

**ICBC'S OPERATING LOSSES DO NOT AUTOMATICALLY RESULT IN A REDUCTION IN GOVERNMENT SERVICES**

In a few days the minister of finance will release the government's second quarter financial results, which will include the April to September revenue, expenditures and the surplus/deficit position. A key variable is ICBC's net income, because the government's 2019/20 budget assumed a net loss of only \$50 million at the public auto insurer.<sup>1</sup>

Public sector accounting standards require that ICBC's net operating loss is deducted from the government's revenue. This accounting requirement results in a good deal of confusion, with most commentators believing that losses at ICBC result in less funding for government programs. This is not correct.

**Modified Equity Accounting**

The B.C. government uses national public sector accounting standards (PSAS) in reporting on its revenues and expenditures. These standards require that the net income from government business enterprises (called self-supporting Crown corporations in this province) be recorded as government revenue for the purposes of calculating the government's surplus or deficit position. This is known as a modified equity accounting.<sup>2</sup>

Unfortunately, this method of accounting leads many commentators and some politicians to equate the net income with a cash dividend transfer from the self-supporting Crown to the government's consolidated revenue fund. In the case of B.C. Hydro and ICBC, the net income (or loss) does not impact the government's cash position, or its borrowing requirements. This is because no cash dividend (or "excess capital" in the case of ICBC) has been transferred between these two Crown corporations and the consolidated revenue fund.

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<sup>1</sup> The \$50 million operating loss compares to net operating losses of \$1.3 billion in 2017/18 and \$1.15 billion for 2018/19, and assumes that the shift to a hybrid-tort model achieves claims costs reductions of approximately \$1.0 billion.

<sup>2</sup> For more detail see [http://www.bcpolicy Perspectives.com/media/attachments/view/doc/occasional\\_paper\\_no\\_10\\_21\\_september\\_2016\\_3/pdf/occasional\\_paper\\_no\\_10\\_21\\_september\\_2016\\_3.pdf](http://www.bcpolicy Perspectives.com/media/attachments/view/doc/occasional_paper_no_10_21_september_2016_3/pdf/occasional_paper_no_10_21_september_2016_3.pdf)

On a cash flow basis, the operating loss at ICBC, and the positive net income at B.C. Hydro do not change the government's financial position.

### **ICBC's Operating Losses**

It is important to understand that the net income (or loss) at ICBC does not mean that the government has more or less funding available to address other government funding priorities. Unfortunately, many assume that because the operating losses at ICBC reduced the government's total revenue there is less funding available for other taxpayer supported programs.

Attorney General David Eby reflected the misunderstanding when he stated that that the insurer's losses were impacting taxpayers and the government's spending on social services. "When ICBC loses a dollar that's one less dollar for government, and when they make money then we all do a little bit better as a province and there is more money available for programs."<sup>3</sup>

More recently a Global TV news story suggested that ICBC's February 2019 forecasted net income of \$234 million for 2020/21 and 2021/22 would be treated as a cash dividend to the government.<sup>4</sup> This interpretation was in keeping with the modified equity accounting standard, where the net income increases the government revenue. However, the accounting standard leads one to the conclusion that any future net income from ICBC will be transferred to the government. This logical extension is incorrect.

### **Accounting Standard Fosters Confusion**

In an attempt to quiet concerns that the government will take any future net income from ICBC Attorney General Eby announced that the government will legislate a prohibition against taking any future net income.<sup>5</sup> In effect, the proposal would end any attempt by the government to appropriate Optional capital from ICBC policyholders.

Between 2010 and 2015 the previous government took some \$1.2 billion from the Optional program's capital reserve to reduce its borrowing requirements. This was the actual cash transfer from ICBC policyholders to the taxpayer, not the net income (or loss).

However, the Liberal ICBC critic still believes that ICBC's annual net income or loss is the actual cash transfer from the Crown corporation to the government.<sup>6</sup>

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<sup>3</sup> Interviewed by Simi Sara, CKNW, February 28, 2018; <https://globalnews.ca/news/4053976/icbc-capital-resqerve-minimum/>

<sup>4</sup> <https://globalnews.ca/news/6092920/icbc-paid-out-nearly-2b-to-law-firms-in-previous-fiscal-year/>

<sup>5</sup> <https://vancouversun.com/news/politics/eby-proposes-law-to-ban-government-from-taking-icbc-profits>

<sup>6</sup> Ibid.

Perhaps the government will publish a summary of how the national public sector accounting standard's requirement that the self-supporting Crown corporation net income be reported as government revenue can distort the understanding of the government's financial position.

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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 is an intervener in the BC Utilities Commission's current reviews of ICBC's and B.C. Hydro's rate requests.