Rein in the Crowns!

2014-15 Pre Budget Submission
British Columbia Select Standing Committee on Finance & Government Services

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About the Canadian Taxpayers Federation

The Canadian Taxpayers Federation (CTF) is a federally incorporated, non-profit and non-partisan, advocacy organization dedicated to lower taxes, less waste and accountable government. The CTF was founded in 1990 when the Association of Saskatchewan Taxpayers and the Resolution One Association of Alberta joined forces to create a national taxpayers organization. Today, the CTF has more than 84,000 supporters from coast-to-coast.

The CTF maintains a federal office in Ottawa as well as provincial and regional offices in British Columbia, Alberta, the Prairies, Ontario and Atlantic Canada. Provincial and regional offices conduct research and advocacy activities specific to their provinces in addition to acting as local organizers of nation-wide initiatives.

CTF offices field hundreds of media interviews each month, hold press conferences, utilize social media like twitter, facebook, youtube and our own blog, as well as issuing regular news releases, commentaries and publications to advocate on behalf of CTF supporters. The CTF's flagship publication, *The Taxpayer* magazine, is published four times a year. *Action Update* emails on current issues are sent to CTF supporters regularly. CTF offices also send out weekly *Let's Talk Taxes* commentaries to more than 800 media outlets and personalities nationwide.

CTF representatives speak at functions, make presentations to government, meet with politicians and organize petition drives, events and campaigns to mobilize citizens to affect public policy change.

All CTF staff and board directors are prohibited from holding a membership in any political party. The CTF is independent of any institutional affiliations. Donations to the CTF are not deductible as a charitable contribution.

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Introduction

In May 2013, B.C. voters re-elected a government that promised to prioritize economic growth, spending restraint, debt reduction, balanced budgets and lower taxes. That pocketbook issues were first and foremost in B.C. taxpayers' minds should come as no surprise – this has been the resounding pattern in B.C. elections for more than four decades.

But campaign promises are just that: words. Now is the time for government to put the plan in place to deliver on this important vision. As Finance Minister Michael de Jong stated in opening this budget consultation: **"Ongoing challenges in the global and domestic economies mean government must continue the discipline that produced a balanced the budget and strike a balance between reducing taxes and costs for families, investing in programs and services, and reducing provincial debt. All while maintaining our commitment that we will not spend more money than we collect from taxpayers."**[1]

Top Priority: Balance the budget this year

The Canadian Taxpayers Federation (CTF) agrees wholeheartedly with the provincial government's commitment to balanced budgets. This is a competitive advantage for the B.C. economy that cannot be denied – providing lower borrowing costs and signaling a strong, stable economic infrastructure to investors and job creators.

B.C. Budget Year End Results 2006-2016, in millions of dollars

2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
$3,977	$2,746	$128	($1,864)	($249)	($1,840)	($1,146)	136	154	446

Core provincial government agencies have seen spending increases trimmed to reasonable rates, thanks in no small part to the government's efforts to get labour costs under control. By sticking to two years of net zero and two years of cooperative gains in negotiating contracts with government unions, the province has saved taxpayers billions of dollars. It's a policy the CTF advocates for other jurisdictions across Canada – from the bloated federal government to the smallest B.C. city.

Provincial ministries are undergoing a core review to find even more savings. The CTF supports that effort – a suggestion we made in our 2012-13 and 2013-14 pre-budget submissions – and has identified some possible savings in this 2014-15 document.

However, it's B.C.'s crown corporations – especially BC Hydro, ICBC, BC Ferries, BC Liquor Stores, PavCo, and the Pacific Carbon Trust that are the focus of this year's pre-budget submission.

[1] http://www.fin.gov.bc.ca/budgetconsultation/

Rein in the Crowns

While core provincial government ministries – with the notable exception of health care – have done a reasonably good job at managing labour costs and generating savings for taxpayers, B.C.'s crown corporations have gone out of control. It is not uncommon for a CEO of a crown corporation to make twice what a deputy minister earns.

The main reason for this is a lack of direct accountability to an elected official. If news breaks that a deputy minister is suddenly taking home half a million dollars a year, there is an elected official responsible for that deputy. The politician can be held accountable in the next election.

The crown corporations do not offer that same accountability. Instead, boards of directors, usually stocked with individuals unknown to the general public, make significant salary and bonus decisions. They do not fear the electorate, so little concern is paid to how much a taxpayer, or ratepayer, can afford. This is how **"gold standard"** corporate cultures emerge, where expensive initiatives, big bonuses and other huge dollar items are simply rubberstamped by boards.

It is time for government to rein in its crown corporations. Some should be eliminated outright, such as BC Liquor Stores and the Pacific Carbon Trust. Others should be opened to competition, like BC Ferries and ICBC. Dividend takes should be reduced from BC Hydro and ICBC, to slowly wean government off the money that is being overpaid by ratepayers. PavCo should be open wide to public scrutiny.

It is time to focus in on the crown corporations as the next big target for saving taxpayers money.

Recommendations

Top Priority: Balance the Budget This Year

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2. Ensure progress on the 2011 audit
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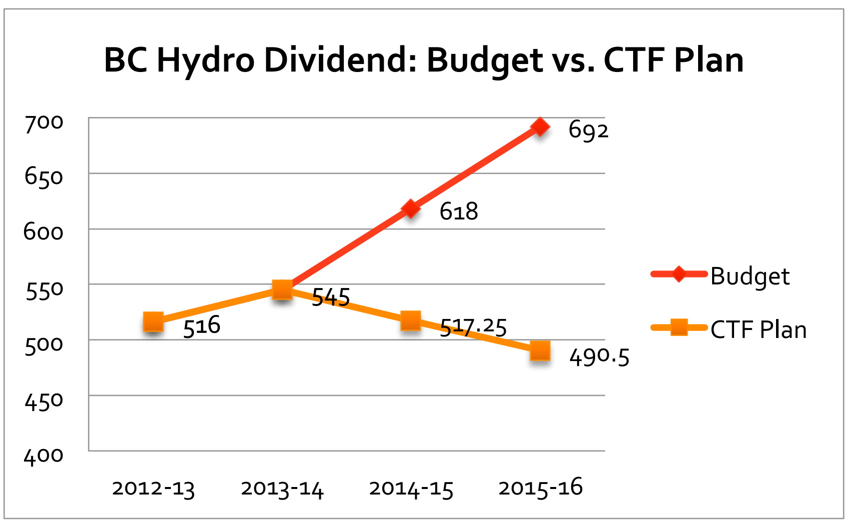
19. Bring in a *Debt Reduction Act*
20. Bring in a *Compensation Equity Act*
21. Launch a health core services review
22. Resist new food taxes

BC Hydro

Even before news broke of a possible 26.4 per cent rate hike[2] at BC Hydro, there was a lot of public discomfort with how BC Hydro was being managed. While the premier was quick to rule out such a punitive increase, controversies including the auditor general's scathing look at deferral accounts,[3] the ongoing Smart Meter program,[4] previous rate increases,[5] Site C delays,[6] the Northwest Transmission Line overruns,[7] California Powerex settlement,[8] Columbia River Treaty negotiations[9] and the provincial government's own blistering audit of BC Hydro administration[10] had all left taxpayers concerned about their pocketbooks and the long-term viability of the public power company.

Recommendation #1: Reduce government dividends from BC Hydro by 5 per cent a year for 20 years

To make the system fairer for ratepayers and to help BC Hydro address long-term debt and infrastructure concerns, the CTF recommends that government reduce its take of dividends from the corporation over the next two decades. The 2013-14 budget projects a $545 million dividend from BC Hydro into general government revenue, growing to $618 million in 2014-15 and $692 million in 2015-16. Given growing concerns over the financial state of BC Hydro, these dividend targets seem overly ambitious and will be impossible to achieve without massive rate hikes or more borrowing. Frankly, the best way for government to protect BC Hydro ratepayers from future price shock is to get its hand out of the till.



The CTF plan would see government slowly weaning itself off Hydro dividends over a period of up to two decades. In all likelihood, it would take less time than that, as BC Hydro would have hundreds of millions of dollars to reinvest in the corporation and pay down debt, accelerating its return to fiscal health.

This is a key philosophical shift. Dividends should flow back in lower rates to BC Hydro ratepayers – the ones who paid the money in the first place. The current practice of transferring money to general revenue makes BC Hydro more of a taxation agency than a power company.

