

SUMMARY

2006/07 First Quarterly Report

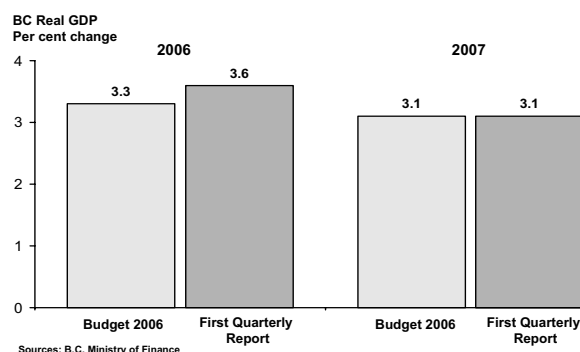
September 15, 2006

(\$ millions)	2005/06 Actual	2006/07 Budget	2006/07 Updated Forecast	Updated Plan	
				2007/08	2008/09
Revenue	35,947	35,364	36,386	37,053	37,723
Expense	(32,177)	(33,914)	(34,346)	(35,203)	(35,898)
Negotiating Framework incentive payments	(710)	-	(290)		
Surplus before forecast allowance	3,060	1,450	1,750	1,850	1,825
Forecast allowance	-	(850)	(550)	(550)	(400)
Surplus	3,060	600	1,200	1,300	1,425
Capital spending:					
Taxpayer-supported capital spending	3,092	3,488	3,749	3,427	3,070
Total capital spending	3,896	4,826	4,978	4,839	4,655
Provincial Debt:					
Taxpayer-supported debt	27,175	27,883	27,902	28,465	28,428
Total debt	34,356	36,590	36,113	37,248	37,888
Taxpayer-supported debt-to-GDP ratio	16.2%	15.8%	15.7%	15.2%	14.5%
Total debt-to GDP ratio	20.4%	20.7%	20.3%	20.0%	19.3%

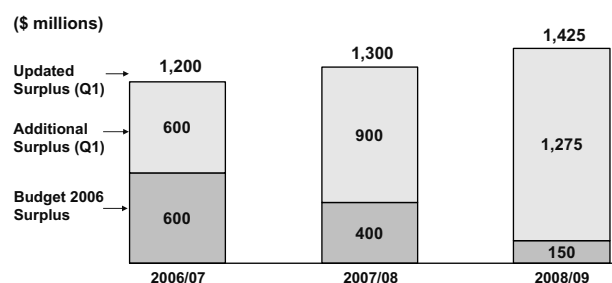
Stronger Fiscal Plan and Economic Performance

BC's fiscal outlook has improved since budget mainly as a result of stronger economic performance. The surplus for 2006/07 is now forecast to be \$1.2 billion, up from the \$600 million expected at budget. Improved surpluses are also expected in 2007/08 and 2008/09. Significant forecast allowances are included in the updated fiscal plan in recognition of risks to the economic forecast and volatility in the resource sector.

BC economic growth prospects improve for 2006



Fiscal outlook significantly improved

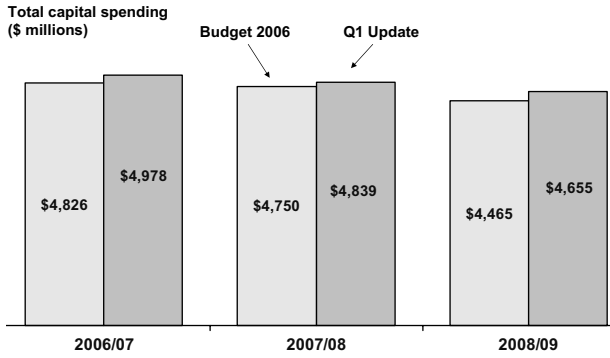


Solid employment gains, continued strength in housing market activity and stronger retail sales have resulted in an improved economic outlook for 2006 with economic growth now forecast at 3.6 per cent compared to 3.3 per cent at budget. For 2007, BC's economic growth remains unchanged from budget at 3.1 per cent reflecting cautious assumptions for growth in the US.

The main revenue improvements arise from increased taxation revenue forecasts, as well as increased net income for BC Hydro reflecting future rate increase assumptions. However, natural gas royalty revenues are down by \$774 million in 2006/07 as natural gas prices have fallen significantly since budget.

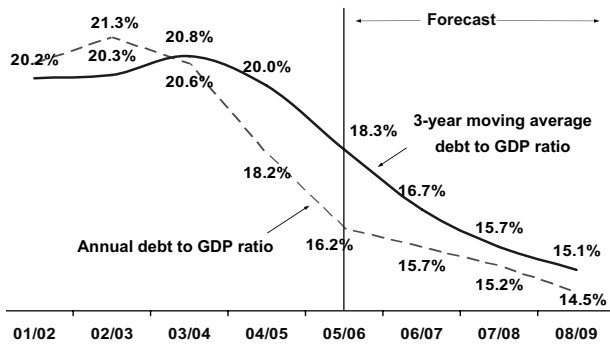
Government continues to maintain its commitment to keeping capital outlays for schools, health facilities, roads and post-secondary institutions affordable. While the updated capital plan has increased since budget, the debt forecast is lower in each of the three years. This is due to lower than forecast opening debt balances and the use of accumulated cash balances to finance additions to the capital plan.

