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British Columbia

Ministry of Finance and Corporate Relations

Budget 2001
Budget Reports

BUDGET 2001 REPORTS

BRITISH COLUMBIA

March 15, 2001

The *Budget Transparency and Accountability Act* (BTAA) was passed by the Legislative Assembly in 2000. As required under Section 7 (d) of this Legislation I am confirming that the budget documents contain the following three elements:

— The economic and fiscal forecasts for 2001/02, which are found in Report A (British Columbia Economic Review and Outlook) and Report C (Financial Plan — 2001/02) of the *Budget Reports*.

— The material economic, demographic, accounting policy and other assumptions underlying the economic, revenue, expenditure, surplus and debt forecasts are also disclosed in Reports A and C. In addition, although not required under the legislation, the material financial risks associated with changes to these assumptions are disclosed in Report C.

— The report on the advice of the Minister's Economic Forecast Council, including the range of forecasts for 2001 and 2002, is found in a topic box on page 15 of Report A.

The *Budget Reports* also disclose the adjustment to the most likely budget forecast based on the assumptions underlying the budget as required under Section 7 (d) of the BTAA. This adjustment is found in the *Budget 2001* Forecast Allowance topic box on page 52 of Report C.

I would like to recognize the efforts of staff in the Ministry of Finance and Corporate Relations, other ministries and Crown corporations in improving the disclosure of assumptions and risks.

CHRIS TRUMPY
Secretary to Treasury Board and
Deputy Minister of Finance

Ministry of Finance and Corporate Relations

Office of the Deputy Minister

Mailing Address:
PO Box 9417 Stn Prov Govt
Victoria BC V8W 9V1

Location:
Room 109
617 Government Street
Victoria

Report A: BRITISH COLUMBIA ECONOMIC REVIEW AND OUTLOOK

Overview[1]

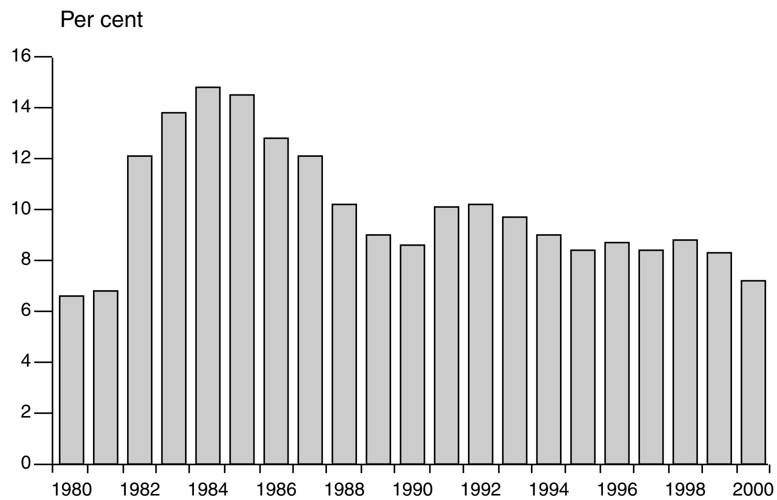
The economy grew 3.4% in 2000

The British Columbia economy grew an estimated 3.4 per cent in 2000, up from 2.1 per cent in 1999. Exports and manufacturing shipments grew strongly early in the year. During the second half, manufacturing shipments slowed due to weaker activity in the U.S. while energy exports soared due to rising prices.

Employment rose during the year and the unemployment rate fell from 8.3 per cent in 1999 to 7.2 per cent, its lowest level since 1981 (see Chart A1). Strong growth in the number of full-time jobs boosted the total number of hours worked and labour income in 2000. This contributed to the fastest growth in retail spending since 1995. Residential construction remained weak, although housing starts picked up in the fourth quarter.

The unemployment rate was the lowest since 1981

Chart A1
BC Unemployment Rate



Source: Statistics Canada

In 2001, the economy is expected to grow 2.4 per cent. In 2002, growth of 2.9 per cent is forecast. Most forecast uncertainty this year and next relates to the length and depth of the U.S. slowdown that is currently underway, and to the shape of the eventual recovery.

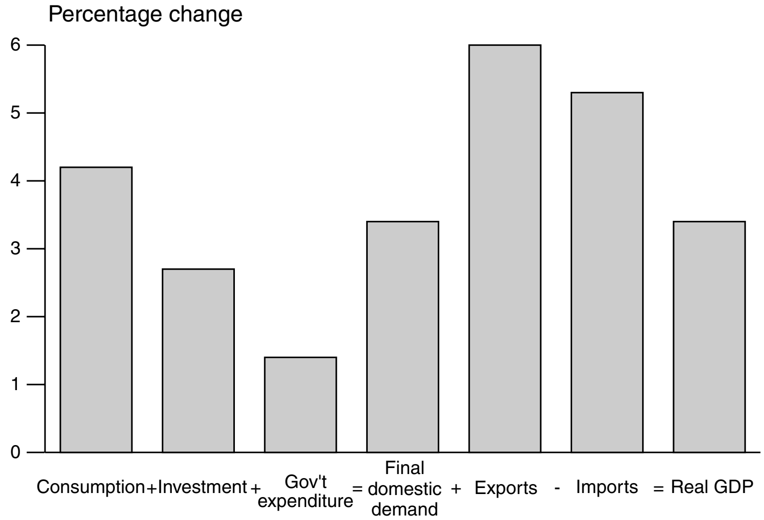
The British Columbia Economy: 2000 Performance

Last year, the economy strengthened and growth became more evenly balanced between the external and domestic sectors.

[1] This report incorporates information available as of March 2, 2001. All annual and quarterly references are for the calendar year.

Growth is currently estimated at 3.4 per cent, up from 2.1 per cent in 1999. Growth in consumption expenditures and exports led the way (see Chart A2).

Chart A2
BC Real GDP Growth, 2000 Estimate



Source: Ministry of Finance and Corporate Relations. Inventory change small, so not shown.

Business Conditions

Overall business conditions improved . . .

- Non-energy export and manufacturing activity was strong during the first half of 2000, but slowed during the second half as the U.S. economy cooled.
- Corporate profits before taxes are estimated to have risen slightly in 2000 after a large rise in 1999.
- Conditions were good in some sectors and poor in others.
- In the resource sector:
  - — The forest industry recovery in 1999 was partly reversed in 2000 by a sharp decline in lumber prices; however, pulp and newsprint prices increased during the year and industry profits rose.
  - — The volume of mining production increased.
  - — The energy sector benefited from a surge in prices.

. . . and corporate profits rose

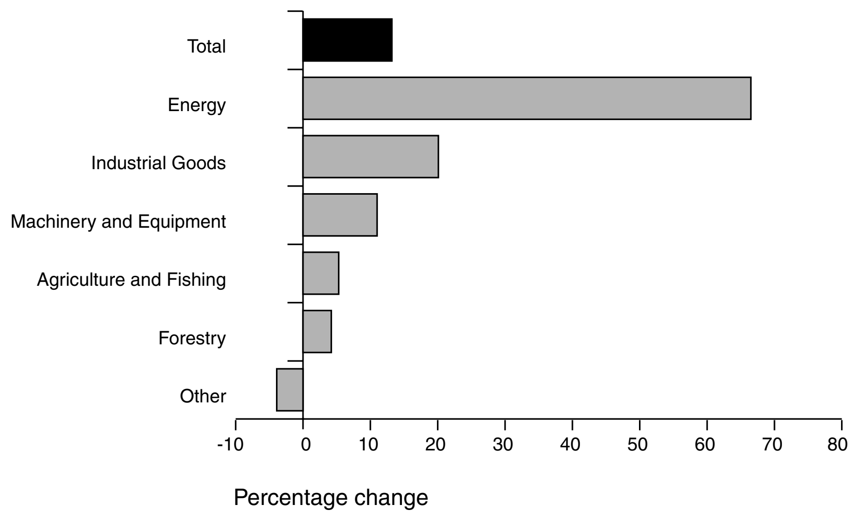
- In the high-technology industries, sales revenue continued to grow faster than in other parts of the economy. However, with investors' growth expectations far exceeding reality in many cases, technology firms' stock prices plunged in March and again in the fourth quarter. Money for expansion became more difficult to obtain. Some dot-com fledglings closed their doors, and others scaled back expansions.
- In the non-residential construction industry, building permits showed little change. Office and industrial vacancy rates fell and rents began rising.
- Overall tourism activity increased slightly, but hotel occupancy rates dropped and consolidation in the airline industry and fare increases reduced domestic travel.
- In agriculture and agri-food, employment rose slightly and farm cash receipts rose. Food and beverage shipments changed little.

By the numbers: key business indicators in 2000

Exports rose strongly . . .

➤ The total value of foreign merchandise exports rose 13.2 per cent. Energy exports surged during the second half of 2000 due to a sharp increase in natural gas and electricity export prices. Excluding energy, exports rose 6.5 per cent. Exports of machinery, equipment and industrial goods rose 15.6 per cent (see Chart A3).

Chart A3
Export Growth by Commodity, 2000

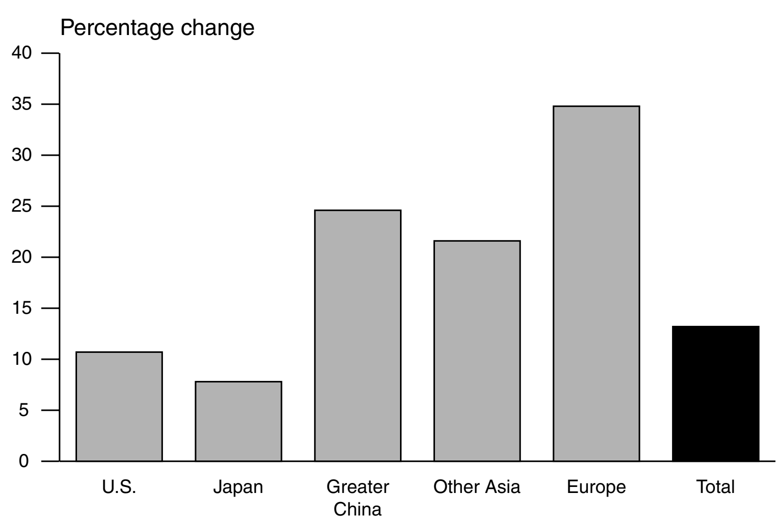


Source: Statistics Canada

. . . boosted by energy prices

➤ Exports to the United States rose 10.7 per cent; in 1999 they increased almost 20 per cent. Exports to Japan rose 7.8 per cent, and to Europe 35 per cent, despite the depreciation of the Euro against the Canadian dollar (see Chart A4).

Chart A4
BC Export Growth by Major Market, 2000



Source: Statistics Canada

- The value of manufacturing shipments rose 3.9 per cent for the year. However, electrical/electronic shipments led the way with an increase of 14.4 per cent.
- Most of the gain in the value of merchandise exports was due to higher volumes.

Mining and forestry output increased

- Lumber production rose about 2 per cent, pulp and paper 5.4 per cent.
- Natural gas production and electricity generation were up slightly. Coal production rose nearly 4 per cent, despite the permanent closure of the Quintette mine in August.
- Copper output rebounded sharply in 2000 following the six-month shutdown of Highland Valley copper in 1999. Production of lead, zinc, molybdenum, and silver also rose significantly. Gold production was unchanged.
- Cargo tonnage handled by the Port of Vancouver rose 7 per cent. Container traffic reached new highs with outbound traffic increasing 11 per cent and inbound traffic up 6 per cent.
- Air cargo traffic through the Vancouver International Airport declined 6.4 per cent.

High-tech expansion reduced office and industrial vacancy rates

- In greater Vancouver, the office vacancy rate fell to 2.3 per cent, the lowest level in 20 years. The high-tech sector accounted for over half of all office space absorption in 2000. The industrial vacancy rate was the lowest in 10 years at 1.9 per cent in 2000. The downtown retail vacancy rate was also low and rents increased.
- In the Victoria region, the overall office vacancy rate continued to fall in 2000, to 4.7 per cent, its lowest level since 1995. High-tech companies accounted for 28 per cent of office absorption in 2000, causing the vacancy rate to fall in the downtown area. High-tech also accounted for more than half of the absorption of new industrial space in the region. Retail construction slowed after three years in which significant shopping centre and big-box space was added. The downtown retail vacancy rate rose in 2000 following the closure of two department stores.
- Business incorporations rose 2.4 per cent while bankruptcies fell 9.2 per cent.

The Labour Market

- The unemployment rate fell from 8.3 per cent in 1999 to 7.2 per cent in 2000.

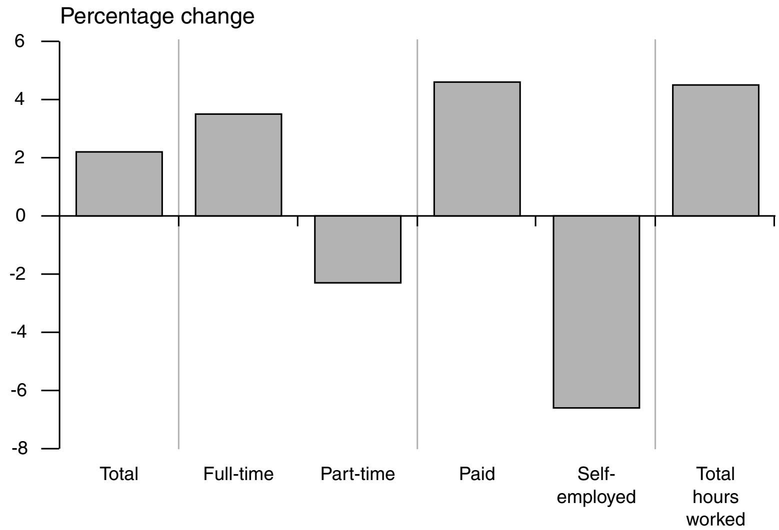
The job market strengthened . . .

- Employment, as measured by the number of jobs, rose 2.2 per cent.
- Full-time paid employment accounted for all of the job gains; the number of part-time jobs and self-employed people declined. As a result, total hours worked in the economy rose 4.5 per cent (see Chart A5).
- Employment rose 4.5 per cent in goods-producing industries, while it rose 1.6 per cent in the service sector.

. . . as full-time, paid employment rose

- The labour force grew 1.0 per cent, while the participation rate (the percentage of people 15 years of age and over in the work force) fell from 65.1 per cent to 64.9 per cent, compared to the recent peak of 67.2 per cent in 1994.
- Net in-migration in 2000 is estimated at just over 20,000, down from 24,500 in 1999. B.C.'s population grew 0.9 per cent, the third consecutive year it has been at or below 1 per cent.

Chart A5
2000 BC Employment Growth



Source: Statistics Canada

- Labour income grew an estimated 6.4 per cent, boosted in part by a pay equity settlement paid to some former federal employees. Wage settlements in collective agreements involving 500 or more employees averaged 1.6 per cent, up from 0.8 per cent in 1999.

The Consumer Sector

Retail sales posted biggest gain since 1995

- Retail sales (in current dollar terms) rose 6.2 per cent, the strongest growth since 1995.
- The British Columbia component of the Conference Board's Index of Consumer Attitudes was up for the year, rising early in 2000 and falling in the final quarter.
- The number of cars and light trucks sold rose 6.9 per cent.
- Wholesale trade increased 2.1 per cent.
- Restaurant, caterer and tavern revenues for the year rose 7.9 per cent.

Tourism increased

- The number of overnight visitors to B.C. increased 1.4 per cent. Vancouver International Airport passenger volumes rose just 1.3 per cent while the number handled in Victoria fell as extensive restructuring in the domestic airline industry reduced capacity. The number of cruise ship passengers sailing through the Port of Vancouver rose 11 per cent to exceed one million for the first time.

Housing remained weak

- Housing starts fell 11.6 per cent and the value of residential building permits declined. Repairs and renovations to condominiums built during the mid-1990s were a major source of activity for many firms. The number of residential sales fell 6.7 per cent. New home prices were down about 5 per cent while existing home prices rose 2.8 per cent.
- Consumer bankruptcies rose by 1,000 or 12.3 per cent.
- The consumer price index rose 1.9 per cent in 2000. Energy accounted for about 1.4 percentage points of the increase in the CPI.

British Columbia Economic Outlook[2]

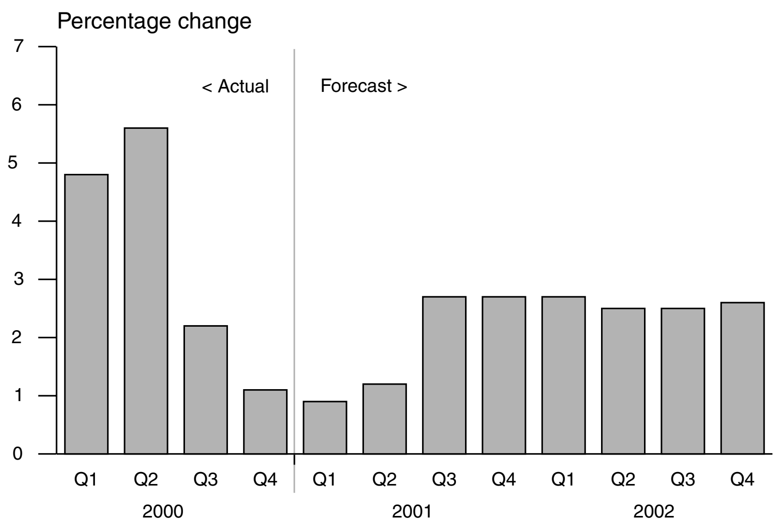
Growth in the economy is expected to slow in 2001, reflecting the emerging slowdown in the rest of North America. Declining interest rates, tax cuts and energy rebates should help cushion the British Columbia consumer.

- ***External Conditions and Influences***

North America — The United States economy slowed sharply late in 2000, growing at an annual rate of just 1.1 per cent in the fourth quarter, compared to 5.0 per cent for the full year. The slowdown continued into 2001, resulting in two Federal Reserve interest rate reductions totalling a full percentage point in January. Most forecasters expect that the U.S. economy will be weakest during the first half of the year. The current consensus forecast of 2.3 per cent suggests that growth will rebound to 3 or 3.5 per cent in the second half. The budget forecast assumes that the U.S. will grow 1.8 per cent for the full year with a slower pace of recovery, as shown in Chart A6. This implies further interest rate reductions are likely in the second quarter.

U.S. economic slowdown is underway

Chart A6
U.S. Quarterly Real GDP Growth

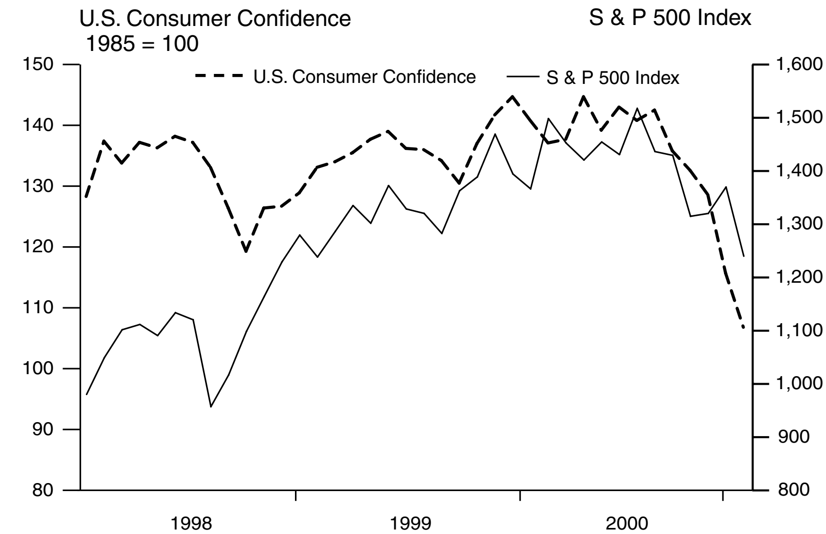


Source: U.S. Department of Commerce & Ministry of Finance and Corporate Relations

The chairman of the U.S. Federal Reserve has pointed out that consumer confidence is the key to whether the U.S. downturn is brief — six months or so — or develops into a lengthier and deeper contraction. The performance of the stock market now seems to be a more important factor in the evolution of consumer expectations about the economy than in the past (see Chart A7). Other important factors will be the extent of the correction in business inventories and the pace of capital spending, particularly on machinery and equipment.

[2] A description of the Ministry of Finance's economic forecasting process, methodology and econometric model can be found in *The British Columbia Macroeconomic Model*. This 1999 working paper is available in the "Publications" section of the Ministry's Web site: www.fin.gov.bc.ca or by writing to the Communications Branch, Ministry of Finance and Corporate Relations, P.O. Box 9417, STN PROV GOVT, Victoria, British Columbia, V8W 9V1.

Chart A7
U.S. Consumer Confidence Index



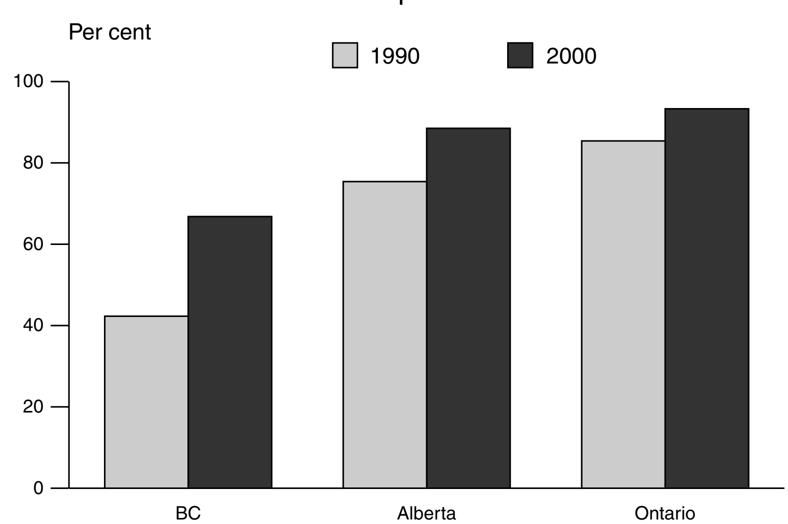
Source: Conference Board, Bank of Canada

Canada's economic performance tied to U.S. outlook

The downturn in U.S. growth will reduce Canada's growth prospects. The current consensus outlook of 2.8 per cent Canadian growth is likely to decline further as analysts incorporate new U.S. data and forecasts. The budget forecast assumes that Canada will grow 2 per cent, slightly faster than the U.S., before recovering to around 2.5 per cent in both countries in 2002.

The impact of the U.S. slowdown will be felt unevenly across Canada. Trade with the United States has become more important to every province over the last decade,

Chart A8
U.S. Share of Merchandise Exports



Source: Statistics Canada, Industry Canada

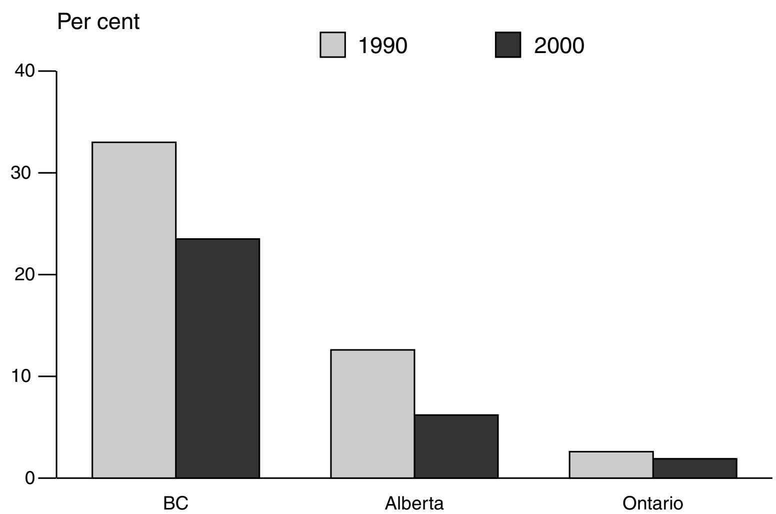
British Columbia less exposed to U.S. slowdown

reflecting strong economic growth and liberalization of trade. However, most regions are more dependent on the U.S. market than British Columbia. Ontario, in particular, relies heavily on trade in autos and parts with the U.S. British Columbia's trade is more diversified (see Charts A8 and A9) and, therefore, the province is less exposed in the near term to a U.S. slowdown.

Europe — The forecast assumes that the European economies will grow 2.8 per cent in 2001 and 2.7 per cent next year. This is down slightly from 2000.

Asia — Japan's economy grew an estimated 1.6 per cent in 2000, better than the 0.8 per cent in 1999. Industrial production and business investment picked up in 2000 but this failed to translate into stronger domestic spending, which was depressed due to a weak job market and soft consumer sentiment. The Japanese economy is expected to grow 1.5 per cent in 2001 and 2.0 per cent in 2002.

Chart A9
Asian Share of Merchandise Exports



Sources: Statistics Canada, Industry Canada

Asian economy: solid growth, outside Japan

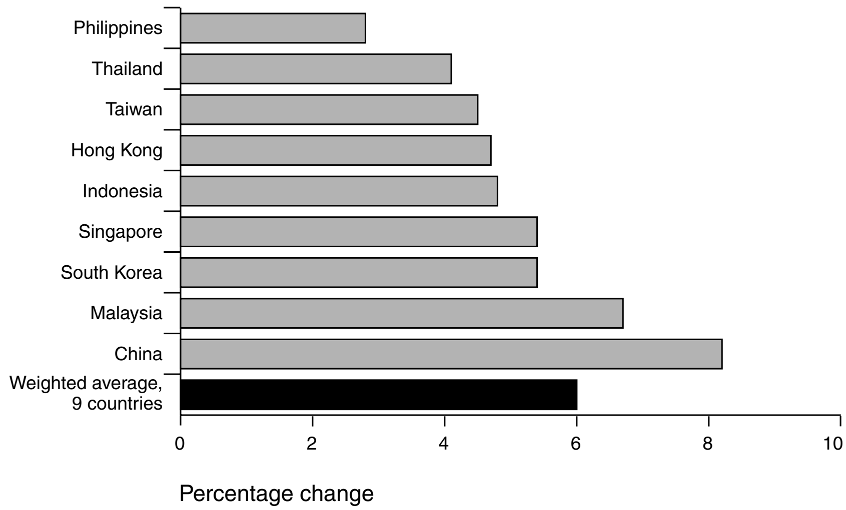
Elsewhere in Asia, growth of about 6 per cent is expected (see Chart A10). China's economy is expected to grow 8 per cent, similar to its 2000 performance. Other economies in the region are expected to grow 4 to 5 per cent. Continued political and financial difficulties could lead to under-performance in South Korea, the Philippines and Thailand.

More interest rate declines likely

Interest and Exchange Rates — Based on the global outlook discussed above, North American short-term interest rates are forecast to decline through mid-year. The forecast assumes that slower growth will cause energy prices to decline and inflation to level off, moderating inflation fears and allowing longer-term interest rates to fall.

The Canadian dollar is expected to appreciate against its U.S. counterpart over the next two years, averaging 66.4 U.S. cents in 2001 and 68.0 U.S. cents in 2002.

Chart A10
2001 Asian Growth



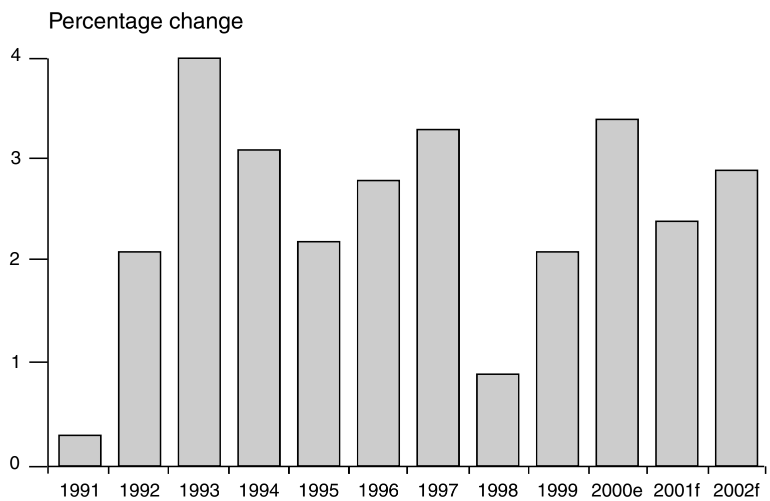
Source: Nomura Research Institute, January 2001

• *British Columbia Real GDP Outlook*

B.C. economy expected to grow 2.4% in 2001

Real GDP is expected to increase 2.4 per cent in 2001 and 2.9 per cent in 2002 (Chart A11). This is the same as the average forecast of the Minister of Finance's Economic Forecast Council when it met in January 2001 (see topic box for details).

Chart A11
BC Real GDP Growth



Sources: Statistics Canada & Ministry of Finance and Corporate Relations

• *External Trade Outlook*

Goods and service export volumes are expected to increase 3 per cent in 2001 and 2.8 per cent in 2002, less than in 1999 and 2000 due to the slowdown in North America. Non-resource manufactured exports are expected to grow more rapidly than most other categories, reflecting growth in demand for electronics and other British Columbia high-technology products.

Import volumes are expected to rise 2.4 per cent in 2001 and 2.9 per cent next year.

U.S. slowdown will reduce export growth

In 2000, overall British Columbia export prices rose more than expected as the surge in energy prices offset a decline in lumber prices. There is even more uncertainty about the outlook for export prices than usual, principally relating to hard-to-predict external events and decisions that will affect electricity, natural gas and lumber. As a result, there is also considerable uncertainty about overall export earnings, corporate profits and capital investment in the coming year.

This year, export prices are expected to be higher on average than in 2000 (mainly reflecting the run up in energy prices late in 2000) but will fall in 2002 as energy prices retreat from recent highs. Goods and service export prices are forecast to rise 3.0 per cent this year and decline slightly in 2002. Import prices are expected to advance 2.3 per cent this year and 1.7 per cent in 2002.

• *Consumer Expenditure Outlook*

Consumer spending grew more rapidly in 2000 as a recovery in consumer confidence beginning late in 1999 paved the way for stronger spending. More recently, consumer confidence has begun to show signs of softness, similar to the rest of North America.

Policy actions will buoy consumer spending

The economic backdrop for retailers and consumers is less favourable than a year ago. Stock market declines, a low personal saving rate and a soft housing market are other negatives. However, federal tax cuts, the continued phase-in of previously-announced provincial tax reductions, and lower interest rates will raise personal disposable income and help to sustain growth in consumer spending. Population growth will also pick up strength relative to 2000, and help to buoy consumer markets. In-migration is expected to rise from an estimated 20,000 last year to 30,000 this year and 46,000 next year.

Consumer spending is expected to grow 1.8 per cent in real terms in 2001 and 2.1 per cent in 2002 (Chart A12). Retail sales in current dollars (as defined by Statistics Canada) are forecast to increase 3.5 per cent this year and 3.8 per cent in 2002.

Moderate gains in housing activity expected

Housing starts are forecast at 15,300 units in 2001 and 17,200 units in 2002, up from 14,418 starts in 2000. This mainly reflects pent-up demand and higher in-migration. The Canada Mortgage and Housing Corporation is projecting a 2.7 per cent rise in home sales to 55,700 in 2001 and a further 4.1 per cent increase to 58,000 sales in 2002. The agency expects the average B.C. home price to rise in line with inflation over the next two years.

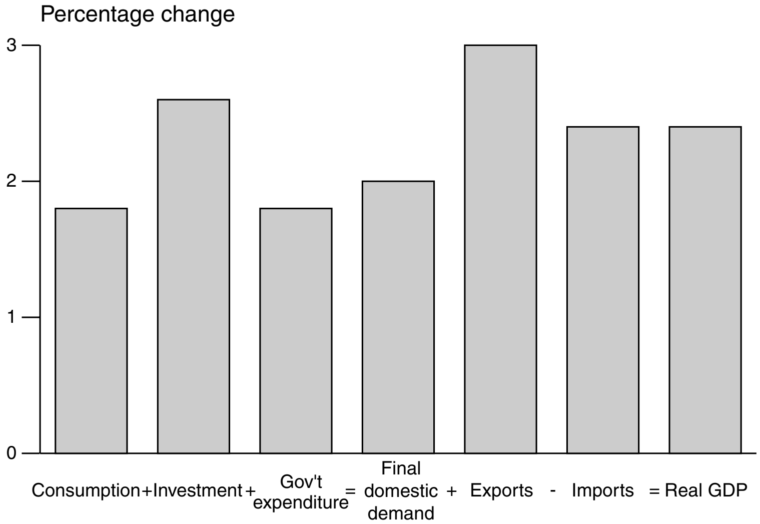
• *Capital Investment Outlook*

Capital spending forecast to increase . . .

Overall capital investment is expected to increase 2.6 per cent in real terms in 2001, about the same pace as in 2000:

- Machinery and equipment investment is expected to rise 6 per cent in real terms this year.
- Construction investment is expected to increase about 1 per cent.

Chart A12
BC Real GDP Growth, 2001 Forecast



Source: Ministry of Finance and Corporate Relations. Inventory change: 0.2% of 2000 real GDP

The mix of investment will be considerably different across sectors and industries than in 2000. A Statistics Canada survey suggests more investment will occur in the forest sector. After nearly doubling last year, investment in oil and gas extraction is expected to decline slightly. Capital expenditures in the information and cultural sector, where many "new economy" firms are found, is expected to slow. Transportation and warehousing expenditures are another area of weakness, likely reflecting the completion of some large projects such as the Alliance pipeline. New pipeline projects are in the proposal and planning stages.

The outlook for machinery and equipment investment is particularly uncertain in the current economic climate.

. . . but outlook for high-tech investment uncertain

The forces propelling rapid investment in machinery and equipment in North America in recent years have weakened significantly over the last few months. Nationally, a recent Statistics Canada survey shows a 2.5 per cent drop in planned machinery and equipment investment in 2001. Investment in the automotive and telecommunications sectors and other high-technology firms is slowing markedly from earlier projections, due to declining sales and profit forecasts and the emergence of over-capacity for some key products. As well, the technology-led decline in North American stock markets has made it much more difficult for firms to finance investment. These trends affect British Columbia firms as well.

- ***Government Operating Expenditure Outlook***

Spending by all levels of government in British Columbia is estimated to have increased 1.4 per cent in real terms in 2000. The forecast assumes a faster rate of growth in inflation-adjusted expenditures over the next two years.

• *Employment and Income Outlook*

Employment and income gains will moderate in 2001

Employment, measured by the number of jobs, is expected to increase 2.2 per cent in 2001, the same pace as in 2000. However, the growth in total hours worked is likely to moderate in both years, resulting in slower growth in total labour income than in 2000.

After last year's large decline to 7.2 per cent, the unemployment rate is forecast to increase to slightly to 7.4 per cent in 2001.

The external slowdown is likely to cause corporate pre-tax profits to grow slowly over the next two years. As noted earlier, the profit outlook is highly uncertain due to potential developments affecting electricity, natural gas and lumber prices.

Nominal GDP is expected to increase 4.0 per cent in 2001 and 3.4 per cent in 2002.

• *Inflation Outlook*

B.C. inflation is expected to remain under 2%

As in the rest of Canada, rising prices for gasoline, natural gas and heating oil boosted British Columbia's inflation rate in 2000. Energy prices are expected to remain high by recent standards, but their impact on the British Columbia inflation rate should fade through the coming year. As a result, the consumer price inflation rate is forecast at 1.7 per cent in 2001 and 1.6 per cent in 2002.

• *Forecast Uncertainties*

There are several areas of uncertainty in the forecast. Most of these involve factors external to British Columbia.

- The extent of the U.S. downturn and its impact on British Columbia and other provinces.

Key uncertainties include degree of U.S. slowdown and energy price outlook

- The policy response to the slowdown by the U.S. and Canadian governments, the Federal Reserve and the Bank of Canada. Will governments cut taxes or increase spending? Will central banks reduce interest rates further?
- The outlook for energy prices, which is not only tied to the U.S. outlook and to the weather in the coming months, but also to policy decisions in California and other states that will affect the electricity supply and demand.
- The impact of Canada-U.S. softwood lumber trade negotiations on prices and exports.
- Japan's economic outlook.
- A medium term issue — could U.S.-type productivity gains spill over into Canada and British Columbia to boost potential economic growth above forecast levels?

TABLE A1
BRITISH COLUMBIA ECONOMIC OUTLOOK

	Budget Forecast	Actual/ Estimate	Forecast	
	2000		2001	2002
Gross Domestic Product (current dollars; percentage change)	3.8	5.3[1]	4.0	3.4
Real Gross Domestic Product (1992 dollars; percentage change)	**2.2**	**3.4[1]**	**2.4**	**2.9**
Consumer Expenditure	1.5	4.2	1.8	2.1
Capital Investment	3.8	2.7	2.6	5.7
Government Expenditure	1.4	1.4	1.8	1.6
Exports of Goods and Services	4.3	6.0	3.0	2.8
Imports of Goods and Services	2.6	5.3	2.4	2.9
Inventory Investment (change in billions of 1992 dollars)	−0.3	−0.1	0.2	0.2
Minister's Economic Forecast Council — Real GDP growth	**2.2**	**3.0**	**2.4**	**2.9**
Population (percentage change)	1.1	0.9	1.2	1.2
Net In-migration	36,800	20,100[1]	29,600	45,600
Interprovincial	7,700	−11,800	—	13,500
International	29,100	31,900	29,600	32,100
Labour Force (thousands)	2,123	2,100	2,151	2,213
(percentage change)	2.1	1.0	2.4	2.9
Employment (thousands)	1,949	1,949	1,992	2,054
(percentage change)	2.3	2.2	2.2	3.1
Unemployment Rate (per cent)	8.2	7.2	7.4	7.2
Retail Sales (millions of current dollars)	34,600	35,755	37,010	38,420
(percentage change)	2.8	6.2	3.5	3.8
Labour Income[3] (millions of current dollars)	64,550	67,490	69,990	72,860
(percentage change)	3.7	6.4	3.7	4.1
Corporate Pre-tax Profits (millions of current dollars)	8,225	9,160[2]	9,530	9,290
(percentage change)	15.0	4.0	4.0	−2.5
Housing Starts (units)	18,000	14,418	15,300	17,200
(percentage change)	10.4	−11.6	6.1	12.4
Consumer Price Index (1992=100)	112.6	113.3	115.2	117.0
(percentage change)	1.3	1.9	1.7	1.6

[1] Ministry of Finance and Corporate Relations estimates.
[2] Levels are not comparable to 2000 budget document due to Statistics Canada data revisions.
[3] Wages, salaries and supplementary labour income.

TABLE A1
BRITISH COLUMBIA ECONOMIC OUTLOOK — *Continued*

	Budget Forecast	Actual/ Estimate	Forecast	
	2000		2001	2002
Key Assumptions:				
Economic Growth (percentage change in real GDP)				
Canada	3.4	4.7	2.0	2.5
United States	3.5	5.0	1.8	2.5
Japan	0.5	1.6	1.5	2.0
Europe	2.8	3.3[1]	2.8	2.7
Housing Starts (percentage change)				
Canada	4.3	1.1	2.2	3.3
United States	−8.3	−4.5	−7.1	1.4
Japan	0.8	1.3	0.7	0.0
Industrial Production (percentage change)				
United States	3.7	5.6	2.0	2.8
Japan	3.0	5.3	3.5	2.6
Consumer Prices (percentage change)				
Canada	2.2	2.7	2.4	2.0
United States	2.6	3.4	2.7	2.5
Canadian Interest Rates (per cent; annual average)				
3-month Treasury Bills	5.4	5.5	4.8	5.0
10-year and over Government of Canada bonds	6.7	5.9	5.3	5.3
United States Interest Rates (per cent; annual average)				
3-month Treasury Bills	6.2	5.8	4.9	4.8
10-year and over U.S. Government bonds	7.1	6.1	5.3	5.3
U.S. cents/Canadian dollar	69.4	67.3	66.4	68.0
Commodity Prices				
BC Goods and Services Export Prices (Cdn $; percentage change)	2.5	2.8	3.0	−0.2
Spruce-Pine-Fir Lumber (U.S. $/1,000 board feet)	323	255	225	250
Pulp (U.S. $/tonne)	650	681	650	650
Newsprint (U.S. $/tonne)	541	564	618	625
Copper (U.S. $/lb.)	0.85	0.82	0.80	0.80
Lead (U.S. $/lb.)	0.23	0.21	0.18	0.20
Zinc (U.S. $/lb.)	0.57	0.51	0.51	0.55
Gold (U.S. $/oz.)	285	279	280	300
Aluminum (U.S. $/lb.)	0.62	0.70	0.72	0.73
Natural Gas (U.S. $/gigajoule)	1.99	2.94	4.25	3.05
Coal (U.S. $/tonne)[2]	40	40.5	37	37

[1] Ministry of Finance and Corporate Relations estimates.
[2] Weighted average of metallurgical and thermal coal prices.

THE ECONOMIC FORECAST COUNCIL

Background

On January 11, the Honourable Paul Ramsey, Minister of Finance and Corporate Relations, met with the Economic Forecast Council (the Council). This was the second year that the Council has gathered since its establishment by legislation in 1999. The *Budget Transparency and Accountability Act* requires the Council to meet annually.

The 18-member Council is the successor to the economic forecasting conferences held from 1997 to 1999. The Council members are appointed based on their expert knowledge of the British Columbia, Canadian and world economies, as well as their economic forecasting experience.

Council members were asked to submit a forecast survey prior to the meeting on January 11, 2001. Sixteen members submitted forecasts. The results are summarized at the end of this topic box.

As with previous Council meetings and economic forecast conferences, Council members presented their views on the province's near-term economic outlook, as well as factors affecting the province's medium-term outlook.

Report on Forecast Council Meeting

Overview

The general view of the Council was that the British Columbia economy would continue to post modest growth in 2000 and 2001, while the Canadian economy would outpace the United States over the next two years.

An emerging U.S. economic slowdown was evident in some participants' forecasts and the discussion. The Asian economies were expected to continue growing although participants expressed concerns about the slow pace of economic recovery in Japan, a key market for British Columbia.

International Developments

Several participants said that downward forecast revisions would continue, as the U.S. economic slowdown would be felt most during the first half of 2001; most felt that the U.S. economy would stabilise in 2002. There were two views about the extent of the slowdown.

- Most Council members expected the U.S. Federal Reserve ("the Fed") to cut interest rates in the next three months to achieve a "soft landing". As a result, the probability of a recession in the U.S. is low. One participant pointed out that after a year of 5 per cent economic growth, 2 or 2.5 per cent growth in the U.S. would feel like a recession.
- However, a few participants believed interest rate cuts would prove to be too little and too late, and that a U.S. recession is very likely.

Most agreed that the fast deteriorating stock market, weakening manufacturing, and falling corporate profits and consumer confidence may prompt the Fed to cut interest rates aggressively.

Council members generally agreed that economic growth in Europe and Asia would not slow dramatically, although the Japanese outlook remains highly uncertain.

The Canadian Economy

The Council expected that the Canadian economy would grow at a slower pace in the next two years, but faster than the U.S. The consensus was that economic growth would average 2.9 per cent in 2001, with forecasts ranging from 0.2 per cent to 3.5 per cent. The Canadian economy is expected to pick up pace in 2002, with growth averaging 3.4 per cent.

Some participants said that Canada is about to experience a period of accelerating productivity growth as a result of high levels of investment in new technology in recent years. In addition, tax cuts will cushion Canada from a spill-over of the U.S. economic slowdown.

Financial Markets

Volatility in financial markets is a major concern for the U.S. economy, according to some Council members. One participant predicted that the double-digit profit growth in the past year would turn into a few quarters of losses, keeping downward pressure on stock prices. The decline in high-tech stock prices would contribute to a decline in consumer confidence.

Most participants expected the Fed to continue cutting interest rates. The Bank of Canada would not necessarily follow every Fed move as economic conditions are expected to remain fairly healthy in Canada. Canadian short-term interest rates will be higher, on average, than those in the U.S. in 2001. As a result, most participants felt the under-valued Canadian dollar would rise as the U.S. dollar weakens due to the abrupt economic slowdown. A dissenting view was that the Canadian dollar would be weak in 2001 due to soft commodity prices and possible net outflows of capital (perhaps caused by higher foreign content limits for pension plans).

British Columbia Outlook

On average, participants expected British Columbia's economy to grow 2.4 per cent in 2001 (see chart) after an estimated 3.0 per cent growth in real GDP in 2000. Opinions for 2001 real GDP growth ranged from minus 0.5 to plus 3.1 per cent. One participant believed that provincial growth would be less than zero in 2001, due to a U.S. recession, a broad-based fall in commodity prices and reduced U.S. demand for lumber resulting from plunging housing starts.

External Outlook

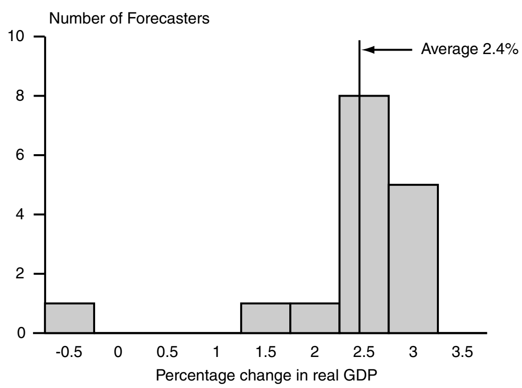
Opinions differed among the Council members as to how the U.S. slowdown would affect British Columbia.

A number of participants forecast a broad-based commodity price drop in 2001, leading to declining revenues and profits for resource companies in B.C.

Participants noted that resource industries remain an important contributor to British Columbia's economy and a significant driver of provincial revenue.

Some believed the slowing economy in the U.S. would have more of an impact on Ontario than on B.C. In this view, Ontario's auto sector is particularly vulnerable to a U.S. downturn. Some participants thought that B.C. could be hurt by a drop in U.S. housing activity, since B.C. lumber producers are the swing suppliers in the U.S. market. However, the opposing view was that the housing market in the U.S. is still strong, and would remain healthy as interest rates fall.

ECONOMIC GROWTH FORECASTS, 2001



Domestic Outlook

Most participants believed that provincial employment would continue to grow, and that the unemployment rate would remain relatively low in 2001. Personal disposable income is expected to rise faster than labour income thanks to tax cuts, leading to higher consumer spending. The pace of population growth was expected to pick up. As a result, the housing sector in the province should improve significantly in 2001. Some thought the information technology sector would be a source of strength for the provincial economy.

However, forecasts for corporate profit growth ranged widely from minus 15 per cent to plus 8 per cent for 2001.

A few participants were skeptical that faster growth in population and housing starts would occur. They also felt that debt levels would constrain growth in consumer spending.

Outlook for 2002

Most participants were more positive about the province's economic outlook in 2002 with average real GDP growth forecast at 2.9 per cent (see chart).

The range of opinions regarding next year's growth was also narrower, from a low of 1.5 per cent to a high of 3.6 per cent growth.

Risks to the Outlook

The Council generally believed that although continued Canadian economic growth, recent increases in high-tech investment and tax cuts will contribute to B.C. economic growth in the next two years, risks to the outlook remain. British Columbia's economy is more linked to the U.S. economy than a decade ago, so a slowdown there is more likely to affect B.C. now. In addition, slowing growth in the U.S. may lead to greater protectionism. On the upside, energy prices could remain high resulting in significant export earnings.

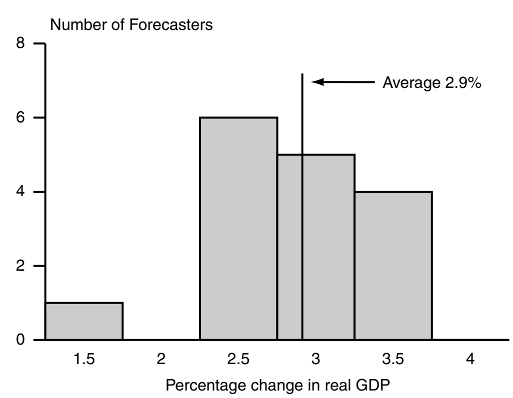
Policy and Longer-term Outlook Issues

During the meeting, Council members raised other policy and long-term issues with the Minister of Finance.

In the near term:

- Several participants pointed out that the recent surge in natural gas revenues could be a one-time windfall. As a result, caution should be taken in planning the budget and expenditures in the coming fiscal year.
- Several members said tax competitiveness was the most important fiscal policy action to boost the economy, particularly with lower-tax Alberta and Washington state next door.
- Other members argued that while tax competitiveness is important, competing with Alberta on taxes is impossible for any Canadian province (due to its massive energy revenue). Some also felt that there was limited fiscal room for tax cuts in B.C.
- Among those members favouring tax cuts, there was a range of opinions about the size and direction of tax cuts. Some emphasized the importance of cuts to personal income and business capital taxes, while others thought small business taxes should be reduced further.

