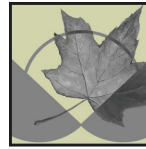


SUMMARY



CCPA
CANADIAN CENTRE
for POLICY ALTERNATIVES
BC Office



JANUARY 2007

BC Solutions Budget 2007

British Columbia is set to finish 2006/07 with a substantial surplus of about \$3.3 billion, and in the next two years (pending new spending announcements and/or tax cuts) we are likely to see even larger surpluses. We clearly have the means to address pressing needs and concerns in the province. The larger question is whether the government is willing to step up to the plate.

A casual walk through the pages of BC's newspapers suggests a split experience for British Columbians. On the one hand we see many stories heralding low unemployment, the current construction boom and high world market prices for our exports. On the other, we increasingly see stories about homelessness, panhandling and addiction. These problems are not unique to BC, but on many measures of poverty, BC fares among the worst of all Canadian provinces.

In the 2007 BC Budget, the government must tackle poverty and homelessness boldly and comprehensively if we are to see substantial improvement before the province hosts the 2010 Winter Olympics. There is nothing inevitable about our unacceptably high poverty rates, growing inequality and rising homelessness. Nor is there anything inevitable about financial crises and unacceptably long wait times in our health care system, cash-strapped schools and universities, inadequate child protection, or inaccessible child care. These are about the choices we can make – or fail to make – with the provincial budget.

The Real State of Provincial Surpluses and Future Revenues

Official BC budget forecasts have become more fiction than fact. Over the past five years, revenue projections made at the start of each budget year have been grossly inaccurate when compared with year-end results. Since 2002/03, the final budget balance has been understated by a cumulative total of more than \$10 billion.

Underestimating government revenues at budget time closes the door on a full democratic discussion about what our priorities should be, with surplus funds instead being put towards debt reduction at the end of the year. Yet BC's debt relative to the size of our economy (at 15.6% of GDP) is already the lowest of all provinces save oil-rich Alberta.

Using a methodology that has consistently allowed the CCPA to forecast budget surpluses more accurately than either the federal or BC governments, we have re-calculated the provincial government's budget numbers using a more realistic estimate of revenues, and project sizable surpluses of:

- \$3.3 billion in 2006/07;
- \$3.6 billion in 2007/08; and
- \$4.5 billion in 2008/09.

This means that the government has the financial room to take bold action on the challenges faced by our province – the money is there to make a dramatic difference. Our forecasts also model two scenarios of economic slowdown to assess the resiliency of BC's budget surplus. We find that even if a major slowdown were to hit in 2007 and 2008, budget surpluses would still be in excess of \$2 billion over the next two fiscal years.

Building a Better Budget

More tax cuts are not what BC needs. Tax cuts only reinforce growing inequality. Tax cuts cannot solve the crisis of homelessness in BC, they will not build childcare spaces for families who need them, they will not clean up our environment, nor will they improve our transportation options. Tax cuts only deplete our ability to act together to make a better society and a more sustainable environment.

With respect to the fiscal year coming to an end this March, we recommend that the 2006/07 surplus of \$3.3 billion not be used for debt reduction, and instead be rolled into a fund to support priority capital expenditures, such as social housing, public transit, long-term care and child care spaces. Similarly, the province should re-invest the full surplus in the coming two years (and admit its true size).

This *Solutions Budget* is not as prescriptive as in past years. Rather than listing precisely what should be spent in each program area, we outline a range of options available to the province – a “menu” of policy choices. Some of these can be fully funded in 2007/08, while others should be phased in over the next two to three years. (We also show how much more money would be available if provincial revenues returned to their pre-tax-cuts levels.) The *Solutions Budget* outlines how much it would cost to meet various program goals – “price tags” for meeting our most pressing needs in the coming one to three years. These include:

Health Care

- The budget for health care needs to grow by 5% per year to accommodate population growth, aging and health care inflation with no loss in services. In recent years, health care spending has grown by only 3.8% per year on average, adding to the stresses seen throughout the system.
- A January pre-budget announcement from the BC government reported an increase in the health care budget for 2007/08 of \$885 million, or 7% above 2006/07 levels. Priorities for new funding should be for community care services, such as home care and support, residential care, addictions services and mental health services.

