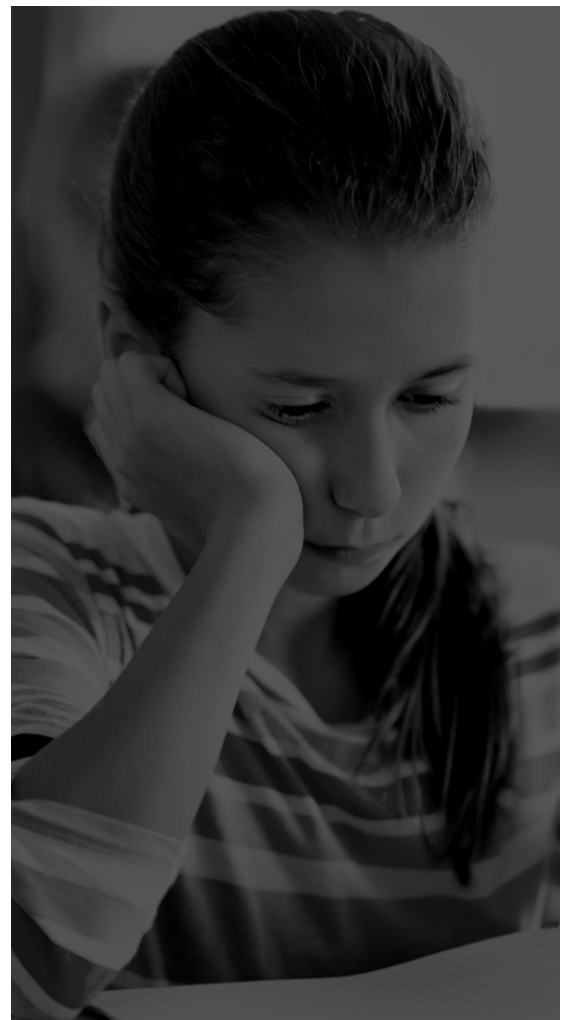
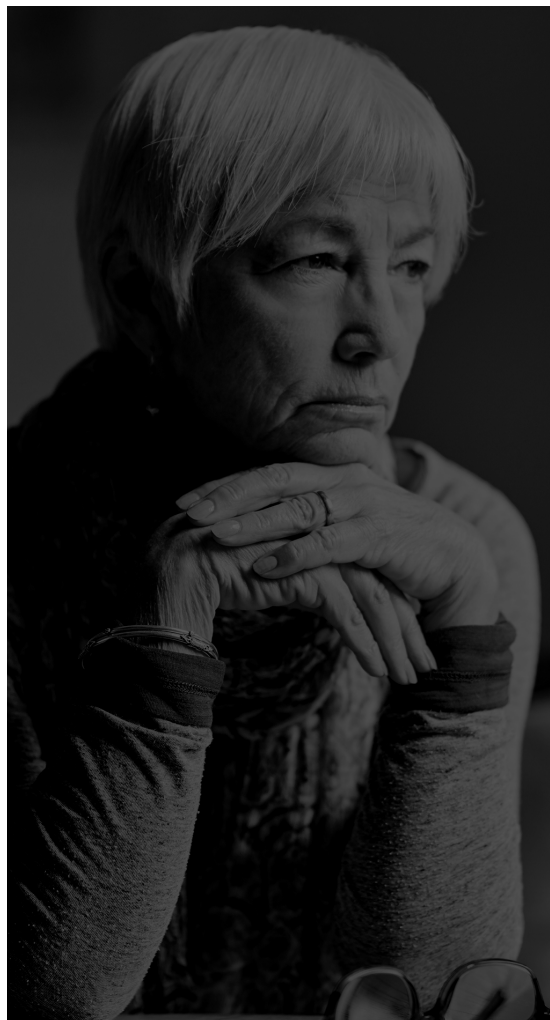


Understanding British Columbia's Public Management Challenge

Ben Eisen and Milagros Palacios



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Executive Summary

From the early 2000s until 2016/17, British Columbia maintained a lengthy period of fiscal restraint during which government spending increased modestly, public debt relative to the size of the economy fell, and taxes were reduced. Following a change in government in 2016/17, the rate of spending growth has increased quickly, government debt has grown, and several taxes have increased.

This paper reviews the evidence of a major shift in government financial management, showing that there has been a substantial increase in spending in recent years. Further, it provides a discussion of two different ways that British Columbians are bearing the cost of increased spending—higher taxes, and increased debt.

