



JANUARY 2007

BC Solutions Budget 2007

Summary

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.

Introduction

If there is one refrain at the heart of the CCPA's analysis of budgets, whether through the *Alternative Federal Budget* or the *BC Solutions Budget*, it is that budgets are about the choices we make as a society. Sadly, as deficits have turned into surpluses in recent years, our federal and provincial governments have chosen to miss out on the opportunity to reinvest in a social and environmental fabric that frays ever more with each passing year.

Instead, the siren call of tax cuts has been irresistible, and both federal and provincial governments are now talking about yet more tax cuts in their 2007 budgets. The problem is that tax cuts will only reinforce growing inequality in our society by giving more to those who are already doing very well. 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.

The *BC Solutions Budget 2007* urges the provincial government to think big. BC has the potential to define what the "good society" of the 21st century should look like. We have the resources – financial, human and natural – to realize a compassionate and caring society through the enhancement of public services. And yet, this potential is in stark contrast to the reality we see on the streets and the day-to-day challenges faced by many families. Better choices are available, but the political will to make them has been absent.

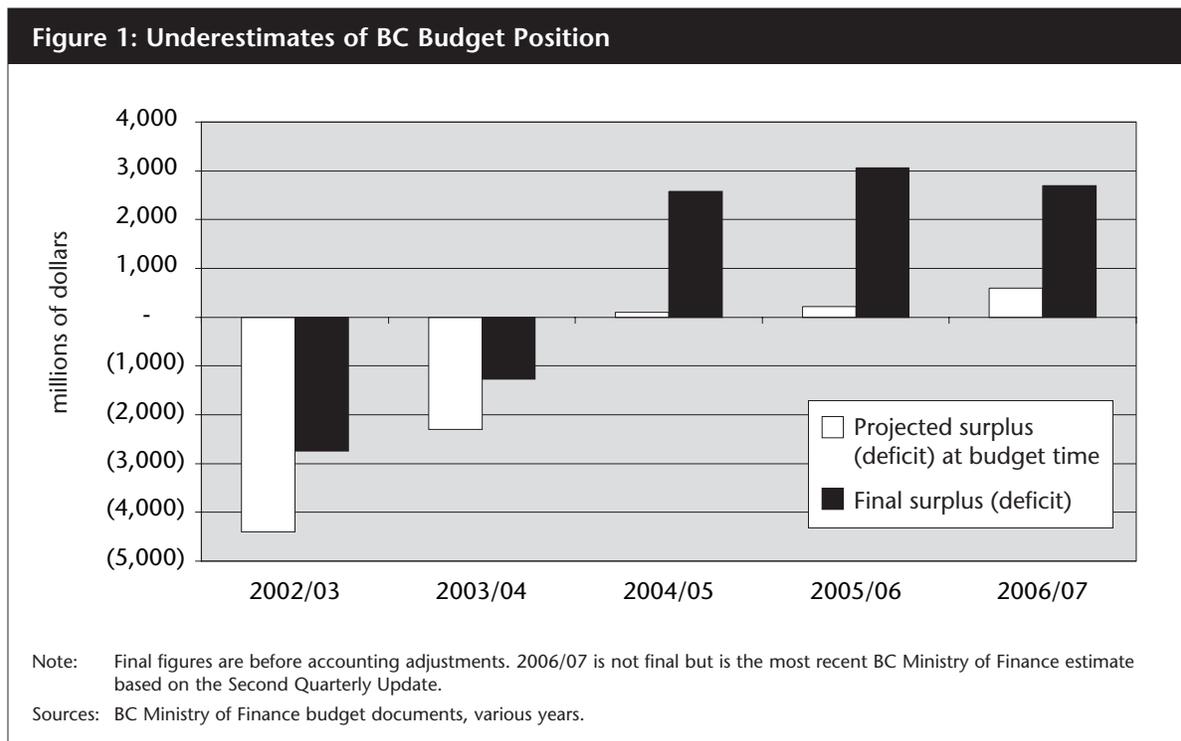
In the next section we take a closer look at how conservative budgeting practices have shortchanged our aspirations, and led to a tacit policy of debt reduction. Recent, massive surpluses show that the cupboard is far from bare. We then build on this with our own projections of current and future surpluses to show that there is much room to move forward with bold initiatives to address BC's pressing social issues. Finally, we review a number of expenditure options to show that a better society is possible.