[2] http://www.theprovince.com/technology/Hydro+forecasts+massive+rate+increases/8898349/story.html
[3] http://www.bcauditor.com/pubs/2011/report8/bc-hydro-audit-rate-regulated-accounting
[4] http://www.theglobeandmail.com/news/british-columbia/victoria-offers-smart-meter-alternatives/article13315970/
[5] http://www.bclocalnews.com/news/152750905.html
[6] http://thetyee.ca/Blogs/TheHook/2013/02/04/Site-C-Dam/
[7] http://www2.canada.com/vancouversun/columnists/story.html?id=0868a33a-3849-4bf0-af5a-2273364a2801
[8] http://bc.ctvnews.ca/bc-hydro-run-powerex-agrees-to-750m-settlement-for-gouging-ratepayers-1.1414074
[9] http://blog.gov.bc.ca/columbiarivertreaty/treaty-highlights/
[10] http://www.newsroom.gov.bc.ca/downloads/bchydroreview.pdf

Recommendation #2: Ensure progress on the 2011 audit

British Columbians were stunned by the results of the 2011 BC Hydro review. While asking ratepayers for multiple-year, double-digit increases, BC Hydro was adding hundreds of people to their payroll, boosting salaries, pensions and benefits, and giving performance bonuses to 99 per cent of its employees. BC Hydro's much-discussed "gold standard" should have nothing to do with its corporate culture and everything to do with value for taxpayers.

The absurdity of staffing levels at BC Hydro was astounding. A 41 per cent increase in staffing levels over four years was decidedly out-of-touch with what is happening economically in the world. The review panel found enough duplication in areas such as human resources, finance, communications and engineering to reduce employee levels by some 1,000 without having to touch frontline service staff. Astounding.

As of the development of this budget submission, BC Hydro still has not posted their statutorily required *Financial Information Act* report for the 2012-13 fiscal year.[11] The 2011-12 report showed labour costs of $612.9 million[12] - $5.5 million more than in 2010-11.[13] It will be very interesting to see if any substantial progress has been made in reducing labour and corporate administrative costs.

The CTF recommends that the provincial government continue to press BC Hydro's board of directors and administration to fully implement the changes outlined in the review.

Recommendation #3: Reinstate a B.C. Utilities Commission review of BC Hydro rate applications

In 2012, the provincial government exempted BC Hydro from the usual rate application review process by the B.C. Utilities Commission (BCUC). Government expressed concern that the BCUC would raise BC Hydro rates higher than the corporation was proposing.[14]

Energy decisions are rife with political considerations and no decision is simple when it comes to BC Hydro. However, government has a responsibility to allow outside, independent agencies to review BC Hydro decisions as both a transparency and an accountability function. The BCUC should be given the opportunity to review BC Hydro rate applications – along with significant capital projects such as smart meters and Site C – to provide input to BC Hydro administrators and cabinet. These expenditures are too large and carry too much risk to not engage every check and balance possible.

Government always has the option to override the BCUC, especially if the commission recommends a higher rate increase. However, that decision is separate from the sober, second look the BCUC can provide. By combining this recommendation with the CTF's plan to cut the provincial government's dividend from BC Hydro, the government can show it is prioritizing long-term fiscal sustainability at the corporation.

[11] http://www.bchydro.com/about/accountability_reports/openness_accountability.html
[12] http://www.bchydro.com/content/dam/BCHydro/customer-portal/documents/corporate/accountability-reports/openness-accountability/financial-information-act-return-2012.pdf
[13] http://www.bchydro.com/content/dam/BCHydro/customer-portal/documents/corporate/accountability-reports/openness-accountability/financial-information-act-return-2011.pdf
[14] http://www2.canada.com/topics/bodyandhealth/story.html?id=6662661

Government cannot have it both ways: if BC Hydro were a private company facing competition, it could make the case that the BCUC should have no influence over it. A privatized BC Hydro could set its own rates and consumers would deliver final judgment on whether they were fair or not. But government wants to keep BC Hydro a crown corporation and therefore must more scrutiny from the BCUC.

Recommendation #4: End the practice of BC Hydro funding opposing statements at the B.C. Utilities Commission

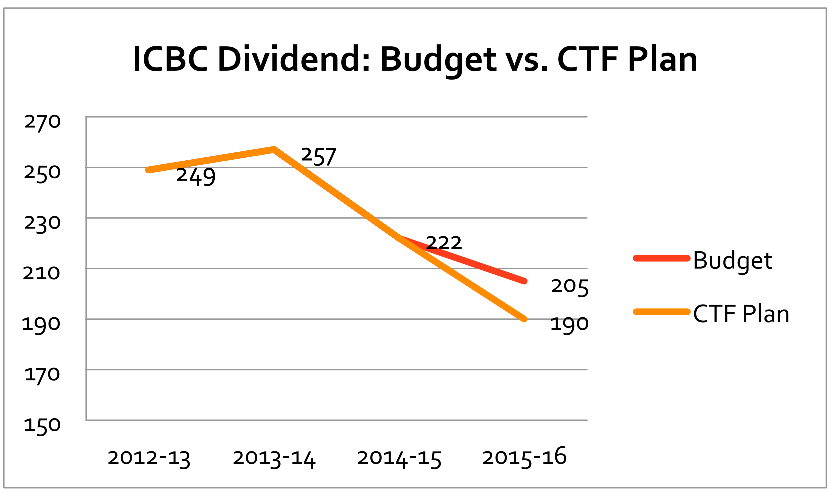
The practice of BC Hydro sending tens of thousands of dollars to fund its opponents' and critics' presentations to the BCUC should cease. Agencies, organizations and citizens who wish to weigh in on BC Hydro issues should do so by standing on their own merits, not because they receive a subsidy from ratepayers to finance their work. This creates a culture where submissions are made that may not be necessary or constructive.

By being required to fund their opposition, BC Hydro is propagating an agenda of "no," rather than allowing the free marketplace of ideas to determine what advocates are worthy of support and therefore presenting to the BCUC.

ICBC

In the 2013-14 B.C. budget document, a section on the Insurance Corporation of B.C. (ICBC) claims it is in the midst of a **"multi-year $400 million transformation program that is designed to promote a fairer, customer-based risk pricing model, resulting in better rates for safer drivers, simplified systems and processes to facilitate better support for customers and business partners with less paperwork; and more efficient business practices."** The quote contains several words B.C. taxpayers rarely use to describe ICBC, including **"fairer, better rates, simplified systems,"** and **"efficient."** One can only hope ICBC will deliver on these promises. With another rate increase coming in 2013 – following a double-digit increase last year – ICBC has a lot to prove to its ratepayers.

Recommendation #5: Reduce government dividends from ICBC by 12.5 per cent a year for 8 years



A unique opportunity exists to wean the B.C. government off of ICBC dividends. The 2013-14 budget anticipates a significant dip in the dividend from ICBC next year – dropping 13.6 per cent from $257 million this year to $222 million next year. If that percentage drop was made an annual occurrence, it would take just eight years for the provincial government to no longer be reliant on ICBC dividends.

Dividends are overpayments that B.C. auto insurance purchasers are forced to make. With no competition in basic auto insurance, drivers are completely at ICBC's mercy, paying ever-increasing rates with no commensurate increase in service. Worse, those corporation profits don't flow back to the people who paid for them – ratepayers. Instead, dividends flow into government coffers.

However, the coming dip in ICBC's dividend payments should be looked at as an opportunity to ratchet down government dependence on those payments, reinvest those tens of millions of dollars into the corporation, and – most importantly – push rates lower for drivers.

Recommendation #6: Ensure progress on the 2012 audit

In 2012, the provincial review of ICBC[15] was released and revealed a top-heavy Crown corporation. Despite the fact the number of frontline union employees shrank slightly from 2007 to 2011, the number of managers at ICBC jumped 32 per cent—272 new manager jobs. These managers were some of the highest paid individuals in the public sector; senior management compensation spiked 70 per cent since 2007, from $12.3 million to $20.9 million.

Five years ago, 14 ICBC employees made more than $200,000. In 2011, the year the audit examined, 54 broke that threshold and the bank. In 2012, that number had fallen to 47,[16] but a lot of work remains to be done.

This bloating at ICBC occurred during the worst global recession in decades and, along with declining investment revenue and increased claim payouts, led to ICBC raising its basic insurance rates by 11.2 per cent in 2012, with another 4.9 increase proposed for this year.[17] As the review said, ICBC's **"culture of cost-containment and financial discipline has been lacking in recent years."**

The review also revealed that ICBC used the Canada Mortgage and Housing Corporation (CMHC), the federal government and the Alberta government to set their pay grades. Inexplicably, they don't use the B.C. government or private insurance companies. This is another good reason for a *Compensation Equity Act*, which would force government to take tough negotiating stands with all public workers and bring their salaries and benefits in line with those earned in the private sector (see more on the *Act* in this submission's Outstanding Recommendations section).

Government's philosophy of letting Crown corporations operate as monopolies has proven unsuccessful. In lieu of real market forces and competition, the boards exert no fiscal control over senior staff, who inevitably inflate salaries, benefits and staffing levels. With no accountability or competition, ratepayers suffer the consequences of higher costs and reduced revenue to government.