In addition to showing that the cost of government has grown in BC and discussing the forms that this increased cost has taken, we provide a preliminary analysis of major indicators of public service performance in the most important areas of provincial public management. Specifically, we examine high level performance indicators in the two largest areas of provincial government expenditure which are health and education. We find no evidence that increased spending has coincided with improved performance in health and education.

With respect to health care, we show that despite increased real per-person health care spending, reported wait times for surgical care have generally increased since 2016/17. Further, we show that the share of British Columbians without a family doctor has been growing in recent years.

Similarly, government spending on K-12 schools has increased significantly in recent years and there has been no corresponding improvement in student performance. In fact, PISA scores—the gold standard for international testing—have fallen in reading, math, and science in recent years in BC.

This paper creates a foundation for additional value-for-money analysis to assess the extent to which the rising cost of government is producing better public services or sustainably improving private-sector driven economic growth for residents and taxpayers in the province.

Introduction

Several recent Fraser Institute analyses have shown that British Columbia's government approach to fiscal policy underwent several important changes in the second half of the 2010s. From the early 2000s until 2016/17, British Columbia maintained a lengthy period of fiscal restraint during which government spending increased modestly, public debt relative to the size of the economy fell, and taxes were reduced. Following a change in government in 2016/17, the rate of spending growth has increased quickly, government debt has grown, and several taxes have increased.

This paper builds on this past research by undertaking a preliminary analysis of the performance of British Columbia's provincial government in the two largest spending areas—education and health. Specifically, it seeks to assess whether there is clear evidence that British Columbia's health and education systems have improved that with the aforementioned tax and spending increases.

The plan of this study is as follows. First, we review and update past analyses of government spending and debt accumulation in BC with a particular focus on changes since 2016/17. The next section discusses indicators of health system performance. The subsequent section discusses indicators of education performance, followed by a brief discussion of an important dimension of the government's broader economic record, which is private sector job creation. A final section briefly concludes.

The Rising Cost of Government and How British Columbians Are Paying for It

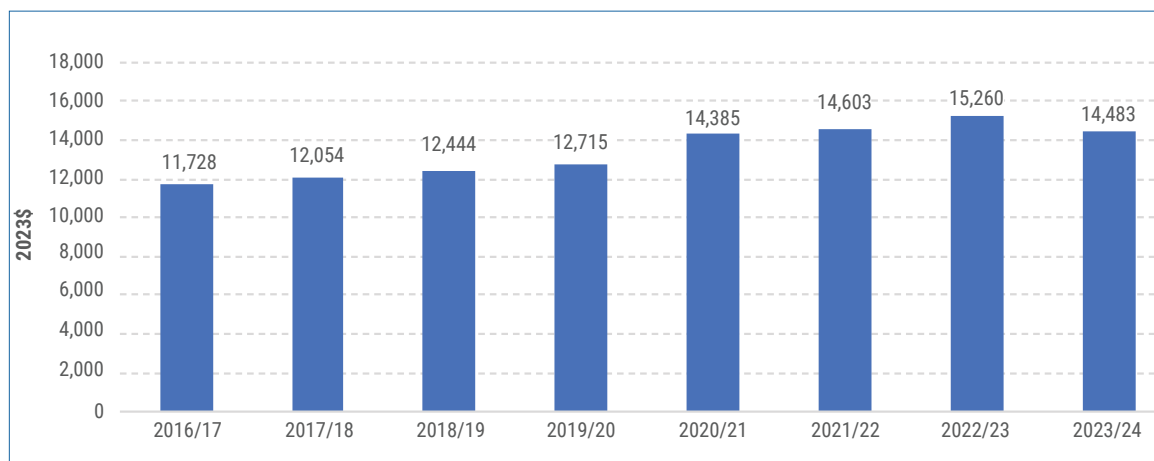
Rapid spending growth

Several past analyses published by the Fraser Institute have documented major changes in British Columbia’s approach to fiscal policy in recent years. One important dimension of this policy shift has been a marked change in the government’s approach to public spending since the change of government in 2016/17.

For approximately the first decade and a half of the 21st century, public management in British Columbia was characterized by a slower rate of spending growth compared to its recent history as well as to other provinces during that period (Eisen and Li, 2024). Specifically, from 1999/2000 to 2016/17, inflation-adjusted per-person government program spending increased at an average annual rate of just 0.8 percent. This was a substantially slower rate of growth than prevailed in the other two largest English-speaking provinces, Ontario and Alberta.

