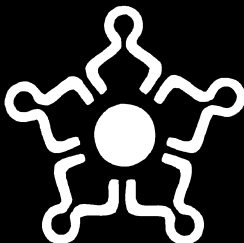


Submission to the Select Standing Committee on Finance and Government Services

Submitted by Darryl Walker, President
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Victoria, British Columbia



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Finance Submission

Introduction

The B.C. Government and Service Employees' Union (BCGEU) represents more than 65,000 people working in various sectors and occupations in more than 550 bargaining units across British Columbia.

Our diverse membership includes direct government employees who serve the public in various ways, including by protecting children, providing income assistance to people living in poverty, staffing provincial correctional facilities and court system, fighting forest fires, providing care to people living with mental illness, protecting B.C.'s natural environments, managing our natural resources, and providing technical and clerical services. BCGEU members also administer the province's system of liquor control, licensing and distribution.

In addition, our membership extends to the broader public sector and the private sector. For example, BCGEU members provide a variety of health care services, including care and support for seniors. They provide a wide range of community social services, including child care for families, supports for adults with developmental disabilities, and programs for new Canadians, women fleeing violence, and First Nations communities. BCGEU members also maintain our province's highways and bridges, instruct and provide support to post-secondary students, and work in various other sectors and industries, including financial services, hospitality, retail, and gaming.

We appreciate the opportunity to provide this submission to the Select Standing Committee on Finance and Government Services.

The need for stability - an opportunity to rebuild

B.C. Premier Clark has said she will keep to the legislated fixed election date of May, 2013.

"I've listened to a lot of people on this subject and what has changed in particular over the last while is the international financial situation and the instability we have seen flow from that," Ms. Clark told the Globe and Mail newspaper. "And the people I've talked to have told me that they don't want the instability that would come from an election."

With the election two years away, now is the opportune time for the new premier and government to take a fresh approach to addressing the challenges facing B.C.

We are encouraged by the decision to reverse a decade of opposition to minimum wage increases. This is a good step forward to addressing wage inequities, particularly amongst our youngest workers. We challenge government to continue to take steps to support workers, families and communities, and to revitalize our province's economy.

B.C.'s economic outlook and fiscal situation

British Columbia's economy is recovering from the worst recession since 1982. Economic growth had been stronger in the past year, but the significant downturn which the world markets began to experience in August of 2011 shows how fragile the economy is. British Columbians are living with record high household debt levels. The housing market is weakening, the impact of stimulus programs is fading, and unemployment is increasing to the current rate of 7.5%. Over the past three years B.C. has lost more than 62,000 full time jobs. More and more people are leaving B.C. to seek work in other provinces where unemployment rates are significantly lower.

We believe that the province should commit to a full employment policy with targets built in. The jobs plan announced by the Premier is a start, but we believe that targets must be set and progress tracked. B.C. lags other western Canadian provinces in our employment rates. Increasing employment will obviously increase revenues through income tax and sales tax, stimulates economic activity and reduces the costs of social programs.

In recognition of these key weaknesses in the provincial economy, growth forecasts for the coming year are being adjusted downward. On a national level, the International Monetary Fund recently reduced its forecast Canada and warned that the global economy is entering a “dangerous new phase.”

Given the fragility of B.C.'s economic recovery, it is critical for the government to avoid fiscal retrenchment. We believe that this is not the time to focus solely on deficit and debt reduction, since further austerity measures may exacerbate the economic challenges we face.

Economic inequality growing

Two recent Conference Board of Canada reports find that "High inequality can diminish economic growth if it means that the country is not fully using the skills and capabilities of all its citizens or if it undermines social cohesion, leading to increased social tensions. High inequality [also] raises a moral question about fairness and social justice."

The Conference Board's international review of the data shows that since the mid-1990s, Canada went from better-than-average to worse-than-average levels of inequality, slumping from 14th to 22nd place out of 32 OECD countries. Our decline was more rapid than even the United States, despite a decade of robust economic growth and record levels of job creation. At the very same time, 15 OECD nations - including many of our peers, like Norway, Italy and the U.K. - were reducing income inequality.

