

ANOTHER PERSPECTIVE ON THE BC GOVERNMENT'S BUDGET SURPLUS

What would be provincial government's four-year forecast and planned surplus look like if the net income of BC Hydro and ICBC was excluded from the government's revenue? As discussed in earlier papers, including the net income (profit) from these two Crown corporations in the government's total revenue using a "modified equity" approach is a requirement of the national public sector accounting standards (PSAS).¹ However, this approach causes confusion because inclusion assumes that the net income from the two Crowns is available as cash to the benefit of the taxpayer (or to the detriment of the taxpayer if there are net losses).²

None of the net income (or the net losses) has affected the actual cash available to the government. Dividends do reflect the actual cash transferred, but the dividend from BC Hydro was phased-out in 2018/19. The last cash transfer from ICBC occurred in 2015.

Line 3 in the attached table shows the government's actual surplus for 2017/18 and 2018/19, the forecast for 2019/20, and the plans for the next three years based on the PSAS. When the net income or losses from BC Hydro and ICBC is excluded, and the cash dividend from BC Hydro is included, the revised surplus and deficit is shown in Line 7. This more closely represents the position using cash accounting, which drives the government's borrowing requirements (which is of more concern to the rating agencies).

For example, the actual 2017/18 year-end surplus of \$301 million included \$1.75 billion in net losses from BC Hydro and ICBC, and excluded the BC Hydro dividend of \$159 million. When the losses are reversed (as no taxpayer supplied cash was transferred to the Crowns) and the BC Hydro dividend is added (because the cash was transferred to the benefit of the taxpayer), the surplus from a cash perspective jumps to from \$301 million to \$2.2 billion. The same logic shows that the 2020/21 surplus of \$227 million swings to a loss of \$571 million.

1

http://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_icbc_net_income_november_24_2019/pdf/commentary_icbc_net_income_november_24_2019.pdf

2

http://www.bcpolicyperspectives.com/media/attachments/view/doc/fact_check_icbc_17_february_2020/pdf/fact_check_icbc_17_february_2020.pdf The other two large self-supporting Crowns, the Liquor Distribution Branch and the BC Lottery Corporation, returned all their 2018/19 net income to the government in the form of dividends totaling \$2.5 billion for 2018/19.

ACTUAL AND PLANNED SURPLUS 2017/18 TO 2022/23 (\$=million)

		A17/18	A18/19	F19/20	B20/21	P21/22	P22/23
1	Reported Revenue	52,020	57,128	59,326	60,585	62,366	64,211
2	Reported Expend.	(51,719)	(55,593)	(58,823)	(60,058)	(61,887)	(63,537)
3	Reported Surplus	301	2,166	203	227	179	374
4	Excl. BCH Net Inc.	426	(522)	(707)	(712)	(712)	(712)
5	Excl. ICBC Net Inc.	1,327	1,153	91	(86)	(148)	(191)
6	Incl. BCH Dividend	159	59	0	0	0	0
7	Cash Based Surplus	2,203	2,856	(413)	(571)	(681)	(529)
8	Inc. Forecast Allow	--	--	300	300	300	300
9	Inc. Contingency	--	--	1,102	600	400	400
10	Inc. Priority Spend	--	--	--	--	--	600
11	Net Cash Surplus	2,203	2,856	989	329	19	471

Source: Actuals for 2017/18 and 2018/19 from the public accounts; with the net income and dividend on pages 105 and 120 of 2017/18 <https://www2.gov.bc.ca/assets/gov/british-columbians-our-governments/government-finances/public-accounts/2017-18/public-accounts-2017-18.pdf> and page 107 for 2018/19 <https://www2.gov.bc.ca/assets/gov/british-columbians-our-governments/government-finances/public-accounts/2018-19/public-accounts-2018-19.pdf>. The annual contingency allocation and the provision for priority spending are found on page 29 (pdf 38/160) of the Budget and Fiscal Plan https://bcbudget.gov.bc.ca/2020/pdf/2020_budget_and_fiscal_plan.pdf

Note: The BC Hydro net income was reduced in 2018/19 due to a onetime adjustment to wind-up the Rate Smoothing revenue deferral account. ICBC's large losses are being eliminated in 2019/20 due to the capping of pain and suffering awards for minor injury claims, which came into effect in April 2019.

Apples to Apples

A proper comparison between the actual surplus for the last two fiscal years and the current budget and plans for the three years should include the forecast allowance and contingencies.

The budget for 2020/21 and the plans for the next two years have prudently included between \$900 million and \$1.3 billion in contingencies, forecast allowances and a special provision of \$600 million in 2022/23 for priority spending. In the best-case scenario, where these contingencies are not required, the net surplus or loss is shown on Line 11 (the amounts have been added to the surplus/loss). This provides a better comparison to the actual results for 2017/18 and 2018/19.

Using this perspective, the net cash surplus is shown on Line 11. The budget suggests that the large surpluses of 2017/18 and 2018/19 rapidly diminish to a razor thin margin in 2021/22.

A Different Perspective on Revenue Growth

In the five years from 2017/18 to 2022/23 the budget plan shows that expenditures growing by almost \$11.8 billion, or 28.2%. After excluding the net income from the two Crown (and adding the BC Hydro dividend) the revised revenue for the same five years increases by some \$9.4 billion, or 17.5%. The result is a sharp drop in the surplus from \$2.2 billion in 2017/18 to \$471 million in 2022/23.

©Richard McCandless February 22, 2020. <http://www.bcpolicyperspectives.com/>

The writer is a retired senior BC government public servant whose paper describing the BC government's manipulation of the finances of BC Hydro from 2008 to 2014 was published by *BC Studies* in November 2016. *BC Studies* published his paper on the 40-year financial history of ICBC in 2013. He has been an intervener in the BC Utilities Commission's recent reviews of both ICBC's and BC Hydro's rate requests.