Starting in 2017/18, however, following the election of John Horgan’s NDP government, British Columbia changed course and began a rapid period of increase in government spending. Figure 1 illustrates the growth in real (2023\$) per capita program spending since the end of the restraint era.

Figure 1: Program spending per capita, British Columbia, 2023\$, 2016/17–2023/24



Sources: British Columbia Ministry of Finance (2024), calculations by authors.

As shown, program spending has increased substantially since the end of BC's restraint era. Specifically, between 2016/17 and 2023/24,¹ program spending in BC increased at an average annual rate of 3.2 percent. As a result, spending in BC in 2023/24 was higher than it was during the worst days of the COVID pandemic in 2020/21. Consequently, spending has increased from 17.5 percent of GDP in 2016/17 to 19.6 percent in 2023/24. Put simply, British Columbia has departed from a lengthy period of spending restraint and entered a new era of faster rapid spending growth.

Higher taxes to help pay for spending growth

We have seen that spending has increased rapidly in recent years. This raises the question of how British Columbians are paying for this higher spending. There are two key answers to this question—higher taxes, and increased debt which will ultimately be paid for in the form of taxes in the future. This subsection briefly examines the changes in current taxes that are helping finance the spending growth described above. (This section will not review the entirety of tax changes implemented since the end of the era of spending restraint or the problem of tax competitiveness; however, it will review some of the most important areas of challenge. For a thorough overview of major tax changes introduced in the mid 2010s see Eisen and Jackson, 2019.)

In the middle of the 2010s, BC had one of the most competitive tax systems in Canada, with relatively low personal and corporate income taxes. This has changed dramatically in recent years.

From 2018 to 2020, however, through two separate tax increases, BC increased its top marginal personal income tax rate from 14.7 percent in 2017 to 20.5 percent in 2020. Combined with a federal increase, this raised BC's top combined marginal personal income tax rate to 53.5 percent from 47.7 percent.

British Columbia has also seen corporate income tax (CIT) increases in recent years, although these began prior to the end of BC's era of fiscal restraint. In 2013, the CIT was increased from 10 to 11 percent. In 2018, the CIT was increased by another percentage point to its current level, which is 12 percent. These corporate tax increases exacerbated one of the most significant economic policy problems facing BC, which is the high marginal effective tax rate (METR) on investment. The METR is "the portion of capital-related taxes paid as a share of the pre-tax rate of return on capital for marginal investments" (Chen and Mintz, 2015). In short, it is a measure of the tax burden on businesses associated with making new investments, and a high METR can distort decision-making. BC's METR is by far the highest

1 Data for 2023/24 are projections from the 2024 budget.

in Canada due primarily to a poorly designed sales tax (Bazel and Mintz, 2021), which unlike many of its competitors, applies to a wide range of business inputs. Increases in the CIT rate over the past 15 years made the problem of BC's uniquely high METR in Canada even worse.

There have been many other tax increases in BC during this period. The provincial carbon tax has risen steadily throughout. An employer health tax was introduced in 2018. Other smaller tax increases have also been introduced such as an increase on excise tax on cigarettes and a speculation tax on residential properties.

Growing debt

As we have seen, British Columbians have faced a number of tax increases in recent years. However, these expenses have not been sufficient to offset the spending increases described above. As a result, BC's fiscal balance has deteriorated substantially during this period. The government's most recent budget estimated \$5.9 billion deficit for the 2023/24 fiscal year (British Columbia Ministry of Finance, 2024). This compares to a surplus of \$2.7 billion in 2016/17, the final year of the restraint era.