An Embarrassment of Riches

In recent years, the BC government has tallied record surpluses. A strong economy, fuelled largely by high commodity prices and a housing boom, have been reflected in decades-low unemployment rates in most regions of BC. What is troubling, however, is that official BC budgets have become more fiction than fact. Revenue projections in past budgets have been grossly inaccurate when compared with year-end results.

At the end of the 2005/06 fiscal year, the government's surplus hit a record \$3 billion, and this was after \$710 million had been taken off the top for negotiating incentives for public sector collective bargaining (with another \$290 million booked in 2006/07 for this purpose). Yet at budget time in February 2005, the declared surplus was a mere \$220 million (even if we add in a \$400 million forecast allowance, the surplus was projected to be \$620 million). The difference between final results and budget projections is almost entirely due to underestimates of revenues, even though the government's own GDP projections should have led to a more reasonable assessment of the fiscal room available.

Over the course of the most recent five budgets, the final budget balance has now been understated (larger than budgeted surpluses and smaller than budgeted deficits) by a cumulative total of more than \$10 billion (including updated estimates for 2006/07 in the *Second Quarterly Report*). Figure 1 shows this by comparing the budget balance as tabled in February with that at fiscal year-end. If anything the problem has grown worse, not better, over time. The final balance in 2003/04 was a billion dollars off of projections at budget time, whereas in the past two budget years, projections have been off by \$2-3 billion. And as we show in the next section, the government's updated projection of its surplus for 2006/07 is still understated by hundreds of millions of dollars.