ECONOMIC GROWTH FORECASTS, 2002



- British Columbia is becoming an attractive place for the high-tech industry. However, a few members were concerned that the shortage of skilled labour is becoming a major short- and long-term problem for the high-tech industry in the province.

In the long term:

- Participants believed that British Columbia needs to cultivate a culture of learning and wealth creation, rather than "rent seeking".
- Concerned about lack of managerial skill development/improvement in the provincial labour force, one participant said that a work force with both high-tech and managerial skills will be essential for the province to remain competitive in the global economy.

Conference Participants:

Rod Dobell (Conference Moderator)	University of Victoria
Paul Bowles	University of Northern British Columbia
Don Drummond	Toronto Dominion Bank
Michael Goldberg	University of British Columbia
Peter Hall	Conference Board of Canada
Warren Jestin	Bank of Nova Scotia
Dale Orr	WEFA Canada
Tim O'Neill	Bank of Montreal
David Park	Vancouver Board of Trade
Helmut Pastrick	Credit Union Central of British Columbia
George Pedersson	G.A. Pedersson & Associates
Alister Smith	Canadian Imperial Bank of Commerce
Carl Sonnen	Informetrica Ltd.
Ernie Stokes	Stokes Economic Consulting
William Tharp	M. Murenbeeld & Associates
Craig Wright	Royal Bank

Council members absent:

Jock Finlayson	(Business Council of British Columbia)
John DeWolf	(CCG Consulting)
John Helliwell	(University of British Columbia)

Forecast Survey

All figures are based on annual averages	2001 Range of Participants' Opinions	2001 Average of Participants' Opinion[1]	2002 Range of Participants' Opinions	2002 Average Participants' Opinion[1]
Canada				
— Real GDP (% change)	0.2-3.5	2.9 (16)	2.5-3.9	3.4 (16)
— 3-month interest rates (%)	4.5-6.0	5.3 (14)	4.0-5.8	5.2 (14)
— 10-year (+ over) interest rates (%)	5.0-6.1	5.7 (14)	5.0-6.2	5.7 (14)
— Exchange rate (US cent/ Can. $)	64.0-70.0	67.5 (14)	62.8-72.5	69.4 (14)
British Columbia				
— Real GDP (% change)	−0.5-3.1	2.4 (16)	1.5-3.6	2.9 (16)
— Employment (% change)	−0.7-2.7	1.6 (15)	0.9-3.0	2.0 (15)
— Unemployment rate (%)	6.4-7.9	7.2 (15)	6.0-8.6	7.0 (15)
— Total wage and salary income (% change)	3.5-7.0	4.7 (10)	4.4-8.0	5.7 (10)
— Corporate pre-tax profits (% change)	−15-8.0	0.7 (10)	0.6-12.0	7.6 (10)
— Real business non-residential Investment (% change)	−1.5-5.9	3.0 (11)	4.0-15.0	6.3 (11)
— Goods and services export price deflator (% change)	0-2.0	1.3 (5)	1.6-5.0	3.1 (5)
— Housing starts (% change)	−2.0-18.0	6.7 (15)	2.8-20.0	10.1 (15)
— Retail sales (% change)	−3.0-5.9	4.0 (15)	1.5-8.0	4.9 (15)

[1] Based on responses from participants providing forecasts. Number of respondents is shown in parentheses.

REGIONAL ECONOMIC DEVELOPMENTS

Stronger economic conditions in the province were evident in regional economic performance in 2000, although the degree of improvement varied from region to region. In the resource sector, strong U.S. demand and rising pulp and paper prices improved forest companies' financial situation, offsetting the effect of low lumber prices. Surging oil and gas prices boosted the economy in the Northeast region. Mining and agricultural production rose. Non-resource based industries continued to gain a foothold in the regional economies.

In most regions, employment grew and unemployment rates fell. Consumer spending increased. The housing sector continued to show weakness.

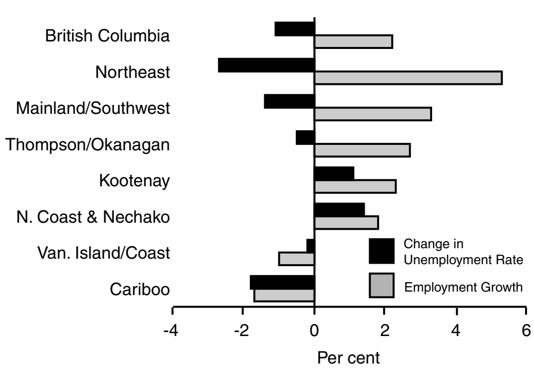
Population

British Columbia's population grew an estimated 0.9 per cent in 2000, slightly up from 0.8 per cent in 1999. The net outflow of inter-provincial migrants to Alberta and Ontario continued into 2000. With the exception of the Northeast, all regions recorded some population growth. The Thompson-Okanagan was the fastest-growing region, followed by the Mainland/Southwest.

Employment and Labour Markets

In 2000, employment growth picked up in most regions. This was an improvement from 1999, when only two regions recorded any employment growth.

REGIONAL LABOUR MARKETS IN 2000

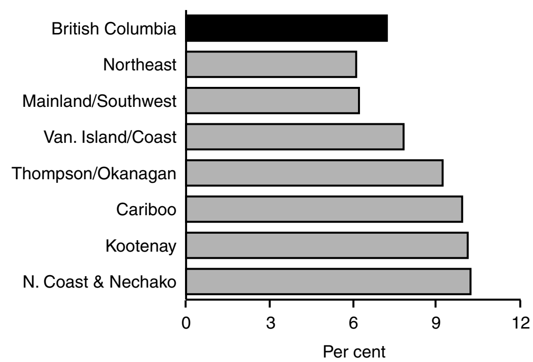


Source: Statistics Canada

The Northeast had the highest job growth rate due to a booming oil and gas industry. Sheer size meant that the Mainland/Southwest region accounted for 85 per cent of the provincial employment gain in 2000.

All regions, with the exception of the Kootenay and North Coast/Nechako, recorded declines in unemployment rates, despite decent increases in employment in these two regions.

REGIONAL UNEMPLOYMENT RATES IN 2000



Source: Statistics Canada

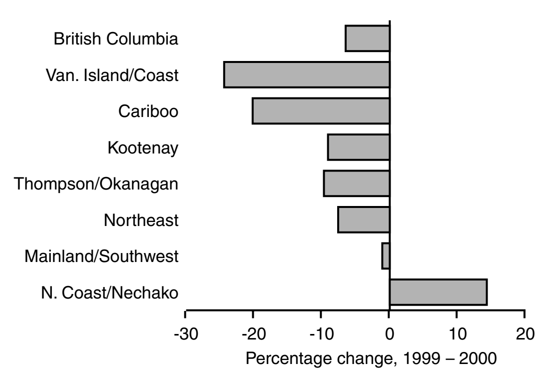
Housing Markets and Construction

Low levels of population growth and concerns about the quality of condominium construction contributed to generally weak housing markets across the province, despite an overall improvement in consumer spending in 2000.

Housing starts declined in the majority of provincial urban centres. In Vancouver and Victoria, starts were down 5 and 35 per cent in 2000, respectively. Starts dropped more than 20 per cent in Nanaimo, Abbotsford and Kamloops. Kelowna was the only city that recorded a rise in housing starts. This was due to a 59 per cent rise in multiple housing starts reflecting demand for retirement homes.

The weakness in housing demand was also reflected in fewer existing homes sold across the province. Existing home sales fell 6.7 per cent in 2000, compared to a 10 per cent rise in 1999. Sales volumes were down in every region. However, existing home prices rose 2.8 per cent on average across the province, up from 1.5 per cent in 1999, with seven of twelve regional real estate boards reporting increases.

TOTAL BUILDING PERMITS IN BC, 2000



Source: Statistics Canada

Six of seven regions recorded declines in the value of residential building permits. However, three regions recorded growth in non-residential construction permits.

Some significant regional construction projects underway or on the drawing board in 2000 included:

- the $1-billion Vancouver International Airport expansion
- the $200-million Kicking Horse ski area in Golden
- the $200-million Creekside residential development in Whistler
- a $125-million Crystal Mountain ski resort in Kelowna
- a $70-million film studio expansion in Burnaby
- the $110-million Harbourside business park in North Vancouver
- the $25-million Broadway Tech Centre and the proposed Tech Park in Vancouver
- a $25-million fuel cell manufacturing facility by Ballard Power in Vancouver
- ongoing sky train construction in Greater Vancouver

Resource Sector Developments

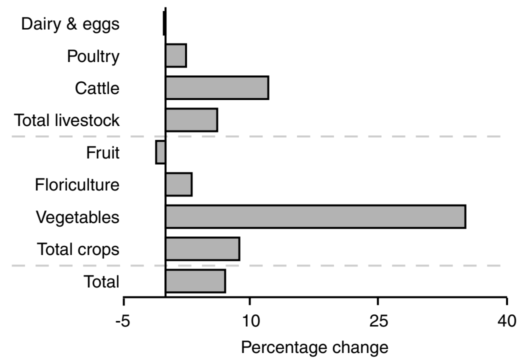
The provincial resource sector experienced a turnaround in 2000, due to stronger external demand. The restructuring of earlier years helped many forest companies cope better with volatile markets. Mining production and agri-food exports rose.

During 2000, a decline in lumber prices was offset by a rise in pulp and newsprint prices. However, the sharp fall in lumber prices in the fourth quarter, resulting from a slowing U.S. economy, led to shutdowns and layoffs around the province. For 2000, ten BC-based public forest product companies reported a 35 per cent rise in net earnings, even though the net sales only rose 9.4 per cent, evidence of cost control and restructuring. Most metals and mineral prices were up and so was production. A large increase in oil and gas prices beginning in the second half of the year benefited the Northeast. The Quintette coal mine near Tumbler Ridge closed in August 2000; even so, provincial coal production rose nearly 4 per cent.

The fisheries sector continues to face many challenges and competition from overseas, but economic conditions have improved since 1998. In 2000, the value of fish product exports rose 5.9 per cent, while fishing employment rose 20 per cent.

Although agriculture is one of British Columbia's oldest industries, it has been taking a new direction by venturing into new products including organic foods and new production methods such as large greenhouse operations. B.C. agriculture is located mainly in the Okanagan, Fraser Valley, Peace River area and Vancouver Island.

B.C. FARM CASH RECEIPTS, 2000



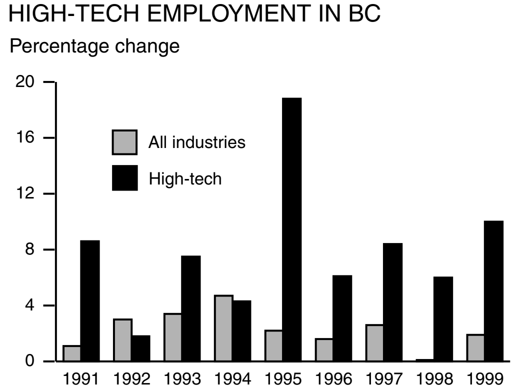
Source: Statistics Canada

Cash receipts of B.C. farmers were up 7.0 per cent to $2.1 billion, following a 5.8 per cent increase in 1999. Vegetable production, located mainly in the Fraser Valley, showed the largest growth to a total annual value of $306 million, thanks to a boom in hothouse production. After a slow year in 1999, floriculture located in the Lower Mainland and on southern Vancouver Island expanded to $310 million in 2000. Livestock and dairy production rose 6.1 per cent to $1.1 billion. B.C.'s ginseng sales rose 27 per cent in 2000, as a result of reduced output by other producers and increased demand from Asia.

High-tech

High-tech growth has exceeded overall British Columbia economic growth in recent years, with employment doubling in the past ten years. In 1999, more than 50,000 workers were employed in the high-tech sector.

HIGH-TECH EMPLOYMENT IN BC



Source: BC Stats

The pace of high-tech development in the regions has been faster than in the two major metropolitan areas (Greater Vancouver and the Capital region). According to BC Stats, the number of high tech industry establishments in the province grew an average of 9.2 per cent annually between 1995 and 1999. In contrast, the number of high tech establishments outside the Greater Vancouver and Capital regions advanced 11 per cent annually.

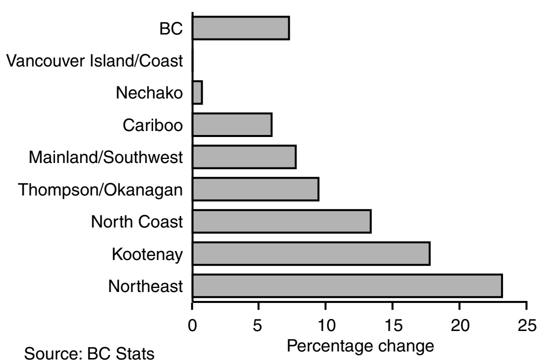
In addition to Vancouver and Victoria, areas that attracted most high-tech establishments included Nanaimo, Kelowna, Prince George, and small centres such as Nelson, where land and housing are more affordable.

Transportation, Tourism and Film

Tourism continued to be a major contributor to the province's economy, although the number of overnight visitors rose just 1.3 per cent last year. It is estimated by Tourism B.C. that tourism revenue reached $9.5 billion in 2000, a new high, and up from 1999's $9.2 billion. Activities such as wine-tourism in the Okanagan, whale-watching and fishing on the coast, cruises on the Inside Passage, skiing and new attractions such as adventures in B.C.'s wilderness and eco-tourism are gaining popularity in the world market.

HOTEL ROOM REVENUE BY REGION

Jan – Aug 1999 to Jan – Aug 2000



Source: BC Stats

Winery-tourism has been a key driver of tourism activity in the Okanagan, generating an estimated $72 million in accommodation revenues. The cruise ship industry has become an integral part of the province's tourism industry, contributing $500 million annually to the B.C. economy, according to the Vancouver Port Authority. While Vancouver and Victoria are traditionally the docking sites, both Campbell River and Prince Rupert successfully negotiated development plans for cruise ship facilities. Construction is starting in 2001.

During 2000, some regional airports saw increases in passenger volumes, including Kamloops, Kelowna, Cranbrook and Prince George. Passenger traffic through Vancouver Airport grew modestly while declining in Victoria. Airlines such as Canada 3000, WestJet and Horizon Air took advantage of regional service gaps left after the Air Canada — Canadian Airlines merger. Kelowna now has direct flights to Seattle and Toronto. WestJet recently began non-stop flights between Abbotsford and Toronto and Comox now has daily service to Calgary.

The value of film and television production in British Columbia was $1.2 billion in 2000, up from $1.1 billion in 1999. Production activity outside the Greater Vancouver area has been limited by higher costs and lack of supporting infrastructure. The provincial government provides a regional tax credit as part of its Film and Television Incentive Program to promote film production outside of the Vancouver area.

Report B: REVISED FINANCIAL FORECAST — 2000/01

The summary accounts are forecast to show a $1.3-billion surplus for 2000/01 . . .

This section contains an updated full-year forecast for the provincial government's summary accounts, which include the consolidated revenue fund (CRF) and Crown corporations and agencies. Also included is an updated revised forecast for provincial staffing levels, capital spending and debt.

The summary accounts surplus is projected at $1.3 billion, an improvement of $592 million from the $725-million surplus forecast in the third *Quarterly Report*.

. . . up $592 million from the third Quarterly Report forecast.

Table B1 shows that since the third *Quarterly Report*, the CRF revenue forecast has increased $190 million due to a continuation of stronger-than-expected energy prices. The CRF spending forecast rose $248 million primarily due to the inclusion of the remaining $225-million spending provision included in the third *Quarterly Report* summary accounts forecast.

TABLE B1
SUMMARY OF FORECAST CHANGES FROM THE 2000/01 THIRD *QUARTERLY REPORT*

	In-Year Change		Final Results
	($ millions)		
Summary Accounts Balance — 2000/01 third *Quarterly Report* forecast			**725**
Consolidated revenue fund (CRF) changes:			
Revenue (mainly energy resource revenue)		190	
Spending (mainly allocation of remaining $225-million priority spending provision)		(248)	
Net increase (decrease) from third *Quarterly Report*			**(58)**
Crown corporation changes:			
Taxpayer-supported			
— improvement in British Columbia Ferry Corporation, Forest Renewal BC and other changes		10	
Self-supported commercial			
— improvement in British Columbia Hydro and Power Authority (including transfers to rate stabilization account)	131		
— increased contributions to CRF and other changes	(16)		
		115	
Net increase (decrease) from third *Quarterly Report*			**125**
Forecast allowance — reduced allowance			**300**
Provision for priority spending — allocated to CRF spending			**225**
Summary Accounts Balance — 2001/02 Budget update			**1,317**
Provincial Net Debt — 2000/01 third *Quarterly Report* forecast			**33,820**
Taxpayer-supported debt changes:			
Provincial government direct operating — reduced borrowing requirements		(277)	
Health and education facilities, highways, ferries, public transit and other changes — reduced borrowing requirements		(10)	
			(287)
Self-supported debt changes:			
Warehouse borrowing program — reduced drawdown			**283**
Provincial Net Debt — 2001/02 Budget update			**33,816**

The Crown corporations forecast improved $125 million primarily due to further strength in British Columbia Hydro and Power Authority (BC Hydro) net income. The forecast allowance has been reduced $300 million from the $450 million shown in the third *Quarterly Report*, while the spending provision has now been fully allocated.

Provincial debt is forecast to total $33.8 billion at March 31, 2001. Although there was a $592-million improvement in the summary accounts forecast since the third *Quarterly Report*, the total provincial debt forecast has remained about the same.

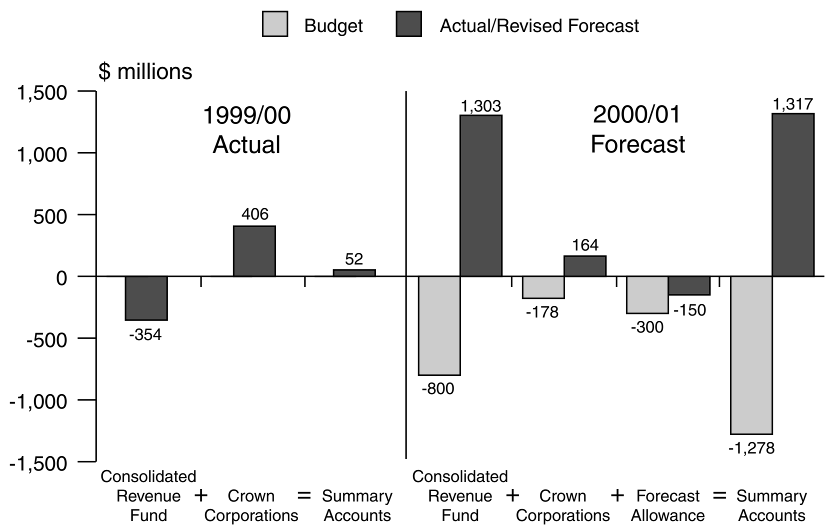
Provincial debt is forecast to total $33.8 billion at March 31, 2001. Although there was a $592-million improvement in the summary accounts forecast since the third *Quarterly Report,* the total provincial debt forecast has remained about the same. The improvements in the last quarter are now expected to result in:

- the drawdown from the warehouse borrowing program (funds borrowed earlier in the year in advance of requirements) being $283 million lower than planned in the last quarter; and
- larger cash balances in the CRF and in Crown corporations such as B.C. Hydro at year-end and early next year.

These changes do not affect the provincial debt forecast in 2000/01. Instead, the resultant higher cash and warehouse program balances will be used to reduce the borrowing requirements of the government and its Crown corporations in 2001/02.

The $1.3-billion summary accounts surplus is $2.6 billion better than the budget estimate

Chart B1
Review of Full-Year Forecast



The projected summary accounts surplus of $1.3 billion is $2.6 billion better than the original budget estimate of a $1.3-billion deficit.

The CRF is projected to have a positive balance of $1.3 billion in 2000/01, $2.1 billion better than planned due to higher-than-expected revenue.

TABLE B2

SUMMARY ACCOUNTS OPERATING RESULTS — 2000/01 REVISED FORECAST

(Unaudited)

	Budget 2000/01	Revised Forecast	Variance[1]	Actual 1999/00
	($ millions)			
Consolidated Revenue Fund (CRF):				
Revenue	21,500	24,030	2,530	21,846
Expenditure	(22,300)	(22,727)	(427)	(22,200)
CRF balance	(800)	1,303	2,103	(354)
Crown corporations and agencies:				
Taxpayer-supported:				
British Columbia Buildings Corporation	62	52	(10)	45
British Columbia Ferry Corporation (BCFC)	(10)	10	20	(299)
BC Transportation Financing Authority	(1)	2	3	22
Forest Renewal BC	(52)	(97)	(45)	1
Other[2]	(16)	26	42	(44)
	(17)	(7)	10	(275)
Less: Contributions paid to CRF[3]	(62)	(72)	(10)	(78)
Forgiveness of BCFC debt	—	—	—	1,080
Other accounting adjustments[4]	(227)	(185)	42	(131)
Total taxpayer-supported	(306)	(264)	42	596
Self-supported commercial:				
British Columbia Hydro and Power Authority (BC Hydro)	429	483[5]	54	416
Liquor Distribution Branch	620	635	15	617
British Columbia Lottery Corporation	542[6]	550	8	532
British Columbia Railway Company	40	(7)	(47)	(582)
Insurance Corporation of British Columbia	3	131	128	96
Other[7]	42	6	(36)	1
	1,676	1,798	122	1,080
Less: Contributions paid to CRF[8]	(1,386)	(1,447)	(61)	(1,376)
Transfer of BC Hydro earnings (from) to rate stabilization account	(17)	312	329	129
Other accounting adjustments[9]	(145)	(235)	(90)	(23)
Total self-supported commercial	128	428	300	(190)
Total net contribution (loss) of Crown corporations and agencies	(178)	164	342	406
Forecast allowance	(300)	(150)	150	—
Summary accounts surplus (deficit)	(1,278)	1,317	2,595	52

[1] 2000/01 revised forecast less 2000/01 budget.

[2] Includes earnings (losses) of other taxpayer-supported Crown corporations and agencies, including B.C. Pavilion Corporation, British Columbia Securities Commission, Okanagan Valley Tree Fruit Authority, Tourism British Columbia, British Columbia Housing Management Commission and British Columbia Transit.

[3] Includes dividends paid by British Columbia Buildings Corporation and proceeds received from 577315 British Columbia Ltd. (Western Star Trucks Holding Ltd.) and 580440 British Columbia Ltd. (Vancouver Trade and Convention Centre).

[4] Primarily includes adjustments to record the amortization of the cost of highways transferred to the BC Transportation Financing Authority in 1998/99.

[5] Includes a revenue adjustment to reflect uncertainty in realizing a portion of export sales to California.

[6] Transfers to the federal government previously included in accounting adjustments have been reclassified as part of corporation net income.

[7] Includes earnings (losses) of other commercial Crown corporations, including the Columbia Power Corporation and 552513 British Columbia Ltd. (Skeena Cellulose Inc.).

[8] Includes contributions from the British Columbia Hydro and Power Authority, Liquor Distribution Branch and other commercial Crown corporations.

[9] Includes transfers of British Columbia Lottery Corporation revenue to charities and municipalities, and adjustments to the Insurance Corporation of British Columbia and the British Columbia Railway Company to adjust their reporting results from a calendar year basis to government's fiscal reporting period ending March 31.

TABLE B3

SUMMARY OF FORECAST CHANGES FROM THE 2000/01 BUDGET

	In-Year Change		Final Results
	($ millions)		
Summary Accounts Deficit — 2000/01 Budget			**(1,278)**
Consolidated revenue fund (CRF) changes:			
Revenue changes:			
— Prior-year personal income tax assessments and CHST entitlement[1]	224		
— CHST supplement: effect of 1999/00 accounting change	(121)		
— September 11, 2000 federal announcement of funding for medical equipment (2-year funding)	132		
— Taxation sources — higher personal and corporation income (current-year entitlements) and other taxes	656		
— BC Energy Rebate	(36)		
— Natural resources			
Natural gas royalties	824		
Permits, fees, petroleum royalties, and minerals	338		
Forests	(180)		
Columbia River Treaty	613		
Other	(9)		
— Crown corporation contributions and other sources[2]	89		
Net increase (decrease) from budget		2,530	
Spending changes:			
— Ministry of Health supplementary estimates (September and December)	(502)		
— Additional funding for health research and other health system pressures	(142)		
— Additional funding for post-secondary library and technology investments, and K–12 learning and technology resources	(69)		
— BC Energy Rebate	(42)		
— Heating assistance to post-secondary institutions, public schools and health authorities	(21)		
— Ministry of Attorney General — *Crown Proceeding Act, Emergency Program Act* and other program pressures	(61)		
— Ministry of Forests — higher spending primarily for fire-fighting and inventory adjustments	(48)		
— Other program spending net savings	21		
— Lower debt interest costs	114		
— Effect of accounting change for classifying capital expenditures			
— health facilities	128		
— education and other facilities	(138)		
— Net effect of pension changes in 2000/01	333		
Net (increase) decrease from budget		(427)	
Consolidated revenue fund — net improvement from budget			**2,103**

[1] Includes $190 million for personal income tax and $34 million for CHST.

[2] Includes Crown corporation contributions ($71 million) and current-year CHST entitlements ($27 million), partially offset by a reduction in other revenue ($9 million).

TABLE B3 — *(Continued)*
SUMMARY OF FORECAST CHANGES FROM THE 2000/01 BUDGET

	In-Year Change		Final Results
	($ millions)		
Crown corporation changes:			
Taxpayer-supported:			
— British Columbia Ferry Corporation — lower operating loss	20		
— Forest Renewal BC — higher loss due to lower stumpage revenue	(45)		
— 577513 British Columbia Ltd. — gain on sale of Western Star Trucks investment	18		
— Other Crown corporation changes and adjustments (mainly lower adjustments for the amortization of highways)	49	42	
Self-supported commercial:			
— British Columbia Hydro and Power Authority — higher net income including transfer to rate stabilization account[3]	383		
— Insurance Corporation of British Columbia — higher net income[3]	128		
— British Columbia Railway Company and other Crown corporations — lower net income	(60)		
— Higher Crown corporation contributions paid to CRF	(61)		
— Other Crown corporation changes and adjustments (primarily reflecting differences between fiscal year-ends)	(90)	300	
Crown corporations — increased net earnings from budget			**342**
Forecast allowance — reduced allowance			**150**
Summary Accounts Balance — Revised Forecast			**1,317**
Provincial Net Debt (Estimate at March 31, 2001) — 2000/01 Budget			**36,473**
Taxpayer-supported debt changes:			
— Provincial government direct operating		(3,115)	
— Education facilities		(226)	
— Health facilities		105	
— Highways, ferries, public transit, and other		(186)	**(3,422)**
Self-supported debt changes:			
— Commercial Crown corporations and agencies		(101)	
— Warehouse borrowing program		866	**765**
Provincial Net Debt (Estimate at March 31, 2001) — Revised Forecast			**33,816**

[3] After deducting rebates to residential customers (British Columbia Hydro and Power Authority) and to safe drivers (Insurance Corporation of British Columbia).

CRF revenue is projected to be $2.5 billion above budget . . .

. . . and CRF spending is projected to be $427 million above budget

- Revenue is projected to be $2.5 billion above budget primarily due to high energy prices and the effect of a strengthening economy in 2000.
- Full-year spending is projected to be $427 million above budget mainly due to health and other spending initiatives announced since the budget, partially offset by the effect of a number of pension adjustments. Excluding pension adjustments, full-year spending is forecast to be $760 million above budget. Since the start of the year, there has been a significant improvement in the finances of the government and its Crown corporations and agencies. This has allowed the government to allocate additional resources to priority areas.

Crown corporations show net income of $164 million after rebates

In total, Crown corporations are forecast to show net income of $164 million after incorporating the effect of $524 million in customer rebates. Excluding rebates, combined Crown corporation net income would be forecast at $688 million.

In September 2000, $290 million of additional health spending was authorized by the legislature. In November 2000, the government established a $500-million spending provision to address government priorities. In the third *Quarterly Report*, $275 million of this provision was allocated to ministry programs, including:

- a further $212 million of health spending which was authorized by the legislature in December 2000;
- $42 million for the BC Energy Rebate (an additional $36 million is deducted from personal income tax revenue); and
- $21 million for heating energy assistance to schools, universities and health authorities.

In addition, the government introduced the following customer rebates:

- $219 million of safe driving dividends to ICBC customers; and
- $305 million of BC Hydro rebates to residential electricity customers.

The government also announced that the remaining $225 million of spending initiatives would be identified when finalized. The initiatives now include the following major items:

	$ millions
• one-time funding for health research in British Columbia	110
• one-time funding for additional library acquisitions, technology, equipment and information technology investments for public post-secondary institutions	50
• one-time funding for other health care system pressures	32
• one-time funding for learning and technology resources for public K–12 education	19
• one-time funding for film, arts and heritage projects in British Columbia	10

An allowance of $150 million is included in the forecast

An allowance of $150 million is included in the summary accounts forecast to provide for unanticipated changes prior to year end, such as unexpected changes in energy prices or adjustments required as the Auditor General completes his annual review of the government's accounts.

Table B3 provides details on changes to the fiscal forecast since the start of the year.

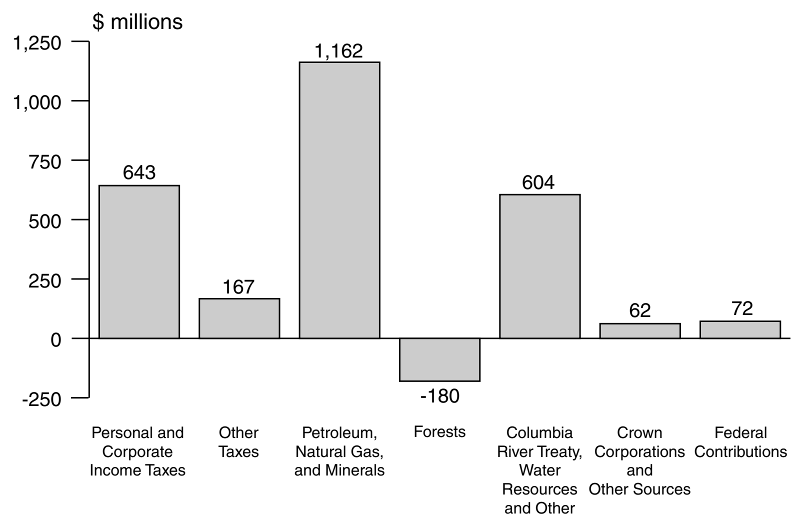
Consolidated Revenue Fund

Revised Revenue Forecast

Revenue is projected to be $2.5 billion above budget and 10 per cent higher than the previous year, reflecting higher prices in the energy sector and stronger economic growth in 2000. The forecast incorporates the effects of higher year-end revenue from 1999/00, updated economic information and a $36-million reduction in personal income tax revenue resulting from the BC Energy Rebate. It also incorporates year-to-date revenue collections, final personal and corporate income tax assessments for 1999, and a higher federal government outlook for national corporate profits in 2000.

As shown in chart B2, revenue is projected to be higher than budget for most sources, with the largest increase arising in the energy resource sector.

Chart B2
CRF Revenue Changes from the 2000/01 Budget



As noted earlier, the revenue forecast has increased $190 million since the third *Quarterly Report*. Assumptions underlying the revised revenue forecast are essentially unchanged from those provided in the third *Quarterly Report*, except for the following revisions:

- the petroleum and natural gas revenue forecast was increased $103 million reflecting strong auctions of Crown land drilling rights in the last quarter;
- the forecast for revenue received from electricity sales under the Columbia River Treaty was increased $97 million to reflect stronger electricity prices in the last quarter; and
- minor year-to-date trend adjustments reduced the forecast for other revenue sources by $10 million.

TABLE B4

CONSOLIDATED REVENUE FUND — 2000/01 REVISED REVENUE FORECAST

(Unaudited)

	Budget 2000/01	**Revised Forecast 2000/01[1]**	Change[2]	Actual 1999/00
	($ millions)			
Taxation revenue:				
Personal income	5,513	**6,015**	502	5,839
Corporation income	915	**1,056**	141	939
Social service	3,446	**3,581**	135	3,338
Fuel	437	**455**	18	470
Tobacco	468	**468**	—	498
Property	1,360	**1,370**	10	1,350
Property transfer	250	**255**	5	245
Corporation capital	438	**438**	—	460
Other taxes	288	**297**	9	288
Less: provision for doubtful accounts	(15)	**(25)**	(10)	(25)
Less: commissions on collection of public funds	(24)	**(24)**	—	(24)
	13,076	**13,886**	810	13,378
Natural resources:				
Petroleum and natural gas:				
Natural gas royalties	335	**1,159**	824	328
Permits and fees	217	**474**	257	248
Petroleum royalties	88	**149**	61	94
	640	**1,782**	1,142	670
Minerals	33	**53**	20	47
Forests:				
Timber sales	967	**785**	(182)	1,041
Small Business Forest Enterprise Program	232	**234**	2	269
Logging tax	45	**60**	15	24
Other forests revenue	58	**43**	(15)	58
	1,302	**1,122**	(180)	1,392
Water resources	309	**301**	(8)	297
Columbia River Treaty	89	**702**	613	99
Wildlife Act	14	**14**	—	15
	412	**1,017**	605	411
Less: provision for doubtful accounts	(8)	**(9)**	(1)	(2)
Less: commissions on collection of public funds	(1)	**(1)**	—	(1)
	2,378	**3,964**	1,586	2,517
Other revenue:				
Medical Services Plan premiums	891	**905**	14	868
Motor vehicle licences and permits	341	**340**	(1)	335
Other fees and licences	384	**333**	(51)	363
Investment earnings	55	**105**	50	60
Fines and penalties	103	**99**	(4)	107
Miscellaneous	105	**137**	32	128
Asset dispositions	50	**—**	(50)	52
Less: provision for doubtful accounts	(34)	**(35)**	(1)	(9)
Less: commissions on collection of public funds	(14)	**(12)**	2	(16)
	1,881	**1,872**	(9)	1,888

TABLE B4 — *(Continued)*

CONSOLIDATED REVENUE FUND — 2000/01 REVISED REVENUE FORECAST
(Unaudited)

	Budget 2000/01	**Revised Forecast 2000/01**[1]	Change[2]	Actual 1999/00
	($ millions)			
Contributions from Crown corporations:				
British Columbia Buildings Corporation	62	**52**	(10)	71
Liquor Distribution Branch	620	**635**	15	617
British Columbia Lottery Corporation	398	**406**	8	416
British Columbia Hydro and Power Authority	355	**403**	48	343
Other[3]	13	**23**	10	7
	1,448	**1,519**	71	1,454
Contributions from the Federal government:				
Canada health and social transfer	2,549	**2,742**	193	2,317
Canada health and social transfer — accounting change	—	**(121)**	(121)	121
Other	168	**168**	—	171
	2,717	**2,789**	72	2,609
TOTAL REVENUE	21,500	**24,030**	2,530	21,846

[1] Revised forecast for 2000/01 excludes $815 million in dedicated revenue collected on behalf of, and transferred to, Crown corporations, agencies, and other jurisdictions. For details, see Table H7.
[2] 2000/01 revised forecast less 2000/01 budget.
[3] Includes British Columbia Railway Company, British Columbia Asset and Land Corporation, Columbia Power Corporation, 577315 British Columbia Ltd. (Western Star Trucks Holding Ltd.), and 580440 British Columbia Ltd. (Vancouver Trade and Convention Centre).

Revised Expenditure Forecast

Excluding the effect of pension changes, spending is forecast to be $760 million above budget due to health and other new spending initiatives

Table B5 provides details on the revised expenditure forecast for 2000/01.

In total, program spending is projected to be $760 million higher than budget and 8 per cent higher than comparable spending for 1999/00. The increase primarily reflects the $290 million of supplementary health estimates approved in September 2000 and the allocation of $500 million of spending initiatives announced since November 2000. These increases are partially offset by a $333-million net reduction to expenditure primarily due to a change in pension accounting policy recommended by the Auditor General and costs associated with a new joint trustee arrangement for the Public Service Pension Plan. As a result, net spending of the consolidated revenue fund is projected to be $427 million above budget.

In addition to the $225 million of spending initiatives allocated to ministries, a number of other changes have occurred since the third *Quarterly Report*. Significant items include:

- $20 million increase in the Ministry of Energy and Mines to provide for the effect of higher natural gas prices under the Vancouver Island Natural Gas Pipeline Project Agreement.
- As a result of the government's review of its classification practice used for capital and operating expenditures, certain expenditures previously recorded as capital spending are now recorded as annual operating expenditures of ministries. This will result in reduced amortization costs in the future. As well, some expenditures recorded as operating expenditures (e.g. health equipment spending) are now recorded as capital expenditures to be amortized over future years. These changes resulted in the following adjustments to ministry expenditure forecasts:

- Advanced Education, Training and Technology — $54 million expenditure increase;
- Education — $74 million expenditure increase;
- Health — $128 million expenditure reduction; and
- Other appropriations — $10 million expenditure increase.

In total, these adjustments resulted in a $10-million net increase to program spending and also resulted in offsetting adjustments to the government's capital expenditures.

Ministry spending changes from the 2000/01 budget are as follows:

Officers of the Legislature and Premier's Office — A statutory appropriation provides Elections BC with $2 million for costs related to the redistribution of electoral boundaries. Contingencies provides funding for various pressures in the Offices of the Premier, Auditor General and Police Complaints Commissioner.

Ministry of Aboriginal Affairs — Up $27 million. Includes $10 million for interim measures in support of ongoing treaty negotiations funded from Contingencies; and $17 million funded from Contingencies and statutory appropriations for payments of stumpage revenue collected on behalf of the McLeod Lake Indian Band, and costs of the Skeetchestn settlement, Duke Point/Nanaimo First Nation compensation, and an Upper Similkameen Cutoff Claim payment.

Ministry of Advanced Education, Training and Technology — Up $232 million. Supplementary estimates will provide funding for the Michael Smith Foundation for Health Research ($110 million); library acquisitions and technology ($46 million); capital advances reclassified as operating expenses ($54 million); and a total of $25 million for post-secondary collective agreements and accords, a new lender arrangement for student financial assistance, and heating assistance for educational institutions. The forecast also reflects $7 million of debt servicing savings partially offset by $4 million of Contingencies spending for an optical regional advanced network.

Ministry of Agriculture, Food and Fisheries — Up $7 million to reflect assistance to greenhouses and cranberry growers funded from Contingencies.

Ministry of Attorney General — Up $61 million. Includes court settlements and emergency program compensation funded under statutory authority ($45 million); and compensation payments for Jericho Hill School claimants and other ministry program pressures funded from Contingencies ($16 million). The forecast does not include an estimate of potential costs relating to Carrier Lumber Ltd. compensation, due to uncertainty about the final resolution. However, the overall summary accounts revised forecast includes an allowance for this and other risks to the forecast.

Ministry for Children and Families — Up $6 million. Additional spending for addiction research and prevention ($10 million) and other pressures is provided from Contingencies and through savings in other ministry programs (including lower-than-budgeted costs of compensation increases in the community social services sector due to slower rates of unionization).

Ministry of Education — Up $83 million. The forecast includes capital advances reclassified as operating expenses ($74 million); learning and technology grants ($19 million); heating assistance for schools ($9 million); and a total of $21 million for a decision not to change the independent school funding formula, higher teachers' pension fund contributions, higher-than-expected costs of teachers moving through the salary grid and the CUPE collective agreement. These pressures will be funded from supplementary estimates and are partially offset by $30 million of debt servicing savings and a $10-million enrolment buffer.

Ministry of Energy and Mines — Up $22 million. Higher natural gas prices have resulted in increased spending under the Vancouver Island Natural Gas Pipeline Project Agreement and First Nation resource revenue sharing agreements. Funding is provided through statutory appropriations and Contingencies.

Ministry of Environment, Lands and Parks — Up $9 million. Funding from Contingencies provides for work on climate change, Cypress Bowl water and sewer improvements, the Tulsequah Chief Mine project and other pressures.

Ministry of Forests — Up $48 million. Higher-than-expected forest fire-fighting costs ($23 million) and an inventory valuation correction in the Small Business Forest Enterprise special account ($15 million) are funded under statutory appropriations. Contingencies will provide $14 million for pressures such as bark beetle control measures and interest costs, while the South Moresby Special Account will be $4 million below budget.

$412 million increase in health-care funding reflects government priorities

Ministry of Health — Up $412 million. The forecast includes health authorities' service pressures ($180 million), the Health Action Plan ($104 million), the Medical Services Plan ($75 million), other pressures ($45 million), and an additional $8 million for heating assistance to health authorities. Funding is provided through supplementary estimates authorized in September and December 2000.

The Ministry of Health revised forecast is $98 million lower than the third *Quarterly Report* forecast. Additional operating pressures of $30 million were more than offset by a $128-million net reduction resulting from a government-wide review of capital classification practices. Certain grants issued to health authorities for equipment purchases have been reclassified as capital expenditures ($141 million reduction), while certain prepaid capital advances have been reclassified as operating expenditures ($13 million increase). These two adjustments resulted in a net reduction to ministry operating expenditure in 2000/01, and a corresponding increase in capital expenditures to be amortized over future years.

Ministry of Labour — Up $6 million, including a loan valuation adjustment for the Pacific Racing Association funded under statutory authority, and other ministry pressures funded from Contingencies.

Ministry of Municipal Affairs — Up $5 million including statutory funding for retroactive home owner grants ($3 million) and Contingencies funding for additional library grants and capital amortization expenses ($2 million).

Ministry of Small Business, Tourism and Culture — Up $14 million including additional spending for arts and heritage, the BC Feature Film Fund, archaeology program expenditures, and the Royal British Columbia Museum. Funding is provided through Contingencies ($13 million) and statutory authority.

Ministry of Social Development and Economic Security — Down $9 million. Ministry operations net pressures of $16 million result from a higher-than-expected income assistance caseload, disability benefits utilization and child care subsidies. The BC Benefits caseload decline is now projected at 2.2 per cent for the full year, compared to the budget target of a 4.2 per cent decline. Most of these costs will be funded from Contingencies. In addition, the forecast assumes that a valuation adjustment for the government's investment in B.C. Pavilion Corporation ($3 million from Contingencies) will be offset by savings in housing programs ($3 million). Contributions to British Columbia Transit will be $25 million below budget due to a correction to the formula used for amortizing capital investments and lower debt interest costs.

Other Ministries — A combination of statutory authority and Contingencies will provide funding for the climate change initiative and a write-down of the government's investment in Four Corners Bank in the Ministry of Community Development, Cooperatives and Volunteers, and for start-up costs in the Ministry of Multiculturalism and Immigration.

Debt Servicing — Down $114 million due to lower-than-expected borrowing requirements and interest rates.

Amortization of Change in Unfunded Pension Liability and Other Pension Changes — $333-million net reduction in expenditures. This consists of:

- A reduction of $368 million due to a change to pension accounting policy recommended by the Auditor General in July 2000.
- A $77-million reduction to reflect the expected impact of the actuarial valuation of the teachers' pension plan (completion of the valuation is pending).
- A $112-million expenditure increase resulting from the recently concluded public service pension plan joint trusteeship agreement. This reflects the resulting write-down of the accumulated pension plan surplus recorded on the government's accounts at the time of the agreement. This expenditure has a statutory appropriation.

BC Energy Rebate — Legislative authority or supplementary estimates will provide for the $78 million cost of the BC Energy Rebate — $42 million of the total will be recorded as an expenditure and $36 million will be recorded as a reduction in personal income tax revenue.

Other Appropriations — Up $20 million. Additional Insurance and Risk Management Special Account loss provisions of $10 million are provided by statutory authority. In addition, $10 million of expenditures for seismic upgrades to government buildings, previously recorded as prepaid capital advances, have been reclassified as operating expenditures. The seismic upgrade costs will be provided for through supplementary estimates and will result in a corresponding reduction in capital expenditures.

TABLE B5

CONSOLIDATED REVENUE FUND — 2000/01 REVISED EXPENDITURE FORECAST
(Unaudited)

	Budget[1] 2000/01	**Revised Forecast 2000/01**	Variance[2, 3]	Actual[1] 1999/00
	($ millions)			
Legislation	38	**38**	—	34
Officers of the Legislature	26	**29**	3	28
Office of the Premier	3	**3**	—	3
Aboriginal Affairs	43	**70**	27	34
Advanced Education, Training and Technology				
Educational institutions and organizations	1,200	**1,433**	233	1,120
Other ministry programs	523	**522**	(1)	517
Total	1,723	**1,955**	232	1,637
Agriculture, Food and Fisheries	101	**108**	7	86
Attorney General	943	**1,004**	61	1,007
Children and Families	1,501	**1,507**	6	1,356
Community Development Cooperatives and Volunteers	23	**24**	1	15

TABLE B5 — *(Continued)*

CONSOLIDATED REVENUE FUND — 2000/01 REVISED EXPENDITURE FORECAST
(Unaudited)

	Budget[1] 2000/01	**Revised Forecast 2000/01**	Variance[2, 3]	Actual[1] 1999/00
	($ millions)			
Education				
Public school operating contributions	3,773	**3,800**	27	3,640
Other ministry programs	763	**819**	56	709
Total	4,536	**4,619**	83	4,349
Employment and Investment	37	**37**	—	41
Energy and Mines	38	**60**	22	34
Environment, Lands and Parks	191	**200**	9	206
Finance and Corporate Relations	114	**112**	(2)	117
Forests	512	**560**	48	498
Health				
Acute and continuing care	4,491	**4,790**	299	4,425
Other ministry programs	3,777	**3,890**	113	3,547
Total	8,268	**8,680**	412	7,972
Labour	30	**36**	6	30
Multiculturalism and Immigration	24	**23**	(1)	112
Municipal Affairs	141	**146**	5	152
Small Business Tourism and Culture	84	**98**	14	82
Social Development and Economic Security				
Ministry programs	2,029	**2,045**	16	1,973
Contributions to British Columbia Transit	181	**156**	(25)	149
	2,210	**2,201**	(9)	2,122
Transportation and Highways	465	**465**	—	478
Women's Equality	53	**53**	—	41
Other:				
Management of Public Funds and Debt	1,009	**895**	(114)	835
Contingencies (All Ministries) and New Programs	125	**13**	(112)	—[4]
BC Family Bonus	152	**152**	—	183
Amortization of Change in Unfunded Pension Liability	(130)	**(130)**	—	(130)
Other Appropriations[5]	40	**60**	20	39
BC Energy Rebate[6]	—	**42**	42	—
TOTAL	22,300	**23,060**	760	21,361
Pension Amortization Change — Teacher's Pension Plan	—	**(77)**	(77)	—
Pension Accounting Policy Change	—	**(368)**	(368)	(352)
Joint Trusteeship Agreement and Other One-Time Expenditures	—	**112**[7]	112	1,191[8]
TOTAL EXPENDITURE	22,300	**22,727**	427	22,200

[1] Figures have been restated to reflect the government organization as of March 15, 2001.
[2] 2000/01 revised forecast less 2000/01 budget.
[3] Forecast spending in excess of budget will be all or in part funded by supplementary estimates, statutory authority or by the Contingencies vote.
[4] Charges to the Contingencies vote of $108 million in 1999/00 have been included as part of the spending of ministries.
[5] Other Appropriations include the Commissions on Collection of Public Funds and Allowance for Doubtful Accounts Vote, the Environmental Assessment and Land Use Coordination Vote, the Environmental Boards and Forest Appeals Commission Vote, the Forest Practices Board Vote, the Green Economy Initiative Vote, the Public Sector Employers' Council Vote, the Insurance and Risk Management Special Account, the Unclaimed Property Special Account, and other appropriations.
[6] An additional $36 million of the BC Energy Rebate is recorded as a reduction to personal income tax revenue.
[7] 2000/01 revised forecast reflects additional costs for the Public Service Pension Plan joint trusteeship agreement. In Table C5, this amount is excluded from total expenditure in order to be consistent with the presentation used for 2001/02, which excludes joint trusteeship agreements.
[8] Includes British Columbia Ferry Corporation debt forgiveness ($1,080 million), Vancouver Trade and Convention Centre write-down ($70 million), and Kemess Mine investment write-down ($41 million).

The forecast assumes that the Contingencies vote will be fully allocated by year-end. Table B6 provides details on the forecast of the Contingencies vote.

