



## BUDGET SPEECH 2014

### *Madame Speaker.*

The budget I am tabling today projects spending for the fiscal year ahead in the amount of \$44 billion, 416 million, with the details laid out in the fiscal plan and estimates I am tabling today.

I thought about leaving it at that. Alas, convention... and the gathering of this Assembly in the presence of so many honoured guests... would seem to demand a slightly more expansive recitation of this year's budgetary blueprint.

I embark upon that task with a measure of enthusiasm and pride, for there is a story that emerges from the charts, the graphs and the relentlessly clinical and unemotional tables of fiscal documentation that is worth telling.

It is a remarkable story that British Columbians themselves have written. And it contains all the elements of a bestseller about life on the high seas of economic exploration—struggle and perseverance, suspense and ultimate success.

A decade ago aboard the good ship British Columbia, we found ourselves slicing confidently through relatively tranquil fiscal seas. Navigating on the basis of sound, free-enterprise based public policy, the question was:

- not whether the economy would grow, but by how much;
- not whether the private sector would create jobs, but how many; and
- not whether we would have a budgetary surplus, but how big a surplus.

We spoke of “the Golden Decade” and, along with much of the world, presumptively contemplated a glittering horizon where the golden sun of prosperity would never set.

And then it all changed.

As 2008 turned into 2009, the storm clouds gathered and burst with a ferociousness unseen for generations. The economic seas boiled. Ports of call no longer bustled with the same sounds of endless growth and expansion.

Most of the Western world plunged into the worst economic recession of our times.

Credit and capital disappeared. Businesses around the world, some centuries old, collapsed. Budget surpluses turned into budget deficits. Certainty was replaced by uncertainty... and people and families suffered.

And British Columbia was not granted immunity.

As a trading province, the impact of the recession upon our traditional markets, like the U.S., was immediate and the consequences for B.C. businesses and their employees was profound...

Though, I must observe, less dramatic than it would have been if we hadn't taken steps with the private sector to begin the process of significantly diversifying our international trade portfolio. More on that in a moment.

But here is where we have distinguished ourselves as British Columbians from so many other jurisdictions.

Our collective response to the challenges that have confronted us since the cataclysmic events of '08-'09 will, I believe, leave a lasting positive legacy and define for decades who we are as British Columbians.

Because while others have avoided or postponed the difficult decisions needed to ensure long-term strength and economic stability, British Columbians gave this government a very specific mandate and very specific instructions.

Put simply, in preparing for the voyages that lie ahead, British Columbians have insisted that we demonstrate through our budgets that all of the costs associated with operating our ship of state today are being paid for today.

British Columbians reject the notion of asking future generations to assume responsibility for budget deficits that result from a lack of fiscal discipline.

This government has heard what British Columbians have said. And the strength of our agreement with the straightforward proposition that governments should not spend more than what they receive from the taxpayers is revealed in the fact that, today, on behalf of the government, I am able to table a second successive balanced budget.

In fact, Madame Speaker, the three-year fiscal plan I am presenting today actually projects surpluses totaling \$841 million over the three years of the plan.

That doesn't mean it's all clear sailing. It doesn't mean everything from here out is easy. In fact, to continue meeting our targets, we will have to rely on more of that old-fashioned discipline that got us here in the first place.

At the same time, with a balanced budget, we do have a little more leeway to advance some key priorities. Things like:

- job growth, skills training and education;
- helping families build for the future; and
- providing additional resources for those folks and families most in need.

Most certainly we will continue to face significant challenges—some of which we know, and some which have yet to reveal themselves.

But while other jurisdictions across North America lament their ongoing fiscal vulnerability and sail nervously through unpredictable seas in search of a safe harbour, we in B.C. can say with a measure of pride and quiet confidence: “We are that safe harbour!”

And now to the numbers.

## **Economic and Fiscal Update**

As I did last June before laying out the numbers for the year ahead, I’d like to update members on where we are today.

