



BUDGET SPEECH

Introduction

Mr. Speaker. Today I present the September Budget Update — the next step forward in positioning our province for the economic recovery to come.

The past 12 months have been extremely challenging — for families, for communities, for business, for industry. And we are not out of the woods yet.

But let's not forget. Even in the wake of the greatest economic crisis of our generation — our province, and our people, have tremendous strengths....

And... as we begin to see signs of a recovery, the time is right to renew and reinvigorate the spirit of confidence and pride that has always been a part of our identity as British Columbians.

With this budget, we are continuing to steer this province in the right direction. We are moving towards a new decade of growth and prosperity — recognizing just how dramatically and quickly the world has changed.

One year ago, who would have thought that General Motors would end up being owned by governments? Who would have imagined the U.S. government taking over major banks... or the Province of Alberta — debt-free for more than a decade — facing a deficit of \$6.9 billion?

Here in British Columbia, we have seen a precipitous decline in government revenues — coupled with the impacts of what could be the worst forest-fire season on record. And we, too, have been forced into deficit after years of balanced budgets....

All of which creates a complex challenge for the government.

We absolutely must maintain the most important public services. And we must continue working to strengthen our economy. At the same time, we have a duty to manage British Columbians' tax dollars prudently — and not leave a massive debt for future generations.

This is a difficult balance to strike. It demands that we make compromises. It also demands that we be very clear about our priorities — and those have not changed since February. With this budget we are setting out further steps:

- to protect the critical public services British Columbians rely on;
- to promote new investment, growth and job creation in our economy; and
- to move forward with long-term initiatives that make us more competitive and build on our Olympic legacy... so that, when the global economy rebounds, we are positioned to catch the leading edge of that new wave of growth and prosperity.

Economic and Fiscal Update

Mr. Speaker. There is broad consensus that the worst of the economic downturn may soon be behind us. Several world economies are already growing again. And the global economy overall is expected to emerge from recession in 2010.

However, as the length and depth of the downturn has become more apparent, economic growth forecasts have also been downgraded.

The Ministry of Finance now expects the B.C. economy to shrink by 2.9 per cent in 2009, and then to grow by 1.9 per cent the following year. That is a considerable decline since February — consistent with the downward trend in private sector forecasts for growth in British Columbia, Canada and the United States. Virtually everyone has lowered their forecasts — underlining just how volatile the current situation is.

The months since the last budget have been extremely challenging. We have seen our projected revenues from corporate income tax and personal income tax erode by over \$1 billion — for this fiscal year alone. We have seen our projected revenues from natural resources erode by about the same amount.

In total, we are facing a loss of \$2 billion in expected revenues in the current fiscal year. And that is only the revenue side.

On the spending side, we are facing sharply higher costs for fighting forest fires — in a season that has so far seen about 1,000 more fires than normal. We now expect the costs to be in excess of \$400 million this fiscal year. We are also facing higher costs, as a result of the current recession, for supporting British Columbians in need — as well as higher costs related to the H1N1 flu virus.

These essential services must be funded. And they will be.

By 2011, total spending is projected to increase by \$3.5 billion compared to 2008. And we have built in forecast allowances — cushions to protect against unexpected events — of \$250 million each year.

The bottom line is a much larger deficit than forecast in February:

- \$2.8 billion for the current fiscal year;
- \$1.7 billion in the following year; and
- \$945 million in the third year of our economic and fiscal plan — falling to \$140 million in the fourth year.

We now expect to return to a balanced budget in 2013 — at which point we have committed to dedicate every dollar of surplus cash, for as long as it takes, to eliminate the Province's direct operating debt — the debt we incur as a result of running deficits.

In the meantime, we are continuing to implement our stimulus package... which includes investing nearly \$14 billion with the federal government and local governments... building the schools, health care facilities and other infrastructure needed in communities... creating jobs, supporting families and generating economic activity.

As we continue down that road... accelerating capital spending... B.C.'s overall debt will increase.

The taxpayer-supported debt-to-GDP ratio — the critical measure of debt affordability — will rise to more than 18 per cent by 2012... after which we anticipate a resumption of its downward trend.

To place this in context: The forecast high in 2012 is nearly five percentage points above where we were in 2008. That is, however, still more than three points lower than it was when we tabled our first full budget in February of 2002. It will begin to decline as our economy picks up steam again, and — when we return to balanced budgets — we will re-gain the capacity to make significant debt paydowns.