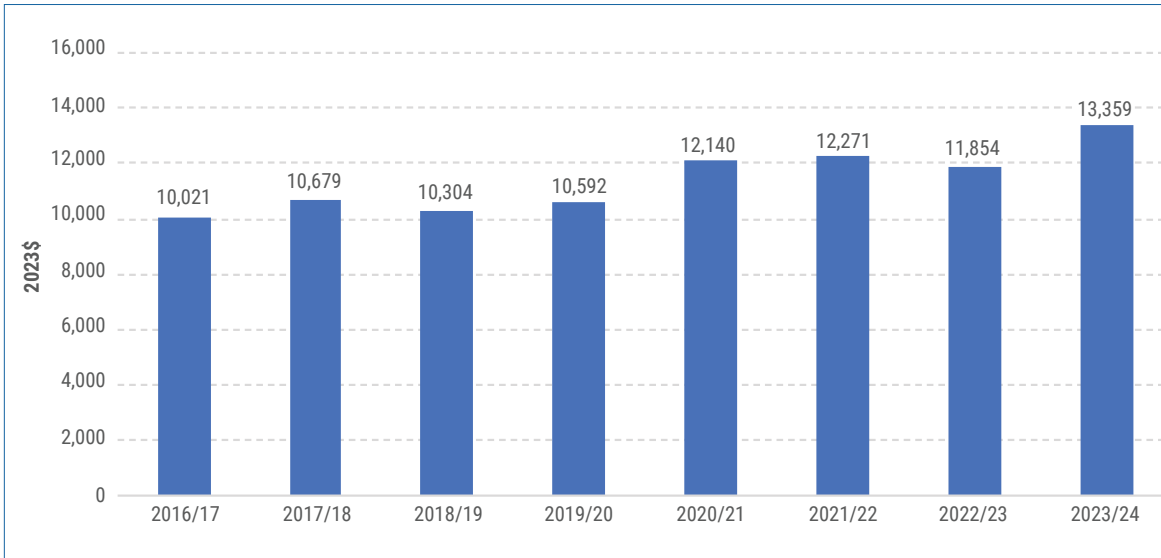
This year's operating deficit is only a portion of the total debt that will be added to British Columbia's books. Once debt from capital expenditures is included, the province's net debt burden—a measure that deducts financial assets—will increase by \$13.0 billion, reaching \$73.7 billion in 2023/24 which is also the highest level in real per person terms (\$13,359) in BC's history.

As figure 2 shows, since the end of the restraint era in 2016/17, inflation-adjusted net debt per capita has climbed from \$10,021 to an estimated \$13,359 in 2023/24.

This, however, represents only the beginning of a rapid run-up in government debt that is projected for the coming years. The government's most recent forecast predicts that BC will increase its real per-person debt to reach \$20,483 by 2026/27. That is an increase of \$8,629 from 2022 levels. Historical context helps us consider the extent of this debt increase. A recent analysis shows that in the years following the 2008/09 global recession real per-person debt increased by \$3,438 and during the COVID pandemic and recession, debt increased by \$1,680 per person (Eisen, 2024). This shows that the government's planned debt growth in the years ahead is substantially greater than during and following those two steep recent recessions.

An important difference between this debt runup and the two historical periods discussed here is that it is taking place in a higher interest rate environment. Correspondingly, debt service payments will increase substantially in the years ahead and are projected to

Figure 2: Net debt per capita, British Columbia, 2023\$, 2016/17–2023/24



Sources: British Columbia Ministry of Finance (2024), calculations by authors.

more than double from \$2.7 billion in 2022/23 to \$5.7 billion by 2026/27 (British Columbia Ministry of Finance, 2024).

This section has provided an overview of recent fiscal policy developments in British Columbia, with a focus on the rising cost of the provincial government to taxpayers. Specifically, it documented a rapid increase in inflation-adjusted per capita spending following the end of a lengthy period of fiscal restraint in the early years of this century. It has also discussed how the cost of this increase in the size of government is being paid for by taxpayers today in the form of current taxes. However, much of it is taking the form of new debt that will have to be serviced by taxpayers in the future or paid back. Ultimately it is taxpayers now and in the future who will have to pay for the rising cost of provincial government in British Columbia.

A Preliminary Assessment of Recent Healthcare and Education System Performance

The previous section shows that the cost of government has increased substantially in British Columbia, with rapid growth starting in 2016/17. A question that naturally emerges from this analysis is whether British Columbians are receiving improved public services in exchange for high spending, taxes, and debt.

A comprehensive analysis of this question is beyond the scope of this project. However, in this section, we undertake a high-level preliminary analysis of the most widely used and accessible indicators of government performance in the two largest areas of provincial government expenditure—health and education.

Healthcare

Healthcare is the largest share of the BC provincial government’s budget expenditure at almost 38 percent. Increased healthcare spending is a significant driver of the spending growth described above. For perspective, real per person provincial health spending has increased by 13.9 percent between 2016/17 and 2023/24.

Measuring the performance of a provincial healthcare system is difficult. There are many dimensions of performance, including health-care outcomes, resource availability, and wait times. Here, we undertake a short examination of available evidence surrounding wait times and access to care to provide a preliminary assessment of the extent to which there is clear evidence of system improvement.