In that regard, Madame Speaker, I am obliged to you and my colleagues on the Opposition benches for consenting to the use of some graphics on the same terms that governed their usage last summer.

Now, as I reflect back one year to the initial presentation of *Budget 2013*, I am obliged to concede to the House that I recall detecting a certain degree of skepticism, particularly from the Opposition, regarding our economic and fiscal projections.

Some of that skepticism may have been understandable. We were in the final quarter of fiscal year 2012-13 and were still wrestling with an operating deficit in excess of \$1 billion.

But we had a realistic and achievable plan to eliminate that gap, which we laid out in detail—and the discipline to stick to it.

Today, I’m very pleased to report to the House that we are on track to meet our targets and end the current fiscal year with a surplus of \$175 million.

As you can see, that will grant us membership in a very exclusive club—provinces with a balanced budget. In fact, depending on what happens in Saskatchewan, it could end up being a club of one.

## **Fiscal Plan and Economic Forecast**

Budgets are built on the back of economic forecasts. Hardly an exact science. But I will say that officials within the finance ministry deserve credit and recognition for the skill they have demonstrated in peering into the economic crystal ball.

For budgeting purposes, we are projecting economic growth of:

- two per cent in 2014;
- 2.3 per cent the following year; and
- 2.5 per cent in 2016.

These numbers are lower than the outlook provided by the B.C. Economic Forecast Council. Its 13 members—leading economists from several of Canada’s major banks and private research institutions—meet with government every year before the budget to give us their best advice.

None of this will surprise the Opposition Finance Critic. He was there, and I thank him for attending.

In fact, for the second year in a row, the process of securing advice from the Economic Forecast Council was conducted in a public session.

And though it was hardly a standing-room-only crowd, I expect that in the years ahead, interest will grow—

Particularly given the specific linkage that has now been created between the work of the Economic Forecast Council and recently-ratified public sector contracts.

Along with a more conservative forecast for economic growth, we have included two additional layers of prudence in this budget.

First is a forecast allowance—a cushion, if you will, to guard against revenue volatility—of:

- \$200 million in 2014/15;
- \$225 million the following year; and
- \$325 million in the third year.

Second, the fiscal plan includes contingencies of \$1.275 billion over three years, which includes notional allocations for public sector wage increases.

How reliable are the forecasts? There are always fluctuations, and always the unforeseen. But, on the revenue side...

I would submit that the methodology we employed this past year served us well and we're using the same approach this year.

Going forward, over the term of our new three-year fiscal plan, we are projecting:

- revenues to grow by an average of 2.6 per cent per year; and
- spending to grow by an average of 2.2 per cent per year.

The end result—factoring in all the other parts of the budget—will be projected surpluses of:

- \$184 million in 2014-15;
- \$206 million the following year; and
- \$451 million in the third year.

### ***Sound Fiscal Management***

Madame Speaker, our preoccupation with fiscal responsibility reveals itself in several ways (although, perhaps not as some had hoped, in shorter budget speeches).

For example, contracts and wages for the hardworking women and men who serve our citizens in the public sector represent the single largest share (more than 57 per cent) of total provincial spending.

On that topic, I want to again pay tribute to all of the parties who have worked diligently over the past four years, in a challenging fiscal environment, and found creative ways to keep public services affordable.

In this fiscal plan, we're able to offer modest funded increases for longer-term agreements, with a potential growth dividend starting next year.

Under this new framework, people working in the public sector will share in the benefits of any economic growth above and beyond the projections of the Economic Forecast Council.

The message is a simple one: If we do better as a province, the folks on the front line delivering public services will also do better.

That's good for the entire province because, at the end of the day, we're all in this together.

The results to date have been encouraging. Four negotiations, representing six agreements, have already been ratified.

For those still engaged in the negotiations, there may be a temptation to seek more than can be accommodated within the existing mandate and this budget.

Let me simply say this:

Negotiations are always tough. That's the nature of the exercise.

