
Second Quarterly Report

on the Economy, Fiscal Situation
and Outlook

Six Months

April – September 2001

Fiscal Year 2001/02



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Message from the Honourable Gary Collins

Minister of Finance

I am pleased to present the second *Quarterly Report* for the 2001/02 fiscal year. This report includes a new economic forecast for 2001 and 2002. The combined effects of the recession in the United States and the preliminary countervailing duty on lumber exports to the U.S. have had a significant effect on the British Columbia economy. As a result, we have lowered the British Columbia economic growth forecast to 0.9 per cent for 2001 and 0.6 per cent for 2002.

This report includes financial results for the April-to-September period of the 2001/02 fiscal year. These show a deterioration in government revenues and in the financial position of certain major Crown corporations. This has been partly offset by expenditure control in most ministries. In total, the six-month surplus was \$789 million, or \$76 million below budget. Without a one-time pension gain, the summary accounts would show a \$617 million deficit.

The *Quarterly Report* concludes with a revised financial forecast. The full-year deficit is now expected to be \$2,036 million, or \$55 million higher than forecast in September. After removing a one-time \$1,406 million pension gain, the forecast deficit stands at \$3,442 million. Changes in the forecast since September reflect a deterioration in natural resource revenues as energy prices have fallen faster than expected, and some setbacks in BC Rail and BC Hydro, partially offset by the effects of higher income tax returns for the 2000 taxation year. I have been monitoring spending pressures in various ministries, and I am pleased to report that the spending situation has improved. We continue to face challenges in this area, in particular with health care pressures, and I acknowledge the significant effort of ministries in keeping spending under control.

This is my second *Quarterly Report* as Minister of Finance. I have made some changes to the layout of the report in order to increase the focus on the most material changes and risks. I believe this enhances the transparency of our reporting in keeping with the intent of the *Budget Transparency and Accountability Act*.

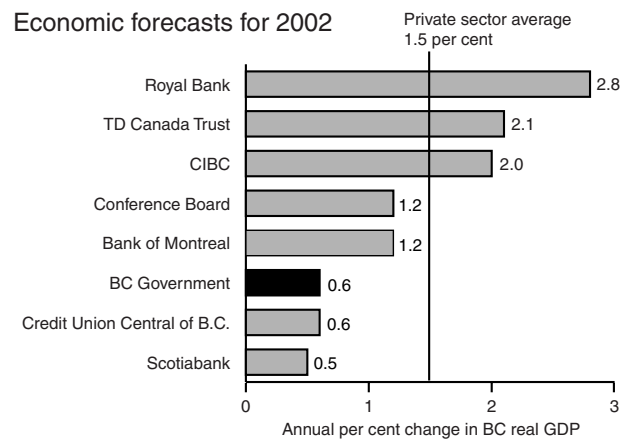
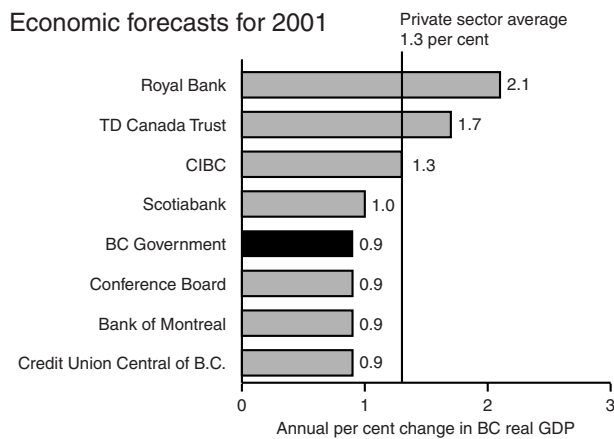
A handwritten signature in black ink that reads "Gary Collins". The signature is written in a cursive, flowing style.

Gary Collins
Minister

HIGHLIGHTS — ECONOMIC REVIEW AND OUTLOOK

SECOND QUARTERLY REPORT 2001/02

- The economic outlook has continued to deteriorate since the first *Quarterly Report*. The U.S. economy fell into negative growth territory in the July-to-September quarter as a rapidly slowing economy was further impacted by the September 11 terrorist attacks.
- In British Columbia, most economic indicators were weak in the July-to-September quarter, reflecting the North American economic slowdown and the effect of the preliminary countervailing duty on lumber exports to the U.S.
- Since the summer, private sector forecasters have progressively lowered their growth projections for the U.S., Canada and British Columbia.
- Growth forecasts for British Columbia averaged 2.3 per cent for 2001 and 3.2 per cent for 2002 in the summer. Private sector forecasts have subsequently eroded and now average 1.3 per cent for 2001 and 1.5 per cent for 2002.



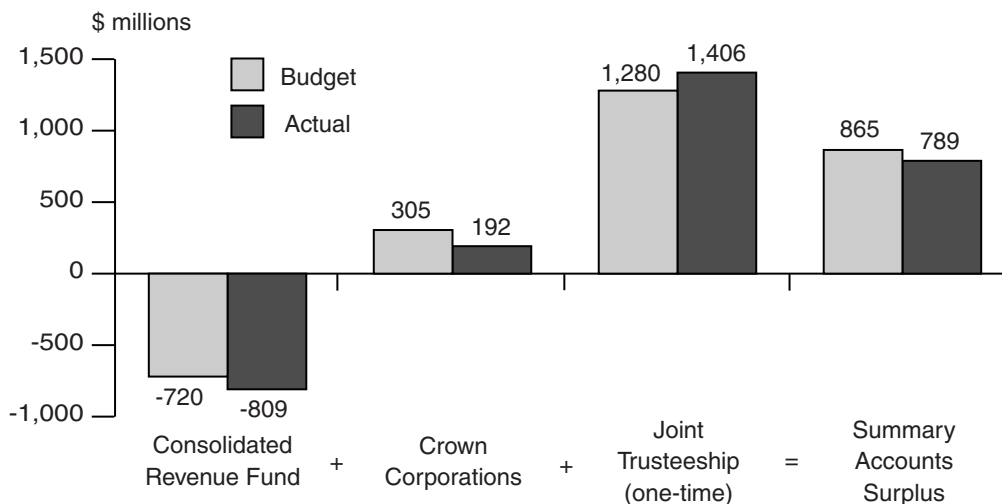
- The British Columbia government has also lowered its forecast of British Columbia economic growth. Growth is now forecast to be 0.9 per cent for 2001 and 0.6 per cent for 2002.
- The revised forecast incorporates the unexpectedly rapid downturn in global economic activity, reduced consumer confidence in the U.S. and Canada, and the preliminary U.S. lumber countervailing and anti-dumping duty rulings on softwood lumber.
- Due to the high degree of uncertainty encompassing the global economic outlook, the economic forecast is provided for two years only.
- The government will be developing a five-year economic forecast for inclusion in the February 19 budget. It is expected that the length and extent of the global and in particular the North American economic slowdown will become clearer, allowing for greater certainty as to the medium term outlook.

HIGHLIGHTS — FISCAL YEAR-TO-DATE REPORT

SECOND QUARTERLY REPORT 2001/02

- The summary accounts showed a \$789 million surplus for the first six months of 2001/02, \$76 million below budget. After removing a one-time pension gain of \$1,406 million for joint trusteeship, the summary accounts would show a \$617-million deficit.
- The consolidated revenue fund shortfall was \$89 million higher than planned. Revenues were \$117 million below forecast primarily due to rapidly falling energy prices, while spending was \$28 million below budget.

Six-month Results (April-September)



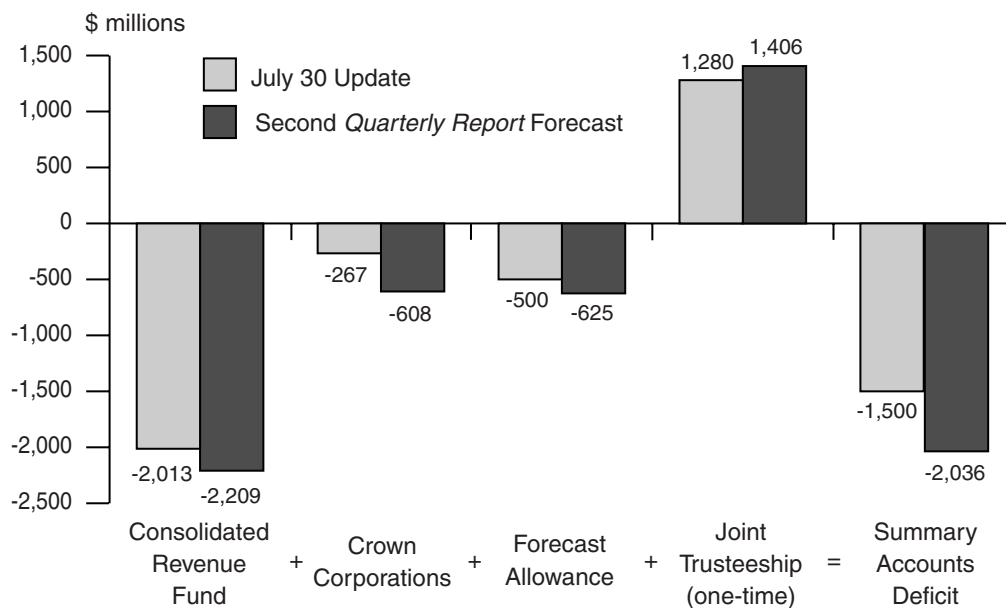
- Crown corporations and agency results were \$113 million below plan, mainly due to unfavourable developments for BC Hydro and ICBC.
- The estimated one-time pension accounting gain resulting from joint trusteeship increased by \$126 million due to updated actuarial valuation information.
- In total, provincial debt increased \$1,645 million during the first six months of the year:
 - Taxpayer-supported debt increased \$246 million.
 - Commercial Crown corporation debt increased \$65 million.
 - Warehouse debt increased \$1,334 million in anticipation of the province's cash requirements for the remainder of the year.

HIGHLIGHTS — REVISED FINANCIAL FORECAST

SECOND QUARTERLY REPORT 2001/02

- The summary accounts are projected to show a \$2,036-million deficit for the 2001/02 fiscal year.
- The forecast deficit is \$55 million higher than the forecast in the first *Quarterly Report* and \$536 million higher than the July 30 Update.
- After removing a one-time pension gain of \$1,406 million for joint trusteeship, the forecast deficit is \$3,442 million.

Full-year Forecast



- The projected consolidated revenue fund (CRF) shortfall increased \$31 million since the first *Quarterly Report*. It is now \$196 million higher than the July 30 Update, primarily due to lower natural resource revenue.
- The spending plan remains on track. Most ministries are forecast to be on or below budget. However, risks exist in a number of areas, with the most significant being in Health Services. Health authorities are managing pressures in the range of \$150 to \$200 million.
- Crown corporations and agency forecasts have deteriorated \$150 million from the first *Quarterly Report*, and are now \$341 million lower than the July 30 Update. The revised forecast mainly reflects weaker-than-expected results for ICBC, BC Hydro and BC Rail.
- At \$625 million, the forecast allowance remains unchanged from the first *Quarterly Report* because significant risks and uncertainties still exist.

HIGHLIGHTS — REVISED FINANCIAL FORECAST

Continued

- The estimated one-time pension accounting gain resulting from joint trusteeship increased by \$126 million due to updated actuarial valuation information.
- The provincial debt forecast has increased by \$180 million since the first *Quarterly Report* and is up \$428 million from the July 30 Update. Debt is forecast to total \$37.2 billion by year-end, up \$3.4 billion since the start of the year.
 - Taxpayer-supported debt will increase by \$3.2 billion to finance the forecast deficit, as well as capital spending of government and its taxpayer-supported agencies.
 - Self-supported debt will fall by \$429 million, mainly due to a \$712-million reduction in warehouse program debt.

Developments Since the July 30 Update — Summary Accounts

	(\$ millions)	
Summary accounts deficit — July 30 Update		(1,500)
First quarter developments:		
CRF revenue changes — mainly lower energy revenues	(190)	
CRF spending changes — forest fire-fighting savings	<u>25</u>	(165)
Crown corporations — larger losses primarily for ICBC		(191)
Forecast allowance — increased allowance for forecast uncertainties		<u>(125)</u>
Summary accounts deficit — first <i>Quarterly Report</i> forecast		(1,981)
Second quarter developments:		
CRF revenue changes		
— higher prior-year income tax assessments partially offset by lower social service tax collections	365	
— lower energy and other natural resource revenue	(383)	
— other changes	<u>(44)</u>	
	(62)	
CRF spending changes — forest fire-fighting and other savings	<u>31</u>	(31)
Crown corporations		
— BC Hydro — lower net income	(175)	
— BC Rail — change from net income to net loss	(119)	
— effect of provincial loan guarantee payments for Skeena Cellulose Inc. and other changes	<u>144</u>	(150)
Joint trusteeship — increased one-time benefit due to updated actuarial valuation		<u>126</u>
Summary accounts deficit — second <i>Quarterly Report</i> revised forecast¹		<u>(2,036)</u>

¹ Excluding the one-time joint trusteeship gain, the forecast deficit would be \$3,442 million.

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PART ONE — ECONOMIC REVIEW AND OUTLOOK¹

NOVEMBER 2001

Overview

The economic outlook has continued to deteriorate since the first *Quarterly Report*. The U.S. economy fell into negative growth territory in the July-to-September quarter as a rapidly slowing economy was further impacted by the September 11 terrorist attacks.

The U.S. economy is now expected to be in recession through the first quarter of 2002 . . .

The U.S. economy is now expected to be in recession through the first quarter of 2002, with the Canadian economy following a similar pattern. Continued weakening in business and consumer confidence has tempered hopes for an early North American recovery. Growth forecasts have continued to fall in recent weeks.

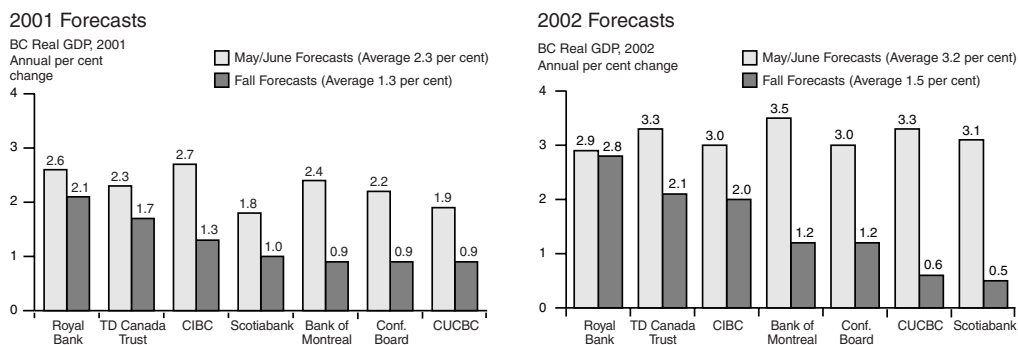
. . . the Canadian economy is expected to follow a similar pattern

In British Columbia, most economic indicators were down in the third quarter as the combined effects of the slowing North American economy and the preliminary countervailing duty on softwood lumber took hold.

The following charts compare recent private sector forecasts for British Columbia economic growth with those made in the summer. Growth forecasts averaged 2.3 per cent for 2001 and 3.2 per cent for 2002 in the summer. Since that time forecasts have eroded, and growth now averages 1.3 per cent for 2001 and 1.5 per cent for 2002. As with national projections, more recently developed forecasts have tended to be lower than those prepared in September or early October.

Chart 1.1 Evolution of Private Sector Growth Forecasts for British Columbia

Private sector forecasters have revised their British Columbia growth projections downward since the summer



British Columbia economic growth is now forecast to be 0.9 per cent for 2001 and 0.6 per cent for 2002

The government has also reduced its forecast of British Columbia economic growth to 0.9 per cent for 2001 and 0.6 per cent for 2002.

The revised forecast incorporates the unexpectedly rapid downturn in global economic activity, reduced consumer confidence in the U.S. and Canada, and the preliminary U.S. lumber countervailing and anti-dumping duty rulings on softwood lumber.

¹ The *Economic Review and Outlook* and accompanying charts and tables incorporate information available as of November 19, 2001.

British Columbia Economic Developments — July 1 to September 30

The provincial economy weakened in the July to September quarter

Employment slowed rapidly, falling below previous year levels in August. Weakness was widespread across both goods and services sectors, with declines occurring in industries such as manufacturing, and accommodation and food. Falling wage rates, shorter work weeks and declining employment are expected to result in weak labour income figures when they are released on November 30.

Manufacturing shipments continued to decline in the quarter as the impacts of the preliminary countervailing duty were felt in the forest sector. Data through to September shows a decline of 8.2 per cent over the same period last year. Sectors such as wood products, machinery, computer and electronics, as well as transportation equipment have all shown weakness through 2001.

Exports slowed as energy prices continued their retreat and forest product exports dropped.

But housing and retail sales continued to outperform earlier expectations

However, some key areas of the economy — notably housing and retail sales — continued to outperform earlier expectations. Retail sales remained strong through August, but may experience a setback in September which could reduce growth for the quarter. Housing starts paused overall in the third quarter due to a relatively weak August, but remain up from last year's levels.

Non-residential building permits cooled after a strong showing earlier this year as commercial construction weakened.

Table 1.1 British Columbia Third Quarter Economic Indicators

	July to September 2001 change from April to June 2001		January to September 2001 change from January to September 2000	
	Direction	Percentage Change	Direction	Percentage Change
Employment.....	↓	-1.2	↑	+0.5
Manufacturing shipments.....	↓	-4.3	↓	-8.2
Exports*	↓	-10.7	↑	+5.8
Retail sales*	↑	+1.1	↑	+6.3
Housing Starts.....	↓	-8.1	↑	+21.9
Non-residential building permits.....	↓	-12.7	↑	+10.5

All data seasonally adjusted
*data to August only.

