First Quarterly Report

on the Economy, Fiscal Situation,
and Outlook

Fiscal Year 2002/03

Three Months

April – June 2002

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SUMMARY

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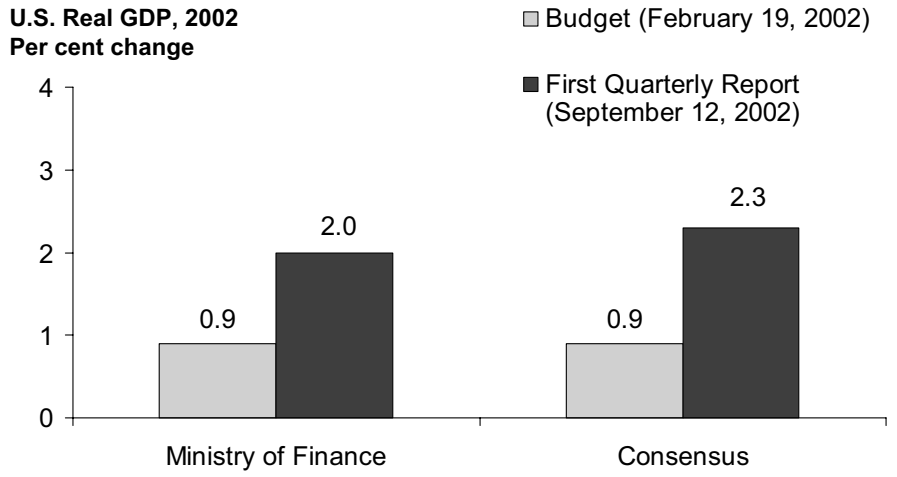
Economic Forecast Update

The 2002 economic outlook has improved since the preparation of the February 19, 2002 budget.

The North American economies grew strongly during January to March of 2002. Growth continued, but at a slower pace, during the April to June period.

The consensus outlook for the U.S. economy has improved since earlier this year. The updated Ministry of Finance forecast also assumes higher U.S. economic growth in 2002. However, uncertainty remains due to the recent stock market losses and the fallout from corporate accounting issues. Given this uncertainty, the Ministry of Finance U.S. forecast continues to be below the consensus forecast (see chart).

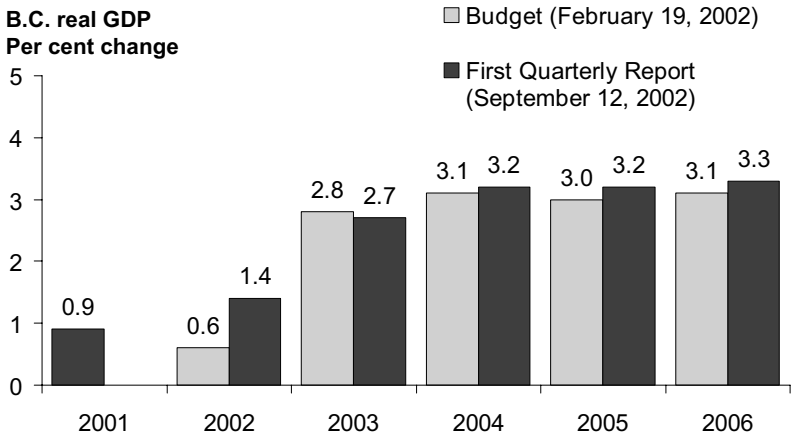


Sources: *Budget 2002* and *Consensus Economics Forecast*, January and August 2002.

Current economic data show that the British Columbia economy grew in most sectors in the first calendar quarter of 2002 and this growth carried over into the second calendar quarter.

As a result of the year-to-date growth in the North American and British Columbia economies, the province is now expected to grow 1.4 per cent in 2002 compared to the 0.6 per cent forecast in the budget.

The medium-term economic growth trend for British Columbia, Canada and the United States is little changed from the forecast contained in the February 19 budget.



