

Attached please find the Fiscal Assessment of the 2017 NDP Election Platform commissioned by the BC Liberal Party. This report was conducted independently using publicly available information.

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FISCAL ASSESSMENT OF THE 2017 NDP ELECTION PLATFORM

(Prepared by C. Scott Clark and Peter Devries)

The NDP claims that their proposed fiscal plan is “fiscally prudent, transparent, and sustainable”.

These three principles are useful in assessing the fiscal credibility of their fiscal plan.

To be “prudent” a fiscal plan must be based on realistic economic assumptions and contain contingencies for economic uncertainties.

To be “transparent” a fiscal plan must provide adequate information on the nature and costing of all proposed policy commitments.

To be “sustainable” a fiscal plan should demonstrate control over the deficit, the growth of government debt and the debt to GDP ratio (i.e., the debt burden)

The NDP Platform contains a long list of promises and commitments with very little information on the fiscal costs of many of their Platform promises. Only a small subset of these many commitments is actually included in their proposed fiscal plan.

This smaller fiscal plan is based on the Liberal government’s last budget and includes all “forecast allowances and contingencies in each budget year”. We were not asked to comment on the prudence contained in the Liberal 2017 Budget. However, on this basis of these inclusions, *in our view, the NDP fiscal plan embodies the same degree of prudence as the Liberal budget.*

No information or justification is provided as to why some particular commitments were selected for inclusion in the fiscal plan as opposed to others. The fiscal plan

provides no information as to how, when, or if, the many remaining commitments would eventually be funded.

For example, the Platform includes the following three major policy commitments, which are not included in the fiscal plan: first, a promise to completely eliminate the Medical Services Plan fee within four years; second, a promise to freeze BC hydro rates for four years; and finally, a promise of a one year freeze of the ICBC rate.

Notwithstanding their obvious political importance, the NDP platform does not provide cost estimates for these three critical political commitments, although their financial cost are critical to assessing the fiscal credibility of the NDP policy platform.

We estimate that once fully in place, these three proposals could cost about \$2 billion per year.

In our view, the NDP policy Platform and the proposed budget or fiscal plan both fail to satisfy the principle of transparency.

To finance their fiscal plan the Platform proposes a number of major tax increases, along with significant savings from “Cleaning up BC Liberal waste and growing the economy”. According to the NDP Platform, the net result is a fiscal plan that has a surplus of \$108 million in the current fiscal year, \$131 million in 2018-19 and \$80 million in 2019-20.

However, a number of the revenue-raising proposals are questionable. No details are provided as to how the savings “from Cleaning up BC Liberal waste” are to be secured. Whether or not they may materialize remains to be seen, but without a concrete plan as to how these savings are to be achieved, they should not be included as a source of revenue in the fiscal plan. Nor should any savings from a “growing the economy” since it is unclear just how the NDP fiscal plan would lead to higher economic growth.

In addition, the elimination of the LNG Fund, which is expected to generate \$190 million in annual savings, will in fact not result in any savings, as these funds are already included in the Liberal budget plan.

Including the above three Platform commitments and the above adjustments to the revenue sources, would result in annual deficits in the NDP fiscal plan of about \$2.5 billion per year, once all the proposals are fully implemented.

Over the next three fiscal years (2017-18 to 2019-20), the provincial debt could be nearly \$7.8 billion higher than projected in the 2017 Liberal Budget. The debt-to-GDP ratio would increase from 25.5% in 2016-17 to 29.0% in 2019-20.

In our view a fiscal framework, which includes important political promises, would fail the principle of fiscal sustainability.

It would raise concerns in financial markets over the government's commitment to deficit and debt control and sound fiscal management. This would lead to higher borrowing costs and higher deficits.

The reality is that because of the breath and costs of the NDP promises and insufficient additional revenues, the NDP Platform is simply not financially viable. It would be virtually impossible to develop a fiscally sustainable fiscal plan without a major reduction in political promises, and additional tax increases.

| BC NDP 2017 Election Platform: Fiscal Framework (1) | | | | 2017-18 | 2018-19 | 2019-20 |
|--|--|--|--------------|----------------|----------------|---------|
| | | | | | \$ millions | |
| A. Budget 2017 Budget Surplus | | | 295 | 244 | 223 | |
| B. NDP Platform: Costed Initiatives | | | | | | |
| Operating Investments | | | (717) | (1,263) | (1,533) | |
| New Revenue and Savings | | | 530 | 1,150 | 1,390 | |
| Net Impact | | | (187) | (113) | (143) | |
| C. Projected BC NDP Budget Surplus (as per Platform) | | | 108 | 131 | 80 | |
| D. Adjustments to NDP Platform | | | | | | |
| Elimination of MSP fee (2) | | | (437) | (875) | (1,312) | |
| Freeze BC Hydro rates (3) | | | (132) | (246) | (360) | |
| Freeze ICBC rates (4) | | | (250) | (250) | (250) | |
| Other Non Costed Initiatives | | | ? | ? | ? | |
| Elimination of LNG Fund | | | (120) | (190) | (190) | |
| Elimination of "Cleaning Up BC Liberal Waste & Growing the Economy" | | | (60) | (260) | (360) | |
| Total | | | (999) | (1,821) | (2,472) | |
| E. Revised BC NDP Budget Surplus/Deficit | | | (892) | (1,691) | (2,393) | |
| F. Provincial Debt | | | | | | |
| 2017 Liberal Budget | | | 69,787 | 73,457 | 77,688 | |
| Per cent of GDP | | | 25.6 | 25.9 | 26.4 | |
| Revised NDP Provincial Debt (5) | | | 70,678 | 77,437 | 85,459 | |
| Per cent of GDP | | | 25.9 | 27.3 | 29.0 | |

1. A () sign indicates a deterioration in the budgetary balance (lower revenues/higher spending).
A positive sign indicates an improvement in the budgetary balance (higher revenues/lower spending).
2. The 2017 Budget provides forecast of MSP revenues. Assumed four-year phase out.
3. 10-year rate plan calls for rate increases of 3%, 2.6%, 2.6% and 2.6% over next four years.
4. ICBC forecasts a 4.9% rate increase for upcoming year.
5. Includes increase in deficit from Line E plus Platform capital expenditures of \$2.8 billion as per Platform.