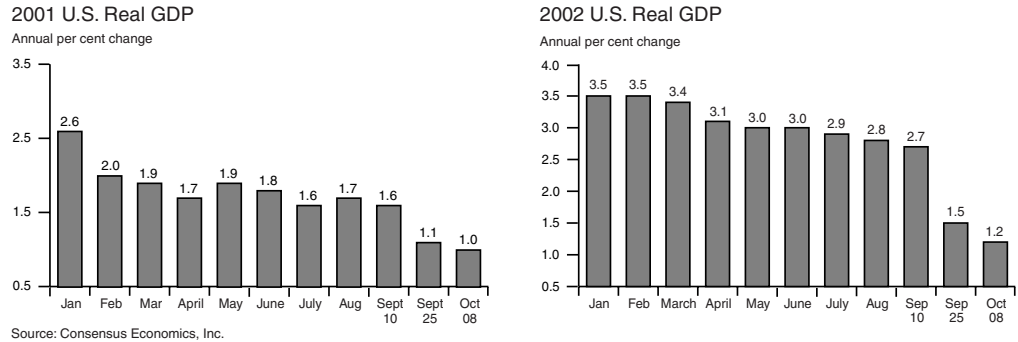
The Outlook for the External Environment

Over the last year, global growth estimates have been continually downgraded. Evidence on the outlook now suggests that the global slowdown may be deeper and longer than many previously thought. The World Bank recently suggested the global economy would grow only 1.3 per cent this year.

U.S. real GDP fell 0.4 per cent at annualized rates in the third quarter of 2001. While this was not as severe as many analysts had expected, the numbers revealed an economy in a very fragile state.

The consensus forecast for the United States is currently for growth of 1.0 per cent in 2001 and 1.2 per cent in 2002. Chart 1.2 below shows how the consensus forecast for U.S. real GDP growth has deteriorated since January.

Chart 1.2 Average U.S. Economic Growth Forecasts, 2001 and 2002



The charts above represent forecasts for real GDP growth in 2001 and 2002 respectively, as polled on specific dates. For example, forecasters surveyed on September 10 had an average U.S. growth forecast of 1.6 per cent for 2001 and 2.7 per cent for 2002.

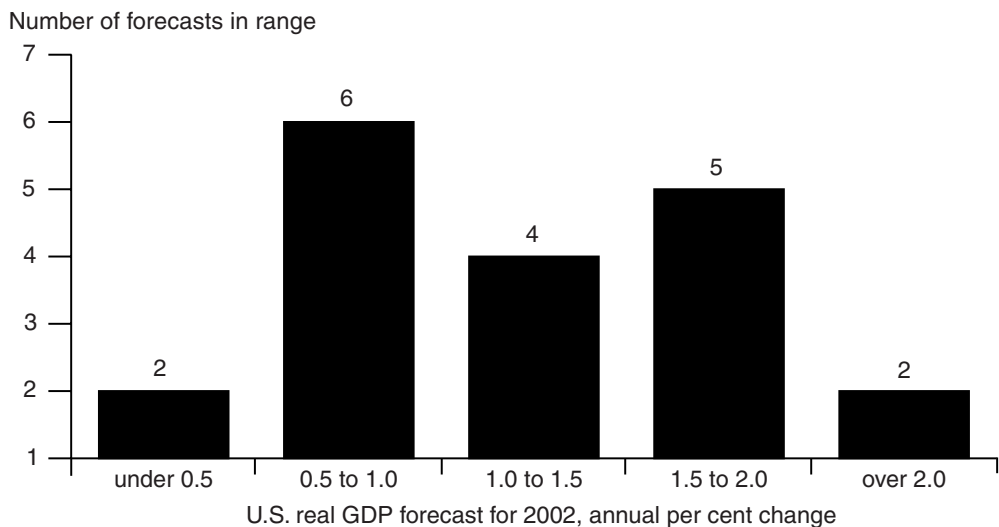
Growth forecasts have fallen, reflecting the rapid deterioration in the U.S. economy

Economic growth forecasts have fallen markedly since the start of the year, reflecting the rapid deterioration that has occurred in the U.S. economy. The collapse of the high tech sector earlier this year, the manufacturing slowdown now spreading to the service sector and the problems in the airline industry exposed since September 11 have all plagued North American economies this year.

Forecasts of U.S. economic activity for 2002 now generally divide into two groups:

- those who expect a quicker rebound in early 2002 and who forecast annual growth of 1.5 per cent or more. These forecasters generally assume that the significant monetary stimulus now in place, combined with federal fiscal measures, will motivate consumer spending and business investment; and

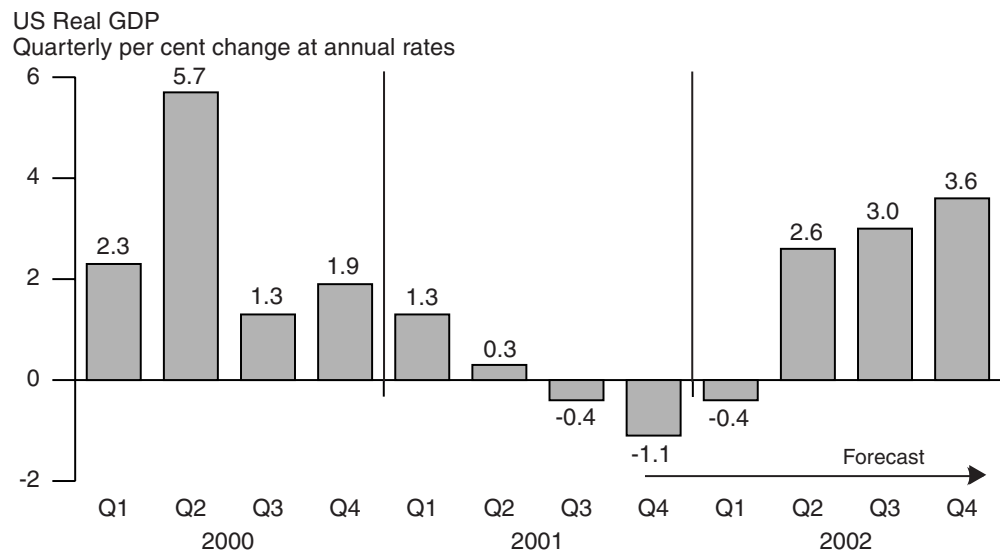
Chart 1.3 2002 U.S. Economic Growth Forecasts



- those who predict a longer recession with annual growth for 2002 of 1.0 per cent or less. These forecasters assume that the cyclical correction will take longer, as airline and technology industries restructure, and that consumer spending will be dampened as employment declines.

The British Columbia government forecast assumes that the U.S. economy will be in recession through the first quarter of 2002, with the Canadian economy following a similar pattern. This is consistent with the views of economists who see diminished probability of a quick recovery, and who have lowered their forecasts in recent weeks.¹

Chart 1.4 Quarterly U.S. Economic Growth Assumptions



Source: Ministry of Finance

The forecast assumes that the U.S. recession will last through the first quarter of 2002

Outlook: The forecast assumes that the U.S. recession will last through the first quarter of next year, consistent with the more conservative group of forecasters. As a result, the U.S. economy is assumed to grow 1.1 per cent for 2001 and 0.7 per cent for 2002.

For Canada, two scenarios are also plausible:

- A milder contraction, followed by recovery early in 2002 supported by monetary easing and federal and provincial tax cuts announced earlier this year. This view is consistent with the Bank of Canada's recent forecast.
- A longer slowdown as the U.S. economic recovery is prolonged, and business and consumer spending in Canada falters.

The government assumes a conservative scenario in which the Canadian economy will grow on average 1.0 per cent in both 2001 and 2002. While 2001 growth is lower than the Bank of Canada forecast of 1.5 per cent this year, the 2002 outlook is consistent with the Bank's weak confidence scenario depicting sluggish growth next year.

Japan's GDP is expected to contract 0.5 per cent in both 2001 and 2002.

¹ The November 2001 issue of *Consensus Forecasts* was published as this report was going to press. The consensus for U.S. real GDP growth is now 1.1 per cent in 2001, and 0.7 per cent in 2002. This revision is a result of many forecasters lowering their 2002 predictions to below 1.0 per cent.

Table 1.2 November 2001 Economic Forecast: Key Assumptions

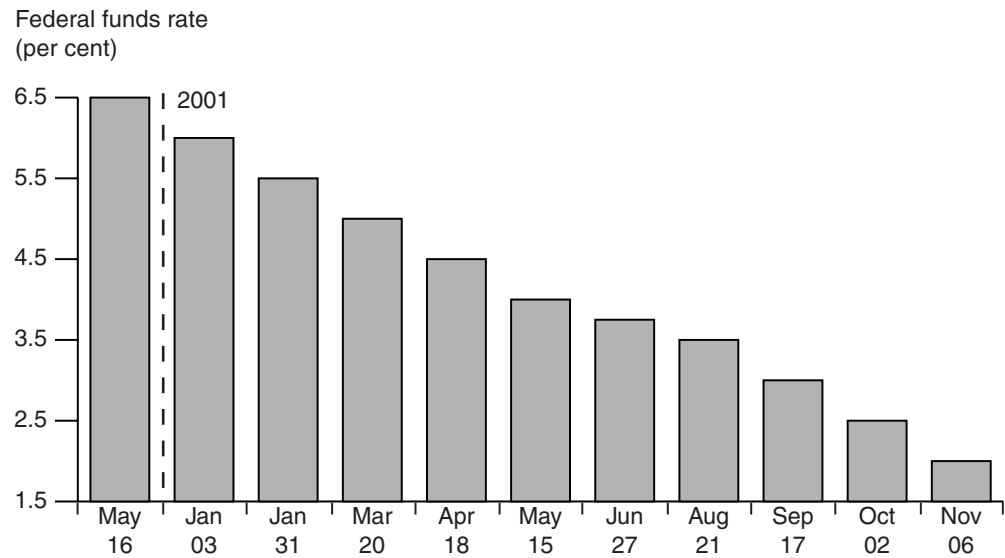
	2001		2002	
	July 30 Update	November Forecast	July 30 Update	November Forecast
	Percentage change unless otherwise noted			
Canada real GDP	2.0	1.0	2.5	1.0
U.S. real GDP	1.5	1.1	2.5	0.7
Japan real GDP	-0.5	-0.5	1.0	-0.5
Europe real GDP	2.5	1.7	2.7	1.8
Short term interest rates ¹	4.4%	3.9%	4.5%	2.9%
Long term interest rates ²	N/A	5.8%	N/A	5.7%
U.S. cents/Cdn. \$	65.5	64.5	67.1	63.5

¹ Canada 3-month treasury bills.

² Government of Canada Long-term bond.

Financial Markets

The U.S. Federal Reserve Board and the Bank of Canada have both reacted to the slowing international environment by pursuing an aggressive policy of monetary easing. The Federal Reserve Board has cut their key interest rate by 4.5 percentage points in ten separate actions this year. The Bank of Canada has cut overnight lending rates eight times, for a total reduction of 3.0 percentage points over the same period.

Chart 1.5 U.S. Federal Reserve Board Interest Rate Changes, 2001

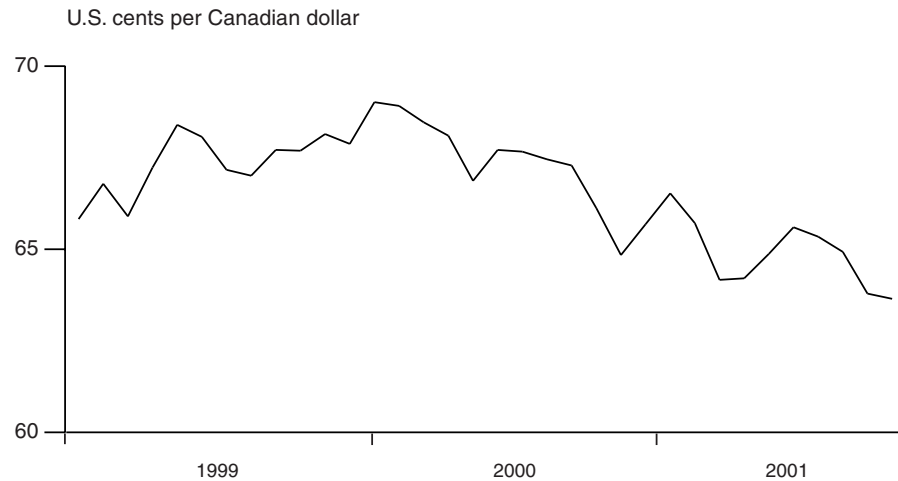
Source: U.S. Federal Reserve Board

Falling commodity prices have pulled down the Canadian dollar

Although it has cut lending rates 50 basis points in early November in line with the Federal Reserve Board and Bank of England, the European Central Bank has resisted pressure to pursue more aggressive easing, citing weaker government fiscal balances and higher inflationary pressures in Europe.

Falling commodity prices have pulled down the Canadian dollar, which has depreciated over the year. Recently the dollar fell below 63 U.S. cents for the first time. While most currency analysts believe the Canadian dollar is undervalued at its current level, some are forecasting further depreciation, to as low as 60 U.S. cents.

Chart 1.6 Canada/U.S. Exchange Rate



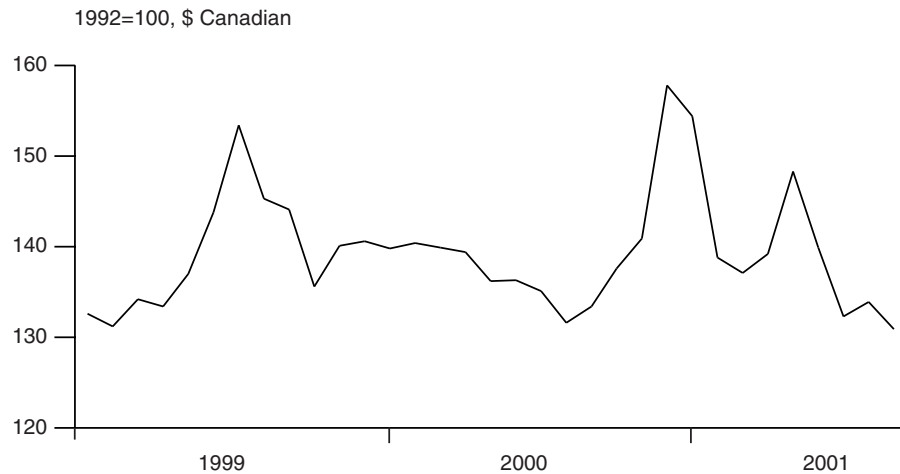
Further monetary easing by the U.S. Federal Reserve Board and the Bank of Canada is assumed

Outlook: Given the sentiments expressed recently by the U.S. Federal Reserve Board and the Bank of Canada, further monetary easing is assumed. As a result, the Canadian dollar is expected to average 63 U.S. cents in the fourth quarter and 64.5 U.S. cents for 2001 as a whole. It is then forecast to appreciate gradually during the recovery to average 63.5 U.S. cents in 2002.

Commodity Markets

British Columbia export commodity prices have been mixed this year. Energy prices started the year on a high note and have fallen rapidly since. Lumber prices started low, rose during the spring and early summer on stronger than expected U.S. housing, and have fallen off since. Metals and mineral prices have been on a downward trend throughout the year.

The preliminary duties levied on softwood lumber exports to the U.S. have added uncertainty to the lumber market and created additional volatility for lumber prices. The U.S. Department of Commerce imposed a 19.3 per cent countervailing duty on Canadian imports effective August 17, and a 12.5 per cent anti-dumping duty effective November 6. Both rates will apply to lumber entering the U.S. until December 16. After that, only the anti-dumping duty will apply until the final order is issued in March 2002.

Chart 1.7 B.C. Export Commodity Price Index

Source: Ministry of Finance

Outlook: The average price of British Columbia goods and services exports is expected to rise 0.9 per cent in 2001, largely due to the high energy prices at the start of the year. Commodity markets are assumed to remain weak through the first half of 2002 with increases in mineral prices later in the year as the economic recovery takes hold. Other commodities are expected to be flat or negative for the year resulting in a 1.2 per cent drop in overall export price levels.

British Columbia Economic Forecast

External Trade

British Columbia origin international exports are up 5.8 per cent year-to-date through August, largely as a result of high energy prices. Excluding energy products, provincial exports are down 5.8 per cent year-to-date to August, led by a 9 per cent decline in the value of forestry-related goods.