Negotiations with the British Columbia Medical Association are ongoing. In recognition of this and other spending pressures and accounting adjustments that may materialize by year-end, the summary accounts revised forecast includes a $150-million forecast allowance.

TABLE B6

ALLOCATION OF CONTINGENCIES AND NEW PROGRAMS FUNDING VOTE
(Budget — $125 million)

	($ millions)
Special Offices	1.0
Aboriginal Affairs	14.5
Advanced Education, Training and Technology	4.0
Agriculture, Food and Fisheries	7.5
Attorney General	16.4
Children and Families	6.0
Community Development, Cooperatives and Volunteers	0.9
Employment and Investment	0.6
Energy and Mines	0.8
Environment, Lands and Parks	9.4
Finance and Corporate Relations	3.5
Forests	14.2
Labour	0.6
Multiculturalism and Immigration	0.8
Municipal Affairs	1.5
Small Business, Tourism and Culture	13.0
Social Development and Economic Security	15.8
Women's Equality	0.1
Other Appropriations	1.9
Remaining unallocated funds to offset potential year-end pressures	12.5
Revised Forecast Total	125.0

Crown Corporations and Agencies

Full-year forecasts of operating results are based on information provided by Crown corporations and agencies

This section provides revised full-year forecasts of the operating results for selected Crown corporations and agencies, based on information provided by those entities. Further details are shown in Table B2.

These forecasts may be revised as a result of operating developments over the rest of the year, adjustments required as a result of year-end audits, and subsequent decisions taken by the government and the boards of directors of the various Crown corporations and agencies.

Taxpayer-supported Crown Corporations and Agencies

Taxpayer-supported Crown corporation net losses are forecast to be $42 million better than budget

At $264 million, taxpayer-supported Crown corporation and agency net losses (after adjustments) are forecast to be $42 million better than budget. Increased operating losses, largely in Forest Renewal BC, and higher dividends paid to the CRF are more than offset by improvements in other Crown corporations and a reduction in expected year-end accounting adjustments. Excluding one-time provincial debt assistance to the British Columbia Ferry Corporation in 1999/00, combined net losses of taxpayer-supported Crown corporations will be $220 million lower than last year.

In general, forecast assumptions for taxpayer-supported Crown corporations are largely unchanged from the assumptions shown in the third *Quarterly Report*. A $10-million overall improvement since the last forecast was due to improved finances in the British Columbia Ferry Corporation and Forest Renewal BC, partially offset by lower net income of the British Columbia Buildings Corporation.

Self-supported Commercial Crown Corporations and Agencies

Projected net income of self-supported Crown corporations are up $300 million from budget

At $428 million, the combined net income of self-supported commercial Crown corporations is projected to be $300 million better than planned. Including a transfer of $312 million to the British Columbia Hydro and Power Authority's (BC Hydro) rate stabilization account, total operating income of $2.1 billion will be $451 million above budget. Earnings of BC Hydro and the Insurance Corporation of British Columbia (ICBC) incorporate the effect of rebates to residential electricity customers totalling $305 million and road safety dividends totalling $219 million.

The increase in operating income is partially offset by increased dividends paid to the CRF, largely due to higher net income of BC Hydro, and an increase in other accounting adjustments, mainly to account for the different fiscal year ends of ICBC and the British Columbia Railway Company.

Forecast assumptions for commercial Crown corporations and agencies have changed little from those shown in the third *Quarterly Report*, except for BC Hydro. The revised forecast for BC Hydro (including transfers to the rate stabilization account) shows a $131-million improvement reflecting higher expected electricity prices in the last quarter. As reported in the last quarterly report, BC Hydro's financial forecast reflects the uncertainty of revenues to be realized from California energy sales.

Staff Utilization

The government and its taxpayer-supported Crown corporations and agencies are projected to have a total staff utilization of 43,691 full-time equivalents (FTEs) in the 2000/01 fiscal year. This includes 34,005 FTEs for ministries and special offices and 9,686 FTEs for taxpayer-supported Crown corporations and agencies.

Utilization for ministries and special offices is projected to be about 300 FTEs below budget primarily due to recruitment lags. The increase from 1999/00 mainly reflects additional resources provided in the 2000/01 budget for migrant care, before-and after-school child care and firearms licensing and registration. In addition, more resources than anticipated were required for forest fire-fighting in 2000/01.

TABLE B7
SUMMARY ACCOUNTS STAFF UTILIZATION[1] — 2000/01 REVISED FORECAST

	Budget 2000/01	**Revised Forecast**	Variance[2]	Actual 1999/00[3]
	(thousands)			
Consolidated revenue fund (e.g. ministries and special offices)	34.3	**34.0**	(0.3)	33.0
Taxpayer-supported Crown corporations and agencies[4]	9.7[5]	**9.7**	—	9.6
Total staff utilization	44.0	**43.7**	(0.3)	42.6

[1] Staff utilization is measured in full-time equivalents (FTEs). FTEs are calculated by dividing the total hours of employment paid for in a given period by the number of hours a single, full-time person would normally work in that period. This does not equate to the physical number of employees as, for example, two half-time employees would equal one FTE.
[2] 2000/01 revised forecast less 2000/01 budget.
[3] Figures for 1999/00 have been restated to conform to the presentation used in 2000/01.
[4] The 2000/01 budget and revised forecast include 35 FTEs in the Ministry of Forests (35 FTEs in 1999/00) and 75 FTEs in the Ministry of Environment, Lands and Parks (94 FTEs in 1999/00) that work on behalf of, and are funded by, Forest Renewal BC.
[5] Ministry of Finance and Corporate Relations estimate.

TABLE B8

CAPITAL EXPENDITURES — 2000/01 REVISED FORECAST

(Unaudited)

	Budget 2000/01	Revised Forecast 2000/01	Variance[1]	Actual 1999/00
	($ millions)			
Taxpayer-supported				
Capital plan				
Education	579	394[2]	(185)	489
Health	309	401[2]	92	247
BC Transportation Financing Authority	502[3]	473	(29)	478
British Columbia Ferry Corporation	117	72	(45)	121
Rapid Transit Project 2000	413	371	(42)	395
Other[4]	90	94[2]	4	57
Gross capital plan	2,010	1,805	(205)	1,787
Less: recoverable expenditures[5]				
Hospital districts	(52)	(47)	5	(22)
Greater Vancouver Transportation Authority *(TransLink)*	(34)	(17)	17	(44)
Net capital plan	1,924	1,741	(183)	1,721
Other taxpayer-supported				
Government operating (ministries)	223	192	(31)	156
Social housing[6]	20	24	4	12
Other[7]	17	24	7	10
Total taxpayer-supported	**2,184**	**1,981**	**(203)**	**1,899**
Self-supported commercial				
British Columbia Hydro and Power Authority	450	450	—	403
British Columbia Railway Company	125	126	1	159
Skeena Cellulose	89	76	(13)	49
Columbia Power Corporation	69	67	(2)	26
Columbia Basin Trust — joint ventures	69	67	(2)	26
Insurance Corporation of British Columbia	66	45	(21)	45
ICBC Properties Ltd.	—[8]	41	41	45
British Columbia Lottery Corporation	—[8]	14	14	10
Liquor Distribution Branch	26	16	(10)	3
Total self-supported commercial	**894**	**902**	**8**	**766**
Total capital expenditures	**3,078**	**2,883**	**(195)**	**2,665**

[1] 2000/01 revised forecast less 2000/01 budget.

[2] Includes the effect of certain costs previously considered capital expenditures being reclassified as operating costs and vice versa. The net effect of the change was to decrease education capital expenditures by $128 million and capital expenditures for the seismic upgrading of government buildings by $10 million. The change increased health capital expenditures, including funding provided through supplementary estimates, by $128 million.

[3] Restated to include $16 million previously included with other taxpayer-supported capital expenditures.

[4] British Columbia Buildings Corporation, Ministry of Attorney General, Ministry for Children and Families, British Columbia Transit and the Pacific National Exhibition.

[5] Expenditures by hospital districts for cost-shared projects and capital spending on behalf of, and recovered from, the Greater Vancouver Transportation Authority *(TransLink)*.

[6] Net of construction costs recoverable from non-profit societies.

[7] Includes British Columbia Buildings Corporation (non-capital-plan projects), B.C. Pavilion Corporation, British Columbia Securities Commission, Tourism British Columbia and British Columbia Assessment Authority.

[8] An estimate was not available for the 2000/01 budget.

Capital Spending

Full-year capital spending forecast at $2.9 billion

Capital spending for the full year is forecast to be $2.9 billion or $195 million below budget (see Table B8). Capital expenditures for education facilities are forecast to be $185 million below budget reflecting slower-than-planned spending and an accounting change that resulted in $128 million of capital costs being reclassified as operating expenditures. Expenditures for roads, ferries and public transit are also expected to be $116 million below budget while spending for health facilities is projected to be $92 million above budget, partially reflecting additional funding provided for hospital equipment purchases.

Self-supported commercial Crown corporation capital spending is forecast at $902 million in 2000/01. Most of this will be financed by the higher-than-expected net incomes earned by these corporations, with some surplus earnings also used to reduce debt.

Provincial Net Debt

Total net debt is forecast at $33.8 billion — $2.7 billion less than planned and $405 million lower than last year

Provincial net debt is forecast to decrease $405 million from the start of the year to total $33.8 billion at March 31, 2001. The forecast balance is $2.7 billion lower than budgeted due to significantly lower requirements for government operating purposes, education facilities and transportation-related operations, and larger-than-expected reductions in commercial Crown corporation debt. These decreases are forecast to be partially offset by a higher-than-budgeted balance in warehouse debt at year-end.

TABLE B9

PROVINCIAL NET DEBT — 2000/01 REVISED FORECAST[1]

(Unaudited)

	Net Debt Outstanding March 31, 2000	+ Net Change[2] =	Net Debt Outstanding March 31, 2001: Revised Forecast	Net Debt Outstanding March 31, 2001: Budget	Variance Above/(Below) Budget
	($ millions)				
Taxpayer-supported debt					
Provincial government direct operating	13,833	(1,924)	11,909	15,024	(3,115)
Educational facilities	4,978	285	5,263	5,489	(226)
Health facilities	1,451	311	1,762	1,657	105
Highways, ferries and public transit	3,487	845	4,332	4,512	(180)
Other[3]	1,175	18	1,193	1,199	(6)
Total taxpayer-supported debt	**24,924**	**(465)**	**24,459**	**27,881**	**(3,422)**
Self-supported debt					
Commercial Crown corporations and agencies	7,977	(86)	7,891	7,992	(101)
Warehouse borrowing program	1,320	146	1,466	600	866
Total self-supported debt	**9,297**	**60**	**9,357**	**8,592**	**765**
Total provincial debt	**34,221**	**(405)**	**33,816**	**36,473**	**(2,657)**

[1] Net debt includes provincial government direct debt, fiscal agency loans, other debt that has been guaranteed by the provincial government, and certain other debt which is not provincially guaranteed.

[2] Gross new long-term borrowing plus net change in short-term debt outstanding, less sinking fund contributions, sinking fund earnings and net maturities of long-term debt (after deduction of sinking fund balances for maturing issues).

[3] Includes the British Columbia Buildings Corporation, British Columbia Housing Management Commission and the Provincial Rental Housing Corporation.

Taxpayer-supported debt is forecast to decrease by $465 million to total $24.5 billion at year-end. This is $3.4 billion lower than budget, mainly reflecting lower borrowing requirements of government's consolidated revenue fund.

Self-supported debt is projected to increase $60 million from the start of the year to $9.4 billion. The forecast balance is $765 million above budget reflecting higher-than-planned warehouse debt, partially offset by lower commercial Crown corporation debt.

Based on the revised fiscal forecast and the budget economic forecast, total provincial net debt at year-end is forecast at 27 per cent of gross domestic product (GDP), while taxpayer-supported debt is forecast at 19.6 per cent of GDP. These ratios are significantly lower than the budget forecast of 30.7 per cent and 23.5 per cent respectively, due to a lower level of debt and higher GDP estimates.

Although the government's summary accounts are forecast to have a surplus of $1.3 billion for 2000/01, total debt will fall by a smaller amount. The government and its Crown corporations and agencies still require borrowing to help finance capital projects and for other working capital cash requirements. In addition, some budgetary items, like non-cash reductions to CRF pension expenses, contribute to the bottom-line surplus but do not provide a financial source to reduce borrowing.

Budget improvements since the start of the year have reduced borrowing requirements, resulting in a much lower drawdown from the warehouse borrowing program as well as increased cash balances for the government and Crown corporations. The larger balance in the warehouse borrowing program plus higher cash balances will be used to help offset borrowing requirements in 2001/02.

Table B10 summarizes the changes in the province's financial position during 2000/01. The table shows that:

- an $804-million reduction in cash and temporary investments;
- a $71-million source from other working capital financial sources; and
- a $1.3-billion surplus

were used to:

- finance a $1.6 billion net increase in capital assets and investments in commercial Crown corporations;
- reduce net debt of the government and its Crown corporations and agencies by $551 million; and
- increase warehouse borrowing program investments by $146 million.

As a result, provincial debt declined by $405 million from the beginning of the year.

Further details on the government's financial position are provided in Table B11.

TABLE B10

FORECAST CHANGE IN SUMMARY ACCOUNTS FINANCIAL POSITION
For the Year Ended March 31, 2001
(Unaudited)

	Change	
	($ millions)	
Asset and liability changes:		
Increase in assets related to taxpayer-supported capital investments (net of amortization)	1,183[1]	
Increase in net investments in, and loans to, commercial Crown corporations for asset purchases	458[1]	1,641
Reduction in cash and temporary investments		(804)
Non-cash and other working capital changes:		
— Reduction in unfunded pension liability (non-cash)	482	
— Other working capital changes and adjustments	(553)	(71)
Less: Surplus for the period		(1,317)
Net debt decrease for government and its Crown corporations and agencies		(551)
Increase in warehouse borrowing investments		146
Decrease in provincial debt		(405)

[1] Reflects effect of $2.9 billion in total capital spending (Table B8) as follows:

	$ billions
Taxpayer-supported capital increase	2.0
Less: depreciation and other accounting changes	(0.8)
Net increase in capital investments	1.2
Commercial Crown corporation capital increase	0.9
Less: amounts financed internally	(0.4)
Net increase of investments in commercial Crown corporations (including recoverable loans for asset purchases)	0.5

TABLE B11

SUMMARY ACCOUNTS — REVISED FORECAST
Balance Sheet as at March 31, 2001
(Unaudited)

	Actual March 31, 2000	**Revised Forecast March 31, 2001**	Increase/ *(Decrease)*
		($ millions)	
Assets			
Cash and temporary investments	1,535	**731**	(804)
Other working capital assets[1]	4,336	**4,493**	157
Capital assets and investments (net of amortization)			
— Net investment in self-supported Crown corporations and agencies	*2,745*	***3,223***	*478*
— Loans for purchases of assets recoverable from agencies[2]	*7,530*	***7,510***	*(20)*
— Prepaid capital advances	*6,517*	***6,924***	*407*
— Tangible capital assets	*10,217*	***10,993***	*776*
	27,009	**28,650**	1,641
Warehouse borrowing program assets	1,320	**1,466**	146
	34,200	**35,340**	**1,140**
Liabilities			
Current liabilities[3]	3,582	**4,090**	508
Unfunded pension liabilities	2,053	**1,571**	(482)
Debt			
— Taxpayer-supported debt	*24,924*	***24,459***	*(465)*
— Commercial Crown corporations and agencies	*7,977*	***7,891***	*(86)*
— Warehouse borrowing program	*1,320*	***1,466***	*146*
	34,221	***33,816***	*(405)*
Less: guarantees and non-guaranteed debt[4]	*(716)*	***(666)***	*50*
	33,505	**33,150**	(355)
	39,140	**38,811**	**(329)**
Net equity (deficiency)[5]	(4,940)	**(3,471)**	1,469[6]
	34,200	**35,340**	**1,140**

[1] Accounts receivable, loans, inventories and other assets/investments.
[2] Includes loans to commercial Crown corporations for the purchase of capital assets.
[3] Accounts payable, accrued liabilities and deferred revenue.
[4] Third party guarantees, and provincial guarantees and non-guaranteed debt of commercial Crown corporations and agencies.
[5] Accumulated deficits of the government and Crown corporations and agencies plus accounting adjustments resulting from changes in accounting policy.
[6] Consists of the $1,317-million surplus for the period plus a $152-million prior period adjustment to account for an extension of the government's capitalization policy to land improvements, furniture and computer equipment.

PROVINCIAL CAPITAL ASSETS

Much has been written about the accumulation of provincial debt. However, what is often omitted is a recognition of the capital assets underlying much of this debt. This topic box discusses the value of provincial assets.

Capital Assets

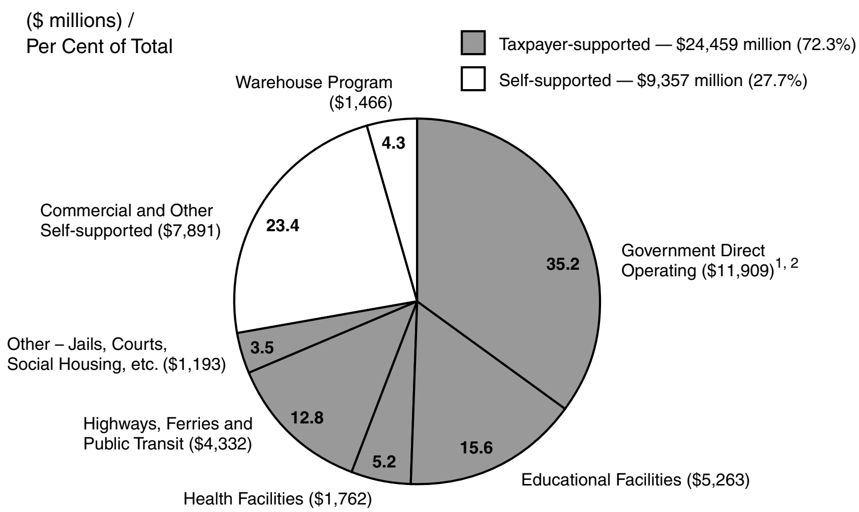
The provincial government and its Crown corporations and agencies borrow funds to finance operations and capital projects. Borrowing for operations is required when revenues fall short of expenditures and to meet other cash requirements, such as loans and investments. Borrowing also finances the building of schools, hospitals, long-term care facilities, roads, dams and other forms of provincial infrastructure.

The need for capital infrastructure in British Columbia is substantial. Maintaining the existing asset base, replacing ageing infrastructure, and meeting the needs of a changing population all require capital spending. Infrastructure also supports economic activity in the province.

These assets provide essential services today, and will also benefit generations of British Columbians in the future.

The following chart provides a breakdown of the various uses of accumulated net debt. Roughly $25 billion or 75 per cent of total provincial net debt (excluding the warehouse borrowing program) reflects investments in capital assets.

Provincial Estimated Net Debt at March 31, 2001



Total: $33,816 million

[1] Operating debt includes a portion of roads infrastructure and debt incurred prior to 1994/95, and ferry infrastructure debt incurred up to 1999/00.
[2] Amount includes debt to finance operating deficits.

Asset Valuation

There are various ways to calculate the value of provincial assets, and each method yields a different conclusion. The table at the end of this topic box presents four conventional ways of assessing the value of assets: historical cost, net book value, replacement cost and net debt outstanding. Market valuations are difficult to establish as true market conditions usually do not apply to Crown assets.

Historical cost — represents the actual amount of money spent to acquire provincial assets. This value is estimated to be $48 billion at March 31, 2001.

Net book value — this method presents the historical cost of assets, net of accumulated depreciation expenses. The net book value of assets is presented annually in the *Public Accounts*. A preliminary estimate for the net book value of provincial assets as of March 31, 2001 is $29 billion.

Replacement cost — while net book value provides an historical perspective of asset costs, the replacement cost method estimates how much it would cost today to acquire the same assets under current economic conditions. There is no one method for determining replacement cost values, and a number of techniques have been used to arrive at the estimates shown in the table (e.g. using insured values). Based on these estimates, it could cost $139 billion to replace existing provincial assets at today's typical construction rates.

Net debt outstanding — represents the amount of funds borrowed by the government and its Crown corporations and agencies, net of accounting adjustments and accumulated sinking funds set aside for debt repayment. At March 31, 2001, total provincial net debt is forecast to be $34 billion. The amounts presented in the table include debt incurred to finance operations as well as to acquire capital assets. As noted earlier, roughly $25 billion of total provincial net debt reflects investments in capital assets.

Asset Valuation Methods Comparison

The information presented in this topic box is based on various assumptions. The table is intended to illustrate the different valuations that could result depending on the assumptions and valuation method used. Clearly, the value of assets is higher under the replacement cost method simply because the cost of replacing assets is much larger at today's prices, and the method does not reflect the deterioration of ageing facilities.

The table shows that total provincial net debt outstanding, excluding operational debt and the warehouse borrowing program, is lower than the value of the assets. This is because much of the debt associated with older assets has been retired while the productive capability of the asset continues.

It should be recognized that the estimates used in the table are, by their nature, very approximate. Other valuation techniques and assumptions could have been used, such as using statistical data to remove the effect of inflation over the years, but given the assumptions introduced, these more sophisticated methods would not have produced more precise values.

Conclusion

1. A large part of provincial debt is backed up by physical assets of significant value.
2. About $25 billion or 75 per cent of total provincial debt (excluding warehouse borrowing) has financed capital investments of the government and its Crown corporations and agencies. The remaining $9.1 billion consists of borrowing to fund annual public services and funds borrowed in advance of future requirements through the warehouse borrowing program.
3. Whether historical cost, net book value or replacement cost methods are used, asset values exceed the amount of the underlying debt of $25 billion.
4. These assets continue to provide valuable services to the public.

Major Provincial Assets and Net Debt Summary[1]
Estimates as at March 31, 2001
Unaudited

	Provincial Assets			
	Historical Cost	***Net Book Value***	***Replacement Cost***	***Provincial Net Debt Total***
	$ millions			
Schools — 1,672 public schools for the education of over 600,000 students	7,306	4,159	8,600	3,887
Universities/colleges — six universities, five university-colleges, 11 community colleges, and six institutes and agencies that provide specialized education and training for 151,000 full-time equivalent students	2,468[2]	1,430[2]	3,200[2]	1,376
Health facilities — over 700 hospitals and health facilities including acute care, continuing care and mental health facilities	2,941[3]	1,421[3]	5,100[3]	1,762
Office buildings — over 2,000 buildings with almost 1.3 million square metres of space (excluding about 1,500 leased buildings with 1.2 million square metres of space) in over 260 communities to supply the needs of government ministries and other publicly-funded organizations (including courts and correctional facilities)	1,427	869	2,100	613
Roads — 23,200 kilometres of paved highways, 18,200 kilometres of unpaved highways and 2,700 bridges	9,548[4]	6,130	70,000	5,801[5]
Public transit — rapid transit infrastructure in the Lower Mainland and bus systems in 50 other communities	2,299	1,901	2,400	1,996
Ferries — 42 ferries and 45 marine terminals to service coastal British Columbia	1,703[6]	733	2,800	1,115[7]
Social housing	442	357	500	255
Other — equipment and capital assets of ministries, and certain capital contributions to Crown corporations, agencies, commissions, etc.	1,527	754	5,100	7,654[8]
Totals for taxpayer-supported entities	**29,661**	**17,754**	**99,800**	**24,459**
Power generation — 30 hydroelectric, three thermal and 12 non-integrated generating facilities with a generating capacity of 11,115 megawatts to deliver electricity via more than 74,000 kilometres of transmission and distribution lines	14,715	9,494	35,000	6,945
Railways — 2,300 kilometres of mainline railway tracks, 131 locomotives, 9,500 freight cars, 19 tunnels and 191 bridges	2,516[9]	1,211	2,500	604
Skeena Cellulose	252	206	1,100	340
Other — warehoused debt, other agencies	617	231	600	1,468
Totals for self-supported entities	**18,100**	**11,142**	**39,200**	**9,357**
Totals	**47,761**	**28,896**	**139,000**	**33,816**
Less: net debt related to operating deficits, working capital, ministry capital assets, and warehouse borrowing	—	—	—	9,120
Totals	**47,761**	**28,896**	**139,000**	**24,696**

[1] Assets only include properties and capital infrastructure that the government has purchased or otherwise acquired. The province does have significantly more assets in terms of its Crown lands, forests and sub-surface rights, none of which are presented here.
[2] Capital assets of post-secondary institutions are funded from contributions of the provincial government and other sources. Asset values have been restated to exclude an estimated 42 per cent of capital assets funded from these other sources. In the *Budget 2000* topic box, these amounts were included as part of total assets.
[3] Capital assets of health facilities are funded from contributions of the provincial government and regional hospital districts. Asset values have been restated to exclude an estimated 40 per cent of capital assets funded from regional hospital districts. In the *Budget 2000* topic box, these amounts were included as part of total assets.
[4] During 1999/2000, the provincial government's capitalization accounting policy was expanded to include capital assets related to highway infrastructure. The asset values have been restated to reflect this accounting change (increase of about $3 billion to historical costs compared to amounts shown in the *Budget 2000* topic box).
[5] Net debt of the BC Transportation Financing Authority plus a $3.5 billion estimate for debt incurred directly by the provincial government for road infrastructure incurred prior to 1994/95.
[6] In the *Budget 2000* topic box, a $240-million write-down of the *PacifiCats* was deducted from the historical cost and net book value amounts for ferry infrastructure. As the adjustment should only have been made against the net book value, the historical cost amount has been reinstated.
[7] Net debt of the British Columbia Ferry Corporation plus $1,080 million for fiscal agency debt assumed by the provincial government in 1999/00.
[8] Includes debt incurred for operating purposes and for loans, advances and working capital.
[9] In the *Budget 2000* topic box, a $600 million write-down of British Columbia Railway assets was deducted from the historical cost and net book value amounts for railway infrastructure. As the adjustment should only have been made against the net book value, the historical cost amount has been reinstated.

BUDGET 2001 CONSULTATION PROCESS

Introduction

As a requirement of the *Budget Transparency and Accountability Act,* the consultation process for *Budget 2001* involved public hearings conducted by a multi-party committee of the Legislative Assembly.

Consequently, in July 2000, the Legislative Assembly empowered the Select Standing Committee on Finance and Government Services, composed of members of the Legislative Assembly from both government and opposition parties, to consult with British Columbians on the upcoming provincial budget and the government's fiscal policy for the coming year.

On October 31, 2000, the Minister of Finance and Corporate Relations presented his *Budget Consultation Paper Fall 2000: Setting Priorities for a Growing Economy* to the Committee. The consultation paper included an overview of the provincial economic and fiscal position, and identified key issues related to the preparation of the 2001/02 provincial budget.

The Committee called for written submissions in provincial newspapers and held 14 public hearings at locations throughout British Columbia during the month of November 2000. The committee visited 13 communities during the course of its pre-budget consultations: Prince Rupert, Kitimat, Fort St. John, Prince George, Victoria, Courtenay, Mission, Vancouver, Penticton, Kelowna, Cranbrook, Kamloops, and Williams Lake. Complete transcripts of the Committee's public hearings can be viewed on the Committee's web site, at:

http://www.legis.gov.bc.ca/cmt/cmt06.

In total, the Committee heard from 268 individuals and organizations, and received 228 written submissions.

The Committee made public a report on its findings on December 27, 2000. The summary, taken from the Committee's web site, follows.

Summary of Findings

During the course of the committee's public hearing process, witnesses from around the province shared their views on budgetary and fiscal policy options and priorities for the upcoming provincial budget. Submissions received by the committee covered a broad range of topics and reflected a considerable diversity of opinion.

The committee heard distinct opinions related to the impact of tax cuts on economic performance, government revenues and government's ability to fund services and programs. A significant number of witnesses made comments regarding taxation issues, including personal income, corporate, consumption and property taxes. Amidst the diversity of opinion on these central issues and other topics, two divergent perspectives emerged. One of these perspectives put greater emphasis on the need for tax cuts, regulatory streamlining and other measures to enhance BC's competitive position and strengthen the provincial economy. Another major point of view expressed concern regarding the impact of measures such as tax cuts and put greater emphasis on the need to invest in social programs.

Health care and education were two areas of concern to a great number of witnesses appearing before the committee. Submissions dealing with health care focused on rural health care needs, potential efficiencies in the system, priorities in health spending, recruitment and retention issues, long-term care, community care and mental health. Most of these submissions requested additional funding for health care. On the topic of education, the committee heard views on the K-to-12 system, students with special needs, schools in northern and rural communities, post-secondary education, and skilled trades apprenticeship and training.

Witnesses also expressed views on a wide range of other areas of importance. Those expressing views in the area of social, environmental and justice issues addressed topics such as poverty issues, services for people with disabilities, children and families, affordable and social housing, support services for women, aboriginal communities and land claims, and the justice system. Regarding labour and employment, submissions focused on employment standards, wages and benefits, job creation, pay and employment equity, workers compensation and labour relations. Many submissions also reflected the concerns of specific sectors, including agriculture and food, transportation and highways, arts, heritage, culture, sport and recreation, resource and business sectors, and local government.

What Was Heard

Developing the province's annual budget is about setting priorities and making trade-offs where necessary. During the course of the committee's deliberations, the committee heard a wide range of views expressed by individuals and organizations regarding revenue, spending and fiscal policy options. In particular, topics raised in submissions received by the committee addressed matters relating to:

- fiscal policy
- provincial deficit and debt
- taxation, including personal income, corporate, consumption and property taxes
- streamlining and privatization
- health care funding
- education and training spending
- funding to address social, environmental and justice issues
- labour relations and employment issues

- sector-specific concerns, relating to the public service, agriculture and food, transportation and highways, arts, heritage and culture, sport and recreation, resource and business sectors
- local government.

The majority of the submissions the committee received during the public consultation process generally reflected two divergent views, a diversity which is reflected in the discussion contained throughout this report.

Fiscal Policy

The committee heard distinct opinions relating to fiscal policy and, in particular, regarding the potential impact of tax cuts on economic performance, government revenues, and government's ability to fund services and programs.

Many witnesses argued that tax cuts for businesses and individuals would stimulate the economy by increasing disposable income and consumer spending, attracting investment and/or professionals to British Columbia. Some suggested that these tax cuts would create enough economic growth to effect a net increase in government tax revenue despite lower tax rates. Proponents of this view suggested that jurisdictions such as Ontario and Alberta represent successful models of this approach.

Some advocating tax cuts also argued that government could achieve efficiencies through measures such as privatization or contracting out, and also recommended decreasing government expenditures and prioritizing debt reduction to create a business and investment climate conducive to economic and employment growth.

A contrary view was that other factors, such as energy prices in the case of Alberta, better explained growth in the Ontario and Alberta economies. According to this view, significant tax cuts such as those proposed by some witnesses would create an immediate revenue loss, with an immediate impact on public services. It was further argued that in the longer term these tax cuts could only create enough economic growth to recover a maximum of 40 percent of lost tax revenues.

Other submissions disputed the assertion that tax rates are related to economic growth, and some argued that public spending would be a better tool to achieve social and economic objectives than would tax cuts. In particular, some submissions argued that the public sector is an economic driver in the north, second only to the resource sector, and that spending in a particular sector, such as education and training or fisheries restoration, would create the conditions for increased economic activity and employment.

Deficit and Debt

The committee received a wide range of submissions that dealt with the topic of provincial debt and deficit. Submissions were evenly divided between two points of view. The first view was that a balanced budgetand paying down the province's debt should be priorities. These submissions argued that a high priority must be placed on managing and paying down the provincial debt to improve BC's competitive position or reduce impacts of debt-servicing costs. The second view expressed to the committee was that, while fiscal responsibility is important, British Columbians place a higher priority on quality public services and infrastructure.

Taxation

The committee received a vast number of submissions relating to taxation measures. Those submissions focused on personal income, corporate, consumption and property taxes.

Many submissions received by the committee, particularly those from business and industry organizations, argued that personal income tax rates in British Columbia are too high and must be reduced. These submissions asserted that high taxes have caused a significant decrease in British Columbians' disposable income, resulted in lower levels of consumer spending, discouraged investment in the province and had a negative impact on job creation. A significant number of submissions also expressed concern that high taxes are causing economic growth in British Columbia to lag behind growth in other jurisdictions, particularly the United States, Alberta and Ontario. Some delegations appearing before the committee recommended that the basic personal amount be raised, and that personal income surtaxes be eliminated.

A number of submissions argued that in order to remain competitive with Alberta and Ontario, which both plan to lower general corporate tax rates to 8 percent by 2004, British Columbia must reduce its corporate tax rates. Particular concern was expressed by witnesses from the northeastern part of the province, who noted that proximity to Alberta has resulted in the movement of companies, equipment and employees across the border. Some noted that globalization and technological change have made businesses increasingly mobile and able to move to jurisdictions with more competitive tax regimes, and cautioned that British Columbia must have competitive corporate taxes to be able to compete in a global economy. Many submissions also proposed that BC's corporation capital tax be phased out of existence. A submission made on behalf of the Canadian Bankers' Association recommended that the rate differential between financial institutions and general corporations be eliminated, arguing that the tax discourages reduced capital investment, employment and economic activity in the province.

The committee also received submissions suggesting that "personal and corporate income tax review committees" be established to review taxes in British Columbia, and that all future tax increases be subject to voter approval under a "Taxpayer Protection Act".

A number of submissions made more specific recommendations to government, as follows:

- extension of the provincial sales tax credit, or exemption from the tax, to more categories of business, industrial, agricultural and resource sector purchases, and to local government and health care system purchases
- elimination or reduction of fuel taxes, such as the 7 percent tax on marine bunker fuel, fuel used in farming operations, aviation fuel, diesel fuel, and fuel for mining equipment
- elimination or reduction of the "luxury tax" on vehicles, or exemptions for specific use purposes (such as farming)
- a review of taxes impacting agricultural operations, in the context of competitiveness
- taxation of land-based wineries at agricultural rates
- extension of eligible activities to enable a farm land classification for property tax assessment to include log sales and sales of non-timber forest products
- elimination of the property transfer tax or, alternatively, broadening the definition of "first-time home buyer" to allow more British Columbians to qualify for exemption from the tax.

On the other hand, an equal number of submissions expressed the opinion that tax cuts may lead to reductions in health, education and social program spending. These submissions argued that BC already has competitive tax rates, and cautioned that tax cuts may lead to reduced revenues and therefore reduced services for British Columbians, increased or new user fees and an even wider gap between rich and poor. Specific concerns expressed about tax cuts were related to their impact on services relating to child care, health care, education and training, social assistance, persons with disabilities, women, crime prevention, and children, youth and families. Some of these witnesses urged the government to ensure that, if tax cuts are made, they are targeted at low- and middle-income earners. A number of submissions called on the government to introduce revenue-neutral tax reform by offering tax credits to low-income British Columbians, rather than implementing across-the-board personal income tax cuts. It was proposed that tax credits to low-income British Columbians could be financed through the creation of an additional tax bracket for high-income earners.

In addition, the committee received submissions from individuals and organizations troubled with the notion of tax cuts targeted to corporations. These submissions asserted that corporate tax cuts are not an effective job creation strategy, but rather will decrease government revenues that are necessary to fund public services and programs, and create unfairness in the tax system between individuals and corporations. Many of these witnesses called for elimination of tax incentives and subsidies to oil and gas companies.

Report C: FINANCIAL PLAN — 2001/02

2001/02 Fiscal Plan

The summary accounts surplus is projected to be $1.1 billion in 2001/02. As shown in Chart C1 and Table C1:

The summary accounts surplus is projected at $1.1 billion in 2001/02 . . .

- The consolidated revenue fund is projected to have a positive balance of $290 million, after an 8.2-per-cent ($1.8 billion) program spending increase (see Table C5).
- Crown corporations and agencies are projected to have a combined net loss of $290 million in 2001/02, compared to net income of $164 million in the previous year.
- A $300-million forecast allowance for unexpected developments during the fiscal year is included in the forecast.
- Anticipated joint trusteeship agreements for the teachers' and municipal pension plans will have a $1.4-billion one-time positive impact on the government's summary accounts in 2001/02.

. . . after including the $1.4-billion positive impact of joint trusteeship agreements and a $300-million forecast allowance

Excluding the forecast allowance and the one-time benefit of the joint trusteeship agreements, the summary accounts are projected to be in balance in 2001/02.

Excluding joint trusteeship agreements and the forecast allowance, the summary accounts are projected to be balanced

Chart C1
Summary Accounts Budget Estimate

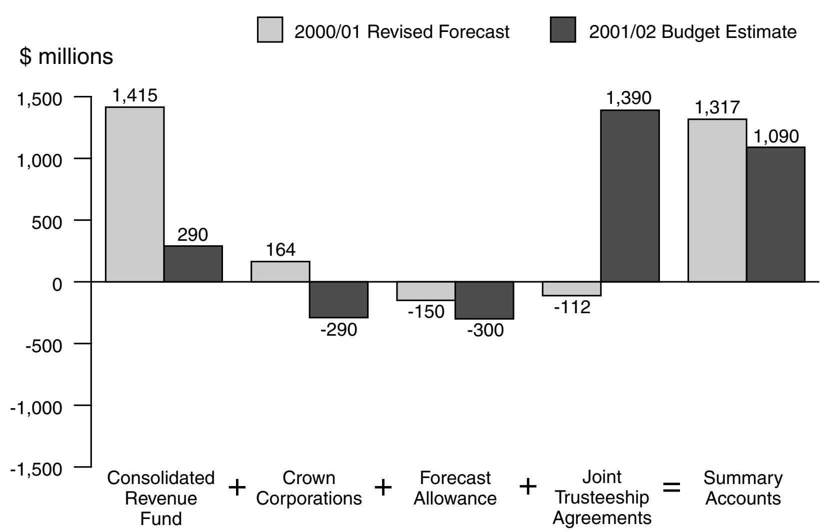


TABLE C1

SUMMARY ACCOUNTS OPERATING RESULTS — 2001/02 BUDGET ESTIMATE

	Budget Estimate 2000/01	Revised Forecast 2000/01	**Budget Estimate 2001/02**
	($ millions)		
Consolidated Revenue Fund (CRF):			
Revenue	21,500	24,030	**24,585**
Expenditure	(22,078)[1]	(22,615)[2]	**(24,295)**
CRF balance	(578)	1,415	**290**
Crown corporations and agencies:			
Taxpayer-supported:			
British Columbia Buildings Corporation	62	52	**39**
British Columbia Ferry Corporation	(10)	10	**3**
BC Transportation Financing Authority	(1)	2	**—**
Forest Renewal BC	(52)	(97)	**(139)**
Other[3]	(16)	26	**(7)**
	(17)	(7)	**(104)**
Less: contributions paid to CRF[4]	(62)	(72)	**(18)**
Less: accounting adjustments[5]	(227)	(185)	**(191)**
Total taxpayer-supported	(306)	(264)	**(313)**
Self-supported commercial:			
British Columbia Hydro and Power Authority (BC Hydro)	429	483[6]	**459**
Liquor Distribution Branch	620	635	**616**
British Columbia Lottery Corporation	542[7]	550	**585**
British Columbia Railway Company	40	(7)	**18**
Insurance Corporation of British Columbia	3	131	**75**
Other[8]	42	6	**7**
	1,676	1,798	**1,760**
Less: contributions paid to CRF[9]	(1,386)	(1,447)	**(1,422)**
Less: accounting adjustments:			
— Transfer of BC Hydro earnings (from) to rate stabilization account	(17)	312	**(159)**
— Other accounting adjustments[10]	(145)	(235)	**(156)**
Total self-supported commercial	128	428	**23**
Total net contribution (loss) of Crown corporations and agencies	(178)	164	**(290)**
Summary accounts balance before forecast allowance and joint trusteeship agreements	(756)	1,579	**0**
Forecast allowance	(300)	(150)	**(300)**
Joint trusteeship agreements	—	(112)	**1,390**
Summary accounts surplus (deficit)	(1,056)	1,317	**1,090**

[1] To be consistent with the presentation used for 2001/02, the 2000/01 budget has been restated to reflect a change in pension accounting policy and a change in the classification of certain capital expenditures. The pension accounting change reduced the estimate by $368 million, while the capital expenditure adjustment increased the estimate by $146 million. In total, these adjustments reduced the 2000/01 spending estimate (and estimated summary accounts deficit) by $222 million.

[2] Amount is $112 million lower than the revised forecast shown in Table B5, due to the exclusion of an adjustment for the cost of the Public Service Pension Plan joint trusteeship agreement. To be consistent with the presentation used for 2001/02, adjustments for joint trusteeship agreements are shown separately as bottom-line adjustments to the summary accounts balance.

[3] Includes earnings/(losses) of other taxpayer-supported Crown corporations and agencies, including B.C. Pavilion Corporation, British Columbia Securities Commission, Okanagan Valley Tree Fruit Authority, Tourism British Columbia, British Columbia Housing Management Commission and British Columbia Transit.

[4] Includes dividends paid by British Columbia Buildings Corporation and proceeds received from 580440 British Columbia Limited (Vancouver Trade and Convention Centre), and 577315 British Columbia Ltd. (Western Star Trucks Holding Ltd.).

[5] Primarily includes adjustments to record the amortization of the cost of highways transferred to the BC Transportation Financing Authority in 1998/99.

[6] Includes a revenue adjustment to reflect uncertainty in realizing a portion of export sales to California.

[7] Restated to include transfers to the federal government. Previously, these were included in accounting adjustments.

[8] Includes earnings/(losses) of other commercial Crown corporations, including the Columbia Power Corporation and 552513 British Columbia Ltd. (Skeena Cellulose Inc.).

[9] Includes contributions from the British Columbia Hydro and Power Authority, Liquor Distribution Branch and other commercial Crown corporations.

[10] Includes transfers of British Columbia Lottery Corporation revenue to charities and municipalities, and adjustments to the Insurance Corporation of British Columbia and the British Columbia Railway Company to adjust their reporting results from a calendar year basis to government's fiscal reporting period ending March 31.

The government's consolidated revenue fund (CRF) is projected to have a positive balance of $290 million. This is $1.1 billion lower than the 2000/01 revised forecast.

Revenue is forecast at $24.6 billion

- CRF revenue is estimated at $24.6 billion in 2001/02, an increase of $555 million or 2.3 per cent from the 2000/01 revised forecast. The forecast incorporates the additional effect of tax reduction measures introduced in the last three years, which will reduce revenue by $215 million in 2001/02.

Program spending will increase $1.8 billion excluding pension changes

- CRF expenditure will total $24.3 billion in 2001/02. This is $2.2 billion higher than the 2000/01 budget estimate, in part due to the one-time effect of pension accounting policy changes which reduced the 2000/01 budget estimate by $368 million. Excluding these changes, program spending will increase $1.8 billion or 8.2 per cent from the comparable 2000/01 budget estimate (see Table C5). The spending increase incorporates the full-year effect of a number of initiatives in 2000/01, new expenditures for key priorities in 2001/02, and a $220-million contingency reserve for unforeseen spending pressures.

  Compared to the revised forecast for 2000/01 (excluding pension accounting changes), program spending in 2001/02 will increase $1.3 billion or 5.7 per cent.

In total, Crown corporations are forecast to have a combined loss of $290 million in 2001/02, compared to combined net income of $164 million in 2000/01. Combined net loss targets of taxpayer-supported Crown corporations total $313 million in 2001/02. These are partially offset by combined net income targets of commercial Crown corporations totaling $23 million.

The government expects to finalize joint trusteeship agreements for the teachers' and municipal pension plans early in 2001/02. A consequential reduction in the government's share of unfunded pension liabilities will result in an estimated one-time positive adjustment to the summary accounts of $1.4 billion. Further information is provided in a topic box in this section.

There are a number of risks to the 2001/02 fiscal forecast. These include volatile energy prices, the slowdown in the United States economy, the volatile California electricity market and other factors beyond those assumed in the forecast. For these reasons, the summary accounts forecast includes a $300-million allowance to provide for changes in the financial forecast during the year.

Consolidated Revenue Fund

2001/02 Revenue

Revenue will increase $555 million

Revenue of the consolidated revenue fund is projected to increase $555 million or 2.3 per cent from the 2000/01 revised forecast. Highlights of revenue changes include:

Personal income tax — Personal income is expected to grow 3.4 per cent in 2001, but this is partially offset by:

— the loss of $190 million of one-time revenue received in 2000/01 for additional assessments related to previous years; and

— a reduction of $165 million due to the full-year effect of tax reduction measures introduced in 2000/01.

BUDGET 2001 FORECAST ALLOWANCE

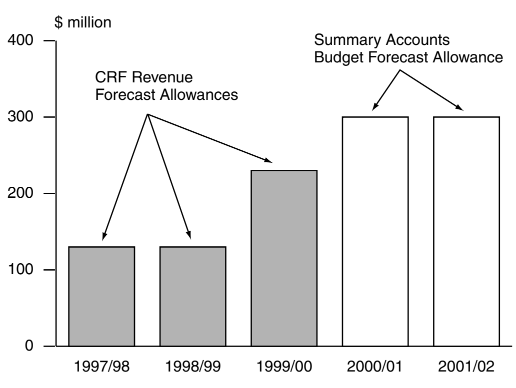
Introduction

Beginning with the 1997 budget, government has used prudent forecasting practices to recognize the uncertainties in predicting future economic developments. By explicitly lowering revenues or increasing the forecast deficit, the government increased the probability of meeting its budget target.

In 1997/98 and 1998/99, the government used prudent revenue forecasts. For 1997/98, the revenue forecast was reduced by approximately $130 million. Without this reduction, final revenues which were $1 million under budget, would have been $131 million below budget. In 1998/99, a revenue forecast allowance of $130 million was subtracted from the revenue forecast. Final revenues, which were under budget by $135 million, would have been $265 million below target without the allowance.

In the last two years, accelerating economic performance resulted in fiscal results well ahead of forecast. For 1999/2000, a revenue forecast allowance of $230 million was applied. Revenues were $1.69 billion over budget, $1.46 billion over the unadjusted forecast. In 2000/01, with the formal inclusion of Crown corporations in government's bottom line, government expanded the scope of the forecast allowance to the aggregate surplus/deficit forecast, to cover the combined variances of government revenues, expenditures, and Crown corporation net income forecasts. Last year, government forecast a deficit of $1.3 billion after a $300 million forecast allowance. However, the revised forecast for the 2000/01 fiscal year is now estimated to yield a $1.3-billion surplus, largely due to significant increases in energy prices and stronger-than-expected economic performance.

Budget Forecast Adjustments



Budget 2001 Forecast Allowance

In *Budget 2001,* the government continues to apply a forecast allowance to the summary accounts bottom-line, to account for risks to revenue, expenditure and Crown corporation forecasts and to increase the likelihood of realizing the forecast surplus. The forecast allowance continues to be set at $300 million, roughly one per cent of aggregate revenues.

This allowance covers a wide range of possible circumstances, some of which may be offsetting, such as:

— weaker (or higher-than-expected) energy prices, due to changes in the regulatory environment, markets and weather conditions;

— below (or above) forecast economic growth;

— lower (or higher) forest revenues, recognizing the uncertainty associated with termination of the Softwood Lumber Agreement;

— total CRF expenditures exceeding (or falling short of) budget, for example due to forest fire risk in a dry year;

— lower (or higher) profits/losses in Crown corporations, in particular the possible impacts of a very volatile electricity price outlook and a dryer than normal winter on BC Hydro's net income forecast;

— other difficult-to-predict changes such as year-end accounting adjustments; and

— changes in government policy.

Adjustment to _Budget 2001_ Forecasts

The 2001/02 fiscal forecasts in *Budget 2001* are based on government policies as at March 5, 2001. The forecasts also incorporate the following:

— the economic forecast documented in Report A;

— specific determinants of CRF revenue such as sales of Crown land drilling rights, timber harvest levels, and asset sales, that are not directly specified in the economic forecast. These assumptions are detailed in Table C4;

— cost drivers affecting CRF expenditures, such as income assistance case loads, forest fires, legal claims, health care funding pressures and interest rates, that are detailed in table C6. As well, the Contingencies and New Programs vote is included as part of the estimates approved by the Legislature to help manage spending changes through the year; and

— factors affecting the financial results of Crown corporations, such as accident rates (ICBC) and electricity prices and water levels (BC Hydro), that are listed in Table C7.

Overall, the government considers the assumptions presented with *Budget 2001* to be within the range of reasonable expectations, and that in aggregate they result in the most likely forecast of the summary accounts surplus. As a result, the effect of the $300 million forecast allowance is to reduce the surplus from the most likely forecast of $1.4 billion to $1.1 billion.

