

**Submission of the Government of British Columbia  
to the 2022 Judicial Compensation Commission on *Budget 2023***

**Submitted March 7, 2023**

## **Introduction and Overview**

1. These are the written submissions of the Government of British Columbia (the “Government”) to the 2022 Judicial Compensation Commission (the “Commission”) in respect of *Budget and Fiscal Plan 2023/24 – 2025/26* (“*Budget 2023*”),<sup>1</sup> released February 28, 2023.
2. These submissions address the two factors under the *Judicial Compensation Act* (the “*Act*”)<sup>2</sup> that require consideration of *Budget 2023*:
  - a. the generally accepted current and expected economic conditions in British Columbia (s. 5(5)(e) of the *Act*); and
  - b. the current and expected financial position of the government over the 4 fiscal years that are the subject of this Commission’s report (s. 5(5)(f) of the *Act*).
3. *Budget 2023* confirms previous projections that softening economic and financial indicators in British Columbia will result in slowed growth in the short-term, and growth near the historical range in the medium-term, with deficits and rising debt levels forecast for the next three years. The Province’s economic and financial positions are weaker, but remain sound. The Government submits the Commission should acknowledge that the current state of affairs is due in large part to careful economic and fiscal management, and one-time revenue sources that are not expected to recur. The Government’s proposed recommendations on salaries were formulated and continue to be advanced in recognition of these realities.

## **The generally accepted current and expected economic conditions in British Columbia**

4. In its original submissions, the Government submitted that British Columbia’s economy is “sound, and projected to grow”, but is “unlikely to do so at levels that resemble the 2021/2022 rebound from the impacts of the COVID-19 pandemic”.<sup>3</sup> Informing this view were public and private sector forecasts that considered rising interest rates, high rates of

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<sup>1</sup> See Appendix #1. Citations to *Budget 2023* refer to pagination in the bottom right corner of the document.

<sup>2</sup> S.B.C. 2003, c. 59.

<sup>3</sup> Submission of the Government of British Columbia, January 12, 2023 [Government Original Submission] at para. 196.

inflation, global trade uncertainty and fluctuating commodity prices. These factors continue to inform a softening economic position that necessitates an ongoing degree of fiscal restraint.

5. The release of *Budget 2023* confirms that British Columbia's rebound from the COVID-19 pandemic in 2021 was exceptional such that it should be considered an outlier. The unprecedented 6.1% rebound of British Columbia's economy in 2021 has regressed to something closer to normal growth rates, with the economy estimated to have expanded by 2.8% in 2022.<sup>4</sup> Factors contributing to the slower growth in 2022 include:
  - a. Unemployment fell to historically low levels in 2022, amid tight labour market conditions. The unemployment rate averaged 4.6% in 2022, down from 6.6% in 2021. Long-term unemployment also declined to reach pre-pandemic levels by December 2022. At the same time, the supply of available workers slowed in 2022 compared to 2021, as did the labour force participation rate.<sup>5</sup> High job vacancies remain in sectors such as construction, accommodation and food services.<sup>6</sup>
  - b. Consumer spending on services continues to recover from the impacts of the COVID-19 pandemic, particularly in the tourism and hospitality sectors. Consumer spending on goods has softened as increased interest rates and prices lower demand. Nominal retail sales growth rose by just 2.7% in 2022 compared to 12.6% in 2021.<sup>7</sup>
  - c. Home sales fell sharply as markets adjusted to a steep increase in lending rates. MLS home sales in British Columbia fell by 35.2% in 2022, which included double-digit sales declines in most regional housing markets. The MLS average home sale price increased by 7.5% in 2022, following 18.7% growth in 2021, and had decreased for ten consecutive months as of December 2022.<sup>8</sup>

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<sup>4</sup> *Budget 2023*, Appendix #1, at p. 3.

<sup>5</sup> *Budget 2023*, Appendix #1, at pp. 85-86.

<sup>6</sup> *Budget 2023 Technical Speaking Presentation with Speaking Notes [Budget Presentation]*, Appendix #2, at p. 3.

<sup>7</sup> *Budget Presentation*, Appendix #2, at p. 3; *Budget 2023*, Appendix #1, at pp. 86, 106 (at Table 3.6.2).

