QUARTERLY REPORT

FIRST QUARTER

APRIL TO JUNE 2001

BRITISH COLUMBIA

First Quarterly Report

on the Economy, Fiscal Situation, and Outlook

Fiscal Year 2001/02

Three Months

April – June 2001

BRITISH COLUMBIA

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Message from the Honourable Gary Collins

Minister of Finance

I am pleased to present the first *Quarterly Report* for the 2001/02 fiscal year. The economic and financial situation described in this report show the continuing challenge of British Columbia's structural deficit. The situation underlines the need to restrain spending growth on one hand, and to build a strong economic and revenue base on the other hand. I am continuing to forecast a deficit in the summary accounts, although now larger than at the time of the July 30 *Economic and Fiscal Update*.

The *Quarterly Report* includes:

— an update on economic trends during the April to June period that shows deterioration in the U.S. economy and the consequent signs of weakness in our economy, despite some strength in the retail and housing markets. In the coming weeks, I will be developing a new economic forecast to reflect the changing economic conditions;

— financial results for the first quarter of the fiscal year, showing a three month-surplus of $680 million. The surplus includes a one-time accounting gain of $1,280 million; without that gain there would have been a three-month deficit of $600 million; and

— a revised financial forecast for the 2001/02 fiscal year, projecting a $1,981-million deficit, after providing an allowance of $625 million to cover forecast risks over the remainder of the year. This is an increase of $481 million from the $1,500 million deficit forecast on July 30.

Part One of the *Quarterly Report* reviews the current economic situation.

Part Two provides financial results for the consolidated revenue fund and Crown corporations and agencies, as well as capital spending and provincial debt for the three months ended June 30, 2001.

Part Three presents the revised full-year financial forecast, with details on revenues and expenditures of the consolidated revenue fund, Crown corporations and agencies, capital spending and provincial debt.

Gary Collins
Minister

HIGHLIGHTS — ECONOMIC REPORT

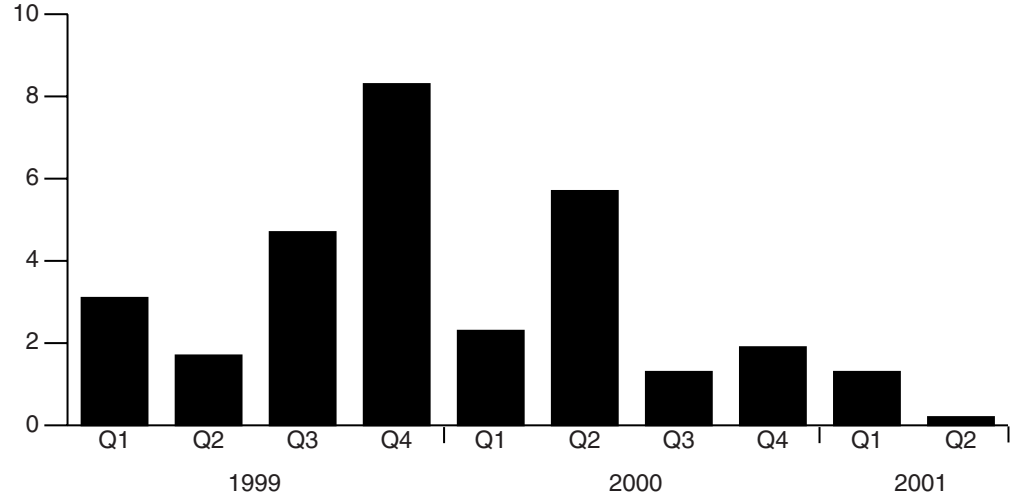
FIRST *QUARTERLY REPORT* 2001/02

- The economic outlook has deteriorated significantly since the July 30 *Economic and Fiscal Update.*

- U.S. and world growth is slowing and may not have bottomed out.

U.S. Real GDP

Quarterly percentage Change at Annual Rates



Source: Bureau of Economic Analysis

- British Columbia's economy has also weakened as other global economies slowed.

- Exports other than energy are down so far this year. Energy exports have been buoyed by high prices in the first half of the year.

- Employment and labour income have posted weak results in 2001. However, retail sales and housing starts have been relatively strong.

- Risks to the province's economy include the softwood lumber dispute and the possibility of further declines in consumer and business confidence in North America, which could prolong the economic slowdown.

- On the upside, fiscal stimulus from business and personal tax cuts will provide much needed support for the British Columbia economy.

- A new economic forecast is being developed prior to the second *Quarterly Report* at the end of November.

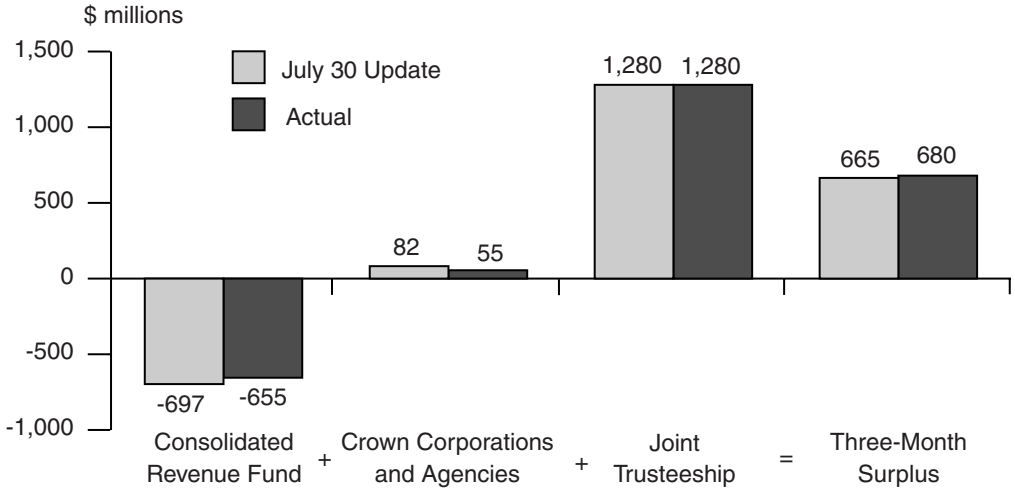
HIGHLIGHTS — FISCAL YEAR-TO-DATE REPORT

FIRST *QUARTERLY REPORT* 2001/02

- The summary accounts showed a $680 million surplus for the first three months of 2001/02, $15 million ahead of budget.
- The consolidated revenue fund balance was $42 million better than planned, as revenues were $36 million above forecast.
- Crown corporations and agency results were $27 million below plan, mainly due to reduced investment income and increased claim costs at ICBC.
- The one-time accounting gain, resulting from the move to joint trustee pension management, was booked as expected at $1,280 million.

Summary Accounts
Three-month results (April – June)

Unaudited



- In total, provincial debt increased $17 million during the first three months of the year:
  - — Taxpayer-supported debt increased by $383 million
  - — Commercial Crown corporation debt declined $114 million
  - — Warehouse debt was drawn down by $252 million.

HIGHLIGHTS — REVISED FINANCIAL FORECAST

FIRST *QUARTERLY REPORT* 2001/02

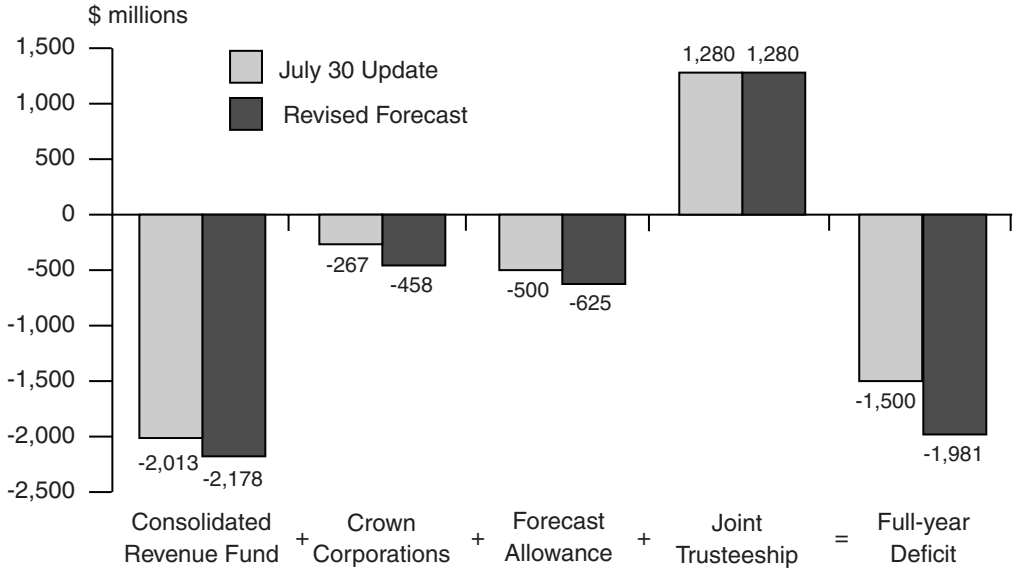
- The deficit for the 2001/02 fiscal year is now forecast to be $1.981 billion, compared to the $1.5 billion forecast at the July 30 *Economic and Fiscal Update.*

  — A lower energy price outlook, offset by smaller increases in other areas, has reduced the revenue forecast by $190 million.

  — Expenditures are forecast to be $25 million below budget as forest fire fighting costs are less than earlier expected.

  — The Crown corporation financial outlook is reduced by $191 million, primarily due to a projected $150-million ICBC loss reflecting one-time restructuring costs and higher claims estimates. ICBC's revised forecast is $185 million lower than their July 30 forecast.

Summary Accounts Full-Year Forecast



- The spending plan is on track. However, risks remain in a number of ministries, with the most significant being Health Services which is managing pressures in the range of $300 to $400 million.

- The weakening economic outlook provides additional downside risks to the financial plan.

- The forecast allowance has been increased from $500 million to $625 million in recognition of these increased risks.

HIGHLIGHTS — REVISED FINANCIAL FORECAST

Continued

- The revised full-year provincial debt forecast is $248 million higher than at the July 30 Update. Debt is now forecast to total $37 billion by year-end, a $3.2 billion increase from the start of the year.
  - — Taxpayer-supported debt will increase by $3.4 billion to finance the forecast deficit, as well as capital spending of government and its taxpayer-supported agencies.
  - — Self-supported debt will decrease by $824 million mainly due to a $712 million reduction in warehouse program debt.
- At 21.8 per cent of GDP, British Columbia is forecast to have one of the lowest taxpayer-supported debt-to-GDP-ratios among provinces.

Summary of 2001/02 Forecast Changes

		$ millions
Summary Accounts Deficit — July 30 Update		**(1,500)**
CRF revenue changes — mainly lower energy revenues	(190)	
CRF spending changes — forest fire-fighting savings	25	
Total CRF changes		(165)
Crown Corporations — larger losses primarily for ICBC		(191)
Forecast Allowance — increased allowance for forecast uncertainties		(125)
Summary Accounts Deficit — First *Quarterly Report* Revised Forecast		**(1,981)**

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PART ONE — ECONOMIC REPORT[1]

SEPTEMBER 2001

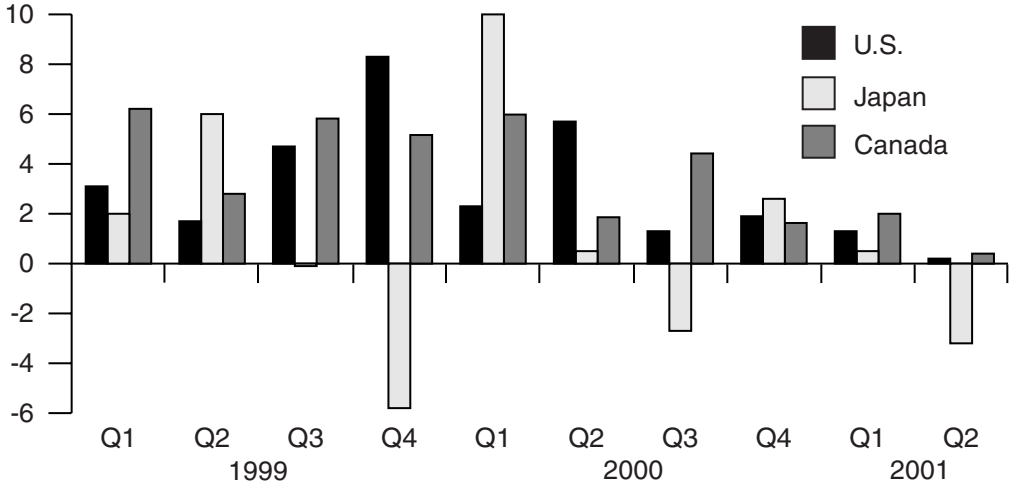
Overview

B.C.'s economic performance has been mixed so far this year

So far in 2001, the performance of the British Columbia economy has been mixed in the face of deteriorating external conditions, with weakness in exports, manufacturing, and labour demand offset by relative strength in retail sales and the housing market. The United States has led a global downturn, centered in its manufacturing sector. Most of the world's industrialized economies are also slowing, reflecting the close economic linkages between them.

Chart 1.1 Slowing International Economies

Quarterly percentage change at annual rates



Source: Bureau of Economic Analysis, Economic and Social Research Institute, Statistics Canada

In British Columbia:

- The consumer has remained a source of strength in the economy so far. To June, retail sales are up 6.2 per cent from 2000 levels, including a 4.4 per cent increase in durable goods.
- Year-to-date exports are up 13.7 per cent buoyed by stronger energy prices last winter. Not counting energy, exports are down 6.5 per cent year-to-date.
- Manufacturing shipments are down 7.5 per cent from last year at this time.
- Employment has grown only 0.7 per cent in the first eight months of 2001, compared to the same period last year, reflecting a major downward correction in January and weakness in the summer months.
- Construction activity has increased from last year. Housing starts are up almost 22 per cent and non-residential building permits advanced 14.3 per cent from last year's levels.

[1] The *Economic Report* and accompanying charts and tables incorporate information received to September 7, 2001. "Second quarter" references in the *Economic Report* are for the April to June period.

Commodity prices have been volatile in 2001. While energy prices spiked during the winter months and are now returning quickly to trend levels, lumber prices have been variable, with price volatility being increased by the expectations of a tariff on softwood lumber exports to the U.S. Except for energy and lumber, the overall commodity price trend has been relatively flat, with declines in some areas offsetting gains in other areas.

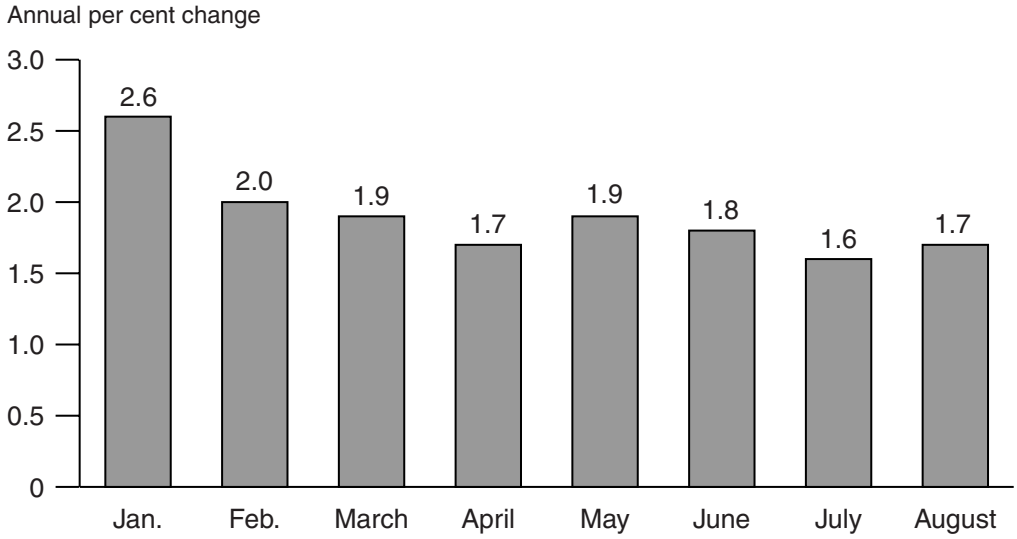
Government will develop a new economic forecast prior to the next Quarterly Report

The July 30th *Economic and Fiscal Update* included British Columbia's economic forecast of 2.2 per cent growth in 2001 and 3.8 per cent in 2002. The government will be developing a new economic forecast prior to release of the next *Quarterly Report* at the end of November. Given the increased downside risks associated with the forecast, the government believes that growth will be slower this year and next.

Economic Developments — April 1 to June 30

British Columbia's economic performance was mixed for the period April to June. Receding energy prices reduced export growth, although lumber prices firmed during the quarter. Construction and consumer spending have been areas of growth, although labour markets have been soft. Housing markets are rebounding from the very low levels of the last year.

Chart 1.2 Consensus Forecasts for U.S. economic growth in 2001



Source: Consensus Economics, Inc.

As expected, the world's major economies are slowing, and the most recent data suggests that the U.S. and Canadian economies have not yet bottomed out. The Conference Board's U.S. consumer confidence indicator fell to a four month low in August. This raises the issue of whether the consumer-led U.S. recovery in the second half will occur as anticipated. Forecasters have repeatedly revised down their expectations.

U.S. growth has been slow and may not yet have bottomed out

After starting to slow in the middle of last year, the U.S. economy is estimated to have grown at a 0.2 percent rate in the April to June period, down from the 1.3 per cent estimated for the January to March timeframe. The manufacturing sector has borne the brunt of the slowdown, with the consumer sector relatively upbeat until now.

Canada is also slowing

Meanwhile the latest Canadian GDP data showed that the Canadian economy was virtually stagnant from April to June with 0.4 per cent annualized growth. Weak U.S. demand caused a decline in real Canadian exports for a third consecutive quarter reflecting the tight linkages between the two economies. In addition, a low 1.1 per cent annualized gain in Canadian consumer spending indicates that the domestic side of the Canadian economy is now starting to show weakness as well.

The Japanese economy contracted at an annualized rate of 3.2 per cent in the April to June period. Investment remains slow and deflation remains a serious problem. Given the painful structural reforms promised by the Japanese government, little can be expected from Japan in the near future.

In the rest of Asia, slowing demand from Europe and North America has had a large impact on the region's economies. Taiwan and Singapore have both seen their economies shrink. Korea has fared better, growing at a 2.7 per cent rate, a much lower growth rate than was seen in the recent past. China is an exception to the stories of low growth, with year-over-year growth at 7.8 per cent for the second quarter of 2001.

Europe had originally been thought to avoid the worst of the slowdown, but that may not now be the case. Growth in the first three months of the year for the European Union was only 2.0 per cent at an annualized rate. With the German economy stagnating, the Euro area is likely to disappoint in the second quarter.

Worldwide equity markets continue to fall in response to negative economic data. The Toronto Stock Exchange was typical. It began the quarter with a mini rally in April but has since given up those gains, and more.

Central banks in most of the world are responding by easing monetary conditions

Most of the major central banks have reacted to the current conditions with substantial monetary easing. The U.S. Federal Reserve cut its benchmark rate on three separate occasions in the April to June period, by a total of 1.25 percentage points, and has subsequently cut the rate a further quarter point.

The Bank of Canada cut its target funds rate twice during the April to June period, for a total of half a percentage point, and has subsequently cut the rate a further two times, for another 50 basis points. With hopes for a quick recovery in the U.S. economy fading and as Canadian domestic spending now starts to falter, the Bank of Canada can be expected to implement further significant interest rates cuts in the coming months. The Bank of Canada has recently revised the view of the economy that it had held for most of the year. Rather than a quick recovery in the second half of 2001, it now predicts slow growth until the second half of 2002.

The European Central Bank has been more concerned about advancing inflation than slowing economic growth and has made fewer interest rate cuts. However, it now considers inflation pressures to be under control and reduced its lending rate at the end of August.

The effects of this monetary stimulus have yet to be seen in the economic data but some effect can be expected. Monetary policy is widely acknowledged to work with long and variable lags and so the effects of the easing should not be seen until into the fall.

Fiscal stimulus from tax cuts is well timed

In addition to the monetary stimulus, the U.S., Canadian, and British Columbian economies are all receiving substantial fiscal stimulus in the form of tax cuts. Although none of the tax cuts were implemented specifically in response to the slowdown, they are all well timed to help maintain consumer confidence and purchasing power in the current situation.

A low Canadian dollar has continued to buffer weakening export conditions. The dollar came close to an all time low in April but has since bounced back slightly.

Key British Columbia developments in the April to June period:

Employment growth has been sluggish . . .

- Employment has been weak in the B.C economy. Average employment through August is up only 0.7 per cent from the first eight months of 2000. Employment increased by 0.5 per cent in the April to June period over the previous quarter.
- The unemployment rate averaged 6.9 per cent in the April to June timeframe compared to 7.1 per cent in the initial quarter. Subsequently, the unemployment rate rose to 7.9 per cent in August.
- Labour income was up 3.4 per cent in the first half of 2001, compared to the first half of 2000, but declined slightly in the latest quarter as wages fell in March and April, due to an increase in the share of part-time work and the possible effect of the transit strike in Vancouver.
- Wage settlements in the April to June period had an average increase of 2.1 per cent compared to the previous quarter average of 2.9 per cent.
- Year-over-year inflation in the Consumer Price Index accelerated in the April to June period as energy price increases were passed on to the consumer. Inflation numbers for the first three months of the year were, however, lowered by the B.C. Hydro rebate in February.

. . . but retail sales and housing markets have shown strength

- Retail sales are up 6.2 per cent year-to-date, including a 4.4 per cent increase in durable goods. Sales for the April through June period are up 1.3 per cent from the levels of the previous quarter.
- Housing starts are rebounding from the very low levels of last year. Through June, starts were up 19.7 per cent from the same period last year and were up 11 per cent in the quarter to quarter comparison.

Non-energy exports and manufacturing shipments are lagging

- Through June, exports are up 13.7 per cent from the same period last year. The increase is, however, entirely driven by price increases in energy exports. Not counting energy, exports are down 6.5 per cent year-to-date.
- Manufacturing shipments have been hit by the slowdown in the U.S. Total shipments are down 7.5 per cent from the same period last year, driven mostly by reduced shipments of capital goods. Shipments decreased 1.5 per cent in the latest quarter compared to the previous quarter.

Table 1.1 summarizes the April to June period and the six month performance of key economic indicators.

Table 1.1 Key British Columbia Indicators

	April to June 2001 change from January to March 2001		January to June 2001 change from January to June 2000	
	Direction	Percentage Change	Direction	Percentage Change
Employment	↑	0.5	↑	0.8
Labour income	↓	−0.4	↑	3.4
Exports	↑	2.0	↑	13.7
Manufacturing shipments	↓	−1.5	↓	−7.5
Retail sales	↑	1.3	↑	6.2
Housing Starts	↑	11.0	↑	19.7
Non-residential building permits	↑	18.0	↑	10.9

All data seasonally adjusted

The charts later in this report provide more detailed information on current economic trends.