TABLE C2

REVENUE BY SOURCE[1]

CONSOLIDATED REVENUE FUND — 2001/02 BUDGET ESTIMATE

	Budget Estimate 2000/01	Revised Forecast 2000/01	**Budget Estimate 2001/02**	Increase (Decrease)[2]
	($ millions)			(per cent)
Taxation Revenue:				
Personal income	5,513	6,015	**6,070**	0.9
Corporation income	915	1,056	**1,245**	17.9
Social service	3,446	3,581	**3,743**	4.5
Property	1,360	1,370	**1,400**	2.2
Fuel	437	455	**445**	(2.2)
Other[3]	1,444	1,458	**1,469**	0.8
Less: commissions on collections of public funds	(24)	(24)	**(24)**	—
Less: allowances for doubtful accounts	(15)	(25)	**(25)**	—
	13,076	13,886	**14,323**	3.1
Natural Resource Revenue:				
Natural gas royalties	335	1,159	**1,323**	14.2
Petroleum royalties, permits, fees and minerals	338	676	**543**	(19.7)
Forests	1,302	1,122	**1,110**	(1.1)
Water and other resources	323	315	**315**	—
Columbia River Treaty	89	702	**831**	18.4
Less: commissions on collections of public funds	(1)	(1)	**(2)**	100.0
Less: allowances for doubtful accounts	(8)	(9)	**(10)**	—
	2,378	3,964	**4,110**	3.7
Other Revenue[4]	1,881	1,872	**1,903**	1.7
Contributions from Government Enterprises	1,448	1,519	**1,440**	(5.2)
Contributions from the Federal Government:				
Canada health and social transfer	2,549	2,621	**2,631**	0.4
Other	168	168	**178**	6.0
	2,717	2,789	**2,809**	0.7
Total Revenue	21,500	24,030	**24,585**	2.3

[1] Revenue amounts exclude dedicated revenue collected on behalf of, and transferred to, Crown corporations, agencies and other entities (2000/01 Estimate: $913 million; 2000/01 Revised Forecast: $815 million; 2001/02 Estimate: $836 million). For details, see Table H7.
[2] Percentage change between the 2001/02 budget estimate and the 2000/01 revised forecast.
[3] Includes revenue from tobacco tax, corporation capital tax, property transfer tax, insurance premium tax, hotel room tax and horse racing tax. For details, see Table H7.
[4] Includes revenue from fees and licences, asset dispositions, investment earnings, and other miscellaneous sources.

As a result, personal income tax revenue will grow $55 million or 0.9 per cent in 2001/02.

Corporation income tax — up $189 million or 18 per cent. Lags in the corporate income tax system, an increased share of the national tax base in 1999, and a higher federal forecast of the national tax base in 2001 mean that the province will receive higher instalment payments in 2001/02. The forecast incorporates the full-year effect of tax reduction measures introduced in 2000/01, which includes a reduction in the small business tax rate to 4.5 per cent.

Other taxes — growth in retail sales and investment spending will result in a $162-million or 4.5-per-cent increase in social service tax revenue. Fuel revenue is forecast to decline 2.2 per cent mainly due to a 1-cent-per-litre increase in dedicated revenue transferred to the Greater Vancouver Transportation Authority *(TransLink)*. Revenue growth from property, property transfer, insurance premium and hotel room taxes will be partially offset by lower revenue from corporation capital tax due to increases to thresholds introduced in previous budgets.

Natural gas royalties up $164 million . . .

Natural gas royalties — up $164 million or 14 per cent due to higher assumed average prices and volumes.

. . . partly offset by lower sales of Crown land drilling rights

Petroleum royalties, permits, fees and minerals — down $133 million or 20 per cent. Lower revenue is expected from sales of Crown land drilling rights as the particularly high levels of sales in 2000/01 are not expected to continue at the same pace in 2001/02. Lower petroleum royalties result from lower assumed oil prices.

Forests — down $12 million or 1.1 per cent. Lower revenue from logging tax and from softwood lumber export fees collected by the federal government in respect of 2000/01 will more than offset a slight increase in stumpage revenue.

Columbia River Treaty sales up $129 million

Columbia River Treaty — up $129 million or 18 per cent. The increase reflects the effect of higher assumed average prices in the U.S. on sales of electricity received under the treaty.

Other revenue — up $31 million or 1.7 per cent. Higher revenue from fees, licences and Crown land use, and sales of surplus assets and other properties will be partially offset by lower revenue from investment earnings, fines and other miscellaneous sources.

Crown corporation contributions — down $79 million or 5.2 per cent. Lower contributions from British Columbia Buildings Corporation, British Columbia Hydro and Power Authority, Liquor Distribution Branch and other Crown corporations will be partially offset by higher contributions from the British Columbia Lottery Corporation.

Federal government contributions — up $20 million or 0.7 per cent. Canada Health and Social Transfer (CHST) contributions will increase $10 million in 2001/02, reflecting:

— a $465-million reduction due to one-time supplements received in 2000/01;

— a $34-million reduction due to one-time revenue received in 2000/01 for additional entitlements in previous years;

offset by:

— a $509-million increase primarily due to higher cash commitments by the federal government.

Other federal contributions are forecast to increase $10 million as new payments from the federal health transitions fund are partially offset by lower contributions for Hepatitis-C compensation.

Table C3 identifies the main factors contributing to revenue growth in 2001/02.

TABLE C3
FACTORS CONTRIBUTING TO CRF REVENUE GROWTH IN 2001/02

	Factors	Forecast
	($ millions)	
2000/01 revised revenue forecast		**24,030**
Less:		
— One-time revenue received in 2000/01 for additional assessments of personal income tax for 1999/00 and previous years	(190)	
— One-time CHST revenue received in 2000/01:		
CHST supplement received in 2000/01	(465)	
Changes to entitlements for 1999/00 and previous years	(34)	
— Incremental effect in 2001/02 of tax measures introduced over the last 3 years[1]	(215)	**(904)**
Add:		
— Effect of economic growth in 2001 and 2002	621	
— Effect on corporate income tax revenue of a higher federal government outlook of the national corporate tax base, and a higher BC tax base in 1999 and 2000	219	
— Federal changes to CHST formula and minor base changes	509	
— Other policy and base changes (e.g. asset and land sales and other sources)	74	
— One-time reduction to personal income tax revenue in 2000/01 due to the BC Energy Rebate	36	**1,459**
2001/02 revenue budget estimate		**24,585**

[1] Reductions include $165 million for personal income tax, $30 million for corporate income tax, and $20 million for corporation capital tax.

The effects of economic growth mainly affect taxation sources. In addition, strong energy commodity prices are expected to continue into 2001/02, resulting in growth in natural resource revenue despite a decline in forest revenue.

Lags in the national tax system mean that British Columbia will continue to receive higher instalments of corporation income tax due to the federal government's outlook for a higher national tax base, despite an outlook for weaker provincial corporate profits growth.

A loss of one-time CHST supplements and prior-year entitlements received in 2000/01 will be more than offset by the effect of federal changes to the funding formula and other minor adjustments.

Revenue Assumptions and Forecast Risks

Typically, changes to the revenue forecast result from a combination of factors. These include changes in economic conditions, policy changes implemented mid-year, and other unpredictable events such as changing weather patterns, commodity prices, foreign trade restrictions and labour disruptions. Often, changes offset one another. For example, higher-than-expected energy resource revenue in 2000/01 offset lower-than-planned forest revenue.

Table C4 details key economic and other assumptions for the main sources in the 2001/02 revenue forecast. In addition, the table provides estimates of the sensitivities of revenues to changes in individual assumptions.

TABLE C4

MAIN REVENUE ASSUMPTIONS AND FORECAST RISKS — CONSOLIDATED REVENUE FUND

Revenue Source	Key Assumptions	Risks and Sensitivities
Personal Income Tax $6,070 million	Provincial tax base growth of 3.7% in 2001 (after federal/provincial measures); 5.6% in 2002 Assumes family bonus tax reduction of $80 million. Incorporates final tax assessments for 1999. Assumes personal income growth of 3.4% in 2001; 3.8% in 2002. Incorporates full-year effect of reduction measures introduced in 2000/01, which reduce revenue by a further $165 million.	±1% change in 2001 personal income growth equals ±$15 to $25 million in 2000/01; ±$80 to $120 million in 2001/02. Changes to personal income growth in 2000 and the final tax assessments for 2000 could affect the underlying tax base.
Corporation Income Tax $1,245 million	Recorded on cash basis; payments based on a lagged share of the national tax base — 2001 instalments based on 8.9% share (from 1999 final tax assessments). National corporate taxable income (CTY) increase of 5% in 2001. General tax rate at 16.5%; small business tax rate at 4.5%. BC corporate taxable income (CTY) increase of 14.8% in 2000. BC corporate profits increase of 4% in 2000. Incorporates full-year effect of reduction measures introduced in 2000/01, which reduce revenue by a further $30 million.	±1% change in 2000 BC tax base growth equals ±$12 million. ±1% change in national tax base (CTY) growth in 2001 equals ±$14 million. Changes in BC corporate profits in 2001 affect revenue in 2002/03. Unexpected revisions for prior years may affect the base on which the forecast has been prepared.
Social Services Tax $3,743 million	Retail sales growth of 3.5% in 2001; 3.8% in 2002. Machinery/equipment spending increase of 3.6% in 2001; 5.9% in 2002. Forecast based on weighted average.	±1% change in retail sales growth equals ±$25 to $30 million. ±1% change in machinery/equipment spending growth equals ±$8 to $10 million.
Fuel and Tobacco Tax $913 million	Fuel and tobacco taxes are dependent on volumes sold only — tax rates are fixed. Fuel based on real GDP growth of 2.4% in 2001. Incorporates $21-million reduction to reflect increased transfer to Greater Vancouver Transportation Authority *(TransLink)*	Fuel: Higher pump prices could slow consumption. ±1% change in real GDP growth equals up to ±$5 million. Tobacco: ±1% change in population growth equals up to ±$5 million.
Property Tax $1,400 million	Residential property tax forecast assumes a continuation of the freeze on average gross residential taxes. Assumes gross residential property tax revenue growth of 1.2% in 2001 (reflecting increased construction); and housing starts of 17,200 units in 2002. Non-residential property tax forecast assumes no change in tax rates and increases in property values of 3.9% in 2001 and 2.5% in 2002.	House construction levels in 2002 have a slight impact on 2001/02 residential property tax. A ±1,000 unit change in 2002 housing starts assumption would equal up to ±$0.5 million. ±1% change in non-residential assessed value would equal about ±$8 million.
Natural Gas Royalties $1,323 million	Natural gas producer price at Cdn $6.00/gigajoule in 2001/02; volumes up 7.9%. Assumes $21 million resulting from an expected increase in volumes in response to processing changes introduced at a Pine River plant.	Natural gas prices are extremely volatile. Market demand and price could change significantly due to weather or events affecting the energy situation in California. ±$0.50 change in natural gas price equals ±$100 million. ±1% change in natural gas volumes equals ±$10 to $15 million.
Petroleum Royalties, Permits, Fees, and Minerals Revenue $543 million	Assumes higher volumes and lower average prices for sales of Crown land drilling rights. Assumes average price of $305/hectare and 1 million hectares sold. A number of initiatives are expected to increase the land base available for auction bids. Petroleum royalties down $10 million in 2001/02; price of oil at US$27/bbl. Minerals revenue unchanged in 2001/02, at $53 million.	Crown land drilling rights sales are extremely volatile. Changes in prices for natural gas and oil, and availability of investment capital can affect sales of Crown land drilling rights. ±5% change in price or volume of land sales equals ±$15 million. ±5% change in oil price equals ±$20 million.

TABLE C4 — *(Continued)*

MAIN REVENUE ASSUMPTIONS AND FORECAST RISKS — CONSOLIDATED REVENUE FUND

Revenue Source	Key Assumptions	Risks and Sensitivities
Forests Revenue $1,110 million	Crown coastal harvest volumes at 17 million m^3 in 2001/02 (up 3% from 16.5 million m^3 in 2000/01); Crown interior harvest volumes at 46 million m^3 in 2001/02 (down 1.1% from 46.5 million m^3 in 2000/01). Average SPF 2x4 price in 2001 at US $225/1,000 board feet. Average hemlock (HBSQ) price in 2001 at US $600/1,000 board feet. Average pulp price at US $650/tonne in 2001. Pulp prices do not have a direct effect on CRF revenue, other than through harvest volumes. Excludes $140 million of stumpage revenue, collected on behalf of Forest Renewal BC.	Effects of the termination of the Canada/US Softwood Lumber Agreement are unknown. ±US $50 change in SPF price equals ±$88 million change in CRF revenue. ±US $100 change in HBSQ price equals ±$26 million. ±10% change in coastal harvest volumes equals ±$28 million. ±10% change in interior harvest volumes equals ±$68 million. A 1 cent US increase (decrease) in the exchange rate reduces (increases) revenue by $9 million.
Water Resources $301 million	Primarily based on electricity water use in the previous year. Volume estimates in 2000/01 applied to 2001/02. Volumes assumed to be unchanged (surges in electricity revenue have been price and not volume-related)	Weather and water levels can affect water consumption. A change in water use in 2001 affects revenue in the last fiscal quarter of 2001/02. A 1% change in volumes in 2001 =± $1 million in 2001/02.
Columbia River Treaty $831 million	Electricity prices based on BC Hydro's market outlook for 2001/02. Volumes are defined under the Columbia River Treaty.	Price of electricity is extremely volatile. Weather can influence the forecast through price and demand factors, as well as market and regulatory changes in the U.S. ±10% change in average selling prices equals ±$75 to $100 million
Other Sources: Fees, Licences and Miscellaneous $1,903 million	Usage rate generally varies with population and real economic growth. Population growth of 1.2% in 2001; 2.4% real GDP growth in 2001. Revenue includes MSP premiums, motor vehicle licences, other fees, licences and fines, investment earnings, asset dispositions and other miscellaneous items. Investment earnings decline mainly due to lower expected cash balances.	±1% change in usage rate/population growth equals ±$15 to $20 million.
	Asset dispositions projected to yield $50 million in revenue.	Private-sector interest, timing and final realization of proceeds could affect amount of asset disposition revenue.
Government Enterprises $1,440 million	LDB and BC Lottery Corporation contributions are generally dependent on growth in real GDP and population. BC Hydro's contribution set by regulation and varies with projected net income. BCBC contribution based on projected net income and capital requirements. Other corporations included in forecast: Columbia Power Corporation: $2 million and 580440 British Columbia Ltd. (Vancouver Trade and Convention Centre): $2 million. Assumes no dividend from BC Rail. Real GDP growth of 2.4% in 2001; population growth of 1.2% in 2001. See Table C7 for assumptions of major Crown corporations.	±1% change in population or real GDP growth equals ±$10 million to $20 million. BC Hydro contribution is affected by weather, water reservoir levels, electricity markets, interest rates and foreign exchange rates. LDB and BC Lottery Corporation contributions affected by seasonal sales demand. BCBC dividend affected by levels of property sales. See Table C7 for risks associated with the major Crown corporations.
Canada health and social transfer (CHST) $2,631 million	Includes $370 million for BC's share of additional national cash payments (added to base) announced by the federal government in September 2000 ($2.8 billion national total). Assumes total national cash payments at $17.3 billion, up $3.8 billion from 2000/01 (excluding special supplements). National personal income tax base falls 3.0% in 2001; up 4.2% in 2002. BC population growth at 1.2% in 2001. BC's share of national entitlement at 13.2% in 2001/02, based on forecast of national population share. $19 million for health transition funding is included in other federal payments.	±1% change in BC population growth with no change in national population growth (change in share) is equivalent to ±$40 to $45 million. 1% increase (decrease) in BC income tax base reduces (increases) revenue by $15 to $20 million. ±1% in the national base (tax and cash) equals ±$40 to $45 million.

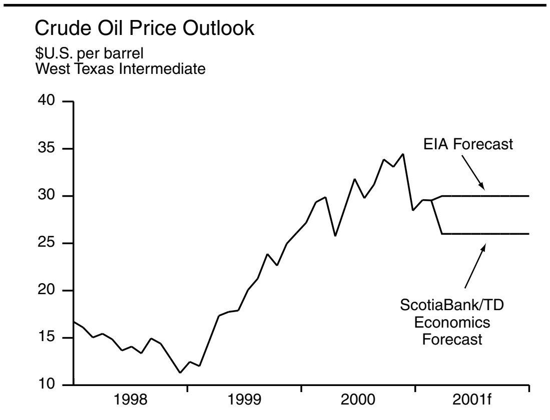
ENERGY PRICE OUTLOOK

Crude Oil: Slight Decline in Prices[1]

In 1998, oil prices slumped, averaging about $14.50 per barrel, 30 per cent lower than in 1997. In March 1999, the Organization of Petroleum Exporting Countries (OPEC) announced its intent to reduce its annual production by 2 million barrels, or about 5 per cent of supply. By the end of 1999, world demand increased as east Asian economies began to recover, and the U.S. economy continued to perform strongly. The reduced supply together with increased demand resulted in West Texas Intermediate (WTI) crude oil prices, an industry benchmark price, doubling to about $24 per barrel by the end of 1999. In 2000, demand continued to outpace supply and prices rose to over $35 per barrel. Prices dropped briefly in October 2000, when President Clinton announced that the U.S. government would release 30 million barrels from the U.S. Strategic Petroleum Reserve.

The U.S. Energy Information Administration (EIA) expects that oil stocks in the OECD countries will continue to be tight compared to normal levels, preventing prices from falling significantly.[2]

Price declines in December 2000 and January 2001 had indicated weakness in the near-term market. However, the EIA believes that the more recent decision by the OPEC 10 (OPEC excluding Iraq) to cut oil production quotas effective February 1, 2001, will have the effect of maintaining the OPEC basket oil price. This is expected to keep WTI prices in the $26 to $33 per barrel range over the next two years.[3] Scotiabank and TD Economics have similar forecasts, estimating that OPEC's determination to reduce output will result in WTI prices around $26.50 per barrel for 2001.[4]



Electricity: Overall Tightening of Supplies

Power rates in British Columbia are regulated by the BC Utilities Commission and are based on the cost of service. BC Hydro rates have not increased since 1993, and are frozen until September 30, 2001 by government policy. Thus British Columbia prices remain among the lowest in North America. BC Hydro's average delivered price for large industrial customers (roughly equivalent to inter-utility wholesale transactions) is $C 33 per MWh (mega-watt hour; enough to supply about 1,000 households for an hour).

Electricity generated in British Columbia that is surplus to domestic needs may be sold outside the province. The unique nature of the British Columbia hydro-electric system and its storage reservoirs allows BC Hydro to take advantage of trading opportunities. Electricity can be purchased at times of the day or year when prices are low, then resold when prices are higher.

Before 2000, wholesale electricity prices in the inter-utility market in the U.S. Pacific Northwest were generally under $50 per MWh. Prices typically followed a seasonal pattern of high prices in winter (reflecting heating demand in the Northwest) and summer (due to air conditioning demand in the Southwest), with lower prices during the spring snow-melt and in the fall.

Starting in 2000, spot prices rose sharply, reaching $1,300 per MWh in California by summer. Prices rose due to a shortage of supply as the demands of a rapidly growing U.S. economy outstripped the ability of domestic sources to supply power. The Western U.S. and Alberta electricity markets have been the most volatile commodity markets with price fluctuations of up to 1000 per cent during a day. Depending on regulatory policies and utilities' supply mix, not all consumers have had these higher costs passed through to their electricity bills.

High prices are expected to persist in California in the near term. A shortage of 5,000 MWh projected for the summer of 2001 should result in prices in excess of $400 per MWh. High prices are also expected in the U.S. Pacific Northwest in 2001 and beyond, signifying a scarcity of power generation and transmission capacity into specific markets. For example, forward prices for on-peak power in the U.S. Pacific Northwest for the 2001/02 fiscal year are currently about $300 per MWh.[5] This compares to $138 per MWh for the same power in calendar 2000, and $27 per MWh in 1999.

[1] All prices are in U.S. dollars unless stated otherwise.
[2] Short-term Energy Outlook-February 2001, Energy Information Administration, February 6, 2001.
[3] WTI prices are typically $2 per barrel higher than the OPEC basket of crude oil prices because WTI is a lighter crude oil.
[4] Scotiabank Commodity Price Index, Scotia Economics, January 26, 2001, TD Commodity Price Report, TD Economics, February 2001.
[5] High load hours at Mid-Columbia, a wholesale trading point in the U.S. Pacific Northwest.

The U.S. Pacific Northwest power system, which already is facing tight supplies, has been further stressed by:

- high weather-driven demand throughout the U.S. west;
- low water levels;
- limited hydro-generating capacity;
- planned and forced outages of thermal generating units;
- high gas prices;
- requirements to operate hydro-electric resources to assist in the recovery of endangered salmon species; and
- the design and operation of the California market.

Natural Gas: Pipeline Capacity Constraints and Low Inventories

Natural gas is being increasingly used to generate electricity since it is a much cleaner energy source than traditional fossil-based sources like coal. Volatility in the natural gas market is a reflection of electricity prices and demand, and other factors such as natural gas demand, gas storage, and pipeline capacity.

Historically, natural gas prices have ranged from $1 per MMBTU (million British thermal units) to $3 per MMBTU. Last winter, pipeline constraints, low inventory levels in North America and an early start to the winter heating season were responsible for soaring prices. During the summer, prices at Henry Hub, a price hub in the U.S. Midwest, exceeded $4 per MMBTU and climbed to $5 per MMBTU in the fall.[6] During December 2000 and January 2001, prices at Sumas (a price hub at the British Columbia — U.S. border) rose dramatically to about $14 per MMBTU and spiked at $22 per MMBTU as natural gas-fired generators responded to increased electricity prices and demand for electricity in the California market. By mid-February, natural gas prices declined to below $5.50 per MMBTU, a 60 per cent drop in less than two months.

As the winter heating season ends prices are expected to remain above $4 per MMBTU, particularly if summer air conditioning demand exerts upward pressure on electricity prices and hence on the demand for natural gas-fired electricity. Producers are increasing their forecasts of drilling activity in Canada and the U.S., and this is expected to increase supply over the medium term. In British Columbia, over 1,100 wells were drilled this past year and a similar level of activity is forecast for next year. However, North American inventories are relatively low and pipeline capacity constraints are expected to keep prices above $6.25 per MMBTU next winter.

For additional information on the province's natural gas infrastructure and reserves, please see the Ministry of Energy and Mines website at :

http://www.em.gov.bc.ca/

[6] There are a number of natural gas trading hubs in North America and the prices at each of these hubs reflect local demand and supply constraints. Henry Hub is a major trading hub in Louisiana. Two major trading hubs in British Columbia are Sumas/Huntingdon at the BC-Washington State border and Station 2 on Westcoast Energy Inc.'s pipeline in northeastern British Columbia.

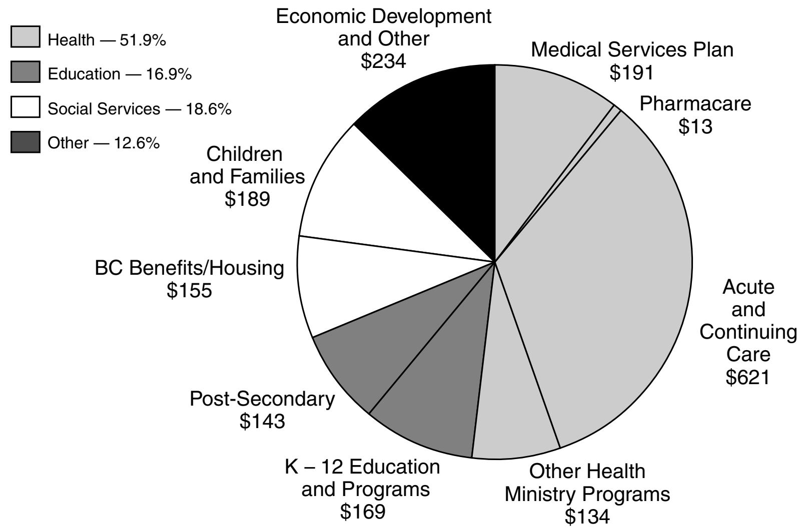
2001/02 Expenditure

Program expenditure of the consolidated revenue fund (CRF) is estimated to increase $1,849 million or 8.2 per cent from the comparable 2000/01 budget estimate (see Table C5), and 5.7 per cent from the 2000/01 revised forecast.

Chart C2

2001/02 Program Budget Increases*

Consolidated Revenue Fund ($ millions)



Total Increase: $1,849 million*

*Based on the 2000/01 restated budget estimate, excluding pension accounting policy changes (see Table C5).

Highlights of spending changes from the 2000/01 budget include (see Chart C2):

Officers of the Legislature — up $25 million including $24 million for Elections B.C. and $1 million for the Office of the Auditor General to provide for the newly created Office of the Commissioner of Environment and Sustainability.

Ministry of Aboriginal Affairs — up $17 million. An $18-million increase is provided for payments to McLeod Lake Indian Band for forestry stumpage revenue collected on their behalf. This increase is partially offset by other budget reductions.

Ministry of Advanced Education, Training and Technology — up $143 million. The Educational Institutions and Organizations budget will increase by $117 million or 9.3 per cent to provide $40 million for 5,025 new post-secondary student spaces, $20 million to compensate post-secondary institutions for the 5-per-cent tuition fee reduction, $21 million for previously contracted salary and benefit increases, and $5 million to increase funding for the Technical University of British Columbia. The student financial assistance program budget will increase by $21 million or 16 per cent to fund anticipated increased demand. The budget also includes additional funding for the Industry Training and Apprenticeship Commission and for youth programs. Amortization and debt service costs decrease by $8 million. The budget for the Information, Science and Technology Agency decreases by $2.2 million mainly due to lower amortization but includes $1.4 million of new funding for improved public Internet access in rural British Columbia.

TABLE C5

EXPENDITURE BY MINISTRY
CONSOLIDATED REVENUE FUND — 2001/02 BUDGET ESTIMATE

	Budget Estimate 2000/01[1]	Revised Forecast 2000/01[2]	**Budget Estimate 2001/02**	Increase (Decrease)[3]
	($ millions)			(per cent)
Legislation	38	38	**41**	7.1
Officers of the Legislature	26	29	**51**	94.7
Office of the Premier	3	3	**3**	—
Aboriginal Affairs	43	70	**60**	37.9
Advanced Education, Training and Technology	1,777	1,955	**1,920**	8.0
Agriculture, Food and Fisheries	101	108	**105**	4.1
Attorney General	946	1,005	**1,003**	6.0
Children and Families	1,501	1,507	**1,690**	12.6
Community Development, Cooperatives and Volunteers	24	25	**23**	(5.5)
Education	4,610	4,620	**4,779**	3.7
Employment and Investment	38	37	**29**	(23.6)
Energy and Mines	38	60	**70**	82.9
Environment, Lands and Parks	197	201	**211**	6.9
Finance and Corporate Relations	117	112	**121**	2.7
Forests	513	560	**514**	0.2
Health	8,276	8,680	**9,235**	11.6
Labour	30	36	**31**	3.3
Multiculturalism and Immigration	25	23	**32**	29.4
Municipal Affairs	141	146	**180**	27.8
Small Business, Tourism and Culture	85	97	**85**	(0.2)
Social Development and Economic Security	2,212	2,200	**2,360**	6.7
Transportation and Highways	465	465	**500**	7.6
Women's Equality	52	52	**58**	11.7
Other appropriations:				
Management of Public Funds and Debt	1,009	895	**840**	(16.7)
BC Family Bonus	152	152	**120**	(21.1)
Contingencies (All Ministries) and New Programs	105	13	**220**	109.3
Amortization of change in unfunded pension liability	(130)	(207)	**(58)**	(55.2)
Other appropriations[4]	52	59	**72**	38.5
BC Energy Rebate	—	42	**—**	—
Total Program Expenditure				
Before Pension Accounting Policy Change	22,446	22,983	**24,295**	8.2
Pension Accounting Policy Change	(368)	(368)	**—**	—
Total Expenditure[1]	22,078	22,615[2]	**24,295**	10.0

[1] The 2000/01 budget estimate has been restated from the amounts shown in Table B5. To be consistent with the presentation used for 2001/02, ministry budgets have been restated for organizational changes. In addition, the 2000/01 budget has been restated to reflect a change in pension accounting policy and a change in the classification of certain capital expenditures. The pension accounting change reduced the spending budget by $368 million, while the capital expenditure adjustment increased the spending budget by $146 million. In total, these adjustments reduced the 2000/01 spending estimate (and estimated summary accounts deficit) by $222 million.

[2] The 2000/01 revised expenditure forecast is $112 million lower than the revised forecast shown in Table B5, due to the exclusion of an adjustment for the cost of the Public Service Pension Plan joint trusteeship agreement. To be consistent with the presentation used for 2001/02, adjustments for joint trusteeship agreements are shown separately as bottom-line adjustments to the summary accounts balance (see Table C1).

[3] Percentage change between the 2001/02 budget estimate and the 2000/01 budget estimate (figures based on unrounded budget estimates).

[4] Other appropriations include the Commissions on Collection of Public Funds and Allowance for Doubtful Revenue Accounts Vote, the Environmental Assessment and Land Use Coordination Vote, the Environmental Boards and Forest Appeals Commission Vote, the Forest Practices Board Vote, the Green Economy Initiative Vote, the Public Sector Employers' Council Vote, Seismic Mitigation, the Insurance and Risk Management Special Account, the Unclaimed Property Special Account, and other appropriations.

Ministry of Agriculture, Food and Fisheries — up $4 million mainly due to increased funding for Fisheries Renewal BC.

Ministry of Attorney General — a $57-million budget increase includes $15 million for police services, $10 million for increased claims against the government under the *Crown Proceeding Act,* $6 million for pre-trial facilities, and additional funding for labour cost increases and other program enhancements. The budget also includes an additional $9 million under the *Emergency Program Act* to better reflect historical expenditures in response to emergencies and disasters.

Ministry for Children and Families — up $189 million. Services for children and families will increase $77 million and community living services for adults will increase $73 million. The increases primarily reflect the costs of contract changes for community social service workers. Additional funding of $27 million is provided for early childhood development, approximately half of which is focused on the needs of aboriginal children and a $3.5-million increase for the school lunch program. The budget includes $16 million for the implementation of an early intensive behavioural support program for autistic children.

Ministry of Community Development, Cooperatives and Volunteers — down $1 million mainly due to administrative efficiencies.

Ministry of Education — up $169 million. A 3.6-per-cent increase ($141 million) in public school operating contributions provides for wage and benefit increases for all signed collective agreements; funding for the Teachers' Pension Plan Joint Trusteeship Agreement and a $10-million contingency buffer for unexpected enrolment growth. The budget also maintains funding for reduced class sizes in Kindergarten to grade 3 (20 students in Kindergarten and 22 students in grades 1 to 3) and funds expected growth in the number of special needs children. The budget provides $21 million for increased amortization and debt service expenditures and an additional $7 million for independent schools.

Ministry of Employment and Investment — down $9 million primarily due to the conclusion of a number of time-limited agreements ($5 million), the elimination of Build BC Special Account disbursements in 2001/02, and reductions to both communications and strategic project funding.

Ministry of Energy and Mines — up $32 million primarily due to the addition of $4 million for revenue generating mineral, oil and gas initiatives, and increased payments required under the Vancouver Island Natural Gas Pipeline (VIGAS) agreement. The level of payments is dependent upon the prevailing natural gas prices. The increased ministry expenditures are partially offset by lower program spending in other areas.

Ministry of Environment, Lands and Parks — up $14 million to partially restore services reduced in prior years, to initiate an action plan for protection of drinking water and for costs related to the grizzly bear hunting moratorium. The ministry will also be providing $10 million to upgrade parks capital infrastructure.

Ministry of Finance and Corporate Relations — up $4 million mainly due to increased amortization costs for the corporate accounting system and higher disbursements through the Northern Development Fund.

Ministry of Forests — up $1 million mainly due to additional funding to accelerate landscape-unit planning.

Ministry of Health — up $959 million including $387 million in base budget increases related to the supplementary estimates in 2000/01. Significant components are $53 million for rural physician recruitment and retention initiatives; $180 million for health authority service pressures and strategic initiatives under the BC Health Action Plan (BCHAP); and $67 million for improved access to hospital care, enhanced home support services and the BC Health Guide program.

The Regional Programs' budget (up $681 million) includes funding for a variety of negotiated and announced compensation provisions and payroll tax changes affecting health care workers, as well as other changes including:

- Acute and Continuing Care, up $621 million (including base budget increases related to 2000/01 supplementary estimates) provides an additional:
  - $16 million for the operation of new continuing care beds and replacement or upgraded beds,
  - $39 million for additional home support and nursing, and
  - $70 million for provincial critical services including cancer treatment, cardiac care, renal dialysis and transplants, and other acute care service requirements.
- Adult Mental Health (up $36 million) includes additional funding of $22 million for expanded crisis response and emergency services, more case managers and clinicians and additional community residential care spaces.
- Public and Preventive Health (up $24 million) includes expanded funding for enhanced immunization, chronic disease and injury prevention, and expanded child care facility licensing capacity.

The Medical Services Plan budget will increase $191 million to provide for the annualized costs of 2000/01 settlements with physicians in rural and small urban centres, demographic/utilization increases in physician services and increased services by, and rate adjustments for, physicians paid through alternative funding arrangements such as service contracts.

A $13-million lift in the Pharmacare budget funds price increases. The ministry will take action to control expenditure increases in this program area. Equipment funding of $70 million is included as part of government's capital spending shown in Table C9.

Other increases in the Ministry of Health include an additional $47 million for amortization and debt servicing.

Ministry of Labour — up $1 million mainly to hire additional staff to reduce the licensing and grant approval backlog, and to reduce the risk of fraudulent activities within the provincial charitable gaming sector.

Ministry of Multiculturalism and Immigration — up $7 million mainly due to increased funding for low wage redress in the contracted community social services sector and the Community Partners Program.

Ministry of Municipal Affairs — up $39 million. The new five-year Canada – British Columbia Infrastructure Program will be implemented with spending of $20 million in its first year. Provincial expenditures will be matched by the federal government, providing $40 million in green infrastructure projects (sewer and water) in British Columbia. Conditional grant programs will also increase by $20 million, with most of the funding to provide for sewer and water projects through the Renewed Sewer/Water Program.

Ministry of Small Business, Tourism and Culture — down $0.3 million mainly due to administrative efficiencies.

Ministry of Social Development and Economic Security — up $148 million. The BC Benefits program budget will increase $125 million. It provides an additional $45 million for planned Child Care BC initiatives, $15 million for increased utilization and wages in the child care subsidy program, $55 million for an increase in the Disability Benefits caseload, $20 million for the full-year costs of the Flat Rate Earnings Exemption, $10 million for increased costs in the Health Care and Dental Benefits program, $7 million for the full-year costs of the July 2000 two-per-cent BC Benefits rate increase, $6 million for disability-related new initiatives, and $7 million for other ministry pressures. The budget increases are partially offset by $35 million of savings resulting from a projected 5.1-per-cent-decline in the Income Assistance and Youth Works caseload (in 2000/01, the caseload is expected to fall 2.2 per cent) and $9 million in other ministry savings.

Housing programs will increase $27 million to provide subsidies for affordable housing units completed in 2001/02. Contributions to British Columbia Transit will decrease $22 million due to a revised method of calculating the amortization of prepaid capital advances. Debt servicing and amortization costs of $15 million for the Rapid Transit 2000 Project are included because assets are now being brought into service.

Ministry of Transportation and Highways — up $35 million, predominantly due to the provision of a grant to the BC Transportation Financing Authority that will be applied against the financing costs of capital road improvements.

Ministry of Women's Equality — up $6 million to provide for labour cost increases in the contracted community social services sector, partially offset by reduced spending in other ministry programs.

Management of Public Funds and Debt (debt interest) — down $169 million due to lower borrowing requirements and lower interest rates on refinanced debt.

Other Appropriations — up $20 million mainly due to an increase for seismic mitigation of government buildings.

BC Family Bonus — down $32 million due to program changes to the federal National Child Benefit System. Effective July 1, 2001, the combined BC Family Bonus and the National Child Benefit Supplement will increase to $1,332 from $1,260 per child per year. Changes were also made to the income threshold and rates at which benefits are reduced resulting in more families receiving the maximum benefit.

Expenditure Assumptions and Sensitivities

The main assumptions supporting the 2001/02 expenditure estimates are summarized in Table C6, together with a description of the major risks and sensitivities.

Other Expenditure Assumptions and Risks

- *Catastrophes and disasters:*

  The expenditure budgets for the Ministries of Forests and Attorney General include amounts to fight forest fires and for other emergencies such as floods and blizzards. These amounts assume normal to moderate conditions and severity of costs. Although the overall expenditure budget includes a $220-million Contingency vote in 2001/02, express provisions are not included for catastrophes or disasters beyond the amounts already identified in ministry budgets. Costs of such unforeseen events may also affect other ministry programs.

- *Pending litigation:*

  The revised expenditure forecast for 2000/01 includes estimates of potential liabilities for known or likely settlements of completed or pending litigation where amounts are determinable. The Ministry of Attorney General provides an assessment of the likelihood of potential liabilities resulting from pending litigation as part of the finalization of the *Public Accounts* after March 31st each year. Depending on the opinions of legal counsel and other developments, estimated costs and liabilities could be different than assumed in the 2000/01 revised forecast.

The 2001/02 expenditure budget for the Ministry of Attorney General contains provisions for settlements under the *Criminal Injuries Compensation Act* and *Crown Proceeding Act* based on estimates of expected claims and related costs of settlements likely to be incurred in 2001/02. Other litigation developments may occur that are beyond the assumptions used in the budget forecast (such as potential costs for a Carrier Lumber Ltd. settlement), and may also affect expenditures in other ministries.

- *One-time write-downs and other adjustments:*

  The 2001/02 revised expenditure forecast includes a number of accounting policy changes and adjustments, such as pension and capital asset accounting changes and write-downs of various loans and investments. Although the revised forecast incorporates known and likely adjustments at the time of preparing the budget, further adjustments may occur as the accounts of the government are reviewed by the Auditor General. The 2001/02 expenditure budget does not assume or make allowance for extraordinary adjustments other than the amount provided in the Contingencies vote.

- *Recoveries within ministry budgets:*

  A number of ministry budgets assume that a portion of expenditures will be recovered from other agencies. The 2001/02 expenditure budget assumes that budgeted recoveries will be fully realized. Should recoveries be lower than budgeted, this could result in additional net expenditures.

With respect to 2000/01, the summary accounts revised forecast includes a $150-million forecast allowance for unforeseen changes to the end of the fiscal year. With respect to 2001/02, the summary accounts budget forecast includes a $300-million forecast allowance for unforeseen developments during the year.

TABLE C6

MAIN EXPENDITURE ASSUMPTIONS AND FORECAST RISKS — CONSOLIDATED REVENUE FUND

Expenditure Area	Key Assumptions	Forecast Risks and Sensitivities
Special Offices Elections B.C. Budget — $34 million	Budget provides for the provincial election in 2001.	Special circumstances, e.g., recounts could cause costs to exceed the budget.
Ministry of Aboriginal Affairs Budget — $60 million	Provides for resources to support the treaty process and for programs associated with First Nations' heritage, language and culture. Assumes three treaties will be ratified in 2001/02. Provides $2.2 million for the amortization of settlement and implementation costs.	Actual expenditures are affected by the pace of treaty settlements. There is minimal expenditure risk to the province in 2001/02 for ratifying additional treaties, due to the expected timing of cash payments to First Nations.

TABLE C6 — *(Continued)*

MAIN EXPENDITURE ASSUMPTIONS AND FORECAST RISKS — CONSOLIDATED REVENUE FUND

Expenditure Area	Key Assumptions	Forecast Risks and Sensitivities
Ministry of Advanced Education, Training and Technology Budget — $1,920 million	The budget reflects: approximately 155,800 total funded student spaces in 2001/02; $45 million increased funding to provide enhanced services for post-secondary students, including 5,025 new student spaces (includes 400 new nurse spaces), enhanced funding for Industry Training and Apprenticeship Commission programs, increased funding for the Technical University of BC and expanded training of health care workers under the Health Action Plan; and $82 million increased funding support for core funding and cost increases of post-secondary institutions, including compensation for the tuition fee reduction.	Collective agreement negotiations with college instructors were not concluded prior to the budget. Collective agreements with university instructors expire throughout the year.
Student Financial Assistance (Included in the Ministry of Advanced Education, Training and Technology above) Budget — $154 million Authorized student loans: $115 million	The program expects to issue 40,000 BC student loans and 28,000 BC student grants ($78 million) based on: • 7% increase in demand in 2001/02 ($18 million); • expanded training of health care workers under the Health Action Plan ($3 million); • incremental cost of transition from banks to government financing of BC student loans ($3 million); These pressures will be partially offset by savings/ reductions, including: — increased enforcement of private school designation policy ($1 million); — increasing verification of student assistance applications, from 4.2% to 5%, in order to meet federal standard ($1.5 million); and — other program streamlining ($1 million).	Demand is beyond the control of government. A 1% change in demand affects costs by $1.5 million. A 1% change in interest rates affects program budget by $3.4 million.
Ministry of Agriculture, Food and Fisheries Budget — $105 million	Risk management programs, including crop insurance and whole farm insurance, are adequately funded to cover losses based on historical averages, from weather hazards and market fluctuations.	An extraordinary agricultural disaster could result in requests for government to cover costs not eligible under existing risk management programs. Current funding for risk management programs is dependent on continued federal/provincial agricultural cost-sharing arrangements.
Ministry of Attorney General Budget — $1,003 million		
Corrections — Adult Custody (Included in the Ministry of Attorney General above) Budget — $174 million	Assumes the number of remanded and sentenced adult offenders remains within the 2,200 to 2,400 target (forecast for 2000/01 is 2,332).	Costs are affected by the number of prisoners and immigration and refugee claimants held in provincial correctional facilities. Every 1% change in the prison population affects costs by $1.1 million.
Police Services (Included in the Ministry of Attorney General above) Budget — $168 million	Provides provincial funding for 1,693 police officers providing services to municipalities with a population of less than 5,000, rural populations and specialized functions including highway patrol.	Federal allocation to the province and the RCMP allocation to the provincial force may be higher than expected. A higher-than-expected allocation to the provincial force has to be matched by the province. Policing is a provincial responsibility, with the federal government paying for 30% of the provincial force. Each additional provincial officer costs the province $94,500.
Court Services (Included in the Ministry of Attorney General above) Budget — $137 million	Funds approximately 72,000 Supreme Court cases, 272,000 Provincial court cases and 1,400 Appeal court cases.	Costs are affected by large court cases, number of cases pending and number of appearances per case.

TABLE C6 — *(Continued)*

MAIN EXPENDITURE ASSUMPTIONS AND FORECAST RISKS — CONSOLIDATED REVENUE FUND

Expenditure Area	Key Assumptions	Forecast Risks and Sensitivities
Ministry of Attorney General — *(Continued)*		
Community Justice (Included in the Ministry of Attorney General above) Budget — $127 million	Provides funding for the Legal Services Society, family maintenance enforcement activities, services to victims of crime, consumer legislation and community programs.	Although costs are driven by demand, risks are relatively low as the majority of services are provided by a third party at a fixed cost.
Statutory Services (Included in the Ministry of Attorney General above) Budget — $70 million	Provides: — $25 million for *Criminal Injuries Compensation Act* settlements; — $21 million for *Crown Proceeding Act* settlements; — $21 million for emergencies such as floods and blizzards; and — $3 million for inquiries that may arise over the course of the year.	Higher-than-assumed volumes or costs per case for *Criminal Injuries Compensation Act* and *Crown Proceeding Act* settlements. An unusual number or severity of natural disasters, such as forest fires or floods.
Ministry for Children and Families Budget — $1,690 million	Assumes the average monthly children-in-care caseload will decline 4.6%, from 9,850 in 2000/01 to 9,400 in 2001/02. Provides $1.4 million for the continued care of 16 migrant children who arrived in 1999. No funding has been provided for the potential arrival of new migrant children in 2001. Provides for residential and non-residential costs of 5,650 adult clients in the Community Living Services program, and includes $4.3 million for children-in-care who will turn 19 in 2001/02. No allowance for additional utilization has been budgeted. Provides an additional $137 million for direct and indirect compensation costs relating to the community social services agreement (Munroe Agreement).	Ability to manage provincially funded children in care caseload down to 9,400. Average cost per child in care is approximately $29,000 per year. Additional migrant children each cost approximately $72,000 per year. Additional residential beds in the Community Living Services program cost approximately $90,000 each. Costs could vary depending on the rate of unionization, the demand for labour adjustment, increases in compensation for agency employees in excess of amounts budgeted, and the impact on cost reduction initiatives.
Ministry of Education Budget — $4,779 million	Enrolment is currently 597,781 students. Budget assumes zero enrolment growth for 2001/02. (Final 2000/01 enrolment was 0.6% lower than 1999/00 enrolment). Reflects changes in student population composition. A $10-million contingency buffer is included for unexpected enrolment growth and changes in student composition. Class size in Kindergarten to grade 3 will be maintained at 20 in Kindergarten and 22 in grades 1 to 3. Funds collective agreements and accords currently in place. Provides an additional $22 million, as per the joint trusteeship agreement, for increased employer contributions towards the Teachers' Pension Plan. Provides funding for operating expenditures that were previously classified as capital expenditures.	Higher or lower enrolment growth and changes in student composition may affect expenditures. A 1% change in enrolment affects costs by $37.3 million. Collective agreement negotiations with non-CUPE support staff were not concluded prior to the budget. The collective agreement with teachers expires June 30, 2001. Higher or lower interest rates may affect capital and debt service expenditures.
Ministry of Energy and Mines Budget — $70 million Including Vancouver Island gas pipeline (VIGAS) and the Squamish Rate Stabilization Facility $33 million	Assumes an average natural gas price of Cdn$6 per gigajoule (GJ) at plant inlet in 2001/02.	Each Cdn$1 per GJ increase (or decrease) in the average natural gas price for the fiscal year would create an estimated $6 million budget expenditure (savings).

TABLE C6 — *(Continued)*

MAIN EXPENDITURE ASSUMPTIONS AND FORECAST RISKS — CONSOLIDATED REVENUE FUND

Expenditure Area	Key Assumptions	Forecast Risks and Sensitivities
Ministry of Environment, Lands and Parks Budget — $211 million	Clean-up costs of Britannia mine are not included in 2001/02 budget on the assumption that costs of $65 million will be fully recovered under an agreement with property owner and other potentially responsible parties.	Actual costs of site clean-up and remediation could be higher than compensation received from property owner and other potentially responsible parties.
Ministry of Forests Budget — $514 million	The $31-million provision for direct forest fire fighting costs is sufficient funding for a "moderate" fire year.	Dryer than normal weather, particularly in the Interior, will affect costs. The annual cost of fighting forest fires has varied from $19 million to $154 million. The ministry expects that the US lumber industry will file a countervailing duty petition upon the expiration of the Softwood Lumber Agreement (April 2001). The ministry's costs to defend such a case could total between $5 and $10 million. This would include legal fees, data collection and economic studies.
Ministry of Health Budget — $9,235 million		
Acute and Continuing Care (Included in the Ministry of Health above) Budget — $5,106 million	Includes funding of over $5,000 million for health authorities and other agencies, including $180 million for health authority service pressures originally funded in 2000/01 through supplementary estimates. Funding provides for up to 400,000 acute care inpatient cases, and up to 300,000 day surgery procedure cases. Includes $451 million for community and home-based continuing care services (serving 170,000 clients) of which $39 million is new funding. Provides $1,054.5 million for continuing care residential facilities (25,400 beds). This includes $7.1 million for annualized operating costs of 222 new beds and 204 replacement/upgraded beds opened in 2000/01, and $8.8 million for operating costs of 201 new beds and 277 replacement/upgraded beds scheduled to open in 2001/02. Provides $91.7 million (2,300 patient years) for renal dialysis, including $15.7 million for up to 396 additional renal dialysis patient years. Provides $91.2 million for 11,950 cardiac services, including $6.3 million for up to 1,070 additional cardiac services. Cardiac services include surgery, angioplasty, pacemakers, electrophysiology, and implantable defibrillators. Provides $161.8 million for the BC Cancer Agency, for expanded drug therapy, additional community oncology services, and expansion of cancer centres in Victoria and the Fraser Valley. Of this amount, $15 million is new funding.	A 1% increase in population affects program expenditure by approximately $51 million. Almost all union collective agreements in the health sector expire on March 31, 2001. Potential pressures from occurrences of severe seasonal illness or the adoption of new, more costly care modalities may exceed the enhanced flexibility and capacity provided for in the health care system.
	Provides funding of $18.4 million (0.85% growth) for acute care service impacts resulting from a growing, aging population. Assumes non-wage inflationary pressures and administrative and support services can be accommodated.	Potential population and demographic pressures could exceed the service capacity increase provided.

