ACCOUNTING RULE ADDS COMPLEXITY TO GOVERNMENT'S FY2018/19 BUDGET

ICBC'S DEFICIT

In late January, ICBC released its third-quarter 2017/18 financial report and forecast an operating loss of close to $1.3 billion for the full year. Baring a major reduction in claims costs, ICBC's 2018/19 operating loss should also be in the order of $1.0 billion.

In today's *Vancouver Sun* finance minister Carole James stated that the projected current year massive deficit at ICBC is forcing the government to re-assess its spending priorities. "You can't take on a $1.3-billion loss" she said, referring to the current year projection, "without having to go back and review your priorities, programs and services and ensure we're able to do it within the economic framework we've got."[1]

SELF SUPPORTING CROWN

For accounting purposes ICBC is considered a self-supporting Crown corporation, which means its net income (or loss) is included in the government's revenue calculation for the budget and the year-end summary financial statements.

This accounting treatment is required by the Budget Transparency and Accountability Act (BTAA), which mandates that the province follow national public-sector accounting principles (which refer to "government business enterprises" or GBEs).

By requiring that all the net income (or losses) from the GBEs be recorded as government revenue, the national accounting standards assume that all the net income (or losses) from the GBEs is **actually transferred** to the government. This is not the case with ICBC and BC Hydro.

NET INCOME vs ACTUAL CASH

Therefore, on a cash basis, the actual impact to the government's taxpayer-supported spending is different.

For example, the September 5th revision to the 2017/18 budget forecast revenues of $52.407 billion, and a surplus (after allowances) of $246 million. The revenue forecast included an operating loss of $225 million at ICBC and no cash transfer as "excess" Optional capital.[2]

If, all else being equal, the year-end actual loss at ICBC is $1.3 billion the government's budget surplus of $246 million will swing to a deficit of $1.05 billion. But, unless the

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[1] http://vancouversun.com/news/politics/b-c-budget-the-ndps-first-fiscal-plan-will-likely-not-live-up-to-voters-many-expectations

[2] http://bcbudget.gov.bc.ca/2017_sept_update/bfp/2017_sept_update_budget_and_fiscal_plan.pdf p. 18.

government provides ICBC a financial adjustment (bail-out), the $1.3 billion loss at ICBC will reduce its policyholders' accumulated equity. The cash position of the government will be unchanged.

The year-end net income position for BC Hydro (the other SSC where the net income and cash transfer are significantly different) is fixed by cabinet order and achieved by adjustments to the deferral accounts. BC Hydro increases its borrowings to pay the dividend to the province.

IMPACT ON THE PROVINCE'S FINANCES

If ICBC's $1.3 billion projected net loss for 2017/18 results in a reduction to its equity (capital reserve) the total provincial debt will not increase. The total provincial assets and equity will decrease as the assets and equity at ICBC decline.

SUMMARY

In summary, the national public-sector accounting rules create a situation where the budgeted or forecasted revenue can be greater of less than the actual cash transfer from the self-supporting Crown corporation. This is particularly true for ICBC and BC Hydro, where the net income is significantly different than the cash transfer (if any) to the province.[3]

Does the massive operating loss at ICBC require the government to reduce its planned spending in other areas to cover the loss in anticipated revenue? The answer is yes if the net surplus position is to be maintained. But, in reality, there is no change in the anticipated cash to be received from ICBC (none was budgeted). Therefore, to reduce planned expenditures in other programs to cover the deficit at ICBC would, all else being equal, result in a reduction to the planned level of the provincial debt.

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[3] A dividend at BC Hydro and "excess" capital at ICBC (which ceased after $138 million was transferred for FY2015).