

June 2013 Budget Update – Changes since February 2013

Fiscal Plan Update

Lower economic growth projections, revised population numbers and the carry-forward impact of preliminary 2012/13 actual results resulted in a slight deterioration in the fiscal plan since the February 2013 budget.

Lower taxation revenue and reduced health and social transfers were partially offset by higher natural resource and other revenue, spending reductions (including further expenditure management measures), the projected impact of the Core Review, and adjustments to the forecast allowance.

Changes since the February 2013 Budget

(\$ millions)	Preliminary Actual 2012/13	Budget Estimate 2013/14	Plan 2014/15	Plan 2015/16
February 2013 Budget	(1,228)	197	211	460
Taxation revenue	(137)	(221)	(251)	(267)
Natural resources revenue	(29)	70	108	137
Health and social transfers	(190)	(55)	(60)	(61)
Other revenue changes	96	58	34	77
Spending reductions	292	24	37	25
Further expenditure management	-	30	-	-
Core Review impacts	-	-	50	50
Forecast allowance adjustment	50	50	25	25
Total changes	82	(44)	(57)	(14)
June Update 2013 Fiscal Plan	(1,146)	153	154	446
Capital spending changes:				
Taxpayer-supported	(449)	6	76	176
Self-supported	(275)	103	5	7
Debt changes:				
Taxpayer-supported	(155)	1	277	430
Self-supported	(90)	(68)	(69)	(69)
Taxpayer-supported Debt to GDP:				
February 2013 Budget	17.0%	18.2%	18.3%	18.1%
Impact of debt changes	-0.1%	0.0%	0.1%	0.2%
Impact of economic forecast changes	0.1%	0.2%	0.1%	0.1%
June Update 2013	17.0%	18.4%	18.5%	18.4%

Taxation revenue reductions reflect lower tax bases carried forward from the 2012/13 preliminary actual results and a weaker outlook for personal income, wages and salaries, employment, corporate profits, consumer expenditures and BC housing starts. These largely economic factors have

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resulted in lower taxation revenue forecasts for personal and corporate income, sales, carbon and property taxes over the fiscal plan period.

Natural resource revenue improved due to a higher natural gas price outlook and the resulting increase in the Province's share of royalties on natural gas production. The improvement was partially offset by reduced forecasts of revenue from coal mining operations reflecting increased transportation and operating costs, and from forests due to the negative effects of high lumber prices on the provincial entitlement under the *Softwood Lumber Agreement*.

The Canada Health Transfer and Canada Social Transfer entitlements are based on BC's share of the total Canadian population. Statistics Canada has recently provided its preliminary 2011 Census net undercount estimates, which show BC has a lower population share of the national total than projected in the February 2013 budget, resulting in reduced entitlements over the fiscal plan period.

Other revenue changes primarily reflect the projected reinstatement of federal transfers for employment programs supporting persons with disabilities. In the February 2013 budget, this funding was assumed to conclude in 2012/13; however the federal government has stated that it will continue supporting these programs in 2013/14 and intends to negotiate a new generation of the Labour Market Agreement for Persons with Disabilities by 2014.

Spending reductions in 2012/13 are mainly due to lower spending by the schools, post-secondary institutions and other service delivery agencies, an increase in the reversal of prior year liabilities, and unused Contingencies vote. Over the fiscal plan period, some service delivery agencies have carried forward their spending reductions in response to lower own-source revenue forecasts.

Government continues to emphasize expenditure management as a key initiative, and has identified additional savings to be achieved this fiscal year. As well, Core Review is projected to result in further efficiencies, which will be directed towards maintaining a balanced budget.

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The forecast allowance for 2012/13 has lapsed, and for 2013/14 has been drawn down by one-fourth to reflect the nine months remaining in the fiscal year. The outer year forecast allowances have been lowered slightly to reflect a reduced risk of not achieving fiscal plan targets.

The capital spending reductions in 2012/13 mainly reflect project schedule changes and the lapsing of unused project contingencies. The increases during the fiscal plan period reflect the reprofiling of these schedule changes across the fiscal plan period.

The debt changes mainly reflect the impact of fiscal plan changes and capital spending adjustments. However, for taxpayer-supported debt, the reduction in capital debt in 2012/13 was significantly offset by an increase in direct operating debt mainly as a result of higher net working capital balances. This will impact the level of debt over the fiscal plan period.