The government will continue to be guided by its belief that all of our public sector employees should be treated fairly and with respect.

That same notion of respect applies to the hardworking taxpayers of B.C. who ultimately fund these agreements.

Implicit in demands that extend beyond the mandate is the expectation that either:

1. The government will seek more from the citizens through tax increases... which we won't do.

Or

2. That monies will be taken from elsewhere in the fiscal plan in a way that would negatively impact services and programs in those areas.

That too is something we are not prepared to do. I encourage employers and unions to seek agreements early in the mandate, since changes in economic conditions and the Province's finances can rapidly affect the affordability of any new agreement.

In pursuing further improvements to our management of the public's hard earned tax dollars, we intend to act upon the recommendations from the Auditor General to change how cash is managed by schools, universities, colleges and health authorities—the SUCH sector.

Discussions with these agencies are currently underway with the objective of lowering overall borrowing requirements and saving millions of dollars in interest costs.

Operating funding levels are not impacted—only the process of managing the substantial past accumulation of cash in the SUCH sector.

These and other savings options have arisen from our ongoing Core Review process—which continues—and which we expect will reduce government spending by a total of \$50 million in 2014/15, without compromising basic levels of service to the public.

## **Managing Our Debt**

Because we continue to maintain this kind of discipline, British Columbia also continues to enjoy the benefits of membership in another exclusive club—those jurisdictions with the highest-possible credit rating: Triple-A.

That's important, because it is directly tied to our borrowing costs. Simply put, we get a better rate because we represent a lower risk.

And that translates into more money available for program spending.

Ontario has to pay 9.3 cents out of every dollar of revenue on interest. This is more than double what B.C. pays, at 4 cents per dollar.

If we had Ontario's debt servicing obligations, our debt servicing costs would be about \$2.2 billion more—that's \$2.2 billion dollars no longer available for public services in the province—and we would not be talking now, as a province, about the potential to become debt-free.

Some people dismiss the idea of paying down our debt as being unachievable, or even unwise.

To them I simply say: Balancing the budget wasn't easy, but we've proven it can be done. Paying down our debt won't be easy but it, too, can be done... with discipline and perseverance.

And to those who aren't persuaded by the argument that says the greatest gift we can leave our children and grandchildren is a debt-free future, I pose this question:

Can you imagine the enhancements to education, health care and social services we could make with the more than \$2.5 billion we presently spend on servicing our debt?

## **Job Growth and Investment**

Our primary focus, as a government, has been—and remains—to work with the private sector to promote job creation.

The benefits of employment to individuals, families and communities extend far beyond the monetary calculation.

Since the recession, we have set ambitious targets for job growth in B.C. and, frankly, we haven't yet achieved those targets.

To be sure, strengthening the economy, stimulating growth and working with the private sector to generate new employment opportunities are all long-term initiatives.

But no one ever achieved anything worthwhile by making excuses. And this government doesn't intend to make excuses.

We believe that we can do better—and we intend to prove it.

In partnership with the private sector, we will redouble our efforts to realize the objectives we set out in the Jobs Plan: to attract investment, expand trade, foster growth and generate employment.

B.C. has led the way in Canada, reducing our dependence on a single market in the U.S.

It hasn't happened by accident. It's happened through a series of government-industry partnerships, and a decade of concerted efforts to build the British Columbia brand overseas.

We have established an ongoing and visible presence in key emerging markets through strategically-planned trade missions, and we have focused squarely on two objectives:

- Develop new markets for B.C. goods and services; and
- Attract international investment into B.C.

And we continue to see results. In fact, our exports to China have risen by over 600 per cent in the past 10 years. And, thanks to efforts like our Dream Home Canada project in Shanghai, softwood lumber sales to China last year were worth well over \$1 billion.

Even the manner in which we pursue our borrowing needs can be used to enhance overall economic growth.

Three months ago, B.C. became the first foreign government to issue bonds into the Chinese Renminbi/Dim Sum market.