According to the Conference Board, the percentage of people living in low income was higher in B.C. in 2009 (13 percent) than in almost all other provinces (only Nova Scotia, 13.1 percent, and Newfoundland and Labrador, 13.2 percent, posted higher rates). Of Canada's larger cities, Vancouver had the highest share of its population in low income.

This growing income inequality drives the increasing demand for government services. In general, funding has not kept up with this increasing demand. We note that the government budget consultations note that less than 8% of the budget forecast for 2011-12 are estimates to be targeted for social services.

Our priorities: Immediate action, long-term vision

The future of our province will depend on the government's present budget decisions. Immediate action today – to rebuild our public service, invest in health and social services, address the crisis in B.C.'s forests, promote equality, sustainability and productivity, expand government revenues, and implement tax fairness – will ensure the fulfillment of a long-term vision of healthy families, strong communities and a green economy for British Columbia.

We urge the committee to adopt four areas as a framework for action and to advocate for their implementation:

- 1. Ensure resource ministries that play key roles in supporting economic growth are funded to allow them to clear any backlogged requests for service by the end of fiscal year 2012/13.**
- 2. Ensure adequate resources are made available to fund social programs to meet increasing demands for services resulting from the economic uncertainty and demographic changes our province is facing.**
- 3. Ensure the provincial bargaining mandate for the coming year drops the "net zero" approach and ensures adequate funding to address critical recruitment retention and market issues.**
- 4. Ensure the province gives due consideration to revenue options that will fund needed services and begin to address the growing wage inequality in B.C.**

Fiscal flexibility to meet the needs of families and communities

A weak economy will undoubtedly increase the need for services for those in need.

Currently, nearly 180,000 British Columbians rely on financial assistance from the Ministry of Social Development. The ministry's temporary assistance caseload jumped from 40,000 to 60,000 cases in less than two years. Economic growth has not been strong enough to significantly reduce caseloads and staffing increases have not kept pace with demand.

The wheels of justice in our court system have slowed to a crawl due to severe staff shortages. Trials are delayed and in some circumstances cases are being tossed out of court by judges because of unreasonable delays in having charges dealt with.

Likewise, the recent one-time, \$6 million in new funding announced for Community Living BC (CLBC) is inadequate to stem the crisis in support and funding faced by the families of adults with developmental disabilities

In addition, there are vital positions in the public service which are often vacant and which government can't fill, like child protection social work with difficult caseloads or in many locations. The result: compromised child protection at much higher costs, as social workers are temporarily transferred with travel costs in addition to employment costs. Sometimes the costs are double. Penny wise, pound foolishness; we can do better.

At the same time, we believe that the province must invest in opportunities especially in the resource sector to grow revenues to support these and other significant service needs. We understand that revenue increases are necessary for government to fund the service needs which are increasing through these difficult economic times.

We note that on the national level both the Finance Minister and the Prime Minister have indicated recently that the federal government must maintain some flexibility in their fiscal planning to accommodate this uncertainty. As well we note that current federal plans anticipate balancing their budget one year later than the current provincial plan.

We believe this flexibility in approach to adapt to changing fiscal circumstances is an approach which the province should consider emulating.

Rebuild the public service

Recent statistics show that compared to the rest of Canada, B.C. has the lowest level of public sector employment (federal, provincial and municipal) relative to population. The data also indicates that B.C. has one of the smallest provincial public sectors in Canada relative to population. Only Ontario and Alberta were found to employ fewer people in their provincial public sectors. Notably, however, local government employment in Ontario and Alberta was substantially higher than in B.C.

A total of nearly 800 direct government service jobs have been eliminated since September 2009, and the March 2010 budget projected an 11 percent cut to the public service, or a reduction of 3,500 positions, by 2013.

These cuts have a cumulative effect.

In the former Ministry of Forests alone, nearly 1,100 jobs have been cut over the past decade.

Over the longer term, the government has forecasted a 30 to 57 percent decrease in the size of the public service within the next decade.

With cuts of this magnitude, it is no wonder that backlogs of permit applications and inspections are growing.