The Outlook

The forecast as at July 30th was for British Columbia economic growth to be 2.2 per cent in 2001 and 3.8 per cent in 2002. The nine Economic Forecast Council members who included the impact of the personal income tax cuts in their revised forecasts averaged 3.5 per cent for 2002. The council forecasts did not include the business tax cuts.

The recent developments outlined above have increased the downside risk to the forecast and based on these risks, the government believes that growth will be slower this year and next. These risks include:

- The longer than expected slowdown of the U.S. and Canadian economies, particularly if this weakness extends into 2002.
- Future declines in consumer confidence in the U.S. and Canada.
- The energy price outlook; energy prices have fallen faster than originally expected.
- The unexpected size of the preliminary softwood lumber countervail duty, set at 19.3 per cent, is now a major concern. The burden of the duty is expected to be shared by the B.C. softwood lumber industry and American consumers, although the amount carried by each will depend on market conditions. If the preliminary duty is confirmed, there could be negative impacts for B.C.'s forest dependent communities as well as B.C.'s economy as a whole.
- Upside influences are, however, present. These include the $2 billion in tax cuts, lower than expected interest rates, and lower inflation resulting from lower than anticipated commodity prices.

The government is monitoring economic conditions carefully, as a prolonged economic slowdown is a significant concern for British Columbians. The government will be preparing a new economic forecast prior to the release of the next *Quarterly Report* at the end of November.

On December 11th, the Minister of Finance will be meeting with the Minister's Economic Forecast Council, a group of private sector economic forecasters, to receive advice on the forecast for 2002 and beyond. In addition, a multiyear economic forecast will provide one of the key underpinnings of the three year fiscal plan to be released on February 19, 2002.

EFFECT OF A DUTY ON SOFTWOOD LUMBER ON BRITISH COLUMBIA

British Columbia's Softwood Lumber Industry

Despite continued diversification in the provincial economy, the forest products industry continues to play a major role in the economic well-being of British Columbia. In 1999, forest industry gross domestic product (GDP), expressed in current dollars, totalled $9.0 billion, representing 8.6% of total provincial GDP. In comparison, the construction industry contributed $5.6 billion to GDP, and petroleum and natural gas accounted for $1.3 billion during the same year. The breakdown by forest industry was:

- Logging 40%
- Wood Industries (about 80% softwood lumber) 40%
- Pulp and Paper 20%

In addition, when indirect economic activity resulting from the spending of the industry and its employees is included, the forest industry accounted for about 15% of total provincial GDP.

Direct employment in the forest industry totalled 97,100 persons in 2000, representing 6% of total provincial employment. About one-third of this number was employed in forestry, logging and support services. Another 30,400 people are employed in sawmills. Others work in plywood mills, engineered wood products manufacturing and the pulp and paper industry. As with GDP, indirect economic activity increases the sector's importance. With indirect effects, the forest industry accounted for about 14% of total provincial employment.

Forest industry manufacturing shipments in 2000 totalled $20.2 billion, representing just over 50% of the value of shipments by all manufacturing industries in British Columbia. Softwood lumber accounted for about $8 billion in shipments in 2000.

Most forest products shipments are exported to international markets. Forest product exports in 2000 totalled $16.2 billion, representing one half of the total value of goods exported by B.C. industries in 2000. Softwood lumber is British Columbia's largest export, accounting for about $7 billion of exports. Of these, British Columbia's softwood lumber exports to the U.S. were worth nearly $5 billion. About 85% of British Columbia's softwood lumber production was exported.

Provincial-level statistics sometimes understate the importance of the forest industry to regional economies in British Columbia. Outside the Lower Mainland and Capital Region, economic dependence on resource industries in general, and specifically the forest industry, increases noticeably. Of the 63 local areas outside of the Lower Mainland, 25 list forestry as the principal basic income source.

Effects of a Countervailing Duty

On August 9, the U.S. announced that it would charge a 19.3% duty (tariff) on the value of softwood lumber imports from Canada. This is a preliminary rate, subject to further investigation and verification by the U.S., as well as challenges from the Canadian federal and provincial governments. In other cases, including previous softwood lumber cases, the final rate has often been less than the preliminary rate.

In addition, on September 24, the U.S. is expected to announce its preliminary determination in the anti-dumping investigation. This could result in an additional anti-dumping duty, which would be added to the 19.3% countervailing duty rate.

The general impact of a duty is to reduce U.S. demand for Canadian softwood lumber. Some of the factors that influence the magnitude and distribution of the effects on B.C. producers and the economy in general, are discussed below.

Nature of demand and supply

Generally, the price impact of a tariff will be shared between the importer and exporter. How much the consumer price rises compared to the drop in the producer price depends on the nature of demand and supply in each region. In general, the more responsive U.S. consumers are to changes in the price of Canadian lumber, the more the price received by Canadian exporters will fall due to the tariff. However, if the U.S. is not able to increase its domestic supply of wood substantially, then the tariff will tend to lead to an increase in the prices paid by U.S. consumers, rather than to a fall in the price received by Canadian mills.

Market cycles

The North American lumber market is subject to wide price swings. Prices were below US$200 per thousand board feet (mfbm) early in 2001, but have increased since then to about US$300/mfbm for Spruce-Pine-Fir 2×4s in August of 2001. At current prices, a duty of 20% translates to about $60/mfbm, and reduces Canadian sawmill returns to US$240/mfbm. Some market observers state that the break-even point for B.C. interior sawmills is about US$220/mfbm. However, there is wide variation in costs around this average. To the extent that marginal companies have higher break-even points, they might shut down due to a 20% tariff and $300/mfbm price. In the longer run, the tariff will reduce the profitability of Canadian sawmills relative to U.S. mills and lead to proportionately less investment in the sector and a decrease in relative competitiveness.

Higher-valued products

Because the duty is applied to the value of the exports, producers of higher-valued products will be paying larger per unit duties. For example, red cedar 2×8s at US$600/mfbm would face an additional burden of $120/mfbm. Clear red cedar at $1,200/mfbm would pay US$240/mfbm in duties. Market observers state that these types of payments could not be sustained because of profit margins in the milling of cedar, leading some Canadian mills to shut down and reduce the overall supply of cedar. To the extent that cedar is less available in the U.S. and there are few substitutes, the duty would likely lead to higher prices in the U.S., lessening the effect on Canadian producer prices, but also encouraging consumers to switch to substitutes.

Remanufacturers who buy lumber and either cut it to produce higher grades or manufacture fingerjointed products will also be disproportionately affected because they produce a relatively high-valued product, at low per unit margins. Remanufacturers will be additionally affected because U.S. customs charges the duty on an "entered value" basis, rather than a "first mill" basis. A "first mill" duty would be assessed on the value of the lumber as it left the primary sawmill, which is lower than the value at the border.

Effects on producers

Regionally, there are some parts of British Columbia that are always on the margin of being economically viable for logging. Mills in these areas will likely be the first to be affected by the duty. In addition, some companies have been running several sawmills at less than capacity for a number of years. The duty might then force these companies to shut their least efficient mills.

Effect of the Softwood Lumber Agreement (1996-2001)

The Softwood Lumber Agreement (SLA), by restricting U.S. imports of Canadian lumber to a fixed level and charging duties on imports above that level, affected the relationship between consumer and producer prices over the 1996-2001 period. In particular, the SLA, by restricting imports to the U.S., likely increased U.S. prices and reduced Canadian prices, similar to a tariff. Since the countervail duty is replacing the SLA, it will not have the same effect as a 19.3% tariff applied in a formerly free market. Prior to the SLA, there were other restrictions such as an export tax and countervailing duties so that there has not been free trade in softwood lumber between Canada and the U.S. since the early 1980s.

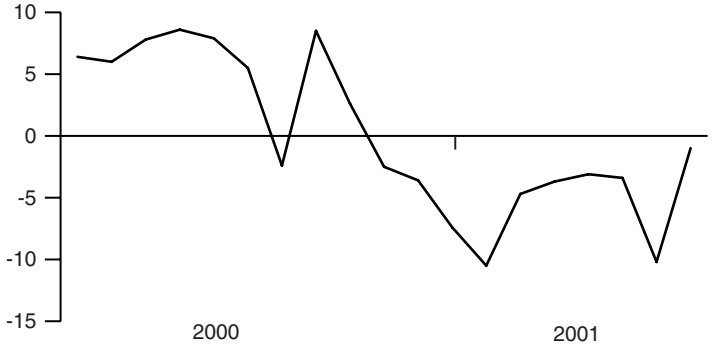
Conclusion

The countervail duty, as proposed, would have a serious impact on the B.C. forest sector as well as on American consumers who must pay more for B.C. products. British Columbia, along with the federal government is fighting this unfair tariff. Because the outcome of the process is still uncertain, it remains unclear what the ultimate impact on the province will be.

RECENT DEVELOPMENTS

U.S. index of industrial production

Monthly per cent change at annual rates

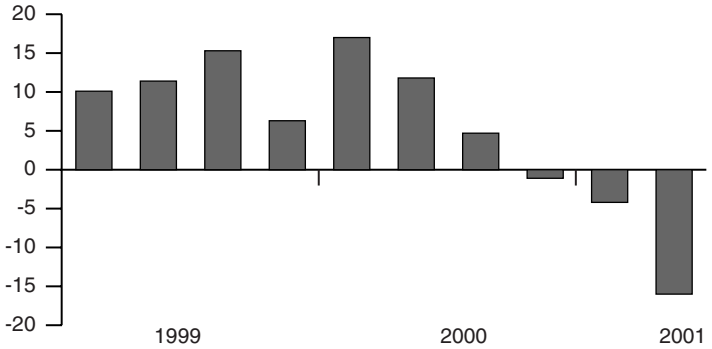


Source: Federal Reserve Board

The United States is leading a global manufacturing slowdown. While there are signals of the cyclical bottom, the risk of further weakness continues.

U.S. investment in equipment and software

Quarterly per cent change at annual rates



Source: Bureau of Economic Analysis

The rapid decrease in investment in equipment and software after rapid increases in the past several years, has precipitated the decline in U.S. manufacturing.

U.S. total housing starts

Thousand units, seasonally adjusted at annual rates

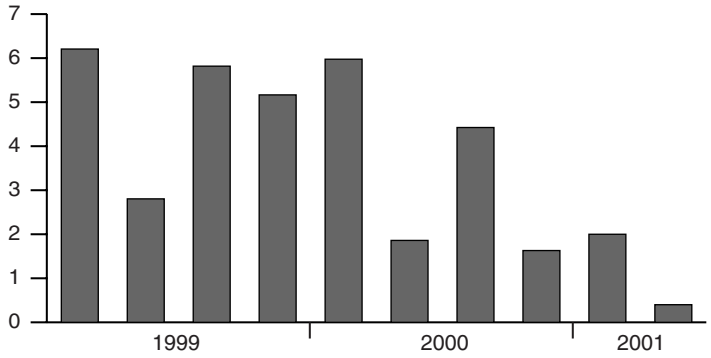
Source: Bureau of Census

However, housing starts reflect strong demand so far in the U.S. consumer sector.

RECENT DEVELOPMENTS — *Continued*

A cooling Canadian economy

Quarterly percentage change at annual rates



Source: Statistics Canada

Canadian economic growth has fallen from a rate of 4.4 per cent in 2000 to an annualised rate of only 0.4 per cent in the second quarter of 2001.

Canadian dollar remains low

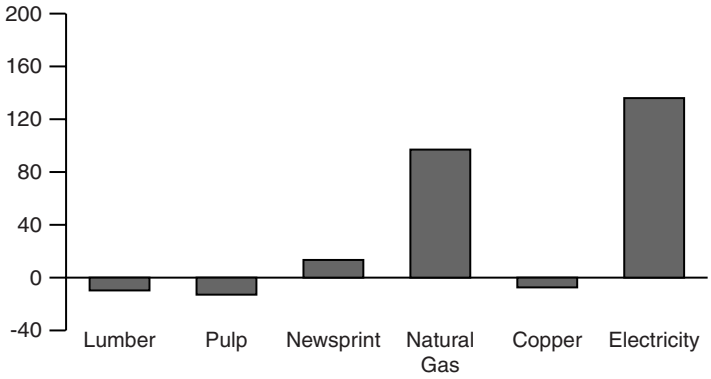
US¢/Cdn$

Source: Bank of Canada, Ministry of Finance

The Canadian dollar came close to a record low in April before appreciating slightly. Recently the dollar has again sunk below 65 cents U.S.

Export prices are up so far this year

Year-to-date percentage change, U.S. $ basis

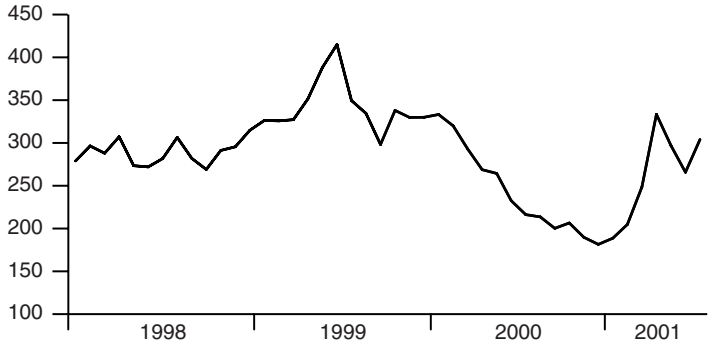


British Columbia export prices started 2001 up substantially, reflecting record prices for natural gas and electricity in the winter months.

RECENT DEVELOPMENTS — *Continued*

Lumber prices have been volatile so far this year

(SPF 2x4) $U.S. per thousand board feet

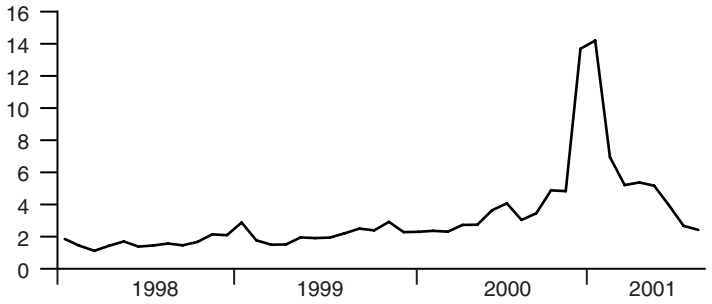


Source: Madisons

Expectations of the countervail duty on softwood lumber exports into the U.S. have resulted in very volatile lumber prices. Prices rose from below $US 200 at the start of the year to the $300 range since.

Natural gas prices have declined from a record winter

Natural gas, $US per MmBTU, Sumas

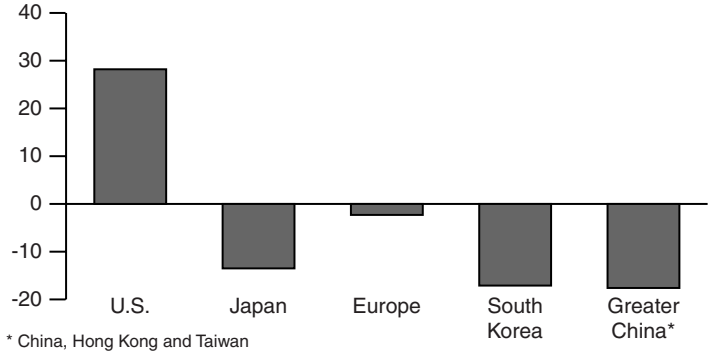


Source: Ministry of Energy and Mines

Natural gas prices have fallen due to a decline in demand as well as increased regulation of the energy market in California.

Overseas exports slowing

Year-to-date percentage change

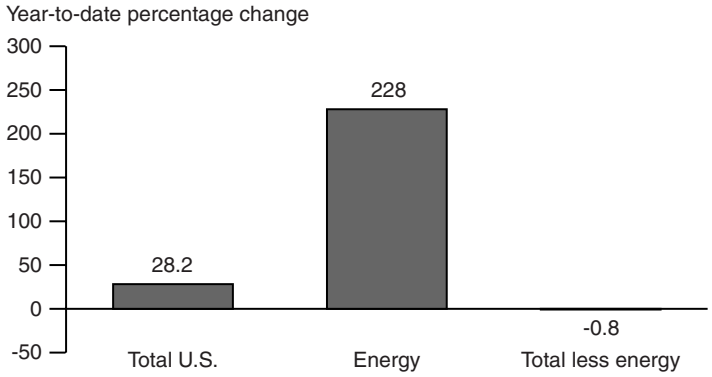


* China, Hong Kong and Taiwan
Source: Statistics Canada

The value of first half exports to the U.S. showed strong growth, reflecting peak energy prices in the winter months. Meanwhile, exports to other markets declined.

RECENT DEVELOPMENTS — *Continued*

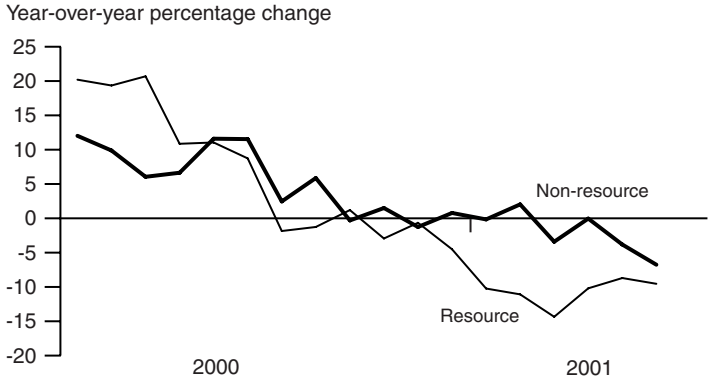
Exports to U.S. driven by energy products



Source: Statistics Canada

The strong U.S. export performance reflected high energy prices. U.S. exports other than energy have edged downwards from the first six months of 2000.

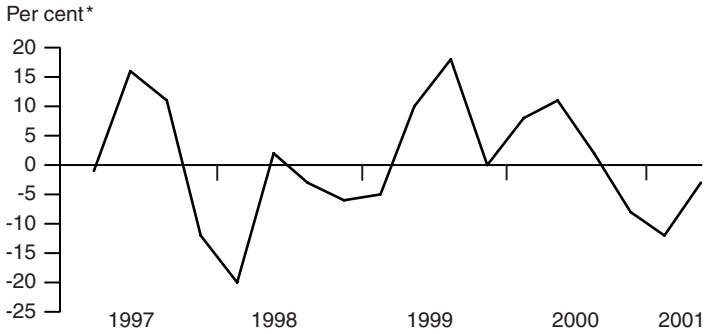
Manufacturing shipments



Source: Statistics Canada

Manufacturing shipments are down so far this year. Resource-based manufacturing has been hit hardest. Lower paper and wood products are the main sources of weakness. Petroleum, coal and chemicals are relatively strong.

Business conditions moderating



* Percentage of B.C. manufacturers expecting increased production less the percentage expecting reduced production

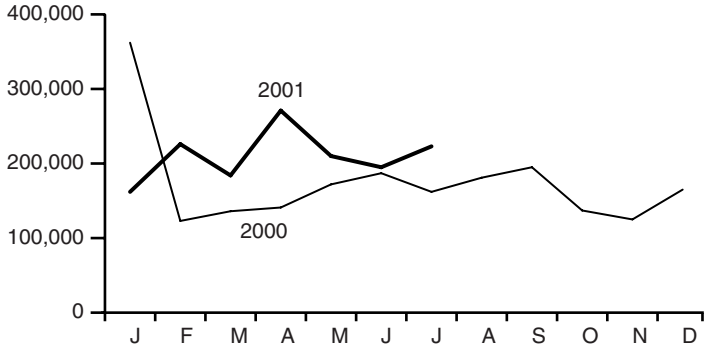
Source: Statistics Canada

Three per cent fewer British Columbia manufacturers are planning higher production than those planning lower production during the third quarter of 2001. The outlook has improved since the beginning of the year when the difference was 12 per cent.

RECENT DEVELOPMENTS — *Continued*

Non-residential business permits up from 2000

$ thousands, seasonally adjusted

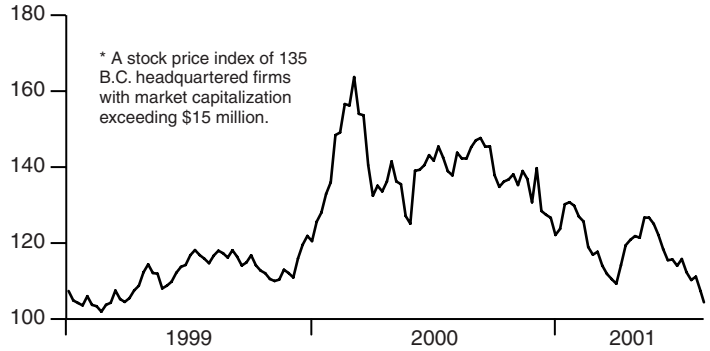


Source: Statistics Canada

Over the first seven months of 2001, the value of non-residential building permits has increased from last year's levels primarily due to government and institutional activity.

Bloomberg B.C. stock index *

December 30, 1994 = 100, weekly close

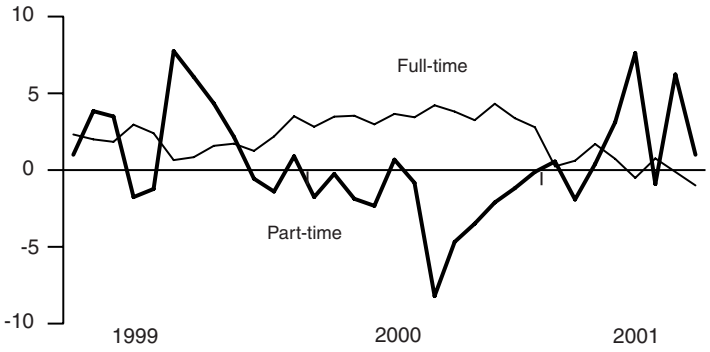


Source: Bloomberg

The performance of British Columbia's stock index has mirrored developments in other stock indices. The high-tech crash has weighed heavily on B.C. stocks.

Employment softening

Year-over-year percentage change

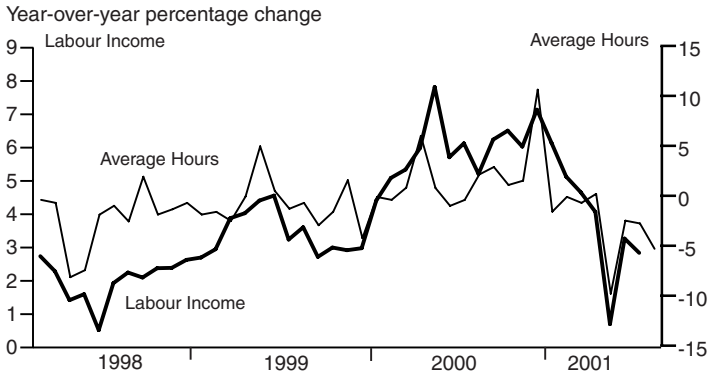


Source: Statistics Canada

Employment has been soft in 2001; average employment in the first 8 months is up only 0.7 per cent from last year. What growth there is has been in part-time work, which is up 2.0 per cent year-to-date. The Vancouver Island/Coast development region has been hardest hit, while the Northeast has shown strength.

