

**PROVINCE'S SECOND QUARTER SURPLUS LARGER ON A CASH BASIS**

On November 26<sup>th</sup> the government released a new surplus forecast for 2018/19,<sup>1</sup> but the results are distorted by including B.C. Hydro's net income and ICBC's operating loss.

**Public Sector Accounting Rules**

The Canadian public sector accounting standard requires that the net income of a "government business enterprise" be recorded as government revenue, which assumes that all the net income is available to supplement revenue raised by taxation and fees.<sup>2</sup> In British Columbia B.C. Hydro and ICBC are considered as government business enterprises (called self-supporting Crown corporations).

However, the national accounting standard actually distorts the government's actual cash revenue because little of the net income, or the net loss at ICBC, is transferred to the government on a cash basis.

As discussed previously, the ICBC net operating loss does not reduce the government's revenue from other sources, because the operating loss decreases ICBC's policyholders' equity. At B.C. Hydro, the budgeted net income for 2018/19 is \$712 million but the actual cash transferred will be the planned \$59 million dividend.

**The Second Quarter Report**

The confusion that the national standard causes when the actual cash transferred is less than the net income (or when there is a net operating loss) can be seen when the February 2018 revenue budget of \$54,877 million has been reduced by the \$684 million ICBC loss to an initial budget of \$54,193 million quoted in 2018/19 Second Quarterly Report.

A proper comparison is shown in Table 1.

**Table 1 – FY201819 Forecast (\$=million)**

	<b>Budget</b>	<b>2<sup>nd</sup> Quarter</b>	<b>Change</b>
Revenue excluding ICBC	54,877	58,088	3,211
Add ICBC net loss	(684)	(890)	(206)
Reported Q2	54,193	57,198	3,005
Expenditure	(53,624)	(54,898)	(1,274)

<sup>1</sup><https://www2.gov.bc.ca/assets/gov/british-columbians-our-governments/government-finances/quarterly-reports/2018-19-q2-report.pdf>

<sup>2</sup>

[http://www.bcpolicyperspectives.com/media/attachments/view/doc/occasional\\_paper\\_no\\_10\\_21\\_september\\_2016/pdf/occasional\\_paper\\_no\\_10\\_21\\_september\\_2016.pdf](http://www.bcpolicyperspectives.com/media/attachments/view/doc/occasional_paper_no_10_21_september_2016/pdf/occasional_paper_no_10_21_september_2016.pdf)

<b>Gross Surplus</b>	<b>569</b>	<b>2,300</b>	<b>1,731</b>
Forecast Allowance	(350)	(950)	(600)
<b>Net Surplus</b>	<b>219</b>	<b>1,350</b>	<b>1,131</b>

Source: <https://www2.gov.bc.ca/assets/gov/british-columbians-our-governments/government-finances/quarterly-reports/2018-19-q2-report.pdf> p. 1.

### **Net Surplus Excluding ICBC and Including Only B.C. Hydro’s Dividend**

To more accurately portray the actual cash impact for ICBC and B.C. Hydro the net ICBC loss of \$890 million is excluded from the calculation, as is the \$712 million budgeted net income from B.C. Hydro. Instead, only the planned \$59 million dividend is included.

The second quarter forecast year-end gross revenue becomes \$57,435 and the gross surplus becomes \$2,537 million.<sup>3</sup> After subtracting the \$950 million forecast allowance the net surplus is \$1,587 million.

Perhaps this will fund a second prospective adjustment to reform the accounting at B.C. Hydro.

### **The Operating Debt is Eliminated by Financial Engineering**

The government has celebrated the elimination of the operating debt, which was a subset of the taxpayer-supported debt. The debt was incurred as a result of the economic recession that followed the financial crisis of 2008.

The operating debt was eliminated partly because of the operating surpluses accrued in recent years. The government’s appropriation of \$1.2 billion in ICBC policyholders’ “excess capital” from 2010 to 2013, and the recording of \$1.6 billion in B.C. Hydro’s debt-financed dividends from 2011/12 to 2017/18 also played a significant part in eliminating the taxpayer-funded operating debt. This was more of a debt transfer rather than a debt elimination.<sup>4</sup>

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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.

<sup>3</sup> Eliminate the B.C. Hydro net income of \$712 million , add the dividend of \$59 million and eliminate the \$890 million net loss at ICBC.

<sup>4</sup>

[http://www.bcpolicyperspectives.com/media/attachments/view/doc/occasional\\_paper\\_no\\_22\\_19\\_february\\_2017/pdf/occasional\\_paper\\_no\\_22\\_19\\_february\\_2017.pdf](http://www.bcpolicyperspectives.com/media/attachments/view/doc/occasional_paper_no_22_19_february_2017/pdf/occasional_paper_no_22_19_february_2017.pdf)

