



GREATER VANCOUVER
BOARD OF TRADE



GVBOT Analysis: B.C. Budget 2023



Overview

On Tuesday, February 28, B.C. Minister of Finance, Katrine Conroy, released the 2023 provincial budget titled “Stronger B.C., for everyone”.

This is the first budget introduced under Premier Eby’s leadership, and the first budget led by Minister Conroy as finance minister. Budget 2023 is a high-spending budget, proposing a range of spending measures focused on areas related to public healthcare, mental health and addictions care, housing affordability and affordability for B.C. families, public safety, and attracting and retaining labour in B.C. through the Future Ready plan.

Budget materials include the government’s [news release](#), the finance minister’s [slide presentation](#) to media and stakeholders, the [budget speech](#) read by Minister Conroy and the updated [ministry service plans](#).

Fiscal Highlights

Economic Forecast

The British Columbia economy is expected to slow considerably, with real GDP expanding by 0.4% in 2023 followed by 1.5% in 2024. This rather anemic growth largely reflects the impact of higher interest rates, lower commodity prices, higher borrowing costs for home sales, and slowing consumer spending, among other factors. B.C.’s economic performance is likely to slip below the national average for the upcoming years. External forecasters, including RBC, estimate that B.C. will lag most other provinces in 2023 and 2024.

Real business investment is projected to decrease by 3.3% in 2023. Over the 2024 to 2027 period, growth is forecast to range from 1.9% to 3.9% annually.

This Budget may reflect a recalibration of B.C.’s outperformance within Canada. Major projects that were long in the queue are forecast to finish in the next year or two, while it is unclear whether other large investments are on the horizon to make up for the difference. It is clear that the see-saw of the COVID-19 pandemic masked many issues underlying our economy while providing extraordinary levels of revenue that temporarily

buttressed provincial revenues and the economy. While inflation is persisting in the short-term, B.C. does not expect the revenue bonanza to continue.

Fiscal Situation

Budget 2023 projects an operating deficit of \$4.2 billion in 2023-24, \$3.8 billion in 2024-25, \$3.0 billion in 2025-26. In total, deficits of over \$11 billion are anticipated over the three-year forecast.

	2022-23	2023-24	2024-25	2025-26
Revenue	82,700	77,690	79,724	82,223
% Change	17.8%	-6.1%	2.6%	3.1%
Expenses	79,108	80,206	82,978	84,766
% Change	19.0%	1.4%	3.5%	2.2%
All Contingencies	2,000	6,200	5,300	5,200
Surplus/Deficit	3,592	-4,216	-3,754	-3,043

The overall fiscal cushion included in the forecast is substantial, however. By our estimation, there is over \$16.7 billion in the forecast allowance, pandemic/recovery contingencies, and general program contingencies. The overall level of contingencies exceeds the deficit forecasts over the three-year period. That said, a good portion of the contingency has been “pre-allocated”, including a sizable portion to settle ongoing labour negotiations. The remainder of the cushion could be used either on the government’s priorities in the near-term or be used to reduce the overall deficit.