<sup>8</sup> *Budget 2023*, Appendix #1, at pp. 88-89.

6. The moderate, but slowed economic growth in 2022 is not unique to British Columbia. Global economic growth decelerated in 2022 following a rapid recovery over the prior two years from the COVID-19-related downturn.<sup>9</sup> The supply-demand imbalance due to supply-chain problems, geopolitical events, and tight labour markets pushed consumer price inflation higher than expected. This, in turn, resulted in central banks tightening monetary policy to temper demand and inflation. Global economic growth slowed as a result, and forecasts consistently call for further global slowing or recession heading into 2023.<sup>10</sup>
7. Similarly, the Ministry of Finance forecasts the economy in British Columbia to slow considerably in the short-term. Those forecasts call for a 0.4% real GDP growth rate in 2023, before rising moderately to 1.5% in 2024 as a result of elevated price pressures and higher interest rates working their way through the economy.<sup>11</sup> The higher interest rates are a direct result of inflationary pressures, driven by the recovery from the COVID-19 pandemic and Russia's invasion of Ukraine.<sup>12</sup> Higher interest rates, raised sharply by the Bank of Canada and other central banks, cool domestic and global demand.<sup>13</sup>
8. Moreover, economic weakness among British Columbia's major trading partners is expected to hurt export demand.<sup>14</sup> Further weakness stems from the impact of higher borrowing costs on home sales, consumer spending and investment, amid slower global economic activity. These factors, together with possible new COVID-19 variants, geopolitical conflict, supply-chain disruptions, climate events, global trade tensions and lower commodity prices, present the greatest risks to British Columbia's economic outlook.<sup>15</sup>
9. As noted, the combination of these risks has informed revised growth rates. Recent Ministry of Finance forecasts include a revised real GDP growth estimate for 2023 of 0.4%, down from 1.5% in the *First Quarterly Report*.<sup>16</sup> Lower real GDP growth and lower prices for

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<sup>9</sup> *Budget 2023*, Appendix #1, at p. 95.

<sup>10</sup> *Budget 2023*, Appendix #1, at p. 95.

<sup>11</sup> *Budget 2023*, Appendix #1, at pp. 3, 83.

<sup>12</sup> *Budget 2023*, Appendix #1, at pp. 83, 84.

<sup>13</sup> *Budget 2023*, Appendix #1, at p. 84.

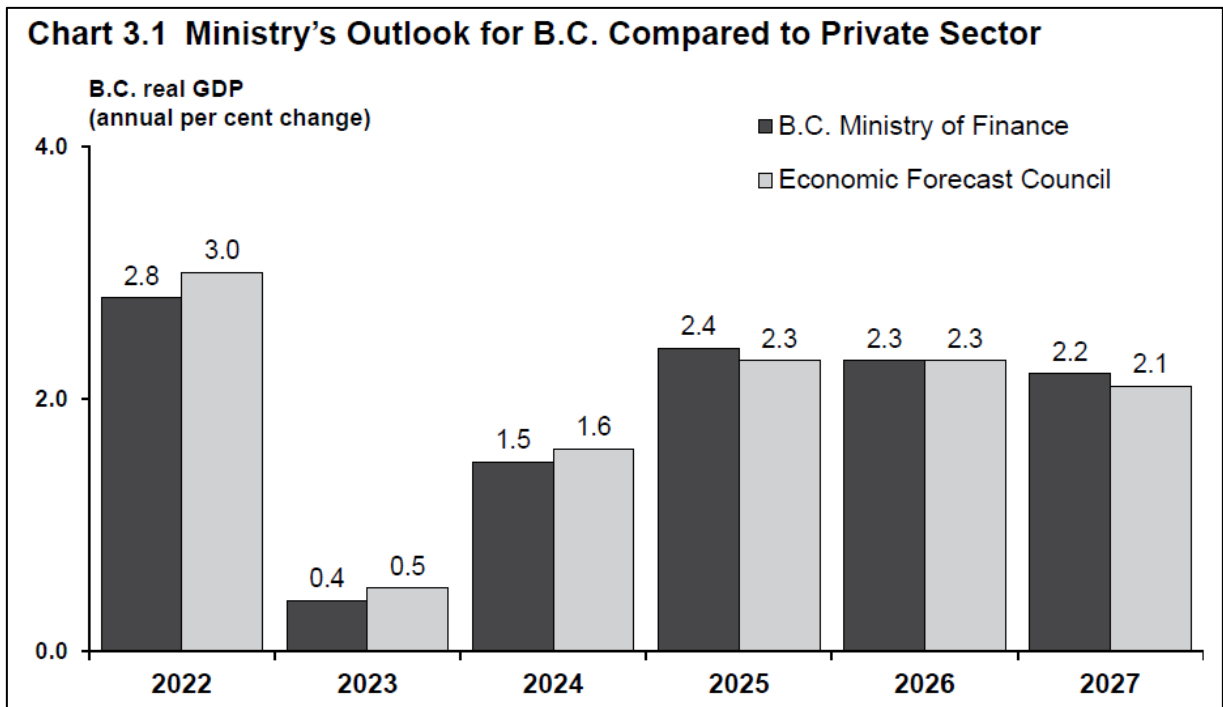
<sup>14</sup> *Budget 2023*, Appendix #1, at p. 83.