TABLE C6 — *(Continued)*

MAIN EXPENDITURE ASSUMPTIONS AND FORECAST RISKS — CONSOLIDATED REVENUE FUND

Expenditure Area	Key Assumptions	Forecast Risks and Sensitivities
Ministry of Health — *(Continued)* Adult Mental Health (Included in the Ministry of Health above) Budget — $404 million	Provides for the assessment, care and treatment of adults with functional impairment due to mental illness through services supported and delivered via an estimated 1,269 psychiatric care beds, 4,718 housing units, 6,473 rehabilitation spaces, and 7 community forensic psychiatric clinics. Provides additional funding of: • $6.0 million for expanded crisis response and emergency services (75 FTEs & 352 residential care units); • $5.2 million for additional case managers (75 FTEs); and, • $10.3 million for additional community residential care spaces (e.g., 60 licensed residential beds, 500 supported housing units and expanded tertiary care bed capacity). Assumes population growth and inflationary pressures can be accommodated within existing base.	A 1% increase in the adult population affects expenditures by approximately $4 million. A 1% inflationary increase affects expenditures by approximately $0.7 million.
Public and Preventive Health (Included in the Ministry of Health above) Budget — $219 million	Provides for an estimated: • 18,000 inspections of various public facilities and institutions such as waterworks, swimming pools, fish plants and food facilities for public health and safety; • up to 3,400 inspections under Community Care Facility licensing; • BC Centre for Disease Control activities including up to 137,000 prescriptions issued, 27,000 TB clinic visits, 10,000 STD/AIDS clinic visits, and up to 350,000 lab reports; and, • 17,200 visits to retailers of tobacco products and 11,000 clients participating in smoking cessation programs. Provides additional funding of $7.6 million for the BC Health Guide initiative — nurse telecare line, and computer-based health resources. Assumes population growth and inflationary pressures can be accommodated within the existing base.	A 1% increase in population affects expenditures by approximately $2 million.
Medical Services Plan (Included in the Ministry of Health above) Budget — $2,244 million	Provides for the following services: • 44.8 million patient visits for physician services • 21.4 million diagnostic tests • 9.1 million patient visits for supplementary benefit practitioners	
	The 2001/02 budget provides an additional $30 million for population growth (1.05%) and utilization (0.75%) of fee-for-service physician services.	A 1% increase in utilization of physician services affects costs by $16.8 million.
	Assumes population growth (1.9%) for supplementary benefits. Assumes utilization management measures will be implemented.	A 1% change in utilization of supplementary benefits affects costs by $1.3 million.
	The Working Agreement and Subsidiary Agreements with the BC Medical Association are subject to binding arbitration if negotiations are not concluded by March 31, 2001. Funding for the anticipated cost of a settlement is provided elsewhere in the budget.	Funding may be insufficient.

TABLE C6 — *(Continued)*

MAIN EXPENDITURE ASSUMPTIONS AND FORECAST RISKS — CONSOLIDATED REVENUE FUND

Expenditure Area	Key Assumptions	Forecast Risks and Sensitivities
Ministry of Health — *(Continued)* Pharmacare (Included in the Ministry of Health above) Budget — $674 million	Base 2000/2001 Pharmacare services are estimated to be: Total prescriptions = 14.7 million for an Average cost per prescription = $41.24. The ministry will manage growth to 2% over the 2000/01 base.	A 1% increase in utilization or drug costs affects expenditures by $6.7 million. The ministry may be unable to manage growth of 2%.
Ministry of Labour Budget — $31 million British Columbia Gaming Commission Distribution of Gaming Revenues to Charities $103 million	Assumes revenue sharing with charities at $103 million. This provides for inflation and an expected decline of $3 million in direct bingo revenues.	If charitable bingo revenue is 5% lower than assumed, this could result in an increase of $1.4 million in government assistance to charities and operators.
Ministry of Municipal Affairs Budget — $180 million	The $4-million provision is sufficient funding for Home Owner Grants made to applicants who have been granted an extension of time by the collector to apply for the grant in respect of the previous property tax year.	The eligibility requirements for Disability Home Owner Grants is currently under judicial review. If the judicial review is settled in favour of the petitioner, claims for Disability Home Owner Grants could increase to between $1 million and $40 million in respect of prior taxation years.
Ministry of Social Development and Economic Security Budget — $2,360 million	Total income assistance/Youth Works and disability benefits caseload is expected to decline 1.4% (the forecast decline in 2000/01 is 2.3%). Average caseload is estimated at 155,435. Income assistance/Youth Works caseload will decline 5.1%. Average caseload is estimated at 112,969. Disability benefits caseload will increase 9.4%. Average caseload is estimated at 42,466. Budget provides for the incremental costs of the re-introduction of the Flat Rate Earnings Exemption in January 2000 ($20 million) and the 2% BC Benefits rate increase in July 2000 ($7 million). Budget of $220 million for child care services provides for a 3% growth in demand for child care subsidies and an incremental $45 million for Child Care BC initiatives, including $27 million of federal funding. Total annual Child Care BC expenditure is capped at $59 million which will fund 32,680 spaces.	A 1% change in the total income assistance/Youth Works and disability benefits caseload affects expenditures by approximately $14.5 million. Income assistance/Youth Works caseload is sensitive to changes in the unemployment rate and in-migration levels. Disability Benefits caseload is sensitive to changes in life expectancy, improvements in medical technology and changes in population health. A 1% change in demand affects subsidies expenditures by $1.2 million. Child care subsidy program is sensitive to changes in provincial child population, family income levels and in family circumstances for which subsidy is allowed, most notably employment and training/education. Higher than anticipated demand for Child Care BC spaces may create potential for wait lists.
Housing Programs Budget — $131 million (Included in the Ministry of Social Development and Economic Security above)	Assumes a five-year mortgage interest rate of 7% and an overall decrease of 3% for tenant incomes.	A 1% change in tenant incomes affects provincial contributions by $0.1 million. A 1% change in mortgage rates for all new and renewed mortgages in 2001/02 would affect provincial contributions by $3.0 million. Condominium water penetration problems could put pressure on government to respond.
Management of Public Funds and Debt Budget — $840 million	Long-term and short-term borrowing rates for the fiscal year average 6.0% and 5.3%, respectively. As of March 2001, long-term rates are averaging 6.2%; short-term rates are averaging 4.9%.	1% change in interest rates results in $57 million change in direct operating debt interest expense; up to $71 million change when other taxpayer-supported debt is included.

TABLE C6 — *(Continued)*

MAIN EXPENDITURE ASSUMPTIONS AND FORECAST RISKS — CONSOLIDATED REVENUE FUND

Expenditure Area	Key Assumptions	Forecast Risks and Sensitivities
BC Family Bonus (administered by the Ministry of Finance and Corporate Relations) Budget — $120 million	Caseload levels are expected to remain constant (approximately 215,000 families) with family incomes rising slightly. Provincial costs will be reduced due to policy changes in response to improvements to the federal benefits for families with children.	A 1% decrease in family incomes, without any change in caseload, results in a $2 million increase in provincial costs.
Contingencies (All Ministries) and New Programs Budget — $220 million	Provision for uncertain or unforeseen issues arising over the year for which no other budget provision currently exists.	Unforeseen pressures in ministry programs may exceed available appropriations.
Other Appropriations Seismic Mitigation Budget — $30 million	Seismic improvements to government buildings that were previously considered capital are now classified as operating.	Costs or necessary repairs and upgrades could exceed current estimates.
Government-Wide Issues Compensation	The majority of public sector collective agreements expire March 31, 2001. By June 30, 2001 about 160,000 public sector full time equivalent employees will be working under expired contracts. This includes the direct public service, most health care workers (e.g. nurses, paramedicals), school teachers, and college faculty. The 2001/02 budget includes funding for anticipated settlements for contracts expiring during 2001/02.	It may take over a year to complete all of the negotiations associated with collective agreements expiring in 2001/02. Actual settlements are subject to the outcome of the negotiation process between employers' associations and unions. A 1 per cent increase in compensation for contracts expiring during 2001/02 could result in an increase in direct and indirect labour costs of about $90 million.
Public Sector Pensions — Joint Trusteeship Agreements	Joint trusteeship agreements for the teachers' and municipal pension plans will come into effect in 2001/02.	If the agreements are not concluded in 2001/02, the related improvement in the summary accounts forecast will be reduced by approximately $1 billion. In the absence of joint trusteeship, a positive adjustment of approximately $400 million would still be recorded in the summary accounts due to the effect of applying the government's pension accounting policy to a new actuarial valuation that is expected shortly.

JOINT TRUSTEESHIP AND BRITISH COLUMBIA'S PUBLIC SECTOR PENSION PLANS

The purpose of this agreement is to provide for the prudent management of the Pension Plan and Pension Fund in a framework where the plan members and employers share in the responsibility of plan governance and share the risks and rewards of plan sponsorship.

— preamble to the Public Service Pension Plan Joint Trust Agreement

What is Joint Trusteeship?

Governance arrangements for defined benefit pension plans range from 'employer sponsorship' at one extreme to 'plan member sponsorship' at the other end of the spectrum. In 'employer sponsorship', control over the plan, and responsibility for delivering on the pension promise, rest with the employer. In 'plan member sponsorship', control and responsibility rest with a union, or other organization representing the plan members.

"Joint trusteeship" describes pension plan governance arrangements in the middle of this spectrum. Control and responsibility are shared between the employer and the plan members and are exercised, at least in part, by a board of trustees that must manage the plan in accordance with a trust agreement.

From the 1870s, when workplace pension plans were first introduced in Canada, through to the 1950s, employer sponsorship was the only model for pension plan governance. Today joint trusteeship is common in the private sector and is the dominant model in the unionized industries where most large defined benefit pension plans are found. It is becoming increasingly common in the public sector as well. (The table compares the different governance models for defined benefit pension plans.)

Pension Plan Governance in British Columbia's Public Sector

British Columbia's pension plans for public sector workers have been shifting gradually in the direction of greater plan member participation for many years. In 1994, advisory pension boards were established by statute for the Municipal Pension Plan, the Teachers' Pension Plan, the College Pension Plan, and the Public Service Pension Plan. While these boards were advisory with respect to investment decisions and plan rule changes, they took on significant responsibilities in the area of hearing appeals and directing administrative practice.

In July 1999, the *Public Sector Pension Plans Act* was passed. This legislation created the British Columbia Investment Management Corporation and the British Columbia Pension Corporation, and devolved to them the roles of investing pension plan funds and administering the pension plans. It also set out the terms of a joint trusteeship for the College Pension Plan, and provided a process and framework for negotiating joint trust agreements for the Municipal Pension Plan, Teachers' Pension Plan, and Public Service Pension Plan. The joint trusteeship for the College Pension Plan went into effect on April 1, 2000.

Extensive and complex negotiations have been conducted under the *Public Sector Pension Plans Act* concerning joint trusteeship for the other three plans. Joint trusteeship of the Public Service Pension Plan went into effect on January 1, 2001. Agreements-in-committee for joint trusteeship of the Teachers' Pension Plan and the Municipal Pension Plan have now been reached by plan member and employer representatives negotiating under the auspices of the existing advisory pension boards for those plans. Each of those proposed agreements is still subject to ratification by one or more parties to the agreement.

Contents of the Trust Agreements

Each of the four joint trusteeship proposals (two implemented and two subject to ratification) has been negotiated with a different set of employer and plan member organizations and representatives. Each of the documents is consequently unique in many respects. There is however a recognizable common framework that runs through all four:

- Up until an agreed transition date, the employers' prerogatives and responsibilities under employer sponsorship will be respected. Claims on surpluses will be exercised and responsibility for existing unfunded liabilities will be accepted.
- Each board of trustees will have a balance between employer appointed trustees and plan member appointed trustees, and will have decision rules that will prevent either group from acting unilaterally.
- Contribution rate structures will be reformed so as to provide an appropriate level of funding for each plan, eliminate cross-subsidies between employers and between different groups of plan members, eliminate gender-based and age-based distinctions where they exist, and share the contribution burden equitably between employers and plan members.
- Boards of trustees will not have the capacity to make plan rule changes that create an unfunded liability or force an increase in contribution rates. Rule changes of that nature can be initiated by the "partner" organizations for each plan, but only if they are willing to fund them adequately through higher contribution rates.

- If an unfunded liability arises in the future, the employer and plan member contribution rates will be increased equally to address it.
- If a surplus arises in the future, the board of trustees will determine how it is allocated amongst a menu of specified options.

Throughout this process there has been extensive communication with plan members and employers concerning pension governance. A web site has been established at:

http://pensions.gov.bc.ca/penreform/news.htm

All plan member consultation documents and the complete text of the agreements-in-committee can be found on that site.

Financial Statement Impacts

As sole sponsor of the pension plans, the government is ultimately responsible should a plan's assets prove insufficient to provide pensions to all plan participants. Previous actuarial valuations determined that the government was responsible for significant pension deficiencies. Since this deficiency was the sole responsibility of the government, it had been recorded in the government's accounts as an unfunded pension liability totaling about $2 billion.

A joint trusteeship agreement removes the government as sole sponsor of the plan and places that sponsorship with a newly constituted pension board that is made up of representatives from government and plan members. In accounting terms, this is analogous to terminating the original plan and establishing a new plan for which the government and plan participants share responsibility for any unfunded liabilities.

Therefore, if a plan has an actuarial surplus at the time a joint trusteeship takes effect, the government eliminates the full amount of any liability on its balance sheet. If the government has recognized all or a portion of a pension surplus on its balance sheet, that amount is also eliminated since, under joint trusteeship, the government does not have a claim on those surpluses. The elimination of a liability is accounted for as an improvement in the government's operating statements (e.g. $1.39 billion in 2001/02) and the elimination of a surplus is an expense (e.g. $112 million in 2000/01).

If a plan has an unfunded liability when joint trusteeship takes effect, the government reduces the liability on its balance sheet to one half of the amount of the unfunded liability — the plan members are responsible for the remainder of the liability.

Models of Defined Benefit Pension Plan Governance

Governance Model	Employer Sponsorship	Joint Trusteeship	Member Sponsorship
Management of the plan is controlled by:	the employer	a jointly appointed board of trustees	a board of trustees generally appointed by a union
Fulfilling the pension promise is the responsibility of:	the employer	board of trustees	board of trustees
What happens if the plan becomes under-funded?	The employer is responsible for the unfunded liability.	Plan member and employer contributions are increased according to a formula set out in a trust agreement.	The problem belongs to the trustees and plan members. The employers' exposure is limited to paying a set contribution rate.
What happens if the plan generates a surplus?	Subject to pension standards regulations, beneficial ownership of the surplus rests with the employer.	Rules for sharing and allocating surplus are set out in the trust agreement.	The trustees use the surplus for the benefit of plan members.
Prevalence in the private sector:	Historically, this was the dominant model. Almost all defined benefit plans were at one time employer sponsored.	Most of the large private sector defined benefit pension plans in BC are now jointly trusteed.	These arrangements are common in multi-employer plans dealing with unionized construction trades.
Prevalence in the provincial public sector:	In provincial public sectors this model is still dominant east of Quebec.	This is becoming the dominant model. All provinces west of New Brunswick have plans using some form of joint management.	These are rare in the public sector, but the Saskatchewan Teachers' Pension Plan is of this type.

The financial impacts for the government for each of the joint trusteeship agreements (implemented and proposed) are as follows:

- *College Pension Plan* — implemented April 1, 2000. The plan was in a surplus position on April 1, 2000 and there was no liability or asset on the government's accounts. Therefore, there is no financial statement impact.
- *Public Service Pension Plan* — implemented January 1, 2001. The plan was in a surplus position on January 1, 2001 and the province had an accounting surplus of approximately $112 million in its accounts. Consequently, the joint trusteeship agreement resulted in the write off of this asset — an expense of $112 million in 2000/01. In addition, changes to contribution rates are partially offset by reductions in non-pension benefit costs resulting in an annual net increase in expenses of some $6 million.
- *Municipal Pension Plan* — anticipated implementation early in fiscal 2001/02. The plan is expected to be in a surplus position when the joint trusteeship agreement takes effect. The government will have an accounting liability of approximately $150 million at that time. Therefore, the anticipated joint trusteeship agreement will result in the elimination of that liability — an improvement of $150 million in 2001/02. There are no ongoing costs associated with this plan.
- *Teachers' Pension Plan* — anticipated implementation early in fiscal 2001/02. The plan is expected to have an unfunded liability of some $350 million when the joint trusteeship agreement takes effect. The government will have an accounting liability of $1,415 million at that time. The anticipated joint trusteeship agreement will result in the government's liability being reduced to $175 million (one half of $350 million). This will result in an improvement of $1,240 million ($1,415 million less $175 million) in 2001/02.

Increased contributions will cost the government approximately $22 million annually until the plan is in a surplus position. Once a surplus is established it will be used to reduce government contribution rates to equal plan participant rates. If joint trusteeship arrangements for the Municipal Pension Plan and Teachers' Pension Plan do not proceed, a positive adjustment of approximately $400 million would be recorded in the summary accounts.

Crown Corporations and Agencies

Crown corporations show a combined net loss of $290 million

In aggregate, Crown corporations are projected to have a net loss of $290 million in 2001/02, compared to net income of $164 million in 2000/01 (see Table C1). The change from last year reflects the effect of BC Hydro's required drawdown from its rate stabilization account (primarily due to the effect of low reservoir levels), a higher loss in Forest Renewal BC and lower net earnings of the Insurance Corporation of British Columbia (ICBC). These are partially offset by improvements in British Columbia Lottery Corporation, British Columbia Buildings Corporation and lower accounting adjustments.

These estimates incorporate targets set by Treasury Board and are based on information provided by Crown corporations and agencies. These forecasts will be reviewed by the various boards of directors as detailed annual financial and operating plans are approved.

Taxpayer-supported Crown Corporations and Agencies

Taxpayer-supported Crown corporation and agencies net losses are projected at $313 million

Taxpayer-supported Crown corporation and agency net losses (after adjustments) are estimated at $313 million, up $49 million from the 2000/01 revised forecast. The forecast consists of combined operating losses totalling $104 million (mainly Forest Renewal BC); $18 million of dividends paid to the CRF; and accounting adjustments of $191 million primarily to reflect the amortization of the cost of highways transferred to the BC Transportation Financing Authority in 1998/99.

Combined target operating losses are $97 million higher than 2000/01 due to lower net income of British Columbia Buildings Corporation (BCBC) and a higher loss in Forest Renewal BC. Contributions paid to the CRF will be $54 million lower than the previous year due to higher financial requirements of BCBC and the effect of some one-time contributions provided by other Crown corporations in 2000/01.

Details on financial projections for the largest four taxpayer-supported Crown corporations are shown in Table H9.

British Columbia Buildings Corporation — a target net income of $39 million is $13 million lower than the 2000/01 forecast. The effect of lower gains from property sales and a 5.2-per-cent increase in operating costs will be partially offset by a 3.3-per-cent increase in operating revenue. In 2001/02, the corporation is expected to provide a $16-million dividend to the provincial government.

British Columbia Ferry Corporation — a net income target of $3 million is $7 million lower than the previous year's revised forecast. Operating revenue will increase 2.3 per cent mainly due to a toll increase in February 2001, and increased motor fuel tax received from the provincial government. Operating expenses will increase 4 per cent. The increase reflects higher costs for pensions, training and safety initiatives, existing collective agreements, professional services and debt interest. These are partially offset by a reduction in amortization expense. Interest costs will increase $1 million due to the effect of new capital spending in 2000/01 and 2001/02.

BC Transportation Financing Authority — is targeted to break even in 2001/02 compared to net income of $2 million in the previous year. Revenue will increase 8.7 per cent, largely due to a $34-million grant received from the provincial government, recoveries for work done on Rapid Transit 2000 infrastructure projects, and increased dedicated fuel tax received from the provincial government. This is offset by a 9 per cent increase in costs mainly due to higher debt interest costs as a result of a higher level of debt and increased amortization.

Forest Renewal BC — a target net loss of $139 million is $42 million higher than 2000/01. A $39-million reduction in revenue, due to lower stumpage revenue and investment income, and a 1.4-per-cent increase in program spending will be partially offset by a 2.1-per-cent reduction in administration costs.

Other taxpayer-supported Crown corporations and agencies: combined net losses are targeted at $7 million, compared to net income of $26 million in 2000/01. This mainly reflects the effect of an $18-million gain from the sale of 577315 British Columbia Ltd.'s investment in Western Star Trucks Holding Ltd. in 2000/01, an $8-million reduction in the net income of the British Columbia Securities Commission, and a $4-million decline in the net income of the British Columbia Assessment Authority.

Self-supported Commercial Crown Corporations and Agencies

Net income targets for self-supported Crown corporations total $23 million

The net contribution from self-supported commercial Crown corporations is targetted at $23 million in 2001/02, down $405 million from 2000/01. Combined operating net income targets of $1.8 billion are partially offset by $1.4 billion of contributions paid to the CRF and accounting adjustments totalling $315 million. These accounting adjustments primarily reflect BC Hydro's required withdrawal from its rate stabilization account, and the transfer of British Columbia Lottery Corporation revenue to charities and municipalities.

Including BC Hydro's rate stabilization account transfers, total operating income of $1.6 billion is projected to be $509 million lower than 2000/01 largely due to higher costs to BC Hydro resulting from low reservoir levels and increased energy purchases. In addition, lower net income from ICBC and the Liquor Distribution Branch are partially offset by higher net income of the British Columbia Lottery Corporation. Dividends paid to the CRF are slightly lower than last year while accounting adjustments are $79 million lower due to smaller adjustments required for differences in fiscal years between the government and Crown corporations.

Hydro's net income target is $300 million (before rate stabilization account transfers)

British Columbia Hydro and Power Authority — a net income target of $300 million (before rate stabilization account transfers) is $495 million lower than comparable net income in 2000/01. The change is largely due to the expected impact of an exceptionally low snow pack level on reservoir inflows leading to increased use of high-cost energy purchases in 2001/02. The forecast assumes no change in domestic tariff rates, low reservoir levels and that a $159-million transfer will be required from the rate stabilization account in order to achieve BC Hydro's regulated rate of return.

Liquor Distribution Branch — a target net income of $616 million is 3 per cent lower than 2000/01. A 2.6-per-cent increase in product and operating costs, in part reflecting amortization costs of a new retail management system, will be partially offset by a 1-per-cent increase in net sales.

British Columbia Lottery Corporation — a net income target of $585 million is $35 million higher than 2000/01. Increased revenue from relocated casinos, a new destination casino and expanded lottery sales is partially offset by higher costs for prizes, operations equipment and facilities.

British Columbia Railway Company — a net income target of $18 million in 2001 is a $25-million improvement from the previous year. The improvement largely reflects reduced operating costs and the effect of a one-time cost of $13 million in 2000 for anticipated expenditures for environmental remediation. The corporation does not expect to pay a dividend to the provincial government in 2001/02.

ICBC's net income target is $75 million

Insurance Corporation of British Columbia — a net income target of $75 million is $56 million lower than in 2000 (after deducting road safety dividends). Re-estimates of the costs of settling previous years' injury claims are not expected to result in the same level of savings as they did in 2000. This will result in an overall increase in claims costs that will be partially offset by higher premium revenue due to increased sales.

Other commercial Crown corporations and agencies: combined net income target is at $7 million, up $1 million from the previous year. The increase primarily reflects expected improvements in the finances of 552513 British Columbia Ltd. (Skeena Cellulose Inc.).

Crown Corporation Forecast Assumptions and Risks

The main assumptions supporting the forecasts are summarized in Table C7, together with a description of the material risks and sensitivities.

Other Forecast Assumptions and Risks

Crown corporations and agencies have provided information used to prepare the summary accounts forecasts for 2000/01 and 2001/02, as well as the statements of assumptions and risks.

The 2001/02 budget estimates do not assume or make allowance for extraordinary adjustments other than those noted in the assumptions provided by the Crown corporations and agencies. Factors such as weather, electricity prices, fuel costs and accident trends could significantly change assumptions and the resulting forecasts. The 2001/02 summary accounts budget estimate includes a $300-million forecast allowance for unforeseen developments affecting the government and its Crown corporations during the year.

TABLE C7

MAIN CROWN CORPORATION FORECAST ASSUMPTIONS AND RISKS

Crown Corporation	Key Assumptions	Forecast Risks and Sensitivities
British Columbia Buildings Corporation Net income target: $39 million	Gains on disposal of properties at $6 million. $85 million in capital spending. This includes capital spending of approved client projects and capital spending for recoverable commercial projects. Assumes energy costs of $26 million. Average short/long-term borrowing rate assumed at 5.4%. Dividend to CRF of $16 million.	Value and timing of property sales depend on market. Capital spending dependent on timing of projects and approval limits for ministry clients. 1% change in interest rates affects interest expense by $1.3 million. 10% change in energy costs affects net income by about $3 million.
British Columbia Ferry Corporation Net income target: $2.5 million	Toll projections based on current traffic volume trends and the corporation's business initiatives. Incorporates toll increase introduced in February 2001. Assumes fuel costs of $56 million. $74 million received from provincial dedicated motor fuel tax. Major capital expenditures of $89 million. Does not assume sale of *PacifiCats* in 2001/02.	1% change in volumes affects revenues by about $6 million. 1% change in fuel prices affects fuel costs by $0.5 million. Sale of *PacifiCats* in 2001/02 may affect net income depending on sale proceeds. Changes in interest rates do not have material affect on expenses due to low level of debt.
BC Transportation Financing Authority Net income target: Balanced	$204 million of dedicated provincial taxes received from provincial government. Capital spending of $331 million. Average floating/new fixed-rate borrowing rate assumed at 6.0%.	1% change in provincial fuel consumption volumes affects revenue by $2 million. Weather patterns can delay projects. Construction costs sensitive to inflation. 1% change in floating/new fixed-rate interest rates equals a $5-million change in interest costs.
Forest Renewal BC Net loss target: $139 million	See forest revenue assumptions in Table C4. Expenditures occur as per published business plan.	±10% in harvest volumes = ± $18M. ±US$50/tonne in pulp prices = ± $11M. ±US$50/1,000 bd ft in SPF prices = ±$66M. ±US$100/1,000 bd ft in hemlock prices = ±$13M.
British Columbia Hydro and Power Authority Net income target: $300 million (before including transfer from rate stabilization account of $159 million)	Forecast based on projected March 1, 2001 snow pack levels, consequential low reservoir levels and normal weather patterns. Domestic customer growth of 1.2%. Export revenue and short-term energy purchase costs based on estimated forward market prices. Assumes no change in domestic tariff rates. Assumes average long-term interest rates of Cdn 6.0% and US 6.3%, and an average 67 cents/US$ exchange rate. Capital spending of $600 million. Dividend to CRF of $375 million.	10% change in temperatures equals $40-million change in residential revenues. 1% change in water inflows equals a $110-million change in operating income. 10% change in electricity trade margins equals $85-million change in operating income. 1% change in borrowing rates equals $20-million change in finance costs. 1-cent change in exchange rates affects financing costs by $5 million.
British Columbia Liquor Distribution Branch Net income target: $616 million	Net sales increase of 1% incorporates current and expected consumption trends. Includes amortization cost of new retail management system. Capital spending of $35 million.	Price competition and economic conditions affect sales. Manufacturer price changes can be unpredictable. Weather patterns and timing of statutory holidays affects consumption. 1% change in sales volume affects net income by up to $6 million. Higher-than-assumed credit card use could increase collection costs.

TABLE C7 — *(Continued)*

MAIN CROWN CORPORATION FORECAST ASSUMPTIONS AND RISKS

Crown Corporation	**Key Assumptions**	**Forecast Risks and Sensitivities**
British Columbia Lottery Corporation Net income target: $585 million	Sales projections based on current trends. Prize payout rates based on historical and current trends. Assumes expansion of lottery retail network. Assumes relocation of two casinos — one in July 2001 and one in January 2002. Assumes a new destination casino will be opened in January 2002. Forecast assumes no changes to approved gaming policy (e.g. expanded gaming). Does not include impact of a reintroduction of WCB smoke-free regulations. Capital spending of $26 million.	1% change in gaming activity could affect net income by $6 million. Relocations and retail network expansions could be delayed. Changes in disposable income, tourism, competitive markets in other jurisdictions, and volumes of jackpot rollovers also affect sales. Reintroduction of WCB smoke-free regulations would reduce net income by up to $20 million.
British Columbia Railway Company Net income target: $18 million	Freight traffic volumes based on no significant work disruptions at major customer groups (e.g. pulp mills) or connecting carriers and low lumber prices. No significant labour disruptions. Fuel costs to stabilize slightly below 2000 levels. Assumes an average 71 cents/US$ exchange rate (higher than provincial forecast). Capital spending of $72 million. No dividend paid to provincial government. Assumes no negative impact from further rationalization in the forest industry.	Traffic revenue from lumber, pulp and other commodities could be affected by changes in commodity prices (e.g. lower lumber/pulp prices leading to reduced production in lumber/pulp mills). Total traffic disruption could reduce net income by $4 million per week. 1% change in interest rates affects interest costs by $0.5 million.
Insurance Corporation of British Columbia Net income target: $75 million	Premium revenue growth of 2% due to volume increases. No change in overall premium rates assumed in 2001. Claims incurred costs will increase 2% and include the effect of road safety and loss mitigation programs. 2000 results included a $266-million positive adjustment due to lower estimates of the costs of settling previous year claims. A smaller adjustment is expected in 2001. Capital spending at $43 million and property investment at $108 million.	Claims cost trends are closely tied to economic conditions. Fluctuations may be as much as 10% from estimate, resulting in up to a $200-million change from forecast. 1% change in CPI affects claims costs by about $20 million. 1% change in GDP could affect claims costs by about 2% or $40 million. Adverse judgments on outstanding litigations, such as those relating to cost control, may affect the 2001 forecast.

TABLE C8
SUMMARY ACCOUNTS STAFF UTILIZATION[1] — 2001/02 BUDGET ESTIMATE

	Budget Estimate 2000/01	Revised Forecast 2000/01	**Budget Estimate 2001/02**
	(thousands)		
Consolidated revenue fund (e.g. ministries and special offices)	34.3	34.0	**34.8**
Taxpayer-supported Crown corporations and agencies[2]	9.7[3]	9.7	**9.7**
Total staff utilization	44.0	43.7	**44.5**

[1] Staff utilization is measured in full-time equivalents (FTEs). FTEs are calculated by dividing the total hours of employment paid for in a given period by the number of hours a single, full-time person would normally work in that period. This does not equate to the physical number of employees as, for example, two half-time employees would equal one FTE.
[2] The budget estimate for 2001/02 includes 35 FTEs in the Ministry of Forests (35 FTEs in 2000/01) and 75 FTEs in the Ministry of Environment, Lands and Parks (75 FTEs in 2000/01) that work on behalf of, and are funded by, Forest Renewal BC.
[3] Ministry of Finance and Corporate Relations estimate.

Staff Utilization

The government and its taxpayer-supported Crown corporations and agencies are projected to have a total staff utilization of 44,486 full-time equivalents (FTEs) in the 2001/02 fiscal year. This includes 34,774 FTEs for ministries and special offices and 9,712 FTEs for taxpayer-supported Crown corporations and agencies.

Utilization for ministries and special offices is projected to be 510 FTE's higher than the 2000/01 budget estimate primarily due to additional resources provided in the 2001/02 budget for corrections staff, before-and-after school daycare and justice programs. Crown corporation and agency staff utilization will marginally increase by 26 FTEs. Further details on staff utilization by ministry are available in Schedule G of the *2001/02 Estimates.*

Capital Spending

Capital spending of $3 billion funds building of schools, hospitals, transportation, utility and other infrastructure projects

Capital spending for 2001/02 is estimated at $3 billion, up $154 million or 5.3 per cent from the 2000/01 revised forecast.

During 2001/02, capital expenditure increases for education, government ministries, power generation projects and other investments will be partially offset by reduced spending for transportation, railway and other projects (see Table C9). The capital spending amounts may be affected by various factors including:

- weather and geotechnical conditions causing project delays;
- changes in market conditions including inflation, borrowing costs and wage settlements;
- scope, design and technology changes;
- building code changes;
- negotiated agreements on school class sizes;
- municipal requirements including zoning amendments;
- environmental impact studies; and
- cost-sharing agreements with other jurisdictions.

As the financial impact of these risks is difficult to estimate, a monetary value is not provided.

TABLE C9

CAPITAL EXPENDITURES — 2001/02 BUDGET ESTIMATE

	Budget Estimate 2000/01	Revised Forecast 2000/01	Budget Estimate 2001/02	Increase (Decrease)[1]
	($ millions)			(per cent)
Taxpayer-supported:				
Capital plan				
Education	451[2]	394	505	28.2
Health	301[2]	401	401	—
BC Transportation Financing Authority	502[3]	473	331	(30.0)
British Columbia Ferry Corporation	117	72	89	23.6
Rapid Transit Project 2000	413	371	348	(6.2)
Other[4]	80[2]	94	69	(26.6)
Gross capital plan	1,864	1,805	1,743	(3.4)
Less: recoverable expenditures[5]				
Hospital districts	(52)	(47)	(56)	19.1
Greater Vancouver Transportation Authority *(TransLink)*	(34)	(17)	(39)	129.4
Net capital plan	1,778	1,741	1,648	(5.3)
Other taxpayer-supported:				
Government operating (ministries)	223	192	264	37.5
Social housing[6]	20	24	20	(16.7)
Other[7]	17	24	44	83.3
Total taxpayer-supported	**2,038**	**1,981**	**1,976**	(0.3)
Self-supported commercial:				
British Columbia Hydro and Power Authority	450	450	600	33.3
British Columbia Railway Company	125	126	72	(42.9)
Skeena Cellulose	89	76	45	(40.8)
Columbia Power Corporation	69	67	66	(1.5)
Columbia Basin Trust — joint ventures	69	67	66	(1.5)
Insurance Corporation of British Columbia	66	45	43	(4.4)
ICBC Properties Ltd.	—[8]	41	108	163.4
British Columbia Lottery Corporation	—[8]	14	26	85.7
Liquor Distribution Branch	26	16	35	118.8
Total self-supported commercial	**894**	**902**	**1,061**	17.6
Total capital expenditures	**2,932**	**2,883**	**3,037**	5.3

[1] Percentage change between the 2001/02 budget estimate and the 2000/01 revised forecast.

[2] Restated to reflect a change in the classification of capital expenditures. Certain costs previously recorded as capital expenditures have been reclassified as operating costs, while certain operating costs have been reclassifed as capital expenditures. The net effect of this change reduced the education capital estimate by $128 million, reduced the health capital estimate by $8 million and reduced the capital expenditure estimate for seismic upgrading of government buildings by $10 million.

[3] Restated to include $16 million previously included with other taxpayer-supported capital expenditures.

[4] British Columbia Buildings Corporation, Ministry of Attorney General, Ministry for Children and Families, British Columbia Transit and the Pacific National Exhibition.

[5] Expenditures by hospital districts for cost-shared projects and capital spending on behalf of, and recovered from, the Greater Vancouver Transportation Authority *(TransLink)*.

[6] Net of construction costs recoverable from non-profit societies.

[7] Includes British Columbia Buildings Corporation (non-capital plan projects), B.C. Pavilion Corporation, British Columbia Securities Commission, Tourism British Columbia and British Columbia Assessment Authority.

[8] An estimate was not available for the 2000/01 budget.

TABLE C10
CAPITAL EXPENDITURE PROJECTS

Completed in 2000/01 (partial list)

Education facilities

— school construction in Kelowna, Surrey, Richmond, Chilliwack, Abbotsford, Langley, Maple Ridge, Coquitlam, Burnaby, Qualicum, Comox, Sooke, Prince George, Prince Rupert.

Health facilities

— Vancouver Island Cancer Clinic in Victoria;
— Radiology department at Vancouver General Hospital;
— addition to Three Links multi-level care facility in Vancouver;
— Mill Site Lodge, 100 Mile House; and
— Normana Rest Home, Burnaby.

Justice facilities

— construction of the North Fraser Pre-Trial Centre in Port Coquitlam.

Roads and transportation

— construction of new car ferry on Kootenay Lake (*Osprey 2000*);
— widening of Ladysmith to Carmichael section of Vancouver Island Highway project;
— widening of Stanley Park causeway;
— widening of Coleman Ave. to United Blvd. section of Lougheed Highway (Port Mann Bridge project);
— high-occupancy-vehicle facilities at Highway 17 and 99 Interchange;
— road improvement projects throughout the province (e.g. rehabilitation, passing lanes, highway realignments, minor improvements);
— construction of Nakusp bypass;
— construction of a ferry; and
— BCR Marine terminal capacity upgrade.

Power generation

— Burrard Generating Station 6th Selective Catalytic Reduction Installation to reduce emissions and upgrade the unit to improve availability and efficiency.

2001/02 capital projects (partial list)

Education facilities

— school construction in Burnaby, Victoria, Surrey, Kelowna, Richmond, Sooke, Cobble Hill, Kamloops, Cranbrook, Decker Lake, Burns Lake, Abbotsford, Vancouver, Maple Ridge, Coquitlam, Penticton, Nanaimo, Comox/Courtenay, Terrace, Maple Bay, Chemainus; and
— post-secondary construction in Merritt, Nanaimo, Prince George and Kelowna.

Health facilities

— construction of the Royal Jubilee Hospital Diagnostic and Treatment Centre and renal facility in Victoria;
— fit-out of the Vancouver General Hospital tower, construction of a new Ambulatory Care building at Children and Women's Health Centre, and construction of the SUCCESS Care Home in Vancouver;
— replacement of the Kitimat Health Centre;
— 2nd floor redevelopment and construction of a Tertiary Psychiatric Facility at the Royal Inland Hospital in Kamloops;
— replacement of Yucalta Lodge multi-level care facility in Campbell River;
— redevelopment of Fort St. John General hospital;
— replacement of Fair Haven Care Home in Vancouver;
— replacement of health centre in Alert Bay;
— construction of new health care centre in Clearwater;

TABLE C10 — *(Continued)*
CAPITAL EXPENDITURE PROJECTS

— replacement of MSA Hospital with the Fraser Valley Health Centre and addition of the Eastern Fraser Valley Cancer Centre in Abbotsford;
— replacement of the Kootenay Lake Regional Hospital and Mt. St. Francis Hospital with the Nelson Health Campus in Nelson; and
— replacement of Omineca Lodge in Vanderhoof.

Justice facilities

— construction of the Okanagan Correction Centre in Kelowna; and
— construction of the Victoria Youth Custody Centre.

Roads and transportation

— construction of the Millennium Line of the *SkyTrain* extension;
— road improvement projects throughout the province (e.g. rehabilitation, passing lanes, highway realignments, minor improvements);
— continued rehabilitation of Lions Gate Bridge;
— continued five-laning of Port Mann Bridge and associated improvements to the Cape Horn Interchange;
— continued twinning of the John Hart Bridge over the Nechako River in Prince George;
— continued replacement of Lytton Bridge on Highway 12;
— improvements to Highway 37 between Deltaic Creek and Kiniskan Lake;
— improvements to Nisga'a Highway 37 between Lava Beds Provincial Park and Greenville and between Greenville and Kincolith;
— improvements to Highway 1 between Cache Creek and the Rockies;
— continued construction of the Inland Island Highway from Courtenay to Campbell River;
— four-laning of Highway 97C between Garcia Lake and Aspen Grove;
— continued twinning of the Sea Island Crossing of the Fraser River (to Vancouver International Airport);
— start of construction of new 110-car ferry;
— start of expansion of Horseshoe Bay ferry terminal;
— rail and tie replacement and roadbed improvements throughout the province; and
— rail equipment purchases.

Power generation

— upgrade the Burrard generating station to improve air quality and extend its operating life;
— construction of a generating station in Port Alberni;
— natural gas pipeline crossing of the Georgia Strait;
— addition of fourth generating unit at Seven Mile Dam near Trail;
— seismic improvements at Seven Mile and Coquitlam Dams;
— G.M. Shrum turbine runner replacements at the W.A.C. Bennett Dam;
— enterprise geographic information system;
— Peoplesoft/Indus integrated package implementation to help improve business practices;
— continued construction of a power generating facility at Keenleyside dam; and
— dam stabilization, switchyard construction and turbine upgrades at the Brilliant Dam.

Table C10 provides a list of projects that were completed in 2000/01, and projects that will be continued or started in 2001/02. The table represents only a partial list of the many projects occurring throughout the province in 2001/02.

Significant capital projects (those with multi-year budgets totalling $50 million or more) are shown in Table C11. The annual allocations of the full budget for these projects are included as part of the provincial government's capital spending shown in Table C9. Total spending on these major projects in 2001/02 is estimated at $804 million, and the cumulative total as of March 31, 2002 is forecast at $3.5 billion.

As of March 31, 2001, $2.1 billion will have been spent over a number of years on major transportation capital projects including the Vancouver Island Highway and the *SkyTrain* extension. In 2001/02, a further $350 million will be spent on major transportation projects, the largest share for *SkyTrain*.

Cumulative spending on major health facilities will increase $107 million to total $263 million to the end of 2001/02, with significant spending for the Surrey Memorial Hospital and the Royal Jubilee Hospital. The combined budgets and revised forecast for the completion for major health facilities total $639 million.

Spending for power generation capital projects by the British Columbia Hydro and Power Authority and Arrow Lakes Power Company will increase $239 million to total $676 million by the end of 2001/02. These agencies are self-supported and the combined revised forecast for these projects is estimated at $982 million.

ICBC Properties Ltd. (a unit of the Insurance Corporation of British Columbia) will have invested $194 million by the end of 2001/02 on the acquisition and renovation of Surrey City Centre (including space for the Technical University of British Columbia). The total budget for the Surrey City Centre development is $253 million.

Provincial Net Debt[1] — 2001/02

Provincial net debt, which includes the debt of the government and all of its Crown corporations and agencies, is estimated to total $34.7 billion at March 31, 2002, or 26.6 per cent of provincial gross domestic product (GDP).

At 19.7% of GDP, taxpayer-supported debt forecast is within the target range

Taxpayer-supported net debt, which excludes the self-supported debt of commercial Crown corporations and the provincial warehouse borrowing program, will total $25.7 billion or 19.7 per cent of GDP by the end of 2001/02. In 1999/00, the government established a target range for debt of 22 to 27 per cent. Due to recent improvements in the government's finances and the provincial economy, the target planning range has been reduced to 19 to 24 per cent in the 2001/02 budget. The projected level of taxpayer-supported debt in 2001/02 is forecast to be near the bottom end of the government's target range. Self-supported debt will total $8.7 billion, and a $300 million provision has been added to reflect the forecast allowance included in the summary accounts estimate.

[1] Debt amounts are reported on a net debt basis, after deducting accumulated sinking funds set aside for debt repayment, and after accounting adjustments (e.g. unamortized discounts).

TABLE C11

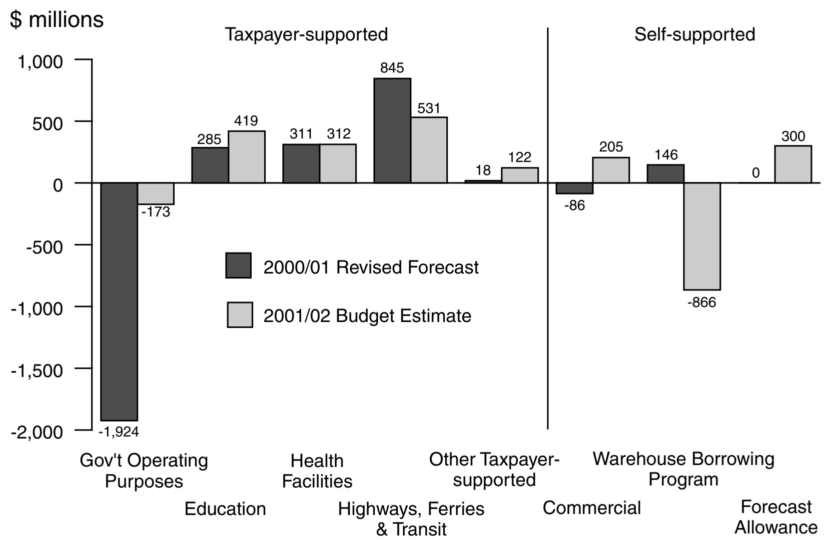
MAJOR CAPITAL PROJECTS (TOTAL COSTS GREATER THAN $50 MILLION)

Project	Start Date	Forecast Completion Date	Estimated Cumulative Spending at Mar. 31, 2001[1] +	Estimated Spending 2001/02 =	Estimated Cumulative Spending at Mar. 31, 2002	Total Project Budget[2]	Total Project Forecast[2]
			($ millions)				
Transportation							
Vancouver Island Highway	1991	Fall 2002	1,040	32	1,072	1,306[3]	1,306[3]
Lion's Gate Bridge	May 1998	Sept. 2001	99	9	108	108	108
Port Mann Bridge/Cape Horn Interchange	Aug. 1998	March 2002	46	24	70	74	74
SkyTrain Extension — Phase 1	Sept. 1998	Dec. 2002	820	283	1,103	1,167	1,167
SkyTrain Fleet Expansion	Oct. 1998	Sept. 2001	62	2	64	68	64
Health Facilities							
Vancouver General Hospital	Sept. 2000	2004[4]	11	44	55	156	156
Royal Jubilee Hospital (Victoria)	Aug. 1999	Dec. 2001	66	39	105	115	115
Surrey Memorial Hospital	July 1998	Feb. 2001	73	3	76	77	77
Prince George Regional Hospital	Spring 2001	April 2004	6	14	20	50	50
Fraser Valley Health Centre	April 2001	March 2006	—	4	4	178	178
Nelson Health Campus	April 2001	June 2006	—	3	3	63	63
Power Generation							
British Columbia Hydro and Power Authority							
— Stave Falls Replacement	Feb. 1995	2003[5]	137	4	141	181	144
— Burrard Upgrade	June 1993	March 2003	113	22	135	176	174
— Port Alberni Power Generation[6]	April 2000[7]	Nov. 2003	5	42	47	180	180
— Georgia Strait Pipeline Crossing[6]	April 2000[7]	Fall 2003	8	36	44	125	125
— Addition of Fourth Generating Unit at Seven Mile Dam	Feb. 2001[7]	March 2004	9	30	39	89	89
Arrow Lakes Power Company[8]							
— Arrow Lakes Generating Station	Feb. 1999	Dec. 2002	165	105	270	270	270
Other							
ICBC Properties Ltd.							
— Surrey City Centre (includes Technical University of British Columbia)	Sept. 1999	Jan. 2003	86	108	194	253	253

1 Total expenditures since commencement of each project.
2 Represents sum of annual budgeted expenditures to the provincial government to complete each project.
3 Adjusted for inflation. Budget in 1993 dollars is $1.2 billion.
4 Project components were completed starting in December 2000 and will continue over the next four years.
5 In service as of December 1999. Additional costs will be incurred, but the project is substantially completed.
6 Joint ventures with private sector partners. Amounts shown represent BC Hydro's 50 per cent share of the costs; however, only partial funding has been approved to date.
7 Initial planning, preliminary field work and engineering design costs. Physical construction will begin at a later date.
8 A joint venture of the Columbia Power Corporation and the Columbia Basin Trust.

Chart C3 shows the expected changes in total provincial net debt in 2001/02. In total, provincial net debt will increase $850 million by year-end to finance working capital requirements and numerous capital projects of the government and its Crown corporations and agencies. Taxpayer-supported net debt will increase $1.2 billion, commercial Crown corporation and agency debt will rise $205 million and a forecast borrowing allowance of $300 million is established to provide for unexpected developments in the government's overall borrowing needs. These requirements will be met through new borrowing of $3.5 billion ($3.2 billion if the forecast allowance is not required) and a $866 million drawdown of previously borrowed funds held under the provincial warehouse borrowing program (see Table C12).

Chart C3
Change in Total Provincial Net Debt



New borrowing of $3.5 billion and a $0.9 billion drawdown of warehouse debt will fund operations and capital projects, and finance $2.7 billion of maturing debt

Borrowed funds will be used to finance $2.7 billion of maturing debt, and to partially finance capital expenditures of $3 billion and operating and working capital requirements of the consolidated revenue fund and Crown corporations and agencies. Some financial requirements (for example, certain commercial Crown corporation projects and portions of taxpayer-supported infrastructure projects) will be financed through internal sources such as net income of the British Columbia Hydro and Power Authority, and surplus cash balances at the end of 2000/01.