We begin by considering a composite measure of wait times for care drawn from the Fraser Institute’s *Waiting Your Turn: 2023* survey (Moir and Barua, 2023). The report examines a series of procedures across 12 specialties² and utilizes responses from physicians to provide an estimate of the median wait time for elective care by province and by specialty. The full wait for care is measured as the time between a general physician referral and the receipt of care.³

2 In 2023, these specialties included plastic surgery, gynecology, ophthalmology, otolaryngology, general surgery, neurosurgery, orthopedic surgery, cardiovascular surgery, urology, internal medicine, radiation oncology, and medical oncology. The list of procedures has evolved over time.

3 However, wait times in the report are broken down into two segments. Wait One includes the delay in between receiving a referral from a general practitioner and a specialist consultation. Wait Two includes the delay in between said specialist consultation and the receipt of treatment.

Table 1 shows the evolution of the reported wait times in the *Waiting Your Turn* reports from 2016 to 2023. It shows that the median wait time in 2017 was 26.6 weeks.⁴ In the most recent year, 2023, BC's wait time had increased to 27.7 weeks. National wait time averages had deteriorated also and were tied with BC at 27.7 weeks in 2023.

Table 1: Health-care wait times, by province, 2016–2023

	CAN	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC
2016	20.0	26.0	31.4	34.8	38.8	18.9	15.6	20.6	16.6	22.9	25.2
2017	21.2	21.5	32.4	37.7	41.7	20.6	15.4	24.9	19.8	26.5	26.6
2018	19.8	22.0	39.8	34.4	45.1	15.8	15.7	26.1	15.4	26.1	23.2
2019	20.9	23.4	49.3	33.3	39.7	16.3	16.0	32.4	26.0	28.0	24.0
2020	22.6	29.2	46.5	43.8	41.3	18.8	17.4	23.7	21.7	29.4	26.6
2021	25.6	21.1	41.6	53.2	41.5	29.1	18.5	31.5	30.9	32.1	26.2
2022	27.4	32.1	64.7	58.2	43.3	29.4	20.3	41.3	30.1	33.3	25.8
2023	27.7	33.3	55.2	56.7	52.6	27.6	21.6	29.1	31.0	33.5	27.7

Sources: Barua and Ren (2016), Barua (2017), Barua and Jacques (2018), Barua and Moir (2019), Moir and Barua (2021), Moir and Barua (2022), Moir and Barua (2023).

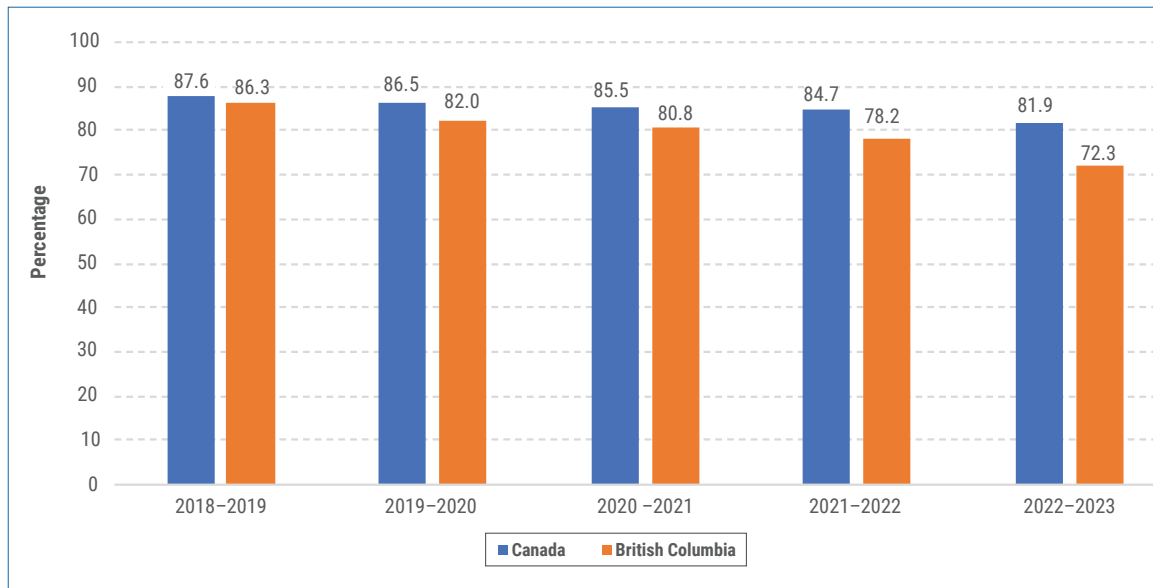
Put differently, BC's clinical wait times have increased since 2017, despite the substantial spending increases described above and are now approximately even with the national median. It should be noted that wait times at the beginning of this period were already high by historical standards. The 1993 *Waiting Your Turn* report estimated wait times to be 10.4 weeks that year.