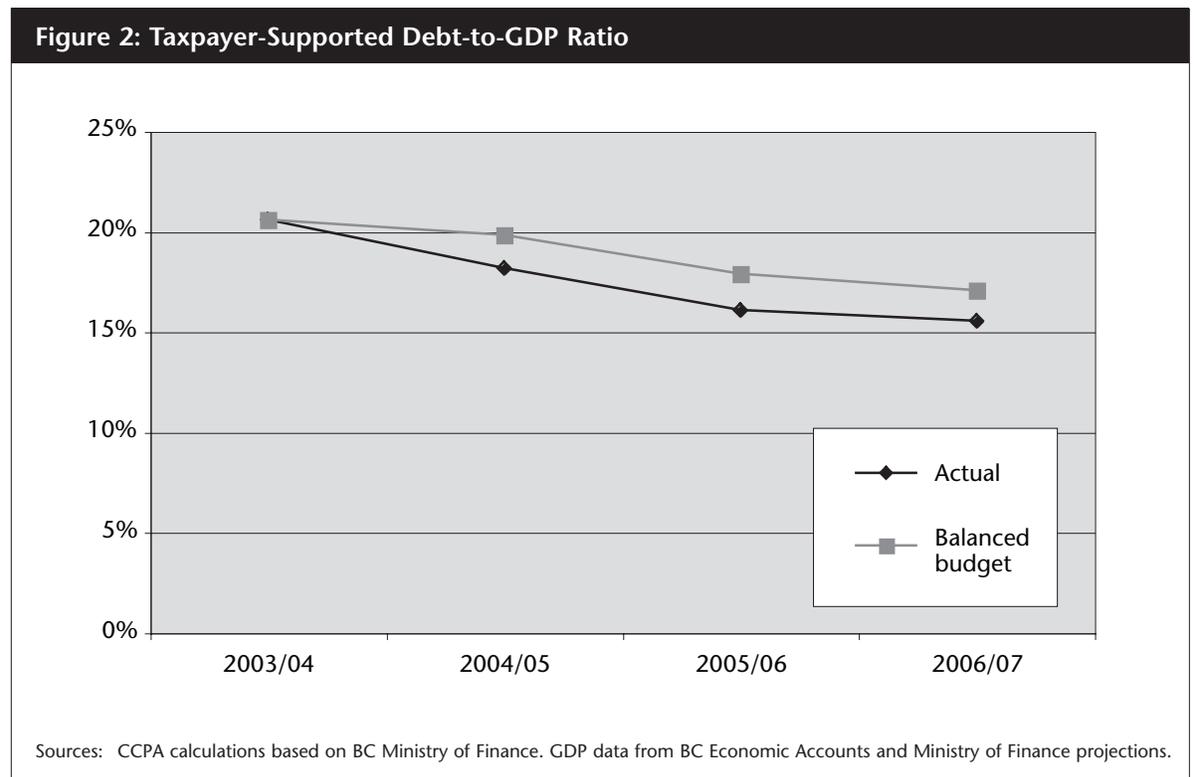


While closing the year with a deficit lower than anticipated may be forgiven, as was the case in 2002/03 and 2003/04, tabling budgets as balanced when they are in fact structurally biased towards large surpluses is deeply problematic. This budgeting practice closes the door on a full democratic discussion about how funds should be allocated (whether for enhanced social expenditures, as our *Solutions Budgets* have argued, or for the tax cuts favoured by commentators on the right). Instead the default, unstated position is to privilege debt reduction.

While many people are warm to the idea of debt reduction, as they are to reducing their mortgage, there are substantial opportunity costs involved. The rate of return on debt reduction is the average rate of return on government bonds, around 5%. A number of alternative investments would pay a higher return, but these options are taken off the table due to systematically understated revenue projections.

For example, investing that money in early childhood education (and other levels of education, too) would generate much higher public returns than debt reduction. Investing money in creating supportive housing for the homeless and affordable housing for the working poor would also have a tremendous payback (we currently spend more on the homeless through health care, criminal justice and social services than we would if we were to provide them with supportive housing, according to a study done for the BC government). And strategic investments in prevention and community health care, such as home care and support services, would relieve pressure on the more expensive acute care system.

What matters is the size of provincial debt relative to the size of the whole economy. BC has a comparatively low debt relative to our economy, the lowest among all provinces save oil-rich Alberta, and this measure has been declining rapidly in recent years, in part due to surpluses, but mainly due to economic growth.



As a thought experiment, consider what BC's debt-to-GDP ratio would have been had the previous three years of surpluses gone instead to needed expenditures. In each year, as Figure 2 shows, BC's debt-to-GDP would still have fallen, but by a smaller amount. In 2006/07, for example, this would have meant a (taxpayer-supported) debt-to-GDP ratio of 17.1% instead of 15.6%, both down from 21.3% in 2002/03 (the peak year). This demonstrates that there have been no over-riding reasons for such intensely conservative fiscal policies.

The persistence of poverty and homelessness, the deteriorating conditions in BC classrooms, and the growing crisis in hospital emergency wards, are an embarrassment. In our fall brief to the *Select Standing Committee on Finance and Government Services*, we focused our entire package of recommendations on the need for a comprehensive anti-poverty strategy for BC. Substantial resources are available to greatly ameliorate the human tragedy unfolding on the streets of BC – it is only a matter of making a solutions agenda a political priority.

BC's Fiscal and Economic Situation: Looking Forward

To project the available fiscal room for 2007, we estimate future revenues based on the fact that, in the absence of major changes in tax policy, government revenues tend to grow in line with the overall economy. Put another way, the share of own-source revenues relative to the provincial economy (GDP) remains roughly the same from year to year. This technique, pioneered by the *Alternative Federal Budget* process, has enabled the CCPA to forecast federal and provincial revenues more accurately than stated in official budget documents from either Ottawa or Victoria.

Table 1 shows our revised estimates of the government's fiscal position. In 2004/05, revenues amounted to 16.2% of provincial GDP, and in 2005/06, 16.6%. The government's *Second Quarterly Report* finds that this figure will fall to 16.0% in 2006/07, a number we consider to be exceptionally low. The *Second Quarterly Report* further estimates that revenues-to-GDP will continue to fall in subsequent years, to 15% by 2008/09. This would be highly unlikely in the absence of major tax cuts.