Although the government's summary accounts are forecast to have a surplus of $1.1 billion for 2001/02, total debt will increase $850 million to help finance capital projects and other working capital cash needs of the government and its Crown corporations and agencies. In addition, some non-cash budgetary items, like joint trusteeship agreements and reductions to CRF pension expenses, contribute to the bottom-line surplus but do not provide a financial source of cash to reduce borrowing requirements.

Further information on provincial financing borrowing is provided in the topic box in this report. Details on the net debt outstanding for the government, Crown corporations and agencies are provided in Table H10.

TABLE C12

PROVINCIAL NET DEBT — 2001/02 BUDGET ESTIMATE

	Net Debt[1] Outstanding at March 31, 2000	2000/01 Net Debt Change	Forecast Net Debt[1] Outstanding at March 31, 2001	2001/02 Transactions New Borrowing[2]	Retirement Provision[3]	Net Change	Forecast Net Debt[1] Outstanding at March 31, 2002
	($ millions)						
Taxpayer-supported debt							
Provincial government direct operating	13,833	(1,924)	11,909	1,354	1,527	(173)	11,736
Education facilities	4,978	285	5,263	639	220	419	5,682
Health facilities	1,451	311	1,762	348	36	312	2,074
Highways, ferries and public transit	3,487	845	4,332	765	234	531	4,863
Other debt[4]	1,175	18	1,193	188	66	122	1,315
Total taxpayer-supported debt	**24,924**	**(465)**	**24,459**	**3,294**	**2,083**	**1,211**	**25,670**
Self-supported debt							
Commercial Crown corporations and agencies	7,977	(86)	7,891	792	587	205	8,096
Warehouse borrowing program	1,320	146	1,466	(866)	—	(866)	600
Total self-supported debt	**9,297**	**60**	**9,357**	**(74)**	**587**	**(661)**	**8,696**
Forecast allowance	**—**	**—**	**—**	**300**	**—**	**300**	**300**
Total Provincial Debt	**34,221**	**(405)**	**33,816**	**3,520**	**2,670**	**850**	**34,666**

[1] Net debt is after deduction of sinking funds and unamortized discounts, and excludes accrued interest. Government direct and fiscal agency accrued interest is reported in the government's accounts as an accounts payable. Figures for earlier years have been restated to conform with the presentation used for fiscal 2001/02.

[2] New long-term borrowing plus net change in short-term debt.

[3] Sinking fund contributions, sinking fund earnings and net maturities of long-term debt (after deduction of sinking fund balances for maturing issues).

[4] Includes government services Crown corporations and agencies, other fiscal agency loans, student assistance loans, loan guarantees to agricultural producers and guarantees issued under economic development assistance programs and the former British Columbia home mortgage assistance and second mortgage programs. Includes loan guarantee provisions.

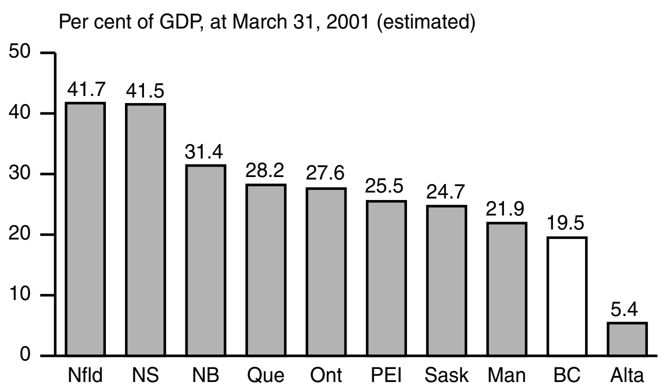
PROVINCIAL FINANCING

The provincial government and its Crown corporations and agencies borrow funds to finance operations and capital projects. Borrowing for operations is required when revenues fall short of expenditures and to meet other cash requirements such as for loans and investments. Borrowing finances the building of schools, hospitals, roads and other infrastructure. These investments provide essential services to benefit current and future generations of British Columbians.

The province's debt is reported using two basic classifications — taxpayer-supported debt and self-supported debt. Taxpayer-supported debt includes the direct debt of government and the debt of Crown corporations and agencies that require an operating or debt service subsidy from the provincial government. Self-supported debt includes the debt of commercial Crown corporations and agencies, which fully fund their operations and debt from revenue generated through the sale of services at commercial rates, and debt of the warehouse borrowing program.

Taxpayer-supported debt is a measure often used by investors and credit rating agencies when assessing a province's investment quality. The ratio of a province's taxpayer-supported debt relative to its current dollar gross domestic product (GDP) highlights the ability of a provincial government to manage its debt load. British Columbia's taxpayer-supported debt-to-GDP ratio is one of the lowest in Canada, and this translates into a strong credit rating and relatively low debt servicing costs. Chart 1 shows that, according to the Toronto-Dominion Bank, British Columbia has the second lowest taxpayer-supported debt-to-GDP ratio among provinces.

Chart 1
Interprovincial Comparison of Taxpayer-Supported Debt



Source: Toronto-Dominion Bank estimates, March 2001

Borrowing Process

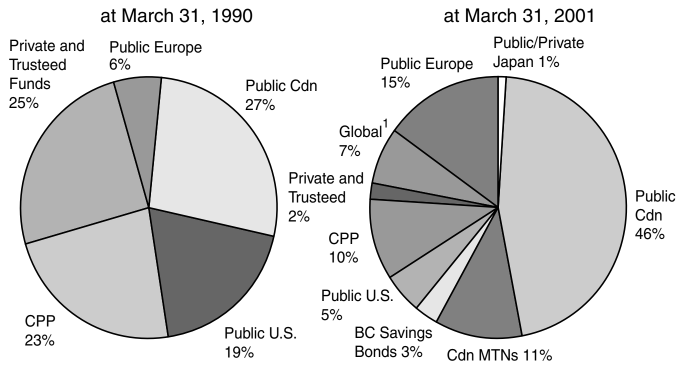
Almost all Crown corporation and agency borrowing is done through the fiscal agency borrowing program. Under this program, the provincial government borrows directly in financial markets and re-lends the funds to Crown corporations and agencies. Borrowing and financing costs remain the responsibility of the Crown corporation or agency. The primary advantage of the fiscal agency program is that it provides lower-cost financing to Crown corporations due to the province's strong credit rating and its ability to borrow at lower interest rates.

Borrowing Sources

Provincial borrowing has come from a variety of sources, including public financial markets in Canada, the United States, Europe and Asia; the Canada Pension Plan Investment Fund; private institutional lenders; and provincial trusteed funds. Chart 2 shows that over the last 11 years, borrowing sources have shifted from private placements, such as the provincial trusteed funds and Canada Pension Plan, towards public markets, particularly in Canada (e.g. BC Savings Bonds and Canadian medium-term notes) and Europe.

Diversification of borrowing sources is a key factor in lowering financing costs and maintaining investor demand for British Columbia bonds and notes. A broad investor base is important given increased competition for funding.

Chart 2
Gross Debt Outstanding by Source



[1] A global debt security is offered simultaneously to investors in Canada, the U.S., Europe and Asia.

2000/01 Financing

The province raised all of its $2.8 billion financial requirements from domestic markets, including $249 million in BC Savings Bonds and $149 million from the Canada Pension Plan (see Chart 3).

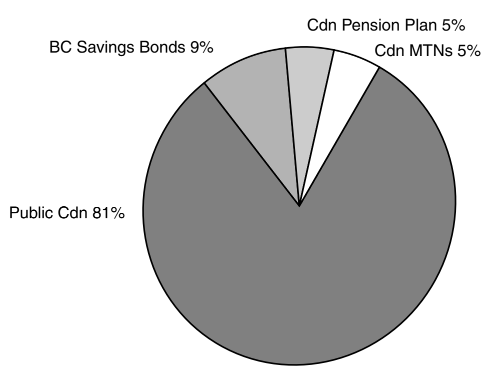
2001/02 Financing

In 2001/02, net new financing requirements for the provincial government and its Crown corporations and agencies are estimated at $3.2 billion ($3.5 billion including the forecast allowance). Requirements totalling $4.1 billion for the government and Crown corporations and agencies will be partially offset by an $866-million draw-down of funds previously borrowed through the warehouse borrowing program.

Borrowed funds will be used to refinance maturing debt and to partially finance capital and operating requirements of the government and its Crown corporations and agencies. The remainder of capital and operating requirements will be financed through internal sources of funds, such as surplus earnings of commercial Crown corporations, and surplus cash balances and borrowings at the end of 2000/01.

The 2001/02 financing requirements will be met through new borrowing in the domestic and international markets. The province's strategy will be to borrow in a variety of markets, in both fixed and floating rates form.

Chart 3
2000/01 Borrowing Activity
Total: $2.8 billion[1]



[1] Excludes draw-down of funds from the warehouse borrowing program.

Summary Accounts Balance Sheet

Table C13 summarizes the forecast changes in the province's financial position during 2001/02. The table shows that:

- a $356-million reduction in cash and temporary investments;
- a $1,090-million summary accounts surplus;
- an $866-million reduction in warehouse borrowing investments; and
- an $850-million increase in provincial debt:

will be used to:

- increase investments in capital assets and in commercial Crown corporations totaling $1,273 million; and
- finance non-cash and other working capital requirements totaling $1,889 million (primarily due to the non-cash joint trusteeship gain included in the summary accounts surplus in 2001/02).

As a result, total provincial debt will increase $850 million. Further details are shown in Table C14.

TABLE C13
FORECAST CHANGE IN SUMMARY ACCOUNTS FINANCIAL POSITION
For the Year Ended March 31, 2002
(Unaudited)

	Change	
	($ millions)	
Asset and liability changes:		
Increase in assets related to taxpayer-supported capital investments (net of amortization)	966[1]	
Increase in net investments in, and loans to, commercial Crown corporations asset purchases	307[1]	1,273
Reduction in cash and temporary investments		(356)
Non-cash and other working capital changes:		
— Reduction in unfunded pension liability (non-cash)	1,448	
— Other working capital changes and adjustments	441	1,889
Less: summary accounts surplus for the period		(1,090)
Net debt decrease for government and its Crown corporations and agencies		1,716
Decrease in warehouse borrowing investments		(866)
Increase in provincial debt		850

[1] Reflects effect of $3.0 billion in total capital spending (see Table C9) as follows:

	$ billions
Taxpayer-supported capital increase	2.0
Less: depreciation and other accounting changes	(1.0)
Net increase in taxpayer-supported capital investments	1.0
Commercial Crown corporation capital increase	1.1
Less: amounts financed internally	(0.8)
Net increase of investments in commercial Crown corporations (including recoverable loans for asset purchases)	0.3

TABLE C14

SUMMARY ACCOUNTS — 2001/02 BUDGET ESTIMATE
Balance Sheet as at March 31, 2002
(Unaudited)

	Revised Forecast March 31, 2001	**Budget Estimate March 31, 2002**	Increase/ (Decrease)
		($ millions)	
Assets			
Cash and temporary investments	731	**375**	(356)
Other working capital assets[1]	4,493	**4,752**	259
Capital assets and investments (net of amortization)			
— Net investment in self-supported Crown corporations and agencies	*3,223*	***3,296***	*73*
— Loans for purchases of assets recoverable from agencies[2]	*7,510*	***7,744***	*234*
— Prepaid capital advances	*6,924*	***7,429***	*505*
— Tangible capital assets	*10,993*	***11,454***	*461*
	28,650	**29,923**	1,273
Warehouse borrowing program assets	1,466	**600**	(866)
	35,340	**35,650**	**310**
Liabilities			
Current liabilities[3]	4,090	**3,899**	(191)
Unfunded pension liabilities	1,571	**123**	(1,448)
Debt			
— Taxpayer-supported debt	*24,459*	***25,670***	*1,211*
— Commercial Crown corporations and agencies	*7,891*	***8,096***	*205*
— Warehouse borrowing program	*1,466*	***600***	*(866)*
— Forecast allowance	—	***300***	*300*
	33,816	***34,666***	*850*
Less: guarantees and non-guaranteed debt[4]	*(666)*	***(657)***	*9*
	33,150	**34,009**	859
	38,811	**38,031**	**(780)**
Net equity (deficiency)[5]	(3,471)	**(2,381)**	1,090
	35,340	**35,650**	**310**

[1] Accounts receivable, loans, inventories and other assets/investments.
[2] Includes loans to commercial Crown corporations for the purchase of capital assets.
[3] Accounts payable, accrued liabilities and deferred revenue.
[4] Third party guarantees, and provincial guarantees and non-guaranteed debt of commercial Crown corporations and agencies.
[5] Accumulated deficits of the government and Crown corporations and agencies plus accounting adjustments resulting from changes in accounting policy.

Report D: THREE-YEAR FISCAL PLAN

Background

In 1999, the Budget Process Review Panel recommended the presentation of a three-year strategic plan, to which the annual budget would be linked.

In 2000, the government proposed and the Legislature formally adopted the Panel's recommendation in the *Budget Transparency and Accountability Act.* Section 12 of the Act requires the government to make public a strategic plan that sets out government priorities, identifies specific objectives and expected results, and a fiscal forecast for the government reporting entity for the next three fiscal years. The strategic plan is being tabled along with the 2001 Budget and Estimates in the Legislature. By April 30, Ministries and government agencies will submit their own three-year performance plans to the Legislative Assembly.

This report sets out the overall fiscal plan underlying the strategic plan.

Principles

The principles underlying the three-year strategic plan and the three-year fiscal plan remain similar to those stated previously:

- The framework must be based on reasonable assumptions;
- The budget should remain balanced;
- Health and education services to people must be protected; and
- Debt levels must remain affordable.

Underlying Economic and Policy Assumptions

As is the case with the annual budget, three-year fiscal projections require a forecast of economic conditions in order to forecast the revenue that is likely to be available to the government. The economic forecast is set out in Report A and in the Ministry of Finance and Corporate Relations five-year economic forecast.

Three-year fiscal projections also require a forecast of the aggregate profit/loss situation of Crown corporations.

The government's fiscal policy, as set out in the *Balanced Budget Act,* is to balance the budget. This was achieved with an audited surplus in 1999/2000 and another estimated surplus in 2000/01. The government is committed to maintaining a balanced budget in each year of the three-year plan.

The commitment that the budget must remain balanced means that annual government expenditures can be no larger than the sum of government revenues and aggregate Crown sector profits/losses.

Components of the Three-Year Fiscal Plan

1) Assumptions

The revenue and expenditure forecasts depend on the predicted performance of the economy and assumptions about fiscal policy. Outcomes will depend on how the economy actually performs, and on fiscal policy decisions taken annually during the budget process based on updated revenue and expenditure forecasts.

The three-year fiscal plan is derived from forecasts of revenues and expenditures. Table D1 outlines the main components of the three-year revenue forecast.

The main fiscal assumptions are as follows:

- The three-year framework incorporates the impact of phased-in tax reductions that had been announced prior to 2001/02, but no additional tax increases or decreases are assumed.
- Federal transfers will increase according to current arrangements.
- The Crown corporation sector is in a small deficit position in 2002/03 and 2003/04. This will require measures to improve performance in some major Crown corporations in these years.
- The government will maintain a summary accounts balance over the three-year planning horizon.

2) Economic and Revenue Projections

The baseline three-year fiscal plan is shown in Table D1.

Over the 2001-to-2004 period, British Columbia's economy is forecast to grow at an average annual rate of 2.7 per cent. Growth in nominal GDP averages 3.8 per cent annually in the Ministry of Finance and Corporate Relations forecast, reflecting assumptions about growth in domestic inflation and prices of British Columbia exports and imports. (Details on the five-year economic forecast can be found on the Ministry's Web site at: www.bcbudget.gov.bc.ca).

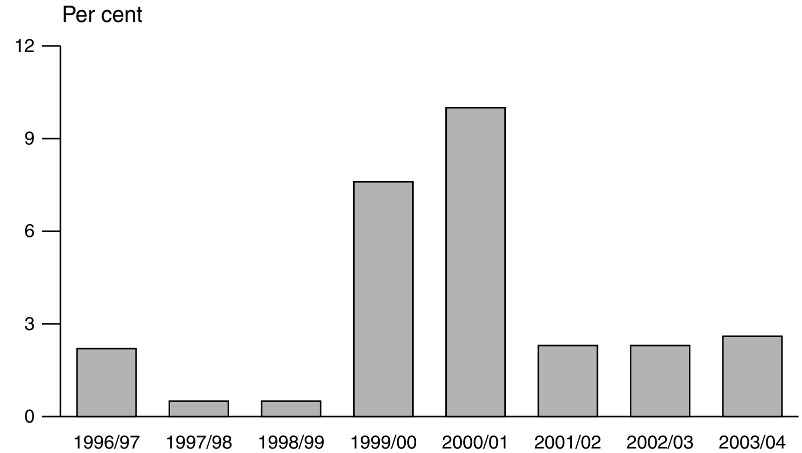
Natural resources are an important source of government revenue and the underlying commodity prices are volatile. The three-year plan assumes that lumber prices will rise gradually from levels forecast for the current year. Natural gas and electricity prices are assumed to remain close to levels forecast for the current year through 2002/03, before declining in 2003/04.

TABLE D1
THREE-YEAR FISCAL PLAN

($ millions)	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
Revenue	20,126	20,216	20,306	21,846	24,030	24,585	25,155	25,817
% change	2.2	0.4	0.4	7.6	10.0	2.3	2.3	2.6
Expenditure	20,463	20,367	20,587	21,120[2]	22,615	24,295	25,045	25,784
% change	2.0	−0.5	1.1	2.6	7.1	7.4	3.1	3.0
Crown corporations	−416	−279	−722	406	164	−290	−110	−33
Other[1]	0	0	0	0	−262	1,090	0	0
Summary accounts balance	**−753**	**−430**	**−1,003**	**52**	**1,317**	**1,090**	**0**	**0**
Net capital plan	1,247	920	1,389	1,721	1,741	1,648	1,277	1,227
Tax-supported debt	21,147	21,964	22,950	24,924	24,459	25,670	27,272	28,889
Tax-supported debt/GDP (%)	19.5	19.3	20.1	21.0	19.6	19.7	20.3	20.7

[1] Forecast allowance plus effect of move to joint trusteeship of pension funds.
[2] Excludes forgiveness of B.C. Ferries debt.

Chart D1
Revenue Growth

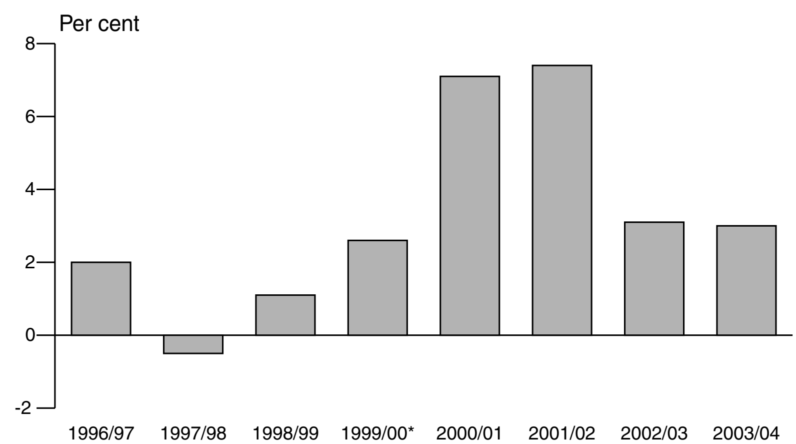


Revenue is expected to grow about 2.5 per cent annually over the three-year plan horizon (see Chart D1). This modest growth relative to the last two years reflects the assumption that the rapid increases in energy prices experienced over the past two years will not continue. The plan assumes that energy prices will remain at current levels for the next two years before beginning to decline.

3) Expenditure Plan

The planning framework assumes that government expenditures will be managed to grow at an average annual rate of about 3 per cent or $750 million in both 2002/03 and 2003/04 (see Chart D2). This is in line with average expenditure growth over the years from 1996/97 to 1999/00, but represents a significant decline from recent expenditure growth.

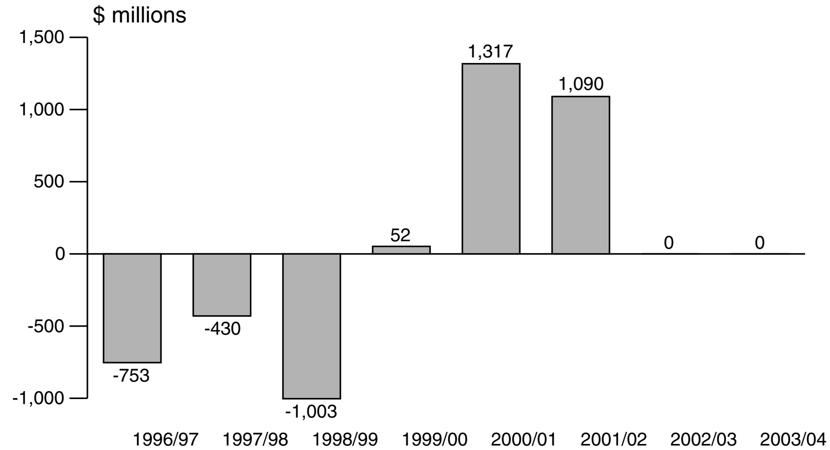
Chart D2
Expenditure Growth



*Excluding forgiveness of B.C. Ferries debt

Government spending is primarily driven by inflation (including public sector wage growth), population growth, rising per capita utilization of health care and other social services, new government initiatives and interest costs associated with capital spending. Fully funding all these pressures would not be possible given the forecast increase in revenue. This is the situation typically faced by a government at the beginning of a budget process and will require difficult trade-offs.

Chart D3
Fiscal Balance



4) Fiscal Balance

In 2000/01, a summary accounts surplus of $1.3 billion is forecast (see Chart D3). In 2001/02, the surplus is expected to decline slightly to $1.1 billion, reflecting slower growth in revenue and increased spending. In the two final years of the plan, the budget is projected to be in balance.

5) Alternate Fiscal Scenarios

To deal with the unavoidable margin of error associated with all projections, revenue and expenditure forecast ranges are presented in the Charts D4 and D5. Faster or slower revenue or spending increases would result in a higher or lower fiscal balance than projected, as shown in Chart D6. Expenditure management would likely ensure that the "worst-case" scenario of faster expenditure growth combined with lower revenue growth would not materialize.

Chart D4
Revenue Growth Scenarios

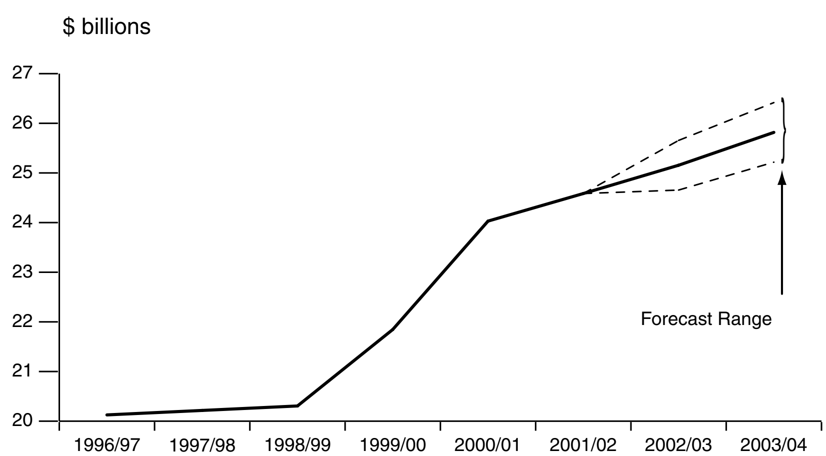
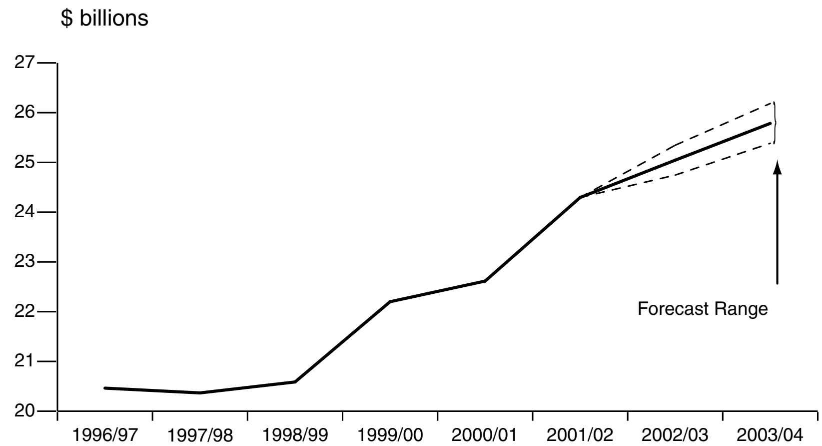


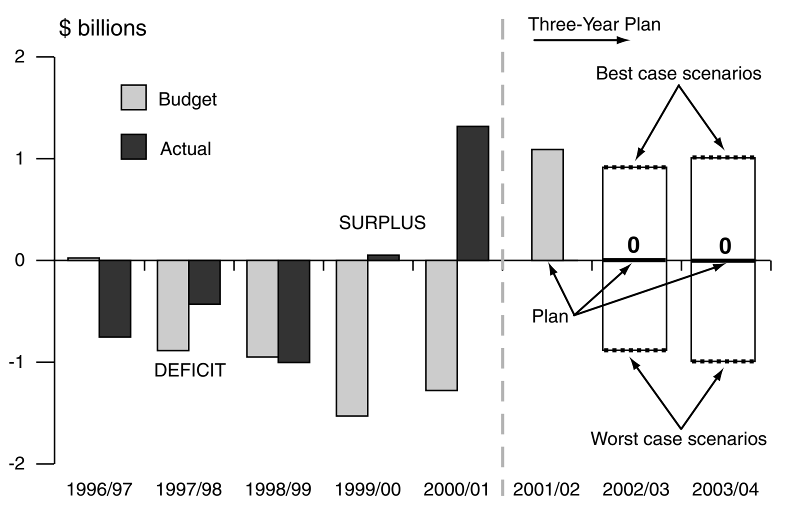
Chart D5
Expenditure Growth Scenarios



6) Capital Expenditure Plan

Capital expenditures of the provincial government's funded agencies were about $1.7 billion in 2000/01. Capital expenditures will average $1.4 billion annually over the next three years as major projects such as the SkyTrain expansion are completed.

Chart D6
Fiscal Balance



7) Taxpayer-Supported Debt

Debt affordability is a government priority.

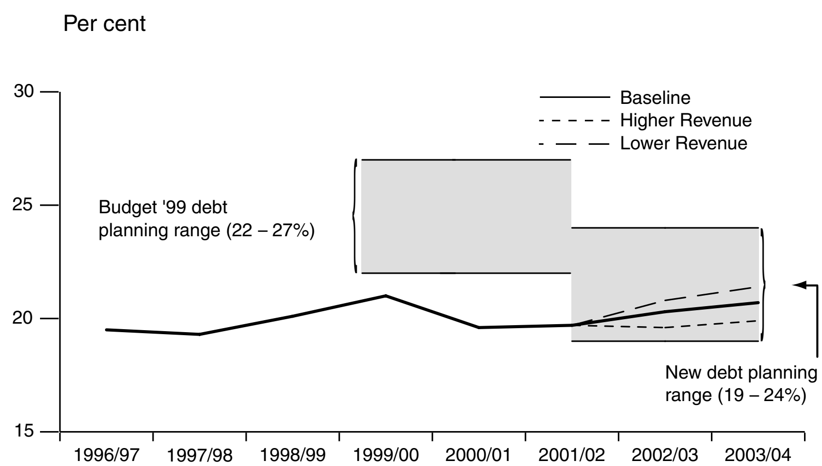
Taxpayer-supported debt represents the accumulated summary accounts deficits of the provincial government, plus debt incurred to finance capital spending by taxpayer-supported Crown corporations and government-funded agencies.

British Columbia's tax-supported debt-to-GDP ratio — an accepted measure of the capacity to carry debt — was 19.6 per cent in 2000/01. This was down from 21 per cent in 1999/00.

British Columbia's debt-to-GDP ratio is one of the lowest among provinces. Projections by the Toronto-Dominion Bank show the average net public debt-to-GDP ratio of the provinces at 24.3 per cent at the end of 2000/01. With under 7 cents of each revenue dollar going to debt service, British Columbia's debt places a minimal burden on taxpayers here relative to most provinces.

At 19.7 per cent in the 2001/02 fiscal year, 20.3 per cent in 2002/03 and 20.7 per cent in 2003/04, the government is projecting that the debt-to-GDP ratio will remain below the lower end of the 22 to 27 per cent planning range set in *Budget '99*. As a result, the government is establishing a new debt-to-GDP planning range of 19 to 24 per cent. In the alternate scenarios, debt would also remain within this planning range, as shown in Chart D7.

Chart D7
Taxpayer-Supported Debt/GDP



Uncertainties

The government believes that its assumptions underlying the three-year fiscal plan are reasonable.

The government also believes that the baseline three-year fiscal projections presented — balanced budgets in each of the next three years — are the most likely outcome under the assumptions outlined and given the government's stated spending priorities and commitment to maintain a balanced budget.

Because there is considerable uncertainty at present about the economic outlook, alternative paths for revenue have also been presented. Under these paths, the government would be able to deliver on its commitment to maintain a balanced budget. However, should revenue turn out to be below the likely range, the government would be faced with the choice of making deep cuts to spending or allowing the budget to fall out of balance.

BUDGET REFORM IN BRITISH COLUMBIA

Introduction

The government budget process is one of the primary means by which the government reports its intentions to the public. Thus the openness of the budget process and the clarity and completeness of the budget information are vital to upholding the confidence in the government by the citizens of the province. British Columbia has made major improvements to the preparation of the annual budget, the Estimates and the financial reports for the province over the past several years. The progress has been substantial and is outlined here.

Summary of Recommendations and Changes

In February 1999, the Auditor General of British Columbia delivered a report on how the Government of British Columbia prepares and reports its annual budget and the Estimates. Soon after the delivery of the report the government convened the Budget Process Review Panel (the Enns Panel) to review in detail the recommendations of the Auditor General. The Panel, chaired by Douglas J. Enns, FCA, tabled its report with the Honourable Gretchen Mann Brewin, Speaker of the Legislative Assembly, on September 27, 1999. The report contained 26 recommendations, many of which have far-reaching implications for government. The government accepted most of these fundamental recommendations, which have either been implemented or are in the process of being implemented.

The recommendations include broadening government's accountability by including all Crown organizations in the budget reporting entity, and by requiring performance plans and reports for these Crown organizations and for government ministries. The recommendations would also require government to make public a multi-year strategic plan including a three year fiscal forecast, with specific objectives for both the government and key program areas. These strategic plans should include suitable performance indicators to allow evaluation of the extent to which the objectives are met. Subsequently, government would report on whether the objectives in the plan were met. One-year government, ministry and Crown corporation performance plans for the 2000/01 fiscal year were made public and three year plans for the 2000/02 fiscal year will be published by April 30, 2001. The government's first strategic plan is being made public with this budget.

Additional recommendations were that all relevant economic and fiscal assumptions that underlie the budget be made public and that the Secretary to Treasury Board attest to their completeness. In addition, the cost of all major capital projects should be disclosed at the time the commitment of public funds is made, and an annual report should be prepared on the current and eventual cost of these projects and should be made public with each budget.

There were other important Enns Report recommendations that have also been acted on. The use of Supplementary Estimates has been introduced for approval of additional funds during the fiscal year. The 2001/02 Budget has been tabled in sufficient time for the Budget debate to be completed before March 31. The Economic Forecast Council has been established, and budgets are now accompanied by full disclosure of all economic and fiscal assumptions. Adjustments to the fiscal forecast for optimism or prudence are also disclosed. Deviations from generally accepted accounting principles are disclosed, and the Auditor General has been given a stronger role in commenting on the appropriateness of the accounting procedures. Quarterly Reports are now produced within a fixed time schedule, and include revised forecasts and comparisons with previous periods.

The Enns Report also recommended significant changes to the Legislature's role in the budget process. The first is opening the pre-budget process to the public and to members from all parties in the legislature. The second is the establishment of standing committees of the Legislature to review the performance plans and reports. The government has accepted both of these recommendations and has included the first in the *Budget Transparency and Accountability Act*. Adoption of the second of these recommendations requires agreement of the Legislative Assembly before it can be implemented.

One key recommendation of the Enns Panel was not accepted. The Enns report recommended that the government expand its reporting entity beyond Crown organizations to schools, universities, colleges, and health care (the SUCH sector). This issue has been the subject of much debate, including a review by the Public Accounts Committee of the Legislative Assembly, both prior to and subsequent to the Enns Panel's examination of the budget process.

The government has decided, for several reasons, not to include the SUCH sector in its reporting entity. Key amongst these reasons is that the primary accountability for this sector is to local boards rather than to the government. Irrespective of accountability issues, the bottom line impact of the inclusion of the SUCH sector would be relatively small.

A further recommendation of the Enns Panel was that, as accountability for results is phased in and shown to be effective, the government should reduce input controls such as staffing limits, transfers among expenditure categories, contract approval thresholds and travel approvals.

The government accepted the recommendation, and the *Budget Transparency and Accountability Act* made an initial change by removing a requirement for an Order in Council for employing more direct staff in a year than the number presented in the Estimates. In

July 2000, changes were made delegating to executive and senior financial officers approvals that previously could only be made by the deputy minister; for example, approval for out-of-province travel.

A review of input controls is planned, with a target date for decision immediately after the annual performance reports for 2001/02 are tabled in June of 2002. This links the relaxation of input controls to demonstration of results achieved, but does not unduly delay increased management flexibility.

Full implementation of changes arising from the Enns Report will take time, requiring adjustments to the way in which elected officials and members of the public service carry out their tasks. This is particularly so in respect to the establishment of performance plans and reports as key elements of governments overall accountability framework. The government is nonetheless committed to the implementation of these changes and is justifiably proud of what it has accomplished in the year and a half since the tabling of the Enns Report.

Report E: REVENUE MEASURES

E1 SUMMARY OF REVENUE MEASURES

	Effective Date	Taxpayer Impacts 2001/02	2002/03
		($ millions)	
School Act			
• Average gross residential school property taxes are maintained at 2000 levels; rates will vary by school district	2001 tax year	*	*
• Non-residential school property tax rates are unchanged from 2000	2001 tax year	*	*
Taxation (Rural Area) Act			
• Average gross residential taxes are maintained at 2000 levels	2001 tax year	*	*
• Non-residential rural area property tax rates are unchanged from 2000	2001 tax year	*	*
Revenue Dedicated to TransLink			
• Additional 1 cent per litre of clear fuel tax collected in the Greater Vancouver transportation service region transferred to TransLink. There is no change in the clear motor fuel tax rates paid by consumers	April 1, 2001	none	none

* denotes measures that reflect a continuation of existing tax policies.

Revenue Measures: Supplementary Information

SCHOOL ACT

SCHOOL TAX RATES SET

Average provincial residential property taxes remain at 1994 levels

A separate *residential* tax rate is set for each school district. For the 2001 calendar year, average residential school taxes before application of the home owner grant will be maintained at 2000 levels. This will be accomplished by adjusting residential school property tax rates to reflect changes in average assessed values. This rate-setting policy has been in effect since 1994. There will be a small revenue increase due to the addition of new residential properties to the tax base.

Individual 2001 school district residential tax rates will be set in April when authenticated assessment roll data are available to calculate the rates according to the provincial residential school tax rate formula.

Even though the average residential tax is maintained at the 1994 level, individual tax bills may change. Some homeowners will experience an increase in their school taxes, while others will have offsetting reductions. The variation in individual tax bills will occur because changes in the assessed value of any individual property are likely to differ from changes in average provincial and school district assessed values.

For each of the eight *non-residential* property classes, a single, province-wide rate is set. Non-residential school tax rates will remain unchanged from 2000 levels. In total, non-residential school tax revenues will increase by 3.9 per cent, due to both new construction and changes in values.

TAXATION (RURAL AREA) ACT

PROVINCIAL RURAL AREA TAX RATES

Provincial business property tax rates unchanged

For the 2001 calendar year, average *residential* rural area property taxes will be maintained at 2000 levels, continuing the policy in place since 1994. The precise residential tax rate will be set in April when authenticated assessment roll data are available, and is expected to be stable or to change only marginally. There will be a small revenue increase due to the addition of new residential properties to the tax base.

Some rural area residential property owners will experience an increase in their rural area property taxes, while others will have offsetting tax reductions. Homeowners whose property values have increased by more than the provincial average will see an increase, while other homeowners will see no change or a reduction.

The tax rates for the eight *non-residential* property classes will remain unchanged for 2001. Tax revenues will increase by about 7 per cent due to the combination of increases in assessed values, changes in classification and new construction.

REVENUE DEDICATED TO TRANSLINK

Additional 1¢/litre dedicated to TransLink

Effective April 1, 2001, the portion of the clear motor fuel tax collected in the Greater Vancouver transportation service region and dedicated to TransLink is increased to 9 cents per litre from 8 cents per litre. The additional 1 cent per litre is expected to generate $21 million in revenues annually to help TransLink finance the development and maintenance of roads and bridges, as well as the expansion and operation of the public transit system in the Greater Vancouver transportation service region. There are no changes to the clear motor fuel tax rates paid by consumers.

Table E1 Summary of Tax Measures Effective in 2001

	Effective Date	Annual Taxpayer Impacts
		($ millions)
Income Tax Act		
• BC Energy Rebate[1]	2001	(78)
Income Tax Act		
• Second year of personal income tax cut plan, including increases to the basic and spousal personal credits and a further one-half percentage point reduction in the second tax bracket rate[2]	January 1, 2001	(135)
• Top marginal personal income tax rate reduced to 48.7 per cent	January 1, 2001	(48)
• British Columbia small business corporate income tax rate reduced to 4.5 per cent from 4.75 per cent	January 1, 2001	(8)
Corporation Capital Tax		
• Exemption threshold increased to $5 million	January 1, 2001	(16)
Motor Fuel Tax Act		
• Tax rate for natural gas used in compressors to transport raw gas from wells to processing plants and through processing stage reduced to 0.55 cents per 810.32 litres from 1.1 cents per 810.32 litres	April 1, 2001	(4)

[1] The BC Energy Rebate is a one-time program that will be accounted for in 2000/01.
[2] Does not include the impact of indexing tax brackets and tax credit amounts.

E2 SUMMARY OF ADMINISTRATIVE MEASURES

	Effective Date
Social Service Tax Act	
• Exemption expanded for prototypes	March 16, 2001
• Exemption provided for used boom gear	March 16, 2001
• Tax relief provided for heavy lifting barge mounted cranes	March 16, 2001
• Provisions for imposing registration and tax collection requirements on out-of-province sellers enhanced	March 16, 2001
Tobacco Tax Act	
• Application of tax to purchases of tobacco from unauthorized dealers clarified	March 16, 2001
Logging Tax Act	
• Calculation of logging tax clarified when federal tax credits are claimed	April 1, 2001
• Sharing of information collected by Ministry of Forests authorized	April 1, 2001
Income Tax Act	
• Amendments consequential to *Income Tax Act (Canada)* changes	Various
• Amendments consequential to the introduction of tax on income for personal income tax	Various
• Prepayment of refundable tax credits authorized	March 16, 2001
• Sharing of information collected by Ministry of Forests for administration of logging tax credit authorized	Royal Assent
• Exchange of information to streamline administration of investment tax credit programs authorized	Royal Assent
• Confidentiality and exchange of information provisions clarified	Royal Assent
• Penalty provision for false statements and omissions harmonized with the *Income Tax Act (Canada)*	Royal Assent
• Technical amendments introduced to Film Incentive BC:	
• "post-production work" defined	April 1, 2001
• meaning of "copyright ownership" clarified	April 1, 2001
• BC Film funding excluded when calculating percentage of copyright owned	April 1, 2001
• calculation of tax credit for interprovincial co-productions changed	April 1, 2001
• payments under the federal License Fee Program excluded from definition of "assistance"	April 1, 1998
Corporation Capital Tax Act	
• Allow deduction of British Columbia eligible expenditures when usage does not commence at time of acquisition	March 16, 2001
• Clarify who may calculate aggregate paid up capital under rules for investment dealers	January 1, 1995
Home Owner Grant Act	
• Allow early application by taxpayers	*
Taxation (Rural Area) Act	
• Authorize flexible payment plan alternatives at the option of the rural taxpayer	*
• Allow registration of a statutory lien on personal property owned by a taxpayer with Crown leased rural property	Royal Assent
Hotel Room Tax Act	
• Application of tax to tourism agencies clarified	March 16, 1995
• Exemption for continuous occupation of accommodation clarified	March 16, 1995
Motor Fuel Tax Act and Social Service Tax Act	
• Application of tax on propane motor fuel clarified	March 16, 2001

* enabling legislation only: see Supplementary Information in this Report for details on service delivery.

Administrative Measures: Supplementary Information

SOCIAL SERVICE TAX ACT

EXEMPTION EXPANDED FOR PROTOTYPES

The *Social Service Tax Act* exempts purchases of parts and materials, other than software, used to fabricate a prototype. A prototype is the first full-scale functional form of a new type or new construction of tangible personal property. The exemption includes materials to make copies of prototypes where the copies are made solely to test the prototype as part of the research and development process.

The current exemption applies only to parts and materials used to make a prototype. As such, it benefits businesses that have the facilities and expertise to fabricate their own prototypes. Businesses that are required to contract for development and construction of their prototypes pay tax on the contract cost because they are purchasing the completed prototype, not materials used to construct it.

To address this issue, effective March 16, 2001, an exemption is provided for purchasers of prototypes, other than software prototypes. Copies of prototypes acquired solely to test the prototype as part of a research and development process are also exempt from tax.

In addition, because a prototype often includes specialized software, the regulations are amended so that all purchases of software specifically designed for use on the prototype being fabricated are exempt. The purchase of general purpose software will continue to be excluded from this exemption.

EXEMPTION PROVIDED FOR USED BOOM GEAR

Boom gear purchased by the forest industry to construct booms for towing logs to mills or to market is tangible personal property and subject to tax. Boom gear (chains and wires) is re-used many times to form different booms before it deteriorates and is discarded as unusable. Mills that purchase the booms have no use for the boom gear.

To streamline the current system and improve fairness, effective March 16, 2001, an exemption is provided for the following prescribed *used boom gear:*

- boom chains used to tie the boomsticks together to form a frame;
- bundle and continuous wires used to bundle together the logs that are transported within the boom; and
- swifter wires used to secure the bundles to the frame.

The exemption allows the used boom gear to be sold with the booms, tax free, and the companies to buy it back, tax free, from any mill with an available supply. *The purchase of new boom gear continues to be subject to tax.*

TAX RELIEF PROVIDED FOR HEAVY LIFTING BARGE MOUNTED CRANES

Under the *Social Service Tax Act,* equipment brought into the province for temporary use is subject to tax based on a one-third formula. Under this formula, tax is payable on one-third of the value of the equipment, less any tax paid to another province. The tax is payable each year that the equipment is in the province for a period of six or more days until the equipment is fully tax paid.

Barge mounted cranes with a lifting capacity of greater than 100 metric tonnes are not available in Canada. Currently, when brought into the province for temporary use, they are subject to tax on the one-third formula. Because of the high value of such equipment, the tax payable can be sufficient to discourage a non-Canadian company from accepting contracts in British Columbia. The federal government has addressed this issue with respect to federal duties and taxes by providing an exemption on the temporary importation of goods not available in Canada.

To avoid placing British Columbia ports at a competitive disadvantage to American ports, effective March 16, 2001, the tax free period for barge mounted cranes with a lifting capacity of greater than 100 metric tonnes is increased from 5 days to 40 days, provided the crane has qualified for relief from federal duties and taxes. The one-third formula will continue to apply to such cranes if they are in the province for a period of greater than 40 days.

PROVISIONS FOR IMPOSING REGISTRATION AND TAX COLLECTION REQUIREMENTS ON OUT-OF-PROVINCE SELLERS ENHANCED

Effective March 16, 2001, the *Social Service Tax Act* is amended to clarify the tax collection and remittance requirements for out-of-province sellers who regularly sell and deliver tangible personal property to British Columbia customers.

TOBACCO TAX ACT

APPLICATION OF TAX TO PURCHASES OF TOBACCO FROM UNAUTHORIZED DEALERS CLARIFIED

Effective March 16, 2001, the *Tobacco Tax Act* is amended to clarify the application of tax to purchases of tobacco from unauthorized dealers, such as out-of-province sellers who deliver the tobacco through mail or courier services and do not collect and remit the tax due. The amendment makes it clear that consumers who purchase tobacco from such dealers are liable for the tax, and must remit the tax directly to the province.

LOGGING TAX ACT

CALCULATION OF LOGGING TAX CLARIFIED WHEN FEDERAL TAX CREDITS ARE CLAIMED

The *Logging Tax Act* imposes a tax on logging operators in British Columbia, calculated as the lesser of:

- 10 per cent of the income from logging operations in the province; and
- 150 per cent of the logging tax credit available under the *Income Tax Act (Canada)*.

The second limitation is designed to give the province priority over the federal government with respect to the taxation of logging income, while ensuring that logging operators are not taxed twice on this income. However, under the current wording in the legislation, a taxpayer may reduce or eliminate logging tax payable to the province by claiming federal investment or political tax credits.

Applicable to taxation years starting after March 31, 2001, the second limitation in the calculation of tax payable under the *Logging Tax Act* is clarified to mean 150 per cent of the logging tax credit available under the *Income Tax Act (Canada)* assuming no claim is made for investment and political tax credits.

SHARING OF INFORMATION COLLECTED BY MINISTRY OF FORESTS AUTHORIZED

The *Logging Tax Act* imposes a tax on British Columbia logging operations.

Effective April 1, 2001, the legislation is amended to streamline administration by allowing the Ministry of Forests to collect and share information pertinent to the administration of the *Logging Tax Act* with the Ministry of Finance and Corporate Relations.

INCOME TAX ACT

AMENDMENTS CONSEQUENTIAL TO *INCOME TAX ACT (CANADA)* CHANGES

The *Income Tax Act* makes numerous references to various sections of the *Income Tax Act (Canada)*. Amendments made to the federal Act sometimes require similar amendments to the provincial Act.

Consequential amendments are introduced to update various sections of the Act to maintain consistency with federal provisions.

AMENDMENTS CONSEQUENTIAL TO THE INTRODUCTION OF TAX ON INCOME FOR PERSONAL INCOME TAX

In 2000, the province made significant changes to the Act to implement tax on income for provincial personal income tax. This required the inclusion of various federal provisions.

Amendments are introduced to resolve minor issues arising from the introduction of tax on income. These amendments make technical corrections, clarify the meaning of certain provisions, or are consequential to changes to the *Income Tax Act (Canada)*.

PREPAYMENT OF REFUNDABLE TAX CREDITS AUTHORIZED

The British Columbia Scientific Research and Experimental Development (SR&ED) Tax Credit provides a refundable corporate income tax credit to corporations carrying on SR&ED in British Columbia. The British Columbia Film and Television Tax Credit (FTTC) and Production Services Tax Credit (PSTC) programs provide refundable corporate income tax credits to eligible production and production services corporations in British Columbia. These programs are modeled on similar federal tax credit programs. The federal programs permit the Canada Customs and Revenue Agency to pay undisputed portions of these tax credits prior to the issuance of a notice of assessment where the accompanying tax return cannot be assessed within 120 days of being filed.

The provincial legislation is amended effective March 16, 2001, to parallel the federal provisions to permit the prepayment of refunds of undisputed SR&ED tax credits as well as FTTC and PSTC refunds.

SHARING OF INFORMATION COLLECTED BY MINISTRY OF FORESTS FOR ADMINISTRATION OF LOGGING TAX CREDIT AUTHORIZED

Logging tax is deductible as a credit from both federal and provincial income taxes.

Effective on Royal Assent, the *Income Tax Act* is amended to include provisions for the exchange of information relating to timber harvesting, consistent with other exchange of information provisions in the Act.

EXCHANGE OF INFORMATION TO STREAMLINE ADMINISTRATION OF INVESTMENT TAX CREDIT PROGRAMS AUTHORIZED

The *Income Tax Act* provides tax credits for investments in Employee Venture Capital Corporations, Employee Share Ownership Plans and Venture Capital Corporations. The Ministry of Small Business, Tourism and Culture collects information under the *Employee Investment Act* and the *Small Business Venture Capital Act* relating to these tax credit programs.

Effective on Royal Assent, the *Income Tax Act* is amended to streamline the administration of these programs by allowing the Minister of Small Business, Tourism and Culture and the Minister of Finance and Corporate Relations to share information pertinent to tax credits claimed for investments in Employee Venture Capital Corporations, Employee Share Ownership Plans and Venture Capital Corporations.