The negative impacts and outcomes of a shrinking public service are clear.

As our public service gets smaller, the ability of government to deliver important programs and services diminishes.

As an example in the Ministry of Agriculture - Agristability program, there is a significant backlog of applications – over 2000 in the program as of earlier this year. This is the first year that the ministry has taken on the delivery of the program from the federal government and it appears that staffing levels are inadequate to meet program demands. This program provides an economic lifeline to our agricultural community. This delay in processing applications has been a hardship to many farmers as they struggle to purchase needed supplies.

As a smaller number of public servants attempt to serve a growing range of public needs, job satisfaction and employee engagement and morale decline, and recruitment and retention challenges are exacerbated, impacting service quality and stability.

Cutting government jobs particularly in the resource sector reduces economic growth, creating a drag on an already slow and fragile economic recovery, and negatively impacting local communities.

We welcomed the June 2010 announcement that no further layoffs are needed to meet the government's current budget objectives. But a temporary freeze on the ongoing erosion of government services is not enough.

It is time to rebuild British Columbia's public service. And it is not only the BCGEU who believes this is necessary.

Jock Finlayson, economist for the Business Council of B.C., said the delays in permit approvals can be traced to government cuts in the departments that handle resource development.

“Part of the downsizing of government has taken too deep a slice out of the ministries that we need to be operating at a high level of efficiency,” he said, adding that the sectors that have the greatest potential to create jobs in the next five years – energy and mines – need a functioning bureaucracy restored.

“We have some home grown problems here that are impediments to development,” he said. *“The government has cut too deeply in some of the dirt ministries and in regulatory approvals.”*

The so-called dirt ministries – forestry, energy and mines – are the areas with the biggest potential for expanding exports and boosting job creation.

These were the areas that experienced some of the deepest cuts to staff over the past decade.

Your own committee deliberations have heard from other industry groups about the impacts of severe staff cuts on their ability to increase economic activity.

In Prince George, the B.C. Trappers Association told you it believes the provincial government needs to adequately fund the wildlife branch of the Ministry of the Environment in order to properly administer trapping in the province.

In Vancouver, the Association for Mineral Exploration British Columbia told you about the hundreds of notice-of-work applications that are with the government and that essentially created a backlog in mining exploration. They estimated the backlog represents upwards of \$150 million in lost opportunities in this year alone.

The Association also told you about the difficult and challenging time retaining government staff who are experts in their fields. They asked you to ensure there is a transition to the new generation of staff in the short window of opportunity to mentor new government employees and build the expertise B.C. is renowned for.

In Smithers, you were told by local business people about the importance of staff like regional geologists, but who have no money for helicopters or field work. They told you staff must be funded to visit the projects and mines within their region. The solution is to ensure funding is attached to the regional geologist positions to allow fieldwork.

Also in Smithers, you were told by local business people how short staffing is creating problems for the newly created Natural Resources Ministry in meeting its mandate.

The recent government announcement of some new temporary funding to deal with permit backlogs is welcome, but inadequate to address the backlogs created by cuts to staff.

As you will see in the following chart, just two of the so-called resource ministries face budget reductions totalling \$86 million over the coming three fiscal years.

An additional \$24 million in temporary funding promised by government, though welcome, does not come close to repairing the damage resulting from these cuts.

B.C. Government Funding for "Dirt Ministries" (\$ millions)					
	2010/11 Budget	2010/11 Updated forecast	2011/12 Budget estimate	2012/13 Plan	2013/14 Plan
Energy and Mines	424	424	408	420	389
Forests, Lands and NRO	633	801	590	587	582
Total	1057	1225	998	1007	971
Source: British Columbia, Ministry of Finance, <i>Budget & Fiscal Plan 2011/12 - 2013/14</i> (3 May 2011). Note: \$207 million of updated 2010/11 forecast is for forest firefighting and emergency costs.					

Invest in front-line workers and services

Our current economic problems were not caused by public services or the women or men who provide them, and the solutions to these economic challenges will not be solved by cutting or attacking public services.