Projecting forward, we re-estimate 2006/07 through 2008/09 by recalculating own-source revenues at a ratio of 16.3%, drawing on the government's most recent projections for the provincial economy (we use the ratio of 16.3% to be conservative, as the 16.6% ratio in 2005/06 is arguably high due to unusually high resource royalties). We add to this the government's estimates of revenues from the federal government and Crown corporations. And we take as the status quo the expenditures cited in the government's fiscal plan.

Official BC budgets have become more fiction than fact. Over the course of the most recent five budgets, the final budget balance has now been understated by a cumulative total of more than \$10 billion.

Table 1: Re-estimated Revenue and Expenditure Framework (\$ millions)

	Actual 2004/05	Actual 2005/06	Revised Solutions Budget estimates		
			2006/07	2007/08	2008/09
Revenues					
BC nominal GDP	157,540	168,855	179,324	189,008	198,458
BC own-source revenues-to-GDP ratio	16.2%	16.6%	16.3%	16.3%	16.3%
Estimated own-source revenues	25,590	27,963	29,230	30,808	32,349
Contributions from government enterprises	2,412	2,198	2,460	2,451	2,479
Federal transfers	5,231	5,786	6,349	5,554	5,550
Total revenues	33,233	35,947	38,039	38,813	40,378
Status quo expenditures					
Health	11,642	12,414	12,944	13,089	13,261
Education	8,511	8,943	9,368	9,324	9,513
Social services	2,665	2,724	3,030	3,112	3,164
Protection of persons and property	1,215	1,379	1,287	1,309	1,296
Transportation	1,308	1,196	1,258	1,294	1,187
Natural resources and economic development	1,670	1,599	1,620	1,531	1,511
General government	505	644	739	645	634
Debt service	2,294	2,182	2,223	2,466	2,571
Other	848	1,806	2,261	2,433	2,761
Total expenditures	30,658	32,887	34,730	35,203	35,898
Surplus	2,575	3,060	3,309	3,610	4,480

Table 2: Alternative Scenarios, with Status Quo Expenditures (\$ millions)

	2006/07	2007/08	2008/09
Optimistic			
Own-source revenues	29,697	31,300	32,865
Total revenues	38,506	39,305	40,894
Surplus	3,776	4,102	4,996
Slowdown 1			
Own-source revenues	29,037	29,908	31,105
Total revenues	37,846	37,913	39,134
Surplus	3,116	2,710	3,236
Slowdown 2			
Own-source revenues	28,900	29,478	30,362
Total revenues	37,709	37,483	38,391
Surplus	2,979	2,280	2,493

Putting these pieces together, as can be seen in Table 1, leads to a projected surplus in 2006/07 of \$3.3 billion, or about \$600 million higher than the government's most recent estimate of \$2.7 billion (surplus prior to forecasting allowance). For 2007/08, we project the surplus to rise to \$3.6 billion, and for 2008/09, to \$4.5 billion.

Even these latter numbers may be too low. If we were to make a more optimistic assumption that revenues-to-GDP would stay the same as 2005/06 at 16.6%, the surplus estimates rise to \$3.8 billion in 2006/07, \$4.1 billion in 2007/08 and \$5 billion in 2008/09. This is shown in Table 2. While this may be considered an optimistic scenario, it is entirely plausible if the economy remains strong through the last few months of the fiscal year (January to March).

Alternatively, there are some reasons why we might expect a slowing economy in 2007. As mentioned above, BC's good fortune has been closely linked to booming residential construction and a hot real estate industry, and high commodity prices. On both fronts, there is evidence of slowing. Commodity prices have fallen from their peaks. And a major slowdown in housing in the US is now starting to sink into BC's housing markets. While residential construction starts are still high and are being reinforced by non-residential starts and Olympic projects, the overall construction sector could begin to weaken some time in 2007.