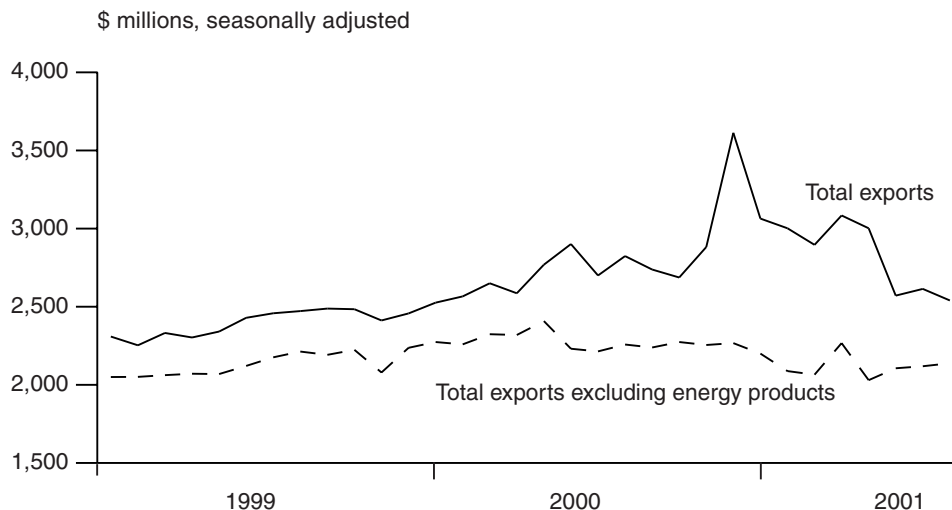
Table 1.3 November 2001 Economic Forecast: Key Indicators

	2001		2002	
	July 30 Update	November Forecast	July 30 Update	November Forecast
	Percentage change unless otherwise noted			
Real GDP.....	2.2	0.9	3.8	0.6
Nominal GDP.....	3.6	1.0	3.4	0.4
Employment.....	1.5	-0.2	3.0	0.3
Unemployment Rate.....	7.2%	7.6%	7.2%	8.1%
Net In-migration (persons).....	26,900	29,500	50,700	31,800
Personal Income.....	3.2	2.0	3.9	1.9
Corporate Pre-tax Profits.....	5.0	-10.0	0.0	-25.0
Housing Starts (units).....	15,600	17,940	16,660	18,063
Retail Sales.....	4.0	4.4	4.2	3.3
Inflation Rate.....	2.0%	2.0%	1.6%	1.6%

Exports to Japan are down 13.5 per cent this year, led by declines in solid wood, pulp and paper and metallic mineral products.

British Columbia real GDP is forecast to grow 0.9 per cent for 2001 and 0.6 per cent for 2002

Chart 1.8 B.C. Merchandise Exports



Source: Statistics Canada

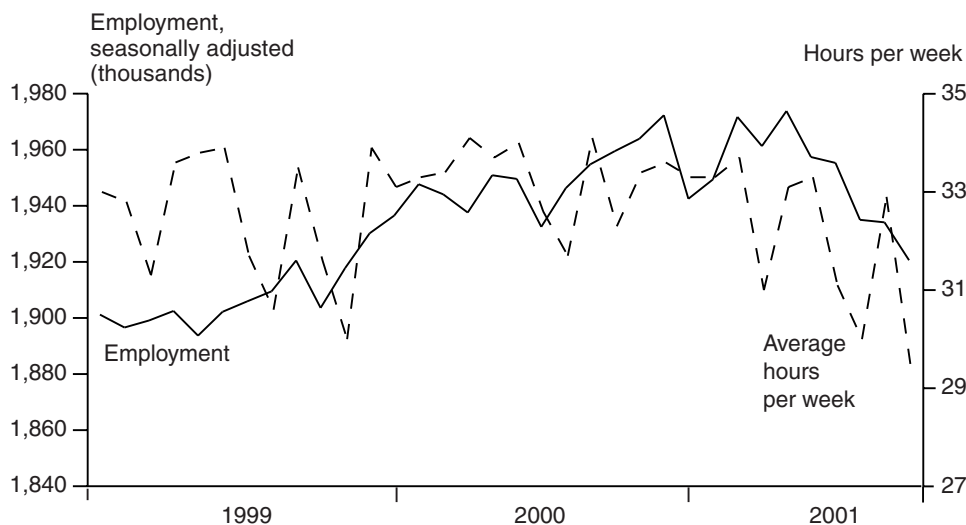
Reduced activity in the lumber sector, as well as falling demand for energy products will lead to reduced international goods exports in 2001

Outlook: Exports of wood products are being hurt by the preliminary countervailing and anti-dumping duties levied on softwood lumber exports. The reduced activity in the lumber sector, as well as falling demand for energy products will lead to reduced international goods exports in 2001. In 2002, continued weakness in the U.S. and Canadian economies in the early months of the year will affect services exports as well as exports to other Canadian provinces, leading to a further decline in exports. Real (inflation adjusted) exports are expected to fall 1.3 per cent in 2001 and 0.8 per cent in 2002.

The Labour Market

Total employment is up only 0.2 per cent year-to-date as of October, with full-time employment down 0.2 per cent. The year-to-date job growth is based on gains early in the year while October employment stood below year-ago levels.

Chart 1.9 B.C. Employment and Average Hours Worked



Source: Statistics Canada

In the May-to-June period, labour income weakened. Third quarter data are not yet available, but prospects are weak given the decline in employment, reductions in the average work week, and a 1.2 per cent quarter-over-quarter drop in the weekly wage rate.

The unemployment rate averaged 7.3 per cent for the first ten months of this year, reaching 8.2 per cent in October.

Employment is forecast to decline 0.2 per cent for 2001

Outlook: The North American recession, falling commodity prices, reduced tourism activity and the effect of the countervailing and anti-dumping duties provide weak employment prospects for the rest of 2001. Employment is forecast to decline 0.2 per cent for the year, while the unemployment rate averages 7.6 per cent.

Employment is expected to pick up gradually, in line with the economic recovery next year, growing 0.3 per cent for 2002. The unemployment rate is forecast to increase to 8.1 per cent as the number of people seeking work grows faster than job creation.

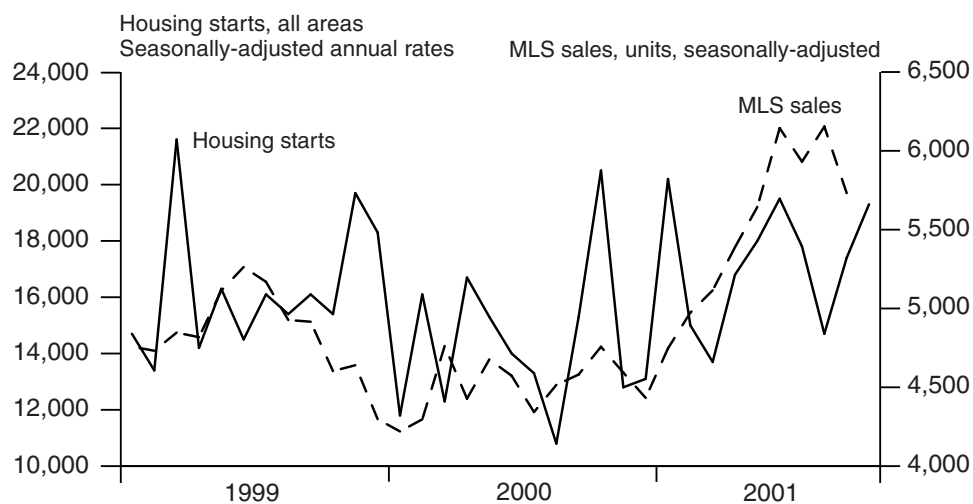
Domestic Demand

Retail sales remained high through August

Consumer Spending and Housing: Retail sales remained high through August, but can be expected to level off over the rest of the year. The declines in consumer confidence in the third calendar quarter may lead to a significant slowdown in consumer demand.

The housing market has bounced back from a poor performance last year with existing home sales up 23.4 per cent through September. Housing starts, up 18 per cent through October, have also recovered well.

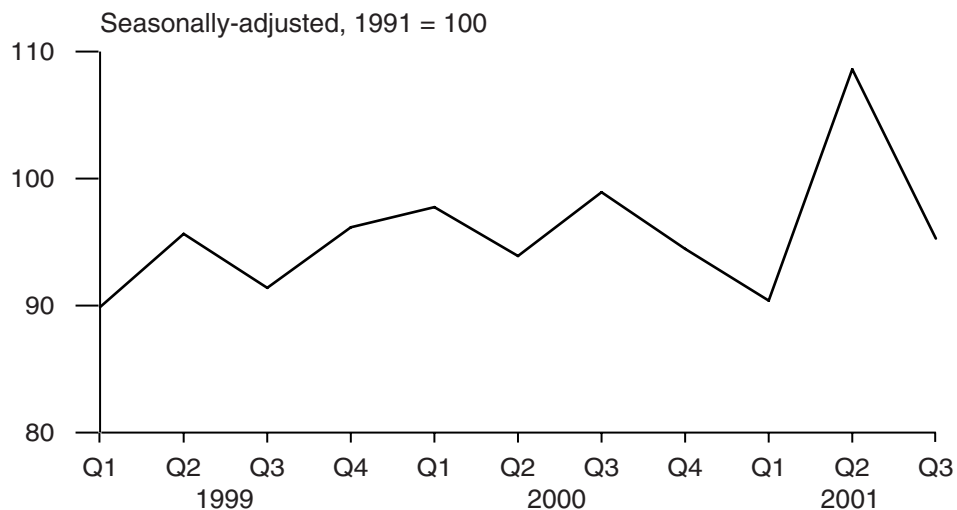
Chart 1.10 B.C. Housing Starts and Existing Home Sales



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

Lower mortgage rates have already helped the recovery in the housing market. Given the long and variable lags that characterise stimulative monetary policy, the central bank rate reductions should continue to flow through to lower mortgage rates and support continued demand for housing.

However, the October survey shows British Columbia consumer confidence dropped in the third quarter from second quarter levels, reflecting the worsening employment situation and a reaction to the events of September 11.

Chart 1.11 British Columbia Consumer Confidence

Source: Conference Board of Canada

Consumption of goods and services is expected to increase by 1.9 per cent in 2001 and 1.8 per cent in 2002

Outlook: Consumer spending on goods and services are likely to be affected by declining consumer confidence in the last part of this year. This will be partly offset by low consumer interest rates and signs of recovery in the new year. After adjusting for inflation, consumption of goods and services is expected to increase by 1.9 per cent in 2001 and 1.8 per cent in 2002.

Housing starts are expected to continue at current levels for the rest of the year, in part due to low mortgage rates, and are forecast to total about 18,000 units in 2001 and 2002.

Business and Government Activity: The North American recession has been accompanied by cutbacks in business investment. The year has been marked by numerous profit warnings by corporations that have been continually revising down profit expectations. Total British Columbia building permits are up 12.1 per cent through September over the same time last year, but have trended down in the last several months, led by non-residential permits.

Outlook: The slowing economy will have an effect on businesses bottom lines in British Columbia; corporate pre-tax profits are expected to decrease by 10 per cent in 2001 and by 25 per cent in 2002.

Current expenditures for all levels of government (including federal, provincial and local governments) are forecast to increase by 1.9 per cent in inflation-adjusted terms in 2001, and to fall 2.0 per cent in 2002, reflecting the provincial government's commitment to balance the budget by fiscal year 2004/05.

Inflation: Inflation has averaged 2.0 per cent for the first 9 months of the year, reflecting higher prices for gasoline, heating fuels and fresh food.

Outlook: Inflation is expected to remain at 2.0 per cent for the rest of the year and fall to 1.6 per cent in 2002 due to weak consumer demand and lower energy prices.

Risks to the Forecast

There are higher-than-usual risks to the economic outlook

There are higher-than-usual risks to the economic outlook, reflecting uncertainty as to the length and nature of the war against terrorism, and whether business and consumer confidence can be maintained in the U.S. and Canada.

A prolonged recession in the rest of the world could delay recovery in British Columbia. However, the extent of a prolonged slowdown may be mitigated by

the substantial monetary and fiscal stimulus already in place in North America. On the other hand, any further terrorist attacks could likely have a negative effect on consumer and business confidence and delay the recovery.

Increased security and tighter border crossings could add substantially to the costs of doing business, which would also adversely affect economic performance.

A prolonged recession in the rest of the world could delay recovery in British Columbia

The main risk to the domestic demand forecast is whether consumer confidence will hold up in the face of declines elsewhere in the economy. Of particular concern is the weak employment situation. Recent job losses may result in further declines in consumer confidence.

The softwood lumber dispute with the U.S. creates further uncertainties, particularly if U.S. demand for lumber softens. British Columbia is seeking a durable resolution that addresses the underlying sources of this long-standing issue and provides assured market access for our producers into the future. If a settlement is not reached, the U.S. Department of Commerce will issue a final order for the countervailing duty and anti-dumping cases in March 2002. These duties are subject to annual reviews and retroactive adjustments. Canada also has initiated World Trade Organization challenges in these cases.

On the upside, several commentators recognize that if North American consumer confidence is maintained and the war against terrorism proceeds successfully, then business investment and consumer spending could bounce back earlier.

The forecast accounts for previously announced U.S. and Canadian fiscal stimulus, both at the federal and state/provincial levels, including the British Columbia tax cuts announced on June 6 and July 30. To the extent that consumer and business confidence recovers more quickly than anticipated, the impact of these policies will be greater.

Medium Term Outlook

Because of the many unknowns in the current environment, the ministry is not including a medium term forecast

The current geopolitical situation and the rapid onset of recession caught many analysts by surprise. This has led to greater-than-usual uncertainty as to the future path of the North American economies. Reasonable scenarios range from:

- a return early next year to the rapid growth seen in the late 1990s accompanied by significant progress in the war against terrorism and an improved sense of economic and physical security in consumers; to
- a period of prolonged economic stagnation as business and consumer confidence are eroded by business failures and restructuring, deteriorating employment prospects and continued terrorism threats.

“Because of the unusual nature of the uncertainty we face, the Bank is not presenting a conventional forecast”. . . (Bank of Canada, 7 November 2001)

Because of the many unknowns in the current environment, the ministry is not including a medium term forecast at this time. However, with the benefit of more recent information, the Minister of Finance’s Economic Forecast Council will meet on December 11 to provide advice on the medium term outlook. Subsequently, a five-year economic forecast will be developed for inclusion in the February 19 budget.

Table 1.4 British Columbia Economic Outlook

	Forecast			
	1999	2000	2001	2002
Gross Domestic Product (current dollars; percentage change).....	4.3	5.8	1.0	0.4
Real Gross Domestic Product (1997 dollars; percentage change).....	2.8	3.9	0.9	0.6
Consumer Expenditure.....	2.5	3.5	1.9	1.8
Capital Investment.....	4.3	5.1	2.1	2.7
Government Expenditure.....	3.8	2.6	1.9	-2.0
Exports of Goods and Services.....	6.5	7.0	-1.3	-0.8
Imports of Goods and Services.....	6.1	8.0	1.6	1.3
Inventory Investment (change in billions of 1997 dollars).....	-0.2	0.4	0.3	0.5
Population July 1 (percentage change).....	0.8	0.8	0.9	0.9
Net In-migration.....	19,946	14,549	29,500	31,800
Interprovincial.....	-12,413	-17,296	-9,000	-2,000
International.....	32,359	31,845	38,500	33,800
Labour Force (thousands).....	2,079	2,100	2,104	2,124
(percentage change).....	1.4	1.0	0.2	0.9
Employment (thousands).....	1,906	1,949	1,944	1,951
(percentage change).....	1.9	2.2	-0.2	0.3
Unemployment Rate (per cent).....	8.3	7.2	7.6	8.1
Retail Sales (millions of current dollars).....	33,684	35,821	37,397	38,631
(percentage change).....	1.9	6.3	4.4	3.3
Personal Income (millions of current dollars).....	100,866	106,149	108,272	110,329
(percentage change).....	3.4	5.2	2.0	1.9
Corporate Pre-tax Profits (millions of current dollars).....	9,131	10,287	9,258	6,944
(percentage change).....	23.6	12.7	-10.0	-25.0
Housing Starts (units).....	16,309	14,418	17,940	18,063
(percentage change).....	-18.2	-11.6	24.4	0.7
Consumer Price Index (1992=100).....	111.2	113.3	115.6	117.4
(percentage change).....	1.1	1.8	2.0	1.6
B.C. Goods and Services Export Prices (Cdn \$; percentage change).....	2.5	4.1	0.9	-1.2
Key Assumptions:				
Economic Growth (per cent)				
Canada.....	5.1	4.6	1.0	1.0
United States.....	4.1	4.1	1.1	0.7
Japan.....	0.8	1.5	-0.5	-0.5
Europe.....	2.6	3.5	1.7	1.8
Housing Starts (annual percentage change)				
Canada.....	9.1	1.1	3.9	0.0
United States.....	1.6	-4.4	2.0	-1.8
Japan.....	1.4	1.3	-4.1	-0.2
Industrial Production (annual percentage change)				
United States.....	4.1	5.6	-2.7	-0.5
Japan.....	1.0	5.4	-7.3	-4.0
Consumer Prices (annual percentage change)				
Canada.....	1.7	2.7	2.9	2.0
United States.....	2.2	3.4	3.0	2.0



Table 1.4 British Columbia Economic Outlook — Continued

	Forecast			
	1999	2000	2001	2002
Canadian Interest Rates (per cent; annual average)				
3-month Treasury Bills.....	4.7	5.5	3.9	2.9
Government of Canada Long Term Bond.....	5.7	5.7	5.8	5.7
United States Interest Rates (per cent; annual average)				
3-month Treasury Bills.....	4.6	5.8	3.4	2.3
U.S. cents/Canadian dollar.....	67.3	67.3	64.5	63.5
Commodity Prices				
Spruce-Pine-Fir Lumber (U.S. \$/1,000 board feet).....	342	255	250	250
Pulp (U.S. \$/tonne).....	521	681	538	481
Newsprint (U.S. \$/tonne).....	513	564	599	600
Copper (U.S. \$/lb.).....	0.72	0.82	0.71	0.74
Lead (U.S. \$/lb.).....	0.23	0.21	0.21	0.20
Zinc (U.S. \$/lb.).....	0.49	0.51	0.39	0.45
Gold (U.S. \$/oz.).....	279	279	277	300
Natural Gas (Cdn. \$/gigajoule at WEI inlet).....	2.03	4.46	5.27	3.26
Coal (U.S. \$/tonne) ¹	40.5	38.9	42.0	42.0