A second wait time indicator is made available through Canadian Institute for Health Information [CIHI]'s 'In Depth' health series which provides detailed analyses of various dimensions of each province's health program. This series provides data on wait times for hip fracture surgery. Specifically, it is a risk adjusted measure of the percentage of all hip fracture surgeries that took place within 48 hours (of an admission to an acute care hospital). This is an important metric because operative delays for older patients is associated with a higher risk of post-operative complications and morbidity (CIHI, 2024).

Figure 3 shows that the share of patients forced to wait more than 48 hours for hip fracture surgery has been increasing in British Columbia since data for this indicator became

⁴ The table shows a weighted average of all the wait times included, which is the main point of reference used in this section. The weighting methodology can be found on page 12 of the 'Waiting Your Turn' report.

Figure 3: Hip fracture surgery within 48 Hours (percentage), British Columbia and Canada, 2018–2019 to 2022–2023



Source: CIHI (2023).

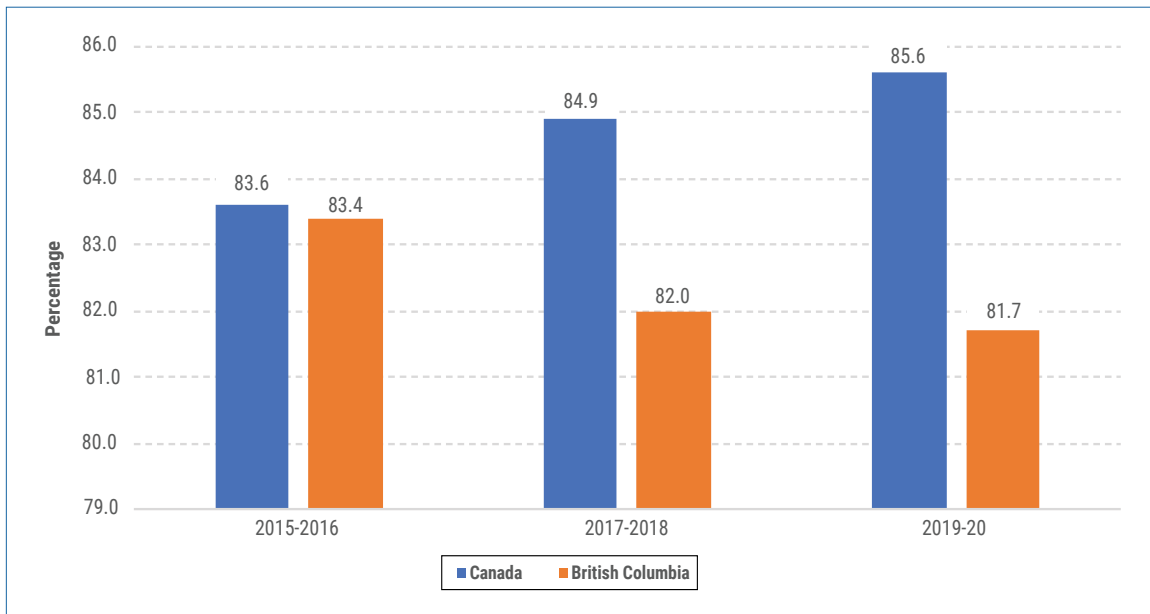
available in 2018. Indeed, it has been deteriorating faster than the national average. In 2018–2019 in BC, 86.3 percent of surgeries took place within 48 hours. In the most recent year of available data, 2022–2023, the share occurring within 48 hours had fallen to 72.3 percent. As a result, BC was near the national average at the start of the period but is now 9.6 percentage points worse than the national average for this indicator.

Another indicator of access to health services collected under the CIHI ‘In Depth’ series is the share of individuals over the age of 12 who report not having access to a regular health-care provider. Over the three years of available measurement, from 2018–2020, BC showed no progress for this indicator in CIHI’s dataset, holding near 18 percent of individuals over the age of 12 not having a regular health care provider. Meanwhile, the comparator national average performance actually improved somewhat. Figure 4 illustrates this change over time.