The taxpayer-supported debt to GDP ratio track has been impacted by both the lower economic forecast and changes to debt balances. Overall, the ratio has increased by 0.2 percentage points in each of 2013/14 and 2014/15, and by 0.3 percentage points in 2015/16.

Expenditure Growth Management

Given the revision to projected revenues since February 2013, and in addition to the foregoing \$15 million per year, it may be necessary to find up to an incremental \$30 million in government savings for 2013/14. Over the coming months Ministry of Finance staff will be working with ministries to identify areas where these additional efficiencies can be realized. Further information will be provided in September's first *Quarterly Report*.

Release of Surplus Assets for Economic Generation

Considerable progress has been made on this initiative since the February 2013 budget. Fourteen properties have been either sold or have negotiated contracts in place with net return of approximately \$58 million, which is \$7 million more than originally estimated; in addition there are nine properties either on the market or where negotiations are underway for

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a total estimated net return of \$86 million. More properties will be put on the market each month.

In addition to the sale of the fourteen properties noted above, the Province sold fixed income securities held in the sinking funds of the BC Transportation Financing Authority (BCTFA) for \$1.447 billion in April 2013, realizing a net gain of \$123 million.

Approximately 37 per cent of the current year property and asset sales target of \$475 million has been achieved to date, three months into the fiscal year.

Tax Measures Update

Summary of Additional Tax Measures in June Update 2010

	Effective Date	Taxpayer Impacts	
		2013/14	2014/15
		(\$ millions)	
June 2013 Budget Update			
Income Tax Act			
• Maintain the top charitable donations tax credit rate at 14.7 per cent	January 1, 2014	6	23
Provincial Sales Tax Act			
• Clarify transitional rules for certain taxable services	April 1, 2013	*	*
Carbon Tax Act			
• Provide exemption for coloured gasoline and coloured diesel fuel purchased by farmers	January 1, 2014	(1)	(4)
Total		<u>5</u>	<u>19</u>

Income Tax Act

Top Charitable Donations Tax Credit Rate Maintained at 14.7 Per Cent

The province's personal income tax charitable donations tax credit for total annual donations over \$200 is valued at 14.70 per cent, which is equal to the current top provincial personal income tax rate.

With the temporary increase in the top provincial personal income tax rate, from 14.70 per cent to 16.80 per cent for the 2014 and 2015 tax years, the tax credit rate on donations over the \$200 threshold will be maintained at 14.70 per cent.

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Provincial Sales Tax Act

Transitional Rules for Certain Taxable Services Clarified

With the re-implementation of the provincial sales tax effective April 1, 2013, transitional rules set out when and how provincial sales tax applies to transactions that straddle April 1, 2013.

Effective April 1, 2013, the provincial sales tax transitional rules for legal services, related services and telecommunication services are clarified.

Carbon Tax Act

Exemption for Coloured Gasoline and Coloured Diesel Fuel Purchased by Farmers Provided

As announced on February 19, 2013, an exemption from carbon tax is provided to farmers. The exemption, effective January 1, 2014, is on the purchase of coloured gasoline and coloured diesel fuel by farmers for the same farm purposes that farmers are authorized to use coloured fuel under the *Motor Fuel Tax Act*.

Economic Forecast Update

Since the February 2013 budget, a moderation in some key domestic economic indicators in recent months has led to a decline in BC's economic forecast for 2013. The external economic situation evolved as expected, so there are no major changes to that forecast since February.

British Columbia Economic Indicators

	February 2013 Budget Outlook for 2013	June 2013 Budget Update Outlook for 2013
	Per cent change (unless otherwise noted)	
Employment	1.1	0.7
Retail sales	3.5	1.8
Housing starts (units)	24,679	23,800
Net Migration (persons).....	41,994	32,461
Consumer price index.....	1.5	0.9

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The Ministry of Finance is forecasting BC real GDP to grow by 1.4 per cent in 2013, down from the February 2013 budget outlook of 1.6 per cent. The lower economic growth forecast for BC can be attributed to:

- a lower BC net migration forecast, which impacts BC employment, retail sales and housing starts; and
- a weaker outlook for Canada, resulting in weaker BC exports to the rest of Canada due to subdued demand.

The Economic Forecast Council also has lowered its 2013 outlook, forecasting BC real GDP to grow by 1.6 per cent in 2013, down from the February 2013 budget outlook of 2.1 per cent