¹ Weighted average of metallurgical and thermal coal prices

Table 1.5 Current Economic Statistics¹

		Latest Period	Year-to-Date Average		
			2000	2001	Change
BRITISH COLUMBIA					
LABOUR MARKET					
Employment (s.a., thousands).....	Oct-01	1,921	1,946	1,950	0.2%
Unemployment rate (s.a., per cent).....	Oct-01	8.2	7.2	7.3	0.1
In-migration.....	Q2-01	8,987	3,584	8,568	4,984
Interprovincial (persons).....	Q2-01	(2,852)	(4,933)	(2,629)	2,304
International (persons).....	Q2-01	11,839	8,516	11,197	2,681
Wages, salaries and supplementary labour income (s.a. \$ millions)	Jun-01	5,811	5,619	5,812	3.4%
Average weekly wage rate.....	Oct-01	643.7	636.22	645.37	1.4%
CONSUMER SECTOR					
Retail sales (s.a., \$ million).....	Aug-01	3,182	2,953	3,138	6.3%
Car and truck sales (s.a., units).....	Sep-01	13,459	13,986	14,071	0.6%
Housing starts (all areas, s.a., annual rate).....	Oct-01	19,300	14,610	17,240	18.0%
Existing home sales (s.a.).....	Sep-01	5,732	4,488	5,537	23.4%
Building permits (s.a., \$ thousands).....	Sep-01	438	388	435	12.1%
British Columbia consumer price index (annual per cent change).....	Sep-01	2.1	1.6	2.0	0.4
INDUSTRIAL ACTIVITY					
Foreign merchandise exports (s.a., \$ million).....	Aug-01	2,540	2,690	2,847	5.8%
Manufacturing shipments (s.a., \$ million).....	Sep-01	2,740	3,161	2,901	-8.2%
Lumber production (thousand cubic metres).....	Jul-01	2,225	2,796	2,693	-3.7%
Pulp and paper production (thousand tonnes).....	Sep-01	530	704	621	-11.8%
Coal production (thousand tonnes).....	Jul-01	2,177	2,169	2,277	5.0%
Natural gas production (million cubic metres).....	Jun-01	2,251	2,064	2,233	8.2%
Copper production (million kg).....	Aug-01	26.2	21.9	22.8	4.1%
TOURISM					
Entries of U.S. and overseas residents (thousands).....	Aug-01	1,227	760	788	3.7%
B.C. Ferry passengers to/from Vancouver Island (thousands).....	Sep-01	986	984	979	-0.5%
COMMODITY PRICES					
Lumber (U.S.\$/thousand board feet).....	Oct-01	221	267	254	-4.9%
Pulp (U.S. \$/tonne).....	Oct-01	460	675	557	-17.5%
Newsprint (U.S.\$/tonne).....	Oct-01	565	555	605	9.0%
Copper (U.S.\$/lb.).....	Oct-01	0.62	0.82	0.73	-11.0%
B.C. export commodity price index (Cdn. \$ Index:1992 = 100).....	Sep-01	130.9	136.9	139.5	1.9%
FINANCIAL DATA					
Canadian dollar (U.S. cents).....	Oct-01	63.6	67.7	64.9	-2.8
Canadian prime rate (per cent).....	Oct-01	5.06	7.19	6.35	-0.84
Canadian treasury bills (per cent).....	Oct-01	2.83	5.42	4.24	-1.18
Treasury bill spread — Canada minus U.S. (per cent).....	Oct-01	0.64	-0.37	0.53	0.90

s.a. — seasonally adjusted

PART TWO — FISCAL YEAR-TO-DATE REPORT

Summary Accounts Six-month Results

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

	Budget ¹	2001/02 Actual	Variance ²	Actual ³ 2000/01
(\$ millions)				
Consolidated revenue fund (CRF):				
Revenue	11,376	11,259	(117)	11,238
Expenditure	(12,096)	(12,068)	28	(10,889)
CRF balance	<u>(720)</u>	<u>(809)</u>	<u>(89)</u>	<u>349</u>
Crown corporations and agencies:				
Taxpayer-supported	(121)	37	158	(7)
Self-supported commercial	426	155	(271)	1,175
Total net contribution (loss) of Crown corporations and agencies	<u>305</u>	<u>192</u>	<u>(113)</u>	<u>1,168</u>
Summary accounts balance before joint trusteeship	(415)	(617)	(202)	1,517
Joint trusteeship (one-time adjustment)	1,280	1,406	126	—
Summary accounts surplus	<u>865</u>	<u>789</u>	<u>(76)</u>	<u>1,517</u>

¹ Figures reflect six-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 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 from a commercial Crown corporation.

The six-month summary accounts surplus of \$789 million was \$76 million below budget.

- The consolidated revenue fund (CRF) shortfall was \$89 million higher than budget. Lower-than-budgeted revenue, mainly due to weaker energy revenue, was partly offset by below-budget spending.
- The combined net income of Crown corporations and agencies was \$113 million lower-than-budget primarily due to below budget performance of the British Columbia Hydro and Power Authority (BC Hydro) and the Insurance Corporation of British Columbia.
- The estimated one-time benefit resulting from the implementation of joint trusteeship for the Teachers Pension and the Municipal Superannuation plans was \$126 million more than planned due to further revisions resulting from an updated actuarial valuation.
- Excluding the joint trusteeship benefit, the summary accounts showed a \$617 million deficit.

The six-month results are not indicative of final year-end results. For example, all of the one-time benefit of joint trusteeship was recognized in the first half of the year, while the pattern of government and Crown corporation revenue and expenditure will continue to change over the rest of the year. An updated full-year forecast is presented in Part 3 — Revised Financial Forecast.

Revenue

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

	Budget ¹	2001/02		Actual ³ 2000/01
		Actual ²	Variance ³	
(\$ millions)				
Taxation:				
Personal income	2,420	2,461	41	2,845
Corporation income	634	634	—	517
Social service	1,884	1,836	(48)	1,823
Other	1,669	1,691	22	1,675
	<u>6,607</u>	<u>6,622</u>	<u>15</u>	<u>6,860</u>
Natural resources:				
Petroleum, natural gas and minerals	956	824	(132)	601
Forests	483	490	7	506
Columbia River Treaty	335	313	(22)	198
Water resources, <i>Wildlife Act</i> and other	166	157	(9)	156
	<u>1,940</u>	<u>1,784</u>	<u>(156)</u>	<u>1,461</u>
Other revenue:				
Medical Services Plan premiums	463	477	14	463
Other	447	446	(1)	468
	<u>910</u>	<u>923</u>	<u>13</u>	<u>931</u>
Transfers/dividends from Crown corporations	<u>524</u>	<u>534</u>	<u>10</u>	<u>531</u>
Contributions from the Federal government	<u>1,395</u>	<u>1,396</u>	<u>1</u>	<u>1,455</u>
Total Revenue	<u>11,376</u>	<u>11,259</u>	<u>(117)</u>	<u>11,238</u>

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

² Actual figures for 2001/02 exclude \$284 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.

Six-month CRF revenue was \$117 million below budget but up slightly from the same period last year. Significant variances include:

- *Personal income tax* — up \$41 million from budget due to the effect of higher-than-assumed assessments for the 2000 tax year, based on preliminary information received from the federal government.
- *Social service tax* — \$48 million below budget mainly due to lower-than-expected collections in the first six months. The government has also begun to allocate collection costs against revenue during the year rather than at year-end.
- *Other taxes* — \$22 million above budget mainly due to higher revenue from tobacco and corporation capital taxes.
- *Petroleum, natural gas and minerals* — \$132 million below budget mainly due to lower-than-expected natural gas prices in the July-to-September quarter and lower sales of drilling rights.
- *Columbia River Treaty* — \$22 million below budget due to the effect of lower-than-assumed electricity prices in the U.S. during the July-to-September quarter.

Expenditure

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

	Budget ¹	2001/02		Actual ³ 2000/01
		Actual	Variance ²	
	(\$ millions)			
Legislation	21	18	(3)	17
Officers of the Legislature	33	30	(3)	13
Office of the Premier	9	9	—	7
Advanced Education	911	910	(1)	881
Agriculture, Food and Fisheries	49	43	(6)	50
Attorney General	255	256	1	251
Children and Family Development	704	709	5	631
Community, Aboriginal and Women's Services	270	258	(12)	218
Competition, Science and Enterprise	35	35	—	33
Education	2,481	2,434	(47)	2,371
Energy and Mines	34	28	(6)	17
Finance	23	19	(4)	18
Forests	288	270	(18)	258
Health Planning	2	2	—	2
Health Services	4,720	4,717	(3)	4,182
Human Resources	942	928	(14)	906
Management Services	34	28	(6)	22
Provincial Revenue	25	20	(5)	23
Public Safety and Solicitor General	243	240	(3)	220
Skills Development and Labour	14	14	—	15
Sustainable Resource Management	83	73	(10)	53
Transportation	341	336	(5)	305
Water, Land and Air Protection	115	111	(4)	84
Management of Public Funds and Debt	395	393	(2)	459
Contingencies — Skeena Cellulose Inc. assistance	— ¹	124	124	—
Other Appropriations ⁴	69	63	(6)	(147)
Total Expenditure	12,096	12,068	(28)	10,889

¹ Figures reflect six-month allocations of the full-year budget as presented in the July 30 *Economic and Fiscal Update* based on planned activities and seasonal patterns. However, the entire contingencies budget is allocated at the end of the fiscal year.

² 2001/02 actual less 2001/02 budget.

³ Figures have been restated to reflect the government organization as of September 30, 2001. Expenditure has also been restated primarily to reflect the reclassification of certain capital expenditures as ministry operating maintenance costs. As a result, comparative expenditure in 2000/01 has been increased \$78 million.

⁴ Includes BC Family Bonus, amortization of changes in unfunded pension liabilities, and various boards, commissions and special votes and accounts. The large reduction in 2000/01 reflects the effect of pension accounting changes in 2000/01.

Six-month CRF spending was \$28 million below budget. In total, 18 ministries were \$158 million below budget. This was partially offset by above-budget spending in two ministries totalling \$6 million and \$124 million of spending from the contingencies vote for loan guarantee payments relating to Skeena Cellulose Inc. Significant variances include:

- *Ministry of Education* — \$47 million below budget mainly due to lower-than-expected costs for debt servicing and slower-than-planned spending for public schools.
- *Ministry of Forests* — \$18 million below budget mainly due to lower-than-expected forest fire-fighting costs.
- *Ministry of Health Services* — \$3 million below budget. Lower utilization of the Medical Services Plan (down \$27 million) offset higher utilization for Pharmacare (up \$16 million) and acute and continuing care programs (up \$10 million).
- *Contingencies* — contingency funding is normally allocated at the end of the fiscal year. However, in the second quarter the government provided \$124 million towards settlement of a portion of outstanding loan guarantees related to Skeena Cellulose Inc.

Crown Corporations and Agencies

Table 2.4 Crown Corporation and Agency Results
for the Six Months Ended September 30, 2001
(Unaudited)

	2001/02		Actual ³ 2000/01	
	Budget ¹	Actual		Variance ²
	(\$ millions)			
Taxpayer-supported:				
British Columbia Buildings Corporation.....	19	21	2	30
British Columbia Ferry Corporation.....	37	56	19	58
BC Transportation Financing Authority.....	38	31	(7)	8
Forest Renewal BC.....	(98)	(85)	13	(56)
552513 British Columbia Ltd. (Skeena Cellulose Inc.).....	(28)	(23)	5	2
Other.....	37	85	48	79
	5	85	80	121
Less: Accounting adjustments ⁴	(126)	(136)	(10)	(128)
Add: Skeena Cellulose Inc. assistance.....	—	88	88	—
Total taxpayer-supported	<u>(121)</u>	<u>37</u>	<u>158</u>	<u>(7)</u>
Self-supported commercial:				
British Columbia Hydro and Power Authority (BC Hydro).....	396	164	(232)	507
Liquor Distribution Branch.....	310	320	10	323
British Columbia Lottery Corporation.....	273	289	16	268
British Columbia Railway Company.....	(4)	(5)	(1)	19
Insurance Corporation of British Columbia.....	31	(38)	(69)	312
Other.....	1	3	2	5
	1,007	733	(274)	1,434
Less: Contributions paid to CRF.....	(524)	(534)	(10)	(531)
Accounting adjustments:				
— Transfer of BC Hydro earnings to (from) rate stabilization account.....	—	—	—	457
— Other accounting adjustments ⁵	(57)	(44)	13	(185)
Total self-supported commercial	<u>426</u>	<u>155</u>	<u>(271)</u>	<u>1,175</u>
Total net contribution (loss) of Crown corporations and agencies	<u>305</u>	<u>192</u>	<u>(113)</u>	<u>1,168</u>

¹ Figures reflect six-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 2001/02 budget.

³ Figures for 2000/01 have been restated to reflect the reclassification of 552513 British Columbia Ltd. (Skeena Cellulose Inc.) as a taxpayer-supported Crown corporation from a commercial Crown corporation.

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

⁵ Includes 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 six-month period from a nine-month period. The 2000/01 adjustment was high due to the one-time capital gains reported by the Insurance Corporation of British Columbia in the first quarter of the 2000 calendar year.

Taxpayer-supported Crown Corporations and Agencies

Net contributions of taxpayer-supported Crown corporations were \$158 million better than planned during the first six months. Highlights include:

- *British Columbia Ferry Corporation* — net income was \$19 million better than expected primarily due to increased vehicle traffic and lower fuel costs during the summer.
- *Forest Renewal BC* — net loss was \$13 million lower than planned primarily due to delays in program expenditures.

- *Other Crown corporations and agencies* — combined net incomes were \$48 million above budget mainly due to timing differences between expected and actual revenue and expenditure patterns in various other Crown corporations and agencies.
- *Skeena Cellulose Inc. assistance* — through its Crown corporation 552513 British Columbia Ltd., the government retains an interest in Skeena Cellulose Inc. of approximately 72 per cent. As a result of the government's \$124-million payment to settle a portion of Skeena Cellulose Inc.'s outstanding loans, there was an offsetting gain in the summary accounts of \$88 million due to the government's proportional interest.

Self-supported Commercial Crown Corporations and Agencies

Net contributions from commercial Crown corporations were \$271 million below budget in the first six months. Significant variances included:

- *British Columbia Hydro and Power Authority* — net income was \$232 million below budget due to lower electricity trade revenue resulting from lower prices and export demand, partially offset by lower energy costs.
- *Insurance Corporation of British Columbia* — a \$38-million loss resulted instead of planned net income of \$31 million, due to higher claims costs and lower investment earnings.
- *British Columbia Railway Company* — although slightly below budget, the company is undertaking a restructuring that will result in one-time costs later in the year.

Capital Spending

Six-month spending to finance capital projects totalled \$1.1 billion, down \$288 million from budget.

- Taxpayer-supported capital spending was \$143 million below plan mainly due to lower spending for health facilities, ministry minor capital purchases (e.g. equipment and furniture), ferries and *SkyTrain* (Rapid Transit Project 2000).
- Self-supported commercial capital spending was \$145 million below plan, mainly due to lower capital spending by BC Hydro and the Insurance Corporation of British Columbia.

Consistent with the *Budget Transparency and Accountability Act*, significant capital projects with multi-year budgets totalling \$50 million or more are presented in Appendix Table A.5. Significant changes since the first *Quarterly Report* include:

- The budget and revised forecast of spending for the Lion's Gate Bridge project increased to \$125 million, from \$108 million previously. Although the expected completion date has changed to December 2001 from September 2001, final bridge paving may be delayed until warmer weather in the spring of 2002.
- The budget and revised forecast of spending for the Port Mann Bridge/Cape Horn Interchange was lowered to \$61 million from \$74 million previously, due to a reduction in the project scope. The project is now forecast to be completed in March 2002, from March 2003 previously reported.
- Inclusion of critical care beds in the new diagnostic and treatment centre at the Royal Jubilee Hospital has delayed completion of the project to March 2002 from December 2001. Completion of the Prince George Regional Hospital has advanced to March 2004, from April 2004 previously reported.
- Costs of the Burrard Upgrade power generation project are now forecast at \$212 million, down from the previous forecast of \$221 million.

Table 2.5 Government, Crown Corporations and Agencies — Capital Expenditures
for the Six Months Ended September 30, 2001
(Unaudited)

	2001/02		Actual 2000/01 ³
	Budget ¹	Actual	
	(\$ millions)		
Taxpayer-supported			
Capital plan:⁴			
Education	170	159	(11)
Health	109	74	(35)
BC Transportation Financing Authority	211	248	37
British Columbia Ferry Corporation	45	17	(28)
Rapid Transit Project 2000	148	126	(22)
Other ⁵	51	40	(11)
Net capital plan	734	664	(70)
Other taxpayer-supported:			
Government operating (ministries)	82	31	(51)
552513 British Columbia Ltd. (Skeena Cellulose Inc.)	16	6	(10)
Other ⁶	24	12	(12)
Total taxpayer-supported.....	856	713	(143)
Self-supported commercial:			
British Columbia Hydro and Power Authority ...	311	224	(87)
British Columbia Railway Company	37	35	(2)
Columbia power projects ⁷	94	87	(7)
Insurance Corporation of British Columbia ⁸	74	40	(34)
British Columbia Lottery Corporation	13	7	(6)
Liquor Distribution Branch	22	13	(9)
Total self-supported commercial	551	406	(145)
Total capital expenditures	1,407	1,119	(288)

¹ Reflects six-month allocation 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 2001/02 budget.