When we return to balanced budgets, we will also have renewed opportunities to look at public sector compensation. In the current economic climate, we do not have the funding to increase wages. Our top priority must be protecting vital services for British Columbians.

Protecting Public Services

Mr. Speaker. This government has always been committed to prudent fiscal management. Our record — five balanced budgets in a row, the largest surpluses ever recorded, the largest annual debt repayment, the highest possible credit rating — these successes speak for themselves.

When the economy was stronger, we were actually criticized for being too prudent. There were some who accused us of setting aside too much revenue to pay down debt... and said we were wrong to turn down requests to commit even more dollars to ongoing program spending.

Now, in the midst of this global economic crisis, British Columbians have that record of prudent management to thank for the fact that... while we do face challenges... we are still maintaining, and in some cases strengthening, the most important public services.

Yes, there will be spending reductions in non-essential areas. And yes, we recognize that those decisions will affect people's daily lives. Cutting funding is never easy, but — even when times are good — we can never afford to do everything we want. And, frankly, when you're facing a choice between funding a conference or funding medically-necessary care... the right choice is obvious.

Simply put, there are public services people cannot do without — and, no matter how difficult our fiscal situation, those crucial services must be protected.

When a forest fire threatens a community, we fight it.

When someone needs care in an emergency, it's there.

When people fall on hard times, we provide support for them. And these are absolutes; they are not negotiable.

Even — or especially — in a time of crisis, the people of this province must have confidence the services they need will continue to be there. And with this budget update, we are moving to ensure that the most crucial services are, indeed, protected.

Funding for the Ministry of Health Services will increase to \$15.7 billion by 2011 — an increase of 18 per cent over three years.

To help keep health care funding sustainable, Medical Services Plan premium rates will increase. Effective January 1, 2010, they will rise by about 6 per cent — a maximum of \$3 a month for single people, or \$6 per family — consistent with the increase in health care spending. Going forward, premium rates will increase in proportion to the rising cost of health care services — helping to relieve some pressure on the budget and supporting new innovations in care.

MSP premiums currently account for about 10 per cent of health care costs. But rates have not increased since 2002 — even as provincial health spending has risen by 45 per cent. So this increase is reasonable. And, as always, we have built in protections for lower income British Columbians.

In fact, with the improvements we are making to the MSP Premium Assistance Program, those in the greatest financial need will actually come out ahead.

For example, a senior couple with an income of \$35,000 will see their annual premium cost fall by more than \$200. A family of four earning \$30,000 will see their annual costs reduced by more than \$250. In total, approximately 180,000 British Columbians will see their premium costs reduced or eliminated.

In the Ministry of Education, per-pupil funding will be maintained at more than \$8,200.

In addition, we are committing \$151 million to provide the option of full-day kindergarten for 50 per cent of the children starting school next fall... and for every five-year-old in British Columbia by September 2011, as outlined in last week's Throne Speech. This is a critical investment in our future, to help ensure that more of our children start school ready to learn and carry that advantage with them all through their lives.

With this budget, we are also providing \$420 million in additional funding, over three years, to the Ministry of Housing and Social Development — to help ensure that, as these tough economic times continue, those in need will be able to access B.C. Employment and Assistance programs.

A total of \$409 million is budgeted to pay for the cost of fighting forest fires, recognizing that 2009 has been an extraordinary year. And we are committing \$80 million in the health budget to provide vaccines and other supports to minimize the impact of the H1N1 flu virus in B.C. in the months ahead. That is in addition to the \$20 million dedicated to influenza in a typical flu season.

Compared to the budget introduced in February, this new plan provides \$1.7 billion in additional funding over three years — targeted to the highest-priority programs and services. It's part of our commitment to supporting British Columbians through this difficult economic period.

Strengthening the Economy

Mr. Speaker. Just about everyone was caught off guard by the speed, scope and depth of the economic downturn. In the February budget, all indications were that B.C. would have a short-term deficit — and that we would be back to balanced budgets after two years.

As we now know, we hadn't yet begun to see the worst of the impact on revenues at that time — and, even with reductions in discretionary spending, we faced a massive challenge to preserve vital health, education and social services.