<sup>15</sup> *Budget 2023*, Appendix #1, at p. 84.

<sup>16</sup> *Budget 2023*, Appendix #1, at pp. 3, 84.

certain key commodities similarly warrant a revised forecast for nominal GDP growth in 2023 of 2.8%, down from 3.5% in the *First Quarterly Report*.<sup>17</sup>

10. As illustrated by Chart 3.1 below, the Ministry of Finance’s forecasts of slower economic growth in the near-term are consistent with the recent forecasts of the Economic Forecast Council (the “EFC”).<sup>18</sup> On average, the EFC estimates that British Columbia’s economy grew by 3.0% in 2022, down 1.2 percentage points from its previous projection in January 2022, and lower than Canada’s estimated growth of 3.4%. The EFC forecasts British Columbia’s growth to slow in the short-term, at 0.5% in 2023 and 1.6% in 2024, again down compared to their January 2022 outlook, but similar to the short-term economic growth forecast for Canada as a whole.<sup>19</sup>



<sup>17</sup> *Budget 2023*, Appendix #1, at p. 84.

<sup>18</sup> *Budget 2023*, Appendix #1, at p. 83. Chart 3.1 is excerpted from this same page of *Budget 2023*.

<sup>19</sup> *Budget 2023*, Appendix #1, at pp. 108, 110.

11. The Ministry of Finance forecasts real GDP growth in the medium-term (2025 to 2027) to range between 2.2% and 2.4% annually.<sup>20</sup> Inflation is expected to return to the norm, and retail sales and housing activity are forecast to strengthen as elevated prices and high interest rates fade. Strong export growth and stable labour market conditions are forecast to continue.<sup>21</sup>
12. The Ministry of Finance’s projections are based on a cumulative assessment of a number of economic metrics or indicators. These indicators cannot be viewed in isolation as they may perform in different ways and have different impacts on the economy. The high-level outlooks for each of those indicators are summarized as follows in *Budget 2023*:
  - a. **Labour market:** The outlook for B.C.’s labour market remains stable but faces uncertainty in the near-term, reflecting the broader economic slowdown.<sup>22</sup>
  - b. **Consumer spending:** Consumer spending is expected to moderate in the near-term as higher interest rates slow demand, following robust growth in recent years.<sup>23</sup>
  - c. **Home sales:** Home sales activity is expected to decline in the near-term, constrained by higher mortgage rates amid slower economic growth.<sup>24</sup>
  - d. **Exports:** Growth in real export of goods and services is projected to be weaker in the near-term, following sturdy growth in 2022.<sup>25</sup>
13. For its part, the EFC also anticipates slowing economic growth in British Columbia over the medium- and long-term, resulting from monetary policy driving down demand. It also expresses uncertainty over a coming recession.<sup>26</sup> The EFC forecasts growth of 2.3% annually in 2025 and 2026, and 2.1% in 2027, as well as long-term average growth of 1.9% annually.<sup>27</sup>

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<sup>20</sup> *Budget 2023*, Appendix #1, at p. 3.

<sup>21</sup> *Budget 2023*, Appendix #1, at p. 84.