³ Restated to be consistent with the presentation used for 2001/02.

⁴ Net of expenditures by hospital districts for cost-shared projects and capital spending on behalf of, and recovered from, the Greater Vancouver Transportation Authority (*TransLink*).

⁵ 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.

⁶ Includes British Columbia Housing Management Commission and Provincial Rental Housing Corporation (net of construction costs recoverable from non-profit societies).

⁷ Includes Columbia Power Corporation and Columbia Basin Trust.

⁸ Includes ICBC Properties Ltd.

- Completion of the Island Generation Project (previously referred to as Port Alberni Power Generation) is delayed one year to November 2004, due to a delay in determining a location for the generating facility. Consequently, forecast project costs have increased to \$182 million, from \$180 million previously forecast.
- Costs of the Georgia Strait Pipeline Crossing are forecast at \$129 million, down from \$131 million previously reported. In addition, completion of the fourth generating unit at Seven Mile Dam has been advanced one year to March 2003 from March 2004.

Provincial Debt

In the first six months, provincial debt increased \$1.6 billion to total \$35.5 billion at September 30, 2001. This was \$39 million less than planned.

- *Provincial government operating debt* — \$64 million above budget mainly due to \$124 million of borrowing needed to finance the payout of a portion of loan guarantees relating to Skeena Cellulose Inc. This was partially offset by reduced requirements in other areas.
- *Health facilities debt* — \$37 million below budget reflecting lower-than-planned capital spending.
- *Transportation-related debt* — \$18 million above budget. Higher requirements for the BC Transportation Financing Authority (due to accelerated road construction) and Rapid Transit Project 2000 (due to delays in recovering costs from *TransLink*) were partially offset by reduced requirements for the *SkyTrain* Extension (Millennium Line) and for ferry projects.
- *Other taxpayer-supported debt* — \$197 million below budget primarily due to the effect of the government's payout of loan guarantees for Skeena Cellulose Inc. (now included in provincial government operating debt) and lower-than-expected working capital requirements for the British Columbia Buildings Corporation.
- *Self-supported commercial Crown corporation debt* — \$89 million above budget mainly due to higher borrowing needs of BC Hydro resulting from significantly lower net income.
- *Warehouse borrowing program debt* — increased \$1,334 million from the start of the year in anticipation of increased funding requirements of the government's CRF over the remainder of the fiscal year. Most of this debt will be allocated over the rest of the year.

Table 2.6 Provincial Debt¹ Outstanding
for the Six Months Ended September 30, 2001
(Unaudited)

	Debt	Net	Debt Outstanding		Variance	Debt
	Outstanding		Change ² =	Actual		
	March 31, 2001					Sept. 30, 2000
(\$ millions)						
Taxpayer-supported debt						
Provincial government operating						
Government operating purposes.....	12,069	(175)	11,894	11,954	(60)	12,614
Skeena Cellulose Inc. assistance ⁴	—	124	124	—	124	—
	<u>12,069</u>	<u>(51)</u>	<u>12,018</u>	<u>11,954</u>	<u>64</u>	<u>12,614</u>
Education facilities						
Schools.....	3,880	100	3,980	3,976	4	3,745
Post-secondary institutions	1,383	41	1,424	1,429	(5)	1,381
	<u>5,263</u>	<u>141</u>	<u>5,404</u>	<u>5,405</u>	<u>(1)</u>	<u>5,126</u>
Health facilities						
	<u>1,780</u>	<u>60</u>	<u>1,840</u>	<u>1,877</u>	<u>(37)</u>	<u>1,521</u>
Highways, ferries and public transit						
BC Transportation Financing Authority.....	2,197	139	2,336	2,312	24	2,136
British Columbia Ferry Corporation	21	(1)	20	38	(18)	23
British Columbia Transit.....	75	(2)	73	78	(5)	64
Public transit.....	948	(9)	939	943	(4)	946
SkyTrain extension	836	129	965	987	(22)	675
Rapid Transit Project 2000.....	114	6	120	77	43	105
	<u>4,191</u>	<u>262</u>	<u>4,453</u>	<u>4,435</u>	<u>18</u>	<u>3,949</u>
Other						
British Columbia Buildings Corporation	610	(66)	544	600	(56)	548
552513 and 632121 British Columbia Ltd. (Skeena Cellulose Inc.) ⁴	337	(107)	230	353	(123)	328
Social housing ⁵	265	2	267	278	(11)	191
Homeowner Protection Office.....	71	24	95	76	19	53
Universities and colleges — fiscal agency loans	124	(6)	118	122	(4)	126
Other ⁶	243	(13)	230	252	(22)	124
	<u>1,650</u>	<u>(166)</u>	<u>1,484</u>	<u>1,681</u>	<u>(197)</u>	<u>1,370</u>
Total taxpayer-supported debt	<u>24,953</u>	<u>246</u>	<u>25,199</u>	<u>25,352</u>	<u>(153)</u>	<u>24,580</u>
Self-supported debt						
Commercial Crown corporations and agencies						
British Columbia Hydro and Power Authority	6,852	(6)	6,846	6,768	78	7,060
British Columbia Railway Company	603	19	622	618	4	665
Columbia Power Corporation and Columbia Basin Power Company	113	52	165	158	7	94
Liquor Distribution Branch	2	—	2	2	—	3
	<u>7,570</u>	<u>65</u>	<u>7,635</u>	<u>7,546</u>	<u>89</u>	<u>7,822</u>
Warehouse borrowing program	<u>1,312</u>	<u>1,334</u>	<u>2,646</u>	<u>2,621</u>	<u>25</u>	<u>2,402</u>
Total self-supported debt	<u>8,882</u>	<u>1,399</u>	<u>10,281</u>	<u>10,167</u>	<u>114</u>	<u>10,224</u>
Total provincial debt	<u>33,835</u>	<u>1,645</u>	<u>35,480</u>	<u>35,519</u>	<u>(39)</u>	<u>34,804</u>

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 Reflects six-month allocation of the full-year budget as presented in the July 30 *Economic and Fiscal Update*, based on planned activities and seasonal patterns.

⁴ In the second quarter, the government provided a \$124-million grant to 632121 British Columbia Ltd. to purchase Skeena Cellulose Inc.'s provincially-guaranteed loans from the Toronto Dominion bank. These loans are shown only as part of provincial government operating debt to prevent double counting.

⁵ Includes the British Columbia Housing Management Commission and the Provincial Rental Housing Corporation.

⁶ Includes student assistance loans.

PART THREE — REVISED FINANCIAL FORECAST

Summary Accounts

Table 3.1 Summary Accounts — Revised Forecast

	2001/02		Variance ¹	Actual 2000/01
	July 30 Update	Revised Forecast		
(\$ millions)				
Consolidated revenue fund (CRF):				
Revenue	22,737	22,485	(252)	24,066
Expenditure	(24,750)	(24,694)	56	(22,463)
CRF balance	<u>(2,013)</u>	<u>(2,209)</u>	<u>(196)</u>	<u>1,603</u>
Crown corporations and agencies:				
Taxpayer-supported	(333)	(215)	118	(210)
Self-supported commercial	66	(393)	(459)	157
Total net contribution (loss) of Crown corporations and agencies	<u>(267)</u>	<u>(608)</u>	<u>(341)</u>	<u>(53)</u>
Subtotal	<u>(2,280)</u>	<u>(2,817)</u>	<u>(537)</u>	<u>1,550</u>
Forecast allowance	<u>(500)</u>	<u>(625)</u>	<u>(125)</u>	<u>—</u>
Summary accounts (deficit) surplus before joint trusteeship	<u>(2,780)</u>	<u>(3,442)</u>	<u>(662)</u>	<u>1,550</u>
Joint trusteeship (one-time adjustment)...	1,280	1,406	126	(52)
Summary accounts (deficit) surplus	<u>(1,500)</u>	<u>(2,036)</u>	<u>(536)</u>	<u>1,498</u>

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

Since the first *Quarterly Report*, the overall fiscal outlook has deteriorated slightly (see Table 3.2).

The CRF revenue forecast has been lowered a further \$62 million due to the effects of declining energy prices, lower-than-expected forest revenue in the second half of the year and a weakening economy. These are partially offset by the effects of higher-than-expected income tax assessments for the previous year.

The spending plan remains on track and incorporates additional savings of \$31 million in forest fire-fighting and other programs. Most ministries are expected to be on or below budget. However, pressures to be managed by ministries range from \$170 to \$220 million, primarily in the Ministry of Health Services.

The forecast for Crown corporation finances was lowered a further \$150 million in the second quarter. This was mainly due to weak electricity trade revenue in BC Hydro and expected restructuring costs in BC Rail, partially offset by developments in other areas including the effect of the government's payment of loan guarantees relating to Skeena Cellulose Inc.

Updated actuarial information resulted in a further \$126-million increase to the estimated one-time benefit of joint trusteeship for the Teachers' Pension and Municipal Superannuation plans.

At \$625 million, the summary accounts forecast allowance remains unchanged from the first *Quarterly Report*. This continues to reflect uncertainty related to:

- The weakening U.S. and global economies and their impact on British Columbia, including the effect of preliminary U.S. decisions to impose countervailing and anti-dumping duties on British Columbia softwood exports.
- Volatility of energy prices.
- Spending pressures in regional health authorities, and other external pressure areas such as the *Crown Proceeding Act* and the British Columbia Medical Association arbitration.
- The Crown corporation sector financial outlook.
- Unforeseen accounting changes.

Further details of changes since the July 30 Update are provided in Appendix Table A.1.

Table 3.2 Developments Since the July 30 Update — Summary Accounts

	—— (\$ millions) ——	
Summary accounts deficit — July 30 Update		(1,500)
First quarter developments:		
CRF revenue changes — mainly lower energy revenues	(190)	
CRF spending changes — forest fire-fighting savings	<u>25</u>	(165)
Crown corporations — larger losses primarily for ICBC		(191)
Forecast allowance — increased allowance for forecast uncertainties		<u>(125)</u>
Summary accounts deficit — first <i>Quarterly Report</i> forecast		(1,981)
Second quarter developments:		
CRF revenue changes:		
— higher prior-year income tax assessments partially offset by lower social service tax collections	365	
— lower energy and other natural resource revenue	(383)	
— other changes	<u>(44)</u>	
		(62)
CRF spending changes — additional forest fire-fighting and other savings	<u>31</u>	(31)
Crown corporations:		
— BC Hydro — lower net income	(175)	
— BC Rail — change from net income to net loss	(119)	
— effect of provincial loan guarantee payments for Skeena Cellulose Inc. and other changes	<u>144</u>	(150)
Joint trusteeship — increased one-time benefit due to updated actuarial valuation		<u>126</u>
Summary accounts deficit — second <i>Quarterly Report</i> revised forecast ¹		<u>(2,036)</u>

¹ Excluding the one-time accounting gain for joint trusteeship, the forecast deficit would be \$3,442 million.

Revenue

Table 3.3 Consolidated Revenue Fund — Revised Revenue Forecast

	2001/02		Variance ²	Actual 2000/01
	July 30 Update ¹	Revised Forecast ¹		
(\$ millions)				
Taxation:				
Personal income.....	4,935	5,185	250	6,015
Corporation income.....	1,154	1,419	265	1,054
Social service.....	3,664	3,564	(100)	3,617
Other	<u>3,155</u>	<u>3,155</u>	<u>—</u>	<u>3,247</u>
	<u>12,908</u>	<u>13,323</u>	<u>415</u>	<u>13,933</u>
Natural resources:				
Petroleum, natural gas and minerals.....	1,866	1,437	(429)	1,900
Forests.....	1,150	1,050	(100)	1,153
Columbia River Treaty.....	475	360	(115)	632
Water resources, <i>Wildlife Act</i> and other	<u>303</u>	<u>286</u>	<u>(17)</u>	<u>290</u>
	<u>3,794</u>	<u>3,133</u>	<u>(661)</u>	<u>3,975</u>
Other revenue:				
Medical Services Plan premiums.....	904	925	21	895
Other	<u>922</u>	<u>899</u>	<u>(23)</u>	<u>966</u>
	<u>1,826</u>	<u>1,824</u>	<u>(2)</u>	<u>1,861</u>
Transfers/dividends from				
Crown corporations.....	<u>1,411</u>	<u>1,422</u>	<u>11</u>	<u>1,500</u>
Contributions from the Federal				
government.....	<u>2,798</u>	<u>2,783</u>	<u>(15)</u>	<u>2,797</u>
TOTAL REVENUE	<u><u>22,737</u></u>	<u><u>22,485</u></u>	<u><u>(252)</u></u>	<u><u>24,066</u></u>

¹ Forecasts for 2001/02 exclude dedicated revenue (July 30 Update \$873 million; Revised Forecast \$853 million) 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.

Full-year CRF revenue is projected to be \$252 million below the July 30 Update. The lower forecast reflects:

- a \$661-million reduction in natural resource revenue mainly due to lower energy prices and forest harvest volumes;
- a \$221-million reduction in revenue (primarily taxation) mainly due to the expected effect of weaker economic growth over the six-month period from October 2001 to March 2002;

partially offset by

- a \$630-million increase in personal and corporation income tax revenue based on preliminary federal information on income tax assessments for 2000 and prior years.

Significant changes from the July 30 Update:

- *Personal income tax* — up \$250 million due to higher-than-assumed assessments for the 2000 and prior tax years based on preliminary information received from the federal government, partly offset by the effect of a lower provincial forecast of personal income growth for 2001 and 2002.
- *Corporation income tax* — up \$265 million due to higher-than-assumed assessments for the 1999 and 2000 tax years, and larger instalments received as a result of a higher federal forecast of the national tax base in 2001. However, based on the current provincial economic outlook, the province may have to repay some of this increase to the federal government in 2002/03.
- *Social service tax* — down \$100 million assuming that weakness in consumer spending will continue for the remainder of the year.
- *Petroleum, natural gas and minerals* — down \$429 million due to significantly lower-than-assumed natural gas and oil prices.
- *Forests* — down \$100 million mainly due to lower harvest volumes in the second half of the fiscal year.
- *Columbia River Treaty* — down \$115 million due to the effect of lower electricity prices in the U.S. on sales of electricity received through the Columbia River Treaty.

Key assumptions and risks affecting the revised revenue forecast are shown in Appendix Table A.2.

Expenditure

Overall, the government spending forecast is \$56 million below the July 30 Update due to a lower estimate of forest fire-fighting costs and savings identified in other areas (see Table 3.4). Most ministries are expected to be on or below budget. However, spending pressures to be managed range from \$170 to \$220 million, with the Ministry of Health Services accounting for the largest portion.

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 \$400 million, was identified for the Ministry of Health Services. Table 3.5 shows that since the July 30 Update, pressures have been reduced by more than half, in part through ministry actions and in part through funding from the contingencies vote.

Table 3.4 Consolidated Revenue Fund — Revised Expenditure Forecast

	2001/02		Variance ¹	Pressures To Be Managed	Actual ² 2000/01
	July 30 Update	Revised Forecast			
	(\$ millions)				
Legislation.....	44	44	—	—	36
Officers of the Legislature.....	51	51	—	—	26
Office of the Premier.....	20	20	—	—	15
Advanced Education.....	1,894	1,894	—	—	1,902
Agriculture, Food and Fisheries.....	82	82	—	—	82
Attorney General.....	552	552	—	14	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.....	4,844	4,844	—	—	4,612
Energy and Mines.....	67	67	—	—	57
Finance.....	47	47	—	—	43
Forests.....	539	504	(35)	6	530
Health Planning.....	5	5	—	—	5
Health Services.....	9,513	9,513	—	150–200	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	131	(3)	—	109
Transportation.....	672	669	(3)	—	628
Water, Land and Air Protection.....	216	216	—	—	175
Management of Public Funds and Debt.....	823	823	—	—	889
Contingencies (All Ministries) and New Programs: ³					
Skeena Cellulose Inc.....	168	168	—	—	—
Other contingencies.....	192	192	—	—	—
Other Appropriations ⁴	120	105	(15)	—	(409)
TOTAL EXPENDITURE	24,750	24,694	(56)	170–220	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 September 30, 2001.

³ Contingencies charges for 2000/01 are reflected in the spending of ministries.

⁴ Includes BC Family Bonus, amortization of changes in unfunded pension liabilities, and various boards, commissions and special votes and accounts. The large reduction in 2000/01 reflects the effect of pension accounting changes in 2000/01.

Table 3.5 Consolidated Revenue Fund — 2001/02 Pressures to Be Managed

	July 30 Update	First Quarterly Report	Second Quarterly Report
	(\$ millions)		
Attorney General	30	22	14
Children and Family Development.....	68	15	—
Forests.....	26	6	6
Health Services.....	400	300–400	150–200
Public Safety and Solicitor General.....	20	5	—
	<u>544</u>	<u>348–448</u>	<u>170–220</u>

Highlights of the current expenditure forecast and pressures being managed by ministries include:

- *Attorney General* — pressures of \$13 million for legal aid services and judicial compensation will be funded through the contingencies vote (see Table 3.6). In addition, the ministry is managing remaining pressures of \$14 million.
- *Forests* — \$35 million in savings due to lower forest fire-fighting costs is recognized in the forecast. In addition, the ministry is managing \$6 million of pressures that include legal costs relating to the softwood lumber dispute, partly offset by program savings.
- *Health Services* — although the ministry is forecast to be on budget, health authorities are facing pressures in the range of \$150 to \$200 million. The working and subsidiary agreements with the British Columbia Medical Association are subject to binding arbitration with results expected in December. As costs associated with these agreements are unknown at this time, they are not included in the forecast. In addition, the previous government increased the mandate for the nurses' collective agreement negotiations above the amount budgeted; the allocation of \$12 million from the contingencies vote fully funds the nurses' settlement.
- *Other Appropriations — BC Family Bonus* — \$15 million in savings is recognized in the forecast due to a more accurate forecast of benefit entitlements as a result of program changes introduced in the March 15th budget.