RECENT DEVELOPMENTS — *Continued*

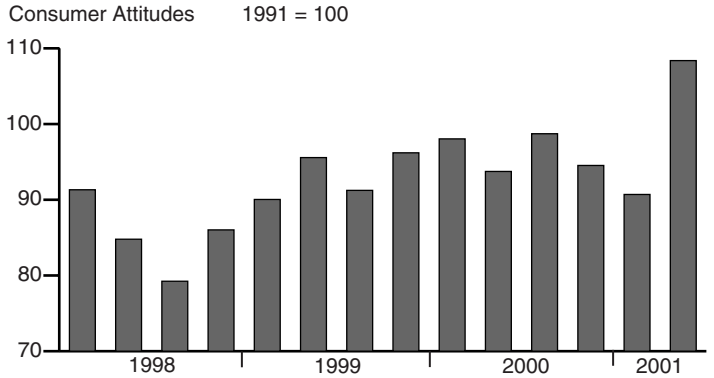
Labour income levels off



Source: Statistics Canada

Labour income growth has levelled off in the second quarter with a shift to part-time work, which has reduced the average hours worked by employees.

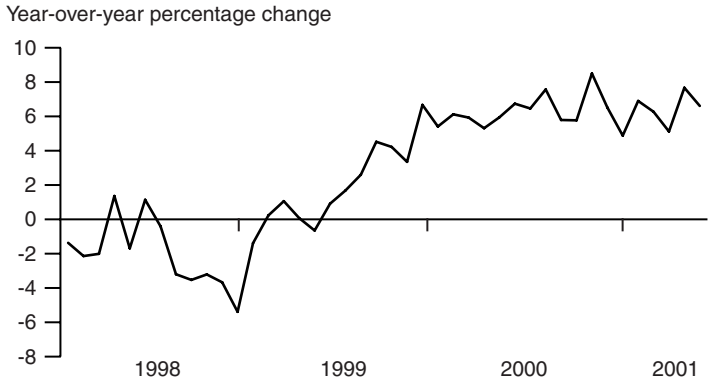
Consumer Confidence picked up



Source: Conference Board of Canada

British Columbia consumer confidence picked up noticeably earlier in the second quarter of 2001. This suggests that consumers may have been anticipating personal tax cuts.

Retail sales growth continues

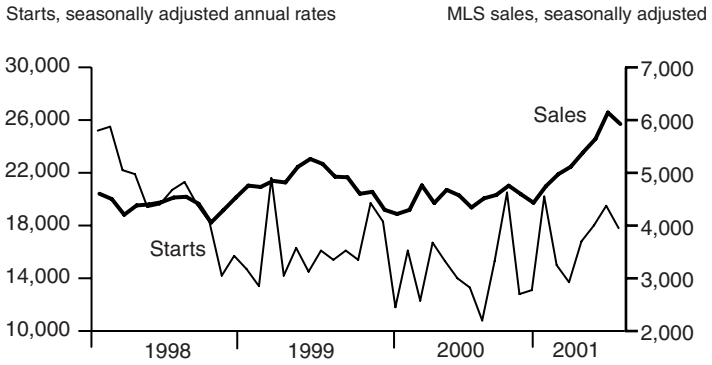


Source: Statistics Canada

The B.C. consumer has been a relative source of strength. Retail sales were up 6.2 per cent for the first 6 months of 2001. Consumer durables were up 4.4 per cent for the period. Gasoline retailers posted large gains due to increased prices at the pump.

RECENT DEVELOPMENTS — *Continued*

Housing market improving from low levels



Source: Canada Mortgage and Housing Corporation and Canadian Real Estate Association

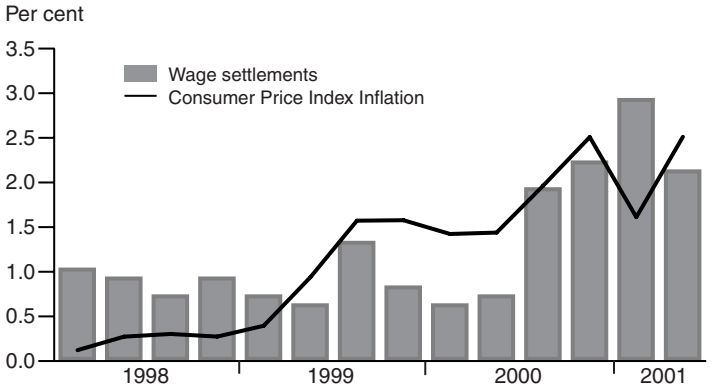
The B.C. housing market is improving from last year's low levels. Sales of existing homes are also on an upswing. Increasing sales of existing homes is a positive for future housing starts.

Low inflow of people

Source: Statistics Canada

During the first quarter of 2001, British Columbia recorded a net outflow of people to other provinces. However, overall migration remains positive due to gains from international sources. A continuation of this pattern through the second quarter is expected.

Inflation and wage settlements rising



Source: Statistics Canada and Human Resources Development Canada

Consumer price inflation in British Columbia has picked up in recent months, reflecting higher energy prices. Wage settlements exceeded the rate of inflation in the first quarter but lagged inflation slightly in the second quarter.

Table 1.2 Current Economic Statistics[1]

	Latest Period		Year-to-Date Average		
			2000	2001	Change
BRITISH COLUMBIA					
LABOUR MARKET					
Employment (s.a., thousands)	Aug-01	1,935	1,943	1,956	0.7%
Unemployment rate (s.a., per cent)	Aug-01	7.9	7.1	7.1	0.0
In-migration	Q1-01	8,238	5,548	8,238	2,690
Interprovincial (persons)	Q1-01	−2,406	−3,215	−2,406	809
International (persons)	Q1-01	10,644	8,763	10,644	1,881
Wages, salaries and Supplementary Labour Income (s.a., $ millions)	Jun-01	5,811	5,619	5,812	3.4%
Average weekly wage rate	Aug-01	642.3	633.3	645.5	1.9%
CONSUMER SECTOR					
Retail sales (s.a., $ millions)	Jun-01	3,178	2,936	3,119	6.2%
Car and truck sales (s.a., units)	Jun-01	14,291	13,898	13,878	−0.1%
Housing starts (all areas, s.a., annual rate)	Jul-01	17,800	14,214	17,286	21.6%
Existing home sales (s.a.)	Jul-01	5,926	4,471	5,420	21.2%
Building permits (s.a., $ thousands)	Jul-01	459	371	445	19.9%
British Columbia consumer price index (annual per cent change)	Jul-01	1.8	1.5	2.0	0.5
INDUSTRIAL ACTIVITY					
Foreign merchandise exports (s.a., $ millions)	Jun-01	2,809	2,669	3,034	13.7%
Manufacturing shipments (s.a., $ millions)	Jun-01	2,902	3,200	2,959	−7.5%
Lumber production (thousand cubic metres)	Jun-01	2,775	2,854	2,771	−2.9%
Pulp and paper production (thousand tonnes)	Jul-01	619	706	648	−8.3%
Coal production (thousand tonnes)	Jun-01	2,287	2,207	2,294	4.0%
Natural gas production (million cubic metres)	May-01	2,415	2,054	2,251	9.6%
Copper production (million kg)	May-01	20.9	21.8	22.3	2.3%
TOURISM					
Entries of U.S. and overseas residents (thousands)	Jun-01	961	622	646	3.9%
B.C. Ferry passengers to/from Vancouver Island (thousands)	Jul-01	1,429	889	890	0.1%
COMMODITY PRICES					
Lumber (U.S. $/thousand board feet)	Aug-01	311	283	255	−9.9%
Pulp (U.S. $/tonne)	Aug-01	459	666	580	−12.9%
Newsprint (U.S. $/tonne)	Aug-01	601	540	613	13.5%
Copper (U.S. $/lb.)	Aug-01	0.67	0.81	0.75	−7.4%
Electricity (Mid-Columbia, on-peak, U.S. $/Mwh)	Aug-01	46.45	84.62	199.54	135.8%
Natural Gas (Cdn. $/gigajoule at WEI Inlet)	May-01	5.91	2.54	8.14	220.5
B.C. export commodity price index (Cdn. $ Index: 1992=100)	Aug-01	142.3	138.7	142.9	3.0%
FINANCIAL DATA					
Canadian dollar (U.S. cents)	Aug-01	65.0	68.0	65.2	−2.80
Canadian prime rate (per cent)	Aug-01	5.95	7.11	6.60	−0.51
Canadian treasury bills (per cent)	Aug-01	3.94	5.37	4.51	−0.86
Treasury bill spread — Canada minus U.S. (per cent)	Aug-01	0.56	−0.34	0.51	0.85

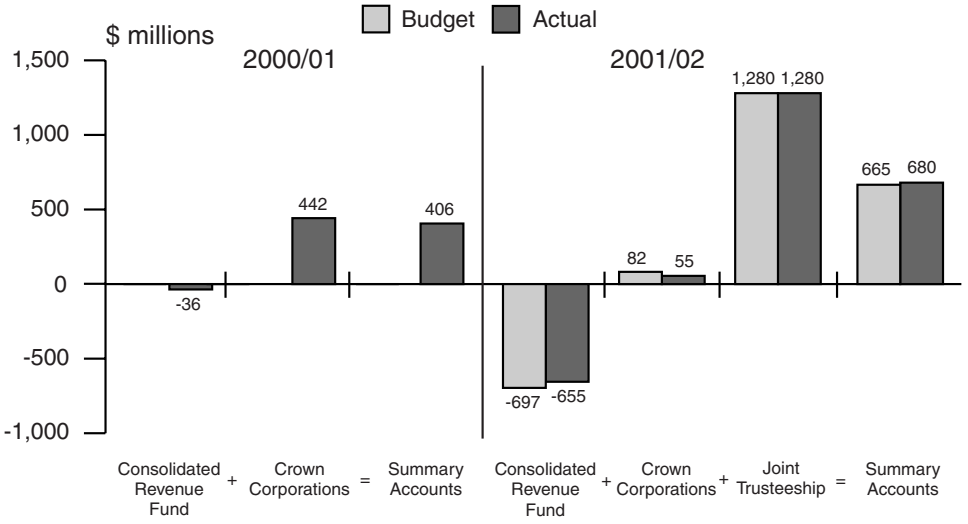
s.a. — seasonally adjusted.

PART TWO — FISCAL YEAR-TO-DATE REPORT

Summary Accounts

In this section, year-to-date operating results are presented for the summary accounts, which combine the financial results of the government's consolidated revenue fund with its Crown corporations and agencies.

Chart 2.1 Summary Accounts
Three-Month Results (April–June)
(Unaudited)



The summary accounts showed a $680-million surplus for the first three months

The summary accounts showed a $680-million surplus for the first three months of 2001/02, consisting of:

- a consolidated revenue fund (CRF) short-fall of $655 million;
- combined net income of Crown corporations and agencies of $55 million; and
- a $1.3-billion one-time benefit related to the implementation of joint trusteeship for the Teachers' Pension and the Municipal Superannuation plans on April 5, 2001.

The three-month surplus was $15 million ahead of budget and $274 million higher than the same period last year.

Excluding the effects of joint trusteeship, the summary accounts showed a deficit of $600 million for the first three months of 2001/02, compared to a $406-million surplus for the same period last year.

The consolidated revenue fund had a shortfall of $655 million

The consolidated revenue fund balance was $42 million better than planned in the first quarter. Revenue was $36 million above budget while spending was $6 million below budget. Compared to the same period last year, the consolidated revenue fund balance deteriorated $619 million mainly reflecting a larger expenditure budget in 2001/02.

Table 2.1 Summary Accounts Operating Results
for the Three Months Ended June 30, 2001
(Unaudited)

	Budget[1] 2001/02	Actual 2001/02	Variance[2]	Actual[3] 2000/01
	($ millions)			
Consolidated revenue fund (CRF):				
Revenue	5,428	5,464	36	5,477
Expenditure	(6,125)	(6,119)	6	(5,513)
CRF balance	(697)	(655)	42	(36)
Crown corporations and agencies:				
Taxpayer-supported:				
British Columbia Buildings Corporation	9	10	1	19
British Columbia Ferry Corporation	(1)	8	9	9
BC Transportation Financing Authority	29	30	1	7
Forest Renewal BC	(26)	(37)	(11)	(27)
552513 British Columbia Ltd. (Skeena Cellulose Inc.)	(16)	(13)	3	7
Other[4]	(13)	1	14	3
	(18)	(1)	17	18
Less: Contributions paid to CRF	—	—	—	—
Other accounting adjustments[5]	(31)	(17)	14	(17)
Total taxpayer-supported	(49)	(18)	31	1
Self-supported commercial:				
British Columbia Hydro and Power Authority	92	74	(18)	306
Liquor Distribution Branch	139	144	5	147
British Columbia Lottery Corporation	134	151	17	131
British Columbia Railway Company	(2)	(4)	(2)	16
Insurance Corporation of British Columbia	19	(31)	(50)	242
Other[6]	—	1	1	3
	382	335	(47)	845
Less: Contributions paid to CRF[7]	(244)	(257)	(13)	(246)
Other accounting adjustments[8]	(7)	(5)	2	(158)
Total self-supported commercial	131	73	(58)	441
Total net contribution (loss) of Crown corporations and agencies	82	55	(27)	442
Summary accounts balance before joint trusteeship	(615)	(600)	15	406
Joint trusteeship	1,280	1,280	—	—
Summary accounts surplus	665	680	15	406

[1] Figures reflect three-month allocations of the full-year budget as presented in the July 30 *Economic and Fiscal Update,* based on planned activities and seasonal patterns.

[2] 2001/02 actual less three-month 2001/02 budget.

[3] Figures for 2000/01 have been restated to reflect an accounting change that resulted in certain capital expenditures being reclassified as CRF operating expenses. The restatement also reflects the reclassification of 552513 British Columbia Ltd. (Skeena Cellulose Inc.) as a taxpayer-supported Crown corporation instead of a commercial Crown corporation as reported in previous quarterly reports.

[4] 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.

[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 earnings/(losses) of other commercial Crown corporations, including the Columbia Power Corporation.

[7] Includes contributions from the Liquor Distribution Branch and the British Columbia Lottery Corporation.

[8] Includes transfers of British Columbia Lottery Corporation revenue to charities and local governments, and adjustments to the Insurance Corporation of British Columbia and the British Columbia Railway Company to adjust their reporting results to a three-month period from a six-month period.

Combined net income of Crown corporations was $27 million below budget at $55 million

In total, the $55 million net income of Crown corporations and agencies was $27 million below budget and $387 million lower than the same period last year. Lower net income from commercial Crown corporations was the main factor for the decline from budget and the change from the previous year.

The three-month surplus of $680 million is not a useful measure for determining final year-end results. For example, all of the one-time benefit of joint trusteeship was recognized in the first quarter, and the pattern of government and Crown corporation revenue and expenditure will continue to change over the rest of the year. An updated full-year financial forecast is presented in Part 3.

Consolidated Revenue Fund

Revenue

Three-month revenue was $36 million more than planned

Revenue for the first three months was $36 million more than planned and down slightly from the same period last year. Details are provided in Table 2.2.

- *Personal and corporation income tax* — on budget, but down 12.7 per cent from the same period last year in part due to the treatment of the 2001 personal income tax cuts. Although personal income tax reductions for the 2001 tax year were announced June 6, and were retroactive to January 1, 2001, the first quarter results (April-June) include reductions relating to the fourth quarter of the 2000/01 fiscal year (January-March). This treatment was recommended by the Auditor General.
- *Social service tax* — $22 million below budget due to slower-than-expected collections in the first quarter, but up 7.9 per cent from last year due to increased retail sales.
- *Other taxes* — $12 million above budget and slightly lower than last year, as higher revenue from tobacco and corporation capital taxes was offset by lower revenue from fuel, property transfer and insurance premium taxes.
- *Petroleum, natural gas and minerals* — $26 million above budget and 132 per cent higher than last year mainly due to higher-than-expected natural gas prices in April and May.
- *Forests* — on budget but 30 per cent lower than last year mainly due to a 24-per-cent decline in total harvest volumes. First-quarter results do not reflect any revenue effects of the preliminary countervail duty on softwood lumber imposed by the U.S. in August.
- *Columbia River Treaty* — on budget, but 149 per cent higher than last year due to the effect of higher electricity prices in the U.S. in the first quarter.
- *Other revenue* — $6 million above budget. Lower provisions for doubtful collections and higher revenue from Medical Service Plan premiums and other sources were partly offset by lower revenue from other fees, and licences and fines. Revenue was 3.8 per cent lower than last year mainly due to lower sales of Crown land.
- *Contributions from Crown corporations* — $13 million above budget due to higher-than-expected net incomes of the Liquor Distribution Branch and British Columbia Lottery Corporation.
- *Federal contributions* — slightly above budget but down 22 per cent from last year. The decline from last year reflects the effect of a one-time Canada health and social transfer supplement of $333 million that was received in the first quarter of 2000/01.

Table 2.2 Consolidated Revenue Fund Revenue by Source
for the Three Months Ended June 30, 2001
(Unaudited)

	Budget[1] 2001/02	Actual[2] 2001/02	Variance[3]	Actual 2000/01
	($ millions)			
Taxation:				
Personal income	1,115	1,115	—	1,382
Corporation income	317	317	—	259
Social service	934	912	(22)	845
Fuel	109	105	(4)	116
Tobacco	114	127	13	112
Property	348	348	—	340
Property transfer	76	73	(3)	75
Corporation capital	105	116	11	118
Other	74	69	(5)	78
Less: provision for doubtful accounts	—	—	—	—
Less: commissions on collection of public funds	(6)	(6)	—	(6)
	3,186	3,176	(10)	3,319
Natural resources:				
Petroleum and natural gas:				
Natural gas royalties	308	334	26	108
Permits and fees	96	92	(4)	55
Petroleum royalties	35	34	(1)	35
	439	460	21	198
Minerals	13	18	5	8
Forests:				
Timber sales	89	89	—	125
Small Business Forest Enterprise Program	24	24	—	34
Logging tax	9	9	—	17
Other forests revenue	2	2	—	2
	124	124	—	178
Water resources	73	73	—	75
Columbia River Treaty	194	194	—	78
Wildlife Act	4	4	—	4
	271	271	—	157
Less: provision for doubtful accounts	—	—	—	—
Less: commissions on collection of public funds	—	—	—	—
	847	873	26	541
Other revenue:				
Medical Services Plan premiums	234	237	3	231
Motor vehicle licences and permits	86	86	—	90
Other fees and licences	86	75	(11)	91
Investment earnings	16	17	1	21
Fines and penalties	22	21	(1)	24
Miscellaneous	24	28	4	23
Asset dispositions	—	—	—	—
Less: provision for doubtful accounts	(19)	(9)	10	(7)
Less: commissions on collection of public funds	(3)	(3)	—	(3)
	446	452	6	470
Contributions from Crown corporations:				
Liquor Distribution Branch income	139	144	5	147
British Columbia Lottery Corporation	105	113	8	99
Other	—	—	—	—
	244	257	13	246
Contributions from the Federal government:				
Canada health and social transfer	662	662	—	859
Other	43	44	1	42
	705	706	1	901
TOTAL REVENUE	5,428	5,464	36	5,477

[1] Figures reflect three-month allocations of the full-year budget as presented in the July 30 *Economic and Fiscal Update* based on planned activities and seasonal patterns.

[2] Actual figures for 2001/02 exclude $127 million of dedicated revenue collected on behalf of, and transferred to, Crown corporations and other agencies and jurisdictions. These include Forest Renewal BC, Tourism British Columbia, BC Transportation Financing Authority, British Columbia Transit, British Columbia Ferry Corporation, the Greater Vancouver Transportation Authority *(TransLink)*, and the British Columbia Oil and Gas Commission.

[3] 2001/02 actual less 2001/02 budget.

Expenditure

Three-month CRF spending was $6 million below budget

Three-month spending was $6 million below budget but 11 per cent higher than the same time last year. Government spending is close to being on budget as ministries have restructured their plans to reflect the July 30 *Economic and Fiscal Update* (see Table 2.3).

. . . as ministries restructured their plans to reflect the July 30 Economic and Fiscal Update

Officers of the Legislature — on budget but $15 million higher than the first quarter last year due to additional costs for the provincial election in May 2001.

Ministry of Advanced Education — $3 million above budget due to earlier-than-planned spending for student financial assistance. However, spending is expected to be on budget by year-end. The $45-million increase from last year partially reflects a $159-million full-year budget increase in 2001/02.

Ministry of Children and Family Development — a $46-million increase over last year partially reflects a $190-million budget increase in 2001/02.

Ministry of Education — $11 million below budget mainly due to lower-than-expected costs for debt servicing and slightly slower-than-planned spending for public schools. The ministry expects to be on budget by year-end. A $33-million increase from last year mainly reflects an increase in per pupil funding provided by the ministry.

Ministry of Finance — although $2 million above budget due to earlier-than-planned spending for a number of programs, the ministry will be on budget by year-end.

Ministry of Forests — expenditures were $7 million above budget, primarily due to higher costs for ministry operations. Spending is expected to be on track by the second quarter. Although early in the fire season, forest fire fighting costs during the first three months were on budget.

Ministry of Health Services — $9 million above budget mainly due to higher-than-planned spending for Pharmacare and the Medical Services Plan. The $251-million increase from this time last year partially reflects a $1.1-billion full-year budget increase in 2001/02.

Ministry of Human Resources — $4 million below budget due to slower-than-expected spending in programs. The ministry received a $73-million full-year budget increase for 2001/02.

Ministry of Management Services — $8 million below budget due to slower-than-expected spending in ministry operations. Spending is expected to catch up by year-end.

Ministry of Provincial Revenue — $4 million above budget due to delays in recording recoveries of tax collection services from related revenue sources. Spending is expected to be on budget by year-end.

Ministry of Sustainable Resource Management — $11 million below budget due to slower-than-expected spending for land and resource planning.

Ministry of Water, Land and Air Protection — on budget. The $37-million increase from last year mainly reflects one-time costs for the Britannia Mine site cleanup in the first quarter of 2001/02.

Management of Public Funds and Debt (debt interest) — on budget. The $37-million decline from last year mainly reflects lower interest costs resulting from a lower level of debt outstanding in the first quarter of 2001/02.

BC Family Bonus — although $2 million above budget, spending is expected to be on track by year-end. The $11-million decrease from last year mainly reflects federal program changes to the National Child Benefit System that increased benefits received by families effective July 1, 2001. These federal changes reduced the requirement for provincial funding.