About three months ago, we were given an opportunity that, frankly, we could not pass up. We were given a chance to adopt a made-in-B.C. tax strategy... one that would translate into more jobs and a stronger economy... and to receive \$1.6 billion from the federal government that we could put directly into maintaining services such as health care during these difficult times. Without those revenues, we would be facing either deep cuts to health and education... or a deficit and debt so large it might take us decades to get back into the black.

Instead, we are moving to implement a Harmonized Sales Tax that will make our businesses much more competitive, while:

- encouraging new investment;
- lowering production costs; and
- streamlining administration, to save both businesses and taxpayers money.

The HST approach is widely regarded as the most efficient form of taxation. Since the first tax of its kind was introduced in the 1950s, it has been adopted by more than 130 countries. According to the Organization for Economic Co-operation and Development, no other tax innovation has spread so widely — or so rapidly. And that is because it works.

The 12 per cent HST will eliminate an estimated \$2 billion a year in costs that B.C. businesses — under the current tax regime — must build into the price of the goods and services they produce. It represents a benefit, each and every year, of:

- \$80 million for the oil, gas and mining sectors;
- \$140 million for the forest sector;
- \$140 million for manufacturing;
- \$210 million for transportation; and
- \$880 million for the construction industry.

Mr. Speaker. I want to be clear. We talk about benefits to businesses and industries — but individuals, families and communities also benefit... because the HST will provide a significant boost to employers — the people who create jobs and stimulate investment, and generate the revenues we need for public services. The move to the HST will mean more, better-paid, long-term, stable jobs for British Columbians — and that is good news for families and communities.

Business and industry keep our province growing and... if they can't compete with other jurisdictions... all of us in British Columbia stand to lose.

The past 12 months are evidence of just how quickly negative global events can undermine the Province's capacity to serve its citizens. As the HST takes effect and gives employers a competitive advantage... the positive impact on citizens will be equally widespread.

We recognize that sectors such as tourism and food services — which have largely been exempt from the PST — will face changes in this new landscape. I have met with representatives from the restaurant sector and from other industry groups, and the government is open to working with them to mitigate the impacts.

I have also heard the concerns of consumers. But... as a member of the business community recently observed, "To be a consumer, you first have to have a job." And jobs are created, and supported, by our businesses.

The fact is: every one of us stands to benefit from moving to the HST. It means more jobs, more growth, and, over time, higher revenues from resource royalties and business taxes to support services we all depend on like health care and education. In the short term, consumers will face higher prices for some goods and services. But experience in other jurisdictions has shown that the savings to business and industry from moving to a value-added tax do benefit consumers.

We have every reason to expect that will happen here in British Columbia. But we are also sensitive to short-term impacts on families, individuals and certain economic sectors.

That is why we've introduced point-of-sale rebates for: motor fuels; books; children's-sized clothing and footwear; children's car seats and car booster seats; diapers; and feminine hygiene products. Items that are currently free of GST ... including basic groceries, prescription drugs, most health and dental services, and many educational services... will also be free of HST.

To offset the impact in the housing sector, we are providing a partial rebate of up to \$20,000 on new housing. We are also providing HST rebates for municipalities, charities and eligible non-profit organizations.

To offset the impact for more than one million lower-income British Columbians, we are providing a quarterly HST tax credit. And all of these measures will mitigate the cost to consumers.

Together, they are worth more than \$1.3 billion a year. And today, Mr. Speaker, we are announcing more relief.

First, we will provide a provincially administered point-of-sale rebate for residential energy — similar to the existing PST exemption. That means the HST will not increase consumers' costs for oil, electricity, natural gas, or propane used to heat or power homes. As a matter of fact, British Columbians should see their costs go down... because, along with the PST, we are eliminating the Innovative Clean Energy levy, which is currently added to people's monthly energy bills.

Second, in order to ensure that almost everyone has a few more dollars in their pockets, we are making yet another change to personal income taxes.

Effective January 1, 2010, the basic personal amount — the amount you can earn without incurring any provincial income tax — will increase by 17 per cent to \$11,000. That will save a single person up to \$72 a year, while a family of two will save up to \$147. This will also eliminate provincial personal income tax for an additional 75,000 British Columbians.

Third — as the Premier has announced — we are introducing more relief for small business. Effective January 1, 2010, the small business tax threshold — the amount businesses can earn and only be taxed at the 2.5 per cent small business tax rate — will rise from \$400,000 to \$500,000.