Capital plan remains affordable



- The taxpayer-supported debt-to-GDP ratio, a key measure of fiscal sustainability, continues its downward trend by falling to 15.7 per cent in 2006/07, and to 15.2 per cent and 14.5 per cent in 2007/08 and 2008/09, respectively.

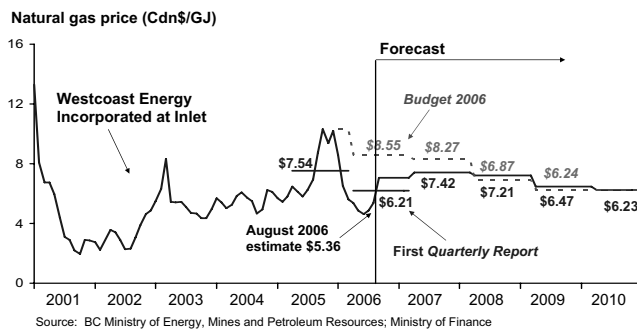
Taxpayer debt to GDP ratio trends down



Risks and Pressures

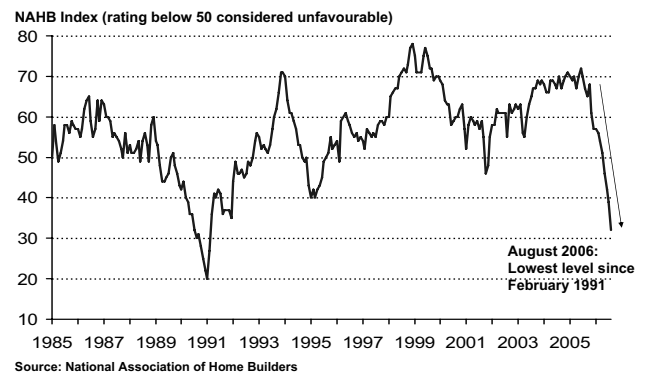
- Although economic performance in BC continues to be strong, the fiscal plan continues to be faced with risks and pressures from both internal and external sources.
- Natural resource revenues continue to be volatile, posing a significant risk to the fiscal plan. The updated natural gas forecast shows a price reduction of \$2.34 in 2006/07 and \$0.85 in 2007/08. Each \$1 change in natural gas prices equals approximately \$300 million in revenue changes for the province.

Natural gas remains volatile



- For the purposes of the fiscal plan update, government has assumed the status quo with regards to the softwood lumber dispute pending passage of legislation by the federal government to implement the proposed agreement with the US. The agreement is expected to provide greater certainty to BC's forest industry, despite potential instability in times of lower lumber prices. A topic box detailing the range of estimated fiscal impacts and risks is included on page 14 of this report.
- Slower than forecast growth in the US economy, in line with the weakening US housing market, poses further risk to the economic outlook for both BC and Canada as a whole.

US housing market weakening



- Total government spending in 2006/07 is now forecast to be \$722 million higher than budget, due to higher forest fire costs; additional spending by school districts, universities and colleges, and health authorities (SUCH sector); and Negotiating Framework incentive payments for agreements successfully concluded in 2006/07.
- Budget 2006 included \$1 billion for Negotiating Framework incentive payments in 2005/06. Of this total, \$710 million was used to fund successfully negotiated agreements expiring before March 31, 2006. The remaining \$290 million is available to fund agreements concluded in 2006/07. Government will table *Supplementary Estimates* to authorize this spending at the next sitting of the Legislative Assembly. In the interim, funding for these payments will be provided within the contingencies vote.

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- The 2007/08 and 2008/09 revised spending forecasts reflect the elimination of \$152 million in annual federal funding under the Early Learning and Child Care agreement.
 - In addition to these forecast spending changes, there are a number of pressures impacting the fiscal plan, including cost pressures identified by health authorities. The Ministries of Health and Finance are working with health authorities to determine the assumptions underlying these pressures.
 - Despite a robust economy and an improved fiscal outlook, risks and pressures, including volatile natural resource revenues, require that suitable forecast allowances be retained within the fiscal plan to help ensure fiscal plan targets continue to be met.

Choices Ahead

- Increased surpluses provide more opportunities and choices for British Columbians. However, these choices must take into consideration the need for balanced budgets both today and in the years ahead.
- A committee of the Legislative Assembly will be seeking public input to the February 2007 budget and will be holding public meetings in selected communities throughout BC beginning in late September through to October. The committee will issue a report on its findings to the Legislature no later than November 15, 2006.