Government monopolies like ICBC need to be constantly monitored by politicians. Better yet, get taxpayers out of the insurance business all together. Studies have consistently shown that drivers in provinces with strongly regulated, but competitive, auto insurance markets pay less for their insurance than we do in B.C.[18]

Recommendation #7: Open ICBC to competition

The CTF recommends the government introduce legislative changes to allow competition in the provision of basic auto insurance.

One of the many promises the current government made during the 2001 election was to "introduce greater competition in auto insurance, to create increased choice and reduce motor vehicle premiums."[19] Apart from

[15] http://www.fin.gov.bc.ca/ocg/ias/pdf_docs/ICBC_Review_2012.pdf
[16] http://www.icbc.com/about-ICBC/Company-information/financial-info-2012.pdf
[17] http://www.vancouversun.com/business/ICBC+wants+hike+rates+blames+soaring+injury+claims/8851580/story.html
[18] http://www.fraserinstitute.org/uploadedFiles/fraser-ca/Content/research-news/research/publications/personal-cost-and-affordability-of-auto-insurance-in-Canada-2011.pdf

setting up a new regulator, the British Columbia Utilities Commission, there has been little change to the government auto insurance monopoly. In 2003, Bill 58 was introduced to amend the regulations of the government run ICBC. However, the most important provisions governing competition and ensuring a "level playing field" for private insurance providers, (sections 50 and 51) were never proclaimed into law.

In October 2011, the Fraser Institute released a report on Canadian auto insurance rates.[20] ICBC's rates are the second-highest in Canada. In fact, the report found that three of the four provinces with the least affordable auto insurance were provinces with government-run monopolies like B.C. Meanwhile, the best rates can be found in five provinces where insurance is handled by a competitive and regulated private sector—Alberta, Newfoundland, Nova Scotia, Prince Edward Island, and New Brunswick. The average auto insurance premium in BC was $1,113, second only to Ontario's $1,281.

These numbers reinforce a long-standing Canadian Taxpayers Federation recommendation: that ICBC's basic auto insurance monopoly is bad for ratepayers, and the market be opened to competition.

In light of rising premiums, rising costs, rising executive bonus levels, large profits and falling customer satisfaction levels, it is time to end the ICBC monopoly.

Opening up the auto insurance market to competition will create an environment of greater accountability and no longer leave taxpayers to compensate for managerial mistakes.

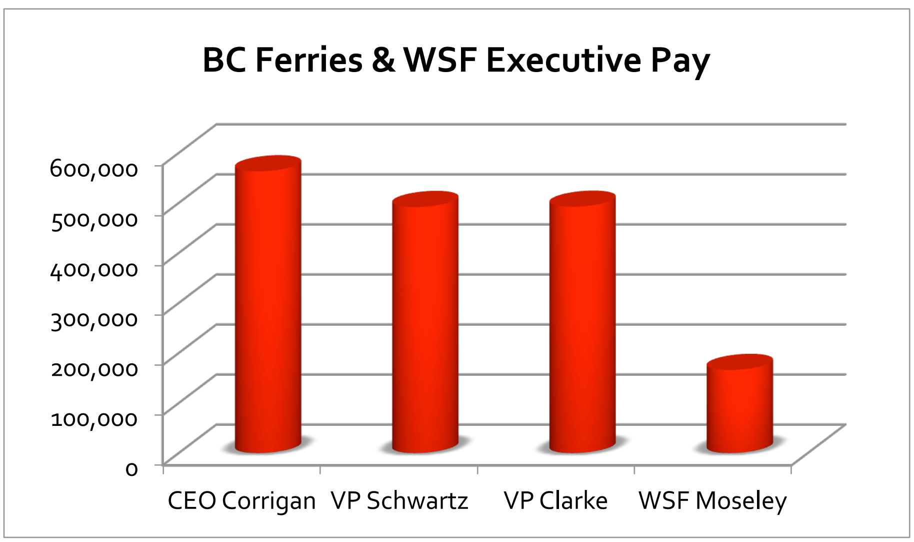
[19] http://www.scribd.com/doc/48388741/BC-Liberal-2001-Platform-complete
[20] http://www.fraserinstitute.org/research-news/display.aspx?id=2147483787

BC Ferries

No issue galvanized taxpayers in the summer of 2013 more than the revelation that BC Ferries' top executives were given six-figure bonuses in a year where they increased ferry rates and took $80 million more in government subsidies than the year before.

Recommendation #8: Get executive salaries and bonuses at BC Ferries under control

It's as annual an occurrence as there is in B.C. – news of another BC Ferries executive compensation package that is completely out of line with public expectations. This year, public disgust reached new levels when it was revealed that BC Ferries CEO Mike Corrigan made more than the top three Washington State Ferries (WSF) executives – combined.[21] This despite the fact that WSF moves more people and more vehicles, and is even or better than BC Ferries in most measures.



Corrigan took home $563,000 in compensation last year. BC Ferries VP Robert Clarke made $492,207 last year, including a $133,711 bonus, while VP Glen Schwartz made $491,643, including a $127,008 bonus. In comparison, Washington State Ferries' CEO David Moseley made $165,943.[22] Moseley is directly accountable to Washington's governor, not a board of directors – a model the CTF supports. As we see with core government employees in B.C., including deputy ministers earning half what Corrigan makes, direct accountability to an elected official helps keep salaries more in line with the public expectations.

As this budget submission went to press, the CTF was presenting a petition calling for changes to BC Ferries' enabling legislation to make the corporation subject to government rules around executive compensation, bonuses and collective bargaining mandates – and to make BC Ferries directly accountable to the Minister of Transportation. This petition was signed by nearly 3,000 people in just two weeks – a sign of public discontent

[21] http://www.theprovince.com/business/Michael+Smyth+ferry+execs+hosing+taxpayers+look+Washington+State+system/8830132/story.html

[22] http://taxpayer.com/news-releases/time-to-sink-bc-ferries--gravy-boat

over the pay and bonus structure. The CTF campaign also generated more than 250 personal e-mails to the minister and Ferries critic from taxpayers concerned about the future of BC Ferries.

One reason this campaign resonated with the public is because of the planned sailing cuts set to be announced by BC Ferries later this fall. Ferry-dependent communities are rightly concerned with the economic and lifestyle impacts of such decisions. Taxpayers deserve to know that it won't just be them who feel the effect of cuts at BC Ferries – by cutting executive compensation and bonuses, it ensures these cuts are felt at the top of the organization too.

The CTF supports whatever measures are needed to rein in executive compensation and bonuses at BC Ferries once and for all, up to and including firing the board of directors.

Recommendation #9: Remove BC Ferries' ability to veto its competition

BC Ferries has the power to veto any ferry competition—and their board and CAO aren't afraid to use it. Quite simply, former CAO David Hahn made sure no private company could ever live up to the standards he set out for competition. Instead of looking at safety and legal issues—the only things government should be regulating in a private business, BC Ferries demanded equipment redundancies and financial viability.

In an interview with Vaughn Palmer on February 9, 2012, Hahn admitted alternative service delivery by private operators was **"never going to happen."**[23] He stated that any competitors had to be **"financially viable, meaning your balance sheet has to be willing to stand up in front of ours."** That's a shocking admission, considering BC Ferries itself relies on massive government subsidies and huge fare increases—and still loses money just as often as it makes it. Hahn also demanded **"experience"** to run routes. How would a B.C. company have such experience in a province where BC Ferries controls everything?

The truth is, BC Ferries had no interest in allowing any competing models. This should be changed to allow any operator to run a ferry service as long as they meet safety regulations.

[23] http://taxpayer.com/british-columbia/why-bc-ferries-has-no-competition

BC Liquor Stores

Last year, the Canadian Taxpayers Federation recommended to this committee **"an open discussion on the future of liquor distribution"** in B.C. We were pleased to see the government take us up on that advice, and note the government is presently reviewing all policies related to liquor legislation, distribution and sales in British Columbia. While there is much that can be done to modernize liquor laws, government should not lose sight of an important goal: getting taxpayers out of the liquor retail business.

Recommendation #10: Sell off BC Liquor Stores

Government has a responsibility to focus on providing services that cannot or would not be done by the private sector. This can often be done in partnership with private companies or contractors, but government oversteps its bounds when it uses tax money to set up its own companies to compete with the private sector. Yet over many decades, government has crept beyond its original mandate of building and maintaining core infrastructure to keep citizens safe and healthy, instead dabbling in areas where there is no reason for its involvement. Nowhere is that unfair playing field more apparent in B.C. than in government liquor stores.