Sources: B.C. Ministry of Finance, historical data from Statistics Canada

Updated 2002/03 Financial Forecast

On February 19, 2002, government tabled its 2002 budget and three-year fiscal plan, setting out a strategy to build a strong and vibrant economy and to balance the budget by 2004/05.

In July, the audited results for the 2001/02 fiscal year were released, showing a $1.23 billion deficit, a significant improvement from the $1.96 billion deficit expected at the time of the February 19 budget. This included better-than-expected expenditure, revenue and debt results. Without the effects of a one-time pension gain, the deficit for 2001/02 would have been $2.7 billion.

For the first quarter of the 2002/03 fiscal year, the deficit stood at $800 million, $624 million less than expected (see Appendix Table A.1). Over half the improvement was due to below-budget spending. Ministry expenditures were down $363 million reflecting lower spending in the Ministry of Health Services, the effects of a lower-than-expected employment assistance caseload, and lower debt interest costs. However, a large portion of the below-budget spending in the first quarter is expected to be shifted into the remaining three quarters of the fiscal year. In addition, there was a $151-million improvement in Crown corporation results and a $110-million improvement in the revenue picture.

The outlook for the full 2002/03 fiscal year has also improved, mainly due to a higher revenue forecast. The deficit is now forecast to be $4,015 million, $385 million lower than budget. As at budget, the deficit forecast includes a $750 million forecast allowance that protects the province's financial forecast against revenue shocks or other unanticipated developments.

Updated 2002/03 Financial Forecast

	2002/03			
	Budget Estimate	Updated Forecast	Variance	Actual 2001/02 [1]
		($ millions)		
Consolidated revenue fund (CRF):				
Revenue	22,038	22,266	228	23,125
Expenditure	(25,556)	(25,366)	190	(25,255)
CRF balance	**(3,518)**	**(3,100)**	**418**	**(2,130)**
Crown corporations and agencies:				
Taxpayer-supported	(206)	(208)	(2)	(83)
Self-supported commercial	74	43	(31)	(484)
Crown corporation and agency net results [2]	**(132)**	**(165)**	**(33)**	**(567)**
Subtotal	**(3,650)**	**(3,265)**	**385**	**(2,697)**
Forecast allowance	(750)	(750)	-	-
(Deficit) surplus before joint trusteeship	**(4,400)**	**(4,015)**	**385**	**(2,697)**
Joint trusteeship (one-time adjustment)	-	-	-	1,464
(Deficit) surplus	**(4,400)**	**(4,015)**	**385**	**(1,233)**

[1] Restated to be consistent with the presentation used in 2002/03. The change primarily reflects the inclusion of Forest Renewal BC's revenue and expenditures as part of the CRF.

[2] Net of dividend payments to the CRF.

CRF revenue is forecast to be $228 million better than budget primarily due to higher taxation revenue and the inclusion of equalization payments, partially offset by lower natural resource revenues.

CRF spending is forecast to be $190 million below budget due to lower debt interest costs and a lower employment assistance caseload.

Crown corporation net results are projected to be $33 million below budget reflecting a $59-million increase in the BC Hydro dividend paid to the CRF[1], partially offset by a $25 million improvement in ICBC. Excluding the effect of higher dividend payments to the CRF, Crown corporation net incomes are forecast to be $36 million above budget (see Table 2.6a).

Capital spending is expected to be $261 million below budget, due to slower spending in many areas including health and education facilities.

Taxpayer-supported debt is forecast to total $30.6 billion at year end, $991 million lower than budget. Commercial Crown corporation borrowing is forecast to be $588 million lower than expected resulting in a total provincial debt forecast of $39.1 billion, $1.6 billion lower than budget.

[1] The increased dividend payment is a consequence of an accounting policy change approved by the B.C. Utilities Commission for rate-setting and reporting purposes that resulted in a higher level of equity. The consequence of this change, given BC Hydro's allowed rate of return, is higher dividend payments to the Consolidated Revenue Fund.