Table 2.3 Consolidated Revenue Fund Expenditure by Ministry
for the Three Months Ended June 30, 2001
(Unaudited)

	Budget[1] 2001/02	Actual 2001/02	Variance[2]	Actual[1] 2000/01
	($ millions)			
Legislation	10	7	(3)	9
Officers of the Legislature	20	20	—	5
Office of the Premier	4	4	—	4
Advanced Education				
Educational institutions and organizations	328	328	—	302
Other ministry programs	114	117	3	98
Total	442	445	3	400
Agriculture, Food and Fisheries	25	24	(1)	32
Attorney General	126	127	1	120
Children and Family Development	350	352	2	306
Community, Aboriginal and Women's Services	140	140	—	116
Competition, Science and Enterprise	20	20	—	17
Education				
Public schools	1,178	1,173	(5)	1,119
Other ministry programs	189	183	(6)	204
Total	1,367	1,356	(11)	1,323
Energy and Mines	18	18	—	9
Finance	11	13	2	9
Forests	94	101	7	92
Health Planning	1	1	—	1
Health Services				
Acute and continuing care	1,276	1,276	—	1,123
Other ministry programs	1,067	1,076	9	978
Total	2,343	2,352	9	2,101
Human Resources	457	453	(4)	444
Management Services	22	14	(8)	11
Provincial Revenue	12	16	4	12
Public Safety and Solicitor General	117	120	3	113
Skills Development and Labour	6	6	—	6
Sustainable Resource Management	39	28	(11)	26
Transportation				
Ministry programs	147	148	1	112
Contributions to public transit	39	39	—	39
Total	186	187	1	151
Water, Land and Air Protection	77	77	—	40
Other:				
Management of Public Funds and Debt	196	196	—	233
Contingencies (All Ministries) and New Programs	—	—	—	—
BC Family Bonus	35	37	2	48
Amortization of change in unfunded pension liability	(15)	(15)	—	(123)
Other Appropriations[3]	22	20	(2)	8
TOTAL EXPENDITURE	6,125	6,119	(6)	5,513

[1] Figures reflect three-month allocations of the full-year budget as presented in the July 30 *Economic and Fiscal Update* based on planned activities and seasonal patterns. Figures have been restated to reflect the government organization as of June 30, 2001. Comparative 2000/01 expenditure has been restated primarily to reflect the reclassification of certain capital expenditures as ministry operating maintenance costs. As a result, expenditure in 2000/01 has been increased $41 million.

[2] 2001/02 actual less 2001/02 budget.

[3] Other Appropriations include the Commissions on Collection of Public Funds and Allowance for Doubtful Accounts Vote, the Environmental Assessment Office Vote, the Environmental Boards and Forest Appeals Commission Vote, the Forest Practices Board Vote, the Public Sector Employers' Council Vote, Seismic Mitigation Vote, the Insurance and Risk Management Special Account, the Unclaimed Property Special Account, and other appropriations.

Amortization of Change in Unfunded Pension Liability — on budget. The $108-million decrease from last year mainly reflects the effect of pension policy changes that occurred in 2000/01.

Other Appropriations — $2 million below budget. The $12-million increase from last year is mainly due to new costs for seismic mitigation of government buildings.

Joint Trusteeship — In April 2001, the government concluded joint trusteeship agreements for the Teachers' Pension and Municipal Superannuation plans. The agreements give plan members an equal role with their employers in the management of the pension plans. The $1.3-billion one-time benefit is treated as an adjustment to the government's bottom-line summary accounts results (see Table 2.1).

Crown Corporations and Agencies

Taxpayer-supported Crown Corporations and Agencies

The combined net loss of taxpayer-supported Crown corporations of $18 million was $31 million better than expected. Improvements for most corporations and lower accounting adjustments offset weaker performance in Forest Renewal BC (see Table 2.1).

During the first three months, taxpayer-supported Crown corporations had a combined operating loss of $1 million. Accounting adjustments of $17 million, primarily to reflect the amortization of the cost of highways transferred to the BC Transportation Financing Authority in 1998/99, increased the net loss to $18 million. Results for taxpayer-supported Crown corporations were $19 million weaker than the previous year primarily due to a net loss for 552513 British Columbia Ltd. (Skeena Cellulose Inc.) in 2001/02.

British Columbia Buildings Corporation (Table A1) — net income of $10 million was $1 million above budget but $9 million lower than the same period last year. Revenue was $6 million higher than budget, while spending was $5 million above budget. Gains from disposals of property were on budget but $6 million lower than last year.

BC Ferries shows $8.6-million net income

British Columbia Ferry Corporation (Table A2) — net income of $8.6 million was $9 million higher than planned and about $1 million lower than last year. Operating revenue was $3 million above budget, due to higher toll and other income, while operating expenses were $6 million below budget primarily due to spending delayed until later in the year. The lower net income from last year primarily reflects an increase in amortization expenses.

BC Transportation Financing Authority (Table A3) — net income of $30 million was $1 million higher than budget and $23 million higher than the previous year. The improvement from the previous year primarily reflects an operating grant received from the provincial government, partially offset by higher amortization expense and increased interest costs due to higher outstanding debt for the completion of highway construction and rehabilitation.

Forest Renewal BC (Table A4) — a $37-million loss was $11 million higher than budget and $10 million higher than the previous year primarily due to the timing of project expenditures and lower investment income. Consistent with the first quarter of 2000/01, the corporation did not receive stumpage revenue in the first three months due to the provincial government's recovery of annual costs for administering the *Forest Practices Code.*

552513 British Columbia Ltd. (Skeena Cellulose Inc.) (Table A5) — a $13-million loss was a $3-million improvement from budget primarily due to lower-than-anticipated cost of goods sold. However, the three-month results show a $19-million deterioration from the previous year due to the effect of declining pulp prices and lower sales volumes.

Other Taxpayer-supported Agencies:

- *B.C. Pavilion Corporation* — revenues were in balance with expenditure, unchanged from the first three months of last year.
- *British Columbia Securities Commission* — net income of $2 million was $1 million lower than the previous year.
- *British Columbia Transit* — net operating expenditures, shared by provincial and local governments, were $1 million higher than the same period last year.
- *Okanagan Valley Tree Fruit Authority* — net income of $3 million was $2 million higher than the previous year.
- *Tourism British Columbia* — revenues were in balance with expenditure compared to net income of $1 million the previous year.

Self-supported Commercial Crown Corporations and Agencies

Combined net income of $73 million was $58 million below budget and $368 million lower than the same period last year. The decline from budget and the previous year was mainly due to higher energy costs and lower export volumes of the British Columbia Hydro and Power Authority, and lower investment earnings and increased claims costs for the Insurance Corporation of British Columbia.

During the first three months, commercial Crown corporations showed a combined operating income of $335 million. This was partially offset by contributions to the consolidated revenue fund of $257 million and accounting adjustments totalling $5 million. The accounting adjustments reflect differences in fiscal reporting periods between the government and some Crown corporations, and the transfer of British Columbia Lottery Corporation revenue to charities and local governments.

BC Hydro's net income totalled $74 million

British Columbia Hydro and Power Authority (Table A6) — net income of $74 million was $18 million below budget and $232 million lower than the same period last year.

- Domestic revenues were slightly above budget and 3.6 per cent higher than last year mainly due to increased non-residential sales.
- While almost three times higher than last year, first quarter electricity trade revenue of $1,860 million was $54 million below budget. This was primarily due to lower-than-anticipated sales volumes resulting from reduced demand as a result of the milder weather in California, and the increase of supply in the market due to rising northwest hydro production. The increase from the previous year was due to higher average sales prices (Cdn$376.50/MWh in 2001 compared to Cdn$126.50/MWh in 2000), partially offset by a 9.6 per cent reduction in trade volumes compared to the previous year. Market prices were extremely high during April and May and have recently declined, partly due to the implementation of a price cap imposed by the U.S. Federal Energy Regulatory Commission in mid June 2001 for the California and surrounding regions market. The price cap applies to wholesale spot market transactions and is based on a cost-based market clearing mechanism.
- Although trade income was $54 million below budget, energy costs were only $42 million below budget due to a decision to purchase additional energy in order to conserve reservoir levels for later use. In addition, energy costs were $1.4 billion higher than last year primarily due to higher prices for energy purchases. An increase in electricity and gas purchase volumes also contributed to the increase in energy costs from the prior year. Lower-cost hydro generation was reduced and energy purchases increased to conserve reservoir levels, given the record low snow pack levels.
- Operations, maintenance and administration costs rose 16 per cent from last year, primarily due to timing differences in spending on various programs. An increase in consulting and other associated costs related to dealings with former California trade partners also contributed to the increase.

Liquor Distribution Branch (Table A7) — net income of $144 million was $5 million above budget and compares to net income of $147 million for the same period last year. Gross profit (after product costs) was $4 million above budget and 1.9 per cent higher than the previous year. Operating expenses were $2 million below budget, but 12 per cent higher than last year primarily due to increased amortization costs of the new retail management system, increased wage expenses as a result of increased retail activity and salary increases per the negotiated contract.

British Columbia Lottery Corporation (Table A8) — net income of $151 million was $17 million above budget and $20 million higher than the same period last year. Gaming revenue of $390 million was $27 million above budget and 16 per cent higher than the previous year due to strong sales activity. Increased sales resulted in direct costs exceeding budget by $14 million and the previous year by 19 per cent. Operating and other expenses were $3 million less than budget but 8.3 per cent higher than the previous year.

British Columbia Railway Company (Table A9) — a preliminary net loss of $4 million for the six months ending June 30, 2001 is $2 million higher than budget and compares to net income of $16 million for the previous year.

- Revenue was slightly below budget and 8 per cent lower than the previous year, primarily due to reductions in rail traffic for wood products.
- Operating expenses were on budget and slightly below the previous year as the effect of a reduction in rail traffic was offset by higher fuel prices and service delivery costs.
- Financing and tax costs were slightly higher than budget and 5 per cent higher than last year.

ICBC's six-month loss of $31 million reflects reduced investment income and increased claims costs

Insurance Corporation of British Columbia (Table A10) — preliminary results for the six months ending June 30, 2001 show a net loss of $31 million compared to planned net income of $19 million. This also compares to net income of $242 million for the same period last year.

- Earned premium revenue was below budget primarily due to the effects of lower-than-anticipated policy sales in the last six months. However, premiums written were higher than the previous year and will result in higher earned revenue in the future.
- Investment income was $18 million below budget due to investment capital losses incurred in the first quarter and a declining interest rate market. This was $184 million lower than the same period last year due to significant one-time capital gains that occurred in the first half of 2000.
- Current year claims costs (claims incurred plus claims operations) were similar to budget and the previous year. However, prior year claims adjustments were $43 million below budget and $89 million lower than the previous year. The number of claims incurred in the first six months of 2001 was 1.1 per cent higher than budget and 3.4 per cent higher than the previous year. This was partially offset by a reduction in severity costs — 0.4 percent better than budget and 1.2 per cent better than the previous year.
- Operating expenses for insurance and non-insurance operations were $18 million lower than budget due to a reduction in certain programs and larger recoveries of costs, partially offset by an increase in costs due to higher staffing levels.

Other Commercial Crown Corporations:

- Columbia Power Corporation — net income of $1 million was down $1 million from last year.
- Provincial Capital Commission — revenues were in balance with expenditure in the first three months, unchanged from the previous year.

Details of the financial results for selected major Crown corporations and agencies are presented in Appendix Tables A1 to A10.

Capital Spending

This section provides information on capital spending for the government and its Crown corporations and agencies for the three months ended June 30, 2001, as summarized in Table 2.4

Table 2.4 Government, Crown Corporations and Agencies — Capital Expenditures
for the Three Months Ended June 30, 2001
(Unaudited)

	Budget 2001/02[1]	Actual 2001/02	Increase (Decrease)[2]	Actual 2000/01
	($ millions)			
Taxpayer-supported				
Capital plan				
Education	67	53	(14)	68
Health	70	42	(28)	54
BC Transportation Financing Authority	50	67	17	106
British Columbia Ferry Corporation	7	7	—	16
Rapid Transit Project 2000	67	67	—	96
Other[3]	31	30	(1)	9
Gross capital plan	292	266	(26)	349
Less: recoverable expenditures[4]				
Hospital districts	(15)	(11)	4	(6)
Greater Vancouver Transportation Authority (*TransLink*)	(8)	(8)	—	(4)
Net capital plan	269	247	(22)	339
Other taxpayer-supported				
Government operating (ministries)	23	21	(2)	14
552513 British Columbia Ltd. (Skeena Cellulose Inc.)[5]	8	7	(1)	20
Social housing[6]	3	—	(3)	14*
Other[7]	8	8	—	4
Total taxpayer-supported	**311**	**283**	**(28)**	**391**
Self-supported commercial				
British Columbia Hydro and Power Authority	155	105	(50)	87
British Columbia Railway Company	25	22	(3)	24
Columbia Power Corporation	28	28	—	15*
Columbia Basin Trust — joint ventures	28	28	—	15*
Insurance Corporation of British Columbia	10	4	(6)	8
ICBC Properties Ltd.	27	16	(11)	—
British Columbia Lottery Corporation	3	3	—	4
Liquor Distribution Branch	11	6	(5)	2
Total self-supported commercial	**287**	**212**	**(75)**	**155**
Total capital expenditures	**598**	**495**	**(103)**	**546**

* Restated to reflect more current information.
[1] Reflects three-month allocation of the full-year budget based on planned activities and seasonal patterns.
[2] 2001/02 actual less 2001/02 budget.
[3] British Columbia Buildings Corporation, Ministry of Attorney General, Ministry of Public Safety and Solicitor General, Ministry of Children and Family Development, British Columbia Transit and the Pacific National Exhibition.
[4] Expenditures by hospital districts for cost-shared projects and capital spending on behalf of, and recovered from, the Greater Vancouver Transportation Authority (*TransLink*).
[5] Based on a revised outlook for lower world pulp prices and its potential impact on the finances of 552513 British Columbia Ltd. (Skeena Cellulose Inc.), the company was reclassified from the self-supported category to taxpayer-supported in 2000/01.
[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.

$495 million was spent on capital projects in the first three months

During the three months ended June 30, 2001, $495 million was spent to finance capital projects. This was down $103 million from the $598-million budget primarily due to slower-than-expected capital spending for commercial Crown corporations and for education and health facilities. The under-spending was partially offset by accelerated road construction expenditures through the BC Transportation Financing Authority.

Over $3 billion has been invested in active major capital projects as at June 30, 2001

Consistent with the *Budget Transparency and Accountability Act,* significant capital projects with multi-year budgets totalling $50 million or more are shown in Table 2.5. For the first three months of 2001/02:

- Cumulative spending on major transportation projects increased $88 million to $2.3 billion at June 30, 2001, with the largest share for *SkyTrain.* The revised forecast for the completion of all major transportation projects totals $2.8 billion
- Cumulative spending on major health facilities increased $18 million to $169 million at June 30, 2001, with significant spending for the Royal Jubilee Hospital in Victoria. The revised forecast for the completion of all major health facilities totals $640 million.
- Spending for power generation capital projects by the British Columbia Hydro and Power Authority and Arrow Lakes Power Company increased $61 million to total $536 million at June 30, 2001. These agencies are self-supported and the combined revised forecast for these projects is $1 billion.
- ICBC Properties Ltd. (a unit of the Insurance Corporation of British Columbia) invested $101 million as at June 30, 2001, on the acquisition and renovation of Surrey City Centre. The total budget for the Surrey City Centre development is $253 million.

Table 2.5 Capital Expenditure Projects Greater Than $50 million

Project	Start Date	Forecast Completion Date	Cumulative Spending at Mar. 31, 2001[1]	+ Estimated Spending April 1 to June 30, 2001	= Estimated Cumulative Spending at June 30, 2001	Total Project Budget[2]	Total Project Forecast[2]
			($ millions)				
Transportation							
Vancouver Island Highway	1991	Fall 2002	1,214	15	1,229	1,308[3]	1,308[3]
Lion's Gate Bridge	May 1998	Sept. 2001	99	3	102	108	108
Port Mann Bridge/Cape Horn Interchange	Aug. 1998	March 2003	46	7	53	74	74
SkyTrain Extension — Phase 1	Sept. 1998	Dec. 2002	811*	61	872	1,167	1,167
SkyTrain Fleet Expansion	Oct. 1998	Oct. 2001	63*	1	64	68	68
Nisga'a Highway	Aug. 1998	Fall 2005	14	1	15	52	52
Total transportation			2,247	88	2,335	2,777	2,777
Health Facilities							
Vancouver General Hospital	Sept. 2000	2004[4]	12	1	13	156	156
Royal Jubilee Hospital (Victoria)	Aug. 1999	Dec. 2001	64*	12	76	116	116
Surrey Memorial Hospital	July 1998	Nov. 2001	69	2	71	77	77
Prince George Regional Hospital	Spring 2001	April 2004	6	3	9	50	50
Fraser Valley Health Centre	April 2001	March 2006	—	—	—	178	178
Nelson Health Campus	April 2001	June 2006	—	—	—	63	63
Total health facilities			151	18	169	640	640
Power Generation							
British Columbia Hydro and Power Authority							
— Stave Falls Replacement	Feb. 1995	2003[5]	137	—	137	181	144
— Burrard Upgrade	June 1993	March 2003					
— Burrard Upgrade (including units 4 to 6 SCRs)[6]			112	3	115	176	177
— Burrard Units 1 to 3 SCRs Installation[6]			39	1	40	46	44
Total Burrard Upgrade			151	4	155	222	221
— Port Alberni Power Generation[7]	April 2000[8]	Nov. 2003	5	3	8	180	180
— Georgia Strait Pipeline Crossing[7]	April 2000[8]	Fall 2003	9	2	11	131	131
— Addition of Fourth Generating Unit at Seven Mile Dam	Feb. 1995[8]	March 2004	9	1	10	97	97
Arrow Lakes Power Company[9]							
— Arrow Lakes Generating Station	Feb. 1999	Dec. 2002	164	51	215	270	270
Total power generation			475	61	536	1,081	1,043
Other							
ICBC Properties Ltd.							
— Surrey City Centre (includes Technical University of British Columbia)	Sept. 1999	Jan. 2003	85	16	101	253	253

* March 31, 2001 balances in the July 30 *Economic and Fiscal Update* were based on forecast amounts. The balances have been restated to reflect actual cumulative expenditures.

[1] Total expenditures since commencement of each project.

[2] Represents sum of annual budgeted expenditures 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 three years.

[5] In service as of December 1999. Additional costs will be incurred, but the project is substantially completed.

[6] Burrard generating station upgrade includes installation of Selective Catalytic Reduction (SCRs) systems on all 6 generating units. SCRs reduce emissions from the units and are required to meet the air quality standards for the Greater Vancouver Regional District.

[7] 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.

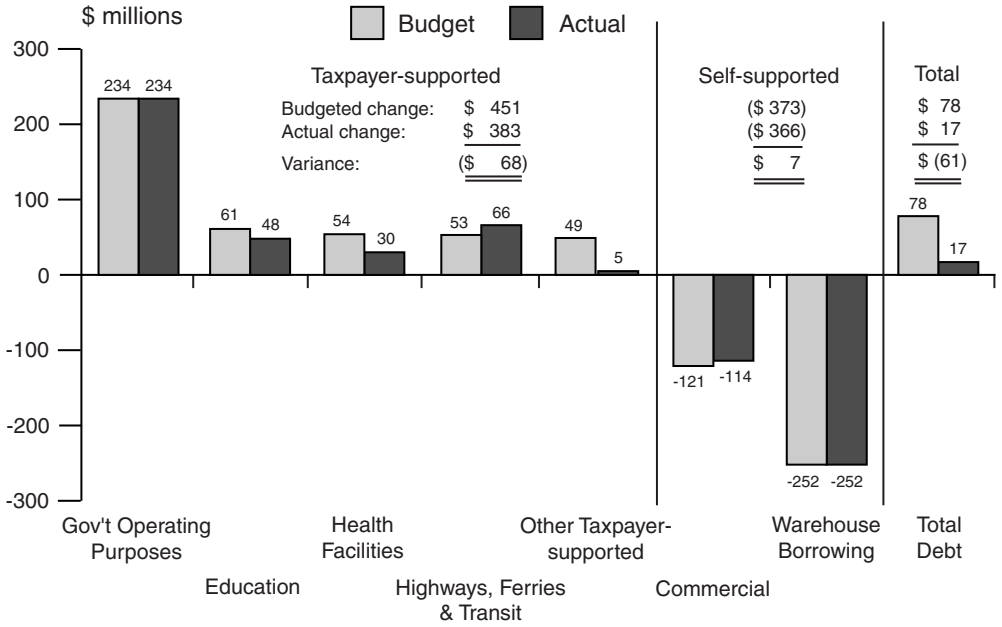
[8] Initial planning, preliminary field work and engineering design costs. Physical construction will begin at a later date.

[9] A joint venture of the Columbia Power Corporation and the Columbia Basin Trust.

Provincial Debt[1]:

Provincial debt increased $17 million to total $33.9 billion at June 30, 2001. The total was $61 million less than planned as reduced borrowing for most taxpayer-supported Crown corporations and agencies was partially offset by a higher balance for the Columbia Power Corporation (see Chart 2.2 and Table 2.6).

Chart 2.2 Change in Provincial Debt for the Three Months Ended June 30, 2001



A $383 million increase in taxpayer-supported debt, $114 million decline in commercial debt, and a $252 million drawdown of warehouse debt resulted in a total provincial debt increase of $17 million

Table 2.6 shows that taxpayer-supported debt increased $383 million from the start of the year, commercial debt decreased $114 million and the warehouse program was drawn down by $252 million. Debt changes included:

- Debt balances for government direct operating purposes, the BC Transportation Financing Authority, 552513 British Columbia Ltd. (Skeena Cellulose Inc.), and the British Columbia Hydro and Power Authority were on budget at June 30, 2001.
- Other taxpayer-supported Crown corporation and agency debt increased $149 million from the start of the year, $68 million lower than planned. Lower-than-expected working capital requirements for the British Columbia Buildings Corporation and slower capital spending for school and health facilities were partially offset by increased debt levels for Rapid Transit Project 2000 (debt related to the purchase of *SkyTrain* cars to be transferred to *TransLink* by March 31, 2002).
- Higher debt levels for the Columbia Power Corporation were partially offset by lower requirements for the Columbia Basin Power Company and the British Columbia Railway Company.

