Golden Ears bridge tolls
- \$160 million over two years to account for a further reduction in the small business corporate income tax rate, from 2.5% to 2%
- \$103 million by 2018/19 to cover a 50% cut in PST on electricity, after which it will be phased out completely

The BCGEU supports government's move to reduce and eventually eliminate MSP premiums, which is an inefficient and inequitable means for generating revenue for health services. It also sees the government's initial plan for handling this reform as more expedient and comprehensible than what the BC Liberals proposed in their February budget. At the same time, the union expects a clear and proactive strategy from government for carefully transitioning the BCGEU members who currently work to administer the MSP program to new employment.

Although the phased elimination of PST charged on electricity is a welcome and overdue measure to help families and small businesses, a second cut to the small business tax rate in less than a year is arguably unjustified, especially considering it was already the second-lowest in the country. Alternatively, however, the change may provide an added means for small businesses to pay higher wages to their workers as the new government moves toward implementing a \$15 per hour minimum wage through the newly-created Fair Wage Commission.

Government's combined tax measures for 2017/18, in addition to other revenue improvements contained in Budget 2017 Update, amount to \$2.2 billion (+4.4%) in total additional revenue above what was forecast in the earlier February budget. After making additional investments to improve housing, education and social programs, the update also leaves a surplus of \$246 million for 2017/18 and a combined

\$900 million in an increased contingencies vote and forecasting allowance. This means both a balanced budget for 2017/18—including a scheduled surplus on par with the previous government's planning—and a cautiously expanded forecast prudence to account for any unforeseen costs as the government moves through the initial stages of implementing key electoral commitments.

Conclusion

Budget 2017 Update limits the scope of new expenditure to formalizing the key spending measures from the previous February budget while providing targeted expansions in a number of important areas (covered above). It is a conscientious and measured budget, and through the principal tax and revenue increases it introduces, positions the government well for the implementation of its core commitments with sustainable spending increases.

Many of the changes found in the update are actions the BCGEU has been calling on government to implement for years—for example, restoring tuition-free ABE and ELL, increasing social assistance, creating a poverty reduction strategy, and generating new revenue through needed increases to personal income tax, corporate income tax, and the BC Carbon Tax.

Although we await more from government in February 2018 with respect to delivering on their promise of a quality, affordable and universal child care system, Budget 2017 Update is faithful to both the NDP's election platform and their confidence and supply agreement with the BC Greens. It shows a party and a government that is listening closely to the needs of families, communities and workers, and most importantly, it demonstrates that much more is possible for the province without sacrificing responsible fiscal management and a strong economy.