Table 2 shows two scenarios of economic slowdown in BC to assess the resiliency of the BC Budget. In both scenarios, we maintain the estimate that revenues will stay at 16.3% of GDP, but make some more pessimistic assumptions about economic growth. In slowdown scenario one, we assume nominal GDP growth of 5.5% in 2006, 3% in 2007 and 4% in 2008 (baseline estimates from the Ministry of Finance are 6.2% in 2006, 5.4% in 2007 and 5% in 2008). In the even more pessimistic scenario two, we assume 5% growth for 2006, 2% for 2007 and 3% for 2008 (because these are nominal rates, the projections are essentially for zero real GDP growth in 2007 and real growth of 1% in 2008).

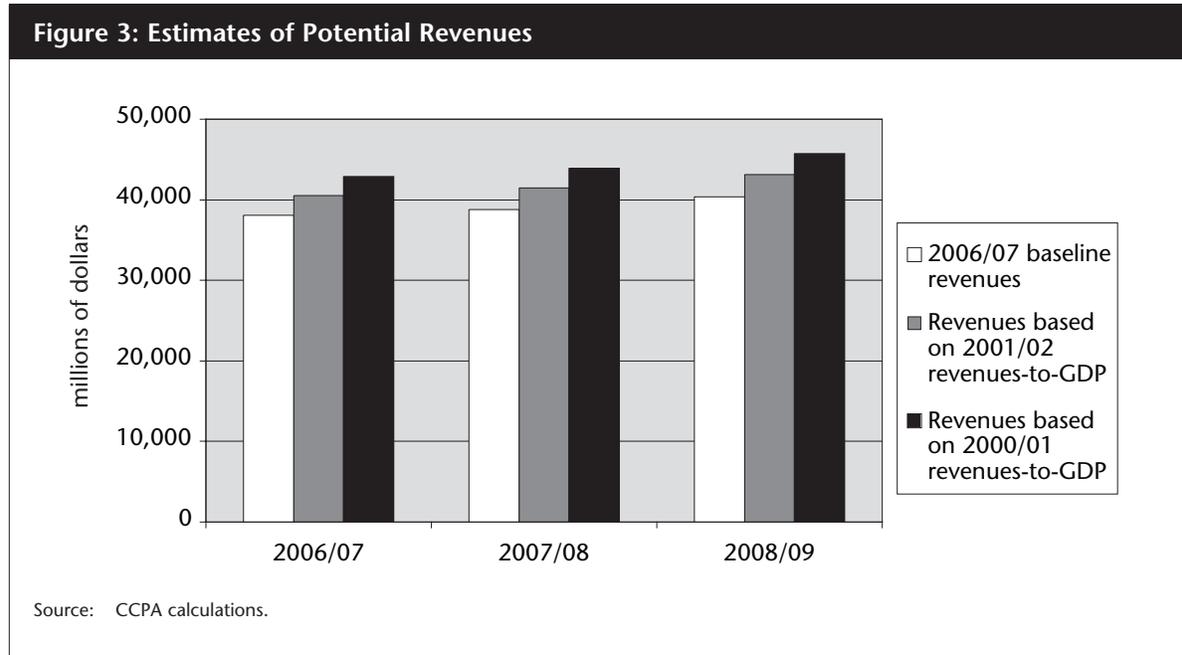
We recommend that the 2006/07 surplus of \$3.3 billion not be used for debt reduction, and instead be rolled into a fund to support priority capital expenditures such as social housing, public transit, long-term care and child care.

The results show a fall in the size of anticipated surpluses as the scenarios become more pessimistic. However, even in the second scenario, a \$3 billion surplus in 2006/07 falls to a \$2.3 billion surplus in 2007/08 then rises back close to \$2.5 billion in 2008/09. Thus we can conclude that, as currently structured, the BC budget is substantially insulated from running a deficit. Based on current projections, an economic disaster would have to strike before the budget went back into deficit. But a major downturn or recession in BC would actually warrant more stimulative fiscal policies. Running a deficit under those circumstances would be well advised.

Thus, looking forward to February's budget, the objective should be to re-invest much of the baseline surplus of \$3.6 billion (note that this is above and beyond expenditure increases already built into the government's fiscal plan). In the next section we outline options for where that money might be spent.