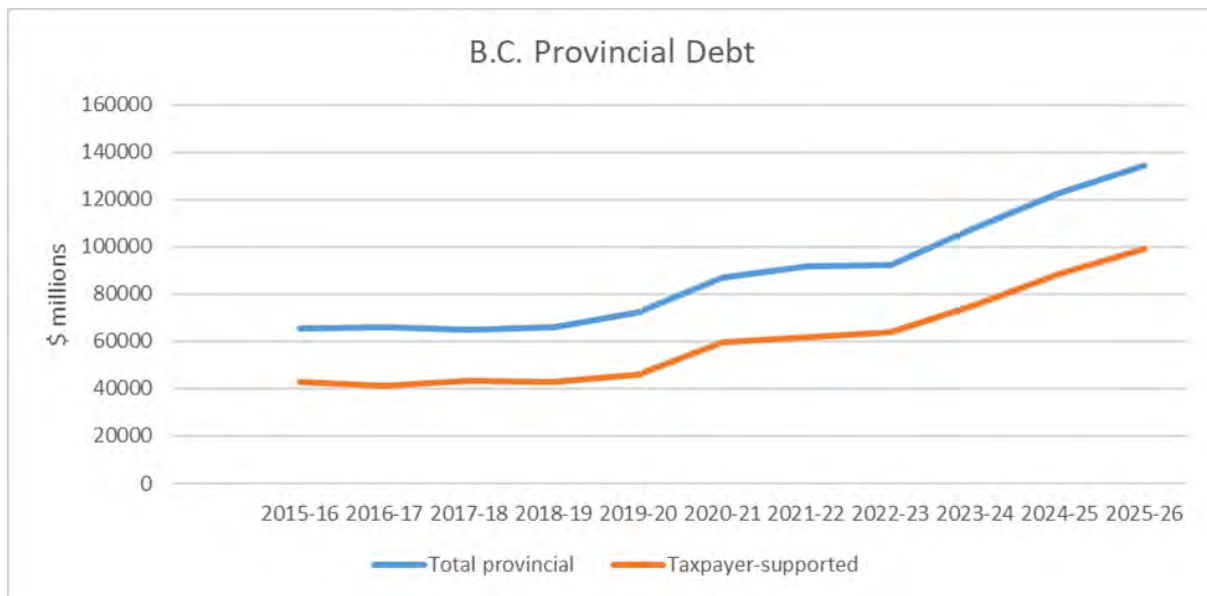
Revenues have outperformed Budget 2022 expectations. Revenue is stronger across nearly all categories, including natural gas royalties, personal and corporate tax. However, ICBC has a net loss of \$298 million for 2022-23 but is expected to contribute \$450 million annually in revenue for the next two years.

While revenues have increased, expenses have outpaced revenues and are planned to increase further over the forecast period. Much of the increased spending is allocated to health and mental health services, accounting for near 38% of total operating expenses. Expenses are expected to rise to \$84.7 billion in 2025-26. This is an increase of \$18 billion (28%) between 2021-22 and 2025-26. 2023-24 increases are significant, totaling nearly 13% year-over-year.

One other item to note is that the government is projecting a \$3.6 billion surplus this year. However, that figure is very likely already out of date given that there has been hundreds of millions of dollars announced in one-time funding since the Budget was presented on February 28. It is not known how much of that surplus has or will be spent but, we believe it is possible that a substantial portion of these funds will have been spent and so the fiscal picture could have deteriorated already.

Debt

The increased spending is driving a significant increase in the debt forecast. Overall, the B.C. government projects that total debt will increase to \$134 billion by 2025 from \$93 billion in 2022. Taxpayer-supported debt will increase by over 50% in three short years from \$64 billion to \$99 billion.



In its response to the B.C. Budget, GVBOT issued a grade of C- for tax competitiveness measures in the Budget. Budget 2023 maintains British Columbia's ranking as the province with the highest marginal tax rates on non-residential investment in the country.

Summary of Tax Changes

- Effective April 1, 2023, carbon tax rates will increase by \$15 per tonne (and again by \$15 per tonne in 2024).
- Effective July 1, 2023, the climate action tax credit will increase.
- Effective April 1, 2024, large industrial operations will be exempt from the carbon tax and be subject to a new output-based pricing system.
- Effective January 1, 2023, a new income-tested Renter's Tax Credit of up to \$400.
- Effective January 1, 2024, extending Farmers' Food Donation Tax Credit till the end of 2026.
- Effective July 1, 2023, increasing the B.C.'s Family Benefit permanently.
- Effecting September 1, 2023, extending Interactive Digital Media Tax Credit until Aug. 31, 2028.
- Exempting Automated external defibrillators (AEDs) from provincial sales tax.
- Effective January 1, 2024, purpose-built rental buildings will be exempt from the further 2% property transfer tax applied to transactions over \$3 million.

British Columbia announced the carbon tax, currently at \$50 per tonne, will increase annually by \$15 per tonne until rates are equal to \$170 per tonne in 2030, aligned with the federal goals.

The Budget did announce a new made-in-B.C. output-based pricing system (OBPS) will be coming to B.C. It notes that a portion of revenues paid by industries regulated by the made-in-B.C. OBPS will be directed to continuing the CleanBC Industry Fund to support the development, trial, and deployment of projects that reduce GHG emissions from large industrial operations. Expect a final decision on the OBPS in Budget 2024.