Early Learning and Child Care

- A universal early learning and child care program for one to five year olds would require annual operating funds of \$1.5 billion, plus \$650 million in one-time capital costs. Adding before-and-after-school care for children up to age 12 would cost an additional \$500 million. Such a program would need to be phased in over a few fiscal years. We recommend starting with an increase of \$500 million in 2007/08.

Public Education

- A 2% increase for 2007/08 is required for the system to maintain existing service levels. This amounts to an increase of \$81 million, of which \$24 million has already been allocated in the current fiscal plan – thus, an additional \$57 million is needed. To restore funding to 1990/91 per-student levels (adjusted for inflation), operating grants to school boards would have to increase by a further \$228 million in 2007/08.
- Further investment in K-12 would reduce the growing use of fundraisers and appeals to parents, fees for programs (many of which have now been deemed illegal by the courts), contracts for vending machine rights, and enticement of foreign students to bolster budgets. The priority should be to reduce class sizes, enhance programs, and provide additional resources for children with special needs.

Post-Secondary Education

- To reduce cost pressures on universities and colleges, and to fully fund the promised increase in capacity of 25,000 seats by 2010, a 10% increase in the budget for advanced education is advisable. This would cost \$200 million, of which \$75 million is already in the government's current fiscal plan – thus an additional \$125 million is needed.
- A plan to cut tuition fees in half over the next three years would require a further \$160 million in 2007/08.

Anti-Poverty Strategy

- Welfare rates must be raised substantially. Increasing the budget for income assistance benefits by 50% would cost an additional \$500 million, based on current caseloads. However, caseloads would rise if the government took action to reduce barriers to income assistance for those in need, at a cost of an additional \$200 million.
- In addition, services for children and families have been in crisis mode for a number of years. Investments in vulnerable children are likely to have huge paybacks over time. A \$200 million increase for the Ministry of Children and Families would enhance the ranks of social workers, boost support allowances for foster care, and provide additional assistance for children with special needs.
- Housing affordability has become a top issue for many British Columbians. The market fails to build sufficient affordable housing for low- to middle-income families and vulnerable populations, and thus public solutions are required. To create 2,000 new units of social housing per year a capital cost of about \$400 million per year would be required (assuming land must be purchased). An additional operating cost of about \$8 million to subsidize rents for these units is also needed.

Addressing Resource and Environmental Challenges

- Urgent action is needed at the provincial level to address the pine beetle epidemic and to reduce greenhouse gas emissions as a response to global warming.
- \$120 million per year in new expenditures should be allocated to reforestation efforts and promoting research and management that restore a greater diversity of tree species and tree ages to our Interior forests. This should be funded by an increase in stumpage paid by the companies currently benefiting from the logging boom of beetle-killed trees.
- A new approach is needed for how the province shares forest resources and access to timber with First Nations. As an interim measure until treaties are reached, the province should more equitably share stumpage revenues with First Nations, which would have the effect of reducing provincial budget revenues, but should also be seen as part of the province's anti-poverty strategy.
- BC needs a new overarching strategy – including a detailed fiscal plan – to confront climate change. Much action could be achieved in a revenue-neutral manner through regulation, and by changing incentives through eco-taxes and subsidies for sustainable alternatives.

BC SOLUTIONS BUDGET 2007 – SUMMARY

January 2007

Every year since 1995, the CCPA has published an *Alternative Federal Budget*. The CCPA opened its British Columbia office in 1997, and now produces an annual *BC Solutions Budget*. These alternative budgets show that a more compassionate, yet realistic, approach to fiscal policy is possible. They demonstrate that good public policy is always about choices.

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The Canadian Centre for Policy Alternatives is an independent, non-partisan research institute concerned with issues of social and economic justice. The CCPA works to enrich democratic dialogue and ensure Canadians know there are practical and hopeful solutions to the policy issues we face.

The Centre offers analysis and policy ideas to the media, general public, social justice and labour organizations, academia and government.

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