Three-Year Fiscal Plan Update

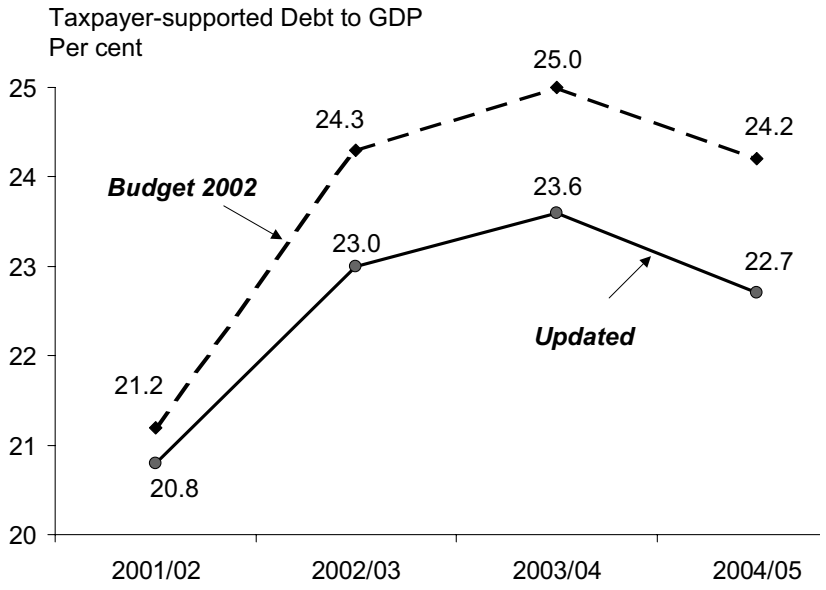
The three-year fiscal plan remains on track, with a positive overall change to the forecast in each of the three years. However in recognition of the risks to the plan, government continues to monitor progress of ministry and Crown corporation service plans closely.

Three-Year Fiscal Plan Update
Projected Changes from the 2002/03 Budget

	2002/03	2003/04	2004/05
		($ millions)	
2002/03 - 2004/05 Fiscal Plan (deficit)	**(4,400)**	**(1,800)**	**-**
CRF revenue changes	228	148	9
CRF expenditure changes	190	-	-
Total CRF changes	**418**	**148**	**9**
Crown corporation and agency changes	**(33)**	**(29)**	**84**
Total changes	**385**	**119**	**93**
Fiscal Plan Update (deficit) surplus	**(4,015)**	**(1,681)**	**93**

The main changes to the three-year plan forecast are to CRF revenues. Higher expected taxation revenues and the inclusion of equalization payments more than offset a decline in forest revenues resulting from the final U.S. lumber duties. Other changes in the forecast include the effect of higher energy costs on BC Hydro contributions.

Reflecting smaller deficits, lower capital spending and gains at the end of the 2001/02 fiscal year, total provincial debt is expected to total $42.7 billion by March 31, 2005, $1.2 billion less than forecast in the budget. The taxpayer supported debt-to-GDP ratio, a key measure of the sustainability of provincial borrowing, is also forecast to be lower than in the February budget.



PART ONE — ECONOMIC REVIEW AND OUTLOOK[1]