In addition, 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 over the next few years (such as social housing, public transit, long-term care and child care). These capital expenditures would be particularly beneficial as a means of offsetting reduced employment in the residential construction sector.

It is worth noting that this analysis accepts the reduction in fiscal capacity that resulted from tax cuts in 2001 and 2002. If we look at historical (e.g. pre-tax cut) revenue-to-GDP levels we can get an indication of what additional resources might be available should the political will be there. Figure 3 shows that at the 2001/02 revenue-to-GDP rate of 17.7%, an additional \$2.6 billion could be put to work; at the 2000/01 rate of 19%, an additional \$5 billion would be raised relative to our baseline scenario.



Building a Better Budget

In past *Solutions Budgets* we have outlined a range of measures for progressive public policies in BC. Readers are encouraged to look at previous *Solutions Budgets* for more detailed rationales underlying our proposed expenditures. This year we offer a menu of options in the major areas of the budget, the exact choice of which is left to readers, and of course, the government. As noted above, the range of potential fiscal room (i.e. underlying surpluses) is between \$2.3 and \$4.1 billion, with our baseline estimate being \$3.6 billion.

Table 3 shows the main expenditure areas of the BC budget as a percentage of GDP, starting with levels in 2001/02, followed by final numbers for 2005/06, updated estimates for the current year 2006/07, and the current plan for 2007/08. These are calculated based on the status quo expenditures considered above when we looked at the government's projected surpluses. As can be seen, expenditures relative to GDP have fallen significantly since the election of the current government in 2001. Despite claims of large increases in health care budgets, health spending has declined as a share of GDP. Education has also seen falling expenditures relative to GDP. The largest relative hit is in the area of social services.

Table 3: Expenditures as a Percentage of GDP

	2001/02	2005/06	2006/07	2007/08
All expenditures	23.0%	19.5%	19.4%	18.6%
Health	8.0%	7.4%	7.2%	6.9%
Education	6.2%	5.3%	5.2%	4.9%
Social services	2.6%	1.6%	1.7%	1.6%

Health Care

As outlined in a recent CCPA study, the budget for health care needs to grow by 5% per year in order to stand still; that is, to accommodate population growth, aging and health care inflation with no real loss in services. One problem in recent years has been that health care spending has grown by only 3.8% per year on average, thereby adding to the stresses seen throughout the system. As noted above, nominal provincial GDP growth (on which provincial revenues depend) almost always exceeds 5%. Therefore, increasing the annual health budget by 5% should be quite attainable, and merely requires a commitment to hold health spending stable relative to GDP.

Health care expenditure increases beyond 5% per year enable the expansion of services (for example, more residential care beds per capita). A little increase can go a long way due to compounding; an additional one percentage point of spending per year (i.e. 6% annual growth instead of 5%) would lead to a real increase in services per capita of 28% by 2031.

A 5% increase in the health care budget is an increase of about \$600 million. A further \$120 million would be required for every additional percentage point increase in the health budget. 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.

Expenditures relative to GDP have fallen significantly since the election of the current government in 2001. Even health spending has declined as a share of GDP, as has education. The largest relative hit is in the area of social services.

Early Learning and Child Care

The Coalition of Child Care Advocates of BC has estimated the annual operating costs associated with a comprehensive early learning and childcare program, including provisions for special needs and pay increases for child care workers. It also assumes parents pay 20% of the costs, and that half of children participate full-time and half part-time.

Because of the creation of new infrastructure, there is a one-time capital cost associated with this program of \$650 million. Thus, it would take several years for this program to be rolled out. Fully built-out, a universal program for one to five year olds would require an additional \$1.5 billion in public funds. Adding in before-and-after-school care for children up to age 12 would cost another \$500 million. Thus, a full system would ultimately cost \$2 billion per year in new public funding. This would be partially offset by additional tax revenues due to increased labour force participation by women.

Additional Resources: Free at www.policyalternatives.ca

For more background on our policy recommendations, see the following CCPA reports.