That is the highest threshold in the country; it will save small businesses a total of \$20 million a year.

On top of that, today we are restating our commitment to eliminate the small business income tax entirely. We will lower the rate to 0 per cent by April 1, 2012, as part of our broader plan to ensure B.C. is ahead of the curve in creating a stronger, more competitive economy.

In total, this budget provides over \$400 million a year in income tax relief for individuals, families and small businesses... when the commitment to eliminate the small business tax is fully implemented.

That is in addition to the series of reductions in personal, business and corporate income taxes since 2001. Compared to eight years ago, a family of four earning \$70,000 a year is now paying \$2,000 a year less in taxes.

Once the changes in this budget are implemented, individuals in British Columbia will enjoy the lowest provincial personal income taxes in the country... on earnings up to \$118,000. In fact, tax cuts made since 2001 have resulted in an additional 325,000 people no longer paying B.C. provincial income tax, including those earning up to \$18,800.

Even with the HST, B.C. will still have the second-lowest overall tax burden in Canada. And all indications are B.C. will be growing again by the time the HST takes effect in 2010.

Fourth, I am accepting a recommendation made to me in a meeting with representatives of the tourism sector. In addition to the funds that are currently committed to marketing British Columbia as a world class destination, we are adding \$39 million for this fiscal year to ensure that we maximize the marketing opportunity that comes with our hosting of the Vancouver 2010 Olympic and Paralympic Winter Games.

Making the Most of the Coming Recovery

Mr. Speaker, leading economists are virtually unanimous that moving to the HST is not only the right thing to do, but the best thing we can do to strengthen our economy. It will give our major employers a competitive advantage. And it is just one of the key initiatives currently moving forward that... together... will position our province to emerge from the downturn stronger than ever.

These include our investment, with the federal government and local governments, of nearly \$14 billion to speed up work on health care facilities, social housing, roads, schools, post-secondary institutions, and other needed infrastructure... to create new jobs, and new assets, in every part of British Columbia.

Since February, we have announced some 480 projects, worth \$3.4 billion, in communities throughout B.C. These include:

- almost 2,000 units of supportive housing for seniors, people with disabilities, and those at risk of homelessness — including an innovative housing development for First Nations youth and elders in Nanaimo;
- hospital emergency room upgrades in the Kootenays and on Vancouver Island;
- expansions and safety upgrades at schools around the province;
- drinking water improvement projects in Kitimat and Houston;
- more than \$500 million for improvements on post-secondary campuses; and
- more than \$100 million worth of bike paths, walkways and other community upgrades that support healthy lifestyles and a higher quality of life.

The projects currently approved or under way are expected to generate:

- more than 1,100 jobs in the Cariboo region;
- almost 700 jobs in the Kootenays;
- 2,900 jobs on Vancouver Island;
- 4,200 in the Thompson-Okanagan;
- 2,600 jobs in the North; and
- more than 10,000 jobs in the Vancouver, Coast and Mountain regions.

In total, the projects approved to date are expected to create 21,600 direct jobs ... and Mr. Speaker, this infrastructure program is still in its first phase. Over three years, we expect to see a total of 88,000 jobs... jobs that pay bills and put food on the table. Going forward, these jobs and the spinoff benefits they create will help lift British Columbia out of recession... and provide a sense of stability and confidence we can build on for the future.

Another key advantage we're continuing to build on is our status as the Gateway to the Asia Pacific. We're leveraging our geographic position to draw more business and investment from Asia... and to strengthen our trading relationships, and build new markets for our exports.

Those efforts are already paying off. Exports to China and South Korea have doubled since the turn of the millennium. Exports to China alone were worth more than \$2 billion in 2008.

Although our economy is still closely tied to the fortunes of the United States... our growing links to Asia will serve us well in the months and years ahead.

Most Asian economies are already shaking off the effects of the recession and returning to more robust growth... at a time when the economies of Western nations are forecast to continue shrinking. As demand ramps up again in Asian nations, we should see even better growth in B.C. exports... the primary drivers of our province's economic growth and prosperity.

A third key advantage we have in this province is British Columbia's leadership on climate change and our growing expertise in the field of green technology. This sector now includes more than 250 companies, providing jobs for more than 3,500 people. And it has incredible potential for growth.