First Quarterly Report 2002/03 September 2002

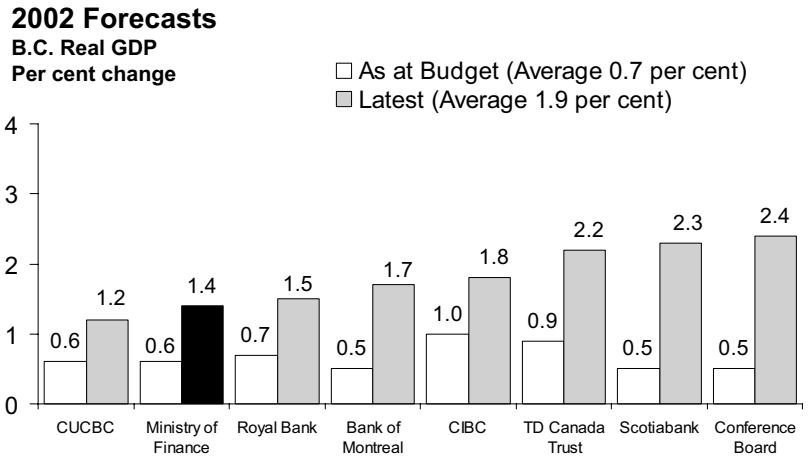
Overview

Since the February 19 budget, the economic outlook has improved. The U.S. and Canadian economies improved in the January to March quarter[2], and posted positive but slower growth in the April to June period. More recently, events in U.S. stock markets have introduced greater uncertainty to the outlook. However, in aggregate, the North American outlook for 2002 is more positive than at the time the budget was prepared.

In British Columbia, most economic indicators turned up in the first calendar quarter and continued that trend through the April to June period covered by this quarterly report. Externally, the U.S. softwood lumber duties clouded the turnaround in manufacturing shipments and merchandise exports. Domestically, housing starts and consumer spending continued to benefit from low interest rates and federal and provincial tax cuts.

Charts 1.1 and 1.2 compare recent private sector forecasts for British Columbia economic growth with those made at budget time. In February 2002, growth forecasts averaged 0.7 per cent for 2002 and 3.0 per cent for 2003. Since that time forecasts have improved, and private sector forecasts now average 1.9 per cent in 2002, while next year's outlook is unchanged. As with national projections, more recently developed forecasts have tended to be higher than those prepared in January or February.

Chart 1.1 Evolution of 2002 growth forecasts for B.C.

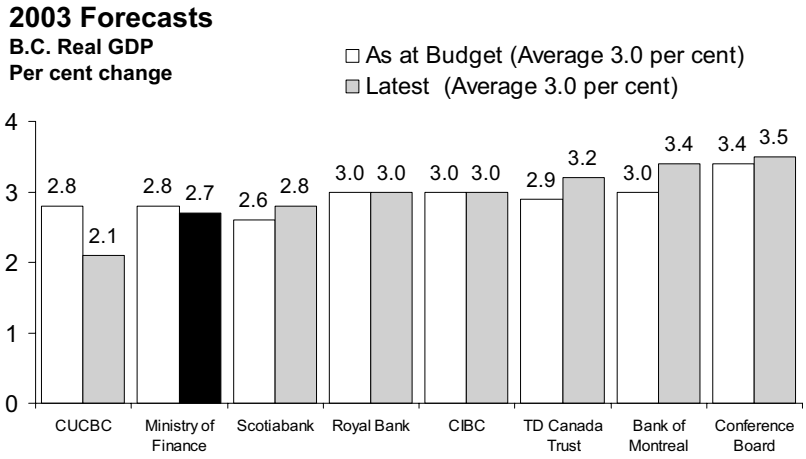


Sources: B.C. Ministry of Finance and various financial institutions.

[1] The *Economic Review and Outlook* and accompanying charts and tables incorporate information available as of September 6, 2002.

[2] In the *Economic Review and Outlook*, quarter references are to the calendar quarter.

Chart 1.2 Evolution of 2003 growth forecasts for B.C.