The \$15 increase in the carbon tax will cost \$584 million in 2023-24 and \$780 million in 2024-25 for a total of \$1.3 billion. To offset those increased revenues, the government has increased the climate action tax credit and other measures for a total of \$412 million and \$549 million in 2024-25.

However, the government appears to be retaining a total of \$406 million from carbon tax revenues over two years towards general government revenues. This amount represents the additional revenues from those two years only.

Public Sector Job Growth

Public-sector job growth in B.C. has been increasing at a rapid pace, which continues with Budget 2023. Compared to 2016/17, full-time equivalents (FTEs) supported by taxpayers have increased by around 31%, from 32,790 to 43,093 in 2023/24. Currently, the B.C. public sector employs 500,182 people, with a majority (45%) of staff working in health. According to the provincial government, government and provincial public-sector employers spend nearly [\\$38.6 billion](#) on compensation, equivalent to more than half of the Province's budget.

With a lack of investments to spur private-sector growth, the province risks becoming too reliant on public-sector growth long term.

Budget 2023 includes a new Shared Recovery Mandate that applies to all public-sector employers with unionized employees whose collective agreements expire on or after December 31, 2021. Negotiations are focused on providing a fair and reasonable offer to public-sector workers that includes significant inflation protection. According to the provincial government, about 290,000 provincial public-sector employees are covered by tentative or ratified agreements reached under B.C.'s Shared Recovery Mandate.

Budget 2023 states that the 2022 Shared Recovery Mandate is estimated to cost \$10.8 billion over the three-year mandate term (2022/23 to 2024/25), with an annual ongoing cost of \$5.4 billion.

Table 1.2.6 Wage Mandate Costs over the Budget 2023 Fiscal Period

(\$ millions)	2023/24	2024/25	Ongoing (2025/26)	Total
Ministry Base Budget Increases	2,141	2,701	2,742	7,584
Wage Mandate Contingencies.....	2,200	2,600	2,700	7,500
Total	4,341	5,301	5,442	15,084

Tables may not sum due to rounding.

Capital Investments

Capital spending is projected to be \$48.5 billion over the fiscal plan, a \$10.1 billion increase over last year's budget. Capital expenditures are driven by previously announced projects, including transit investment in Vancouver and Surrey, myriad educational and hospital investments, and increased housing investments.

Budget Highlights

Jobs and Skills Training

Over the past year, businesses across B.C. have reported multifaceted challenges with attracting and retaining skilled labour in the post-pandemic context. In early February, GVBOT released the [Solving B.C.'s Workforce Challenges](#) report, with over 60 recommendations to the government on how to mitigate these challenges and support B.C. businesses.

One clear bright spot in Budget 2023 was a three-year investment of \$480 million to support the government's Future Ready plan. This plan was first committed to in the province's StrongerBC Economic Plan from February 2022, and details of the plan are expected in the coming months.

The plan will include initiatives such as:

- A new grant for short-term skills training (\$39 million over three years)
- New funding to assist small and medium-sized businesses in finding and implementing practical solutions to current labour market challenges
- More opportunities for Indigenous Peoples, including funding to support Indigenous-led programs
- Thousands of new training sets for in-demand fields

The Budget also includes an additional \$58 million over three years to expand supports for newcomers and speed up foreign credential recognition for professionals such as healthcare or childcare workers.

The Budget also includes changes to student aid allowances, making it easier for British Columbians to access post-secondary education and training. These changes include:

- Starting in June 2023, student loan maximums will double, providing students with a total of \$220 per week and \$280 per week for students with dependents.
- Beginning Aug. 1, 2023, new repayment terms will align with the federal Repayment Assistance Program so that students and graduates who make less than \$40,000 won't have to make any payments on their outstanding loans.

These investments in skills training are most welcome by GVBOT and respond to a number of recommendations made in the *Solving B.C.'s Workforce Challenges* report. We look

forward to working with the government on the implementation and delivery of this funding to ensure it effectively addresses business' concerns and challenges.