As U.S. president Thomas Jefferson wrote, **"The purpose of government is to enable the people of a nation to live in safety and happiness. Government exists for the interests of the governed, not for the governors."** This was a lesson well learned by the BC Liberal government in 2001, which dug the province out of deficit by reviewing its programs and asking three questions[24]:

- What is government's business?
- How are we going to do it?
- How can we do it better?

BC Liquor Stores fail this simple test. It should not be government's business to compete with private industry in an area of no strategic or real community value such as alcohol sales. As the Fraser Institute's Mark Milke says, **"The B.C. government could get out of liquor retailing, still collect the revenues it wants, give job creation a push, and give B.C. consumers and tourists a much more competitive liquor retail environment than now exists. Selling beer is hardly a core function of government."**[25]

Milke's research on BC Liquor Stores reveals that Alberta, which got out of the booze-selling business in 1993, shows that Alberta's nearly 2,000 liquor stores compete intensely for their share of the market, lowering prices and providing better value for consumers than we get in B.C., where government liquor stores skew the

[24] http://www.fin.gov.bc.ca/archive/efu/update_speech.htm
[25] http://www.taxpayer.com/news-releases/your-beer-is-probably-cheaper-in-alberta

market.[26] Indeed, 90 per cent of alcohol products were cheaper in Alberta than in B.C.,[27] proving the value to consumers – not to mention better hours, more convenient locations and improved selection.

Interestingly, statistics for individual BC Liquor Stores are not available. Taxpayers – the stores' owners – have no idea how any of the 197 individual locations are performing, if they are profitable, and what the overhead costs are. Are they performing well, given the many unfair advantages government has granted them – including a corporate tax exemption, government-mandated wholesale price points for private stores, and the ability to move stock between stores, which private sector liquor stores are forbidden to do?

The CTF would go even further than simply selling off BC Liquor Stores, and support the B.C. Chamber of Commerce's view of this issue: **"The liquor industry in this province is disadvantaged by the government having sole right to dictate pricing in this area. The growth of the industry, and its ability to create jobs and contribute to the provincial economy, would see a significant increase if private sector outlets were allowed true price parity and competition. If private business sectors could purchase liquor wholesale, competition, not government policy, would dictate the price and quantities sold. Additionally, removing the single government distribution and warehousing system would create a more nimble, responsive system that could support industry growth in line with demand. Consumers and the private sector would both win, and government revenue would be protected and costs significantly reduced."**[28]

Despite the fact that private liquor stores receive only a 16 per cent price break from the government on liquor purchases, the industry has proven its ability to give consumers better options than the BC Liquor Stores through smart location choices, clever marketing, superior customer service and drive for cost-savings through efficient business practices.

Selling off BC Liquor Stores would give the provincial government a shot of capital dollars, save current and future employee costs (including pensions for entry level workers like cashiers and shelf-stockers), cut bureaucracy, and could still result in the same revenue flowing into the treasury – as it did in Alberta. The CTF would even support giving existing Liquor Store the first option to purchase their outlets – turning employees into owners.

[26] http://www.biv.com/article/20120710/BIV0313/307109995/-1/BIV/antiquated-liquor-store-model-is-a-bad-deal-for-bc-8217-s-consumers
[27] http://blogs.theprovince.com/2013/09/08/mark-milke-private-liquor-sales-in-alberta-has-been-a-success/
[28] http://www.bcchamber.org/advocacy/policy/provincial_gov/justice_liquor/levelling_the_playing_field_for_liquor_retailing.html

Pacific Carbon Trust

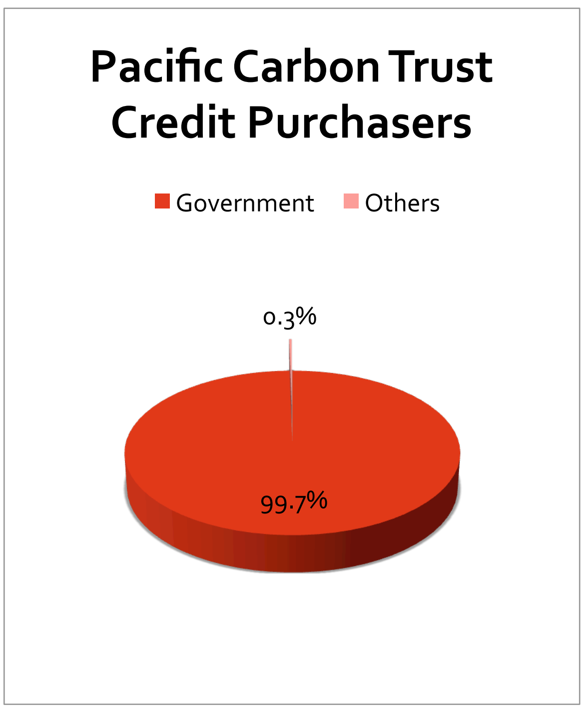
In March 2013, the B.C. auditor general released a report that shredded any credibility the Pacific Carbon Trust had retained. Building on work by former MLA Bob Simpson, the Canadian Taxpayers Federation, Ben Parfitt of the Canadian Centre for Policy Alternatives and Gord Hoekstra of *The Vancouver Sun*, the provincial auditor found the Trust was not accomplishing the goal of making B.C. a carbon-neutral government.

The dismal and expensive performance of the Trust speaks for itself. For the ongoing core review of government to have any credibility, eliminating the Pacific Carbon Trust must be a top recommendation.

Recommendation #11: Eliminate the Pacific Carbon Trust

The Pacific Carbon Trust has become frighteningly adept at taking taxpayers' money—$19.5 million last year[29]—and transferring it to big businesses.

It's time for the provincial government to scrap the Trust, and end corporate welfare disguised as environmentalism. The numbers prove that transferring tax dollars to companies through the illusion of carbon neutrality is a massive failure.



The Trust's latest annual report shows that government agencies purchased 775,825 of the 777,992 carbon offsets sold by the Trust.[30] That means 99.7 per cent of the Trust's work was funded by taxpayers.

Only 12 private companies or individuals bought carbon credits last year for a measly $54,050. The rest of the Trust's $14 million budget was funded exclusively by taxpayers, taking money out of our pockets, classrooms, hospitals and social services.

For example, the Surrey School District was forced to buy $525,952 in carbon credits.[31] The Interior Health Authority spent $1,236,157. The Central Okanagan School District paid $132,100. Under provincial law, if it was a provincial government agency, it had to become carbon neutral by purchasing offsets from the Trust.

29 http://pacificcarbontrust.com/assets/Uploads/2012-13-Annual-Service-Plan-Report.pdf
30 http://www.pacificcarbontrust.com/assets/Uploads/Corporate-Documents/PCTAnnualReport2012-web.pdf
31 http://taxpayer.com/blog/08-08-2012/bc-pacific-carbon-trust-costs-add

The Trust actually overcharges government agencies – making them pay $25 per tonne for a carbon credit they buy for $11.92. This has resulted in a $25 million surplus reserve fund at the Trust.[32]

Even worse, taxpayer money flowed exclusively into the pockets of corporations, including some of the largest companies in the province. Lafarge, a $20 billion company, was paid by the Trust for 22,998 carbon credits. Encana, an $8.8 billion company, was paid for 84,276 credits. Canfor, a $2.5 billion company, was paid for 41,573 credits. Other sellers included TimberWest and Interfor.[33]

These companies reduced their carbon footprints through various projects such as switching fuel sources and sold the resulting pollution savings, known as carbon credits, to the Trust. The Trust acts as a middleman, buying carbon credits from private companies with tax dollars. However, there are serious questions about the program, raised by *The Vancouver Sun*, after an investigation showed 22 out of 25 Trust-funded projects would have gone ahead with or without the Trust's support.[34] Further, this spring's investigation by the auditor general revealed a number of questionable issues at the PCT[35], including:

- **"We concluded that the provincial government has not met its objective of achieving a carbon neutral public sector."**
- **"[The] Trust has not purchased credible offsets."**
- **"The PCT has not provided sufficient information in its reporting about the cost and quality of its purchases."**
- **"We found that both projects started without showing that the value of offsets was considered to the extent that it provided the incentive for going ahead. Offsets are supposed to be the tipping point to make a project happen."**

The auditor general's independent analysis found the PCT was not accomplishing even the environmental goals set out for it – despite taking in millions of dollars from taxpayers. That alone should be reason enough to eliminate the Trust.

When the Trust was first announced in the B.C. Liberals' 2008 Throne Speech[36], it was promised that it would **"foster economic growth from new opportunities... [by attracting] offset purchases from private citizens, companies and other governments alike."**

That hasn't happened; the Trust is still a drain on provincial taxpayers—and getting worse.[37] Two years ago, individuals and businesses bought 6,790 carbon credits. Last year, that number fell by more than two-thirds to 2,167.

In a free market, that kind of consumer rejection would be taken as a sign to either radically change the model or get out of the business altogether. But for government, it's just another day at the office.

