

SUMMARY

2005/06 Second Quarterly Report

November 2005



2005/06 Updated Financial Forecast

(\$ millions)	Actual 2004/05	September Update	Updated Forecast	Variance
Revenue	33,233	34,476	35,740	1,264
Expense	(30,658)	(32,876)	(32,803)	73
Provision for compensation agreements	-	-	(1,000)	(1,000)
Surplus before forecast allowance	2,575	1,600	1,937	337
Forecast allowance	-	(300)	(300)	-
Surplus	2,575	1,300	1,637	337
Capital spending:				
Taxpayer-supported capital spending	2,322	3,038	3,065	27
Total capital spending	3,182	4,167	4,141	(26)
Provincial Debt:				
Taxpayer-supported debt	28,657	28,274	28,060	(214)
Total debt	35,826	35,910	35,475	(435)
Taxpayer-supported debt to GDP ratio	18.2%	17.1%	16.9%	-0.2%
Total debt to GDP ratio	22.8%	21.8%	21.4%	-0.4%

- The 2005/06 surplus is now forecast to be \$1.6 billion, \$337 million higher than the surplus forecast in the *September Update*. Revenue is up \$1.3 billion mainly due to a \$757 million increase in energy revenue resulting from continuing strength in natural gas prices, and increases in personal and corporate income taxes totalling \$544 million, in part due to higher results from the 2004 tax year.
- The spending forecast is \$73 million lower than the *September Update*, mainly reflecting lower estimates for Crown land grants to local governments and reduced debt interest costs. These reductions were partially offset by a slight increase in the combined net spending of taxpayer-supported Crown agencies and the SUCH sector.
- Collective agreements for almost 90 per cent of public sector employees will be up for renewal over the next eight months. A new negotiating framework that provides a flexible, differentiated approach to reaching agreements with individual bargaining units will replace the existing “one size fits all” mandate. Compensation agreements must be affordable over the long term, and reflect labour market conditions specific to each sector.
- Negotiations will also provide an opportunity for employers and employees to explore ideas on how to provide better services to British Columbians. The framework also promotes certainty and stability through features conducive to reaching early agreements, and agreements lasting four years. To that end, a provision of \$1 billion is available in 2005/06 for agreements reached before contracts expire.
- The \$1 billion one-time provision for compensation agreements in 2005/06 may include contributions to benefit plans or other one-time payments. Funding for the ministries’ portion of this provision will require additional legislative authorization in the form of *Supplementary Estimates*, which will be introduced in the Legislature in the spring.
- Taxpayer-supported government debt is forecast to be \$28.1 billion at year-end, \$214 million less than the *September Update*. The key taxpayer-supported debt-to-GDP ratio is expected to fall to 16.9 per cent. Total debt is also forecast to be lower than the *September Update* projection, and the total debt-to-GDP ratio is forecast to be 21.4 per cent at year-end.
- Robust growth rates in economic indicators over the first nine months of the year now suggest that 2005 will show stronger results than the forecast in the *September Update*.
- Private sector forecasters have raised their outlook for the BC economy, calling for growth of 3.6 per cent in 2005 and 3.7 per cent in 2006, compared to the average of 3.4 per cent and 3.3 per cent at the time of the *September Update*.
- In preparation for *Budget 2006*, the Minister of Finance will be consulting with the independent Economic Forecast Council on December 5, 2005 to obtain their views on the North American and British Columbia economic outlook. An updated five-year economic forecast, incorporating their advice, will be developed for the February 21, 2006 budget.