The current "net zero" bargaining framework has outlived its usefulness.

We have to revitalize the public service and public sector, recruit new, younger workers, and try to retain older, skilled workers.

That is not going to happen with continued wage freezes.

The truth is, workers have done their part during these difficult economic times. Members of the BCGEU who work for the provincial government settled for an agreement with a net zero-and-zero increase. Over the past decade, wage increases hovered around 0.15 percent when taking inflation into account.

The BCGEU and our members are committed to productivity, innovation and service.

The government, for its part, needs to show its commitment to both the services, and the workers who deliver them.

The BCGEU acknowledges the comments in the October 3rd Throne Speech that *"...public sector wage increases will be challenging to achieve, and must fit within the fiscal plan, your government understands that public servants need to be treated fairly."*

While the speech was short on specifics, the BCGEU is ready and willing to work with the government to find innovative ways to achieve fair collective agreements for our members.

Raise new revenues; reverse revenue cuts

When British Columbians celebrated Expo '86 25 years ago, our province was home to slightly more than three million people. Today, our population exceeds 4.5 million.

Our provincial economy, too, has shown tremendous growth over the last quarter-century. In 1986, B.C.'s nominal gross domestic product was \$56.5 billion. Now, in 2011, the comparable number is \$210.1 billion.

In almost every way, British Columbia today is bigger and better than ever before.

Except, one thing actually has become much smaller than it was previously – and that is the provincial government's revenues as a proportion of B.C.'s economy.

Provincial government revenues as a share of British Columbia's economy have fallen dramatically in recent years. Twenty-five years ago, in fiscal 1985/86, Victoria's Consolidated Revenue Fund (CRF) receipts were equal to 17.1 percent of B.C.'s nominal gross domestic product. In the fiscal year just ended, 2010/11, CRF receipts added up to less than 15.9 percent of GDP.

The downward trend over the last decade also is evident under a GAAP (generally accepted accounting principles) presentation of B.C.'s finances. In 2000/01, total GAAP receipts represented 22.6 percent of British Columbia's gross domestic product. Last year, the comparable number was just 19.8 percent. Moreover, the latest provincial budget shows revenues in 2013/14 plunging even further to a mere 19.1 percent of GDP.

Over the last decade, British Columbia's 'own-source' revenues – those that are generated solely within the province's borders – have fallen by almost one-quarter. That decline, under GAAP, was from 20.1 percent of GDP, to just 15.8 percent.

Two areas of provincial revenue, taxation and natural resources, stand out as having lost significant ground in recent years. In 2000/01, these two revenue streams together in the Consolidated Revenue Fund represented 13.4 percent of B.C.'s gross domestic product. Last year, in 2010/11, the two combined generated

revenues equal to a mere 9.9 percent of GDP.

As with the CRF, taxation and natural resources under GAAP stand out as the revenue areas showing the biggest declines in recent years. In 2000/01, taxation produced receipts equal to 10.6 percent of GDP, and natural resources, 3.0 percent. Last year, in 2010/11, the comparable numbers were just 9.0 percent and 1.4 percent, respectively.

These losses at first glance may not appear to be significant. Yet B.C.'s GDP in 2011 is estimated to be \$210.1 billion, so each one-percentage point loss of revenues (in relation to the province's economy) is equal, therefore, to more than \$2.0 billion dollars – annually.

Thus, the solution to correcting B.C.'s plunging revenues may be in reversing the declines in taxation and natural resources.

Modest increases of one percent (as a proportion of GDP) in both taxation receipts and natural-resource revenues would produce between \$4.0 and \$5.0 billion in additional revenues, annually. Those revenues would pay for the vital public services and programs much-needed by British Columbians – and much-neglected and under-funded in recent years – including health care and education, justice services and environmental enforcement, and social services and child care.

Reduced revenues, reduced expenditures

There is a correlation between the provincial government's revenues and its expenditures. Put another way, declining provincial revenues in the last decade or so have been matched by a manifest reduction in government expenditures.

In 1994/95, Consolidated Revenue Fund receipts hit a historic peak of 19.4 percent of GDP. That number fell during the next decade-and-a-half, reaching a nadir in 2009/10 of 15.2 percent.