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[32] http://pacificcarbontrust.com/assets/Uploads/2012-13-Annual-Service-Plan-Report.pdf
[33] http://taxpayer.com/british-columbia/bc-taxpayers-pay-millions-carbon-corporate-welfare%E2%80%94again
[34] http://taxpayer.com/blog/24-04-2012/bc-kill-wasteful-pacific-carbon-trust
[35] http://www.bcauditor.com/pubs/2013/report14/audit-carbon-neutral-government
[36] http://www.cbc.ca/news/canada/british-columbia/story/2008/02/12/bc-thronespeech.html
[37] http://taxpayer.com/british-columbia/bc-pacific-carbon-trust-must-go

Government's spring 2012 announcement that $5 million of Trust funds will flow back to school districts to lower carbon emissions won't solve the problem. This will only transfer money from poorer districts to the wealthier ones that can afford capital upgrades. And the fund is still only one-quarter of the total cost to taxpayers—meaning millions more in questionable corporate handouts in the years to come.

The best solution is the simplest one: scrap the Pacific Carbon Trust and keep our tax dollars out of the pockets of these private companies. While the notion of a carbon neutral government may sound nice on a website, doing it through corporate welfare hurts both taxpayers and the public services we fund.

BC Pavilion Corporation

Despite operating two of the Province of British Columbia's most visible assets – BC Place Stadium and the Vancouver Convention Centre – the operation of BC Pavilion Corporation (PavCo) is shrouded in secrecy. Proactive disclosure at PavCo rarely happens, forcing investigative reporters and watchdog organizations like the CTF to file *Freedom of Information* requests for even basic information that other crown corporations make readily available. A cultural shift needs to occur at PavCo.

Recommendation #12: Improve transparency

PavCo's most recent service plan includes this comment: **"Although BC Place is located within the designated Entertainment District of Vancouver, rapid construction growth in the area surrounding the facility over the past few years has resulted in the stadium now being located in an increasingly residential area. In order to operate successfully, BC Place needs to manage its relationships with neighbours and continue business as a good corporate citizen."**[38] Despite giving lip service to opening dialogue with neighbours, PavCo remains insular in nature.

The board of directors does not meet in public. In fact, they do not even offer an annual meeting for neighbours and taxpayers to speak at. Board agendas and minutes are not posted – only an attendance list of directors.[39] Despite numerous requests from the media, PavCo has refused to release the business plan for the BC Place renovation, and will not divulge what, if anything, the CFL Lions and MLS Whitecaps pay to play there.

It took a *Freedom of Information* request by the CTF to ferret out senior staff expenses, including news that new CEO Dana Hayden, from September through February, expensed $2,200 a month for accommodation, along with thousands more in per-diems. Taxpayers even paid for her parking at Victoria Airport ($387 from Oct. 18 to Dec. 6 and $270 from Dec. 12 to Feb. 14) so she could fly over and work in Vancouver.[40]

At one point, the PavCo board of directors tried to blacklist investigative reporter Bob Mackin, seeking permission to ignore his *Freedom of Information* requests.[41] Mackin has worked the PavCo beat for years, breaking several important stories. Since 2007, he has filed a couple hundred FOI requests with PavCo, asking for information which should be available to the public.

Why shouldn't taxpayers know what the B.C. Lions or Vancouver Whitecaps pay to play in our $563 million stadium? Why shouldn't we be aware of the legal issues surrounding the stadium's roof? Or why the Telus naming deal died? But instead of looking in the mirror and pondering ways to make more information available

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[38] http://bcpavco.com/index.php/download_file/view/125/77/
[39] http://bcpavco.com/index.php/download_file/view/133/75/
[40] http://taxpayer.com/blog/bc--dana--no-one-is-an-island---well%2C-except-me--hayden-s-expenses
[41] http://taxpayer.com/commentaries/bc--stop-pavco-s-banana-republic-tactics-on-information-requests

without forcing people to use FOI, PavCo went the banana republic route, trying to silence Mackin. Fortunately, negative public reaction forced PavCo to back down.

Lack of scrutiny allows these situations to occur. PavCo needs to be instructed by the minister responsible to post board meeting agendas and minutes, proactively release expenses and create a culture of information-sharing, not secrecy. The corporation stewards $1.4 billion worth of taxpayer-owned assets and those taxpayers deserve answers.

Recommendation #13: Sell the naming rights to BC Place Stadium, or sell the stadium completely

A rose, by any other name, would smell as sweet, and when taxpayers have just poured $600 million into growing that rose, getting $35 million back in naming rights would help sweeten the odour, ever so slightly.

That's what makes the government's decision to keep the name of BC Place Stadium so troubling. It had a lucrative deal in place with Telus, a huge company already making a $3 billion investment in B.C. over the coming few years.[42]

At the last possible moment, the deal - which would have reportedly generated $35 million – was cancelled by the B.C. government.

The first government news release claimed the B.C. Place name was too iconic to give up.[43] Subsequent interviews have hinted that parceling out advertising rights may generate more money—although B.C. Place is already chockfull of ads. And now, apparently, the naming rights are off the table all together. Then there was the report that government itself heavily courted Telus to take the naming rights, before backing out.[44]

Sports business guru Tom Mayenknecht said the dollars offered by Telus was far ahead of most comparables.[45] The deal was even better than Toronto's Air Canada Centre (a much more valuable property with 41 NHL games, 40 NBA games, 35 AHL games, and dozens of concerts—naming rights cost $1.5 million a year) or Montreal's Bell Centre (again, with 41 NHL games plus concerts—at $800,000 annually). As Tom put it: **"So no matter how you cut it, per capita and even in absolute terms, [the proposed Telus deal] compares with the best naming-rights deals in North America."**

This was a significant missed opportunity to generate much-needed revenue for BC Place Stadium and should be remedied forthwith.

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42 http://www.vancouversun.com/sports/Opinion+Buzz+over+Premier+Photo+snub+Telus/6255103/story.html
43 http://www.newsroom.gov.bc.ca/2012/03/statement-on-a-naming-rights-agreement-for-bc-place.html
44 http://blogs.vancouversun.com/2012/03/08/scrapped-telus-deal-for-bc-place-raises-lots-of-questions/
45 http://www.theglobeandmail.com/news/national/british-columbia/rejection-of-telus-naming-rights-for-bc-place-nonsensical-sports-marketer-says/article2363857/

Better yet, follow the advice of opposition leader Adrian Dix, who suggested during the May election campaign that BC Place be sold off completely: **"Skills training, healthcare, education, and managing our land base are all fundamental priorities for government. Retractable roofs and stadium management, in my view, are not. If the private sector can do a better job of running BC Place, while freeing taxpayers of millions in annual losses and reducing public debt, we've got a win-win, and we will pursue that."**[46]

Recommendation #14: Reduce the size of the PavCo board and address executive compensation

The PavCo board of directors, managing $1.4 billion in assets, is presently 11 members. The BC Hydro board of directors, managing a far larger, and more complicated corporation, is also 11 members. PavCo's board could easily be reduced to five people.

More important, the BC government needs to push the board of directors to revisit the lucrative executive compensation packages PavCo is doling out. Some of the highest-paid people in government work for PavCo, and the salary structure is over the top.

Former CEO Warren Buckley was paid $559,276 in his final full year on the job; it is unclear what his replacement, Dana Hayden, will earn. Both general managers received big pay increases: BC Place's Howard Crosley's pay grew 9.9 per cent to $292,730, while the Convention Centre's Ken Cretney grew 4.5 per cent to $370,441.[47]

[46] http://www.huffingtonpost.ca/2013/04/24/adrian-dix-bc-place_n_3148233.html
[47] http://bcpavco.com/index.php/download_file/view/180/77/

Outstanding Recommendations

The Canadian Taxpayers Federation provides formal comment during the B.C. budget process on an annual basis. Sometimes, the government takes our advice – for example, we recommended a core review in both our 2012-13 and 2013-14 documents, and are pleased to see it now under way.

There are still some vitally important outstanding recommendations from our two most recent submissions that we believe should be considered this year.

RECOMMENDATION #15: KILL THE CARBON TAX

Last year, the CTF made the following recommendation[48] to the provincial government's review of the B.C. carbon tax:

That the Government of British Columbia immediately repeal the B.C. carbon tax, including all revenue neutrality tools, if necessary to balance the provincial budget.