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

Table 2.6 Change in Provincial Debt[1] and Total Debt Outstanding
for the Three Months Ended June 30, 2001
(Unaudited)

	Public Accounts Balances at March 31, 2001	+ June 2001 Net Change[2]	= Total Debt Outstanding June 30, 2001[3]	Budgeted Total Debt Outstanding[4]	Variance Above/ (Below) Budget	Total Debt Outstanding June 30, 2000
	($ millions)					
Taxpayer-supported debt						
Provincial government direct operating	12,069	234	12,303	12,303	—	13,107
Education facilities[5]						
Schools	3,880	29	3,909	3,919	(10)	3,655
Post-secondary institutions	1,383	19	1,402	1,405	(3)	1,366
	5,263	48	5,311	5,324	(13)	5,021
Health facilities[5]	1,780	30	1,810	1,834	(24)	1,490
Highways, ferries and public transit						
BC Transportation Financing Authority	2,197	7	2,204	2,204	—	1,944
British Columbia Ferry Corporation	21	(1)	20	28	(8)	23
British Columbia Transit	75	3	78	76	2	67
Public transit[5]	948	(4)	944	945	(1)	948
SkyTrain extension[5]	836	60	896	894	2	584
Rapid Transit Project 2000	114	1	115	97	18	105
	4,191	66	4,257	4,244	13	3,671
Other						
British Columbia Buildings Corporation	610	(52)	558	597	(39)	569
552513 British Columbia Ltd. (Skeena Cellulose Inc.)[6]	337	14	351	351	—	305
Social housing[7]	265	(1)	264	274	(10)	197
Homeowner Protection Office	71	11	82	74	8	37
Universities and colleges — fiscal agency loans	124	(4)	120	123	(3)	128
Other[8]	243	37	280	280	—	204
	1,650	5	1,655	1,699	(44)	1,440
Total taxpayer-supported debt	**24,953**	**383**	**25,336**	**25,404**	**(68)**	**24,729**
Self-supported debt						
Commercial Crown corporations and agencies						
British Columbia Hydro and Power Authority	6,852	(156)	6,696	6,696	—	7,203
British Columbia Railway Company	603	9	612	616	(4)	647
Columbia Basin Power Company	93	(1)	92	99	(7)	93
Columbia Power Corporation	20	34	54	36	18	—
Liquor Distribution Branch	2	—	2	2	—	3
	7,570	(114)	7,456	7,449	7	7,946
Warehouse borrowing program	1,312	(252)	1,060	1,060	—	1,707
Total self-supported debt	**8,882**	**(366)**	**8,516**	**8,509**	**7**	**9,653**
Total provincial debt	**33,835**	**17**	**33,852**	**33,913**	**(61)**	**34,382**

[1] Debt includes provincial government direct debt, fiscal agency loans, other debt that has been guaranteed by the provincial government, and certain other debt that 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] Debt at March 31, 2001 (*Public Accounts*) plus the net change for the period.
[4] Reflects three-month allocation of the full-year budget based on planned activities and seasonal patterns.
[5] Represents government direct debt incurred for capital financing purposes.
[6] Based on the outlook for world pulp prices and their potential impact on 552513 British Columbia Ltd. (Skeena Cellulose Inc.), the company's debt was reclassified as being taxpayer-supported in 2000/01. 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] Includes the British Columbia Housing Management Commission and the Provincial Rental Housing Corporation.
[8] 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.

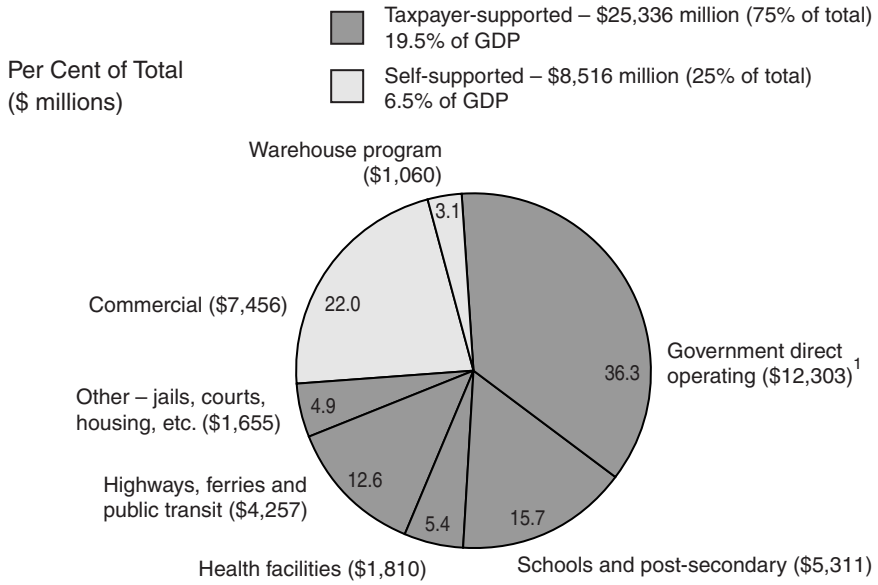
COMPOSITION OF PROVINCIAL DEBT

The government borrows to finance its own operations (for example, when revenues fall short of expenditures), to finance construction of capital projects or other investments, to refinance maturing debt and to finance working capital needs.

Roughly $25 billion or 75 per cent of total provincial debt (excluding the warehouse borrowing program) reflects investments in capital assets — schools, hospitals, roads, transportation, utilities, and other forms of provincial infrastructure.

Provincial debt totalled $33.9 billion at June 30, 2001, or 26 per cent of provincial gross domestic product (GDP).

Provincial Debt at June 30, 2001



Total: $33,852 million
26% of GDP

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

Debt-to-GDP ratio: The ratio of a province's taxpayer-supported debt relative to its GDP, is a measure of a province's ability 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 lower debt service costs.

Taxpayer-supported debt: Includes direct debt for government operating and capital purposes, and the operating and capital debt of Crown corporations and agencies that require a subsidy from the provincial government. At June 30, 2001, taxpayer-supported debt totalled $25.3 billion or 19.5 per cent of GDP.

Self-supported debt: Includes debt of commercial Crown corporations and the warehouse borrowing program. Commercial Crown corporation debt is used to finance capital since enough revenue is earned to cover interest costs and principal repayments. Warehouse borrowing is used to take advantage of market opportunities to borrow in advance of future requirements. These funds are invested until they are needed by the government or its Crown corporations and agencies.
At June 30, 2001, self-supported debt totalled $8.5 billion, or 6.5 per cent of GDP.

Summary Accounts Balance Sheet

Table 2.7 summarizes the changes in the province's financial position during the first three months of 2001/02. The table shows that:

- a $65-million increase in cash and temporary investments;
- a $174-million increase in net investments in taxpayer-supported capital assets and in commercial Crown corporations; and
- working capital requirements totalling $710 million (primarily due to the one-time non-cash joint trusteeship benefit included in the summary accounts surplus);

was financed by:

- the $680-million summary accounts surplus;
- a $252-million reduction in warehouse borrowing investments; and
- a $17-million increase in provincial debt.

Further details are shown in Table 2.8

Table 2.7 Change in Summary Accounts Financial Position
for the Three Months Ended June 30, 2001
(*Unaudited*)

	Change	
	($ millions)	
Summary accounts surplus		**(680)**
Increase in cash and temporary investments		65
Changes in capital investments:		
Increase in assets related to taxpayer-supported capital investments (net of amortization)	116[1]	
Increase in net investments in, and loans to, commercial Crown corporations for asset purchases	58[1]	174
Non-cash and other working capital changes:		
Reduction in unfunded pension liability (non-cash)	1,295	
Other working capital changes and adjustments	(585)	710
Net debt increase for government and its Crown corporations and agencies		269
Decrease in warehouse borrowing investments		(252)
Increase in provincial debt		**17**

[1] Reflects effect of $495 million in total capital spending (see Table 2.4) as follows:

	($millions)
Taxpayer-supported capital increase	283
Less: depreciation and other accounting changes	(167)
Net increase in capital investments	116
Commercial Crown corporation capital increase	212
Less: amounts financed internally	(154)
Net increase of investments in commercial Crown corporations (including recoverable loans for asset purchases)	58

Table 2.8 Summary Accounts Balance Sheet
as at June 30, 2001
(Unaudited)

	March 31, 2001	June 30, 2001	Increase/ (Decrease)
	($ millions)		
Assets			
Cash and temporary investments	554	619	65
Other working capital assets[1]	4,923	4,093	(830)
Capital assets and investments (net of amortization)			
— Net investments in self-supported Crown corporations and agencies	*3,001*	*3,123*	*122*
— Loans for purchases of assets recoverable from agencies[2]	*7,437*	*7,373*	*(64)*
— Prepaid capital advances	*6,905*	*6,955*	*50*
— Tangible capital assets	*11,075*	*11,141*	*66*
	28,418	28,592	174
Warehouse borrowing program assets	1,312	1,060	(252)
	35,207	**34,364**	**(843)**
Liabilities			
Current liabilities[3]	3,874	3,587	(287)
Unfunded pension liabilities	1,477	182	(1,295)
Debt			
— Taxpayer-supported debt	*24,953*	*25,336*	*383*
— Commercial Crown corporations and agencies	*7,570*	*7,456*	*(114)*
— Warehouse borrowing program	*1,312*	*1,060*	*(252)*
	33,835	*33,852*	*17*
Less: guarantees and non-guaranteed debt[4]	*(597)*	*(555)*	*42*
	33,238	33,297	59
	38,589	**37,066**	**(1,523)**
Net equity (deficiency)[5]	(3,382)	(2,702)	680
	35,207	**34,364**	**(843)**

[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.

PART THREE — REVISED FINANCIAL FORECAST

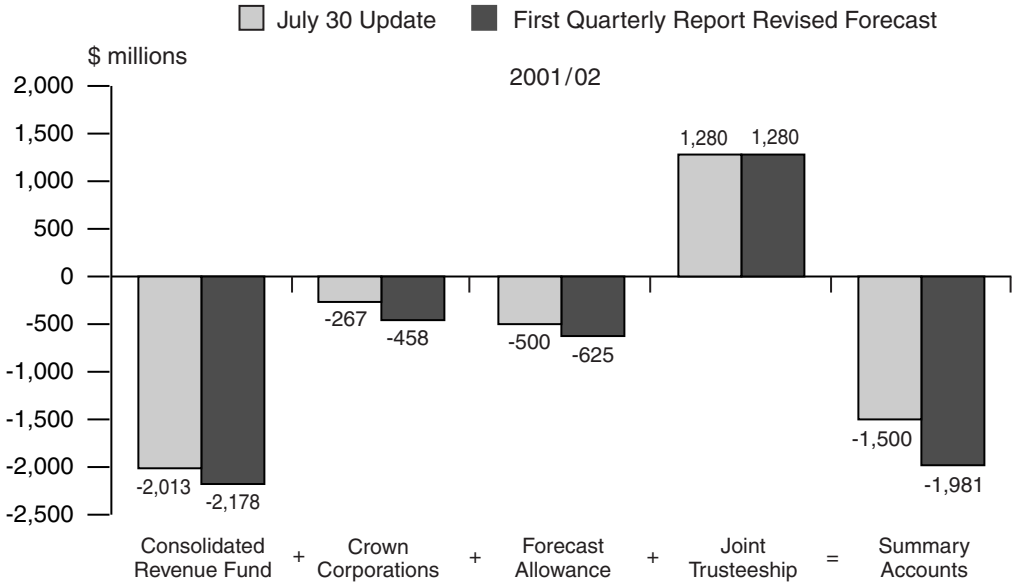
Summary Accounts

Since the July 30 *Economic and Fiscal Update*, the overall fiscal position has deteriorated primarily due to declining energy prices and higher costs in the Insurance Corporation of British Columbia (ICBC). In addition, a weakening economy is expected to affect fiscal performance over the rest of the year, and there is considerable uncertainty about the impacts of the preliminary softwood lumber countervail duty.

The government's spending plan is currently on track. However, there are risks in a number of ministries including the Ministry of Health Services, which is managing pressures in the range of $300–$400 million. The second *Quarterly Report* at the end of November will provide a further update of how spending risks are being managed.

The summary accounts are projected to show a $1.981-billion deficit for 2001/02, compared to the July 30 Update estimate of a $1.5-billion deficit.

Chart 3.1 Summary Accounts Full-year Forecast



CRF revenue is projected to be $190 million below budget while spending is currently on track

The government's consolidated revenue fund (CRF) shortfall is projected at $2.2 billion in 2001/02, up $165 million from the July 30 Update.

- Revenue is $190 million below the July forecast primarily due to lower energy prices.
- Spending is $25 million below the July forecast due to lower-than-expected costs for forest fire fighting.

Table 3.1 Developments Since the July 30 Update — Summary Accounts

	— ($ millions) —	
Summary Accounts Deficit — July 30 Update		**(1,500)**
CRF revenue changes — mainly lower energy revenues	(190)	
CRF spending changes — forest fire-fighting savings	25	
Total CRF changes		(165)
Crown Corporations — larger losses primarily for ICBC		(191)
Forecast Allowance — increased allowance for forecast uncertainties		(125)
Summary Accounts Deficit — First *Quarterly Report* Revised Forecast		**(1,981)**

Crown Corporation losses are $191 million higher than budget and include an expected ICBC loss of $150 million

Combined Crown corporation net losses of $458 million are $191 million higher than the July forecast and include a $150 million projected loss for ICBC mainly due to higher costs for claims and restructuring.

The summary accounts forecast allowance is increased $125 million to recognize additional risks to year-end

The summary accounts forecast allowance has been increased $125 million to total $625 million. This reflects increased uncertainty related to:

- The weakening U.S. and global economies and their impact on British Columbia. As well, energy prices have fallen more rapidly than expected, and may decline further than assumed in the current forecast.
- The effect of a preliminary United States decision to impose countervailing duties for British Columbia softwood exports.
- Managing spending pressures, particularly in the Ministry of Health Services.

The updated fiscal forecast is shown in Table 3.2 and further details of changes since the July 30 Update are provided in Table 3.3

Table 3.2 Summary Accounts — Revised Forecast

	2001/02 July 30 Update	2001/02 Revised Forecast	Variance[1]	Actual 2000/01
	($ millions)			
Consolidated revenue fund (CRF):				
Revenue	22,737	22,547	(190)	24,066
Expenditure	(24,750)	(24,725)	25	(22,463)
CRF balance	(2,013)	(2,178)	(165)	1,603
Crown corporations and agencies:				
Taxpayer-supported:				
British Columbia Buildings Corporation	40	40	—	51
British Columbia Ferry Corporation	3	3	—	11
BC Transportation Financing Authority	—	—	—	1
Forest Renewal BC	(107)	(107)	—	(64)
552513 British Columbia Ltd. (Skeena Cellulose Inc.)	(53)	(53)	—	—
Other[2]	(7)	(4)	3	49
	(124)	(121)	3	48
Less: Contributions paid to CRF	(18)	(27)	(9)	(69)
Other accounting adjustments[3]	(191)	(191)	—	(189)
Total taxpayer-supported	(333)	(339)	(6)	(210)
Commercial self-supported:				
British Columbia Hydro and Power Authority (BC Hydro)	420	420	—	446
Liquor Distribution Branch	616	625	9	642
British Columbia Lottery Corporation	585	585	—	562
British Columbia Railway Company	1	1	—	(7)
Insurance Corporation of British Columbia	35	(150)	(185)	139
Other[4]	3	3	—	4
	1,660	1,484	(176)	1,786
Less: Contributions paid to CRF[5]	(1,393)	(1,402)	(9)	(1,431)
Accounting adjustments:				
—Transfer of BC Hydro earnings to (from) rate stabilization account	(45)	(45)	—	103
—Other accounting adjustments[6]	(156)	(156)	—	(301)
Total self-supported commercial	66	(119)	(185)	157
Total net contribution of Crown corporations and agencies	(267)	(458)	(191)	(53)
Summary accounts balance before forecast allowance and joint trusteeship	(2,280)	(2,636)	(356)	1,550
Forecast allowance	(500)	(625)	(125)	—
Joint trusteeship	1,280	1,280	—	(52)
Summary accounts (deficit) surplus	(1,500)	(1,981)	(481)	1,498

[1] 2001/02 revised forecast less 2001/02 July 30 Update.

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

[4] Includes earnings/(losses) of other commercial Crown corporations, including the Columbia Power Corporation and the Provincial Capital Commission.

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

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

Table 3.3 Summary of Changes from the July 30 Update

	Change		Projected Results
	($ millions)		
Summary accounts deficit — July 30 Update			(1,500)
Consolidated revenue fund (CRF) changes:			
Revenue changes:			
— Prior-year personal income tax assessments (2000 tax year)	50		
— Lower natural gas and petroleum royalties, partly offset by higher minerals revenue	(266)		
— Higher sales of Crown land drilling rights	65		
— Lower revenue from electricity sales under the Columbia River Treaty	(77)		
— Higher revenue from Medical Services Plan premiums and other miscellaneous sources	17		
— Crown corporation and other federal contributions[1]	21	(190)	
Spending changes:			
— Ministry of Forests — lower spending for forest fire-fighting		25	(165)
Crown Corporation changes:			
Taxpayer-supported:			
— Increased contributions paid to the CRF (primarily Duke Point Developments Ltd.)	(9)		
— Other Crown corporation changes and adjustments (mainly lower adjustments for the amortization of highways)	3	(6)	
Self-supported commercial:			
— Increased net income of the Liquor Distribution Branch (LDB)	9		
— Insurance Corporation of British Columbia — change from net income to net loss	(185)		
— Other Crown corporation changes and adjustments (primarily increased contributions paid to the CRF by LDB)	(9)	(185)	(191)
Forecast allowance — increased allowance to address forecast uncertainties			(125)
Summary accounts deficit — First *Quarterly Report* Revised Forecast			(1,981)
Provincial debt at March 31, 2002 — July 30 Update			36,778
Taxpayer-supported debt changes:			
— Provincial government direct operating (mainly due to higher projected CRF shortfall)		128	
— Education and health facilities (lower capital spending)		(35)	
— Other (mainly higher loans through the Homeowner Protection Office)		30	123
Forecast debt allowance — mirrors increase in summary accounts forecast allowance			125
Provincial debt at March 31, 2002 — First *Quarterly Report* Revised Forecast			37,026

[1] Includes Liquor Distribution Branch ($9 million), Duke Point Developments Ltd. ($7 million), 580440 British Columbia Ltd. (Vancouver Trade and Convention Centre) ($2 million), and federal contributions for education for native children ($3 million).

Consolidated Revenue Fund

Revised Revenue Forecast

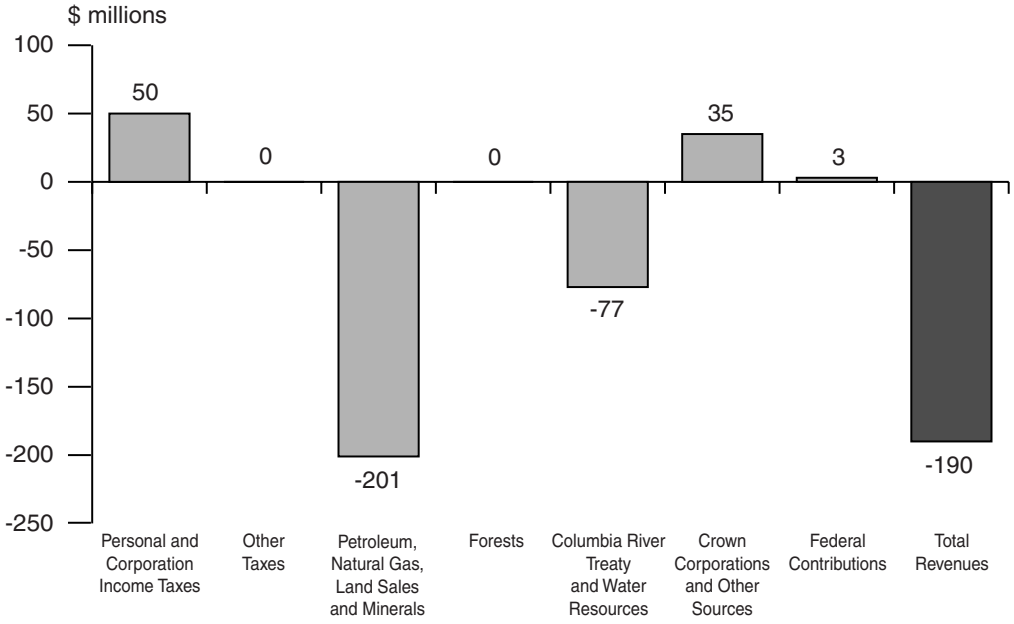
Revenue is projected to be $190 million below the July 30 Update mainly due to a lower forecast for natural gas royalties and lower electricity prices.

The forecast incorporates the effects of an outlook for weaker energy prices compared to the July 30 Update, recent information received from the federal government on higher personal income tax assessments for the 2000 tax year, and updated forecasts for other revenue sources.

Energy-related revenues down $278 million from the July 30 Update

The following chart shows that revenue from petroleum, natural gas and Columbia River Treaty electricity sales is projected to be $278 million below budget. This is partially offset by higher-than-budgeted revenue from personal income tax, Crown corporation contributions and other sources (primarily Medical Services Plan premiums). Revenue details are described below and in Tables 3.4 and 3.5.

Chart 3.2 Revenue changes from the July 30 Update



- *Personal and corporation income taxes* — $50 million above the July forecast due to higher-than-assumed personal income tax assessments for the 2000 tax-year based on preliminary information received from the federal government. Final assessments for the 2000 tax year will be available in late January 2002.
- *Petroleum, natural gas and minerals* — $201 million below the July forecast and 12.4 per cent lower than last year mainly due to the effect of lower-than-assumed natural gas and oil prices, partly offset by higher revenue from sales of Crown land drilling rights and mineral tax assessments. The forecast assumes that average natural gas prices will be 25 per cent lower than assumed in the July 30 Update, and 27 per cent lower than last year.

- *Forests* — although unchanged from the July 30 Update and slightly lower than last year, it is too soon to fully assess the effect of the 19.3-per-cent preliminary countervail duty imposed by the U.S. government in August. The increased summary accounts forecast allowance partly reflects this uncertainty. Additional information on the softwood lumber situation is provided in a Topic Box in Part 1.

- *Columbia River Treaty* — $77 million below the July forecast due to the effect of lower electricity prices in the U.S. on sales of electricity received through the Columbia River Treaty. The revised forecast assumes that average electricity prices in the U.S. will be 24 per cent lower than assumed in the July Update, and 41 per cent lower than last year.

- *Other revenue* — up $17 million mainly due to higher revenue from Medical Services Plan premiums.

- *Contributions from Crown corporations* — $18 million above the July forecast due to higher net income of the Liquor Distribution Branch and additional contributions resulting from the windup of Duke Point Developments Ltd.

- *Federal contributions* — $3 million above the July forecast due to higher recoveries for expenditures relating to the education of aboriginal children.

Key assumptions and risks affecting the revised revenue forecast are shown in Table 3.5.

While current year developments have shown some positive trends at the first-quarter mark (e.g. retail sales and labour income), a number of factors could affect the forecast over the rest of the fiscal year. These include:

- North American economic growth — changes in U.S. or Canadian economic growth could affect the outlook for the provincial economy and impact a number of revenue sources. The forecast for British Columbia's economic growth in 2001 and 2002 is now expected to be less than the July 30 Update forecast.