<sup>22</sup> For more specific details, see *Budget 2023*, Appendix #1, at p. 86.

<sup>23</sup> For more specific details, see *Budget 2023*, Appendix #1, at p. 88.

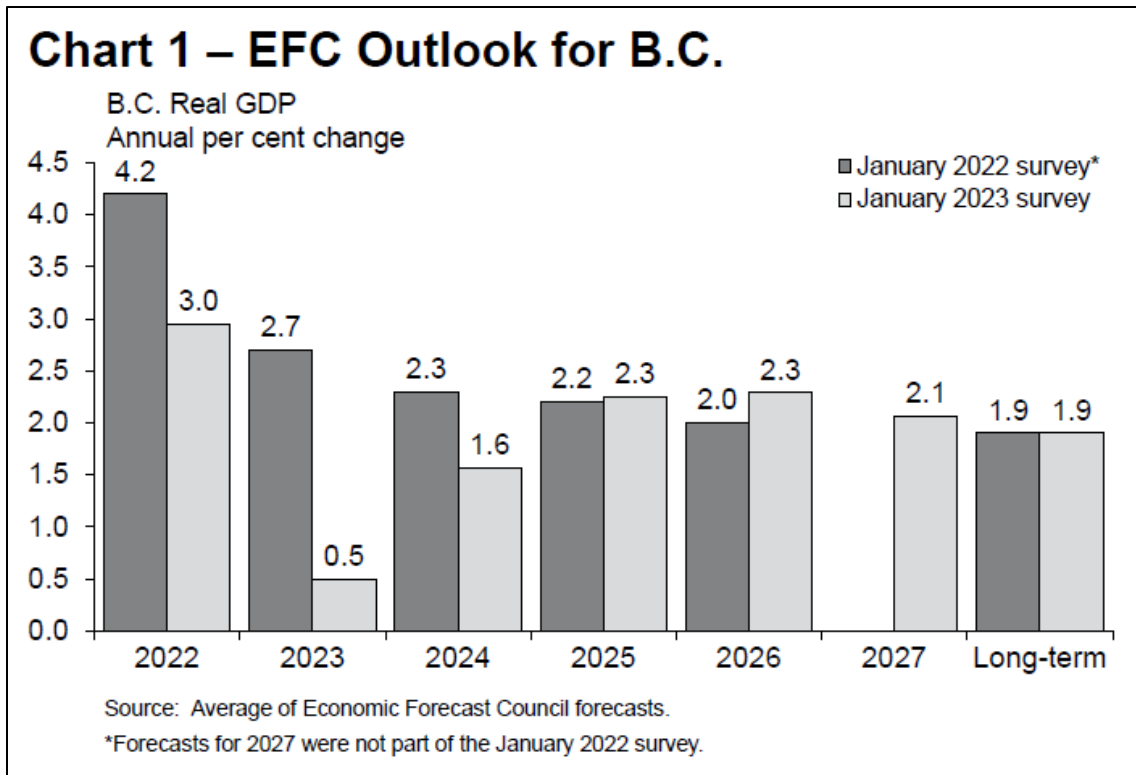
<sup>24</sup> For more specific details, see *Budget 2023*, Appendix #1, at p. 90.

<sup>25</sup> For more specific details, see *Budget 2023*, Appendix #1, at p. 93.

<sup>26</sup> *Budget 2023*, Appendix #1, at p. 108.

<sup>27</sup> *Budget 2023*, Appendix #1, at p. 108. Please see the Economic Forecast Council “Topic Box” from *Budget 2023*, pp. 108-110, Appendix #3.

Chart 1 below<sup>28</sup> shows the EFC’s revisions to its forecasting from January 2022 to January 2023, including its long-term growth forecasts.



14. Despite global economic uncertainty, British Columbia is well-positioned to weather potential economic challenges.<sup>29</sup> As the near-term factors described above subside, British Columbia is expected to experience steady employment growth, solid investment activity, and higher international migration. This is forecasted by the Ministry of Finance to result in a higher real GDP growth range between 2025 and 2027, which forecast is slightly higher than the EFC’s forecast over that same period.<sup>30</sup>

15. Key risks that may undermine this economic outlook include, but are not limited to:

<sup>28</sup> *Budget 2023*, Appendix #1, at p. 108.