Expenditures from the CRF followed a similar downward trajectory. The peak was recorded in 1991/92, when outlays represented 20.9 percent of GDP. By 2006/07, that number had fallen to a low of 15.6 percent.

The same pattern is evident with GAAP revenues, which plunged from 22.2 percent of GDP in 1999/00, to just 19.8 percent in 2010/11. Expenditures under

GAAP followed an almost-identical path, dropping from 22.2 percent of GDP, to a bare 19.9 percent.

Again, recall that in 2010, a single percentage point of the province's gross domestic product was equal to more than \$2.0 billion. A decline of 2.3 percentage points in provincial spending in relation to GDP (from 22.2 percent, to 19.9 percent) therefore suggests that Victoria's outlays last year were at least \$4.6 billion below where they might have been if provincial government spending had remained unchanged – as a proportion of the B.C. economy – over the last decade.

Thus, the dramatic decline in provincial revenues over the last decade has been matched by a significant reduction in government expenditures.

It also is clear that Victoria's under-funding in vital areas of provincial responsibility – health care and education, justice services and environmental enforcement, social services and, notably, child care – has caused real hardship and trauma for many British Columbians.

New revenue options

As we noted above, the most obvious way to correct the B.C. government's plunging income and public investment is to reverse some of the massive declines that have taken place over the last decade in two key revenue areas – taxation and natural resources.

In terms of taxation, we believe that revenues can be recouped by restoring fairness to our provincial tax system. Recent data shows that large personal income tax cuts over the last decade have primarily benefited upper-income earners. Moreover, since 2001, corporate profits in B.C. have soared, while dramatic corporate tax cuts have cost the provincial treasury billions of dollars. Reversing these trends would go a long way towards recouping foregone government revenues and boosting investment in public services.

[Sources: CCPA, *B.C.'s Regressive Tax Shift* (June 2011); BCFED, *Failed Policies – Part 1: Corporate Income Taxes* (July 2011)]

On the natural resource side, while some of the decline in B.C.'s revenues may be attributed to the United States' struggling housing market, even a full restoration of the U.S. home construction industry would not bring our province's natural resource revenues back to their earlier levels.

We must ask: how is it possible, when the world is enjoying a historic, global commodity boom, that B.C. has been unable to reap the full benefits of our natural resources?

Together, modest hikes of just one percent (as a proportion of GDP) in both taxation receipts and natural-resource revenues would produce between \$4.0 and \$5.0 billion in additional revenues, annually.

Smooth transition to PST

The results of the HST referendum have sent a clear message to the B.C. government that British Columbians disagree with the way the tax was structured and implemented, and expect the government to consult meaningfully with stakeholders during the transition back to a PST. The sooner this transition occurs, the better it will be for our economy.

At this point only some of the existing finance staff were transferred to the federal government. About 130 staff remain, and they will be critically important as we transition back to a PST.

Conclusion - A plan for action

British Columbians over the last decade have witnessed a dramatic decline in Victoria's revenues as a share of the provincial economy. Since 2001, B.C.'s 'own-source' revenues – that is, those generated solely within the province's borders – have fallen by almost one-quarter, from 20.1 percent of GDP, to a mere 15.8 per cent.

Taxation and natural resources, two key areas of provincial own-source revenues, have seen sizeable revenue losses in recent years.

Not surprisingly, the provincial government's plunging revenues have been matched by a significant reduction in public spending on vital programs and services.

Modest increases of one per cent (as a proportion of GDP) in both taxation receipts and natural-resource revenues should produce between \$4.0 and \$5.0 billion annually, to restore much-needed funding for health care and education, justice services and environmental enforcement, and social services and child care.

The future of our province will depend on the government's present budget decisions. Immediate action today – to rebuild our public service, invest in health and social services, address the crisis in B.C.'s forests, promote equality, sustainability and productivity, expand government revenues, and implement tax fairness – will ensure the fulfillment of a long-term vision of healthy families, strong communities and a green economy for British Columbia.

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