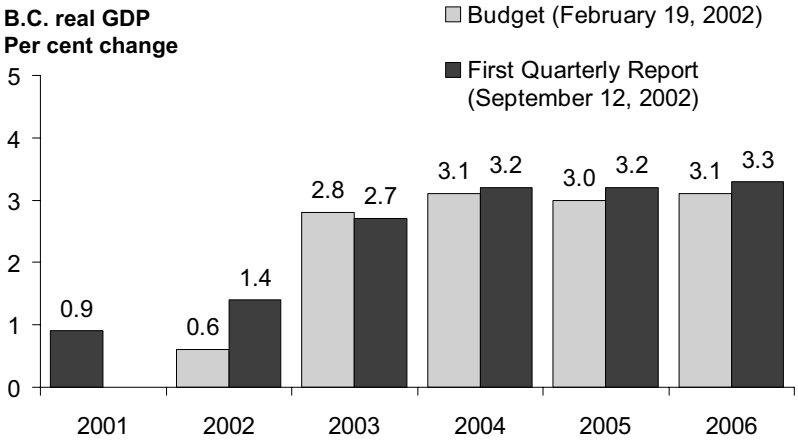


Sources: B.C. Ministry of Finance and various financial institutions.

The Ministry of Finance has updated its forecast of British Columbia economic growth to 1.4 per cent in 2002 and 2.7 per cent in 2003 (see Chart 1.3).

The updated forecast incorporates economic developments so far in 2002 including economic growth in the first half of the year in British Columbia, the U.S. and Canada, the continued momentum in consumer spending and residential investment, and developments in financial markets.

Chart 1.3 B.C. Economic Forecast



Sources: B.C. Ministry of Finance, historical data from Statistics Canada

International Economic Developments

The North American economies grew strongly during the January to March period of 2002. The U.S. economy expanded at a 5.0 per cent annualized rate, with growth supported by consumer spending, residential investment, and a large swing in inventories. The Canadian economy expanded at a 6.2 per cent annualized rate.

In the April to June period, economic growth in the U.S. slowed to a 1.1 per cent annualized rate. In May, corporate accounting problems caused

further deterioration in the equity market, sending equities down by one-third. In addition, revisions to the U.S. economic accounts showed the 2001 recession was deeper and longer than had been previously believed. The U.S. economy began to slow in early 2001 and continued to contract through the year. The terrorist attacks in September had a further impact on consumer and business confidence, trade and tourism. For the year, the U.S. economy grew just 0.3 per cent.

By August 2002, financial markets, which had been expecting the Federal Reserve Board to begin raising interest rates earlier this year based on the strong growth in the January to March period, were calling for lower interest rates to counter any impact of the recent stock market declines on consumer spending.

Meanwhile, the Canadian economy continued to outperform the U.S. economy in the April to June period, recording a 4.3 per cent annualized increase in real GDP.

Overseas, the Japanese economy began to show signs of a weak turnaround in industrial production at mid-year. In the April to June period, the Japanese economy grew following four consecutive quarters of declines. In Europe, Germany, France and the United Kingdom all posted positive growth in the January to March period and slightly slower growth in the April to June period.

British Columbia Economic Developments

Available data suggest that the British Columbia economy has also been recovering so far in 2002. Employment, manufacturing shipments, exports, retail sales, housing starts and non-residential building permits increased in the January to March period compared to the last three months of 2001 (see Table 1.1).

Like the Canadian and U.S. economies, the British Columbia economy continued to expand in the April to June quarter, although the pace may have slowed more recently.

Employment in the province continued on the upward trend set in the January to March period and recently surpassed last year's levels. New jobs created during 2002 were mainly on the service side of the economy as the goods sector job market continued to reflect the fallout from the U.S. softwood lumber duties put in place in August 2001.

Merchandise exports and manufacturing shipments turned up although the trade data for May and June may have been clouded by efforts to export duty-free lumber prior to the final duty order coming into effect. The final countervail ruling, effective May 22, 2002, appears to have contributed to a surge in manufacturing shipments and exports in May, which was reversed in June. In the April to June period, merchandise exports were up 3.1 per cent from the January to March period. Exports remain lower than in 2001, reflecting high energy prices early in 2001.

In the April to June period, retail sales and housing starts continued to grow, helped by low interest rates and federal and provincial tax cuts. Car and truck sales also continued to surge. Non-residential building permits increased in 2002 but remained well below last year's levels.