<sup>29</sup> *Budget 2023*, Appendix #1, at p. 83.

<sup>30</sup> *Budget 2023*, Appendix #1, at p. 83.

- a. persistent high inflation reducing affordability and leading to higher interest rates over a longer period;
- b. uncertainty around the extent of the impact of higher interest rates on consumer and business borrowing, and the housing markets;
- c. inflationary pressures due to lingering supply-chain disruptions;
- d. weaker than expected global economic activity and the impact of geopolitical conflict on trade and commodity markets, and, in turn, lower prices for British Columbia's major commodity exports; and
- e. aging demographics leading to tighter labour market conditions and elevated job vacancies.<sup>31</sup>

**The current and expected financial position of the government over the four fiscal years that are the subject of the 2022 JCC Report**

16. In its original submissions, the Government urged this Commission to consider the circumstances giving rise to the unusual surplus for 2021/22, and the then-projected surplus for 2022/23.<sup>32</sup> The Government noted private and public forecasting predicted economic growth to slow in the medium- and long-term,<sup>33</sup> the one-time or historic nature of factors driving high revenues in 2022/23,<sup>34</sup> and pressure to address service delivery challenges in many areas, particularly in health care.<sup>35</sup>
17. With the release of *Budget 2023*, the Ministry of Finance projects British Columbia will be in a deficit position in the short-term. The updated forecast for 2022/23 shows a projected surplus of \$3.6 billion in the Third Quarter of 2022/23, down from the \$5.7 billion surplus projected in the *Second Quarterly Report*. While revenue over that same timeframe is forecast to be \$1.6 billion higher than in the *Second Quarterly Report*, driven largely by

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<sup>31</sup> *Budget 2023*, Appendix #1, at p. 94.

<sup>32</sup> Government Original Submission at para. 201.

<sup>33</sup> Government Original Submission at para. 202.

<sup>34</sup> Government Original Submission at para. 203.

<sup>35</sup> Government Original Submission at para. 204.



increases in income and sales tax revenues, total spending is forecast to be \$4.0 billion higher.<sup>36</sup>

18. Thereafter, British Columbia's three-year fiscal plan presents a return to a deficit of \$4.2 billion in 2023/24, followed by declining deficits of \$3.8 billion in 2024/25, and \$3.0 billion in 2025/26 respectively.
19. The revenues realized in 2022/23 are not anticipated to recur. Total revenue is expected to decline 6.0% in 2023/24, followed by increases of 2.6% and 3.1% in 2024/25 and 2025/26, respectively. These revenue projections reflect steadily declining natural resource prices and federal government contributions over the three-year fiscal plan, which partially offset growth in taxation, commercial Crown corporations, and other sources.<sup>37</sup>
20. In addition to the operating deficit position in the short-term, there are also significant capital commitments in the health, transportation, housing and education sectors. In many cases, it was the experience of the COVID-19 pandemic that highlighted the need for these commitments to address existing deficiencies.<sup>38</sup> Taxpayer-supported infrastructure spending is forecast to be \$37.5 billion over the 2023/24 to 2025/26 period,<sup>39</sup> in addition to total provincial capital spending of \$12.2 billion in 2022/23.<sup>40</sup> Total capital spending over the next three fiscal years includes:
  - a. \$8.9 billion towards K-12 schools and post-secondary education;<sup>41</sup>
  - b. \$11.2 billion towards new major construction projects and upgrading of health facilities, medical and diagnostic equipment, and information management and technology systems in the health sector;<sup>42</sup>
  - c. \$13.3 billion towards safe, reliable and equitable transportation systems;<sup>43</sup>

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<sup>36</sup> *Budget 2023*, Appendix #1, at pp. 115-116.

<sup>37</sup> *Budget 2023*, Appendix #1, at p. 36.

<sup>38</sup> See for example, BC Budget and Fiscal Plan 2022/23-2024/25, p. 36 re: Long-Term Care: Joint Book of Documents of the Parties, Vol. 2, Tab 47.

<sup>39</sup> *Budget 2023*, Appendix #1, at pp. 3, 43.

<sup>40</sup> *Budget 2023*, Appendix #1, at p. 120.

<sup>41</sup> *Budget 2023*, Appendix #1, at pp. 44, 46.