The bond issue received an exceptional reception from investors around the world. The issue was quickly oversubscribed, and raised more than \$420 million.

It also caught the attention of the international markets, raising the profile of British Columbia, particularly in Asia.

The Premier's and Trade Minister's mission to China shortly thereafter further enhanced our presence... and continued to build relationships that can pay important dividends to B.C. and Canada.

Chinese financial institutions—now the largest in the world—are actively pursuing the establishment of their Canadian and even North American headquarters right here in B.C.—providing yet another source of foreign direct investment, not to mention the potential for economic growth and job creation.



Jobs in the finance sector aren't confined to large multi-national banks. B.C. is home to one of Canada's longest-established and fastest-growing credit union movements.

Recent shifts in federal taxation policy have had a disproportionate impact on these institutions. They approached the Province on behalf of their members, and we are responding—sheltering them from the impact of a negative federal income tax change for another three years.

Recognizing the importance of the film and television industry, we are taking steps to ensure that Vancouver Island is seen as an attractive production option. We are extending the Distant Location Tax Credit to the Capital Region, for any productions with principal photography beginning after today.

Consistent with a plan we put forward in the last election, we will also leverage the federal Industrial Regional Benefits Program to attract global aerospace and defence contractors to B.C.

We will invest \$5 million over five years in partnership with the Aerospace Association of Canada Pacific Division to grow the province's world-leading aerospace sector and help attract additional global aerospace and defence contractors to B.C.

### **LNG Tax Measures**

Of course, any conversation about the future of B.C. must take into account the huge potential represented by LNG, liquefied natural gas.

There are some skeptics out there who question whether this industry is real, and whether it will proceed in B.C.

Well, Madame Speaker. I can tell this House today: it is very real.

Even the critics are starting to acknowledge the growing body of evidence:

Seven companies already have their National Energy Board export licences. Three more are in the application process.

Two LNG projects have entered into an agreement with the Province to pursue Crown land tenure for proposed development, and Kitimat LNG (which is owned by Chevron and Apache), recently awarded an engineering, procurement and construction contract for a possible plant at Bish Cove.

With this budget, we are providing additional funding of \$29 million to the ministries of aboriginal relations, environment, forests, and natural gas development to support the development of B.C.'s LNG industry.

And we will continue working closely with First Nations and communities to make sure that development aligns with their—and the province's—needs and priorities.

That will require a tax regime to help ensure that the people who own the resource—the people of British Columbia—derive their fair share of benefits.

To the end, I am announcing today the government's intention to introduce legislation later this year, setting out an LNG income tax regime.

We are proposing a two-tier tax, levied on net income from liquefaction of natural gas at LNG facilities in British Columbia.

We are proposing a tier-one tax rate of one and a half per cent, that would apply at the commencement of production, and a tier-two rate of up to seven per cent that would apply once capital investment costs in the LNG facility have been deducted.

The rates will be finalized in the legislation we intend to introduce in the fall and will ultimately be determined by our ongoing analysis of global economic and market conditions, with a view to ensuring that B.C. remains competitive for investors and British Columbians derive a fair return for the sale of the resource they own.

You will note that we have not booked any revenue from an LNG income tax in the current three-year fiscal plan. That's because the tax dollars won't start flowing until the first plant starts production.

But Madame Speaker, this is important: Other, equally tangible benefits will begin to flow much sooner.

Even now, proponents are getting to work on site preparation; employment is occurring; land deals are taking place. And... as companies advance their projects... we will start to see dramatic results, with:

- hundreds of millions of new investment dollars;
- thousands of construction jobs;
- growth in local and regional economies;
- higher government revenues; and
- untold spin-off benefits.

After 10 years of production, estimates are that one single LNG plant could generate up to \$1.4 billion in LNG income tax alone.

Those are the numbers for just one plant. We have a number of proponents already engaged in the process. And Madame Speaker, I expect the skeptics are going to find it harder and harder over the coming years to deny that this is happening.