To date, spending commitments totalling \$301 million have been allocated to the contingencies vote. Table 3.6 shows that \$59 million remains available to offset pressures over the rest of the year.

In addition to the pressures funded for the Ministries of Attorney General and Health Services (noted above), significant allocations of the contingencies vote include:

- *Management Services — severance and benefits costs* — severance costs are forecast to be \$7 million above the \$12 million budgeted for 2001/02. In addition, pension and employee benefits costs are up \$11 million from budget. Contingencies funding has been allocated to cover these increases from budget.
- *Management Services — workforce adjustment programs* — first-year transition costs resulting from the restructuring of government on a going-forward basis are estimated at \$80 million. Although funding has been allocated from the contingencies vote at this time, costs may ultimately be funded through supplementary estimates.

- *Skeena Cellulose Inc.* — *debt guarantee payments* — \$168 million in debt guarantee payments have been committed for Skeena Cellulose Inc. as a result of agreements signed by the previous government.
- *Transportation* — *TransLink start-up costs* — up to \$10 million in funding will be provided to the Ministry of Transportation for start-up costs associated with the Millenium Line under agreement with *TransLink*.

Further details on the spending forecasts, pressures, risks and sensitivities associated with the revised expenditure forecast, are provided in Appendix Table A.3.

Table 3.6 Consolidated Revenue Fund — 2001/02 Pressures Allocated to Contingencies Vote

	(\$ millions)
Contingencies Allocation:	
Attorney General — legal aid services.....	8
Attorney General — judicial compensation.....	5
Health Services — nurses' settlement.....	12
Management Services — severance and benefits costs.....	18
Management Services — work force adjustment programs.....	80
Transportation — <i>TransLink</i> start-up costs.....	10
Skeena Cellulose Inc. — debt guarantee payments.....	168
Subtotal.....	301
Unallocated.....	59
Total contingencies budget.....	<u>360</u>

Crown Corporations and Agencies

Taxpayer-supported Crown Corporations and Agencies

Taxpayer-supported Crown corporation and agency net losses (after adjustments) are projected to be \$118-million lower than the July 30 Update. Significant changes:

- *British Columbia Ferry Corporation* — net income is \$14 million above the July 30 Update due to higher traffic volumes and lower fuel prices.
- *Forest Renewal BC* — net loss is \$24 million above the July 30 Update due to reduced stumpage revenues.
- *552513 British Columbia Ltd. (Skeena Cellulose Inc.)* — net loss is \$17 million below the July 30 Update reflecting the effects of shutting down operations.
- *Other adjustments* — *Skeena Cellulose Inc. assistance* — the government retains an interest of approximately 72 per cent in Skeena Cellulose Inc. As a result of the government's commitment to provide loan guarantee payments of \$168 million, there will be an offsetting gain in the summary accounts of \$120 million due to the government's proportional interest.

Self-supported Commercial Crown Corporations and Agencies

Self-supported commercial Crown corporations are projected to show a combined loss of \$393 million compared to net income of \$66 million in the July 30 Update. During the second quarter, the forecast deteriorated \$274 million mainly due to developments in BC Hydro and BC Rail. Significant changes since the July 30 Update:

- *BC Hydro* — Net income of \$200 million before rate stabilization account transfers is down \$175 million primarily due to significantly lower electricity trade revenue, partly offset by lower energy costs. The lower trade revenue was largely due to the decline in the market price of electricity.

- *Insurance Corporation of British Columbia* — a projected \$145-million loss compares to the corporation's net income forecast of \$35 million in the July 30 Update, due to lower investment earnings, increased claims expenses, and one-time restructuring costs.
- *BC Rail* — a \$118 million projected loss compares to the company's net income forecast of \$1 million in the July 30 Update. The forecast change primarily reflects weakening revenue from marine operations and one-time restructuring costs expected in the third quarter.

Main assumptions supporting the Crown corporation forecasts are summarized in Appendix Table A.4, together with a description of risks and sensitivities.

Table 3.7 Crown Corporations and Agencies — Revised Forecast

	July 30 Update	2001/02 Revised Forecast ¹	Variance ²	Actual ² 2000/01
(\$ millions)				
Taxpayer-supported:				
British Columbia Buildings Corporation.....	40	41	1	51
British Columbia Ferry Corporation.....	3	17	14	11
BC Transportation Financing Authority.....	—	—	—	1
Forest Renewal BC.....	(107)	(131)	(24)	(64)
552513 British Columbia Ltd. (Skeena Cellulose Inc.).....	(53)	(36)	17	—
Other.....	(7)	(7)	—	49
	(124)	(116)	8	48
<i>Less: Contributions paid to CRF.....</i>	(18)	(27)	(9)	(69)
Other accounting adjustments ³	(191)	(192)	(1)	(189)
<i>Add: Skeena Cellulose Inc. assistance.....</i>	—	120	120	—
Total taxpayer-supported.....	(333)	(215)	118	(210)
Self-supported commercial:				
British Columbia Hydro and Power Authority (BC Hydro).....	420	398	(22)	446
Liquor Distribution Branch.....	616	625	9	642
British Columbia Lottery Corporation.....	585	595	10	562
British Columbia Railway Company.....	1	(118)	(119)	(7)
Insurance Corporation of British Columbia.....	35	(145)	(180)	139
Other.....	3	1	(2)	4
	1,660	1,356	(304)	1,786
<i>Less: Contributions paid to CRF.....</i>	(1,393)	(1,395)	(2)	(1,431)
Accounting adjustments:				
— Transfer of BC Hydro earnings to (from) rate stabilization account.....	(45)	(198)	(153)	103
— Other accounting adjustments ⁴	(156)	(156)	—	(301) ⁵
Total self-supported commercial.....	66	(393)	(459)	157
Total net (loss) contribution of Crown corporations and agencies.....	(267)	(608)	(341)	(53)

¹ Based on information provided by Crown corporations and agencies. These forecasts may be revised as a result of operating developments over the rest of the year, as well as decisions made by the government and the Boards of Directors of the various Crown corporations and agencies.

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

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 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 from a calendar year basis to government's fiscal reporting period ending March 31.

⁵ The higher 2000/01 adjustment was primarily due to one-time capital gains reported by the Insurance Corporation of British Columbia in the first quarter of the 2000 calendar year.

Capital Spending

Table 3.8 Capital Expenditures — Revised Forecast

	July 30 Update	2001/02 Revised Forecast	Variance ¹	Actual 2000/01
(\$ millions)				
Taxpayer-supported				
Capital plan²				
Education	428	399	(29)	388
Health.....	274	231	(43)	365
BC Transportation Financing Authority.....	331	331	—	474
British Columbia Ferry Corporation.....	89	70	(19)	59
Rapid Transit Project 2000.....	309	285	(24)	348
Other ³	93	78	(15)	69
Net capital plan.....	1,524	1,394	(130)	1,703
Other taxpayer-supported				
Government operating (ministries).....	293	230	(63)	183
552513 British Columbia Ltd. (Skeena Cellulose Inc.).....	17	7	(10)	81
Other ⁴	48	44	(4)	61
Total taxpayer-supported	1,882	1,675	(207)	2,028
Self-supported commercial				
British Columbia Hydro and Power Authority	600	600	—	412
British Columbia Railway Company.....	72	73	1	122
Columbia power projects ⁵	141	142	1	126
Insurance Corporation of British Columbia ⁶	151	108	(43)	78
British Columbia Lottery Corporation.....	26	26	—	13
Liquor Distribution Branch.....	31	29	(2)	20
Total self-supported commercial	1,021	978	(43)	771
Total capital expenditures.....	2,903	2,653	(250)	2,799

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

² Net of expenditures by hospital districts for cost-shared projects and capital spending on behalf of, and recovered from, the Greater Vancouver Transportation Authority (*TransLink*).

³ British Columbia Buildings Corporation, Ministry of Attorney General, Minister of Public Safety and Solicitor General, Ministry of Children and Family Development, British Columbia Transit and the Pacific National Exhibition.

⁴ Includes British Columbia Housing Management Commission and Provincial Rental Housing Corporation (net of construction costs recoverable from non-profit societies).

⁵ Columbia Power Corporation and Columbia Basin Trust.

⁶ Includes ICBC Properties Ltd.

At \$2.7 billion, capital spending for the full year is forecast to be \$250 million below budget.

- Net taxpayer-supported capital spending of \$1.7 billion is expected to be \$207 million below the July 30 Update, mainly due to slower-than-planned spending for education and health facilities, ministry minor capital purchases, and *SkyTrain* (Rapid Transit Project 2000).
- Self-supported commercial Crown corporation capital spending of \$978 million is forecast to be \$43 million below the July 30 Update, due to reduced expenditures by the Insurance Corporation of British Columbia. Most of this spending will be financed internally by these corporations.

Details on revised forecasts for major capital projects (those with multi-year budgets totalling \$50 million or more) are provided in Appendix Table A.5 and discussed in Part 2 — Fiscal Year-to-Date Report.

Provincial Debt

Table 3.9 Developments Since the July 30 Update — Debt

	Change	Projected Final Results
	— (\$ millions) —	
Provincial debt at March 31, 2002 — July 30 Update		36,778
First Quarterly Report changes:		
Taxpayer-supported debt		
Provincial government operating (mainly due to higher projected CRF shortfalls)	128	
Education and health facilities (lower capital spending)	(35)	
Other (mainly higher loans through the Homeowner Protection Office)	30	
Total taxpayer-supported		123
Forecast debt allowance — mirrors increase in summary accounts forecast allowance		125
Provincial debt at March 31, 2002 — first Quarterly Report forecast		37,026
Second Quarterly Report changes:		
Taxpayer-supported debt:		
Provincial government operating:		
— reduced working capital for loans, advances and minor capital purchases, partially offset by higher projected CRF deficit and lower foreign exchange rates	(135)	
— payout of loan guarantees related to Skeena Cellulose Inc.	168	
Ferries and <i>SkyTrain</i> (lower capital spending)	(39)	
552513 and 632121 British Columbia Ltd. (Skeena Cellulose Inc.) — payout of loan guarantees (\$168 million) and reduced working capital requirements (\$1 million)	(169)	
Other (mainly lower requirements for BCBC and student loans)	(40)	
Total taxpayer-supported		(215)
Self-supported commercial		
British Columbia Hydro and Power Authority (lower net income forecast and lower \$US/Cdn exchange rate)	360	
British Columbia Railway Company (deterioration in finances) and other Crown corporation changes	35	
Total self-supported commercial		395
Provincial debt at March 31, 2002 — second Quarterly Report revised forecast		37,206

Provincial debt is forecast to increase \$3.4 billion from the start of the year, to total \$37.2 billion at March 31, 2002. The forecast is \$428 million higher than the July 30 Update mainly due to a lower capital expenditure forecast, a lower net income forecast for BC Hydro and an increased borrowing allowance (see Table 3.9).

- *Taxpayer-supported debt* — is forecast to increase \$3.2 billion to total \$28.1 billion at year-end. This is down \$92 million from the July 30 Update mainly due to lower debt requirements for health facilities, *SkyTrain*, the British Columbia Ferry Corporation and the British Columbia Buildings Corporation.
- *Commercial Crown corporation debt* — is forecast to increase \$283 million from the start of the year, to total \$7.9 billion. This compares to a \$112 million reduction in the July 30 Update forecast. The change from plan reflects a projected deterioration in BC Hydro and BC Rail finances, and the effect of a lower \$US/Cdn exchange rate forecast.

- 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.

Although the government's summary accounts are forecast to have a deficit of \$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 and for other working capital cash needs.

Further information on forecast changes in the province's financial position (changes in assets and liabilities) is presented in Appendix Table A.6.

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 is forecast at 28.9 per cent of GDP at March 31, 2002, while taxpayer-supported debt is forecast at 21.8 per cent of GDP. These ratios are higher than the July 30 Update due to the lower economic growth forecast for 2001 and the increase in total provincial debt.

Table 3.10 Provincial Debt¹ — Revised Forecast

	Debt Outstanding March 31, 2001	Net + Change ² =	Debt Outstanding March 31, 2002		Variance Above/(Below) July 30 Update
			Revised Forecast	July 30 Update	
(\$ millions)					
Taxpayer-supported debt					
Provincial government operating					
Government operating purposes.....	12,069	2,066	14,135	14,142	(7)
Skeena Cellulose Inc. assistance ³	—	168	168	—	168
	<u>12,069</u>	<u>2,234</u>	<u>14,303</u>	<u>14,142</u>	<u>161</u>
Education facilities					
Schools.....	3,880	272	4,152	4,130	22
Post-secondary institutions.....	1,383	68	1,451	1,475	(24)
	<u>5,263</u>	<u>340</u>	<u>5,603</u>	<u>5,605</u>	<u>(2)</u>
Health facilities					
	<u>1,780</u>	<u>200</u>	<u>1,980</u>	<u>2,021</u>	<u>(41)</u>
Highways, ferries and public transit					
BC Transportation Financing Authority	2,197	363	2,560	2,559	1
British Columbia Ferry Corporation.....	21	18	39	58	(19)
British Columbia Transit.....	75	7	82	82	-
Public transit.....	948	(10)	938	941	(3)
SkyTrain extension.....	836	288	1,124	1,144	(20)
Rapid Transit Project 2000.....	114	(114)	—	—	—
	<u>4,191</u>	<u>552</u>	<u>4,743</u>	<u>4,784</u>	<u>(41)</u>
Other					
British Columbia Buildings Corporation.....	610	(14)	596	614	(18)
552513 and 632121 British Columbia Ltd. (Skeena Cellulose Inc.) ³	337	(150)	187	356	(169)
Social housing ⁴	265	16	281	281	—
Homeowner Protection Office.....	71	46	117	82	35
Universities and colleges — fiscal agency loans.....	124	(8)	116	121	(5)
Other ⁵	243	(41)	202	214	(12)
	<u>1,650</u>	<u>(151)</u>	<u>1,499</u>	<u>1,668</u>	<u>(169)</u>
Total taxpayer-supported debt	24,953	3,175	28,128	28,220	(92)
Self-supported debt					
Commercial Crown corporations and agencies					
British Columbia Hydro and Power Authority.....	6,852	162	7,014	6,654	360
British Columbia Railway Company.....	603	27	630	597	33
Columbia Power Corporation and Columbia Basin Power Company.....	113	94	207	205	2
Liquor Distribution Branch.....	2	—	2	2	—
	<u>7,570</u>	<u>283</u>	<u>7,853</u>	<u>7,458</u>	<u>395</u>
Warehouse borrowing program	<u>1,312</u>	<u>(712)</u>	<u>600</u>	<u>600</u>	<u>—</u>
Total self-supported debt	8,882	(429)	8,453	8,058	395
Forecast allowance	—	625	625	500	125
Total provincial debt	33,835	3,371	37,206	36,778	428

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 By the end of November 2001, the government has committed \$168 million for the purchase of provincially-guaranteed loans related to Skeena Cellulose Inc. from the Toronto Dominion Bank. These loans are shown only as part of provincial government operating debt to prevent double counting.

⁴ Includes the British Columbia Housing Management Commission and the Provincial Rental Housing Corporation.

⁵ Includes student assistance loans.