That is why the Province will continue to invest in research and development in areas such as solar, geothermal, tidal, wind and bio-energy.

Since 2008, our Innovative Clean Energy, or ICE, Fund has approved investments of over \$47 million in projects across B.C. to help develop clean, renewable energy technologies. With this budget, we are taking steps to keep that momentum going.

Currently, the ICE Fund is supported by a levy on people's monthly energy bills. With the introduction of the HST, that levy will disappear — but we continue to support the ICE Fund. We will review its budget each year to ensure it is funded in accordance with its mandate.

As part of our economic stimulus plan, we are also making new investments to support related education and research. These include:

- \$21.8 million for a new technology project at the University of Northern B.C. to convert waste wood into clean energy, and to improve energy efficiency;

- \$27.6 million for a campus expansion at Okanagan College, which includes construction of a Centre for Green Building Technologies; and
- \$7.8 million for the Energy House project at Northern Lights College in Dawson Creek. Energy House — which has significant support from private business — will specialize in LEED® Platinum education and research with a focus on alternative energy.

With these investments, we are working to ensure that B.C.'s green technology sector can continue to grow and thrive — and deliver new solutions for people and businesses right around the world.

With this budget, we are also moving forward with another critical long-term initiative — reconciliation with First Nations. The Maa-nulth treaty, formally approved by the federal government in June, is the first modern-day treaty concluded on Vancouver Island — and it holds great promise for the social and economic future of the Maa-nulth people. The budget commits \$31 million to support the treaty's implementation. And... as noted in last week's Throne Speech... we will continue to pursue new treaties, as well as agreements on benefit-sharing... recognizing that land-claim settlements bring the sense of certainty that attracts new investment and helps to encourage new economic growth.

Of course, we have another great opportunity on the horizon as well. In less than six months' time, B.C. will host the world at the Vancouver 2010 Olympic and Paralympic Winter Games.

With 7,000 athletes and coaches; a quarter-million visitors; and three billion television viewers... we have a once-in-a-lifetime chance to showcase our strengths, our talents, our advantages.

Look what happened with Expo 86.

During the lead-up, we witnessed the same kinds of protests and doom-and-gloom predictions we've seen in recent months from Olympic detractors. But today it's crystal clear that Expo was a critical turning point in B.C.'s history — supporting us to take our place on the world stage, and serving as a catalyst for growth and prosperity. Hosting the Olympics will provide an even greater boost — just as the world economy is emerging from recession.

Conclusion

Mr. Speaker. There will always be pessimists among us, and there is no question: This budget update includes some very difficult choices.

Faced with the loss of nearly \$2 billion in expected revenues this fiscal year alone, we simply cannot continue to fund everything we have in the past.

The last 12 months have been extremely tough. And the road ahead will have some bumps. But British Columbia has been through its share of difficult times in the past, and... no matter how great the challenges we face... we know that, together, we can emerge from it stronger and more resilient than ever.

With this budget, we are making sure we support people through the difficult times by protecting the services they need and rely on.

We have tightened spending dramatically in non-essential areas, and accepted the need to run temporary deficits, in order to ensure that British Columbians still have the health care, education and social services that are such a critical part of our quality of life.

Through our accelerated capital spending, we're keeping thousands of people employed... building and improving the province's infrastructure.

And... with our changes to the tax system... we are continuing to foster a climate in which our businesses and industries will have a real competitive edge over their counterparts in other jurisdictions.

We are building on our past record of sound fiscal management... income tax relief for families and businesses, and steps to ensure we keep debt affordable. And we are well positioned to take full advantage of the economic recovery to come.

Will it be easy? No. It won't. Will we come out of it stronger than ever? Yes. We will.

Mr. Speaker, we are living in a time of change... some would say unprecedented change... when things that once seemed certain have been shaken to their very foundations.

We... along with the rest of the world... are in a time of great transition... But with enormous change comes enormous opportunity... and it is up to us to envision, and create, the future we want to build for ourselves, and for the generations yet to come.

We have many strengths as a province, but none is greater than the spirit of our people.

And, Mr. Speaker, it is that spirit... the spirit of determination, of ingenuity, of courage, of confidence in the face of adversity...

That is the spirit that has always set this province apart. And, it is the spirit that will guide British Columbia into a future of renewed prosperity.

Thank you.