<sup>42</sup> *Budget 2023*, Appendix #1, at p. 48.

<sup>43</sup> *Budget 2023*, Appendix #1, at p. 50.

- d. \$2.2 billion to develop provincially-owned housing across British Columbia;<sup>44</sup> and
  - e. \$2.0 billion for other service delivery agencies and general government.<sup>45</sup>
21. New spending announced in *Budget 2023* provides for:
- a. \$6.4 billion over three years for investments in the public health care system, which includes \$1.1 billion to implement British Columbia’s new payment model for family doctors;<sup>46</sup>
  - b. \$4.2 billion over three years towards affordable and attainable housing;<sup>47</sup>
  - c. \$1.3 billion in new spending measures to support students, foster families and those on income and disability assistance, as well as free prescription contraception;<sup>48</sup>
  - d. \$3.2 billion for new and enhanced tax credits<sup>49</sup>
  - e. \$15.1 billion for wage mandate costs over the three-year *Budget 2023* fiscal plan period, including \$10.8 billion over the three-year *2022 Shared Recovery Mandate* term (2022/23 to 2024/25);<sup>50</sup>
  - f. initiatives funded through \$2.7 billion in supplementary estimates, which includes \$1 billion towards the Growing Communities Fund to support local governments;<sup>51</sup> and
  - g. the Rental Protection Fund (\$500 million), and a BC Affordability Credit (\$500 million).<sup>52</sup>
22. Many of these spending measures are aimed at reducing the burden on British Columbians struggling with cost-of-living pressures.<sup>53</sup>

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<sup>44</sup> *Budget 2023*, Appendix #1, at p. 52.

<sup>45</sup> *Budget 2023*, Appendix #1, at pp. 52, 64.

<sup>46</sup> *Budget 2023*, Appendix #1, at pp. 7, 9.

<sup>47</sup> *Budget 2023*, Appendix #1, at p. 11.

<sup>48</sup> *Budget 2023*, Appendix #1, at pp. 14-15.

<sup>49</sup> *Budget 2023*, Appendix #1, at pp. 14-15.

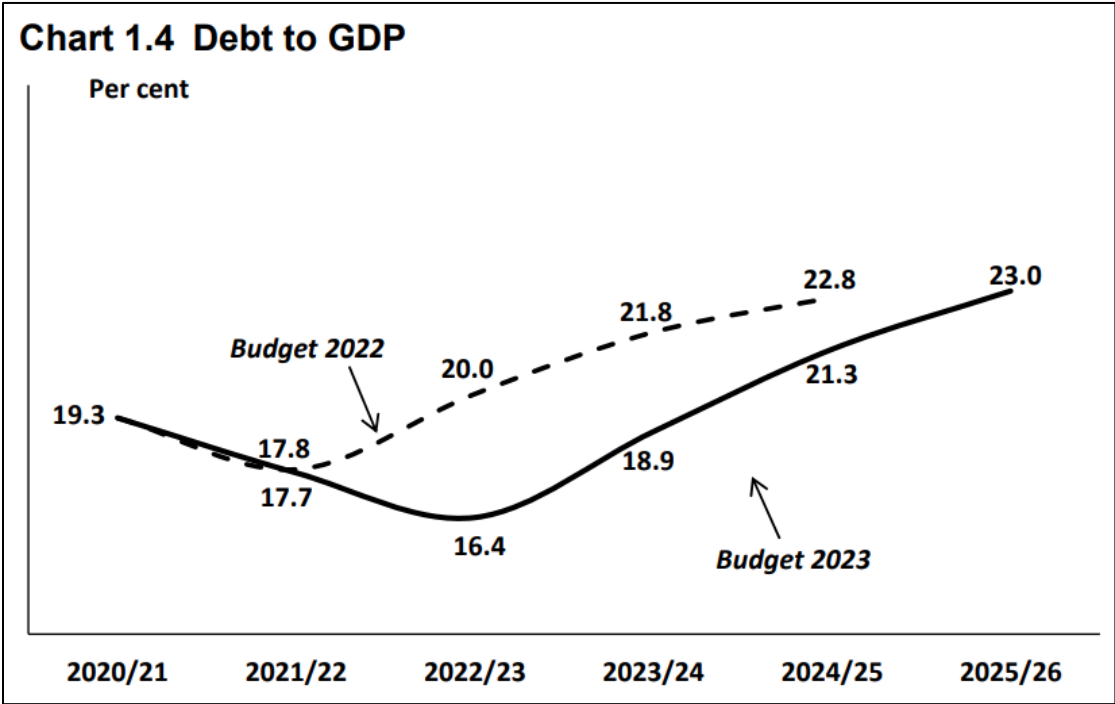
<sup>50</sup> *Budget 2023*, Appendix #1, at 26.