Health Care:

Is BC's Health Care System Sustainable? A Closer Look at the Costs of Aging and Technology, by Marc Lee

From Support to Isolation: The High Cost of BC's Declining Home Support Services, by Marcy Cohen et. al.

Continuing Care Renewal or Retreat? BC Residential and Home Health Care Restructuring 2001-2004, by Marcy Cohen, Janice Murphy, Kelsey Nutland & Aleck Ostry

Community-Based Mental Health Services in BC: Changes to Income, Employment and Housing Supports, by Marina Morrow

K-12 Education:

Who's Cutting Classes: Untangling the Spin About K-12 Education in BC, by Marc Lee

Post-Secondary Education:

Financing Higher Learning: Post-Secondary Education Funding in BC, by Marc Lee & John Malcolmson

The Importance of Public Post-Secondary Education: Speech to the Federation of Post Secondary Educators, by Seth Klein

A Path Out of Poverty: Helping BC Income Assistance Recipients Upgrade Their Education, by Shauna Butterwick & Caroline White

Early Learning and Child Care:

Making Early Childhood Development a Priority: Lessons from Vancouver, by Clyde Hertzman

Anti-Poverty Strategy:

Taking Action on Poverty: CCPA Submission to the Select Standing Committee on Finance and Government Services, by Seth Klein & Marc Lee

Budget Savings on the Backs of the Poor: Who Paid the Price for Welfare Benefit Cuts in BC, by Seth Klein & Andrea Smith

A Better Way to Set Welfare Rates, by Steve Kerstetter

Denied Assistance: Closing the Front Door on Welfare in BC, by Bruce Wallace, Seth Klein & Marge Reitsma-Street

Resource and Environment:

Battling the Beetle: Taking Action to Restore British Columbia's Interior Forests, by Ben Parfitt

Getting More from Our Forests: Ten Proposals for Building Stability in BC's Forestry Communities, by Ben Parfitt

True Partners: Charting a New Deal for BC, First Nations and the Forests We Share, by Ben Parfitt

K-12 Education

The K-12 education sector is experiencing annual declines in enrolment of about 1% but faces inflation pressures of just under 3%. Thus, 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.

However, going back to 2001/02, budget increases have been less than required. Average increases of 1.5% per year (an exception is 2005/06, which saw a pre-election budget increase of 3.8%) are reflected in school closures, fewer teachers and larger class sizes. To restore funding to 1990/91 per-student levels (adjusted for inflation), operating grants to school boards would have to increase by \$228 million for 2007/08.

Additional funds above and beyond this amount would reduce the growing use by school boards and schools of fundraisers and appeals to parents, fees for programs (now deemed illegal by the courts), contracts for vending machine rights, and enticement of foreign students to bolster budgets. An additional \$400 million per year to K-12 would represent a 10% budget increase, and would be money well spent given the long-run benefits of education. The priority should be to reduce class sizes, enhance programs, and provide additional resources for children with special needs.

Post-Secondary Education

Numbers for the post-secondary system are much more difficult to nail down. Given pressures on universities and colleges in the face of tuition fees now capped at the rate of inflation, a 10% increase in the budget for advanced education would be advisable. This would cost \$200 million, of which \$75 million is already in the fiscal plan – thus an additional \$125 million is needed in 2007/08.

Post-secondary fees (mostly tuition fees) are projected to be \$961 million next year, more than double the amount in 2001/02. Fees are equivalent to half of the size of the overall advanced education budget, so some reallocation is in order to place more of the cost of post-secondary education in the public realm. For example, a plan to reduce total fees by half over the next three years would require additional expenditures of \$160 million in 2007/08 (and equivalent increases over the next two years).

In addition, the government's fiscal plan does not appear to fully account for the expansion of seats by 25,000 (over 2004/05 levels) by 2010, which fully built-out would cost an additional \$200 million. This implies an additional cost of about \$40 million in 2007/08.

Some of these funding requirements may be offset by an anticipated increase in federal transfers in support of post-secondary education anticipated in the 2007 federal budget (though amounts are unclear, and it is likely that this budget will force an election).

