

SUMMARY

2010/11 First Quarterly Report

September 14, 2010

Updated Five Year Fiscal Plan

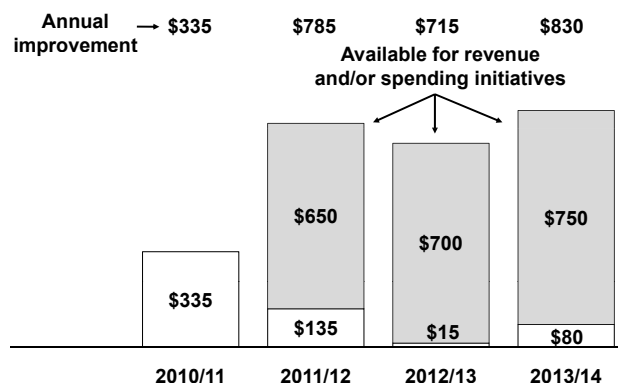
| (\$ millions) | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 |
|--|----------------|----------------|--------------|--------------|------------|
| Budget 2010 Five Year Fiscal Plan | (2,775) | (1,715) | (945) | (145) | 410 |
| Revenue changes | 471 | 812 | 773 | 571 | 798 |
| Expense changes | 400 | (477) | 12 | 144 | 32 |
| Forecast allowance changes | 125 | - | - | - | - |
| Impact of allocating available revenue | - | - | (650) | (700) | (750) |
| Updated Five Year Fiscal Plan | (1,779) | (1,380) | (810) | (130) | 490 |
| Taxpayer-supported capital spending and debt: | | | | | |
| Capital spending | 3,754 | 5,603 | 3,612 | 2,957 | 3,187 |
| Debt | 30,021 | 33,669 | 37,267 | 38,729 | 40,040 |
| Debt to GDP ratio | 15.9% | 17.0% | 18.1% | 17.9% | 17.6% |
| Economic growth: | | | | | |
| Real GDP | -2.3% | 3.1% | 2.2% | 2.8% | 2.8% |

Fiscal position improves

- The province's outlook over the remaining four years of the plan to balance the budget by 2013/14 has improved by \$2.7 billion since *Budget 2010*. The improvement is primarily due to higher than expected corporate income tax revenue.

Fiscal plan improves by \$2.7 billion

(\$ millions)



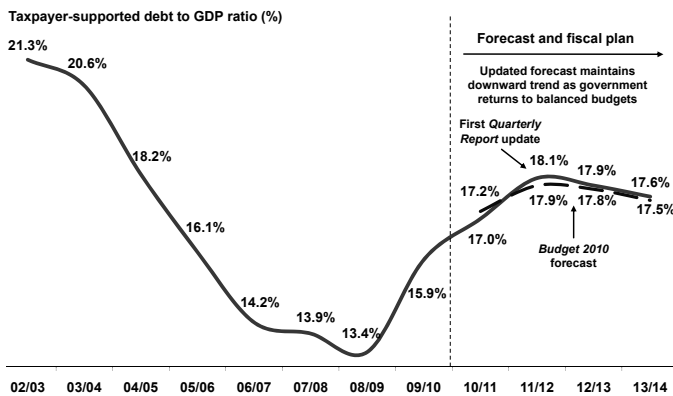
- Government has decided to make available a significant portion of this improvement for allocation to revenue and/or spending initiatives in 2011/12, 2012/13 and 2013/14.
- While the fiscal plan update reports revenue improvements in all years, the additional revenue in 2010/11 will be reserved by government to cover spending pressures and reduce the projected deficit by \$335 million.
- In addition to setting aside available revenue, government has been able to reduce the projected deficits in 2011/12 and 2012/13 by \$135 million and \$15 million, respectively, and

increase the projected surplus in 2013/14 by \$80 million.