We were pleased that the provincial government has announced a five-year freeze but we note that other jurisdictions are shedding carbon taxes altogether, further hurting B.C. economic competitiveness. Australia, a leading competitor for the lucrative liquefied natural gas industry, is in the process of dismantling their carbon tax.[49]

British Columbia's carbon tax has been a polarizing public policy ever since its introduction in 2008. It has divided the province, pitting rural and suburban residents against their urban neighbours. It has caused increases at the gas pump, on heating and electricity bills, on BC Ferries fares, at the grocery store and elsewhere. And it has failed to accomplish its goal: gasoline sales are up[50] and even B.C.'s environment minister has admitted that the province's climate policy has had a negligible effect on B.C.'s greenhouse gas emissions[51]—far less than the global recession did. In fact, B.C.'s carbon emissions fell 4.5 per cent from 2007 to 2010; during the same period, Canada's carbon emissions, without a carbon tax anywhere but B.C., fell 8 per cent.[52]

When it was first introduced, it was announced that the carbon tax would be "revenue neutral." While the carbon tax has indeed been revenue neutral for government, it has been anything but for average British Columbians. Residents located in urban centres—not surprisingly, where the majority of B.C.'s policy makers and climate action activists live—have generally benefitted by shifting their tax burden on to suburban and rural

48 http://taxpayer.com/sites/default/files/kill_the_carbon_tax_8-13-2012.pdf
49 http://www.abc.net.au/news/2013-09-09/abbott-carbon-tax/4945330
50 http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/trade37c-eng.htm
51 http://m.theglobeandmail.com/news/british-columbia/economy-plays-key-role-in-bc-meeting-greenhouse-gas-targets/article4375930/?service=mobile
52 http://ec.gc.ca/ges-ghg/default.asp?lang=En&n=8BAF9C6D-1#figs1

residents with fewer travel options. Industries like agriculture, manufacturing and resource development have struggled under the burden of yet another tax. It has been a failed experiment in social engineering.

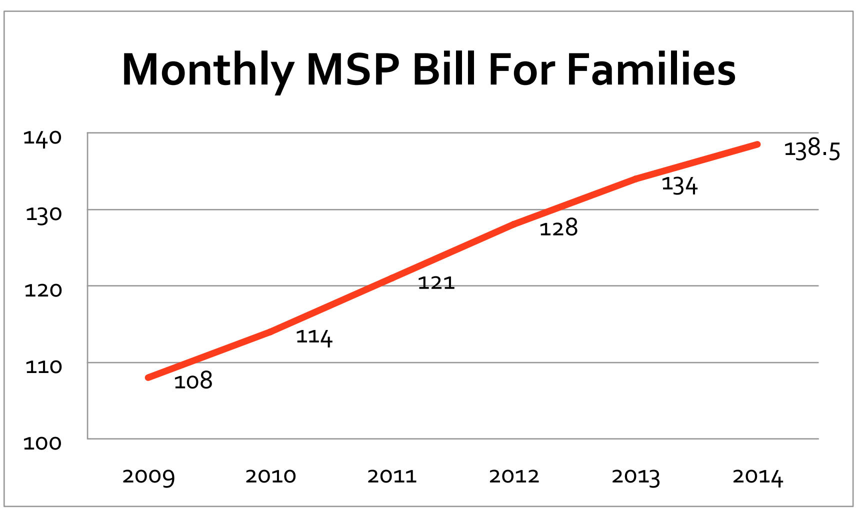
As Kootenay East MLA Bill Bennett – now B.C.'s energy minister – told the Legislature last year, **"Government should get rid of the carbon tax as soon as it can afford to do so. When the carbon tax was brought in there were, of course, corresponding tax concessions that were made that will make it difficult for government to terminate the carbon tax. But as quickly as we can afford to do so, I believe, in my personal opinion, that we should do that. In fact, I would go a little further and say that the whole policy regime that's based on the notion that the B.C. government can do something about the amount of human-caused carbon dioxide going into the atmosphere should be rethought."**[53]

No nearby jurisdictions have followed B.C.'s lead, damaging our economic ability to compete. It is vital B.C. do whatever it takes to keep its economy going. Only by growing jobs will we be able to afford the ever-increasing costs of health care and other social services.

For that reason, the Government of British Columbia should immediately repeal the B.C. carbon tax, including all revenue neutrality tools, if necessary to balance the provincial budget. This would bring immediate relief of seven cents per litre of gasoline to beleaguered B.C. drivers (The 5 per cent HST is charged on top of the 6.67 cents per litre carbon tax, bringing the true cost of the tax to seven cents per litre) and provide a much-needed shot of adrenaline for our post-HST economy.

While it would be preferable to keep some of the corresponding tax cuts—especially the 5 per cent, $228 million income tax break—the CTF recognizes it is more important to remove the carbon tax and balance the provincial budget next year.

RECOMMENDATION #16: ELIMINATE THE MEDICAL SERVICES PREMIUM



One provincial tax that seems to continually increase is the monthly Medical Services Plan (MSP) premium. On January 1, 2010, MSP for families with children increased from $108 to $114. On January 1, 2011, it went up again to $121; increased again on January 1, 2012, to $128; and again to $134 on January 1, 2013. In its 2013-14 budget, government announced another increase for Jan. 1, 2014, bringing it to $138.50 per month. That's a 28 per cent increase since

[53] http://www.leg.bc.ca/hansard/39th4th/H20430a.htm

2010 – a lot of money for a middle-class family, pushing the annual MSP bill up $300 to $1,662.

Of course, MLAs and public servants don't notice this increase as they don't pay MSP—they are paid by taxpayers on their behalf. But rest assured: it is hurting families in British Columbia. More than $2 billion was collected last year in MSP. That's money sucked out of the economy at a time when it was needed the most.

Economists like to talk about unintended side effects. One nasty side effect of the 28 per cent hike in MSP premiums is the huge hit to the provincial treasury: it's costing a fortune to pay the monthly MSP premiums for MLAs, public servants, health care workers and teachers. Health care and education costs are going through the roof and this is one of the reasons why.

Rather than just re-negotiating with the unions to get them to pay for their own MSP premiums, why not help all B.C. families? Scrap medical services plan premiums completely and get rid of the costly MSP collection bureaucracy in Victoria.

RECOMMENDATION #17: NEGOTIATE A BETTER DEAL ON EQUALIZATION

The national Equalization agreement expires in 2014 and have-not provinces—most notably Quebec—are already pouring time and money into research supporting their position that Alberta, Saskatchewan, British Columbia and Newfoundland and Labrador taxpayers should continue to prop up free-spending Canadian provinces. Quebec's budget document included 129 mentions of the word "equalization" and 33 pages on making the case for more money in federal transfer payments.[54] British Columbia's 2012-13 and 2013-14 budgets had nothing.

It's an issue B.C. must begin to talk about. From 2004 to 2008, B.C. taxpayers paid an average of $356 each per year into Equalization—our tax dollars going to subsidize services in other provinces.[55]

Have provinces, like B.C., Alberta, Saskatchewan and Newfoundland and Labrador need to band together to make the case that Equalization is a broken system that continues to hold provinces back by discouraging them from using their own opportunities to enhance their economy, instead relying on the rest of Canada to foot their bills. This starts with solid research numbers to counteract the Quebec spin, legal opinions on what the constitutionality of Equalization truly is and forming a united position that Equalization needs a significant overhaul and a massive reduction in the transfers made between provinces. If Equalization is to continue, it should at least reflect the comparative higher cost of delivering government services in B.C.[56]

Further, the Equalization system was supposed to provide relatively equal services across the country at relatively equal levels of taxation. When you have $7 a day childcare and the cheapest tuitions in the country in Quebec, funded in large part by the Equalization formula, the system is broken. Unless Canadians get a handle on the provinces' runaway spending, their growing mountain of debt and the resulting tidal wave of interest charges, we can expect that pressure on well-managed provinces to grow.

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[54] http://www.budget.finances.gouv.qc.ca/Budget/2012-2013/en/documents/budgetplan.pdf
[55] http://www.mowatcentre.ca/research-topic-mowat.php?mowatResearchID=51
[56] http://www.fcpp.org/blog/alberta-and-ontario-must-work-together-to-fix-fiscal-federalism-in-canada/

We need to turn off the tap on transfer payments, follow the European example and dedicate ourselves to building a debt-free, self-sufficient Canada.

RECOMMENDATION #18: CONVERT THE AIR AMBULANCE SERVICE TO A NOT-FOR-PROFIT MODEL

The B.C. government has entrenched a bad news scenario for B.C. patients and taxpayers by allowing an outdated, expensive model of providing air ambulance service. We can no longer afford to ignore highly successful, not-for-profit models in Alberta, Saskatchewan, Manitoba, Australia and Europe, which provide superior service for a fraction of the cost to taxpayers.

B.C. currently contracts two private companies—Helijet International Inc. and CC Helicopters Ltd.—at an annual cost of about $15 million to operate four dedicated helicopter air ambulances. These helicopters assist injured and ill people in emergency situations, flying them from accident scenes or between health care facilities.