Natural Resources

The Budget contains modest investments in the province's natural resources sector, including some funds to speed up natural resource permitting and begin work to modernize the permitting service model, and \$6 million over three years to develop the B.C. Critical Minerals Strategy. These were welcome investments, though relatively modest in comparison to overall spending and the economic contribution/potential of these sectors.

Housing

Housing affordability and availability remains a top challenge for British Columbians and businesses. Housing has been a priority focus for the provincial government, especially Premier Eby and the new housing minister, Ravi Kahlon. Budget 2023 announces that a refreshed housing plan can be expected in spring 2023.

Budget 2023 does include some housing related initiatives, including \$4.2 billion in operating and capital funding over the next three years to build thousands of new homes. An additional \$575 million over three years will also support the construction of thousands of new student housing spaces in high-demand areas like the Lower Mainland.

The Budget projects that the number of housing starts will decline by roughly 8,000 units that year compared to last year. GVBOT looks forward to reviewing the province's refreshed housing plan when it is available later this spring and hopes that it will include measures that will significantly move the dial on housing affordability and availability.

Renter's Tax Credit

Budget 2023 introduces a new income-tested renter's tax credit which will provide up to \$400 annually for renters with moderate and low incomes starting next year for 2023 income tax. While this could be a helpful affordability measure for those eligible, it does not meaningfully increase rental supply in the province or provide significant security for renters.

Other Budgetary Measures

Healthcare and Social Services Investments

Healthcare

Healthcare was a major headline item for this year's Budget, as an additional \$6.4 billion was announced in the fiscal plan for new investments in the public health care system. These investments will go towards initiatives that include supporting services across the health care system (\$2.6 billion) over three years, which includes \$270 million for cancer care, implementing a new health workforce strategy (\$1 billion), implementing the refreshed primary care strategy (\$1.1 billion), providing mental health, addictions and treatment services and supporting people struggling with substance use disorder (\$867 million), and ongoing COVID-19 health response measures (\$857 million in 2023/24).

The \$1 billion over three years for a health workforce strategy is expected to create new training programs and nearly 3,000 new post-secondary training seats, provide nearly 12,000 bursaries and more than 9,000 training grants. It will also create over 1,700 new healthcare positions and provide targeted financial incentives for healthcare staff to address critical staffing needs. A new payment model for family doctors will be available to family doctors starting February 2023 and provides an alternative to the current fee-for-service model.

While these investments in healthcare will support British Columbians' access to critical healthcare services, there is notably little in the Budget regarding health research, innovation and life sciences.

Mental Health and Addictions

Of the \$867 million in new funding over the fiscal plan, Budget 2023 invests \$586 million in services and supports for people struggling with substance use disorder, such as expanding treatment and recovery beds, developing new recovery communities, and building new Indigenous treatment centres. In response to the province's drug crisis, Budget 2023 also includes \$184 million in new funding to provide safe prescription alternatives, prevention and early intervention services, and expand mobile response programs and Peer Assisted Care Teams. An additional \$97 million funding is allocated to support health-focused services and resources at complex care sites.

These new investments bring total spending on mental health, addictions and treatment services to \$2 billion over the next three years.

Climate Change, Disaster Recovery and Prevention

Carbon Tax

Budget 2023 announces that starting April 1, 2023, the carbon tax will increase by \$15 per tonne each year until it reaches \$170 in 2030. This \$15 increase will cost \$584 million in 2023-24 and \$780 million in 2024-25 for a total of \$1.3 billion. In parallel, B.C.'s Climate Action Tax Credit will also go up and be available to some British Columbians. However, the government appears to be retaining a total of \$406 million from carbon tax revenues over two years towards government revenues.

A new industry carbon-pricing system starting April 1, 2024. More details about the new carbon pricing framework, including performance benchmarks for industry, will be available later this spring. While the announcement is welcome news for industry, the devil will be in the details. The government has allocated a substantive portion of additional and existing carbon tax revenues for some individuals or general revenues and so it remains unclear if this new framework will move the needle on the international competitiveness of our trade exposed industries.

Climate Resilience and Emergency Preparedness

Budget 2023 includes more than \$1.1 billion over the next three years to address climate change and improve communities' climate resilience. Notable investments include:

- An additional \$300 million in capital funding to support the repair or replacement of provincial infrastructure damaged by climate emergencies.
- \$85 million over three years to increase emergency-management capacity in the province
- In partnership with the federal government, the BC Wildfire Service will receive \$64 million over the next five years for firefighting equipment.