- Annual revenue growth is expected to average 4.8 per cent over the three-year fiscal plan reflecting average annual nominal GDP growth of 4.7 per cent; recovery in the natural resource sector mainly due to rising commodity prices; and updated projections provided by Crown corporations and agencies.
- Spending changes primarily result from additional forest firefighting costs in 2010/11 and adjustments to projected spending funded by third party recoveries in all three years. As well, the fiscal plan has benefited from lower than expected debt servicing costs.
- Government expects to maintain its five-year plan profile and has retained the forecast allowance at *Budget 2010* levels to ensure a balanced budget is achieved by 2013/14.
- Overall, taxpayer-supported capital spending is virtually unchanged since *Budget 2010*; however, the updated forecast reflects approval for full day kindergarten and revised costs for the Children's and Women's Hospital project.
- Taxpayer-supported debt levels are down by \$79 million in 2010/11 compared to *Budget 2010*, but higher by \$547 million in 2011/12, \$400 million in 2012/13 and \$422 million in 2013/14. The increases are due to the impact of a higher than expected taxpayer-supported debt balance at the end of 2009/10, partially offset by higher cash flows from tax revenue.

- The increases in taxpayer-supported debt levels impact the associated debt to GDP ratios; however the changes are minimal (see chart). The debt balances and ratios include the impact of fully allocating the available revenue in 2011/12, 2012/13, and 2013/14.

Debt remains affordable

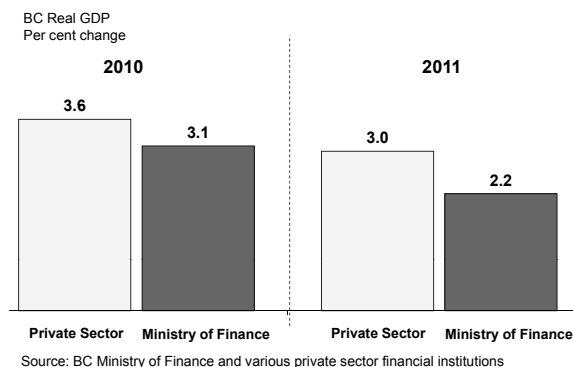


- Despite the improved fiscal outlook, there are a number of risks and pressures to the fiscal plan, including the impact of changes in economic growth, the potential for abrupt changes in energy and commodity prices, and higher than expected demand for government services. Therefore, government has kept the forecast allowances in the updated five-year plan at the same levels as in *Budget 2010*.

Economic forecast remains prudent

- The Ministry of Finance forecasts BC's real GDP to grow by 3.1 per cent in 2010 and by 2.2 per cent in 2011, following the contraction of 2.3 per cent in 2009.
- BC's economy is expected to grow by 2.8 per cent per year in the medium-term, closer to historical levels. This is mainly due to the anticipated recovery of US demand (particularly in the US housing market),

Ministry forecast prudent relative to private sector



growth in domestic demand and a steady rise in commodity prices.

- The projected real GDP growth for 2010 is an improvement over the forecast in *Budget 2010*, reflecting better than expected performance in some economic indicators through the first half of the year.
- The Ministry's forecast is more prudent than an average of six private sector forecasts by 0.5 percentage points in 2010 and 0.8 percentage points in 2011 in recognition of the significant downside risks to the forecast due to the potential for greater economic weakness in the US than assumed.
- Specific areas of risk include:
 - a possible "double-dip" return to recession in the US;
 - the sovereign debt crisis in some European countries threatening the stability of global financial markets;
 - slower than anticipated global demand resulting in weaker demand for BC's exports;
 - greater than anticipated moderation in the Canadian housing market;
 - further appreciation of the Canadian dollar; and
 - sudden weakening of the US dollar resulting in significant disruptions to global financial and commodity markets.

Budget Consultation

- Government will be addressing new and existing priorities as it enters into the budget development process. A committee of the Legislative Assembly will be seeking public input as part of this process, and will be holding public meetings in selected communities throughout BC beginning in late September through to October.
- The available revenues outlined in the updated five year fiscal plan table provide choices for British Columbians. These include additional tax reductions, spending on social programs and debt reduction. However, commitments to these areas must be affordable today as well as being sustainable in the years ahead. The legislative committee will issue a report on its findings to the Legislature no later than November 15, 2010.