

FACT CHECK: ICBC LOSSES HAVE NOT DISPLACED SPENDING ON OTHER GOVERNMENT PROGRAMS

Today a story issued by *The Canadian Press*¹ was picked up by the *Globe and Mail* and other media outlets. The focus of the article is an interview with Finance Minister Carole James where she discusses various factors influencing the 2020/21 budget, which will be released tomorrow.

Unfortunately, the minister implies that the recent operating losses at ICBC have required the government to reduce planned expenditures in other parts of the budget to offset the losses;

James said the government's approach to its budget has been affected by the amount of money the province has had to put into the Insurance Corporation of British Columbia, the Crown auto insurer that has lost \$2.5 billion over the past two years.

The minister said she's been frustrated by having to spend money dealing with the ICBC crisis, when those funds could have gone toward programs and services.

While this narrative may suit the government's messaging about the need to reduce ICBC's claims costs, the suggestion that the net operating losses have required some form of redirection of taxpayer spending is wrong.

In a paper issued in November 2019 I discussed the distortion in the government's surplus/deficit position caused by including the net income (losses) of B.C. Hydro and ICBC, as required by the national public sector accounting standards. I warned that the standard could lead to confusion regarding the true state of the government's financial position:

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

¹ https://www.insurancebusinessmag.com/ca/business-news/bc-budget-to-be-impacted-by-icbc-crisis--reports-213886.aspx?utm_source=GA&utm_medium=20200217&utm_campaign=IBCW-Breaking&utm_content=D983809D-3C18-4C3F-B2CB-4900E2C97173&tu=D983809D-3C18-4C3F-B2CB-4900E2C97173 and <https://www.iheartradio.ca/cfax-1070/news/b-c-budget-expected-to-stay-the-course-as-economic-growth-moderates-1.10576824>

“excess capital” in the case of ICBC) has been transferred between these two Crown corporations and the consolidated revenue fund.²

Between 2017/18 and 2018/19, ICBC recorded a combined net operating loss of almost \$2.48 billion. Had these losses not occurred would Ms. James have increased taxpayer-supported spending by this amount? Of course not, because – despite the accounting treatment – no cash would have been transferred from the ICBC ratepayers to the government to ICBC.³

Philosophy of Extracting Income from ICBC and BC Hydro Is Contrary to the Affordability Objective

Why does the government continue to include the net income/loss of BC Hydro and ICBC in the revenue of the government when it results in confusion about the real financial position?

By including the net income in the revenue summary is there an expectation that these two Crown corporations should be generating a net income that may result in a dividend to government? How does generating more income to create a profit in order to pay a dividend to taxpayers accord with the government’s objective of keeping the rates affordable?

The previous Liberal government phased-out BC Hydro’s dividend to assist its debt/equity ratio as its debt increased. This government has promised to legislate a prohibition on extracting money from ICBC’s Basic program.⁴ With the change to a no-fault system the distinction between the compulsory Basic and the Optional injury liability coverage is severely weakened. I would also note that the public auto insurer in Manitoba does not send any dividend to the Manitoba government.

Perhaps the distortion of the government’s revenue by the inclusion of the net income/loss from BC Hydro and ICBC will be discussed during the budget lockup tomorrow.

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<http://www.bcpolicyperspectives.com/>

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

³ From 2010 to 2015 the previous government appropriated approximately \$1.2 billion in “excess” Optional capital which reduced the government’s borrowing requirements.

⁴ <https://vancouversun.com/news/politics/eby-proposes-law-to-ban-government-from-taking-icbc-profits>