- Sales and other tax collections could be weaker- or stronger-than-expected for the rest of the year depending on consumer confidence and the extent of economic activity in response to the previously-announced tax cuts.

- Weather conditions and uncertainty about the effect of the recent preliminary countervail duty imposed by the U.S. government could affect lumber prices, harvesting activity and forest revenue over the rest of the year.

- Energy prices remain volatile. Weather conditions, reservoir levels and market changes in the U.S. could affect natural gas and electricity prices, and resulting provincial revenues.

The summary accounts forecast allowance has been increased to partly reflect these uncertainties.

Table 3.4 Consolidated Revenue Fund — Revised Revenue Forecast

	2001/02 July 30 Update	2001/02 Revised Forecast[1]	2001/02 Variance[2]	Actual 2000/01
	($ millions)			
Taxation:				
Personal income	4,935	4,985	50	6,015
Corporation income	1,154	1,154	—	1,054
Social service	3,664	3,664	—	3,617
Fuel	416	416	—	443
Tobacco	463	463	—	460
Property	1,406	1,406	—	1,371
Property transfer	275	275	—	262
Corporation capital	347	347	—	459
Other	297	297	—	289
Less: provision for doubtful accounts	(25)	(25)	—	(14)
Less: commissions on collection of public funds	(24)	(24)	—	(23)
	12,908	12,958	50	13,933
Natural resources:				
Petroleum and natural gas:				
Natural gas royalties	1,323	1,064	(259)	1,249
Permits and fees	351	416	65	462
Petroleum royalties	139	125	(14)	136
	1,813	1,605	(208)	1,847
Minerals	53	60	7	53
Forests:				
Timber sales	814	814	—	821
Small business forest enterprise program	255	255	—	257
Logging tax	18	18	—	60
Other forests revenue	63	63	—	15
	1,150	1,150	—	1,153
Water resources	301	301	—	294
Columbia River Treaty	475	398	(77)	632
Wildlife Act	14	14	—	15
	790	713	(77)	941
Less: provision for doubtful accounts	(10)	(10)	—	(18)
Less: commissions on collection of public funds	(2)	(2)	—	(1)
	3,794	3,516	(278)	3,975
Other revenue:				
Medical Services Plan premiums	904	919	15	895
Motor vehicle licences and permits	345	345	—	342
Other fees and licences	349	349	—	330
Investment earnings	70	71	1	112
Fines and penalties	85	86	1	99
Miscellaneous	135	135	—	126
Asset dispositions	—	—	—	—
Less: provision for doubtful accounts	(49)	(49)	—	(36)
Less: commissions on collection of public funds	(13)	(13)	—	(7)
	1,826	1,843	17	1,861
Contributions from Crown corporations:				
British Columbia Buildings Corporation	16	16	—	50
Liquor Distribution Branch income	616	625	9	642
British Columbia Lottery Corporation	429	429	—	414
British Columbia Hydro and Power Authority	346	346	—	372
Other	4	13	9	22
	1,411	1,429	18	1,500
Contributions from the Federal government:				
Canada health and social transfer	2,620	2,620	—	2,619
Other	178	181	3	178
	2,798	2,801	3	2,797
TOTAL REVENUE	22,737	22,547	(190)	24,066

[1] The July 30 Update and revised forecasts for 2001/02 exclude $873 million of dedicated revenue collected on behalf of, and transferred to, Crown corporations, agencies and other jurisdictions. These include Forest Renewal BC; Tourism British Columbia; BC Transportation Financing Authority; British Columbia Transit; British Columbia Ferry Corporation; the Greater Vancouver Transportation Authority *(TransLink)*; and the British Columbia Oil and Gas Commission.

[2] 2001/02 revised forecast less 2001/02 July 30 Update.

Table 3.5 — Main Revenue Forecast Assumptions and Risks — Consolidated Revenue Fund

Revenue Source	2001/02 Forecast Assumptions		Risks and Sensitivities
	July 30 Update	First *Quarterly Report*	
Personal Income Tax July 30 Update: $4,935 million First *Quarterly Report*: $4,985 million, Up $50 million	Personal income growth of 3.2% in 2001; 3.9% in 2002. Tax base growth of 3.3% in 2001; 5.8% in 2002.	Personal income growth of 3.2% in 2001; 3.9% in 2002. Tax base growth of 3.3% in 2001; 5.8% in 2002. **Assumes additional $50 million to reflect higher-than assumed assessments for 2000 (based on preliminary tax assessment information).**	±1% change in 2001 personal income growth equals ±$50 to $100 million. Final 2000 tax assessments (as of December 31, 2001) could affect the tax base forecast. If the distribution of taxable income among various income levels is different than assumed, this could affect 2001 revenue due to the nature of "tax-on-income" system.
Corporation Income Tax July 30 Update: $1,154 million First *Quarterly Report*: $1,154 million, Unchanged	National tax base growth of −1% in 2001. British Columbia corporate profits increase of 3.9% in 2000. Incorporates the general tax rate reduction effect of $16 million, offset by the elimination of the manufacturing and processing investment tax credit.	National tax base growth of −1% in 2001. British Columbia corporate profits increase of 3.9% in 2000. Incorporates the general tax rate reduction effect of $16 million, offset by the elimination of the manufacturing and processing investment tax credit.	Changes to the federal government's outlook for national corporate profits in 2001 could affect payments. ±1% change in 2001 national tax base growth equals ±$10 to $15 million. ±1% change in 2000 BC tax base growth equals ±$10 to $15 million. Changes in 2001 BC corporate profits affect revenue in 2002/03.
Social Services Tax July 30 Update: $3,664 million First *Quarterly Report*: $3,664 million, Unchanged	Retail sales growth of 4.0% in 2001; 4.2% in 2002. Incorporates tax reduction measures totaling $134 million.	Retail sales growth of 4.0% in 2001; 4.2% in 2002. Incorporates tax reduction measures totaling $134 million.	±1% change in retail sales growth affects revenue by ±$15 to $25 million. Revenue growth could be higher or lower depending on the level of consumer confidence and the extent of economic activity in response to the tax cuts.
Fuel/Tobacco Taxes July 30 Update: $879 million First *Quarterly Report*: $879 million, Unchanged	Nominal GDP growth of 3.6% in 2001; real GDP growth of 2.2% in 2001; population growth of 0.9% in 2001. Includes additional transfer of 1 cent/litre of fuel tax to the Greater Vancouver Transportation Authority (*Translink*). Incorporates fuel tax reduction measures of $17 million.	Nominal GDP growth of 3.6% in 2001; real GDP growth of 2.2% in 2001; population growth of 0.9% in 2001. Includes additional transfer of 1 cent/litre of fuel tax to the Greater Vancouver Transportation Authority (*Translink*). Incorporates fuel tax reduction measures of $17 million.	±1% change in factors determining growth equals ±$10 to $20 million.
Petroleum, Natural Gas and Minerals Revenue July 30 Update: $1,866 million First *Quarterly Report*: $1,665 million, Down $201 million	Natural gas price at $6.00/gigajoule in 2001/02; volumes up 7.9%. Sales of Crown land drilling rights assumes average price of $305/hectare and 1,000 hectares sold. Price of oil at US $27/bbl (field price, net of transportation).	**Natural gas price averaging $4.50/gigajoule in 2001/02; volumes up 21%.** **Sales of Crown land drilling rights assumes average price of over $305/hectare and over 1,000 hectares sold.** **Price of oil at US $26.50/bbl (field price, net of transportation).**	Natural gas prices are 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 ±$75 to $125 million. ±1% change in natural gas volumes equals ±$10 to $15 million. ±5% change in price or volume of land sales equals ±$11 million. ±$5 change in oil price equals ±$20 million.

Table continued on next page

Table 3.5 — Main Revenue Forecast Assumptions and Risks — Consolidated Revenue Fund — *Continued*

Revenue Source	2001/02 Forecast Assumptions		Risks and Sensitivities
	July 30 Update	**First *Quarterly Report***	
Forests July 30 Update: $1,150 million First *Quarterly Report*: $1,150 million Unchanged	Crown coastal harvest volumes at 15.0 million m³ in 2001/02. Crown interior harvest volumes at 46.5 million m³ in 2001/02. Average SPF 2x4 price in 2001 at US $259/1,000 bd ft. Average hemlock (HBSQ) price in 2001 at US $582/1,000 bd ft. Exchange rate 65.5 cents US in 2001. Average pulp price in 2001 at US $564/tonne.	Crown coastal harvest volumes at 15.0 million m³ in 2001/02. Crown interior harvest volumes at 46.5 million m³ in 2001/02. Average SPF 2x4 price in 2001 at US $259/1,000 bd ft. Average hemlock (HBSQ) price in 2001 at US $582/1,000 bd ft. Exchange rate 65.5 cents US in 2001. Average pulp price in 2001 at US $564/tonne.	Full effects of the preliminary 19.3% tariff (countervail duty) on softwood lumber exports to the U.S. are unknown. ±US $50 change in SPF price equals ±$65 to $80 million change in CRF revenue. ±US $100 change in hemlock price equals ±$5 to $10 million. ±10% change in coastal harvest volumes equals ±$10 to $15 million. ±10% change in interior harvest volumes equals ±$65 to $80 million. A 1 cent US increase (decrease) in the exchange rate reduces (increases) revenue by $5 to $10 million.
Water Resources Columbia River Treaty July 30 Update: $475 million First *Quarterly Report*: $398 million, Down $77 million	**Assumed price forecast based on BC Hydro's June 20 outlook.**	**Assumed price forecast based on BC Hydro's August 20 outlook.** **Revenue down $77 million reflecting weaker price outlook for 2001/02. Average prices 24% lower than the July 30 Update.**	Volatile revenue source. While BC Hydro can take advantage of high volatility in the market to increase its trade margins and resultant net income, Columbia River Treaty revenue is directly affected by changes in current and forward market electricity prices. Weather can affect 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 ± $10 to $15 million.
Other Sources: Fees, Licences, Fines and Miscellaneous July 30 Update: $1,826 million First *Quarterly Report*: $1,843 million, Up $17 million	Usage rate generally varies with population and overall economic growth. Population growth of 0.9% in 2001, real GDP growth of 2.2% in 2001.	Usage rate generally varies with population and overall economic growth. Population growth of 0.9% in 2001, real GDP growth of 2.2% in 2001. **Revised outlook up $17 million mainly due to higher Medical Services Plan premium revenue due to higher volumes.**	±1% change in usage rate/ population growth equals ±$15 to $20 million.
Government Enterprises July 30 Update: $1,411 million First *Quarterly Report*: $1,429 million, Up $18 million Liquor Distribution Branch (LDB) July 30 Update: $616 million First *Quarterly Report*: $625 million Duke Point Developments/ 580440 British Columbia Ltd. (Vancouver Trade & Convention Centre) July 30 Update: $2 million First *Quarterly Report*: $11 million	Generally dependent on growth in real GDP and population. Population growth of 0.9% in 2001, real GDP growth of 2.2% in 2001.	Generally dependent on growth in real GDP and population. Population growth of 0.9% in 2001, real GDP growth of 2.2% in 2001. **Forecast up $18 million:** **—up $9 million due to higher LDB sales.** **—up $9 million due to wind-up of Duke Point Developments Ltd. ($7 million) and 580440 British Columbia Ltd. (Vancouver Trade & Convention Centre) ($2 million).**	±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. BCBC dividend affected by levels of property sales.

Table continued on next page

Table 3.5 — Main Revenue Forecast Assumptions and Risks — Consolidated Revenue Fund — *Continued*

Revenue Source	2001/02 Forecast Assumptions		Risks and Sensitivities
	July 30 Update	First *Quarterly Report*	
Canada health and social transfer (CHST) July 30 Update: $2,620 million First *Quarterly Report*: $2,620 million Unchanged	National cash and tax point bases of $32,869 million (national cash entitlement at $17.3 billion). British Columbia entitlement share: 13.22% (2001 population share. British Columbia tax point offset of $1,725 million. Revenue based on: BC share of national cash and tax points (population share); less BC revenue from tax points (a fixed percentage of BC personal and corporation tax bases)	National cash and tax point bases of $32,869 million (national cash entitlement at $17.3 billion). British Columbia entitlement share: 13.22% (2001 population share. British Columbia tax point offset of $1,725 million.	±1% change in British Columbia population with no change in national population is equivalent to ±$40 to $50 million. 1% increase (decrease) in the British Columbia income tax base reduces (increases) revenue by $15 to $20 million. ±1% change in the national base (cash and tax), equals ±$40 to $50 million, assuming no change to the British Columbia income tax base.

Revised Expenditure Forecast

Overall, government spending is on track with the July 30 Update. As shown in Table 3.6, the revised expenditure forecast is $25 million below budget due to lower projected forest fire-fighting costs.

The July 30 Update identified additional spending pressures totalling $544 million that would need to be managed by ministries over the year. The largest pressure, estimated at $300 to $400 million, was identified for the Ministry of Health Services.

Since the July 30 Update, ministry actions have reduced overall spending pressures by $96 million, to total $448 million.

- Attorney General — $22 million, down $8 million from the July 30 Update;
- Children and Family Development — $15 million, down $53 million from the July 30 Update;
- Forests — $6 million, down $20 million from the July 30 Update;
- Health Services — $300 to $400 million range, unchanged from the July 30 Update; and
- Public Safety and Solicitor General — $5 million, down $15 million from the July 30 Update.

The second *Quarterly Report* at the end of November will provide a further update on progress in managing spending risks, particularly in the Ministry of Health Services.

The July 30 Update includes a $360-million budget for the Contingencies (All Ministries) and New Programs Vote. Statutory appropriations also exist in a number of programs. In addition, a $625-million forecast allowance is included in the summary accounts forecast to provide for changes prior to year-end.

Further details on these spending pressures, along with risks and sensitivities associated with the revised forecast, are provided in Table 3.7.

Table 3.6 Consolidated Revenue Fund — Revised Expenditure Forecast

	2001/02 July 30 Update	2001/02 Revised Forecast	Variance[1]	Actual[2] 2000/01
	($ millions)			
Legislation	44	44	—	36
Officers of the Legislature	51	51	—	26
Office of the Premier	20	20	—	15
Advanced Education:				
Educational institutions and organizations	1,382	1,382	—	1,431
Other ministry programs	512	512	—	471
Total	1,894	1,894	—	1,902
Agriculture, Food and Fisheries	82	82	—	82
Attorney General	552	552	—	603
Children and Family Development	1,551	1,551	—	1,352
Community, Aboriginal and Women's Services	562	562	—	465
Competition, Science and Enterprise	72	72	—	84
Education:				
Public schools	4,094	4,094	—	3,921
Other ministry programs	750	750	—	691
Total	4,844	4,844	—	4,612
Energy and Mines	67	67	—	57
Finance	47	47	—	43
Forests	539	514	(25)	530
Health Planning	5	5	—	5
Health Services:				
Acute and continuing care	5,183	5,183	—	4,772
Other ministry programs	4,330	4,330	—	4,026
Total	9,513	9,513	—	8,798
Human Resources	1,939	1,939	—	1,871
Management Services	64	64	—	57
Provincial Revenue	50	50	—	41
Public Safety and Solicitor General	499	499	—	462
Skills Development and Labour	30	30	—	30
Sustainable Resource Management	134	134	—	109
Transportation:				
Ministry Programs	499	499	—	464
Contributions to public transit	173	173	—	164
Total	672	672	—	628
Water, Land and Air Protection	216	216	—	175
Other:				
Management of Public Funds and Debt	823	823	—	889
Contingencies (All Ministries) and New Programs	360	360	—	—[3]
BC Family Bonus	120	120	—	145
Amortization of change in unfunded pension liability[4]	(58)	(58)	—	(634)
Other Appropriations[5]	58	58	—	80
TOTAL EXPENDITURE	24,750	24,725	(25)	22,463

[1] 2001/02 revised forecast less 2001/02 July 30 Update.
[2] Figures have been restated to reflect the government organization as of June 30, 2001.
[3] Charges to the Contingencies Vote in 2000/01 are included as part of the spending of ministries.
[4] In 2000/01, the amortization of change in unfunded pension liability includes a $368-million reduction to reflect a change in pension accounting policy as recommended by the Auditor General.
[5] Other Appropriations include the Commissions on Collection of Public Funds and Allowance for Doubtful Accounts Vote, the Environmental Assessment Office Vote, the Environmental Boards and Forest Appeals Commission Vote, the Forest Practices Board Vote, the Public Sector Employers' Council Vote, the Seismic Mitigation Vote, the Insurance and Risk Management Special Account, the Unclaimed Property Special Account, and other appropriations.

Table 3.7 — Main Expenditure Forecast Risks and Sensitivities — Consolidated Revenue Fund

Expenditure Area — July 30 Update	First *Quarterly Report*	Risks and Sensitivities
Ministry of Advanced Education Estimate — $1,894 million	Unchanged.	Not all collective agreement negotiations with college instructors were concluded prior to the budget. Collective agreements with university instructors expire throughout the year.
Student Financial Assistance Estimate — $154 million Authorized student loans: $115 million	Unchanged.	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 Estimate — $82 million	Unchanged.	An extraordinary agricultural disaster could result in requests for the government to cover costs not eligible under existing risk management programs. Current funding for risk management programs is dependant on continued federal/provincial agricultural cost-sharing arrangements.
Ministry of Attorney General Estimate — $552 million	Unchanged.	
Court Services Estimate — $138 million	Unchanged.	Costs are affected by large court cases, number of cases pending and number of appearances per case.
Justice Services Estimate — $106 million	Unchanged.	Costs are driven by demand, however, risks are relatively low as the majority of services are provided by a third party at a fixed cost.
Treaty Negotiations Office Estimate — $46 million	Unchanged.	Actual expenditures are affected by the pace of interim agreements and treaty settlements.
Statutory Services Estimate — $33 million	Unchanged.	Higher than assumed *Crown Proceeding Act* settlement volumes and amounts.
Ministry of Children and Family Development Estimate — $1,551 million	Unchanged.	Ability to manage provincially funded children-in-care caseload at an average of 10,300, within available ministry resources. Average cost per child-in-care is approximately $26,300 per year. Additional migrant children each cost approximately $50,000 per year. Additional residential beds in the Community Living Services program cost approximately $66,000 each and day programs cost an average of approximately $16,000 per client. 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 of cost reduction initiatives.

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Table 3.7 — Main Expenditure Forecast Risks and Sensitivities — Consolidated Revenue Fund — *Continued*

Expenditure Area — July 30 Update	First *Quarterly Report*	Risks and Sensitivities
Ministry of Community, Aboriginal and Women's Services Estimate — $562 million	Unchanged.	The province is working with the federal government to develop a fair process for relief to homeowners repairing damage from premature building envelope failure ("leaky condos").
Ministry of Competition, Science and Enterprise Estimate — $72 million	Unchanged.	The ministry is reviewing the Vancouver Convention and Exhibition Centre (VCEC). If the VCEC proceeds, a $26.5 million expenditure would be required by December 2001 to complete the purchase of the site. The ministry is reviewing the recommendations of Nechako Environmental Enhancement Fund Management Committee Report on the restoration of the Nechako River. Up to $50 million, over five years, would be required to fund all of the recommendations of the committee report. Skeena Cellulose Inc. (Skeena) sought protection under the Companies Creditors' Arrangement Act after the Toronto Dominion Bank sought payment of all outstanding loans. With this court protection, Skeena can remain in operation and the province can continue efforts to return the company to the private sector. The disposition of the company could result in an expenditure pressure to be provided for from the contingencies vote.
Ministry of Education Estimate — $4,844 million	Unchanged.	Higher or lower enrolment growth, changes in student composition and changes in space capacity may affect expenditures. A 1% change in enrolment will affect costs by $25 million. Collective agreement negotiations with some non-CUPE support staff have not been concluded. The collective agreement with teachers expired June 30, 2001. Higher or lower interest rates will affect debt service expenditures.
Ministry of Energy and Mines Estimate — $67 million Vancouver Island gas pipeline (VIGAS) and the Squamish Rate Stabilization Facility $33 million	Unchanged.	Each Cdn$1 per gigajoule (GJ) increase (or decrease) in the average natural gas price from the budgeted Cdn$6 per GJ could create an estimated $6 million budget expenditure (savings).
Ministry of Forests Estimate — $539 million	Down $25 million. Latest projection of fire suppression costs is $61 million, down $25 million from the July 30 Update.	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 U.S. lumber industry filed a countervailing duty petition when the Softwood Lumber Agreement expired on March 31, 2001. The preliminary determination was received on August 10, 2001; a preliminary duty of 19.3% has been imposed on softwood lumber exports to the U.S. The final determination is not expected until late this year or early the following year. The ministry's costs to defend the case could total up to $8 million. This includes legal fees, data collection and economic studies. Costs related to the softwood lumber dispute and for marketing British Columbia forest products and practices will be managed by the ministry within its budget (but not from the Fire Suppression Vote).

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Table 3.7 — Main Expenditure Forecast Risks and Sensitivities — Consolidated Revenue Fund — *Continued*

Expenditure Area — July 30 Update	First *Quarterly Report*	Risks and Sensitivities
Ministry of Health Services Estimate — $9,513 million	Unchanged.	Potential compensation, inflation and service pressures are placing upward pressure on the existing budget. In order to stay within the overall ministry budget, management strategies will be required, including reducing/restructuring some services and delayed implementation of new services. This would impact the service delivery assumptions noted below.
Acute and Continuing Care Estimate — $5,183 million	Unchanged.	A 1% increase in population affects program expenditure by approximately $51 million. With one exception, all major union collective agreements have been finalized. Potential pressures from severe seasonal illness or the adoption of new, more costly treatment may exceed the enhanced capacity provided for in the budget. Ability to deliver services has been affected by recent job action. This will result in increased costs for out of province services and increasing wait times for surgery.
Adult Mental Health Estimate — $406 million	Unchanged.	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 Estimate — $356 million	Unchanged.	A 1% increase in population affects expenditures by approximately $4 million.
Medical Services Plan Estimate — $2,262 million	Unchanged.	Total estimated expenditure growth for fee-for-service physician services is 1.7% for population and 1.5% for utilization ($53.6 million) A 1% change in utilization of physician services affects costs by $17 million. 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. Reallocations may be required in health spending or overall government spending in order to accommodate the cost of an arbitrated settlement.
Pharmacare Estimate — $719 million	Unchanged.	A 1% increase in utilization or drug costs affects expenditures by $7.2 million. The ministry may be unable to manage growth to the budgeted 9% over the 2000/01 base. Total growth is projected to be 16.0%, based on population growth (3.5%), utilization (4.8%) and price increases (7.7%).
Ministry of Human Resources Estimate — $1,939 million	Unchanged.	No provision has been made for unanticipated growth in the caseload. 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 the health status of the population. The 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. A 1% change in demand affects subsidies expenditures by $1.26 million.