## **Helping Families Build for the Future**

LNG is a brand new industry that promises to open up new opportunities—especially for young people, building careers and planning for their futures.

That's why the government is putting so much effort into working with employers, educators and communities—to make sure British Columbians are first in line for the jobs of the future.

Our Skills Training Plan—developed through a series of regional workforce tables and direct consultations—is built around four key areas of action, one of which is to invest in and improve our training facilities.

We're doing that at two levels—in high schools, and in higher education.

For example, the new NorKam Trades Centre of Excellence in Kamloops—scheduled for completion this fall—will offer courses in areas such as mining exploration, industrial skills and construction trades training.

The new Alberni District Secondary, opened in 2012, offers training options from heavy-duty mechanics and metal fabrication to culinary arts and hairdressing. And those are just a couple of examples. In total, this new budget includes \$1.5 billion in capital funding for school replacement and upgrading projects.

It also includes \$2.3 billion in capital spending by post-secondary institutions, supporting projects such as:

- new trades training facilities at Camosun College in Victoria, supporting an additional 370 students in the marine, metal and mechanical trades by 2016;
- new facilities at Okanagan College in Kelowna, which will more than double the size of the current trades training complex by 2016; and
- a new campus for the Emily Carr University of Art and Design.

These investments help ensure that B.C. students have access to the programs they want, to help them build the skills they need.

And to help ensure they're able to afford that education... we're also moving forward with a program announced in last year's budget to help parents save.

The B.C. Training and Education Savings Grant is a one-time payment for every child in British Columbia, born in 2007 or later, whose family has a Registered Education Savings Plan in the child's name.

In the year since we announced the grant, the number of B.C. families with RESPs has increased by 10 per cent—an extremely encouraging sign.

And... by the end of the coming fiscal year, our intention is to work with the federal government to begin making payments worth \$1,200 per child, to as many as 40,000 eligible families every year.

Coupled with available federal support, and with a small contribution from the family, the power of compounding interest over time will turn that one-time grant into—potentially—the opportunity of a lifetime.

It means that a student will be virtually guaranteed access to the training opportunity of his or her choice after high school.

It means the financial impediment that for too long has held too many back will essentially disappear.

It means that the story of the young professional, hampered for years by the burden of student debt, will become a lot less common here in British Columbia.

With this budget, we are also introducing legislation to implement the BC Early Childhood Tax Benefit.

Starting in April 2015, the benefit will provide \$146 million annually to approximately 180,000 families. They will receive up to \$55 a month for each child under the age of six.

That's not a lot, but... for young families starting out... every extra dollar counts. And the tax credit isn't just a stand-alone benefit. It's part of the comprehensive Early Years Strategy announced in *Budget 2013* to help parents balance the demands of work and family—and to help set children up for life-long success.

The strategy includes new child-care spaces, higher-quality services, and a new Early Years Office to coordinate and provide better access to early childhood development services.

With this budget, we are also investing another \$24 million over three years to help make the dream of homeownership more attainable.

Effective tomorrow, February 19, the threshold for the first-time buyer's exemption from the Property Transfer Tax will increase from \$425,000 to \$475,000.

That will benefit about 1,700 additional first-time buyers annually, saving them up to \$7,500.

There is a cost to government, of course. But these are the kinds of modest, targeted investments that not only make life easier for families, they also provide an additional measure of stimulus for local economies.

### *Supporting Those in Need*

Along with creating a positive climate for economic growth... and giving families more tools to build for the future... with this budget, we're also making significant new investments in supports for those individuals and families most in need.

Because of their circumstances, they are not well positioned to benefit from new investment and economic growth. So... now that we have room in the budget, we're putting more resources into the programs and services that so many families rely on.

First, we are providing incremental funding of \$243 million over three years to Community Living BC to maintain services for adults with developmental disabilities and their families.

With medical advances and an aging population, more people are living—and living longer—with disabilities, and that's reflected in the growing demand for Community Living BC services in particular.