Meanwhile, in Alberta, the Shock Trauma Air Rescue Society (better known as STARS), has five helicopters, with two new ones on the way. STARS' cost to Alberta taxpayers last year: $6 million. STARS raises three-and-a-half times that amount in non-tax sources, such as a lottery, fundraising events and corporate sponsorships.

STARS is so good that Saskatchewan and Manitoba are scrapping their for-profit air ambulance contracts and joining Alberta in a western Canadian initiative. B.C. is the lone holdout, sticking with the more expensive for-profit model.

Not only is STARS cheaper, it seems to offer superior service. Unlike the B.C. air ambulance helicopters, which are 30-year-old designs retrofitted to carry patients, STARS' air ambulance choppers are state of the art, specifically designed to medevac people. The Alberta helicopters are basically flying intensive care units. They carry a pilot, a co-pilot, a nurse experienced in emergency/ICU care, an advanced life support paramedic and a referral emergency physician trained in pre-hospital care and transport. B.C. air ambulances have pilots and a critical care transport paramedic, but no doctors.

The two new Alberta helicopters carry two patients at once—a godsend for multiple victim accidents.

STARS also has a strong base of volunteers, something a for-profit system like B.C.'s can't attract. In September 2011, STARS dropped five Calgary CEOs in the wilderness with nothing but their cell phones. They were promised a "rescue" when they each raised $100,000. The effort was hugely successful, with the executives raising $1.3 million in non-tax dollars for the charity.

B.C.'s eight year, $104 million contract with Helijet runs through April 1, 2019, with an option to renew for another four years. However, the contract does allow the Province to terminate with six months' notice. We recommend transitioning air ambulance service to the cheaper, better non-profit model. At a cost saving of $9 million annually, B.C. taxpayers could save as much as $72 million over the period of that contract. This makes sense for patients, for government and taxpayers.

RECOMMENDATION #19: BRING IN A *DEBT REDUCTION ACT*

We owe future generations more than a legacy of debt and high taxes. The first step is to get the budget balanced. The second is to bring in a legislated debt reduction and elimination plan, similar to Alberta in the 1990s.

The government should be commended for getting the provincial debt down to $33 billion in 2006. However, lack of a legislated debt elimination plan has meant an increase in the debt, which is now expected to explode to $69.4 billion by 2016. That is unacceptable. While B.C.'s triple-A credit rating keeps those borrowing charges relatively low, it is still a cost government should look to eliminate long-term.

Alberta's debt servicing costs once consumed 12 per cent of its tax revenues. But after working through their plan, by Budget 2005-06, virtually every penny of Alberta's provincial tax revenues were available for roads, bridges, schools and hospitals.

As was learned with the Alberta example, a law is required; vague promises don't work. Debt freedom is achievable, but only if legislation is put in place to oblige the government to follow through. After returning to balanced budgets this year, the Canadian Taxpayers Federation recommends the B.C. government introduce a *Debt Reduction Act* similar to Alberta's.

When the CTF pressured Alberta to enact debt repayment legislation, Premier Ralph Klein took our advice. Under Alberta law, 75 per cent of budgetary surpluses were directed toward debt retirement—not election promises, or politicians' pet projects, goodies for supportive ridings, or Crown corporation bonuses. Twelve years later, Alberta taxpayers went from paying $1.7 billion a year in debt interest to paying zero. In 2005, Alberta was out of debt. Alberta politicians had the tool they needed to say no to special interest groups wanting to cut everyone else's pay to pad their own.

If only Klein's successors had stuck to the Alberta plan! Now, sadly, they have slid back into deficit budgets. But the plan worked—everyone credits Alberta's energy for becoming debt free, but that money had to be put aside through debt repayment legislation. B.C. is investing in liquefied natural gas, we have huge resource deposits—we need that same debt repayment legislation, and leaders disciplined to stick with it, to move B.C. out of debt.

Nothing good happens to debt without a plan. As a society, we need to show fiscal discipline. We need proactive leadership to push citizens and the private sector to expand B.C.'s skills and resources and ensure that the value added by our hard work goes to something tangible—debt reduction. We need to ratchet down expectation of government and find innovative solutions that recognize our individual personal responsibility.

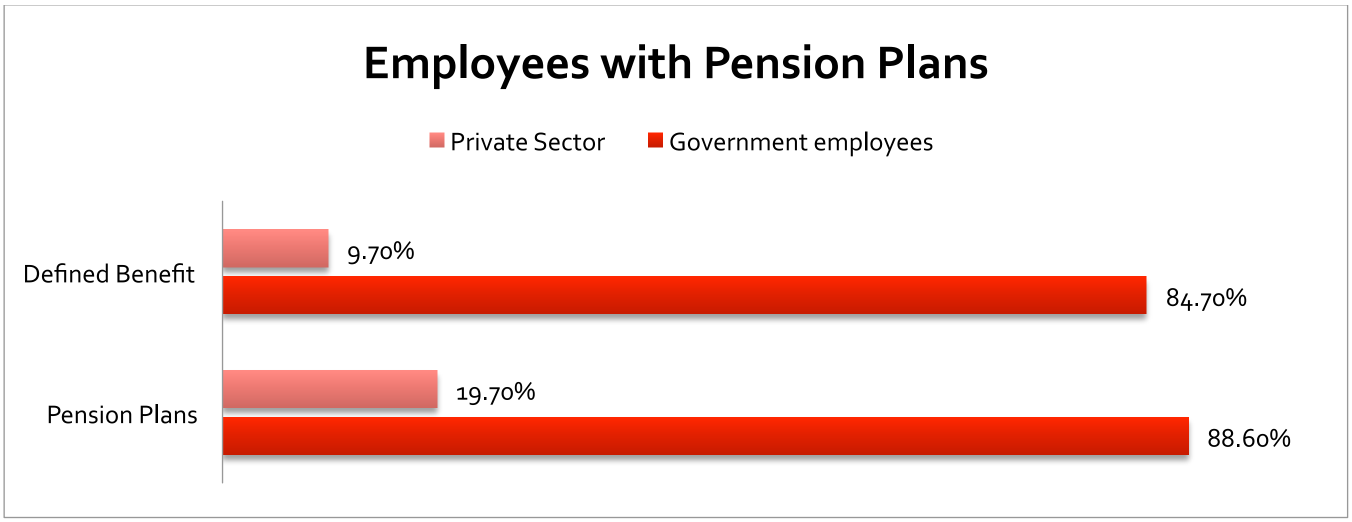
RECOMMENDATION #20: BRING IN A *COMPENSATION EQUITY ACT*

Government employees, in general, get paid more than private sector employees to do the same job. We've seen it over and over again: ridiculous salaries, bonuses and other perks (plus bloated management numbers) at

ICBC[57], BC Hydro[58], Community Living B.C.[59], BC Ferries[60], TransLink[61], city halls[62] and the provincial government itself.

A government liquor clerk, for example, makes up to $28 an hour when you factor in their pension and benefits. The private sector liquor clerk, working the same job, makes $11 an hour. Various studies have shown that government employees make more than their private sector counterparts.[63]

Salary is just one piece of the puzzle. Pensions are another. In B.C., 88.6% of government employees have a pension plan, compared to 19.7% of private sector employees. Within those numbers, 84.7% of government employees with pensions have the ultra-expensive defined benefit plans, compared to 9.7% of private sector employees.[64]



So while most of us are paying taxes and trying to scrimp and save for our own retirements, public sector employees continue to enjoy guaranteed, expensive pension plans. This is neither fair nor equitable.

A *Compensation Equity Act* would go a long way to solving these problems. It could make it illegal for a public servant to be paid more than they would earn for the same job in the private sector. It could factor in pension as "deferred income," ensuring that taxpayers weren't overpaying twice for the same labour. It could set out salary caps for executives and build a cadre of skilled negotiators who could grind down government union and executive pay and benefits.

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57 http://taxpayer.com/british-columbia/bc-icbc-executives-make-drunken-sailors-blush
58 http://taxpayer.com/british-columbia/how-increased-power-rates-and-deferred-debt-turn-big-bc-hydro-bonuses
59 http://taxpayer.com/blog/19-06-2012/bc-clbc-bosses-get-more-money-lieu-bonuses
60 http://taxpayer.com/british-columbia/new-bc-ferries-boss-has-big-ship-turn
61 http://taxpayer.com/blog/03-04-2012/bc-top-10-reasons-why-translink-bosses-should-not-get-bonuses
62 http://taxpayer.com/issues/british-columbia/bc-take-back-city-hall
63 http://taxpayer.com/issues/british-columbia/bc-fix-bc-public-private-pay-gap-now
64 http://taxpayer.com/issues/british-columbia/bc-fix-bc-public-private-pay-gap-now

The *Act* has public support. An *Angus Reid Public Opinion* poll[65] showed an overwhelming number of British Columbians believe government workers are being paid more than taxpayers can afford and should be brought in line with the private sector.[66]

Four in five British Columbians said compensation for government employees should be the same as what private sector employees earned. Almost three-quarters (73 per cent) said they would support provincial legislation—a *Compensation Equity Act*—to ensure governments can't blow the budget on bureaucrat wages.