APPENDIX

Table A.1	Summary of Changes from the July 30 Update
Table A.2	Main Revenue Forecast Assumptions and Risks — Consolidated Revenue Fund
Table A.3	Main Expenditure Forecast Risks and Sensitivities — Consolidated Revenue Fund
Table A.4	Main Crown Corporation Forecast Assumptions and Risks
Table A.5	Capital Expenditure Projects Greater than \$50 Million
Table A.6	Summary Accounts Balance Sheet and Changes in Financial Position
Table A.7	Summary Accounts Staff Utilization — Revised Forecast

Table A.1 Summary of Changes from the July 30 Update

	Change		Projected Final Results
	(\$ millions)		
Summary accounts deficit — July 30 Update			(1,500)
Consolidated revenue fund (CRF) changes:			
Revenue changes:			
— Personal and corporation income taxes — effect of prior-year assessments and revised economic forecast.....	515		
— Lower social services tax collections.....	(100)		
— Lower natural gas and petroleum royalties, partly offset by higher minerals revenue.....	(429)		
— Lower revenue from electricity sales under the Columbia River Treaty.....	(115)		
— Lower forests and other natural resource revenue.....	(117)		
— Other.....	(6)	(252)	
Spending changes:			
— Ministry of Forests — lower spending for forest fire-fighting.....	35		
— Other expenditure savings.....	21	56	(196)
Crown corporation changes:			
Taxpayer-supported:			
— British Columbia Ferry Corporation — improved operating results.....	14		
— Forest Renewal BC — reduced stumpage revenue.....	(24)		
— Effect of provincial loan guarantee payments for Skeena Cellulose Inc.	120		
— Other Crown corporation changes and adjustments.....	8	118	
Self-supported commercial:			
— British Columbia Hydro and Power Authority — lower net income.....	(175)		
— Insurance Corporation of British Columbia — change from net income to net loss.....	(180)		
— British Columbia Railway Company — change from net income to net loss.....	(119)		
— Other Crown corporation changes and adjustments.....	15	(459)	(341)
Forecast allowance — increased allowance to address forecast uncertainties			(125)
Joint trusteeship arrangement — increase in one-time benefit from updated actuarial valuation information			126
Summary accounts deficit — second Quarterly Report revised forecast			(2,036)
Provincial debt at March 31, 2002 — July 30 Update			36,778
Taxpayer-supported debt changes:			
— Provincial government operating:			
— payout of loan guarantees related to Skeena Cellulose Inc.		168	
— reduced working capital requirements partially offset by higher projected CRF shortfall.....		(7)	
— Education and health facilities — lower capital spending.....		(43)	
— Ferries and <i>SkyTrain</i> — lower capital spending.....		(39)	
— 552513 and 632121 British Columbia Ltd. (Skeena Cellulose Inc.) — payout of loan guarantees (\$168 million) and reduced working capital requirements (\$1 million).....		(169)	
— Other taxpayer-supported debt changes.....		(2)	(92)
Self-supported commercial			
— British Columbia Hydro and Power Authority — lower net income and \$Cdn/US exchange rate.....		360	
— British Columbia Railway Company — net loss and other Crown corporation debt changes.....		35	395
Forecast debt allowance — mirrors increase in summary accounts forecast allowance.....			125
Provincial debt at March 31, 2002 — second Quarterly Report revised forecast			37,206

Table A.2 — Main Revenue Forecast Assumptions and Risks — Consolidated Revenue Fund

Revenue Source (\$ million)	2001/02 Forecast Assumptions		Risks and Sensitivities
	July 30 Update	Revised Forecast	
Personal Income Tax	\$4,935	\$5,185	
2001 BC personal income growth	3.2%	2.0%	<p>±1% change in 2001 personal income growth equals ±\$50 to \$100 million (full year).</p> <p>Final 2000 tax assessments (as of December 31, 2001) could affect the tax base forecast.</p> <p>The distribution of taxable income among various income levels may be different than assumed and affect the average tax yield.</p>
2002 BC personal income growth	3.9%	1.9%	
2000 BC tax base growth	2.9%	7.1%	
2001 BC tax base growth	3.3%	2.0%	
		Up \$250 million reflecting higher-than-assumed assessments for 2000 (based on preliminary tax assessment information), partially offset by an assumed lower tax base growth due to a lower forecast of personal income growth in 2001/02.	
Corporation Income Tax	\$1,154	\$1,419	
National 2001 tax base growth	-1.0%	-0.7%	<p>Changes to the federal government's outlook for national corporate profits in 2001 could affect payments.</p> <p>±1% change in 2001 national tax base growth equals ±\$10 to \$15 million (full year).</p> <p>±1% change in 2000 BC tax base growth equals ±\$10 to \$15 million (full year).</p> <p>Changes to the 2001 BC corporate profits forecast do not affect revenue until 2002/03.</p>
BC 2000 corporate profits growth	3.9%	12.7%	
Prior-year adjustment for 2000 tax-year	-\$50M	+\$179M	
		Up \$265 million reflecting a higher forecast of 2000-tax year assessments for BC and higher instalment payments from the federal government.	
Social Services Tax	\$3,664	\$3,564	
2001 retail sales growth	4.0%	4.4%	<p>±1% change in retail sales growth affects revenue by ±\$10 to \$20 million over the remainder of the year.</p> <p>Revenue growth could be higher or lower depending on the level of consumer confidence.</p>
2002 retail sales growth	4.2%	3.3%	
		Down \$100 million reflecting lower revenue in the first six months and an outlook for weaker consumer spending over the remaining six months.	
Petroleum, Natural Gas and Minerals	\$1,866	\$1,437	
Natural gas price (\$Cdn/gigajoule)	\$6.00	\$3.85	<p>Market demand and price could change significantly due to weather or events affecting the energy situation in California.</p> <p>±\$0.50 change in natural gas price equals ±\$50 to \$75 million over the remainder of the year.</p> <p>±\$US5 change in oil price equals ±\$10 to \$15 million over the remainder of the year.</p>
Natural gas volumes (annual per cent change)	7.9%	21.0%	
Average price/hectare	\$305	\$432	
Hectares sold	1,000,000	669,000	
Oil price (\$US/bbl, West Texas Intermediate)	\$30	\$25	
		Down \$429 million due to the effect of lower natural gas and oil prices on royalties and sales of oil and gas drilling rights. Revenue from these sales is down \$16 million due to a lower estimate of land sales volumes, partially offset by a higher average price forecast.	

Table continued on next page

Table A.2 — Main Revenue Forecast Assumptions and Risks — Consolidated Revenue Fund — *Continued*

Revenue Source (\$ million)	2001/02 Forecast Assumptions		Risks and Sensitivities
	July 30 Update	Revised Forecast	
Forests	\$1,150	\$1,050	
Average SPF 2x4 price in 2001 (\$US/1000 bd ft)	\$259	\$249	Full effects of the imposition of preliminary countervailing and anti-dumping duties on softwood lumber exports to the U.S. are uncertain. ±10% change in interior harvest volumes over the rest of the year equals ± \$40 to \$70 million. Due to price lags in setting stumpage rates, changes in forest product prices over the rest of the year do not affect stumpage rates until 2002/03. However, price changes could affect harvest volumes in 2001/02.
Average hemlock price in 2001 (\$US/1000 bd ft)	\$582	\$584	
Average pulp price in 2001 (\$US/tonne)	\$564	\$539	
Interior harvest volumes (million cubic metres)	46.5	44.3	
Coastal harvest volumes (million cubic metres)	15.0	14.4	
Average exchange rate in 2001 (US cents/ Cdn dollar)	65.5¢	64.8¢	
		Down \$100 million mainly due to the effects of a lower forecast of harvest volumes and the recent decision to reduce the stumpage rate applied to beetle-infested timber in the fourth quarter.	
Columbia River Treaty	\$475	\$360	
Price forecast based on BC Hydro's outlook	June 20 outlook	October 18 outlook Revenue down \$115 million reflecting weaker average price outlook for 2001/02. Average prices (including forward sales prices) about 31% lower than the July 30 Update.	While BC Hydro can manage the timing of its production/purchase costs to mitigate impacts of changes in selling prices, 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 over the rest of the year equals ±\$5 to \$15 million.
Transfers/dividends from Crown Corporations	\$1,411	\$1,422	
See Appendix Table A.4 for assumptions, risks and sensitivities for the Crown corporations			
Canada health and social transfer (CHST)	\$2,620	\$2,620	
National cash (\$ millions)	\$17,300	\$17,300	±1% change in British Columbia population with no change in national population is equivalent to ±\$40 to \$50 million (full year). ±1% increase (decrease) in the British Columbia income tax base reduces (increases) revenue by \$15 to \$20 million (full year). ±1% change in the national base (cash and tax), equals ±\$40 to \$50 million (full year), assuming no change to the British Columbia income tax base.
National tax points (\$ millions)	\$15,726	\$15,894	
BC entitlement share (population based)	13.22%	13.18%	
BC tax point offset (\$ millions)	-\$1,725	-\$1,755	

Table A.3 — Main Expenditure Forecast Risks and Sensitivities — Consolidated Revenue Fund

Expenditure Area and Revised Forecast	Risks, Sensitivities and Forecast Details
Special Offices Elections B.C. Estimate — \$34 million Forecast — unchanged	If a referendum on aboriginal treaty negotiations occurs this year it will be funded either from the contingencies vote or under statutory appropriation.
Ministry of Advanced Education Estimate — \$1,894 million Forecast — unchanged	Not all collective agreement negotiations with university and college instructors have been concluded.
Student Financial Assistance Estimate — \$154 million Authorized student loans: \$115 million Forecast — unchanged	Loans are driven by demand. A 1% change in demand affects costs by \$1.5 million. A one percentage point change in interest rates affects program budget by \$3.4 million.
Ministry of Agriculture, Food and Fisheries Estimate — \$82 million Forecast — 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 Forecast — unchanged	Although the ministry is continuing to manage expenditure pressures, some costs are expected to be funded under statutory authority and from the contingencies vote. Judicial compensation and legal aid services will be funded from the contingencies vote. Other pressures include costs relating to the Air India trial and expected settlements under the <i>Crown Proceeding Act</i> . Court costs are affected by large court cases, number of cases pending and number of appearances per case. Treaty negotiations expenditures are affected by the pace of interim agreements and treaty settlements. Higher than assumed <i>Crown Proceeding Act</i> settlement volumes and amounts are risks to the forecast.
Ministry of Children and Family Development Estimate — \$1,551 million Forecast — unchanged	The ministry is implementing a financial plan to manage within its 2001/02 budget. Risks include the ability to manage provincially funded children-in-care caseload at an average of 10,300 children, within available ministry resources. Average residential cost per child-in-care is approximately \$26,300 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.
Ministry of Community, Aboriginal and Women's Services Estimate — \$562 million Forecast — 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"). There is no funding in the 2001/02 budget for this initiative.
Ministry of Competition, Science and Enterprise Estimate — \$72 million Forecast — unchanged	The ministry is reviewing the recommendations of the 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. There is no funding in the 2001/02 budget for this initiative. Skeena Cellulose Inc. (Skeena) sought protection under the <i>Companies Creditors' Arrangement Act</i> 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 that would be funded from the contingencies vote or a statutory appropriation. To date the province has committed \$168 million in loan guarantee payments.
Ministry of Education Estimate — \$4,844 million Forecast — unchanged	Higher or lower enrolment growth, changes in student composition and changes in space capacity may affect expenditures. A 1% change in enrolment would affect costs by \$25 million. Collective agreement negotiations with teachers and some non-CUPE support staff have not been concluded.
Ministry of Energy and Mines Estimate — \$67 million Forecast — unchanged Vancouver Island gas pipeline and the Squamish Rate Stabilization Facility — \$33 million	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).

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Table A.3 — Main Expenditure Forecast Risks and Sensitivities — Consolidated Revenue Fund — *Continued*

Expenditure Area and Revised Forecast	Risks, Sensitivities and Forecast Details
Ministry of Forests Estimate — \$539 million Forecast — \$504 million	Forecast is down \$35 million due to lower-than-expected forest fire-fighting costs. The ministry is managing spending pressures in the range of \$6 million net of program savings elsewhere in the ministry. Pressures to be managed are down \$20 million from the July 30 Update.
Ministry of Health Services Estimate — \$9,513 million Forecast — unchanged	The estimate of pressures to be managed has been revised to \$150 to \$200 million, down \$200 to \$250 million from the July 30 Update. The pressures relate to Health Authorities and are due primarily to increased volume in demand-driven programs and the cost of surgical transfers. Costs associated with the nurses' settlement will be partially funded by the contingencies vote. The ministry will continue to work with Health Authorities, Treasury Board, and Cabinet to identify fiscal management strategies to deal with these pressures. Management strategies may include reducing/restructuring some services and delayed implementation of new services. 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 as potential cost pressures, as they are unknown at this time.
Acute and Continuing Care Estimate — \$5,183 million Forecast — unchanged	A 1% increase in population could affect 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 was affected by job action earlier in the year. This will result in increased costs for out of province services and increased wait times for surgery.
Adult Mental Health Estimate — \$406 million Forecast — unchanged	A 1% increase in the adult population could affect expenditures by approximately \$4 million.
Public and Preventive Health Estimate — \$356 million Forecast — unchanged	A 1% increase in population could affect expenditures by approximately \$4 million.
Medical Services Plan Estimate — \$2,262 million Forecast — 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. The Working Agreement and Subsidiary Agreements with the British Columbia 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 Forecast — 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 Forecast — unchanged	No provision has been made for unanticipated growth in 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 immigration 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 A.3 — Main Expenditure Forecast Risks and Sensitivities — Consolidated Revenue Fund — *Continued*

Expenditure Area and Revised Forecast	Risks, Sensitivities and Forecast Details
Management Services Estimate — \$64 million Forecast — unchanged	Severance costs are currently estimated at \$7 million above the \$12 million budgeted for 2001/02. Severance costs could increase as more severance settlements are negotiated. Pension and employee benefits costs are up \$11 million. Costs are affected by salary increases, changes to collective agreements and increased utilization of extended health and dental benefits. Sources of funding will be either the contingencies vote or statutory authority. The first-year cost of the workforce adjustment program is estimated at \$80 million and will be funded from the contingencies vote or supplementary estimates. However, the accounting treatment for this program is currently under review.
Ministry of Provincial Revenue Estimate — \$50 million Forecast — 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 Forecast — unchanged	The ministry has implemented a financial management plan and expects to manage expenditures within its 2001/02 budget. Corrections costs are affected by the number of prisoners and immigration and refugee claimants held in provincial correctional facilities. A 1% change in the prison population may affect costs by up to \$1.1 million. Policing is a provincial responsibility, with the federal government funding 30% of the provincial force. Each additional provincial officer costs the province \$96,000. Costs could be affected by higher-than-assumed volumes for <i>Criminal Injuries Compensation Act</i> , and, for the <i>Emergency Program Act</i> , depending on the number or severity of natural disasters, such as forest fires or floods.
Ministry of Sustainable Resource Management Estimate — \$134 million Forecast — \$131 million	Forecast is \$3 million below budget due to delayed expenditures for the Coast Land and Resource Management Plan.
Ministry of Transportation Estimate — \$672 million Forecast — \$669 million	Forecast is \$3 million below budget due to expected lower costs for amortization of transit assets.
Ministry of Water, Land and Air Protection Estimate — \$216 million Forecast — 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 Forecast — unchanged	A one percentage point change in interest rates would result in a \$27-million change in direct operating debt interest expense for the remainder of the fiscal year; and up to a \$40 million change when other taxpayer-supported debt is included.
BC Family Bonus (administered by the Ministry of Finance) Estimate — \$120 million Forecast — \$105 million	A more accurate forecast of benefit entitlements as a result of the program changes introduced in the March 15 budget by the previous government will reduce costs below the budgeted amount. 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 Forecast — unchanged	It is expected that this appropriation will be fully utilized for unforeseen issues arising over the year for which no other budget provision exists. Items that may be funded from the contingencies vote include: legal aid services, judicial compensation, certain health costs, aboriginal treaty referendum, employee severance settlements, higher pension and employee benefits, workplace adjustment programs, <i>TransLink</i> startup costs, and Skeena Cellulose Inc. assistance. Ministries that have approval or are expected to access the contingencies vote include Attorney General, Health Services, Management Services, and Transportation. (See Table 3.6). Unforeseen pressures in ministry and office programs may exceed available appropriations.
Government-Wide Issues — Compensation	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 employee representatives. As of October 20, 2001 contracts covering 39,500 public sector FTEs including school teachers and some school support staff had expired.
Public Sector Pensions — Joint Trusteeship Estimate: (\$1,280 million) Forecast: (\$1,406 million)	The forecast of the one-time accounting benefit of joint trusteeship for the Teachers' Pension and Municipal Superannuation plans is up \$126-million from the July 30 Update. The forecast reflects the results of updated actuarial valuation information relating to the Teachers' Pension Plan (valuation completed in September 2001).