We're also providing an additional \$15 million over three years to the Ministry of Children and Family Development, to better support children and youth with special needs. This is in addition to the \$70 million announced in *Budget 2013* for the Early Years Strategy in 2014/15 and 2015/16.

We're making these investments now because we know—from research and experience—that children who get a good, healthy start in life tend to have fewer problems later on.

That's why we continue to invest in programs like Healthy Families BC that promote nutrition and physical activity, helping children learn and adopt healthy habits that will last a lifetime.

It's why this budget provides funding for the B.C. School Fruit and Vegetable Nutrition Program, which now includes milk—providing fresh, healthy foods to elementary schools, free of charge.

These programs are attracting attention from across the country because they work, and because they represent a great investment—helping ensure that the next generation has an even better quality of life than we enjoy today.

But the benefits of preventative health care reveal themselves in the longer term and, even with this emphasis on prevention, health care costs continue to increase.

*Budget 2014* invests an additional \$2.5 billion over three years. And to help keep health care services sustainable, we're asking those who can afford it to pay a little more.

As signaled in previous budgets, Medical Services Plan premiums will increase by about four per cent, effective January 1, 2015. That works out to \$5.50 a month for a family of three or more.

We will also enhance our premium assistance program, which lowers or eliminates MSP premium costs for about one million lower-income British Columbians.

For smokers who continue to utilize a product that science, medical officials and common sense tell us will adversely affect their health—and add to health care costs—I have some bad news. The price of cigarettes is going up.

Effective April 1st, the tax on tobacco will increase by 32 cents per pack. That is over and above the increase announced in last week's federal budget—giving smokers even more financial incentive to quit.

We are seeing good results from B.C.'s Smoking Cessation Program. We have the lowest smoking rate in Canada, at 14.5 per cent. But we know there's still more work to be done to help reduce cancer rates—from tobacco, and from other known causes.

To that end, the government is making a commitment in today's budget to provide specified funding for cancer research and prevention and will be working with the Canadian Cancer Society and other research partners to develop and implement a number of innovative cancer-prevention initiatives that will reinforce British Columbia as a world-leader in cancer research and prevention.

## **Conclusion**

Are there more ideas out there? More opportunities to spend?

Yes. There always are. And sadly, the history of many governments has been to succumb to the temptation in circumstances where taxpayers can't afford it.

That's bad leadership, plain and simple. It compromises future choices, and we're not prepared to do that.

Instead, we are setting out a realistic, achievable three-year plan to keep British Columbia on course for the future we envision – the future our citizens, and our children deserve.

It is, after all, the people of British Columbia whose hard work and perseverance has built our province.

It's the people of British Columbia whose values are reflected in this second balanced budget in a row.

I woke up as a newly elected MLA for the first time 20 years ago on this very day.

And over the past two decades, from the unique vantage point afforded those of us fortunate enough to serve in this Assembly, I have marveled at the energy and ingenuity of British Columbians.

And it's that drive and unrelenting optimism that will propel us forward:

- To establish more new markets and trading partners.
- To expand skills training opportunities across B.C.
- To attract new economic development including an entire new industry in LNG.
- To work in partnership with the private sector to create thousands of new jobs in the years ahead.

It's all there, on the horizon, in our sights.

And our job as government is making sure we stay on course.

We do that by controlling spending, encouraging economic growth, and working with the private sector to stimulate job creation.

In other words, Madame Speaker, by sticking to our plan that is rooted in the common sense proposition that guides families across B.C....

Don't spend more money than you have.

It may not be glitzy or chock full of goodies, but it is the right plan for British Columbia.

So it's all hands on deck!

Together we've built a solid ship that is the envy of so many, crewed by roughly 4.6 million British Columbians.

With a steady hand on the tiller, and under the banner of our second balanced budget, let us sail forward with pride and confidence into a future of growth, opportunity, and prosperity.

Thank you.