POLL QUESTION: Taxpayers can't afford to pay more to government employees…

	B.C.	GVRD	Island	S.Interior	North
Strongly Agree	58%	55%	52%	69%	64%
Moderately Agree	20%	22%	23%	14%	19%
Moderately Disagree	11%	11%	13%	11%	11%
Strongly Disagree	7%	8%	8%	5%	5%
Not Sure	4%	4%	4%	2%	0%

More than three-quarters (78 per cent) of British Columbians agreed that taxpayers cannot afford to pay more to government employees. They're right—we should stop increasing wages, benefits and pensions for government employees with borrowed money.

RECOMMENDATION #21: LAUNCH HEALTH CORE SERVICES REVIEW

If there is one book every MLA should be required to read, it's Jeffrey Simpson's *Chronic Condition*. While we do not agree with every idea, Simpson certainly lays out the challenges facing the health care system—and the reality of the service we are receiving.

With health care now consuming 43 per cent of the B.C. budget—and growing annually—taxpayers can no longer afford to simply nibble around the edges of this issue. We understand this is difficult ground politically. As Simpson writes, **"Canadians are so wedded to the medicare status quo, so fearful of change lest**

[65] Poll conducted between March 16 and 18, 2012, by *Angus Reid Public Opinion*. The online survey was of 804 randomly selected British Columbia adults who are *Angus Reid Forum* panelists, with a margin of error of +/- 3.5 per cent.

[66] http://taxpayer.com/sites/default/files/Backgrounder%20-%20poll%20results%20on%20pub%20vs%20priv%20pay.pdf

medicare somehow slip away and so ignorant of what other countries are doing that the political risks of candid talk, let alone serious reform, are intimidating… Health care, an extremely complex system that is encumbered with so much national emotion and self-definition, cannot be changed quickly or easily. Nor, as Canadians have seen over the past decade, do large amounts of additional money necessarily buy change."[67]

Simpson proposes ideas such as a new drug plan for seniors, allowing people to contribute to future drug costs in a manner similar to the Canadian Pension Plan. He outlines the need to offer different health care entry points than just very costly hospitals. And, yes, he suggests more private involvement: **"We are clinging to a system that exists nowhere else in the world. Countries with largely public systems have been shaking up the statist approach for hospitals and doctors, while ensuring that public coverage extends beyond these services to other patient needs, especially elderly ones. That is the trade-off that other countries have made; that is the trade-off Canada needs."**

Whether you agree with Simpson's proposals or not, British Columbians need to have a larger dialogue about health care and find ways to transform our system to save money—and provide better care. Our current health care system ranks in the middle of the pack, or lower, when compared to other first world countries.[68] While we consistently score better than the United States, that is an exceedingly low bar to get over.

As Simpson wrote, **"Among countries with public systems, Canada is in the top five spenders per capita from public and private sources. But it is far from being in the top five on any international survey on results, whether you measure outcomes, quality of care, wait times, patient satisfaction or other factors."**

The injection of choice into the health system is the first step toward better outcomes and lower costs. A fiscal review of health authorities is necessary—is the money being spent on health care going to making patients better, or is it getting lost in funding unnecessary bureaucracy, soaring executive pay packages and communications programs? Which health authorities are doing the best job managing taxpayer dollars and improving patient care? How can their successes be mimicked in other health authorities? In an era where government must do more with less, health care cannot, and should not, be exempt from scrutiny.

We can provide better care, and we can manage health care dollars better. B.C. should be a leader in this effort.

RECOMMENDATION #22: RESIST NEW FOOD TAXES

Whether by the B.C. independent business tax panel[69], the B.C. Healthy Living Alliance[70] or a Kamloops city councillor,[71] the idea of a fat or sugar tax continues to pop up like the pesky mole in that old midway game. Unfortunately, it's taxpayers – and the provincial economy – that would get whacked by such a tax.

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[67] http://www.canada.com/book+says+medicare+needs+political+leadership+confront+hard+choices/7297779/story.html
[68] http://www.theglobeandmail.com/commentary/heres-my-prescription-for-reviving-medicare/article4576368/
[69] http://www.fin.gov.bc.ca/docs/Final Report as of September 14, 2012.pdf
[70] http://www.bchealthyliving.ca/healthy-eating
[71] http://www.kamloopsthisweek.com/news/157640315.html?mobile=true

Supporters of such a flawed taxation policy should look to Denmark's experience for a textbook example of why it doesn't work.

In October 2011, Denmark was the one of the first countries in the world to bring in a fat tax, and the first to abolish it thirteen months later.[72] No wonder: it was a fiscal disaster, driving hundreds of thousands of Danes across the German border for cheaper groceries and costing hundreds of jobs, according to Jens Klarskov, CEO of *Dansk Erhverv* (the Danish Chamber of Commerce).

It got so bad during Denmark's fat tax era that German stores sent flyers to Danish homes, translated into Danish, bragging: **"No fat tax here!"**

The ads worked; more Danes began to shop in Germany.[73] The Danish Chamber released a poll showing that before the fat tax, one in three Danes shopped in Germany. During the fat tax era, that number grew to one out of every two. When asked about why they shopped outside Denmark, one in three named the fat tax as the primary reason. Long known as the place where Danes shop for booze, cigarettes and sweets, Germany, thanks to the fat tax, large discounts and professional marketing, became a place where Danes also shopped for food.

Sound familiar? Lower Mainlanders crossed the U.S. border 15.4 million times into Whatcom County last year[74] in search of cheaper gas, cheaper flights, cheaper booze, cheaper clothing, cheaper consumer goods, cheaper milk and cheaper cheese. That's the highest cross-border shopping total since 1997.

With money stretched thin due to a high cost of living and heavy tax load, British Columbians are already pouring south to stretch their paycheques further.

As the Fraser Institute's Mark Milke points out, Canadian customs tariffs already add $3.6 billion in consumer costs to nearly everything we buy here.[75] Throwing on another tax would just further grow that price gap.

Imagine a tax on fat or sugar in B.C., and U.S. grocery stores ripping a page out of the German advertising playbook: **"No fat tax here!"**

For the two-thirds of British Columbians who live in the six regional districts along the U.S. border, such savings would be impossible to ignore. Add to that the thousands of people who live near the Alberta border and the economic fallout for B.C. could be catastrophic.

The argument for fat and sugar taxes revolves around higher prices limiting consumption and thus curbing obesity. Fortunately, many B.C. health experts don't buy into that myth. **"Research actually shows little correlation between individual behaviours and body weight: many who seldom consume such foods are overweight while many who do, are not,"** said Dr. Paul Martiquet,[76] an adjunct professor at the UBC School of

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[72] http://translate.google.com/translate?sl=auto&tl=en&js=n&prev=_t&hl=en&ie=UTF-8&layout=2&eotf=1&u=http%3A%2F%2Fwww.skm.dk%2Fpublic%2Fdokumenter%2Fpresse%2FFaktaark_afgiftsogkonkurrencepakke.pdf&act=url
[73] http://cphpost.dk/commentary/opinion/opinion-tax-everyone-wants-see-cut
[74] http://www.bellinghamherald.com/2013/01/29/2856393/southbound-border-traffic-into.html
[75] http://www.huffingtonpost.ca/mark-milke/canada-tariff-imported-goods_b_2707650.html
[76] http://www.coastreporter.net/article/20121031/SECHELT0611/310319997/-1/sechelt0611/should-sugar-and-fat-be-the-new-tobacco

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Indeed, Klarskov, who visited Canada on a speaking and media tour last year to share the Danish fat tax experience, noted that Denmark's health experts estimated only a five-and-a-half day increase to Danish life expectancy, once the fat tax was in place for ten full years. **"This is [like] shooting rabbits with nuclear weapons,"** Klarskov quipped.[77]

B.C. bureaucrats have noted, in documents obtained by the CTF through a *Freedom of Information Act* request,[78] that a fat tax is **"purely a revenue measure."**

Klarskov and the Danish Chamber of Commerce estimate Denmark lost 1,300 jobs as a direct result of their fat tax social experiment. In B.C., it could be worse.

Fat and sugar tax supporters would do well to read up on the Danish experience before willfully causing harm to the B.C. economy for virtually no health return.

77 http://news.nationalpost.com/2013/02/21/fat-taxes-like-shooting-rabbits-with-nuclear-weapons-denmark-warns/
78 http://docs.openinfo.gov.bc.ca/D51060212A_Response_Package_FIN-2012-00248.PDF