The Budget also provides \$44 million over three years to help support the transition to a zero-emission economy, including \$40 million more for the CleanBC Go Electric Commercial Vehicle Pilots (CVP) program which supports B.C.-based businesses, non-profits and eligible entities looking to deploy commercial zero-emission vehicles along with supporting infrastructure.

Affordability Measures

We have noted that Budget 2023 does not include any significant measures to alleviate the costs of doing business, and lacks a long term financial vision for the province to boost competitiveness and prosperity. However, the Budget does include some new initiatives to improve affordability for British Columbian residents and families. These initiatives were often the top headline from the media following the Budget.

Family and resident affordability measures in Budget 2023 include:

- \$119 million to make prescription contraception free for all starting April 1, 2023
 - B.C. will become the first jurisdiction in Canada to do so.
- 10% increase in the monthly BC Family Benefit starting in July 2023
- \$214 million to expand existing K-12 school food programs
- \$151 million to increase student financial aid allowances and other supports
- \$558 million to increase financial supports for income and disability assistance clients, including raising the shelter rates by \$125 per month
- \$264 million to increase financial supports for foster families and other caregivers.

Public Safety

Public safety challenges in B.C.'s downtown cores have worsened in recent years, as a result of overlapping crises of housing affordability, drug toxicity and the COVID-19 pandemic. The business community has been calling on the provincial government to do their part to address these concerns for businesses and families alike.

Budget 2023 introduces welcome strategies to respond to these challenges and address homelessness and encampments. Public safety measures, through the Safer Communities Action Plan and in the Budget, include:

- \$228 million over three years to establish new regional multi-disciplinary teams to support rapid response for regions responding to substantive encampments.
- \$230 million over three years to enhance investments in provincial police services to strengthen enforcement and crime prevention capacity throughout B.C. Though this funding appears to be focused on RCMP offers for rural areas of B.C.
- \$87 million over three years to support B.C. Corrections' core operations and to fund two new enforcement programs: a program to address repeat violent offending and the Special Investigation & Targeted Enforcement Program.
- Moving forward with recommendations from the Special Committee on Reforming the *Police Act*.

GVBOT Response

In total, Budget 2023 largely side-stepped economic issues. While revenues and expenditures increased by over \$10 billion in this year alone, little investment was made in support of our economic base or reducing affordability challenges faced by small businesses. Investments in health care, housing, and increased capital investments should benefit the province as a whole.

On behalf of thousands of businesses across the Lower Mainland, the Greater Vancouver Board of Trade has issued a letter grade of C- for the 2023-24 provincial budget.

Senior GVBOT staff travelled to Victoria for the provincial budget lockup, where they received an advance copy of the Budget and assessed it on three criteria: Economic Vision; Fiscal Prudence; and Tax Competitiveness.

“Our members had hoped for measures to offset the rising costs of doing business but found no relief in Budget 2023,” said Bridgitte Anderson, President and CEO of the Greater Vancouver Board of Trade. “Unfortunately, the Budget is essentially silent on an economic strategy to attract investment, and increase our innovation capacity and competitive advantage. With a slowing economy and a growing population, we need a strong private sector and competitive investment conditions to increase prosperity across the province,” noted Anderson.

One promising investment responds to acute labour challenges and recommendations found in the Board of Trade’s recently released report - *Solving B.C.’s Workforce Challenges*.

“Our over 5,000 members are struggling to access the talent and the skills they need to grow their business,” noted Anderson. “I am pleased with the investment in the Future Ready Plan and believe it will pay dividends if it is done in close collaboration with the business community,” concluded Anderson.

Budget 2023 also includes sizable investments in our social infrastructure. We are appreciative of the additional funding for health and mental health, given the significant impacts of the pandemic on British Columbians. In addition, investments that support a

rapid response to encampments is well-received, alongside investments in public safety that strengthen enforcement and crime prevention.

There is \$16.7 billion set aside in the Budget in various contingency funds over three years and it is concerning that these amounts are such a large percentage of planned expenditures in the Budget.

Read the full news release [here](#).



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