A more recent survey poll on a similar question found that 27 percent of British Columbians reported they did not have a family doctor or nurse practitioner they could speak to about their health (Our Care, 2023). Although there was no time series available, this was 14 percentage points higher than Ontario, where 13 per cent replied they did not have access to such a professional. At 16 percent, the Prairie provinces also performed far better than BC for this indicator.

None of the available indicators of access present evidence of progress in recent years. Further, as we have seen, data from the Waiting Your Turn series suggests surgical wait times

Figure 4: Persons who have a regular health care provider (percentage), British Columbia and Canada, 2015–2016 to 2019–2020



Source: CIHI (2023).

in BC have increased since 2017 despite substantial spending overall and health spending increases.

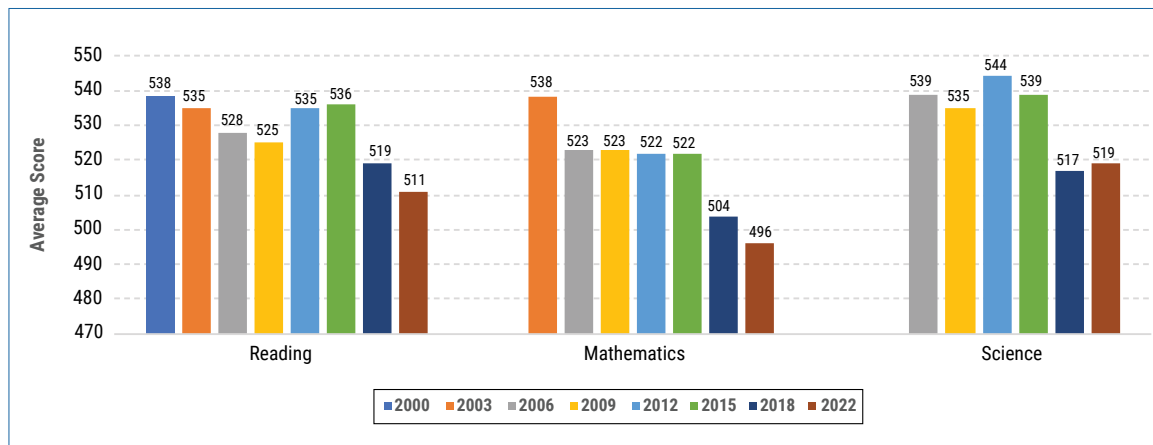
Put simply, while it is beyond the scope of this paper to conduct a comprehensive analysis of the progress of BC's health system, this high-level analysis of indicators did not identify any evidence of improvement in the BC health system in recent years.⁵

Education

The second largest area of public management in terms of spending for the provincial government is K-12 education. Like other areas, there has been substantial spending growth in this sector. From 2016/17 to 2020/21 (the latest year of comparable data), per spending per student has increased by 12.9 percent (Zwaagstra et al., 2023). This is the second largest increase in Canada behind only Quebec.

This section briefly reviews the available evidence on the performance of BC's education system in the years since the end of the fiscal restraint period.

⁵ It is important to note the limitation that we are not comparing performance to counterfactual scenarios with different levels of spending. Unfortunately, it is not feasible to answer with the available data counterfactual questions such as whether lower spending levels would have permitted an even larger deterioration in BC wait times.

Figure 5: PISA scores, average scores, British Columbia, 2000–2022

Sources: Council of Ministers of Education Canada (2001, 2004, 2007, 2010, 2013, 2016, 2019, and 2023).

Unfortunately, the government's own data is of limited use in assessing the performance of students. BC once led the country in province-wide standardized testing and demonstrated strong performance. However, in 2018 the province started to replace a mandatory exam based on course content in Grade 10 Math and English linked to graduation with broader low-stakes assessments in these topics (MacPherson and Emes, 2022).

Furthermore, participation in standardized testing has declined dramatically, making year-over-year comparisons more difficult. Analysts have characterized these developments as “the collapse of student testing in BC High Schools” (MacPherson and Emes, 2024). Although measurement over time is made challenging by these developments, available data shows that there has been a decline in proficiency in numeracy and literacy at the high school level.

Indeed, international testing is available that sheds light on student performance in BC's schools. The Programme for International Student Assessment (PISA) conducts a global test for 15-year-olds in several areas of learning. Figure 5 shows BC's results since 2000.