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Table 3.7 — Main Expenditure Forecast Risks and Sensitivities — Consolidated Revenue Fund — *Continued*

Expenditure Area — July 30 Update	First *Quarterly Report*	Risks and Sensitivities
Management Services Estimate — $64 million	Unchanged.	Severance costs are currently estimated at $2 million above the $12 million budgeted for 2001/02. This could increase as more severance settlements are negotiated.
Ministry of Provincial Revenue Estimate — $50 million	Unchanged.	Higher than assumed volumes of applications for home owner grants, with respect to the previous property tax year, could increase costs beyond the $4 million budget.
Ministry of Public Safety and Solicitor General Estimate — $499 million	Unchanged.	
Corrections — Adult Custody Estimate — $174 million	Unchanged.	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 Estimate — $171 million	Unchanged.	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 30% of the provincial force. Each additional provincial officer costs the province $96,000.
British Columbia Gaming Commission — Distribution of Gaming Revenues to Charities Estimate — $103 million	Unchanged.	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.
Statutory Services Estimate — $46 million	Unchanged.	Higher-than-assumed volumes for *Criminal Injuries Compensation Act.* An unusual number or severity of natural disasters, such as forest fires or floods.
Ministry of Water, Land and Air Protection Estimate — $ 216 million	Unchanged.	Actual Britannia mine site clean-up and remediation expenditures could be higher than the province's $45-million estimated share of costs.
Management of Public Funds and Debt Estimate — $823 million	Unchanged.	1% change in interest rates results in $33 million change in direct operating debt interest expense for the remainder of the fiscal year; up to $64 million change when other taxpayer-supported debt is included.
BC Family Bonus (administered by the Ministry of Finance) Estimate — $120 million	Unchanged.	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 Estimate — $360 million	Unchanged. It is expected that ministries and offices will fully utilize this appropriation for unforeseen issues arising over the year for which no other budget provision exists.	Unforeseen pressures in ministry and office programs may exceed the available appropriation.
Other Appropriations Seismic Mitigation Estimate — $30 million	Unchanged.	Costs of necessary repairs and upgrades could exceed current estimates.
Government-Wide Issues — Compensation	Unchanged. The 2001/02 budget includes funding for anticipated settlements for contracts expiring during the year.	Actual settlements are subject to the outcome of the negotiation process between employers' associations and unions. As of August 20, 2001 contracts covering 42,000 public sector FTEs including school teachers and some school support staff had expired.

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Table 3.7 — Main Expenditure Forecast Risks and Sensitivities — Consolidated Revenue Fund — *Continued*

Expenditure Area — July 30 Update	First *Quarterly Report*	Risks and Sensitivities
Public Sector Pensions — Joint Trusteeship	Unchanged.	An interim actuarial evaluation on the Teacher's Pension Plan will be completed in September 2001. If the valuation indicates an unfunded pension liability greater than $368 million, the positive joint trusteeship agreement adjustment would be reduced by 50% of the amount that the unfunded pension liability exceeds this amount. Conversely, if the unfunded pension liability is less than $368 million, the joint trusteeship agreement adjustment increases by 50% of the difference.
Pressures to be managed	Potential spending pressures that are to be managed by ministries include:	Ministries may not be able to contain demand or make offsetting reductions.
	Attorney General — $22 million, down $8 million from the July 30 Update.	The ministry is actively working towards a financial plan to manage within its 2001/02 budget. Expenditure pressures include legal aid, judicial compensation, costs related to the Air India trial, and other program pressures. These pressures will be funded from ministry savings in other programs.
	Children and Family Development — $15 million, down $53 million from the July 30 Update.	The ministry has implemented a financial plan to manage within its 2001/02 budget. This plan includes implementing spending controls, postponing enhancements to the school meals and supported child-care programs, and one-time savings in the autism and early childhood development initiatives as a result of delayed implementation. Expenditure pressures are primarily a result of costs related to caseloads for children-in-care and mentally handicapped adults in community residential care.
	Forests — $6 million, down $20 million from the July 30 Update.	The ministry is actively working towards a financial plan to manage within its 2001/02 budget. Expenditure pressures include legal costs relating to the softwood lumber dispute and a campaign to market British Columbia forest practices and products. These pressures will be funded from ministry savings in other programs.
	Health Services — $300 to $400 million, unchanged from the July 30 Update.	The ministry is actively working with Treasury Board and Cabinet to identify fiscal management strategies to manage potential costs of $300 to $400 million. Government has not finalized the management strategies to date but is committed to staying within the overall ministry budget. Upward pressures are due to: increased usage of demand driven programs for Health Authorities, Pharmacare and the Medical Services Plan; the cost of surgical transfers; nursing recruitment and retention initiatives; and, ratification of labour agreements. Labour pressures may be partially offset by the Contingencies (All Ministries) and New Programs Vote. The Working Agreement and Subsidiary Agreements with the British Columbia Medical Association are subject to binding arbitration with the results expected in December. Costs associated with these agreements are not included in the potential cost pressures, as they are unknown at this time.
	Public Safety and Solicitor General — $5 million, down $15 million from the July 30 Update.	The ministry is actively working towards a financial plan to manage within its 2001/02 budget. Remaining expenditure pressures relate to various operational activities within the ministry.

Crown Corporations and Agencies

This section provides revised full-year forecasts of the operating results for selected Crown corporations and agencies. This information has been provided by those Crown corporations and agencies. Further details are shown in Table 3.2.

These forecasts may be revised as a result of operating developments over the rest of the year, as well as 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 corporations on track with the July 30 Update

At $339 million, taxpayer-supported Crown corporation and agency net losses (after adjustments) are generally on track with the July 30 Update. The $6-million increase from the July forecast reflects a the effect of a $9-million increase in contributions paid to the consolidated revenue fund (CRF), due to the wind up of Duke Point Developments Ltd. and 580440 British Columbia Ltd. (Vancouver Trade and Convention Centre), partially offset by a $3-million net improvement in the operating losses in other minor Crown corporations and agencies.

Self-supported Commercial Crown Corporations and Agencies

Net income of self-supported Crown corporations is down $185 million from the July 30 Update and includes a $150 million projected loss for ICBC

Self-supported commercial Crown corporations are projected to show a combined loss of $119 million, compared to net income of $66 million in the July 30 Update. The $185-million deterioration from the July forecast is primarily due to increased claims expenses and one-time restructuring costs in the Insurance Corporation of British Columbia (ICBC).

Including the British Columbia Hydro and Power Authority's (BC Hydro) rate stabilization account transfer, total operating income of $1.5 billion is down $176 million from the July 30 Update. A $185-million deterioration in ICBC is partially offset by a $9 million improvement in net income of the Liquor Distribution Branch (LDB). The $9-million increase in contributions paid to the CRF reflects the transfer of additional LDB earnings to the CRF.

Except for the following, all commercial Crown corporation forecasts are unchanged from the July 30 Update.

Liquor Distribution Branch: net income is projected at $625 million, a $9-million increase from the July Update, mainly due to higher-than-anticipated sales.

ICBC forecasts a net loss of $150 million due to higher claims expenses and one-time restructuring costs

Insurance Corporation of British Columbia: a net loss of $150 million is now projected for the operating year ending December 31, 2001. This represents a $185-million deterioration from the corporation's net income forecast of $35 million in the July 30 Update mainly due to higher-than-expected cost estimates for the current year, a lack of favourable adjustments from prior-year settlements, one-time restructuring costs, and lower investment income.

- Earned premium revenue is unchanged from the July forecast while investment income is $15 million below forecast due to losses on investments in the first six months and the effect of reduced interest rates.
- Costs for current year claims are projected to be equal to the level incurred in 1999 and approximately $80 million higher than the July forecast, based on a more detailed review of claim trends.

- ICBC's July forecast assumed a positive adjustment resulting from re-estimates of the cost of settling claims of prior years. Updated information on actual settlements of bodily injury and material damage claims suggest that a positive adjustment will not be likely in 2001, and a negative adjustment will likely occur.

- Since the July 30 Update, ICBC has announced restructuring initiatives to streamline business operations and reduce costs. This process will continue throughout 2001 and 2002. One-time costs for severance and other changes are part of the restructuring plan. The corporation has included a $50 million provision in the current forecast for these expected costs.

Crown Corporation Forecast Assumptions and Risks

Main assumptions supporting the forecasts are summarized in Table 3.8, together with a description of risks and sensitivities.

A number of factors could affect the forecast during the rest of the fiscal year. For example:

- Weather conditions and higher or lower-than-assumed demand for electricity could affect results for BC Hydro over the rest of the year.

- Higher or lower-than-assumed fuel prices could materially affect full-year results for the British Columbia Ferry Corporation.

- A sale of the *PacifiCats* could affect British Columbia Ferry Corporation finances.

- Weather conditions could affect accident claim trends and investment markets could be different than assumed, both of which could increase or decrease the projected net income of the Insurance Corporation of British Columbia.

- Unanticipated changes in interest or exchange rates could affect expected full-year debt servicing costs for some corporations.

- Changing economic conditions could affect the finances of British Columbia Railway Company and other Crown corporations.

- Resolution of Skeena Cellulose Inc. could affect the current forecast of Crown corporation finances.

The 2001/02 revised forecast incorporates known and likely costs and adjustments arising from pending litigation or extraordinary items like asset write-downs. Further adjustments may occur as a result of litigation developments or reviews of accounts of the Crown corporations and agencies by their auditors. The 2001/02 summary accounts forecast includes a $625-million forecast allowance for these and other uncertainties over the rest of the year.

Table 3.8 — Main Crown Corporation Forecast Assumptions and Risks

Crown Corporation	2001/02 Assumptions		Risks and Sensitivities
	July 30 Update	First *Quarterly Report*	
British Columbia Buildings Corporation July 30 Update — Net income: $40 million First *Quarterly Report* — Net income: $40 million	Gains on disposal of properties at $7 million. Revenue assumes a $2-million increase in occupancy charges subject to Treasury Board approval. Up to $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.	Unchanged.	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 up to $1 million. 10% change in energy costs affects net income by up to $3 million.
British Columbia Ferry Corporation July 30 Update — Net income: $2.5 million First *Quarterly Report* — Net income: $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 $54 million. $74 million of dedicated motor fuel tax received from provincial government. Major capital expenditures of $89 million. Does not assume sale of *PacifiCats* in 2001/02.	A decrease in capital expenditures to $86 million will not affect the net income forecast in the July 30 Update.	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 July 30 Update — Net income: Balanced First *Quarterly Report* — Net income: 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%.	Unchanged.	1% change in provincial fuel consumption volumes affects revenue by up to $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. Contractor claims have been received for the Lion's Gate Bridge upgrade. Resolution of these claims may impact net income.
Forest Renewal BC July 30 Update — Net loss: $107 million First *Quarterly Report* — Net loss: $107 million	Revised transfers as per forest revenue assumptions in Table 3.5. Expenditures occur as per published business plan. Assumes $35 million deposited to trust fund to help mitigate the impact of land decisions on the Central Coast.	Decisions regarding the Central Coast initiatives do not affect the revised forecast for net income. Any allocations to a trust fund will be made directly from upappropriated net assets.	±10% in harvest volumes = ± $22M. ±US$50/tonne in pulp prices = ± $7M. ±US$50/1,000 bd. Ft in SPF prices = ±$51M. ±US$100/1,000 bd. ft in hemlock prices = ±$6M. See Table 3.5 for other forests risks. Effects of the termination of the Canada/U.S. Softwood Lumber Agreement and the countervailing duty investigation are unknown. A government review of programs could affect operations and financial projections.

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Table 3.8 — Main Crown Corporation Forecast Assumptions and Risks — *Continued*

Crown Corporation	2001/02 Assumptions		Risks and Sensitivities
	July 30 Update	**First *Quarterly Report***	
552513 British Columbia Ltd. (Skeena Cellulose Inc.) July 30 Update — Net loss: $53 million First *Quarterly Report* — Net loss: $53 million	Pulp mill list price averages US$564 per tonne in 2001. Sawmill net price averages US$231 per 1,000 bd. ft. in 2001. Assumes one-line operations for 2001. B mill to re-commence operations in 2002. Proportion of provincial government ownership at 71.411%. Major capital expenditures of $17 million.	A decrease in capital expenditures to $12 million will not affect the net loss forecast in the July 30 Update.	±US$50/tonne in pulp prices = ± $18 million in revenue. ±US$50/1,000 bd. ft in SPF prices = ±$17 million in revenue. As part of the Skeena refinancing agreement, up to 20% ownership is to be transferred to the pulp mill workers. Timing and amount of ownership transferred could affect province's share of Skeena's operating results in 2001/02. Skeena sought protection under the *Companies Creditors' Arrangement Act* after the Toronto Dominion Bank sought payment of all outstanding loans. With this court protection, Skeena can remain in operation and the province can continue efforts to return the company to the private sector. The potential disposition of the company could affect the current financial forecast.
British Columbia Hydro and Power Authority Budget — Net income: $375 million (before transfer from rate stabilization account of $45 million) First *Quarterly Report* — Net income: $375 million (before transfer from rate stabilization account of $45 million)	Forecast based on estimated June 1, 2001 snowpack levels, water inflow levels at 81% of normal and normal weather patterns for the rest of the year. Domestic customer growth of 1.2%. Export revenue and short-term energy purchase costs based on estimated forward market prices as of June 20, 2001 Assumes no change in domestic tariff rates. Assumes average long-term interest rates of Cdn 6.0% and US 6.3%, and an average exchange rate of approximately 65 cents US/ Cdn$. Capital spending of $600 million. Dividend to CRF of $346 million.	Water inflows forecast at 86% of normal based on July 1, 2001 snowpack level readings. Normal weather patterns for the rest of the year. Domestic customer growth of 1.2%. Export revenue and short-term energy purchase costs based on estimated forward market prices as of July 17, 2001 Assumes no change in domestic tariff rates. Assumes short-term interest rates of Cdn 4.65% Assumes average long-term interest rates of Cdn 6.0% and US 6.3%, and an average exchange rate of approximately 65 cents US/ Cdn$. Capital spending of $600 million. Dividend to CRF of $346 million.	10% change in average temperatures equals $25-million change in income. 1% change in hydro generation equals a $30-million change in income. $10/MWh change in electricity trade margins equals $160-million change in operating income. 10% change in natural gas prices equals $30-million change in operating income. 100 basis point change in borrowing rates equals $15-million change in finance costs. 1-cent change in exchange rates affects financing costs by $8 million. Regulatory developments in the U.S. market could affect the forecast.
British Columbia Liquor Distribution Branch July 30 Update — Net income: $616 million First *Quarterly Report* — Net income: $625 million	Net sales increase of 0.4% incorporates current and expected consumption trends and markup modifications for craft brewers. Includes amortization cost of new retail management system. Capital spending of $31 million.	**Net sales increase of 1.9% incorporates current and expected consumption trends and markup modifications for craft brewers.** Includes amortization cost of new retail management system. Capital spending of $31 million.	Price competition and economic conditions affect sales. Manufacturer price changes can be unpredictable. Weather patterns and timing of statutory holidays affect consumption. 1% change in sales volume affects net income by up to $6 million. Higher-than-assumed credit card use could increase collection costs.

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Table 3.8 — Main Crown Corporation Forecast Assumptions and Risks — *Continued*

Crown Corporation	2001/02 Assumptions		Risks and Sensitivities
	July 30 Update	**First *Quarterly Report***	
British Columbia Lottery Corporation July 30 Update — Net income: $585 million First *Quarterly Report* — Net income: $585 million	Sales projections based on current trends. Prize payout rates based on historical and current trends. Expansion of lottery retail network by 140 accounts. Relocation of two casinos — one in October 2001 and one in January 2002. No changes to approved gaming policy (e.g. expanded gaming). Does not include impact of a re-introduction of WCB smoke-free regulations. Capital spending of $26 million.	Unchanged.	1% change in gaming activity could affect net income by $6 million. Retail network expansions could be delayed. One-month delay in a relocation would reduce net income by up to $1.5 million. Labour disruptions at casino service providers could reduce net income. Changes in disposable income, tourism, competitive markets in other jurisdictions, and volumes of jackpot rollovers also affect sales.
British Columbia Railway Company July 30 Update — Net income: $1 million First *Quarterly Report* — Net income: $1 million	Freight traffic volumes based on low lumber prices and no significant work disruptions at major customer groups (e.g. pulp mills) or connecting carriers. No significant disruptions from labour disputes or protest groups. Fuel costs to remain at current futures contract prices for the rest of the year. Foreign exchange rates to remain at current levels for the remainder of the year. Capital spending of $72 million. No dividend paid to provincial government. No negative impact from further rationalization in the forest industry.	Unchanged.	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. Further action against the lumber industry by the US in the form of countervailing duties and other anti-dumping measures could negatively affect lumber and wood chip traffic. Reduced volume in container traffic due to loss of accounts, commodity prices and the general economy could negatively impact revenue.
Insurance Corporation of British Columbia July 30 Update — Net income: $35 million First *Quarterly Report* — Net loss: $150 million	Revenue earned from policy premiums to grow 2% due to increased customers and policy coverage. Loss of optional coverage market share at 1%. No change in overall premium rates assumed in 2001. Claims-incurred costs will not increase from the previous year. 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. Continuation of existing road safety and loss mitigation programs. Capital spending at $43 million for main operations and property investment (through ICBC Properties Ltd.) at $108 million.	Revenue earned from policy premiums to grow 2% due to increased customers and policy coverage. Loss of optional coverage market share at 1%. No change in overall premium rates assumed in 2001. **Claims-incurred costs will increase 4% from the previous year.** **No positive adjustment to estimates of the costs of settling previous year claims.** Continuation of existing road safety and loss mitigation programs. **Includes one-time transition costs incurred in streamlining the organization.** **Capital spending at $42 million for main operations and property investment (through ICBC Properties Ltd.) at $99 million.**	1% change in volume affects revenue by $24 million. 1% change in market share affects revenue by $10 million. 1% change in optional premium rates affects revenue by $10 million. 1% deviation from assumed claims trend affects claims costs by about $20 million. 1% change in prior year claims estimate is equivalent to $40 million. 0.25% fluctuation in investment returns equals $14-million change in investment income. 1% change in investment balance equals a $4-million change in investment income. Adverse judgments on outstanding litigation, such as those relating to cost control, may affect the 2001 forecast. Costs of claims could be affected by driver behaviours in response to the cancellation of photo radar. Adjustments resulting from an evaluation of investment properties may affect income.

Capital Spending

Full-year capital spending forecast at $2.8 billion

At $2.8 billion, capital spending for the full year is forecast to be $100 million lower than the July 30 Update (see Table 3.9). Net taxpayer-supported capital spending of $1.8 billion will be $89 million below the July forecast, due to slower-than-planned spending for health facilities and ministry minor capital expenditures, and higher recoveries from other jurisdictions.

Self-supported commercial Crown corporation capital spending is projected at $1 billion, slightly below the July forecast. Most of this spending will be financed by net incomes earned by these corporations, along with other internal financing sources.

Details on revised forecasts for major capital projects (those with multi-year budgets totalling $50 million or more) are provided in Table 2.5 of Part 2.

Table 3.9 Capital Expenditures — Revised Forecast

	2001/02 July 30 Update	2001/02 Revised Forecast	Variance[1]	Actual 2000/01
	($ millions)			
Taxpayer-supported				
Capital plan				
Education	428	420	(8)	388
Health	324	303	(21)	411
BC Transportation Financing Authority	331	331	—	474
British Columbia Ferry Corporation	89	86	(3)	59
Rapid Transit Project 2000	348	355	7	366
Other[2]	93	88	(5)	69
Gross capital plan	1,613	1,583	(30)	1,767
Less: recoverable expenditures[3]				
Hospital districts	(50)	(65)	(15)	(46)
Greater Vancouver Transportation Authority (*TransLink*)	(39)	(51)	(12)	(18)
Net capital plan	1,524	1,467	(57)	1,703
Other taxpayer-supported				
Government operating (ministries)	293	257	(36)	183
552513 British Columbia Ltd. (Skeena Cellulose Inc.)[4]	17	12	(5)	81
Social housing[5]	14	14	—	43
Other[6]	34	43	9	18
Total taxpayer-supported	1,882	1,793	(89)	2,028
Self-supported commercial				
British Columbia Hydro and Power Authority	600	600	—	412
British Columbia Railway Company	72	72	—	122
Columbia Power Corporation	71	71	—	63
Columbia Basin Trust - joint ventures	70	69	(1)	63
Insurance Corporation of British Columbia	43	42	(1)	39
ICBC Properties Ltd.	108	99	(9)	39
British Columbia Lottery Corporation	26	26	—	13
Liquor Distribution Branch	31	31	—	20
Total self-supported commercial	1,021	1,010	(11)	771
Total capital expenditures	2,903	2,803	(100)	2,799

[1] 2001/02 revised forecast less 2001/02 July 30 Update.
[2] British Columbia Buildings Corporation, Ministry of Attorney General, Ministry of Public Safety and Solicitor General, Ministry of Children and Family Development, British Columbia Transit and the Pacific National Exhibition.
[3] Expenditures by hospital districts for cost-shared projects and capital spending on behalf of, and recovered from, the Greater Vancouver Transportation Authority (*TransLink*).
[4] Based on a revised outlook for lower world pulp prices and its potential impact on the finances of 552513 British Columbia Ltd. (Skeena Cellulose Inc.), was reclassified from the self-supported category to taxpayer-supported in 2000/01.
[5] Net of construction costs recoverable from non-profit societies.
[6] 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.

Provincial Debt

Total debt is forecast at $37 billion — $248 million higher than the July 30 Update

The revised forecast for provincial debt is $248 million higher than the July 30 Update. Debt is forecast to total $37 billion at year-end, a $3.2-billion increase since the start of the year (see Table 3.10). The revised forecast incorporates the latest deficit and capital spending forecasts for the government and its Crown corporations and agencies in 2001/02.

The revised forecast for taxpayer-supported debt is $123 million higher than the July 30 Update. Debt is forecast to total $28.3 billion at year-end, up $3.4 billion since the start of the year. This debt will be used to finance the deficit and capital spending of the government and its taxpayer-supported Crown corporations and agencies.

The forecast for commercial Crown corporation debt is unchanged from the July 30 Update. It is projected to decline $112 million in 2001/02, to total $7.5 billion by year-end.

Borrowed funds held under the warehouse borrowing program will be drawn down by $712 million to provide financing for the government and its Crown corporations and agencies. The forecast assumes that $600 million will remain in the program at year-end, unchanged from the July 30 Update.

The revised provincial debt forecast also includes a borrowing allowance of $625 million to mirror the forecast allowance for the summary accounts forecast. The borrowing allowance is $125 million higher than in the July 30 Update reflecting the increase in the summary accounts forecast allowance.