Table A.4 — Main Crown Corporation Forecast Assumptions and Risks

Crown Corporation	2001/02 Assumptions		Risks and Sensitivities
	July 30 Update	Second Quarterly Report	
<p>British Columbia Buildings Corporation</p> <p>July 30 Update: Net income: \$40 million</p> <p>Second Quarterly Report: Net income: \$41 million</p>	<p>Gains on disposal of properties at \$7 million.</p> <p>Revenue assumes a \$2-million increase in occupancy charges subject to Treasury Board approval.</p> <p>Up to \$85 million in capital spending. This includes capital spending of approved client projects and capital spending for recoverable commercial projects.</p> <p>Assumes energy costs of \$26 million.</p> <p>Average short/long-term borrowing rate assumed at 5.4%.</p> <p>Dividend to CRF of \$16 million.</p>	<p>Gains on property disposals: \$5.6 million.</p> <p>Up to \$59 million in capital spending (including approved client projects and recoverable commercial projects).</p> <p>Assumes energy costs: \$24 million.</p> <p>Average short/long-term borrowing rate assumed at about 3% for remainder of year.</p> <p>Other assumptions unchanged.</p>	<p>Value and timing of property sales depend on market.</p> <p>Capital spending dependent on timing of projects and approval limits for ministry clients.</p> <p>Changes in interest rates and energy costs over remainder of year are not considered material.</p>
<p>British Columbia Ferry Corporation</p> <p>July 30 Update: Net income: \$2.5 million</p> <p>Second Quarterly Report: Net income: \$17 million</p>	<p>Toll projections based on current traffic volume trends and the corporation's business initiatives.</p> <p>Incorporates toll increase introduced in February 2001.</p> <p>Assumes fuel costs of \$54 million.</p> <p>\$74 million of dedicated motor fuel tax received from provincial government.</p> <p>Major capital expenditures of \$89 million.</p> <p>Does not assume sale of <i>PacifiCats</i> in 2001/02.</p>	<p>Fuel costs: \$49 million.</p> <p>Major capital expenditures: \$70 million.</p> <p>Remaining assumptions unchanged.</p>	<p>1% change in volumes affects revenues by about \$4 million (full year).</p> <p>1% change in fuel prices affects costs by \$0.5 million (full year).</p> <p>Sale of <i>PacifiCats</i> in 2001/02 may affect net income depending on sale proceeds.</p> <p>Changes in interest rates do not have material affect on expenses due to low level of debt.</p>
<p>BC Transportation Financing Authority</p> <p>July 30 Update: Net income: Balanced</p> <p>Second Quarterly Report: Net income: Balanced</p>	<p>\$204 million of dedicated provincial taxes received from provincial government.</p> <p>Capital spending of \$331 million.</p> <p>Average floating/new fixed-rate borrowing rate assumed at 6.0%.</p>	<p>Unchanged.</p>	<p>1% change in provincial fuel consumption volumes affects revenue by up to \$2 million.</p> <p>Weather patterns can delay projects. Construction costs sensitive to inflation.</p> <p>1% change in floating/new fixed-rate interest rates equals a \$3-million change in interest costs.</p>
<p>Forest Renewal BC</p> <p>July 30 Update: Net loss: \$107 million</p> <p>Second Quarterly Report: Net loss: \$131 million</p>	<p>Revised assumptions as per forest revenue assumptions in Table A.2.</p> <p>Expenditures occur as per published business plan.</p> <p>Assumes \$35 million deposited to trust fund to help mitigate the impact of land decisions on the Central Coast.</p>	<p>Increase in net loss due to deteriorating revenue. Price changes, as shown in Table A.2.</p> <p>Other assumptions generally unchanged.</p>	<p>±10% in interior harvest volumes = ± \$12M.</p> <p>See Table A.2 for other forests risks.</p> <p>A government review of programs could affect operations and financial projections.</p>
<p>552513 British Columbia Ltd. (Skeena Cellulose Inc.)</p> <p>July 30 Update: Net loss: \$53 million</p> <p>Second Quarterly Report: Net loss: \$36 million</p>	<p>Pulp mill list price averages US\$564 per tonne in 2001.</p> <p>Sawmill net price averages US\$231 per 1,000 bd. ft. in 2001.</p> <p>Assumes one-line operations for 2001. B mill to re-commence operations in 2002.</p> <p>Proportion of provincial government ownership at about 72%.</p> <p>Major capital expenditures of \$17 million.</p>	<p>Pulp mill list price averages US\$539 per tonne.</p> <p>Assumes operations shut down indefinitely. Future sales from existing inventory.</p> <p>Major capital expenditures of \$7 million.</p> <p>Remaining assumptions unchanged.</p>	<p>±US\$50/tonne in pulp prices = ± \$18M (full year).</p> <p>±US\$50/1,000 bd. ft in SPF prices = ±\$17M (full year).</p> <p>Skeena's protection under the <i>Companies Creditors' Arrangement Act</i> has been extended to February 2002. During this time, the government will continue to explore options for returning the company to the private sector. The potential disposition of the company could affect the current financial forecast.</p>

Table continued on next page

Table A.4 — Main Crown Corporation Forecast Assumptions and Risks — *Continued*

Crown Corporation	2001/02 Assumptions		Risks and Sensitivities
	July 30 Update	Second Quarterly Report	
<p>British Columbia Hydro and Power Authority</p> <p>Budget: Net income: \$375 million (before transfer from rate stabilization account of \$45 million)</p> <p>Second Quarterly Report: Net income: \$200 million (before transfer from rate stabilization account of \$198 million)</p>	<p>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.</p> <p>Domestic customer growth of 1.2%.</p> <p>Export revenue and short-term energy purchase costs based on estimated forward market prices as of June 20, 2001.</p> <p>Assumes no change in domestic tariff rates.</p> <p>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\$.</p> <p>Capital spending of \$600 million.</p> <p>Dividend to CRF of \$346 million.</p>	<p>Water inflows forecast at 88% of normal based on 2001 water year.</p> <p>Domestic customer growth: 1.1%.</p> <p>Export revenue and short-term energy purchase costs based on estimated forward market prices as of October 18, 2001.</p> <p>Cdn short-term interest rates: 3.2% for remainder of year.</p> <p>Average long-term interest rates: CDN 6.0% and US 6.3%, and an average exchange rate of approximately 64 cents US/Cdn\$.</p> <p>Dividend to CRF of \$329 million.</p> <p>Remaining assumptions unchanged.</p>	<p>Over most of year: 10% change in average temperatures equals \$5-million change in income.</p> <p>1% change in hydro generation equals a \$15-million change in income.</p> <p>\$5/MWh change in electricity trade margins equals \$50-million change in operating income.</p> <p>10% change in natural gas prices equals \$5-million change in operating income.</p> <p>100 basis points change in borrowing rates equals \$10-million change in finance costs.</p> <p>1-cent change in exchange rates affects financing costs by \$5 million.</p> <p>Regulatory developments in the U.S. market could affect the forecast.</p> <p>Snowpack information in January to March period could significantly impact operating decisions and market prices for electricity.</p> <p>Electricity Policy Review and Core Review decisions could affect the forecast.</p>
<p>British Columbia Liquor Distribution Branch</p> <p>July 30 Update: Net income: \$616 million</p> <p>Second Quarterly Report: Net income: \$625 million</p>	<p>Net sales increase of 0.4% incorporates current and expected consumption trends and markup modifications for craft brewers.</p> <p>Includes amortization cost of new retail management system.</p> <p>Capital spending of \$31 million.</p>	<p>Net sales increase of 1.9% incorporates current and expected consumption trends and markup modifications for craft brewers.</p> <p>Capital spending of \$29 million.</p> <p>Remaining assumptions unchanged.</p>	<p>Price competition and economic conditions affect sales.</p> <p>Manufacturer price changes can be unpredictable.</p> <p>Weather patterns and timing of statutory holidays affect consumption.</p> <p>1% change in sales volume affects net income by up to \$3 million over rest of year.</p> <p>Higher-than-assumed credit card use could increase collection costs.</p>
<p>British Columbia Lottery Corporation</p> <p>July 30 Update: Net income: \$585 million</p> <p>Second Quarterly Report: Net income: \$595 million</p>	<p>Sales projections based on current trends.</p> <p>Prize payout rates based on historical and current trends.</p> <p>Lottery retail network growth of 140 accounts.</p> <p>Relocation of two casinos — one in October 2001 and one in January 2002.</p> <p>No changes to approved gaming policy (e.g. expanded gaming).</p> <p>Does not include impact of a re-introduction of WCB smoke-free regulations.</p> <p>Capital spending of \$26 million.</p>	<p>No expansion of gambling (beyond approved gaming policy).</p> <p>Lottery retail network growth of 70-80 accounts.</p> <p>Relocation of two casinos — one in October 2001 and one in December 2001.</p> <p>Remaining assumptions unchanged.</p>	<p>1% change in gaming activity could affect net income by \$5 million.</p> <p>One-month delay in a relocation of a facility would reduce net income by up to \$2 million.</p> <p>Labour disruptions at casino service providers could reduce net income.</p> <p>Changes in disposable income, tourism, competitive markets in other jurisdictions, and volumes of jackpot rollovers also affect sales.</p>

Table continued on next page

Table A.4 — Main Crown Corporation Forecast Assumptions and Risks — *Continued*

Crown Corporation	2001/02 Assumptions		Risks and Sensitivities
	July 30 Update	Second Quarterly Report	
<p>British Columbia Railway Company</p> <p>July 30 Update: Net income: \$1 million</p> <p>Second Quarterly Report: Net loss: \$118 million</p>	<p>Freight traffic volumes based on low lumber prices and no significant work disruptions at major customer groups (e.g. pulp mills) or connecting carriers.</p> <p>No significant disruptions from labour disputes or protest groups.</p> <p>Fuel costs to remain at current futures contract prices for the rest of the year.</p> <p>Foreign exchange rates to remain at current levels for the remainder of the year.</p> <p>Capital spending of \$72 million. No dividend paid to provincial government.</p> <p>No negative impact from further rationalization in the forest industry.</p>	<p>Incorporates volume impact of US countervail and anti-dumping duties.</p> <p>Marine traffic volumes reflect reduction in customer base.</p> <p>No further rationalization in the forest industry.</p> <p>\$100 million provision to recognize restructuring plan approved by board.</p> <p>Capital spending of \$73 million.</p> <p>Remaining assumptions unchanged.</p>	<p>Traffic revenue from lumber, pulp and other commodities could be affected by further changes in commodity prices (e.g. lower lumber/pulp prices leading to reduced production in lumber/pulp mills).</p> <p>Total traffic disruption could reduce net income by \$4 million per week.</p> <p>Further action against the lumber industry by the US could negatively affect lumber and wood chip traffic.</p> <p>Reduced volume in container traffic due to further loss of accounts, commodity prices and the general economy could negatively impact revenue.</p>
<p>Insurance Corporation of British Columbia</p> <p>July 30 Update: Net income: \$35 million</p> <p>Second Quarterly Report: Net loss: \$145 million</p>	<p>Revenue earned from policy premiums to grow 2% due to increased customers and policy coverage.</p> <p>Loss of optional coverage market share at 1%.</p> <p>No change in overall premium rates assumed in 2001.</p> <p>Claims-incurred costs will not increase from the previous year.</p> <p>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.</p> <p>Continuation of existing road safety and loss mitigation programs.</p> <p>Capital spending at \$43 million for main operations and property investment (through ICBC Properties Ltd.) at \$108 million.</p>	<p>Assumes average 7.4% increase in overall premium rates on new policies written after November 7, 2001. Increase to affect renewals beginning in 2002.</p> <p>Annual claims-incurred costs: +4%.</p> <p>No positive adjustment for costs of settling previous-year claims.</p> <p>One-time streamlining transition costs: \$45 million.</p> <p>Capital spending: — main operations \$22 million — ICBC Properties Ltd. \$86 million.</p> <p>Remaining assumptions unchanged.</p>	<p>Over remainder of year:</p> <p>1% change in volume: \$6 million.</p> <p>1% change in market share/optional premium rates: \$2.5 million.</p> <p>1% deviation from assumed claims trend: \$20 million.</p> <p>1% change in prior year unpaid claims estimate: \$40 million.</p> <p>0.25% fluctuation in investment returns: \$3.5 million.</p> <p>1% change in investment balance: \$1 million.</p> <p>Adverse judgments on outstanding litigation, such as those relating to claims cost control, may affect the 2001 forecast.</p> <p>ICBC is currently reviewing the valuation of properties including Surrey Place. This could result in a valuation writedown of \$80–100 million.</p>

Table A.5 Capital Expenditure Projects Greater than \$50 MillionNOTE: Information in bold type denotes changes from the first *Quarterly Report*. Part 2 — Fiscal Year-to-Date Report provides a discussion of these changes.

Project	Start Date	Forecast Completion Date	Cumulative Spending at Mar. 31, 2001 ¹	Estimated Spending April 1 to Sept. 30, 2001	Estimated Cumulative Spending at Sept. 30, 2001	Total Project Budget ²	Total Project Forecast ²
(\$ millions)							
Transportation							
Vancouver Island Highway	1991	Dec. 2002	1,214	28	1,242	1,308 ³	1,308 ³
Lion's Gate Bridge.....	May 1998	Dec. 2001	99	7	106	125	125
Port Mann Bridge/Cape Horn Interchange.....	Aug. 1998	March 2002	46	11	57	61	61
<i>SkyTrain</i> Extension — Phase 1	Sept. 1998	Dec. 2002	811*	117	928	1,167	1,167
<i>SkyTrain</i> Fleet Expansion.....	Oct. 1998	Oct. 2001	63*	1	64	68	68
Nisga'a Highway	Aug. 1998	Fall 2005	14	3	17	52	52
Total transportation			2,247	167	2,414	2,781	2,781
Health Facilities							
Vancouver General Hospital	Sept. 2000	2004 ⁴	12	8	20	156	156
Royal Jubilee Hospital (Victoria).....	Aug. 1999	March 2002	64*	19	83	116	116
Surrey Memorial Hospital	July 1998	Nov. 2001	69	5	74	77	77
Prince George Regional Hospital.....	Spring 2001	March 2004	6	5	11	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	37	188	640	640
Power Generation							
British Columbia Hydro and Power Authority							
— Stave Falls Replacement	Feb. 1995	2003 ⁵	137	1	138	181	144
— Burrard Upgrade (including 6 SCRs) ⁶	June 1993	March 2003	151	8	159	222	212
— Island Generation Project ⁷	April 2000 ⁸	Nov. 2004	5	9	14	180	182
— Georgia Strait Pipeline Crossing ⁷	April 2000 ⁸	Fall 2003	9	4	13	131	129
— Addition of fourth generating unit at Seven Mile Dam.....	Feb. 1995 ⁸	March 2003	9	5	14	97	97
Arrow Lakes Power Company ⁹							
— Arrow Lakes Generating Station	Feb. 1999	Dec. 2002	164	77	241	270	270
Total power generation.....			475	104	579	1,081	1,034
Other							
ICBC Properties Ltd.							
— Surrey City Centre (includes Technical University of British Columbia).....	Sept. 1999	Jan. 2003	85	33	118	253	253
* March 31, 2001 balances in the July 30 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 four 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.							

Table A.6 Summary Accounts Balance Sheet
(unaudited)

(\$ millions)	Actual March 31 2001 ¹	Year-to-Date		Revised Forecast	
		Sept. 30 2001	Increase/ (Decrease) ²	March 31 2002	Increase/ (Decrease) ²
Assets					
Cash and temporary investments	554	1,116	562	443	(111)
Other working capital assets ³	4,923	3,567	(1,356)	5,008	85
Capital assets and investments (net of amortization)					
— Net investment in self-supported Crown corporations ⁴	3,001	3,206	205	2,608	(393)
— Loans for purchases of assets recoverable from agencies	7,437	7,523	86	7,734	297
— Prepaid capital advances	6,905	6,970	65	7,134	229
— Tangible capital assets	11,073	11,284	211	11,551	478
	28,416	28,983	567	29,027	611
Warehouse borrowing program assets	1,312	2,646	1,334	600	(712)
	35,205	36,312	1,107	35,078	(127)
Liabilities					
Current liabilities ⁵	3,874	3,917	43	3,801	(73)
Unfunded pension liabilities	1,477	41	(1,436)	13	(1,464)
Debt					
— Taxpayer-supported debt	24,953	25,199	246	28,128	3,175
— Commercial Crown corporations and agencies	7,570	7,635	65	7,853	283
— Warehouse borrowing program	1,312	2,646	1,334	600	(712)
— Forecast allowance	—	—	—	625	625
	33,835	35,480	1,645	37,206	3,371
Less: guarantees and non-guaranteed debt ⁶	(597)	(531)	66	(522)	75
	33,238	34,949	1,711	36,684	3,446
	38,589	38,907	318	40,498	1,909
Net equity (deficiency) ⁷	(3,384)	(2,595)	789	(5,420)	(2,036)
	35,205	36,312	1,107	35,078	(127)

¹ Restated to reflect an \$88-million prior period adjustment to tangible capital assets for the capitalization of land improvements previously expensed.

² Change from March 31, 2001.

³ Accounts receivable, loans, inventories and other assets/investments.

⁴ Includes loans to commercial Crown corporations for the purchase of capital assets.

⁵ Accounts payable, accrued liabilities and deferred revenue.

⁶ Third party guarantees, and provincial guarantees and non-guaranteed debt of commercial Crown corporations and agencies.

⁷ Accumulated deficits of the government and Crown corporations and agencies plus accounting adjustments resulting from changes in accounting policy.

Changes in Summary Accounts Financial Position

(\$ millions)	Sept. 30 Year-to-Date ¹	Revised Forecast ¹
Summary accounts deficit (surplus) for period	(789)	2,036
Increase (reduction) in cash and temporary investments	562	(111)
Changes in capital asset and investments:		
Increase (decrease) in assets related to taxpayer-supported capital investments	713	1,675
Less: depreciation and other accounting changes	(437)	(968)
Increase (decrease) in investment in, and loans to, commercial Crown corporations for asset purchases	406	978
Less: depreciation and other accounting changes	(320)	(681)
Increase (decrease) in unremitted earnings of Crown corporations	205	(393)
Non-cash and other working capital changes:		
Reduction in unfunded pension liability	1,436	1,464
Other working capital changes and adjustments	(1,465)	83
Net debt increase (decrease) for government and its Crown corporations and agencies	311	4,083
Increase (decrease) in warehouse borrowing program	1,334	(712)
Increase (decrease) in total provincial debt	1,645	3,371

¹ Change from March 31, 2001

Table A.7 Summary Accounts Staff Utilization¹ — Revised Forecast

	July 30 Update	2001/02	Variance ²	Actual 2000/01
		Revised Forecast		
Consolidated revenue fund (e.g. ministries and special offices).....	34,844	34,275 ³	(569) ³	33,269
Taxpayer-supported Crown corporations and agencies ⁴	9,344	9,368	24	9,236
Total staff utilization	<u>44,188</u>	<u>43,643</u>	<u>(545)</u>	<u>42,505</u>

¹ Staff utilization is measured in full-time equivalents (FTEs). FTEs are calculated by dividing the total hours of employment paid for in a given period by the number of hours an individual, full-time person would normally work in that period. This does not equate to the physical number of employees. For example, two half-time employees would equal one FTE, or alternatively, three FTEs may represent two full-time employees who have worked sufficient overtime hours to equal an additional FTE.

² 2001/02 revised forecast less 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 due to the net impact of staffing changes in several of the organizations.

³ The 2001/02 revised forecast utilization for ministries and special offices includes both regular-hour and overtime-hour utilization (see table below).

Regular-hour FTE utilization	33,997
FTE utilization due to overtime	278
	<u>34,275</u>

Consequently, the forecast reduction in regular FTEs (or employees) is larger than shown, but is offset by the effect of overtime.

⁴ 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. that are not paid directly through salaries (these costs are fully recovered from private-sector contractors).

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