<sup>51</sup> *Budget 2023*, Appendix #1, at 116-118.

<sup>52</sup> *Backgrounder, Fiscal Plan 2023-24 – 2025-26*, Appendix #4, at p. 3 of 3.

<sup>53</sup> *Budget 2023*, Appendix #1, at p. 14.

23. Debt metrics also call for fiscal prudence. Total provincial debt is projected to be \$93.5 billion by the end of fiscal 2022/23.<sup>54</sup> Total provincial debt is projected to increase by \$40.8 billion over the *Budget 2023* fiscal plan period, to a total of \$134.3 billion by 2025/26. Taxpayer-supported debt is forecast to increase by \$35.7 billion, to a total of \$99.4 billion, over that same period.
24. These increasing debt levels are expected to result in rising debt metrics. As illustrated by Chart 1.4 below,<sup>55</sup> taxpayer-supported debt-to-GDP is expected to rise from 16.4% in 2022/23 to 23.0% by 2025/26.<sup>56</sup> However, debt servicing costs remain at a historically low level due to low interest rates, particularly over the past three years. These costs are expected to rise with rising interest rates and debt levels.<sup>57</sup>



<sup>54</sup> *Budget 2023*, Appendix #1, at p. 120.

<sup>55</sup> *Budget 2023*, Appendix #1, at p. 65.

<sup>56</sup> *Budget 2023*, Appendix #1, at p. 64.

<sup>57</sup> *Budget 2023*, Appendix #1, at p. 65.

25. Key risks that may undermine this fiscal outlook include, but are not limited to:
- a. the degree to which elevated inflation and restrictive monetary policy continue to affect economic activity, government revenues, and borrowing and program costs;
  - b. the emergence of new COVID-19 variants of concern, and ongoing geopolitical conflict;
  - c. increased costs and demands for government services, such as health, social assistance programs, COVID-19 response measures and recovery from climate-related disasters; and
  - d. changes in timing of capital projects and related spending, due to factors such as market conditions and weather.<sup>58</sup>
26. The Government recognizes and accounts for these risks through prudence, which permits it to respond to unexpected events. Over the next three years, *Budget 2023* includes a forecast allowance of \$1.7 billion, earmarked and general contingencies of \$6.7 billion, Pandemic Recovery Contingencies of \$1 billion, and contingencies for costs of the *2022 Shared Recovery Mandate* of \$7.5 billion.<sup>59</sup>

## **Conclusion**

27. *Budget 2023* calls for continued economic and fiscal prudence on the part of the Government. Earlier projections that called for slowed economic growth and a declining financial position in the short-term have materialized. On the economic side, indicators point to a potential global recession and weakening GDP growth metrics. On the financial side, the Government's recent statements reveal a return to a deficit position and rising debt.
28. The remarkable economic and fiscal growth seen by the Government in its rebound from the COVID-19 pandemic was of a one-time nature. The Government's proposed

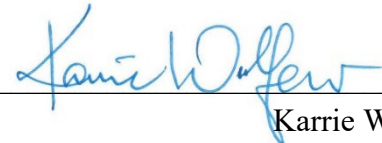
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<sup>58</sup> *Budget 2023*, Appendix #1, at p. 4.

<sup>59</sup> *Budget 2023*, Appendix #1, at pp. 4, 30.

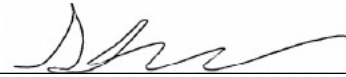
recommendations to this Commission in respect of the salaries of Judicial Justices and Provincial Court Judges remain reasonable and fair.

All of which is respectfully submitted this 7th day of March, 2023.



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Steven Davis  
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the Submission of the Government on *Budget 2023***

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