PISA scores show a marked decline in student performance in reading, mathematics, and science since 2015. PISA considers a 20 point drop to equate to a year of lost learning. Student scores have fallen by 20 points or more in all three categories since 2015. It is noteworthy that most of the fall in each category happened from 2015 to 2018 rather than 2018 to 2022, which removes lost learning from the pandemic as the sole explanation for these developments.⁶ It is important to note that there is a pan-Canadian trend towards lower PISA scores. It would therefore be a mistake to view the developments described above as a

⁶ PISA data covers students in all types of schools and so does not exclusively measure performance of students in the public system. However, given that only 13 percent of BC students attend independent schools, the vast majority of the results are driven by student performance in government schools (Zwaagstra et al., 2023).

uniquely British Columbian problem.⁷ However, the analysis here suggests that the additional spending in BC has not made it immune to negative developments surrounding PISA scores and that scores have fallen while spending has increased.

This section has shown that while per-student spending has increased in BC at the second fastest rate in Canada, main indicators suggest there has not been an improvement in student performance. Rather, the capacity for performance data gathering within the system has been undermined and international testing shows a marked decline in student learning in recent years.

⁷ As in our discussion of healthcare indicators, we do not compare the actual results in recent years to counterfactuals with various other possible spending levels.

BC's Private Sector Job Growth Record

This analysis has shown that the cost of government in BC has increased dramatically in recent years, with a significant increase in spending starting in 2017/18. The cost is being borne in two forms, higher taxes and increased government debt. We have also provided a high-level preliminary analysis highlighting several important indicators of performance in the health and education systems in the province that show little evidence of improvement concurrent with the spending growth.

Governments often have objectives beyond the delivery of public services that affect their spending decisions. Specifically, governments frequently argue that spending increases should be viewed as an investment that will help encourage economic growth and particularly investment and job creation in the private sector. For instance, Premier John Horgan identified the objectives of expenditures related to a government investment fund as “creating and maintaining jobs and growing the innovative economy through investments” (CBC News, 2021). The BC government has also published an “economic plan” which aims to “build an economy that works for everyone” (British Columbia, 2022).

Given that the government has stated that broader economic development is an objective of its activities and spending, it is worthwhile to consider the performance of the private sector labour market in BC in recent years.

Past analyses have shown that job growth in recent years has been driven primarily by the government sector with much less private sector growth (Eisen, Ryan and Palacios, 2023). Private sector growth is important because it ultimately creates the resources that finance the public sector, including public sector employment. An update to the statistics used in these analyses shows that this challenge remains.

Using an index, Figure 6 compares private (including self-employment) and public sector employment in BC, with the number of jobs in January 2018 set to 100. As shown, particularly in the years during and immediately following the pandemic and related recession, government sector job growth grew dramatically whereas private sector growth has remained almost entirely flat. Specifically, in the most recent month of data, government employment in BC was up 29.6 percent over the course of this time series. Private sector employment by comparison has increased by just 5.8 percent. These data suggest that the additional government spending described above may have helped create jobs in the government sector, but it has not produced strong private sector performance with respect to job growth.

Figure 6: Public and Private (including self-employment) employment, index=100, from January 2018 to December 2023, British Columbia



Sources: Statistics Canada (2024), calculations by authors.

Moreover, private sector jobs have not been sufficient to keep pace with population growth. Total private sector jobs as a share of the population over 15 years old has fallen by 2.4 percentage points during this period which is the largest decline in Canada. Meanwhile, government employment as a share of the population over age 15 has increased by 1.8 percentage points (Statistics Canada, 2024). We can conclude that BC's era of increased spending has not been a period of robust private sector job creation.

Conclusion

This study has reviewed and updated past research showing that the cost of government in British Columbia has increased dramatically in recent years. After a lengthy period of fiscal restraint in the first decade and a half of this century, spending began to increase quickly in 2017/18. This paper has documented the extent of the spending increase and discussed how it is being borne in the form of higher taxes and increased debt and debt servicing costs.

Further, this paper conducted a preliminary analysis of high-level indicators of healthcare and education system performance. Despite large spending increases in these two public management categories, which are by far the most expensive borne by the province, key measures reviewed do not show evidence of reduced wait times for patients or improved test scores for students. In fact, the preliminary evidence suggests declining performance in both areas. Higher government spending also does not appear to have led to higher private sector job growth. Overall, this preliminary analysis creates a foundation for additional value-for-money analysis to assess the extent to which the rising cost of government is producing better public services or sustainably improving private-sector driven economic growth for residents and taxpayers in the province.

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