Anti-Poverty Strategy

As noted, in September 2006, the CCPA presented a detailed and costed anti-poverty plan to the provincial legislature's finance committee. An anti-poverty strategy must be broad-based to cover social assistance rates and eligibility, minimum wages, social housing, child care, training and education, and transportation allowances or bus passes. Based on figures in the BC Budget, to increase 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 in foster care, and provide additional assistance for children with special needs. This should be viewed as a step in a multi-year plan to better address the needs of vulnerable children.

Finally, housing affordability has become a top issue for many British Columbians. The reality is that the market fails to build 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.

Resources and Environment

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. The provincial government has narrowly focused on increasing logging rates to capture income from the beetle-attacked trees before the trees lose their economic value. Comparatively little has been said or done about the need to invest in our forests, where those investments should be focused, and from where the funds to pay for those investments should come.

Substantial increases in reforestation must be made now. The government must also do much more to promote new research and management regimes that help to restore a greater diversity of tree species and tree ages to our Interior forests, because it is with diversity that we are better protected from the kinds of devastating events we are witnessing today. A 2005 CCPA report recommends \$120 million per year in new expenditures be allocated to these activities, to be funded by an increase in stumpage paid by the companies currently benefiting from the boom.

Another recent CCPA report outlined a new approach for how the province should more fairly share forest resources and access to timber with First Nations. Among its recommendations were that, 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 also needs a new overarching strategy on 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. Existing subsidies to the oil and gas industry and the coal industry need to be reviewed comprehensively, with the proceeds redirected toward a new climate change plan. More work is needed on a detailed fiscal plan tied to targeted reductions in CO₂ emissions.

Other Budget Areas

Other parts of the BC budget have been cut relative to 2001/02 levels. These include transportation, economic development, environmental protection, protection of persons and property, and general government. These areas combined are \$425 million below their 2001/02 levels.

Conclusion

It is abundantly clear that the BC government has substantial fiscal room to make a real difference and address pressing concerns in the province. The larger question is whether the political will exists to step up to the plate. While the government and business leaders have cheered the BC economy in recent years, we argue that an economy cannot be considered successful if so many are being left behind. How economic gains are shared is central to any notion of a good economy, and now stands out as one of the overarching challenges facing the province and policy-makers.

For the past few years, CCPA-BC has published numerous studies and commentaries related to the growing problem of poverty amidst plenty in BC, and the role policy changes have played in exacerbating the situation. In addition to research reports, a growing chorus of anti-poverty, community and faith groups has sought to raise the profile of these issues. But all too often, these voices have fallen on deaf ears. This year, the alarm has grown to include prominent members of BC's business community, municipal councils, newspaper columnists and even the influential magazine *The Economist*.

In the 2007 BC Budget, the provincial government must tackle poverty and homelessness boldly and comprehensively if we are to see substantial improvement before the province hosts the 2010 Winter Olympics. One recent report by the Pivot Legal Society estimated that homelessness in Vancouver could triple by the time the 2010 Olympics arrive, and along with it increases in crime, social disorder, drug use and addiction.

There is no excuse for poverty in a province as wealthy as BC. There is nothing inevitable about our unacceptably high poverty rates, our growing inequality and our rising homelessness. These facts result from poor policy choices. Other jurisdictions that choose to prioritize these issues have been very successful in substantially reducing poverty, without adversely affecting economic performance.

Nor is there anything inevitable about a growing crisis in the health care system, challenged schools and universities, and inadequate child protection. These are merely choices we can make – or fail to make – with the provincial budget. Tax cuts cannot solve these problems, and debt reduction only squanders the opportunity to make a difference today. BC needs to use its plentiful resources to make better choices consistent with an equitable and sustainable society.

BC must tackle poverty and homelessness boldly and comprehensively if we are to see substantial improvement before the 2010 Winter Olympics. There is no excuse for poverty in a province as wealthy as BC. There is nothing inevitable about our unacceptably high poverty rates, our growing inequality and our rising homelessness.

BC SOLUTIONS BUDGET 2007

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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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