CONFIDENTIALITY AND EXCHANGE OF INFORMATION PROVISIONS CLARIFIED

The *Income Tax Act* currently allows for exchanges of taxpayer information with other ministries and public bodies in British Columbia and with other jurisdictions in Canada. The current provisions are unclear as to what information can be exchanged and for what purposes.

This amendment, effective on Royal Assent, clarifies what, with whom, how and for what purpose information may be shared, and makes the exchange of information provisions in the *Income Tax Act* parallel to similar provisions in the *Income Tax Act (Canada)*.

PENALTY PROVISION FOR FALSE STATEMENTS AND OMISSIONS HARMONIZED WITH THE *INCOME TAX ACT (CANADA)*

The *Income Tax Act* imposes obligations on taxpayers to file returns in accordance with the Act. While the majority of taxpayers meet these obligations there are rare occasions where a taxpayer knowingly or in circumstances amounting to gross negligence files a return with omissions or false statements. In these rare instances the Act currently imposes a penalty.

Effective on Royal Assent, this penalty provision is expanded to include a penalty for false statements and omissions relating to various provincial refundable tax credits.

TECHNICAL AMENDMENTS INTRODUCED TO FILM INCENTIVE BC

In 2000, the government conducted a review of the British Columbia Film and Television tax credit program, commonly referred to as Film Incentive BC (FIBC), after two years of operation. As a result of this review, the following technical amendments are introduced to clarify the legislation and to harmonize with changes to the federal film tax credit:

- **"POST- PRODUCTION WORK" DEFINED**

  To qualify for the FIBC, 75 per cent of the post-production work for a production must be carried out in British Columbia. As the term "post-production work" is not defined in the legislation, it is not certain what types of costs must be included for purposes of the 75 per cent rule.

Effective for productions with principal photography beginning after March 31, 2001, "post-production work" is defined to mean all costs incurred for goods and services directly related to post-production activities, with the exception of the cost of stock footage.

- **MEANING OF "COPYRIGHT OWNERSHIP" CLARIFIED**

To qualify for the FIBC in respect of a production, a corporation must own more than 50 per cent of the copyright in the production. This rule is intended to ensure that only productions controlled by British Columbia corporations are entitled to the credit.

In some cases the terms of copyright and other agreements provide effective control to a party other than the majority copyright owner. For example, a corporation that owns more than 50 per cent of the copyright in a production may not effectively control the production if it is not entitled to a share of profits, revenues and/or subsidiary and ancillary rights commensurate with a controlling copyright interest.

Effective for productions with principal photography beginning after March 31, 2001, the legislation is amended to clarify that a corporation does not own more than 50 per cent of the copyright in a production unless it controls the copyright in the production. For this purpose, control must be determined on a case by case basis, having regard to all the terms of any agreements in respect of the production.

- **BC FILM FUNDING EXCLUDED WHEN CALCULATING PERCENTAGE OF COPYRIGHT OWNED**

Small producers often rely on funding from various government agencies to finance film and television productions. This type of funding is often secured by a revenue or profit entitlement which may be considered to be a copyright interest.

In British Columbia, BC Film provides financing to film and television productions secured by an equity interest. Although generally less than 5 per cent, where this equity interest represents copyright in the production, it could render the production ineligible for the FIBC by reducing the copyright interest of the producer to a level that is not greater than 50 per cent.

Effective for productions with principal photography beginning after March 31, 2001, the legislation is amended to require that any copyright interest in a production held by BC Film be added to the copyright interest of the qualifying corporation for purposes of determining the percentage of copyright owned by that corporation.

- **CALCULATION OF TAX CREDIT FOR INTERPROVINCIAL CO-PRODUCTIONS CHANGED**

An interprovincial co-production (IPC) is a film or video production that is a joint production and is produced in more than one province. In calculating the FIBC for an IPC, the tax credit is currently reduced by the percentage of copyright owned by parties other than the British Columbia producer, including copyright held by government agencies as security for production funding. The requirement that the FIBC be reduced by the percentage of copyright owned by government agencies is a disincentive to IPCs and conflicts with the incentive intended by these funding agencies.

Effective for productions with principal photography beginning after March 31, 2001, the calculation of the FIBC for IPCs will be changed so that the tax credit will not be reduced for copyright interests held by federal or provincial government agencies and nonprofit societies that have funds used to finance film or video productions in Canada.

- **PAYMENTS UNDER THE FEDERAL LICENSE FEE PROGRAM EXCLUDED FROM THE DEFINITION OF "ASSISTANCE"**

  The License Fee Program is a federal program administered by the Canadian Television Fund. Successful applicants to the program receive a "license fee top-up" which supplements their Canadian broadcaster cash license fees.

  Effective February 23, 1998, the *Income Tax Act (Canada)* was amended to exclude these payments from the definition of "assistance" for purposes of the federal film tax credit calculation. As a result, payments under the License Fee Program no longer reduce the amount of the federal film tax credit.

  To remain harmonized with the federal treatment of payments received under the License Fee Program, the British Columbia definition of "assistance" is amended to exclude payments under the federal License Fee Program, retroactive to April 1, 1998, the beginning of the FIBC program.

CORPORATION CAPITAL TAX ACT

ALLOW DEDUCTION OF BRITISH COLUMBIA ELIGIBLE EXPENDITURES WHEN USAGE DOES NOT COMMENCE AT TIME OF ACQUISITION

British Columbia eligible expenditures (BCEE) incurred after March 31, 1999, qualify as a deduction in the determination of B.C. paid up capital under the *Corporation Capital Tax Act*. This deduction, otherwise known as the "four-year tax holiday", is available in the year the BCEE is incurred and in the three subsequent taxation years. The amount that may be claimed each year is the undepreciated amount of the BCEE.

The current wording of the legislation limits the BCEE deduction to eligible property and eligible tourism property acquired and immediately used for a qualified purpose in the same taxation year. It is not uncommon for corporations to acquire assets in one taxation year and commence to use them in a subsequent taxation year. For example, major capital expenditures may be incurred in connection with property that is being constructed over several years and will not be used until complete.

Effective March 16, 2001, the legislation is amended to allow a BCEE deduction in a taxation year prior to the usage of eligible property or eligible tourism property, provided the property has not been used primarily for any other purpose prior to its use for a qualified purpose.

CLARIFY WHO MAY CALCULATE AGGREGATE PAID UP CAPITAL UNDER RULES FOR INVESTMENT DEALERS

Under the *Corporation Capital Tax Act,* investment dealers may calculate "aggregate paid up capital" in a different manner from general corporations. The major difference is that investment dealers may exclude most of their liabilities from the calculation of aggregate paid up capital, while other corporations must include them.

Currently, the legislation requires that the formula for investment dealers be used by corporations that are "registered or licensed under the laws of a province to trade in securities". This was intended to refer to companies that are fully licensed to buy and sell all types of securities with no restriction on their registration or license to trade. However, the province also issues limited licenses to other types of companies to sell their own corporate bonds, debentures and corporate paper in restricted circumstances, e.g., to their parent corporations. It was not intended that corporations holding these restricted licenses use the aggregate paid up capital formula for investment dealers for purposes of the *Corporation Capital Tax Act.*

Effective for taxation years ending on or after January 1, 1995, the legislation is amended to clarify that, for purposes of the *Corporation Capital Tax Act,* the calculation of aggregate paid up capital for investment dealers only applies to corporations that are fully licensed as securities dealers under the laws of a province.

HOME OWNER GRANT ACT

ALLOW EARLY APPLICATION BY TAXPAYERS

Section 8 (1) of the *Home Owner Grant Act* makes receipt of a property tax notice a statutory precondition to claiming a provincial home owner grant. To allow tax collectors to accommodate those taxpayers who are absent at the time of property tax billing and payment, amendments are introduced to remove this precondition. The amendments will allow municipalities and the provincial rural collectors to develop systems to accept applications before the issuance of current year property tax notices. The amendments to the Act are only enabling in nature: taxpayers will not be able to make advance applications until the municipal and provincial rural tax collectors are prepared to offer the service, perhaps in January 2002.

TAXATION (RURAL AREA) ACT

AUTHORIZE FLEXIBLE PAYMENT PLAN ALTERNATIVES AT THE OPTION OF THE RURAL TAXPAYER

Section 11 (1) of the *Taxation (Rural Area) Act* makes rural property taxes due and payable on July 2nd of the year levied. Regulations currently allow rural property tax prepayments from January 1st to May 15th, but do not provide adequate legislative authority for flexible, year-round instalment systems. The amendments will allow the province's Real Property Tax Branch, the collector of property tax in rural areas, to develop and offer flexible payment systems to help taxpayers manage their rural property taxes. The amendment to the Act will be effective when passed, but as the change is only enabling in nature, rural taxpayers will not be able to choose a flexible payment option until those options are offered by the province, perhaps as early as the 2002 tax year.

ALLOW REGISTRATION OF A STATUTORY LIEN ON PERSONAL PROPERTY OWNED BY A TAXPAYER WITH CROWN LEASED RURAL PROPERTY

Registration of a Crown charge under the *Miscellaneous Registrations Act 1992* is not permitted unless tax legislation contains a specific provision for registration of a lien on personal property at the Personal Property Registry.

The *Taxation (Rural Area) Act* is amended to allow such a registration at the Personal Property Registry as another tax collection option against personal property of occupiers of Crown land with delinquent taxes owing under rural property tax legislation. Similar provisions are already in place under the *Social Service Tax Act* and the *Corporation Capital Tax Act,* and liens on personal property are already available as a collection tool for property taxation when rural properties are owned in fee simple. The amendments will be effective on Royal Assent.

HOTEL ROOM TAX ACT

APPLICATION OF TAX TO TOURISM AGENCIES CLARIFIED

A tourism agent is a person who purchases accommodation from hotels, motels, resorts and similar establishments and makes this accommodation available to customers as part of a tourism service.

To bring clarity and certainty to the application of the hotel room tax, the Act is amended to specify that the tourism agent is responsible for paying the tax on the purchase of hotel accommodation. This amendment is retroactive to 1995 to correspond to the statutory audit limitation period.

EXEMPTION FOR CONTINUOUS OCCUPATION OF ACCOMMODATION CLARIFIED

The *Hotel Room Tax Act* provides an exemption from tax on lodging let to the same person for a continuous period of more than two months. This exemption is intended to provide tax relief for persons who use hotels, motels and similar lodging establishments as their primary residence for extended periods.

The Act is amended to clarify that where such lodging is purchased by persons other than a tourism agent, the exemption applies only if the lodging is occupied by that person, their immediate family, or their employees.

Where the lodging is purchased by a tourism agency, the exemption only applies if the lodging is continuously occupied by the same customer. These amendments are retroactive to 1995 to correspond to the amended provisions relating to tourism agents.

MOTOR FUEL TAX ACT AND SOCIAL SERVICE TAX ACT

APPLICATION OF TAX ON PROPANE MOTOR FUEL CLARIFIED

The government's policy to encourage the use of environmentally friendly fuels was established under the *Motor Fuel Tax Act* and became effective January 1, 2001. Under this legislation, the tax rate on propane purchased to operate a motor vehicle was changed from 7 per cent of the purchase price to 2.1 cents per litre. Propane purchases for use in commercial heating and cooking remain subject to tax under the *Social Service Tax Act,* also at a tax rate of 2.1 cents per litre.

To bring clarity and certainty to the application of tax on propane and the procedures for collecting and remitting the tax, effective March 16, 2001, both Acts are amended to provide clear and explicit statutory authority for these measures.

Report F: TAX EXPENDITURES

Introduction

Some government programs and benefits are delivered through the tax system

A tax expenditure is defined as the reduction in tax revenues that results when government programs or benefits are delivered through the tax system rather than through voted budget appropriations. Tax expenditures are usually made by offering special tax rates, exemptions, or tax credits. Governments introduce tax expenditures primarily to achieve social policy objectives such as transfers to lower income families or to promote economic development and job creation.

The major reason for reporting tax expenditures is to improve government accountability by providing a more complete picture of government spending. The tax expenditure report outlines major tax expenditures for 2000/01.

The Role of Tax Expenditure Programs

The main reason governments use the tax system to deliver programs is to reduce their own administration costs and to reduce compliance costs for recipients. In certain situations, the tax system allows intended beneficiaries to be readily identified from information that is already collected. In these cases setting up a separate expenditure program would result in costly overlap and duplication of effort. An example is the provincial sales tax credit, which is delivered through the income tax system. If this were a direct provincial expenditure program, a provincial agency or office would have to be established to duplicate much of the work already done by the Canada Customs and Revenue Agency. In addition, it would require individuals to undergo a separate, time-consuming application process in order to qualify for the benefit.

Tax expenditures are reported to allow greater public scrutiny

There are, however, several potential drawbacks to tax expenditure programs. First, their overall cost often receives less public scrutiny than is the case for spending programs because annual budget approvals are not typically required. Second, tax expenditure programs may confer the greatest benefits to those who pay the most taxes, which means that the major beneficiaries are often high income earners. Sales tax exemptions, for example, often provide a greater absolute benefit to those with higher incomes because they have more to spend on consumer products. Finally, costs are often more difficult to control under a tax expenditure program because the benefits tend to be more open ended and enforcement is often more difficult than for spending programs.

Tax Expenditure Reporting

Tax expenditures are close equivalents to direct government spending

Not all tax reductions, credits and exemptions are classed as tax expenditures. Three criteria were used to choose those features of the tax system that should be reported as tax expenditures. First, the emphasis is on tax reductions, exemptions and refunds that are close equivalents to spending programs. Under this approach, the focus is on items that would not be out of place on a list of spending programs. By implication, the list does not include tax measures designed to meet broad tax policy objectives such as improving fairness in the tax system, or measures designed to simplify the administration of the tax. The list also does not include items that are generally excluded from a particular tax base. An example is the non-taxation of most services under provincial sales taxes, which are primarily designed to apply to purchases of goods. Finally, tax remission orders are not included, because they are not equivalent to an expenditure program, but are granted on a case-by-case basis.

Second, revenues raised under provincial government authority that are turned over to agencies outside of government are not reported as tax expenditures in this report. This includes, for example, horse racing tax revenues transferred to the Racing Commission, hotel room tax revenues transferred to Tourism BC, and fuel tax revenues transferred to the BC Transportation Financing Authority.

Third, smaller items of less than $2 million are not included. Where practical, smaller items have been presented together as an aggregate figure. For example, sales tax exemptions for farmers, fishers and aquaculturists are reported on a combined basis.

British Columbia Tax Expenditure Programs

The following tables report 2000/01 tax expenditure estimates.

In *Budget 2000,* a new manufacturing and processing investment tax credit was announced and is included in this year's tax expenditure report. In addition, starting in 2000, British Columbia implemented a tax on income system for provincial personal income tax. This change provides the province with greater control over its tax system including personal income tax credits. As a result, the costs of provincial non-refundable credits, which were shown as federal measures in previous years, are now included as direct provincial tax measures.

Also in *Budget 2000,* an initiative was introduced to phase out over two years the tax on natural gas used in compressors to remove raw gas from wells and transport it to and within processing plants. The objective is to encourage gas producers to extract more gas from wells prior to closure, thus maximizing the return from this scarce provincial resource.

In February 2001, the government announced a one-time energy rebate provided through an income tax credit in the 2000 tax year. The rebate will be available to individuals and families meeting provincial residency and income requirements.

Tax expenditures are categorized by program objective

For presentation purposes, British Columbia tax expenditures have been broken into three broad categories.

- *Social and Income Transfer Programs (Table F1):* These include tax expenditures that are offered as part of government's mix of health, education, housing, income transfer and family related programs. Examples include the BC Family Bonus, the home owner grant, the sales tax exemption for children's clothing and the income tax credit for medical expenses.
- *Economic Development and Business Assistance Programs (Table F2):* This category includes tax preferences for farmers and small businesses and measures to encourage new investments.
- *Environmental Protection Programs (Table F3):* There are relatively few tax expenditures in this category because environmental protection is now generally based on the principle of "polluter pay", such as the tire tax or motor fuel tax. However, environmental tax expenditures include, for example, a sales tax exemption for bicycles and a fuel tax exemption for certain alternative fuels.

Each category has its own table of tax expenditure estimates. Within each table, the list of tax expenditures delivered through the income tax system has been separated into two sub-categories.

- *Provincial Measures:* This includes all major tax expenditures that are under provincial policy control.

Some of Canada's tax expenditures become provincial tax expenditures

- *Federal Measures:* British Columbia shares the cost of some federal income tax expenditure programs because, under the tax collection agreement between British Columbia and the federal government, the province has agreed to maintain a consistent income tax base with the federal government in the interest of reducing administrative and compliance costs.

This means the province has no direct control over income tax preferences delivered through changes to the income tax base. As a result, federal changes to taxable income automatically change provincial income tax revenues.

The personal income tax expenditures that have been included in the following tables cover a range of policy objectives, including support for charitable activities, health care and education. Meanwhile, most corporation income tax expenditures are intended to achieve economic development objectives.

The cost of individual tax expenditures cannot be added together to reach a total tax expenditure figure for two reasons. First, in some cases the programs interact with each other so that eliminating one program could increase or decrease the cost of another. Second, eliminating certain tax expenditure programs could change the choices taxpayers make, which in turn would affect the cost estimates.

The estimates for each tax expenditure are based on a static analysis of the costs and do not take into account any behavioural changes which could change the cost over time.

TABLE F1 — SOCIAL AND INCOME TRANSFER PROGRAMS TAX EXPENDITURE		2000/01 Estimated Cost
		($ millions)
PROVINCIAL SALES TAX		
Exemptions for the following items:		
• Food (basic groceries, snack foods, candies, soft drinks and restaurant meals)		720
• Residential fuels (electricity, natural gas, fuel oil, etc.)		131
• Prescription and non-prescription drugs, vitamins and certain other health care products and appliances		63
• Children's clothing and footwear		22
• Clothing patterns, fabrics and notions		6
• Specified school supplies		41
• Books, magazines and newspapers		53
• Basic telephone and cable service		53
• "1-800" and equivalent telephone services		8
• Exempt safety equipment		9
• Labour to repair major household appliances, clothing and footwear		6
• Miscellaneous consumer exemptions (e.g., used clothing under $100)		3
PERSONAL INCOME TAX		
Provincial Measures		
BC Family Bonus[1]		85
Sales tax credit		42
Political contributions tax credit		3
BC Energy Rebate[2]		36
Provincial non-refundable Credits:[3]		
• Charitable donations tax credit		115
• Tax credits for tuition and education[4]		60
• Tax credits for disabilities and medical expenses		47
• Pension income tax credit		26
• Credit for persons older than 65 years		83
• Married and equivalent-to-married credits		116
• Tax credit for Canada Pension Plan contributions		120
• Tax credit for Employment Insurance premiums paid		74
Federal Measures[5]		
Deduction and inclusion of alimony and child support payments		16
Child care expense deduction		26
Exemption from capital gains up to $500,000 for small businesses and family farms		40
Deduction for residents of northern and isolated areas		7
Non-taxation of employer-paid insurance premiums for group private health and welfare plans		102
Registered Retirement Savings Plans:[6]		
exemption for — contributions	480	
— investment earnings	293	
taxation of — withdrawals	(231)	
Total		542
Registered Pension Plans:[6]		
exemption for — contributions	336	
— investment earnings	647	
taxation of — withdrawals	(523)	
Total		460

TABLE F1 — SOCIAL AND INCOME TRANSFER PROGRAMS — *Continued*

TAX EXPENDITURE	2000/01 Estimated Cost
	($ millions)
CORPORATION INCOME TAX[7]	
Charitable donations deduction	9
SCHOOL AND RURAL AREA PROPERTY TAXATION[8]	
Home owner grant	493
Exemption for places of worship	9
PROPERTY TRANSFER TAX	
Exemption for first-time home buyers	26
Exemptions for the following items:	
• Property transfers between related individuals	21
• Property transfers to municipalities, regional districts, hospital districts, library boards, school boards, water districts and educational institutions	2
• Property transfers to charities registered under the *Income Tax Act* (Canada)	9

[1] The above estimate of $85 million represents the tax-expenditure portion of the program's cost. The tax-expenditure portion represents family bonus payments that effectively reduce the recipient's personal income tax. The remaining cost of the program, including recoveries and administration costs, of $152 million for 2000/01, is presented in the BC Benefits Vote because it represents payments to families which exceed their provincial income tax liabilities. In 2000/01, the total program cost was $237 million.

[2] The above estimate of $36 million represents the tax-expenditure portion of the energy rebate. The tax-expenditure portion represents energy rebate payments that effectively reduce the recipient's personal income tax. The remaining cost of the program of $42 million, which includes administration costs, is presented as an expenditure item because it represents payments to families in excess of their provincial income tax liabilities. The total program cost is estimated at $78 million.

[3] The estimates for non-refundable credits are based on estimates of projected federal losses contained in *Government of Canada: Tax Expenditures, 2000.* British Columbia personal income tax expenditures are based on the amounts claimed by British Columbia residents for each credit and the relevant provincial tax rates for the period. (Prior to 1997 federal tax expenditure reports did not include projections; previous estimates of provincial revenue losses were based on historical federal estimates.) Certain tax expenditure items have been excluded where no data were available or the amounts were immaterial.

[4] The estimate includes the total provincial revenue losses from the tuition fee, education and student loan interest credits and the carry-forward and transfer of tuition and education credits.

[5] The estimates show provincial revenue losses only. They are based on estimates of projected federal losses contained in *Government of Canada: Tax Expenditures, 2000.* British Columbia personal income tax expenditures for the federal measures are based on the amounts claimed by British Columbia residents for the measure and the relevant provincial tax rates for the period. (Prior to 1997 federal tax expenditure reports did not include projections; previous estimates of provincial revenue losses were based on historical federal estimates.) Certain tax expenditure items have been excluded where no data were available or the amounts were immaterial.

[6] Registered retirement savings plans and registered pension plans are treated in the same way as in the federal tax expenditure report. The tax expenditure associated with these schemes is presented as the amount of tax that would otherwise be paid in the year of deferral, were the deferral not available. However, this type of estimate overstates the true costs of these preferences because taxes are eventually paid, including tax on investment earnings. An estimate that does not overstate these costs would, however, be difficult to develop and would require some largely speculative assumptions.

[7] The deduction offered for corporate charitable donations is a federal measure, but the estimate shows only the provincial revenue loss. This is calculated from the federal revenue loss by applying British Columbia's share of corporate taxable income and the relevant tax rates to the federal estimate.

[8] The property tax estimates are for the 2000 calendar year, and include only school and rural area property taxes levied by the province. The Home Owner Grant cost is also shown for the 2000 calendar year.

TABLE F2 — ECONOMIC DEVELOPMENT AND BUSINESS ASSISTANCE PROGRAMS

TAX EXPENDITURE	2000/01 Estimated Cost
	($ millions)
PROVINCIAL SALES TAX	
Exemptions for the following items:	
• Livestock for human consumption and agricultural feed, seed and fertilizer	36
• Exempt purchases by farmers, fishers and aquaculturists	23
FUEL TAX	
Tax exemption for international flights carrying cargo	5
Tax exemption for family farm trucks (on road)	2
Tax reduction for compressor fuel used to transmit natural gas from wellhead to processing plant	6
PERSONAL INCOME TAX	
Venture capital tax credit	7
Employee venture capital tax credit	10
CORPORATION INCOME TAX	
Provincial Measures	
Film and video tax credit	15
Production services tax credit	25
International financial business tax refund[1]	2
Two-year corporate income tax holiday for small business	4
Scientific Research and Development Tax Credit	28
Mining Exploration Tax Credit	4
Manufacturing and Processing Investment Tax Credit	20
CORPORATION CAPITAL TAX	
Two-year tax holiday for eligible British Columbia investment[2]	23
SCHOOL AND RURAL AREA PROPERTY TAXATION[3]	
School tax assessment reduction on current values for farm land and vacant or residential land in the ALR, and various exemptions for farm buildings and residences	21
Assessment of farm land at farm use values[4]	84
Assessment exemption of $10,000 for industrial and business properties	7
Overnight tourist accommodation assessment relief	3
Exemption for property used for pollution abatement[5]	7
OTHER TAXES	
Oil and gas royalty holiday	3

[1] Includes employee income tax refunds.
[2] The tax holiday was extended from two to four years for qualifying expenditures made after March 31, 1999. The tax expenditure associated with the extension will not start until the 2001/02 fiscal year.
[3] Estimates are for the 2000 calendar year and include only school and rural area property taxes levied by the province.
[4] There are no recent assessments available for highest and best use of farm land. The figure given is an older estimate and may underestimate the cost of assessing farm land using commissioner's rate for farm use. Also, as noted in the introduction, the estimate given assumes that the 50 per cent school tax assessment reduction does not apply.
[5] The property tax exemption for most land and improvements used in pollution abatement equipment was removed for 1997, but existing properties which were exempt in 1996 remain exempt under grandparenting provisions.

TABLE F3 — ENVIRONMENTAL PROTECTION PROGRAMS TAX EXPENDITURE	2000/01 Estimated Cost
	($ millions)
PROVINCIAL SALES TAX	
Exemptions for the following items:	
• Bicycles	6
• Specified energy conservation equipment	11
FUEL TAX	
Tax exemption for alternative fuels	17

Report G: FISCAL FLOWS IN CANADA — A BRITISH COLUMBIA PERSPECTIVE

Introduction

Fiscal flow analysis measures a province's outgoing flows of revenue to the federal government in relation to the inward flows of federal expenditures

In Canada, as in any federation, the federal government makes expenditures across the country according to the needs it perceives and the priorities it favours. These expenditures are financed with revenues obtained from taxpayers and other sources throughout the country. Data on the resultant "fiscal flows" compiled by Statistics Canada make it possible to examine federal revenues collected in each province in relation to the return flows of federal expenditures[1].

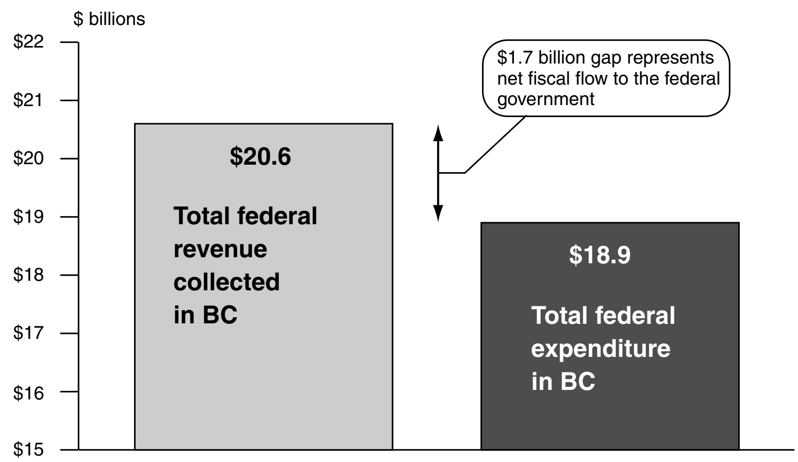
It is not expected that a Canadian province's outgoing revenue flow to the federal government should precisely match incoming expenditures; provinces have different needs for federal programming and different capabilities for generating federal revenues. Nonetheless, analysing these flows in and out of a province like British Columbia can be helpful in identifying and assessing the priorities of the federal government and its commitment to inter-provincial fiscal equity.

The BC Fiscal Flow Situation

Contributions to federal government revenues from BC exceed federal expenditures by $1.7 billion

Chart G1

Federal Revenues from BC Compared with Federal Expenditures in BC, 1998



Source: Statistics Canada *Provincial Economic Accounts*, October 2000

Chart G1 illustrates British Columbia's fiscal outflow position vis-a-vis the federal government. Contributions to federal government revenues from British Columbia exceed the federal government's expenditures in the province by $1.7 billion.

[1] Statistics Canada, *Provincial Economic Accounts*, October 2000. The data reflect flows in the year 1998, the most recent year for which statistics are available. An adjustment has been made to count BC's share of federal spending abroad (e.g. Canadian embassies, overseas development assistance) as spending in BC, the rationale being that British Columbians receive some benefit from this spending.

For BC, the fiscal outflow is caused by disproportionately low federal expenditures in the province

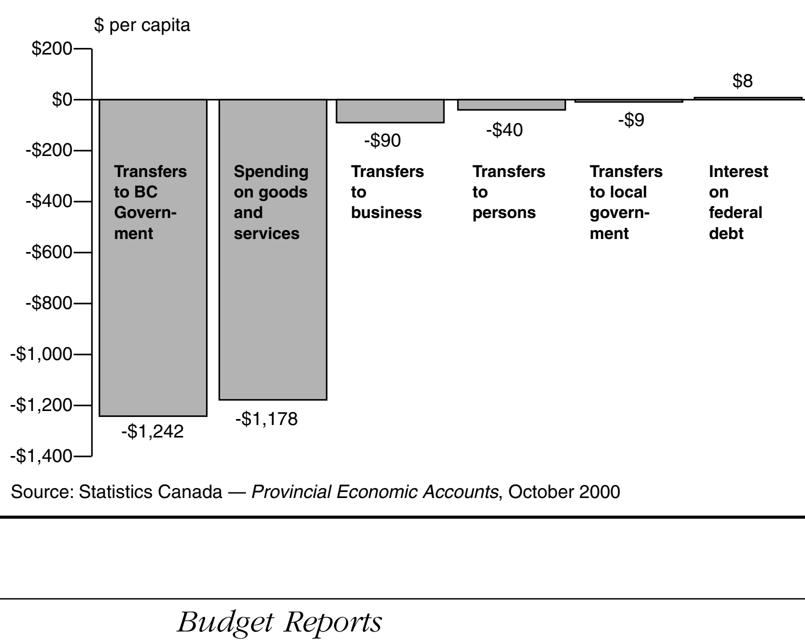
In British Columbia's case, the outflow is caused by disproportionately low federal expenditures in the province, rather than disproportionately high federal revenues from British Columbia. Lower than proportional federal expenditure in a province is expenditure which diverges from the average per capita federal expenditure in all provinces and territories.

Listed below are the main categories of federal expenditure in British Columbia:

- *Transfers to the provincial government ($2.2 billion).* This is largely made up of assistance for provincial health care, post-secondary education and social services spending via the Canada Health and Social Transfer (CHST). As well, this category includes many, much smaller transfers which assist the province in meeting specific needs.
- *Goods and Services Spending ($3.1 billion).* This area includes almost all non-transfer, non-debt interest spending. It includes salaries of federal employees, office rents, procurement of goods and services, and spending on such items as infrastructure as part of federal program delivery.
- *Transfers to business ($0.5 billion).* This includes federal subsidies to businesses and federal transfers to its own Crown Agencies.
- *Transfers to persons ($6.6 billion).* The most important transfers in this category are the Old Age Assistance/Guaranteed Income Supplement package of support for Seniors, Canada Pension Plan payments and Employment Insurance Benefits.
- *Transfers to local governments ($0.1 billion).*
- *Interest Payments on the federal debt ($5.8 billion).* The large amount in this category reflects the high federal debt load accumulated from the mid-1970s to the mid-1990s.

Two expenditure categories stand out as areas of disproportionately low federal spending in BC: federal transfers to the provincial government and federal expenditures on goods and services

Chart G2
Federal Expenditures in British Columbia, 1998
Differences Between Actual BC Share and Spending Based on Population Share



Source: Statistics Canada — *Provincial Economic Accounts*, October 2000

Chart G2 reveals that in the smaller categories the federal government spends proportionately about the same amount in British Columbia as it spends in the country as a whole. However, two expenditure categories stand out as areas of disproportionately low federal spending in BC:

1. federal transfers to provinces; and,

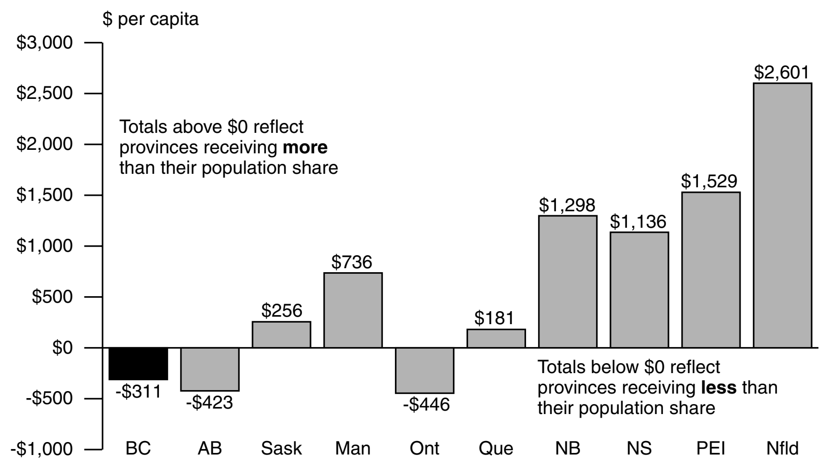
2. federal expenditures on goods and services.

Federal Transfers to Provinces

Chart G3

Disparities in Federal Spending on Transfers to Provinces, 1998

Differences Between Actual Spending and Spending Based on Population Share



Source: Statistics Canada — *Provincial Economic Accounts*, October 2000

Chart G3 shows the disparity in overall federal transfers to provinces. In this category, a considerable amount of disproportionately low federal spending in BC is to be expected. The major cause is the federal Equalization program, which effectively increases the revenue raising ability of recipient provincial governments to a given standard. The British Columbia government's capacity to raise revenues is higher than the level which triggers Equalization transfers.

However, a portion of this low transfer spending in British Columbia is caused by unduly low federal funding assistance provided through *other* transfers.

Low Federal Assistance for Highways

Federal transfers for highways are a good example of unequal transfer distribution across Canada

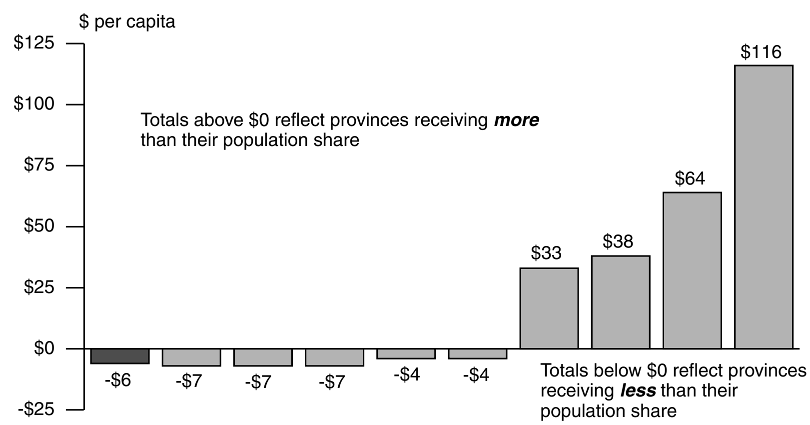
A pertinent example of a transfer area where British Columbia has not fared well in relation to some provinces is federal assistance — delivered to provinces through a variety of programs — to help meet the capital cost of provincial highways.

Chart G4 indicates the difference between actual federal funding assistance and that which would have been provided if allocated among provinces in accordance with their population share.

Chart G4

Comparison of Federal Contributions to Provincial Highways Programs, 1998/99

Differences Between Actual Spending and Spending Based on Population Share



	BC	AB	Sask	Man	Ont	Que	NB	NS	PEI	NFLD
Annual Average (since 1987/88)	-$5	-$5	-$3	-$3	-$5	-$1	$54	$18	$24	$70

Source: Public Accounts of Canada, as presented in a study by the University of Manitoba Transport Institute "Federal Transportation Spending & Revenues in British Columbia", 2000

Total federal spending by Transport Canada on highways was $198 million in the comparison year 1998/99. BC's share of this spending was about 0.5 per cent. Highways spending can vary considerably from year to year but the chart's presentation of average annual federal spending since 1987/88 illustrates a long-term pattern of disproportionately low spending on highways in BC and some other provinces.

With highways, the equity situation may be worse than that portrayed above in that BC's share of the national highway system is 22.5 per cent, the largest proportion of any province. Spending based on the province's share of this system would have generated over $400 million in additional federal spending in BC over the past decade.

Low Federal Spending on Goods and Services in BC

If the federal government purchased BC goods and services to the same extent as its average purchases across Canada, about $1.2 billion in extra federal spending would be generated for the BC economy

Chart G5 compares federal expenditure on goods and services among provinces. It reveals a disparity of $1.2 billion between the actual share of federal spending in BC and this province's population share. This disparity is higher than in any other province. Put another way, if the federal government purchased BC goods and services to the same extent as its average purchases across the country, about $1.2 billion in additional federal spending would be generated for the provincial economy.

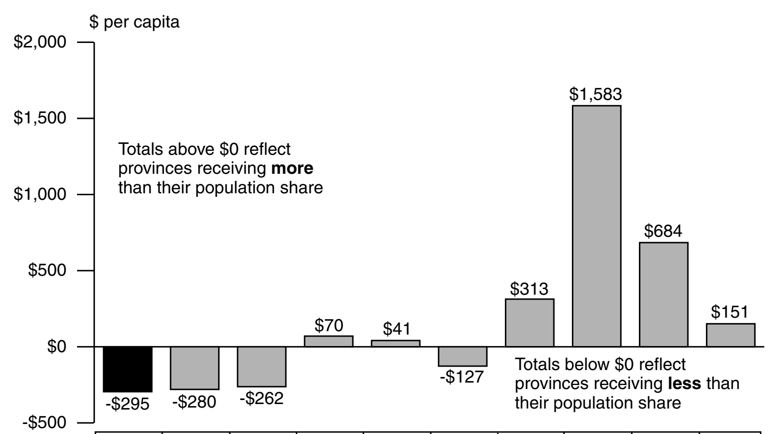
This large gap has been created by patterns of federal procurement spending which have, over the years, tended to overlook British Columbia. While the chart presents a one-year picture, it should be noted that the situation it illustrates has not changed over the past decade. Federal installations for civilian, military, and government enterprises have continuously been disproportionately located in other parts of Canada.

The following example illustrates a major area where BC has traditionally fared worse than other provinces: federal spending on cultural industries.

Chart G5

Disparities in Federal Spending on Goods and Services, 1998

Differences Between Actual Spending and Spending Based on Population Share



	BC	Alta	Sask	Man	Ont	Que	NB	NS	PEI	Nfld
Disparity in $ million	-$1,178	-$815	-$269	$80	$471	-$934	$235	$1,482	$94	$82

Source: Statistics Canada — *Provincial Economic Accounts*, October 2000

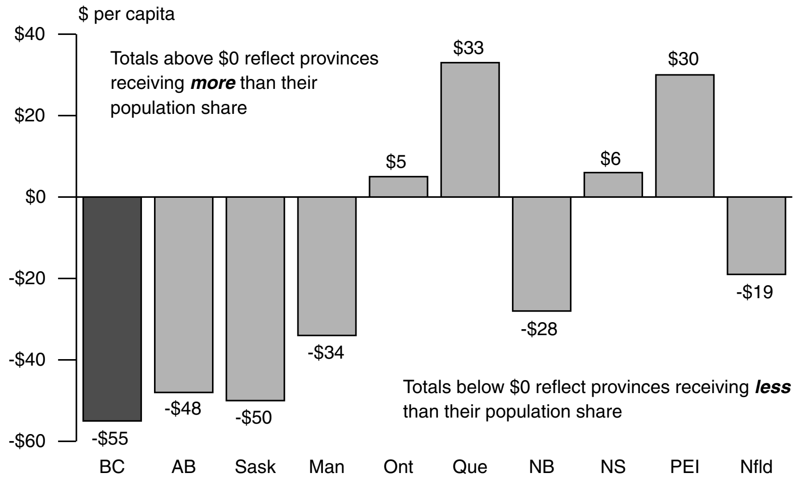
Culture

Federal cultural expenditures include grants to cultural agencies, spending on federal institutions like the CBC, and administrative spending related to these organizations. Federal per capita cultural spending in BC has historically been depressed in relation to that in other provinces. This is partly explained by the absence of headquarters for federal cultural institutions in BC. However, many other provinces have attracted considerably more cultural funding despite the tendency to locate headquarters in central Canada.

Chart G6

Comparison of Federal Spending on Culture, 1998/99

Differences Between Actual Spending and Spending Based on Population Share



Source: Statistics Canada, Government Expenditures on Culture

BC ranks last among provinces in federal culture spending

As Chart G6 illustrates, BC ranked last among provinces in federal culture spending in 1998/99 (the year matching the most recent fiscal flow data). BC's per capita share was $38, $55 dollars per capita below national average federal spending of $93, and well below the funding given to the highest-supported province.

In 1998/99, the federal government spent a total of $2.8 billion on culture. The allocation to BC was $152 million. This was 5.4 per cent of total federal expenditures for a province with 13.2 per cent of the Canadian population.

Conclusion

Increasing federal spending on BC goods and services would not be difficult

Disproportionately low federal spending on both transfers to the British Columbia government and on British Columbia goods and services are the major reasons for the $1.7 billion annual net fiscal outflow from BC to support federal operations.

While British Columbia's non-receipt of Equalization is the main reason for discrepancies in transfers among provinces, it is the smaller programs where improvements need to be made if British Columbia is to receive a fairer share of federal funding.

Low federal spending in British Columbia on goods and services is particularly disconcerting. There are three reasons for this concern: the "spending deficit" is both absolutely and proportionately higher in BC than in any other province; the situation has been continuing for many years without improvement; and of all the categories of federal spending, spending on goods and services is the most amenable to remedial changes in federal policy.

Report H: SUPPLEMENTARY TABLES

TABLE H1

GENERAL ECONOMIC INDICATORS

	Unit or Base Period	1997	1998	1999	2000
Population and Labour Force:					
Population (July 1)	thousands	3,960	3,998	4,028	4,064
Net In-migration	number	44,614	11,166	24,512	20,100[e]
Interprovincial	number	1,980	−17,521	−8,129	−11,800[e]
International	number	42,634	28,687	32,641	31,900[e]
Labour force	thousands	2,040	2,051	2,079	2,100
Labour force participation rate*	per cent	65.6	64.9	65.1	64.9
Male	per cent	72.2	71.2	71.2	70.7
Female	per cent	59.1	58.8	59.2	59.2
Employment	thousands	1,869	1,870	1,906	1,949
Male	thousands	1,013	1,001	1,019	1,042
Female	thousands	856	869	887	908
Full-time	thousands	1,479	1,467	1,495	1,547
Part-time	thousands	390	404	412	402
Unemployment rate	per cent	8.4	8.8	8.3	7.2
Male	per cent	8.7	9.8	9.0	7.6
Female	per cent	8.0	7.7	7.5	6.7
Main Economic Indicators:					
Provincial gross domestic product	$ millions	113,596	113,945	118,783	125,100[e]
Capital investment (new)	$ millions	21,807	20,055	20,057	20,972
Retail sales	$ millions	33,736	33,045	33,672	35,755
New motor vehicle sales	units	164,426	147,497	157,213	168,032
Housing starts	dwelling units	29,351	19,931	16,309	14,418
Building permits	$ millions	5,544	4,740	4,696	4,478
Exports	$ millions	26,761	26,045	28,738	32,518
Incomes:					
Personal income	$ millions	95,600	97,817	100,212	105,120[e]
Labour income	$ millions	60,684	61,947	63,454	67,490
Average weekly wage rate	$	611	618	625	637
Prices:					
Consumer price index, B.C. (urban)	1992=100	109.7	110.0	111.2	113.3
Consumer price index, Vancouver	1992=100	109.8	110.4	111.4	113.9
Consumer price index, Victoria	1992=100	109.7	110.0	111.1	113.0
Industrial product price index, Canada	1992=100	119.5	119.4	121.6	127.7
B.C. export commodity price index ($Cdn.)	1992=100	140.4	130.7	139.3	139.0

e: estimates

* Per cent of the working-age population in the labour force.

TABLE H1 — *(Continued)*

GENERAL ECONOMIC INDICATORS

	Unit or Base Period	1997	1998	1999	2000
Financial Indicators:					
Business incorporations	number	22,958	20,759	21,009	21,515
Business bankruptcies	number	898	1,031	1,077	976
Bloomberg B.C. Stock Index, annual close	Dec. 30, 1994 =100	n.a.	n.a.	122.3	126.7
Personal savings deposits at chartered banks	$ millions	41,846	40,554	41,437	47,250[e]
Personal loans outstanding at chartered banks	$ millions	13,741	13,296	14,482	19,000[e]
Sector Indicators:					
Manufacturing shipments	$ millions	34,583	33,890	36,994	38,450
Timber scaled	thousand cubic metres	68,628	64,967	75,997	73,627
Lumber production	thousand cubic metres	31,562	30,237	31,832	32,500[e]
Pulp and paper production	thousand tonne	7,096	7,076	7,996	8,424
Gross value of mineral production	$ millions	3,132	3,026	2,565	2,871[e]
Petroleum and natural gas production	$ millions	1,571	1,527	2,038	4,091[e]
Electric power generation (net)	million kilowatt hours	66,691	67,710	68,045	68,150
Farm cash receipts	$ millions	1,759	1,835	1,942	2,077
Foreign visitors	thousands	7,323	7,845	8,269	8,482
Regional Data:					
Housing Starts					
Vancouver	units	15,950	11,878	8,677	8,203
Victoria		1,311	964	1,340	872
Abbotsford		871	536	566	405
Chilliwack		621	356	201	202
Courtenay		488	277	157	113
Kamloops		543	380	294	230
Kelowna		1,741	851	880	928
Nanaimo		821	479	461	329
Prince George		402	273	166	138
Vernon		346	333	335	166
Campbell River		336	132	67	44
Duncan		242	175	92	71
Penticton		223	265	154	90

Labour Markets	Employment (persons) 1999	Employment (persons) 2000	Unemployment Rate (%) 1999	Unemployment Rate (%) 2000
Greater Vancouver	1,005,400	1,044,500	7.8	5.9
Greater Victoria	154,200	153,600	6.7	6.7
Vancouver Island/Coast	329,100	325,800	8.0	7.8
Mainland/Southwest	1,140,100	1,177,900	7.8	6.2
Thompson-Okanagan	207,100	212,700	9.7	9.2
Kootenay	69,500	71,200	9.0	10.1
Cariboo	82,900	81,500	11.6	9.9
North Coast & Nechako	46,700	47,500	8.8	10.2
Northeast	30,800	32,500	8.9	6.1

e: estimates

Sources: Statistics Canada, Bank of Canada, Government of British Columbia, other federal and provincial agencies and industry associations.

TABLE H2
INTERPROVINCIAL COMPARISONS OF TAX RATES — 2001
(Rates known as of March 6, 2001)[1]

Tax	**British Columbia**[2]	Alberta	Saskat-chewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	Prince Edward Island	New-foundland
Corporation income tax (per cent of taxable income)[3]										
General Rate	16.5	15.5	17	17	14	9.04	17	16	16	14
Manufacturing Rate	16.5	14.5	10	17	12	9.04	17	16	7.5	5
Small Business Rate	4.5	6	8	7	7	9.04	4.5	5	7.5	5
Corporation capital tax[4]										
Non-financial	.3	*Nil*	.6	.3/.5	.3	.64	.3	.25/.5	*Nil*	*Nil*
Financial	1.0/3.0	0.7/1.0	0.7/3.25	3.0	.6/.72/.9	1.55	3.0	3.0	3.0	4.0
Health care premiums[5]										
Individual/family	36/72	34/68	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*
Payroll tax[6] (per cent)	*Nil*	*Nil*	*Nil*	2.15	1.95	4.26	*Nil*	*Nil*	*Nil*	2.0
Insurance premium tax (per cent)[7]	2-4	2-3	3-4	2-3	2-3.5	2-3	2-3	3-4	3.5	4
Fuel tax (cents per litre)										
Gasoline[8]	11.0	9.0	15.0	11.5	14.7	19.2	10.7	13.5	13.0	16.5
Diesel	11.5	9.0	15.0	10.9	14.3	20.2	13.7	15.4	13.5	16.5
Sales tax (per cent)										
General rate	7	*Nil*	6	7	8	7.5	8	8	10	8
Liquor	10	*Nil*	7	7	12	7.5	8	8	37.5	8
Meals	*Nil*	*Nil*	*Nil*	7	8	7.5	8	8	10	8
Accommodation	8	5	6	7	5	7.5	8	8	10	8
Tobacco tax (dollars per carton of 200 cigarettes)[9]	22.00	14.00	20.00	20.10	7.35	8.60	10.80	11.49	13.20	25.96

[1] Rates shown are those known as of March 6, 2001, and that are in effect for 2001.
[2] British Columbia tax rates are shown as announced in the 2001 Budget.
[3] The Quebec rate includes a "youth fund" tax of 1.6 per cent. On April 1, 2001 Alberta's general and manufacturing rates will fall to 13.5 per cent, and the small business rate will be reduced to 5 per cent. Alberta, Ontario and Manitoba plan further reductions in their small business rates in future years.
[4] The British Columbia non-financial rate applies to corporations with paid-up capital in excess of $5 million; Ontario has lower rates for corporations with less than $2.3 million in taxable capital; Manitoba has a $5 million exemption level and the higher rate applies to paid-up capital in excess of $10 million; Saskatchewan has a $10 million deduction. Large Saskatchewan resource corporations are assessed a surcharge on the value of Saskatchewan resource sales. Ontario and Quebec have an additional surcharge or compensation tax on financial institutions. A compensation tax may also apply in Quebec. Alberta's capital tax on financial institutions will be eliminated as of April 1, 2001.
[5] British Columbia has a two person rate of $64. British Columbia and Alberta offer premium assistance in the form of lower rates or an exemption from premiums for lower income individuals and families.
[6] Provinces with payroll taxes provide payroll tax relief for small businesses.
[7] The lower rate applies to premiums for life, sickness and accident insurance; the higher rate applies to premiums for property insurance. The rate on automobile insurance is 4 per cent in British Columbia and Saskatchewan, and 3 per cent in Ontario. Sales tax applies to insurance premiums, except those related to individual life and health, in Ontario (8 per cent), Quebec (9 per cent) and Newfoundland (12 per cent). The sales tax is reduced to 5 per cent for automobile insurance in Quebec and Ontario.
[8] Tax rate is for regular fuel used on highways. The British Columbia rate includes 3.25 cents per litre dedicated to the BC Transportation Financing Authority and 1.25 cents dedicated to the BC Ferry Corporation. The rates do not include regional taxes. The Quebec rate includes estimated sales tax.
[9] Includes estimated provincial sales tax where applicable.