Although the government's summary accounts are forecast to have a deficit of almost $2 billion for 2001/02, total debt will increase by a larger amount because the government and its Crown corporations and agencies still require borrowing to help finance capital spending projects (see Table 3.9) and for other working capital cash needs.

While the summary accounts deficit forecast is $481 million higher than the July 30 Update, the total debt projection is $248 million higher. The main reasons for the difference are:

- $185 million of the summary accounts deficit increase is due to the effect of ICBC's $150 million projected loss. As ICBC has sufficient retained earnings to absorb this loss, there are no requirements for additional debt; and
- projected minor capital spending for government ministries is $36 million lower than the July 30 Update, resulting in lower capital borrowing requirements.

The ratio of a province's taxpayer-supported debt relative to its GDP, is a measure of a province's ability 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 lower debt service costs. Total provincial debt forecast at 28.4 per cent of GDP at March 31, 2002. Taxpayer-supported debt is forecast at 21.8 per cent of GDP. These ratios are slightly higher than the July 30 Update due to the higher borrowing forecast.

Table 3.10 Provincial Debt[1] — Revised Forecast

	Debt Outstanding March 31, 2001	Net + Change[2] =	Debt Outstanding March 31, 2002 Revised Forecast[3]	Debt Outstanding March 31, 2002 July 30 Update	Variance Above/(Below) July 30 Update
	($ millions)				
Taxpayer-supported debt					
Provincial government direct operating	12,069	2,201	14,270	14,142	128
Education facilities[4]					
Schools	3,880	255	4,135	4,130	5
Post-secondary institutions	1,383	89	1,472	1,475	(3)
	5,263	344	5,607	5,605	2
Health facilities[4]	1,780	204	1,984	2,021	(37)
Highways, ferries and public transit					
BC Transportation Financing Authority	2,197	362	2,559	2,559	—
British Columbia Ferry Corporation	21	37	58	58	—
British Columbia Transit	75	6	81	82	(1)
Public transit[4]	948	(8)	940	941	(1)
SkyTrain extension[4]	836	305	1,141	1,144	(3)
Rapid Transit Project 2000	114	(114)	—	—	—
	4,191	588	4,779	4,784	(5)
Other					
British Columbia Buildings Corporation	610	4	614	614	—
552513 British Columbia Ltd. (Skeena Cellulose Inc.)[5]	337	19	356	356	—
Social housing[6]	265	16	281	281	—
Homeowner Protection Office	71	46	117	82	35
Universities and colleges — fiscal agency loans	124	(6)	118	121	(3)
Other[7]	243	(26)	217	214	3
	1,650	53	1,703	1,668	35
Total taxpayer-supported debt	**24,953**	**3,390**	**28,343**	**28,220**	**123**
Self-supported debt					
Commercial Crown corporations and agencies					
British Columbia Hydro and Power Authority	6,852	(198)	6,654	6,654	—
British Columbia Railway Company	603	(6)	597	597	—
Columbia Basin Power Company	93	25	118	118	—
Columbia Power Corporation	20	67	87	87	—
Liquor Distribution Branch	2	—	2	2	—
	7,570	(112)	7,458	7,458	—
Warehouse borrowing program	1,312	(712)	600	600	—
Total self-supported debt	**8,882**	**(824)**	**8,058**	**8,058**	**—**
Forecast allowance	**—**	**625**	**625**	**500**	**125**
Total provincial debt	**33,835**	**3,191**	**37,026**	**36,778**	**248**

[1] Debt includes provincial government direct debt, fiscal agency loans, other debt that has been guaranteed by the provincial government, and certain other debt that 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] Debt at March 31, 2001 plus the net change for the period.
[4] Represents government direct debt incurred for capital financing purposes.
[5] Based on the outlook for world pulp prices and their potential impact on 552513 British Columbia Ltd. (Skeena Cellulose Inc.), the company's debt was reclassified as being taxpayer-supported in 2000/01. As the province is not the sole shareholder of Skeena Cellulose Inc., a portion of this debt may be attributable to the minority shareholder.
[6] Includes the British Columbia Housing Management Commission and the Provincial Rental Housing Corporation.
[7] 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.

Summary Accounts Balance Sheet

Table 3.11 summarizes the forecast changes in the province's financial position during 2001/02. The table shows that:

- the $1,981 million summary accounts deficit;
- a $554-million increase in net investments in taxpayer-supported capital assets and in commercial Crown corporations; and
- working capital requirements totalling $1,489 million (primarily due to the one-time non-cash joint trusteeship benefit included in the summary accounts deficit forecast);

will be financed by:

- a $121-million reduction in cash and temporary investments;
- a $712-million reduction in warehouse borrowing investments; and
- a $3,191-million increase in provincial debt.

Further details are shown in Table 3.12.

Table 3.11 Forecast Change in Summary Accounts Financial Position
For the Year Ended March 31, 2002

	Change	
	($ millions)	
Summary accounts deficit — First *Quarterly Report* Revised Forecast		**1,981**
Reduction in cash and temporary investments		(121)
Changes in capital investments:		
Increase in assets related to taxpayer-supported capital investments (net of amortization)	767[1]	
Decrease in net investments in, and loans to, commercial Crown corporations for asset purchases	(213)[1]	554
Non-cash and other working capital changes:		
Reduction in unfunded pension liability (non-cash)	1,338	
Other working capital changes and adjustments	151	1,489
Net debt increase for government and its Crown corporations and agencies		3,903
Decrease in warehouse borrowing investments		(712)
Increase in provincial debt		**3,191**

[1] Reflects effect of $2.8 billion in total capital spending (see Table 3.9) as follows:

	$billions
Taxpayer-supported capital increase	1.79
Less: depreciation and other accounting changes	(1.02)
Net increase in capital investments	0.77
Commercial Crown corporation capital increase	1.01
Less: amounts financed internally	(1.22)
Net decrease of investments in commercial Crown corporations (including recoverable loans for asset purchases)	(0.21)

Table 3.12 Summary Accounts Balance Sheet — Revised Forecast

	Actual March 31, 2001	Revised Forecast March 31, 2002	Increase/ (Decrease)
	($ millions)		
Assets			
Cash and temporary investments	554	433	(121)
Other working capital assets[1]	4,923	5,008	85
Capital assets and investments (net of amortization)			
— Net investments in self-supported Crown corporations and agencies	*3,001*	*2,882*	*(119)*
— Loans for purchases of assets recoverable from agencies[2]	*7,437*	*7,343*	*(94)*
— Prepaid capital advances	*6,905*	*7,135*	*230*
— Tangible capital assets	*11,075*	*11,612*	*537*
	28,418	28,972	554
Warehouse borrowing program assets	1,312	600	(712)
	35,207	**35,013**	**(194)**
Liabilities			
Current liabilities[3]	3,874	3,786	(88)
Unfunded pension liabilities	1,477	139	(1,338)
Debt			
— Taxpayer-supported debt	*24,953*	*28,343*	*3,390*
— Commercial Crown corporations and agencies	*7,570*	*7,458*	*(112)*
— Warehouse borrowing program	*1,312*	*600*	*(712)*
— Forecast allowance	*—*	*625*	*625*
	33,835	*37,026*	*3,191*
Less: guarantees and non-guaranteed debt[4]	*(597)*	*(575)*	*22*
	33,238	36,451	3,213
	38,589	**40,376**	**1,787**
Net equity (deficiency)[5]	(3,382)	(5,363)	(1,981)
	35,207	**35,013**	**(194)**

[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. Includes the effect of a prior period adjustment of $90 million to reflect the extension of the government's capitalization accounting policy to land improvements in 2001/02.

Staff Utilization

The government and its taxpayer-supported Crown corporations and agencies are projected to have a total staff utilization of 43,916 full-time equivalents (FTEs) in 2001/02, slightly lower than the July 30 Update. This includes 34,544 FTEs for ministries and special offices (down 300 FTEs from the July 30 Update) and 9,372 FTEs for taxpayer-supported Crown corporations and agencies (up 28 FTEs from the July 30 Update).

The decrease in ministry and special office FTE utilization is primarily due to delayed staffing in the Ministry of Children and Family Development and recruitment lags in the Ministry of Health Services. The increase in FTEs of taxpayer-supported Crown corporations and agencies is primarily due to higher staffing for the Organized Crime Agency and Tourism British Columbia.

Utilization in ministries and special offices is projected to be 1,275 FTEs higher than in 2000/01. The increase is a result of planned under-utilization, reduced requirements for fighting forest fires and hiring recruitment lags in 2000/01, and additional resources for migrant care, before-and-after school daycare and justice programs in 2001/02. Taxpayer-supported Crown corporations and agencies show a 136-FTE increase from last year due to increases in the activity of several Crown corporations and agencies.

Table 3.13 Summary Accounts Staff Utilization[1] — Revised Forecast

	2001/02			
	July 30 Update	Revised Forecast	Variance[2]	Actual 2000/01
	(thousands)			
Consolidated revenue fund (e.g. ministries and special offices)	34.8	34.5	(0.3)	33.3
Taxpayer-supported Crown corporations and agencies[3]	9.3	9.4	0.1	9.2
Total staff utilization	44.1	43.9	(0.2)	42.5

[1] Staff utilization is measured in full-time equivalents (FTE's). FTE's 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] 2001/02 revised forecast less 2001/02 July 30 Update.

[3] Includes 231 FTEs (75 FTEs in 2000/01) in the Ministry of Forests and 67 FTEs (35 FTEs in 2000/01) in the Ministry of Water, Land and Air Protection that work on behalf of, and are funded by, Forest Renewal BC, and 12 FTES in the Ministry of Finance that are funded by the British Columbia Assets and Land Corporation. Does not include 1,689 FTEs (2,251 FTEs in 2000/01) for Highway Constructors Ltd. (a subsidiary of the BC Transportation Financing Authority). As these FTEs are not paid directly through Crown corporation salaries (these costs are fully recovered from private-sector contractors) they are not defined as FTEs of the government or its Crown corporations, consistent with government's accounting policies.

APPENDIX: CROWN CORPORATION INCOME STATEMENTS

For the Period Ended Closest to June 30, 2001

Table A1 British Columbia Buildings Corporation
Income Statement for the Three Months Ended June 30
(Unaudited)

	Budget[1] 2001/02	Actual 2001/02	Variance[2]	Actual[3] 2000/01
	($ millions)			
Gross revenues	111.5	117.3	5.8	107.8
Expenses:				
Operations, maintenance and administration	42.0	40.8	(1.2)	37.1
Lease costs	35.6	35.5	(0.1)	33.8
Client requested projects	5.0	11.9	6.9	7.8
Amortization	11.1	10.6	(0.5)	10.2
Environmental projects	1.3	0.5	(0.8)	0.1
Interest, net	10.2	10.7	0.5	9.1
	105.2	110.0	4.8	98.1
Income before gain on disposals	6.3	7.3	1.0	9.7
Gain on disposals	2.7	2.8	0.1	8.9
Net income	9.0	10.1	1.1	18.6

[1] Figures reflect three-month allocations of the full-year budget based on planned activities and seasonal patterns.
[2] 2001/02 actual less 2001/02 budget.
[3] Figures for 2000/01 have been restated to conform to the presentation used for 2001/02.

Table A2 British Columbia Ferry Corporation
Income Statement for the Three Months Ended June 30
(Unaudited)

	Budget[1] 2001/02	Actual 2001/02	Variance[2]	Actual[3] 2000/01
	($ millions)			
Operating revenues:				
Tolls	76.8	78.4	1.6	74.4
Catering and other income	16.7	17.7	1.0	16.7
Federal coastal ferry contract	5.7	5.7	—	5.6
	99.2	101.8	2.6	96.7
Operating expenses:				
Salaries, wages and benefits	60.3	60.6	0.3	56.5
Fuel	13.8	12.4	(1.4)	12.8
Repair and maintenance	9.8	8.1	(1.7)	6.6
Cost of food and goods sold	5.4	5.8	0.4	5.5
Professional, computer and other	6.7	3.7	(3.0)	4.2
Materials and supplies	6.3	5.1	(1.2)	5.7
Insurance, taxes, utilities	1.7	2.1	0.4	2.5
	104.0	97.8	(6.2)	93.8
Earnings before interest and amortization	(4.8)	4.0	8.8	2.9
Net financing expense	(0.9)	(0.2)	0.7	(0.5)
Amortization	(12.5)	(12.5)	—	(10.4)
Income (loss) before motor fuel tax	(18.2)	(8.7)	9.5	(8.0)
Dedicated motor fuel tax	17.5	17.3	(0.2)	17.4
Net income (loss)	(0.7)	8.6	9.3	9.4

[1] Figures reflect three-month allocations of the full-year budget based on planned activities and seasonal patterns.
[2] 2001/02 actual less 2001/02 budget.

Table A3 BC Transportation Financing Authority[1]
Consolidated Statement of Income
for the Three Months Ended June 30
(Unaudited)

	Budget[2] 2001/02	Actual 2001/02	Variance[3]	Actual 2000/01
	($ millions)			
Revenue:				
Dedicated revenue[4]	87.3	83.9	(3.4)	49.6
Contractor fees[5]	14.4	10.6	(3.8)	18.1
Capital contributions (amortization)[6]	47.2	47.4	0.2	47.4
Other[7]	2.5	1.9	(0.6)	—
	151.4	143.8	(7.6)	115.1
Expenditures:[8]				
Construction wages and benefits[5]	14.4	10.6	(3.8)	18.1
Operations and administration[9]	6.4	6.8	0.4	5.9
Grant programs[10]	1.7	0.4	(1.3)	0.2
Amortization[6]	66.2	65.8	(0.4)	57.8
Interest[11]	33.9	30.4	(3.5)	26.4
	122.6	114.0	(8.6)	108.4
Net Income	28.8	29.8	1.0	6.7

[1] Includes results of Highway Constructors Ltd. (HCL), a wholly-owned subsidiary.
[2] Figures reflect three-month allocations of the full-year budget based on planned activities and seasonal patterns.
[3] 2001/02 actual less 2001/02 budget.
[4] Dedicated revenue includes 3.25 cents/ litre of motor fuel tax, a provincial sales tax on short-term car rentals, and, beginning in 2001/02, a $34-million operating grant from the Ministry of Transportation.
[5] HCL provides construction labour on various Rapid Transit Project 2000 infrastructure projects and recovers the costs.
[6] Capital contributions include the offset for highway infrastructure transferred from the provincial government and other capital contributions received from outside agencies. These contributions are amortized to income at the same rate as the related highway infrastructure amortized to expense.
[7] Includes economic development, property and investment revenue, recorded net of related expenses.
[8] During the first three months of 2001/02, the Authority spent $67 million on transportation infrastructure projects. These 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.
[9] Includes $3.9 million in 2001/02 (2000/01 — $4.6 million) paid to the Ministry of Transportation for general operating expenses not specifically related to individual capital projects.
[10] Includes grants paid under the air transport assistance program, the cycling network program, the alternative transportation program, the territories program and the municipalities road program.
[11] Interest on borrowing used to finance construction work in progress is capitalized. Upon completion, interest capitalization ceases, and related interest costs are expensed.

Table A4 Forest Renewal BC
Statement of Net Income for the Three Months Ended June 30
(Unaudited)

	Budget[1] 2001/02	Actual 2001/02	Variance[2]	Actual 2000/01
	($ millions)			
Revenue				
Statutory revenue[3]	—	—	—	—
Investment income	5.9	3.5	(2.4)	5.4
	5.9	3.5	(2.4)	5.4
Cost of Services:				
Project expenditures	29.0	37.0	8.0	29.6
Administration	2.9	3.1	0.2	2.8
	31.9	40.1	8.2	32.4
Net income (loss)	(26.0)	(36.6)	(10.6)	(27.0)

[1] Figures reflect three-month allocations of the full-year budget based on planned activities and seasonal patterns.
[2] 2001/02 actual less 2001/02 budget.
[3] Consists of increases in stumpage and royalties resulting from changes in rates introduced under the provincial government's Forest Renewal Plan on May 1, 1994, and the rate policy changes introduced on June 1, 1998. 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 *BC Forest Renewal Act.* Consistent with 2000/01, the recovery of costs is deducted from revenue in the first half of the year.

Table A5 552513 British Columbia Ltd. (Skeena Cellulose Inc.)
Income Statement for the Three Months Ended June 30
(Unaudited)

	Budget[1] 2001/02	Actual 2001/02	Variance[2]	Actual 2000/01
	($ millions)			
Net sales	46.8	46.5	(0.3)	88.2
Less: Cost of sales	(54.4)	(51.0)	3.4	(73.1)
Gross margin	(7.6)	(4.5)	3.1	15.1
Less: Selling, administration and other expenses	(10.2)	(10.2)	—	(9.4)
Operating income (loss)	(17.8)	(14.7)	3.1	5.7
Other income	1.9	2.0	0.1	0.9
Net income (loss)	(15.9)	(12.7)	3.2	6.6

[1] Figures reflect three-month allocations of the full-year budget based on planned activities and seasonal patterns.
[2] 2001/02 actual less 2001/02 budget.

Table A6 British Columbia Hydro and Power Authority
Income Statement for the Three Months Ended June 30
(Unaudited)

	Budget[1] 2001/02	Actual 2001/02	Variance[2]	Actual 2000/01
	($ millions)			
Revenues:				
Domestic:				
Residential	195	197	2	197
Light industrial and commercial	212	211	(1)	207
Large industrial	130	130	—	126
Other energy sales and miscellaneous	37	41	4	29
Total domestic revenue	574	579	5	559
Electricity trade	1,914	1,860	(54)	692
	2,488	2,439	(49)	1,251
Expenses:				
Energy costs	1,987	1,945	(42)	546
Operations, maintenance and administration	132	139	7	120
Taxes	44	44	—	43
Depreciation	94	94	—	93
	2,257	2,222	(35)	802
Income before finance charges	231	217	(14)	449
Finance charges	(139)	(143)	(4)	(143)
Net income	92	74	(18)	306

[1] Figures reflect three-month allocations of the full-year budget based on planned activities and seasonal patterns.
[2] 2001/02 actual less 2001/02 budget.

Table A7 Liquor Distribution Branch
Income Statement for the Three Months Ended June 23
(Unaudited)

	Budget[1] 2001/02	Actual 2001/02	Variance[2]	Actual 2000/01[3]
	($ millions)			
Sales:				
Provincial liquor sales	393.7	407.2	13.5	395.0
Less: Discounts and commissions	(10.5)	(11.6)	(1.1)	(10.5)
Net sales	383.2	395.6	12.4	384.5
Cost of sales	(194.7)	(202.9)	8.2	(195.4)
Gross profit	188.5	192.7	4.2	189.1
Operating expenses	(50.5)	(49.0)	1.5	(43.7)
Net operating income	138.0	143.7	5.7	145.4
Other income	1.0	0.5	(0.5)	1.7
Net income[4]	139.0	144.2	5.2	147.1

[1] Figures reflect three-month allocations of the full-year budget based on planned activities and seasonal patterns.
[2] 2001/02 actual less 2001/02 budget.
[3] Figures for 2000/01 have been restated to conform to the presentation used for 2001/02.
[4] Net income of the Liquor Distribution Branch is also included as part of revenue in Table 2.2.

Table A8 British Columbia Lottery Corporation
Income Statement for the Three Months Ended June 30
(Unaudited)

	Budget[1] 2001/02	Actual 2001/02	Variance[2]	Actual 2000/01
	($ millions)			
Gaming revenue	362.9	389.9	27.0	334.9
Direct costs:				
Prizes	130.5	140.5	10.0	119.0
Retailer commissions	59.9	63.5	3.6	52.9
Ticket printing & bingo paper	3.7	3.6	(0.1)	3.0
	194.1	207.6	13.5	174.9
Sales less direct costs	168.8	182.3	13.5	160.0
Other expenses:				
Operating	23.1	19.9	(3.2)	18.0
Amortization	4.5	4.5	—	5.1
Goods and services tax	6.8	7.0	0.2	5.9
	34.4	31.4	(3.0)	29.0
Net income	134.4	150.9	16.5	131.0
Allocation of net income:				
Province of British Columbia[3]	131.1	147.5	16.4	128.7
Government of Canada	1.8	1.9	0.1	1.8
Other[4]	1.5	1.5	—	0.5
	134.4	150.9	16.5	131.0

[1] Figures reflect three-month allocations of the full-year budget based on planned activities and seasonal patterns.
[2] 2001/02 actual less 2001/02 budget.
[3] Includes $35 million (2000/01 — $30 million) in revenue dedicated to charities and local governments. Provincial contributions shown in Table 2.2 are net of these amounts.
[4] Includes costs incurred for the Gaming Policy Secretariat.

Table A9 British Columbia Railway Company[1]
Consolidated Income Statement
Preliminary results for the Six Months Ended June 30
(Unaudited)

	Budget[2] 2001	Actual 2001	Variance[3]	Actual 2000
	($ millions)			
Revenue	233.2	231.9	(1.3)	252.0
Operating expenses	214.2	214.1	(0.1)	215.2
Operating income	19.0	17.8	(1.2)	36.8
Financing and tax costs	(21.4)	(21.9)	(0.5)	(20.8)
Net income	(2.4)	(4.1)	(1.7)	16.0

[1] This statement shows the consolidated results of the British Columbia Railway Company, BCR Properties Ltd., BC Rail Ltd., Vancouver Wharves Ltd., BCR Leasing (US) Inc., BCR Ventures Inc., Canadian Stevedoring Company and Finlay Navigation Partnership.
[2] Figures reflect six-month allocations of the full-year budget based on planned activities and seasonal patterns.
[3] 2001 actual less 2001 budget.

Table A10 Insurance Corporation of British Columbia
Statement of Operations
Preliminary results for the Six Months Ended June 30
(Unaudited)

	Budget[1] 2001	Actual 2001	Variance[2]	Actual[3] 2000
	($ millions)			
Revenue:				
Net premiums	1,200.1	1,193.5	(6.6)	1,174.6
Investment income	219.3	201.2	(18.1)	385.6
Licences and fines collected on behalf of the province	201.0	201.6	0.6	200.5
Total revenue	1,620.4	1,596.3	(24.1)	1,760.7
Payment of licences and fines to the province	(201.0)	(201.6)	(0.6)	(200.5)
Net revenue	1,419.4	1,394.7	(24.7)	1,560.2
Claims and expenses:				
Claims incurred	954.3	995.6	41.3	915.3
Claims operations	140.4	142.8	2.4	130.2
Traffic and commercial vehicle safety programs and operations	82.6	70.3	(12.3)	67.1
Administration, commissions and taxes	222.8	216.6	(6.2)	205.2
Total claims and expenses	1,400.1	1,425.3	25.2	1,317.8
Net income	19.3	(30.6)	(49.9)	242.4

[1] Figures reflect six-month allocations of the full-year budget based on planned activities and seasonal patterns.
[2] 2001 actual less 2001 budget.
[3] Figures for 2000 have been restated to conform to the presentation used for 2001.

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