TABLE H3

INTERPROVINCIAL COMPARISONS OF PROVINCIAL PERSONAL INCOME TAXES PAYABLE[1] — 2001
(Rates known as of March 6, 2001)

Taxable income[2]	**British Columbia**	Alberta	Saskat-chewan	Manitoba	Ontario	Quebec[3]	New Brunswick	Nova Scotia	Prince Edward Island	New-foundland
	Annual provincial taxes payable[4] ($)									
$10,000	168	0	230	163	0	(5)	268	271	4	274
$20,000	1,008	710	1,380	1,353	780	1,491	1,236	1,248	1,234	1,331
$30,000	1,848	1,710	2,530	2,468	1,400	3,422	2,225	2,246	2,214	2,411
$40,000	3,021	2,710	3,880	4,059	2,299	5,435	3,707	3,741	3,563	4,027
$50,000	4,211	3,710	5,230	5,679	3,223	7,422	5,189	5,236	4,943	5,643
$60,000	5,401	4,710	6,580	7,299	4,264	9,609	6,685	6,745	6,436	7,296
$70,000	7,025	5,710	8,180	9,035	5,832	11,790	8,337	8,412	8,225	9,260
$80,000	8,895	6,710	9,780	10,785	7,573	13,961	9,989	10,087	10,062	11,224
$100,000	12,785	8,710	12,980	14,285	11,055	18,303	13,293	13,754	13,736	15,152
$125,000	17,710	11,210	16,980	18,660	15,408	23,607	17,737	18,338	18,328	20,063
$150,000	22,635	13,710	20,980	23,035	19,760	28,660	22,197	22,923	22,921	24,973
	Provincial personal income taxes as a per cent of taxable income (%)									
$10,000	1.7	0.0	2.3	1.6	0.0	-0.1	2.7	2.7	0.0	2.7
$20,000	5.0	3.6	6.9	6.8	3.9	7.5	6.2	6.2	6.2	6.7
$30,000	6.2	5.7	8.4	8.2	4.7	11.4	7.4	7.5	7.4	8.0
$40,000	7.6	6.8	9.7	10.1	5.7	13.6	9.3	9.4	8.9	10.1
$50,000	8.4	7.4	10.5	11.4	6.4	14.8	10.4	10.5	9.9	11.3
$60,000	9.0	7.9	11.0	12.2	7.1	16.0	11.1	11.2	10.7	12.2
$70,000	10.0	8.2	11.7	12.9	8.3	16.8	11.9	12.0	11.7	13.2
$80,000	11.1	8.4	12.2	13.5	9.5	17.5	12.5	12.6	12.6	14.0
$100,000	12.8	8.7	13.0	14.3	11.1	18.3	13.3	13.8	13.7	15.2
$125,000	14.2	9.0	13.6	14.9	12.3	18.9	14.2	14.7	14.7	16.1
$150,000	15.1	9.1	14.0	15.4	13.2	19.1	14.8	15.3	15.3	16.6

[1] Calculated for a single individual with wage income and claiming the basic personal credit only. Quebec personal income tax is calculated using the simplified tax system which provides a minimum level of non-refundable credits that is greater than the basic personal credit amount.
[2] Taxable income, total reported income less allowable deductions, is defined by federal legislation in all provinces except Quebec. In the table, it is assumed that federally defined taxable income is equal to Quebec taxable income.
[3] Quebec residents pay federal tax less an abatement of 16.5 per cent of federal tax. In the table, the Quebec abatement has been used to reduce Quebec provincial personal income tax for comparative purposes.
[4] Includes provincial low income reductions in Manitoba, Ontario and Prince Edward Island, provincial surtaxes payable in Ontario, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and contributions to the Health Services Fund in Quebec.

TABLE H4

COMPARISON OF PROVINCIAL AND FEDERAL TAXES BY PROVINCE — 2001

	British Columbia	Alberta	Saskat-chewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	Prince Edward Island	New-foundland
	($)									
Two Income Family of Four — $90,000										
1. Provincial Income Tax	5,988	5,235	7,261	7,457	4,571	10,476	7,384	7,451	7,062	8,020
Net Child Benefits	0	0	0	—	0	0	0	0	—	0
2. Property Tax — Gross	2,743	2,740	3,924	4,946	3,788	3,554	2,514	3,247	2,639	1,800
— Net	2,273	2,740	3,924	4,696	3,788	3,554	2,514	3,247	2,639	1,800
3. Sales Tax	1,018	7	905	1,185	1,561	1,774	1,707	1,704	1,806	1,681
4. Fuel Tax	165	135	225	173	221	288	161	203	195	248
5. Provincial Direct Taxes	9,443	8,117	12,314	13,511	10,140	16,092	11,766	12,605	11,702	11,748
6. Health Care Premiums/Payroll Tax	864	816	—	1,935	1,755	3,834	—	—	—	1,800
7. Total Provincial Tax	10,307	8,933	12,314	15,446	11,895	19,926	11,766	12,605	11,702	13,548
8. Federal Income Tax	11,416	11,416	11,416	11,416	11,416	11,416	11,416	11,416	11,416	11,416
9. Net Federal GST	1,559	1,656	1,551	1,525	1,621	1,485	1,494	1,491	1,617	1,471
10. Total Tax	23,282	22,005	25,281	28,387	24,932	32,827	24,676	25,512	24,735	26,435
Two Income Family of Four — $60,000										
1. Provincial Income Tax	3,272	2,657	3,971	3,689	2,505	5,297	4,035	4,072	3,917	4,366
Net Child Benefits	0	102	0	—	0	0	0	0	—	0
2. Property Tax — Gross	2,268	1,974	2,747	3,557	2,721	2,883	1,641	1,903	1,300	1,728
— Net	1,798	1,974	2,747	3,307	2,721	2,883	1,641	1,903	1,300	1,728
3. Sales Tax	796	5	719	954	1,219	1,462	1,357	1,355	1,430	1,343
4. Fuel Tax	165	135	225	173	221	288	161	203	195	248
5. Provincial Direct Taxes	6,031	4,873	7,662	8,122	6,665	9,931	7,193	7,532	6,842	7,684
6. Health Care Premiums/Payroll Tax	864	816	—	1,290	1,170	2,556	—	—	—	1,200
7. Total Provincial Tax	6,895	5,689	7,662	9,412	7,835	12,487	7,193	7,532	6,842	8,884
8. Federal Income Tax	6,364	6,364	6,364	6,364	6,364	6,364	6,364	6,364	6,364	6,364
9. Net Federal GST	1,219	1,341	1,232	1,228	1,266	1,224	1,187	1,186	1,280	1,175
10. Total Tax	14,478	13,394	15,258	17,004	15,465	20,075	14,744	15,082	14,486	16,423
Two Income Family of Four — $30,000										
1. Provincial Income Tax	949	150	954	220	528	71	1,242	1,022	1,020	1,319
Net Child Benefits	(536)	(740)	0	—	(383)	(160)	(52)	0	—	0
2. Property Tax — Gross	2,268	1,974	2,747	3,557	2,721	2,883	1,641	1,903	1,300	1,728
— Net	1,798	1,974	2,747	3,307	2,721	2,883	1,641	1,903	1,300	1,728
3. Sales Tax	554	4	506	686	848	1,123	944	952	999	939
4. Fuel Tax	110	90	150	115	147	192	107	135	130	165
5. Provincial Direct Taxes	2,875	1,478	4,357	4,328	3,860	4,109	3,883	4,012	3,449	4,150
6. Health Care Premiums/Payroll Tax	864	816	—	645	585	1,278	—	—	—	600
7. Total Provincial Tax	3,739	2,294	4,357	4,973	4,445	5,387	3,883	4,012	3,449	4,750
8. Federal Income Tax	1,996	1,996	1,996	1,996	1,996	1,996	1,996	1,996	1,996	1,996
9. Net Federal GST	366	541	385	401	398	458	344	351	412	339
10. Total Tax	6,101	4,831	6,738	7,370	6,839	7,841	6,223	6,359	5,857	7,085
Unattached Individual — $25,000										
1. Provincial Income Tax	1,190	926	1,629	1,363	914	1,796	1,445	1,459	1,446	1,559
2. Property Tax	—	—	—	—	—	—	—	—	—	—
3. Sales Tax	397	3	364	502	625	743	686	685	809	680
4. Fuel Tax	110	90	150	115	147	192	107	135	130	165
5. Provincial Direct Taxes	1,697	1,020	2,143	1,981	1,686	2,731	2,239	2,279	2,385	2,405
6. Health Care Premiums/Payroll Tax	432	408	—	538	488	1,065	—	—	—	500
7. Total Provincial Tax	2,129	1,428	2,143	2,518	2,173	3,796	2,239	2,279	2,385	2,905
8. Federal Income Tax	2,360	2,360	2,360	2,360	2,360	2,360	2,360	2,360	2,360	2,360
9. Net Federal GST	303	342	308	308	324	320	292	292	337	287
10. Total Tax	4,792	4,130	4,811	5,186	4,857	6,476	4,891	4,931	5,082	5,552

TABLE H4 — *(Continued)*

COMPARISON OF PROVINCIAL AND FEDERAL TAXES BY PROVINCE — 2001

	British Columbia	Alberta	Saskat-chewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	Prince Edward Island	New-foundland
	($)									
Unattached Individual — $80,000										
1. Provincial Income Tax	7,517	5,843	8,499	9,173	6,247	12,719	8,718	8,797	8,648	9,713
2. Property Tax — Gross	1,972	1,848	3,042	3,255	2,536	3,213	2,072	2,475	1,300	1,300
— Net	1,502	1,848	3,042	3,005	2,536	3,213	2,072	2,475	1,300	1,300
3. Sales Tax	1,003	9	900	1,201	1,576	1,636	1,673	1,669	1,977	1,623
4. Fuel Tax	165	135	225	173	221	288	161	203	195	248
5. Provincial Direct Taxes	10,187	7,834	12,666	13,551	10,579	17,856	12,624	13,143	12,120	12,884
6. Health Care Premiums/Payroll Tax	432	408	—	1,720	1,560	3,408	—	—	—	1,600
7. Total Provincial Tax	10,619	8,242	12,666	15,271	12,139	21,264	12,624	13,143	12,120	14,484
8. Federal Income Tax	13,290	13,290	13,290	13,290	13,290	13,290	13,290	13,290	13,290	13,290
9. Net Federal GST	1,543	1,688	1,524	1,473	1,593	1,384	1,464	1,460	1,576	1,420
10. Total Tax	25,452	23,220	27,480	30,034	27,022	35,938	27,378	27,893	26,986	29,194
Senior Couple with Equal Pension Incomes — $30,000										
1. Provincial Income Tax	405	0	1,548	(486)	(287)	395	627	633	582	657
2. Property Tax — Gross	2,268	1,974	2,747	3,557	2,721	2,883	1,641	1,903	1,300	1,728
— Net	1,523	1,974	2,747	3,307	2,721	2,883	1,641	1,903	1,300	1,728
3. Sales Tax	585	7	498	673	870	1,184	1,097	1,066	1,105	1,126
4. Fuel Tax	110	90	150	115	147	192	107	135	130	165
5. Provincial Direct Taxes	2,623	2,070	4,943	3,608	3,451	4,655	3,472	3,737	3,116	3,676
6. Health Care Premiums/Payroll Tax	768	816	—	—	—	—	—	—	—	—
7. Total Provincial Tax	3,391	2,886	4,943	3,608	3,451	4,655	3,472	3,737	3,116	3,676
8. Federal Income Tax	950	950	950	950	950	950	950	950	950	950
9. Net Federal GST	762	796	690	727	748	780	742	714	809	767
10. Total Tax	5,103	4,632	6,583	5,285	5,149	6,385	5,164	5,401	4,875	5,393

Personal Income Tax

- Income tax is based on basic personal credits, applicable provincial credits, and typical major deductions at each income level. Quebec residents pay federal income tax less an abatement of 16.5 per cent of basic federal tax. This abatement has been used to reduce Quebec provincial tax rather than federal tax, for comparative purposes. The two income family of four with $60,000 annual income is assumed to have one spouse earning $40,000 and the other $20,000, the family with $90,000 income is assumed to have one spouse earning $50,000 and the other $40,000,the family with $30,000 is assumed to have each spouse earning $15,000 and each senior is assumed to receive $15,000. All representative families are assumed to have employment income except the senior couple. Contributions to the Quebec Health Services Fund are included in Quebec personal income tax.

Net Child Benefits

- Net child benefits are provincial measures affecting payments to families with children. Provincial child benefit measures are available in British Columbia (BC Family Bonus), Alberta (Family Employment Credit), Saskatchewan (Child Benefit), Ontario (Child Care Supplement for Working Families), Quebec (Integrated Child Allowance), New Brunswick (Child Tax Benefit), Nova Scotia (Child Benefit) and Newfoundland (Child Benefit). In addition, the Alberta government has chosen to vary the amount of the basic federal child tax benefit that their residents receive (shown as a net amount).

Property Tax

- Estimates of property taxes are from a sample of Royal LePage's on-line listings of residential properties for sale. It is assumed that the individual at $25,000 rents accommodation; the family at $30,000 and at $60,000 and the senior couple own bungalows; the family at $90,000 owns a two-storey executive style home; and the single at $80,000 owns a luxury condominium, in a major city for each province. Net property taxes are estimated as taxes owing after credits provided through the property tax system are subtracted.

Sales and Fuel Tax Estimates

- Includes sales tax on meals, liquor and accommodation. Estimates are based on expenditure patterns from the 1996 Survey of Family Expenditures. In estimating individual and family taxable consumption, disposable income is reduced by 20 per cent to reflect housing (mortgage and property taxes or rent) costs. The senior couple is assumed to own their home and have no mortgage costs. For each province, disposable income is further reduced by estimated federal income taxes, estimated provincial income taxes and health care premiums if applicable. In addition, the single individual with $80,000 annual income and the family with $90,000 annual income are assumed to have savings equal to 5 per cent of their disposable income. For each family, disposable income is distributed among expenditures using the consumption pattern of a typical family with the relevant characteristics as estimated by the family expenditure survey. The provincial retail sales tax and the federal goods and services tax (GST) components of these expenditures are then calculated. GST estimates have been reduced by the GST credit, where applicable.
- Fuel tax is based on annual consumption: 1,000 litres of unleaded fuel for the single individual at $25,000, the family at $30,000 and the senior couple; others are assumed to consume 1,500 litres.

Health Care Premiums/Payroll Tax

- Health care premiums are levied in British Columbia and Alberta only. Approximately 50 per cent of British Columbia premiums are paid by employers on behalf of their employees, with the remainder paid by individuals, either by employees or by residents who are not employed. Payroll taxes, in the four provinces that levy them, are paid by the employer. The cost of payroll taxes and health care premiums paid by employers on behalf of employees is generally reflected in reduced wages.

Effective Tax Rates

- British Columbia taxes have been calculated using rates in effect for 2001. Taxes for other provinces were calculated using rates that were announced prior to March 6, 2001, and come into effect during 2001.

TABLE H5

SUMMARY OF OPERATING RESULTS, CAPITAL EXPENDITURES AND NET DEBT

	Actual 1997/98	Actual 1998/99	Actual 1999/00	Revised Forecast 2000/01	Budget Estimate 2001/02
	($ millions)				
Operating Results					
Consolidated Revenue Fund balance	(151)	(281)	(354)	1,415	290
Net income (loss) of taxpayer-supported Crown corporations	(345)	(817)	596	(264)	(313)
Net income (loss) of self-supported commercial Crown corporations	66	95	(190)	428	23
Forecast allowance	—	—	—	(150)	(300)
Joint trusteeship agreements	—	—	—	(112)	1,390
Summary surplus (deficit)	(430)	(1,003)	52	1,317	1,090
Capital Expenditures					
Taxpayer-supported					
Capital plan					
Education	373	504	489	394[1]	505
Health	115	169	247	401[1]	401
Transportation	419	781	1,015	944	785
Other	30	24	36	66[1]	52
Gross capital plan	937	1,478	1,787	1,805	1,743
Less: recoverable expenditures[2]	(17)	(89)	(66)	(64)	(95)
Net capital plan	920	1,389	1,721	1,741	1,648
Other taxpayer-supported					
Government operating (ministries)	147	195	156	192	264
Other	50	84	22	48	64
Total taxpayer-supported	1,117	1,668	1,899	1,981	1,976
Self-supported commercial Crown corporations and agencies	531	595	766	902	1,061
Total capital expenditures	1,648	2,263	2,665	2,883	3,037
Net Debt at Year-End:[3]					
Provincial government direct					
Operating purposes	11,488	12,190	13,833	11,909	11,736
Capital financing purposes	5,769	6,999	7,869	8,835	9,867
Total provincial government direct	17,257	19,189	21,702	20,744	21,603
Taxpayer-supported Crown corporations and agencies	4,707	3,761	3,222	3,715	4,067
Total taxpayer-supported debt	21,964	22,950	24,924	24,459	25,670
Self-supported commercial Crown corporations and agencies	7,992	8,399	7,977	7,891	8,096
Warehouse borrowing program	212	658	1,320	1,466	600
Forecast allowance	—	—	—	—	300
Total provincial debt	30,168	32,007	34,221	33,816	34,666

[1] Includes the effect of certain costs previously considered capital expenditures being reclassified as operating costs and vice versa. The net effect of the change was to decrease education capital expenditures by $128 million and capital expenditures for the seismic upgrading of government buildings by $10 million. The change increased health capital expenditures, including funding provided through supplementary estimates, by $128 million.

[2] Expenditures by hospital districts on cost-shared projects, and capital spending on behalf of, and recovered from, other public sector agencies.

[3] Net of sinking funds and unamortized discount balances.

TABLE H6

SUMMARY ACCOUNTS OPERATING RESULTS — FIVE-YEAR DETAILS

	Actual 1997/98	Actual 1998/99	Actual 1999/00	Revised Forecast 2000/01	Budget Estimate 2001/02
	($ millions)				
Consolidated Revenue Fund (CRF):					
Revenue[1]	20,216	20,306	21,846	24,030	24,585
Expenditure[1]	(20,367)	(20,587)	(22,200)	(22,615)[2]	(24,295)
CRF Balance	(151)	(281)	(354)	1,415	290
Crown corporations and agencies:					
Taxpayer-supported:					
British Columbia Buildings Corporation	39	49	45	52	39
British Columbia Ferry Corporation	(59)	(114)	(299)	10	3
BC Transportation Financing Authority	52	(114)	22	2	—
Forest Renewal BC	(88)	(265)	1	(97)	(139)
Other[3]	40	9	(44)	26	(7)
	(16)	(435)	(275)	(7)	(104)
Less: contributions paid to CRF[4]	(20)	(14)	(78)	(72)	(18)
accounting adjustments[5]	(309)	(368)	949	(185)	(191)
Total taxpayer-supported	(345)	(817)	596	(264)	(313)
Self-supported commercial:					
British Columbia Hydro and Power Authority	408	395	416	483[6]	459
Liquor Distribution Branch	606	616	617	635	616
British Columbia Lottery Corporation	290	456	532	550	585
British Columbia Railway Company	40	24	(582)	(7)	18
Insurance Corporation of British Columbia	14	74	96	131	75
Other[7]	(24)	(23)	1	6	7
	1,334	1,542	1,080	1,798	1,760
Less: contributions paid to CRF[8]	(1,260)	(1,348)	(1,376)	(1,447)	(1,422)
accounting adjustments[9]	(8)	(99)	106	77	(315)
Total self-supported commercial	66	95	(190)	428	23
Total Crown corporations and agencies	(279)	(722)	406	164	(290)
Summary account balance before forecast allowance and joint trusteeship agreements	(430)	(1,003)	52	1,579	0
Forecast allowance	—	—	—	(150)	(300)
Joint trusteeship agreements	—	—	—	(112)	1,390
Total Summary Accounts Surplus (Deficit)	(430)	(1,003)	52	1,317	1,090

[1] Revenue and expenditure for the 1997/98 have been restated to reflect a change to accounting policy with respect to earnings of sinking funds held for government direct operating debt. This restatement reduces revenue and expenditure by $69 million in 1997/98. Revenue excludes dedicated revenue collected on behalf of, and transferred to, Crown corporations and agencies and other entities (see Table H7).

[2] Expenditure is $112 million lower than the amount shown in Table B5 due to the exclusion of a one-time adjustment related to the Public Service Pension Plan joint trusteeship agreement. In order to be consistent with the presentation used for 2001/02, joint trusteeship adjustments are excluded from total expenditure (see Table C5), and are shown separately as bottom-line adjustments to the summary accounts balance.

[3] Includes earnings (losses) of British Columbia Transit, British Columbia Securities Commission, Okanagan Valley Tree Fruit Authority, Tourism British Columbia, B.C. Pavilion Corporation and other taxpayer-supported Crown corporations and agencies.

[4] Primarily reflects dividends from the British Columbia Buildings Corporation that are included in CRF revenue.

[5] Primarily includes adjustments to record the amortization of the cost of highways transferred to the BC Transportation Financing Authority. The 1999/00 adjustment includes the effect of $1.08 billion debt assumed by the provincial government from British Columbia Ferry Corporation.

[6] Includes a revenue adjustment to reflect uncertainty in realizing a portion of export sales to California.

[7] Includes earnings/(losses) of the Columbia Power Corporation and 552513 BC Ltd. (Skeena Cellulose Inc.) and other commercial Crown corporations.

[8] Includes dividends from commercial Crown corporations that are included in CRF revenue.

[9] Includes an adjustment to include the British Columbia Hydro and Power Authority rate stabilization account, and transfers of British Columbia Lottery Corporation revenue to charities and local governments, and adjustments for differences in the fiscal year ends of the government and commercial Crown corporations.

TABLE H7

REVENUE BY SOURCE[1]
CONSOLIDATED REVENUE FUND

	Actual 1997/98	Actual 1998/99	Actual 1999/00	Budget Estimate 2000/01	Revised Forecast 2000/01	Budget Estimate 2001/02	Annual Rate of Growth 1997/98 to 2001/02
	($ millions)						(per cent)
Taxation Revenue:							
Personal income	5,362	5,423	5,839	5,513	6,015	6,070	3.1
Corporation income	1,138	1,098	939	915	1,056	1,245	2.3
Social service	3,243	3,209	3,338	3,446	3,581	3,743	3.6
Fuel	642	654	470	437	455	445	(8.8)
Tobacco	486	505	498	468	468	468	(0.9)
Property — residential (school purpose)	502	511	529	514	531	535	1.6
Property — business (school purpose)	735	764	758	779	775	800	2.1
Property — rural area	62	61	63	67	64	65	1.2
Property transfer	310	223	245	250	255	265	(3.8)
Corporation capital	406	455	460	438	438	430	1.4
Insurance premium[2]	176	195	199	198	204	209	4.4
Hotel room	74	79	86	87	93	97	7.0
Horse racing	4	4	3	3	—	—	—
Less: commissions on collection of public funds	(24)	(24)	(24)	(24)	(24)	(24)	—
Less: allowances for doubtful accounts	(13)	(23)	(25)	(15)	(25)	(25)	17.8
Total taxation revenue	**13,103**	**13,134**	**13,378**	**13,076**	**13,886**	**14,323**	2.3
Natural Resource Revenue:							
Petroleum and natural gas:							
Natural gas royalties	156	193	328	335	1,159	1,323	70.7
Permits and fees	214	106	248	217	474	351	13.2
Petroleum royalties	77	62	94	88	149	139	15.9
Sub-total	447	361	670	640	1,782	1,813	41.9
Minerals	52	44	47	33	53	53	0.5
Forests:							
Timber sales	968	815	1,041	967	785	785	(5.1)
Small business forest enterprise program	318	209	269	232	234	255	(5.4)
Logging tax	13	14	24	45	60	35	28.1
Other forests revenue	65	55	58	58	43	35	(14.3)
Sub-total	1,364	1,093	1,392	1,302	1,122	1,110	(5.0)
Water resources	322	323	297	309	301	301	(1.7)
Columbia River Treaty	—	—	99	89	702	831	—
Wildlife Act	14	14	15	14	14	14	—
Sub-total	336	337	411	412	1,017	1,146	35.9
Less: commissions on collection of public funds	(1)	(1)	(1)	(1)	(1)	(2)	18.9
Less: allowances for doubtful accounts	(1)	(5)	(2)	(8)	(9)	(10)	77.8
Total natural resource revenue	**2,197**	**1,829**	**2,517**	**2,378**	**3,964**	**4,110**	17.0

TABLE H7 — *(Continued)*

REVENUE BY SOURCE[1]
CONSOLIDATED REVENUE FUND

	Actual 1997/98	Actual 1998/99	Actual 1999/00	Budget Estimate 2000/01	Revised Forecast 2000/01	Budget Estimate 2001/02	Annual Rate of Growth 1997/98 to 2001/02
	($ millions)						(per cent)
Other Revenue:							
Medical Services Plan premiums	882	876	868	891	905	916	1.0
Motor vehicle licences and permits	316	329	335	341	340	345	2.2
Ministry of Attorney General fees	95	106	102	102	100	104	2.3
Real estate earnings of the Crown Land special account	35	44	55	80	47	71	19.3
Coquihalla highway tolls	39	39	41	41	42	42	1.9
Registries Agency fees	37	36	36	37	36	37	—
Vital Statistics Agency fees	10	10	10	10	10	10	—
Ministry of Health fees	24	23	24	22	23	23	(1.1)
Provincial Treasury Operations and Insurance and Risk Management special accounts	26	26	33	22	21	21	(5.2)
Safety inspection fees	17	16	16	16	16	16	(1.5)
Waste management fees	13	12	12	12	12	12	(2.0)
Public gaming licences and permits	18	6	—	—	—	—	—
Fire Services Act[2]	11	—	—	—	—	—	—
Property tax collection fees	6	7	7	7	7	7	(3.9)
Financial Institutions Commission	6	2	2	1	1	1	(36.1)
Other fees and licences	57	36	25	34	18	18	(25.0)
	1,592	1,568	1,566	1,616	1,578	1,623	0.5
Less: commissions on collection of public funds	(73)	(51)	(13)	(5)	(5)	(6)	(46.5)
Less: allowances for doubtful accounts	(19)	(34)	(5)	(16)	(16)	(18)	(1.3)
Sub-total	1,500	1,483	1,548	1,595	1,557	1,599	1.6
Investment earnings	48	51	60	55	105	70	9.9
Miscellaneous:							
Fines and penalties	101	112	107	103	99	95	(1.5)
Maintenance of children[3]	17	10	—	—	—	—	—
Insurance claim receipts	22	14	14	13	12	13	(12.3)
Other miscellaneous	91	101	114	92	125	114	5.8
	279	288	295	263	341	292	1.1
Less: commissions on collection of public funds	(4)	(3)	(3)	(9)	(7)	(7)	15.0
Less: allowances for doubtful accounts	—	—	(4)	(18)	(19)	(31)	—
Sub-total	275	285	288	236	315	254	(1.9)
Asset dispositions[4]	24	63	52	50	—	50	20.1
Total other revenue	**1,799**	**1,831**	**1,888**	**1,881**	**1,872**	**1,903**	1.4

TABLE H7 — *(Continued)*

REVENUE BY SOURCE[1]

CONSOLIDATED REVENUE FUND

	Actual 1997/98	Actual 1998/99	Actual 1999/00	Budget Estimate 2000/01	Revised Forecast 2000/01	Budget Estimate 2001/02	Annual Rate of Growth 1997/98 to 2001/02
	($ millions)						(per cent)
Contributions from Government Enterprises:							
Taxpayer-supported Crown corporations and agencies							
British Columbia Buildings Corporation	20	2	71	62	52	16	(5.4)
Other	—	12	7	—	20	2	—
Sub-total	20	14	78	62	72	18	(2.6)
Self-supported Crown corporations and agencies							
Liquor Distribution Branch	609	616	617	620	635	616	0.3
British Columbia Hydro and Power Authority	369	323	343	355	403	375	0.4
British Columbia Lottery Corporation	282	369	416	398	406	429	11.1
Other[5]	—	40	—	13	3	2	—
Sub-total	1,260	1,348	1,376	1,386	1,447	1,422	3.1
Total contributions from government enterprises	**1,280**	**1,362**	**1,454**	**1,448**	**1,519**	**1,440**	3.0
Contributions from the Federal Government:							
Canada health and social transfer	1,637	1,968	2,438	2,549	2,621	2,631	12.6
Education (public schools)	74	76	81	74	76	76	0.7
National Training Act	8	7	—	—	—	—	—
Employability assistance for persons with disabilities	27	35	27	27	27	27	—
Other payments	91	64	63	67	65	75	(4.7)
Total contributions from the federal government	**1,837**	**2,150**	**2,609**	**2,717**	**2,789**	**2,809**	11.2
Total Revenue	**20,216**	**20,306**	**21,846**	**21,500**	**24,030**	**24,585**	5.0

TABLE H7 — *(Continued)*

REVENUE BY SOURCE[1]
CONSOLIDATED REVENUE FUND

	Actual 1997/98	Actual 1998/99	Actual 1999/00	Budget Estimate 2000/01	Revised Forecast 2000/01	Budget Estimate 2001/02	Annual Rate of Growth 1997/98 to 2001/02
	($ millions)						(per cent)
DEDICATED REVENUE COLLECTED ON BEHALF OF, AND TRANSFERRED TO CROWN CORPORATIONS AND AGENCIES, AND OTHER ENTITIES							
British Columbia Transit[6]	87.2	94.2	7.8	8.2	7.5	7.7	(45.5)
Greater Vancouver Transportation Authority *(TransLink)*[7]	—	—	181.8	187.0	171.6	196.5	—
BC Transportation Financing Authority[8]	118.6	123.9	176.5	202.8	199.0	203.5	14.5
British Columbia Ferry Corporation[9]	—	—	65.1	72.3	72.0	73.7	—
Tobacco Tax Amendment Act[10]	0.4	1.6	1.6	1.6	1.6	1.5	39.2
Rural Area Property Taxes[11]	147.1	150.3	150.0	156.0	156.0	160.0	2.1
Tourism British Columbia[12]	19.9	20.5	21.8	20.0	24.0	25.0	5.9
Oil and Gas Commission[13]	—	5.7	13.4	13.6	15.1	14.9	—
Forest Renewal BC[14]	482.8	177.0	301.5	251.4	168.1	139.8	(26.6)
BC Racing Commission[15]	—	—	—	—	—	13.8	—
Total Dedicated Revenue	**856.0**	**573.2**	**919.5**	**912.9**	**814.9**	**836.4**	(0.6)

[1] Unless otherwise indicated, figures for prior years have been restated to be consistent with the presentation used in 2001/02. Consolidated Revenue Fund revenue amounts exclude dedicated revenue collected on behalf of, and transferred to, Crown corporations and agencies, and other entities.
[2] Beginning in 1998/99, *Fire Services Act* revenue is included in insurance premium tax revenue.
[3] Beginning in 1999/00, maintenance of children revenue is recorded as a recovery to the Ministry of Children and Families expenditure vote.
[4] Includes revenue realized through dispositions of assets resulting from reviews of government properties, agencies and other assets to identify those assets surplus to government's needs.
[5] Includes British Columbia Railway Company, British Columbia Systems Corporation, British Columbia Assets and Land Corporation (WLC Developments Ltd). and other Crown corporations and agencies.
[6] For 1997/98 and 1998/99, figures include motor fuel tax collected in the Vancouver and Victoria regional transit areas. Effective April 1, 1999, figures include motor fuel tax collected in the Victoria regional transit area only (2.5 cents/litre on clear gasoline and motive fuel), as a result of the creation of the Greater Vancouver Transportation Authority *(TransLink).*
[7] Effective April 1, 1999, includes 8 cents/litre on clear gasoline and motive fuel (4 cents/litre of which was previously collected on behalf of British Columbia Transit) and social service tax on parking in the Vancouver transit area. Effective April 1, 2001, the tax transferred increased to 9 cents/litre of clear gasoline and motive fuel. The 2001/02 figure includes the additional 1 cent per litre.
[8] Includes motor fuel tax and social service tax on short-term rentals of passenger vehicles. The 1999/00 figure is based on a transfer of 3 cents/litre on clear gasoline and motive fuel (up from 2 cents /litre effective June 1, 1999). The 2000/01 and 2001/02 figures are based on a transfer of 3.25 cents/litre on clear fuels.
[9] Includes 1 cent/litre of motor fuel tax for the period April 1, 1999 to September 30, 1999, and 1.25 cents/litre effective October 1, 1999.
[10] Includes tobacco tax collected on behalf of the Cowichan Tribes in respect of the Cowichan Tribes Agreement.
[11] Includes local taxes collected on behalf of local governments in rural areas.
[12] Includes 1.65 percentage points of the 8 per cent provincial hotel room tax.
[13] Includes fees collected under the *Petroleum and Natural Gas Act* and the *Pipeline Act*, and a levy assessed under the *Oil and Gas Commission Levy Regulation*.
[14] Includes incremental stumpage and royalty revenue resulting from changes to rates introduced under the provincial government's Forest Renewal Plan on and after May 1, 1994.
[15] Consists of 4 percentage points of the 7 per cent horse racing tax on parimutual betting; 5 and 6 percentage points on simulcast races and tele-theatre betting, respectively. In 2000/01 and prior years, this was recorded as a recovery to vote.

TABLE H8

EXPENDITURE BY FUNCTION[1]
CONSOLIDATED REVENUE FUND

	Actual 1997/98	Actual 1998/99	Actual 1999/00	Revised Forecast 2000/01	Budget Estimate 2001/02	Annual Rate of Growth 1997/98 to 2001/02
	($ millions)					(per cent)
Health	7,253	7,521	8,174	8,752	9,318	6.5
Social services	3,109	3,039	3,023	3,478	3,690	4.4
Education	5,803	5,867	6,099	6,618	6,746	3.8
Protection of persons and property	1,047	1,079	1,123	1,172	1,157	2.5
Transportation	791	792	1,702[2]	616	669	(4.1)
Natural resources and economic development	867	941	969	1,032	973	2.9
Other	479	373	367	343	640[3]	7.5
Pension accounting and valuation adjustments[4]	(64)	(116)	(340)	(575)	(58)	—
General government	248	253	248	284	320	6.6
Debt servicing	834	838	835	895	840	0.2
Total Expenditure	20,367	20,587	22,200	22,615[5]	24,295	4.5
Per Capita Expenditures[6]	5,144	5,149	5,218	5,565	5,907	3.5
Real Per Capita Expenditures (1992 dollars)[7]	4,689	4,681	4,693	4,911	5,128	2.2

[1] Expenditure by function is presented on a basis to more closely follow the presentation used by Statistics Canada. Unless otherwise indicated, figures for previous years have been restated to be consistent with the presentation used for 2000/01.
[2] Includes forgiveness of $1.08 billion of debt owed to the government by British Columbia Ferry Corporation.
[3] The Contingencies vote is assigned to Other in the 2000/01 Budget Estimates, but is allocated to functions according to specific expenditures in prior years.
[4] Adjustments to public sector pensions that were previously proportionally allocated to functions are now shown separately. For all years, this grouping includes the amortization of the change to the unfunded pension liability. It also includes adjustments to pension accounting policy in 1999/00 ($352 million) and 2000/01 ($368 million). 1999/00 also includes $142 million for pension rule changes. Pension joint trusteeship arrangements are not included as expenditures, see Table C1 and the topic box in Section C.
[5] Reflects revised forecast of $22,727 million shown in Table B2, less a one-time cost of joint trusteeship for the Public Service Pension Plan of $112 million in 2000/01. This adjustment is required to present the 2000/01 revised forecast on a basis consistent with the 2001/02 budget estimate which excludes adjustments for joint trusteeship (see Table C5). These adjustments are shown as bottom-line adjustments to the summary accounts balance (see Table C1).
[6] Excludes one-time expenditures of $1.2 billion in 1999/00. Per capita expenditure is calculated using July 1 population (e.g. 2000/01 expenditure is divided by population on July 1, 2000).
[7] Excludes one-time expenditures of $1.2 billion in 1999/00. Expenditure is converted to real (inflation-adjusted) terms using the consumer price index (CPI) for the corresponding calendar year (e.g. 2000 CPI for 2000/01 expenditure).

TABLE H9
PROJECTED INCOME STATEMENTS OF SELECTED CROWN CORPORATIONS

British Columbia Buildings Corporation	Forecast 2000/01 ($000)	Estimate 2001/02 ($000)	Increase (Decrease) (Per cent)
Gross revenues	444,122	458,855	3.3
Expenses:			
Operations, maintenance and administration	115,686	122,140	5.6
Lease costs	129,375	136,332	5.4
Client projects, amortization, energy and other costs	121,213	126,571	4.4
Interest, net	38,257	40,519	5.9
	404,531	425,562	5.2
Income before gain on disposals	39,591	33,293	(15.9)
Gain on disposals	12,396	5,968	(51.9)
Net income (loss)	51,987	39,261	(24.5)

British Columbia Ferry Corporation	Forecast 2000/01 ($000)	Estimate 2001/02[1] ($000)	Increase (Decrease) (Per cent)
Revenues:			
Tolls	291,400	300,100	3.0
Dedicated motor fuel tax[2]	72,000	73,700	2.4
Catering and other income	89,600	89,700	0.1
	453,000	463,500	2.3
Expenses:			
Salaries, wages and benefits	226,400	237,500	4.9
Fuel, repair and maintenance, cost of goods sold	110,300	112,200	1.7
Professional, computer and other expenses	54,100	59,200	9.4
Net financing expense	1,100	2,100	90.9
Amortization	51,300	50,000	(2.5)
	443,200	461,000	4.0
Net income (loss)	9,800	2,500	(74.5)

[1] The 2001/02 estimate is subject to review by the board of directors.
[2] This revenue includes 1.25 cents/litre of motor fuel tax (effective October 1, 1999).

TABLE H9 — *(Continued)*

PROJECTED INCOME STATEMENTS OF SELECTED CROWN CORPORATIONS

BC Transportation Financing Authority	Forecast 2000/01 ($000)	Estimate 2001/02 ($000)	Increase (Decrease) (Per cent)
Revenue:			
Dedicated revenue[1]	199,000	203,500	2.3
Capital contributions (amortization)[2]	189,434	188,681	(0.4)
Other[3]	77,100	113,886	47.7
	465,534	506,067	8.7
Expenditures:[4]			
Operations, administration, grants and other	112,819	106,162	(5.9)
Amortization[2]	247,998	264,794	6.8
Interest[5]	103,203	135,007	30.8
	464,020	505,963	9.0
Net income (loss)	1,514	104	(93.1)

[1] Dedicated revenue includes 3.25 cents/litre of motor fuel tax and a provincial sales tax on short-term car rentals.
[2] Effective March 31, 1999, the provincial government transferred highway infrastructure assets to the Authority. Asset values are recorded on the Authority's balance sheet as a deferred capital contribution. This contribution is amortized as income of the Authority with an offsetting adjustment to amortization expense.
[3] Includes recoveries for construction labour on various Rapid Transit 2000 infrastructure projects and, in 2001/02, also includes a $34-million grant from the provincial government.
[4] Capital expenditures are accounted for in the Authority's balance sheet. Completed infrastructure is amortized on a straight-line basis over its estimated useful life. Operations includes construction labour costs on various Rapid Transit 2000 projects.
[5] Interest on borrowing used to finance construction work in progress is capitalized. Upon completion, interest capitalization ceases, and related interest costs are expensed.

Forest Renewal BC	Forecast 2000/01 ($000)	Estimate 2001/02[1] ($000)	Increase (Decrease) (Per cent)
Revenue			
Statutory forest revenue[2]	168,090	139,846	(16.8)
Investment income	25,768	14,790	(42.6)
	193,858	154,636	(20.2)
Expenditures			
Program expenditures	275,112	278,980	1.4
Administration[3]	15,232	14,917	(2.1)
	290,344	293,897	1.2
Net income (loss)	(96,486)	(139,261)	44.3

[1] The 2001/02 estimate is subject to review by the board of directors.
[2] Consists of stumpage and royalties resulting from changes introduced under the Forest Renewal Plan. Statutory revenue is net of the annual recovery by the provincial government of up to $50 million for expenditures incurred by the province relating to the administration of the *Forest Practices Code,* as provided for under the *Forest Renewal Act.*
[3] Includes the administration costs of two wholly-owned subsidiaries.

TABLE H10
PROVINCIAL NET DEBT SUMMARY[1]

As at March 31,	Actual 1998	Actual 1999	Actual 2000	Revised Forecast 2001	Budget Estimate 2002
	($ millions unless otherwise indicated)				
Taxpayer-supported debt					
Provincial government direct operating	11,488	12,190	13,833	11,909	11,736
Education facilities[2]					
Schools	2,990	3,261	3,609	3,887	4,201
Post-secondary institutions	1,362	1,336	1,369	1,376	1,481
	4,352	4,597	4,978	5,263	5,682
Health facilities[2]	1,417	1,282	1,451	1,762	2,074
Highways, ferries and public transit					
BC Transportation Financing Authority	1,089	1,433	1,843	2,301	2,597
British Columbia Ferry Corporation	795	973	24[3]	35	71
British Columbia Transit	1,579	59	79	78	84
Public transit[2]	—	987	952	949	941
SkyTrain extension[2]	—	133	488	861	1,170
Rapid Transit Project 2000 Ltd.	—	56	101	108	—
	3,463	3,641	3,487	4,332	4,863
Other					
British Columbia Buildings Corporation	735	715	615	613	617
Social housing[4]	175	183	205	255	329
Homeowner Protection Office	—	11	32	70	114
577315 British Columbia Ltd. (Western Star Trucks Holding Ltd.)	—	—	62	—	—
Universities and colleges — fiscal agency loans	144	137	130	124	121
Other[5]	190	194	131	131	134
	1,244	1,240	1,175	1,193	1,315
Total taxpayer-supported debt	**21,964**	**22,950**	**24,924**	**24,459**	**25,670**
Self-supported debt					
Commercial Crown corporations and agencies:					
British Columbia Hydro and Power Authority	7,234	7,474	6,945	6,816	6,960
British Columbia Railway Company	503	607	655	604	602
552513 British Columbia Ltd. (Skeena Cellulose Inc.)[6]	157	221	280	340	327
Columbia Basin Power Company[7]	95	94	94	93	124
Columbia Power Corporation	—	—	—	36	81
Liquor Distribution Branch	3	3	3	2	2
	7,992	**8,399**	**7,977**	**7,891**	**8,096**
Warehouse borrowing program	**212**	**658**	**1,320**	**1,466**	**600**
Total self-supported debt	**8,204**	**9,057**	**9,297**	**9,357**	**8,696**
Forecast allowance	**—**	**—**	**—**	**—**	**300**
Total provincial debt	**30,168**	**32,007**	**34,221**	**33,816**	**34,666**
Total provincial debt as a per cent of GDP	26.6%	28.1%	28.8%	27.0%	26.6%
Taxpayer-supported debt as a per cent of GDP	19.3%	20.1%	21.0%	19.6%	19.7%

[1] Net debt is after deduction of sinking funds and unamortized discounts, and excludes accrued interest. Government direct and fiscal agency accrued interest is reported in the government's accounts as an accounts payable. Figures for earlier years have been restated to conform with the presentation used for fiscal 2001/02.
[2] Represents government direct debt incurred for capital financing purposes.
[3] Effective March 31, 2000, the provincial government assumed responsibility for the British Columbia Ferry Corporation's fiscal agency loans of $1,080 million.
[4] Includes the British Columbia Housing Management Commission and the Provincial Rental Housing Corporation.
[5] Includes the British Columbia Assessment Authority, Pacific Racing Association, Victoria Line Ltd., local governments, student assistance loans, loan guarantees issued under economic development and home mortgage assistance programs, and other taxpayer-supported agencies.
[6] Although the debt of 552513 British Columbia Ltd. (Skeena Cellulose Inc.) is considered to be self-supported, future profitability is uncertain due to the volatility of world pulp prices and their potential impact on Skeena Cellulose Inc. As the province is not the sole shareholder of Skeena Cellulose Inc., a portion of this debt may be attributable to the minority shareholder.
[7] A joint venture of the Columbia Power Corporation and Columbia Basin Trust.

TABLE H11
KEY DEBT INDICATORS

	For fiscal year ending March 31				
	1998	1999	2000	Revised Forecast 2001	Budget Estimate 2002
Debt to revenue (per cent)					
Total provincial	98.6	102.3	101.6	84.5	80.1
Taxpayer-supported	93.4	98.6	100.6	89.8	93.7
Debt per capita ($)[1]					
Total provincial	7,618	8,006	8,496	8,321	8,428
Taxpayer-supported	5,546	5,740	6,188	6,018	6,241
Debt to GDP (per cent)[2]					
Total provincial	26.6	28.1	28.8	27.0	26.6
Taxpayer-supported	19.3	20.1	21.0	19.6	19.7
Interest bite (cents per dollar of revenue)[3]					
Total provincial	7.6	7.8	7.5	6.6	6.1
Taxpayer-supported	7.0	7.4	7.1	6.7	6.7
Interest costs ($ millions)					
Total provincial	2,319	2,452	2,528	2,629	2,622
Taxpayer-supported	1,656	1,723	1,762	1,813	1,841
Interest rate (per cent)[4]					
Taxpayer-supported	7.7	7.7	7.4	7.3	7.3
Background Information:					
Revenue ($ millions)					
Total provincial[5]	30,593	31,294	33,679	40,024	43,279
Taxpayer-supported[6]	23,525	23,285	24,784	27,226	27,394
Total debt ($ millions)					
Total provincial	30,168	32,007	34,221	33,816	34,666
Taxpayer-supported[7]	21,964	22,950	24,924	24,459	25,670
Provincial GDP ($ millions)[8]	113,596	113,945	118,783	125,100	130,190
Population (thousands at July 1)[9]	3,960	3,998	4,028	4,064	4,113

[1] The ratio of debt to population (e.g. 2002 debt divided by population at July 1, 2001).
[2] The ratio of debt outstanding at fiscal year end to provincial nominal gross domestic product (GDP) for the calendar year ending in the fiscal year (e.g. 2002 debt divided by 2001 GDP).
[3] The ratio of interest costs (less sinking fund interest) to revenue. Figures include capitalized interest expense in order to provide a more comparable measure to outstanding debt.
[4] Weighted average of all outstanding debt issues.
[5] Includes revenue of the consolidated revenue fund plus revenue of all Crown corporations and agencies.
[6] Excludes revenue of commercial Crown corporations and agencies.
[7] Excludes debt of commercial Crown corporations and agencies and funds held under the province's warehouse borrowing program.
[8] GDP for the year ending in the fiscal year (e.g. GDP for 2001 is used for the fiscal year ending March 31, 2002).
[9] Population at July 1st within the fiscal year (e.g. population at July 1, 2001 is used for the fiscal year ending March 31, 2002).