Table 1.1 British Columbia Economic Indicators

All data seasonally adjusted	First Quarter Jan. to Mar. 2002 change from Oct. to Dec. 2001	Second Quarter Apr. to Jun. 2002 change from Jan. to Mar. 2002	Year-to-Date Jan. to Jun. 2002 change from Jan. to Jun. 2001
	Per cent change unless otherwise noted		
Employment	+0.9	+0.9	-0.6
Manufacturing Shipments	+3.1	+2.7	-4.8
Exports	+3.4	+3.1	-17.2
Retail Sales	+2.1	+2.1	+6.5
Housing Starts	+5.6	+5.3	+10.6
Non-Residential Building Permits	+15.9	+21.8	-28.0

The Outlook for the External Environment

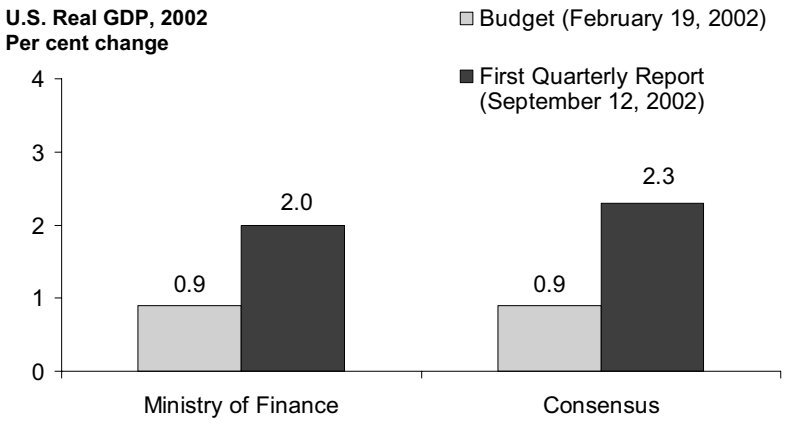
In the first three months of 2002, global growth estimates were being revised upward as the U.S. posted strong economic growth and other countries followed suit. It appeared that a U.S.-led global economic recovery was underway.

While much of the U. S. economic growth in the first three months of 2002 was due to rebuilding inventories, consumer spending also contributed. With the major change in inventories occurring early in the year, slower growth in the April to June period was expected. Economic indicators in the U.S. suggested the manufacturing sector was expanding at a pace consistent with annual growth in the 3 to 4 per cent range.

By mid-2002, the U.S. economic environment was not as certain. Corporate accounting issues sparked declines in stock markets, which spread to major markets around the world. A lack of job growth, and output growth of just 1.1 per cent in the April to June period, led to the possibility of a double-dip in the U.S. economy and further fuelled stock market jitters.

Despite these recent concerns, the outlook for the U.S. economy by mid-2002 was significantly more positive than at the beginning of the year (see Chart 1.4). The U.S. growth assumption used in the Ministry of Finance forecast is more conservative than the consensus, recognizing current risks to the outlook.

Chart 1.4 Expected U.S. economic growth in 2002



Sources: *Budget 2002* and *Consensus Economics Forecast* (January and August 2002 issues).

North of the border, the Canadian economic environment was more positive. In the first half of 2002, it appears that the Canadian economy outperformed the U.S. in terms of job creation and economic growth.

The Canadian economy expanded at a 6.2 per cent annualized rate in the January to March period and 4.3 per cent in the April to June period. Canada did not undergo as large a correction of inventories as the U.S. economy. As a result, the slowdown in the April to June period was not as abrupt as in the U.S. In addition, residential investment in Canada has been strong so far this year as a result of pent-up demand for housing, federal tax cuts and low mortgage interest rates.

Outlook

Despite these recent developments, the U.S. economy will continue to recover but the pace of the recovery is expected to be halting and modest this year. The Ministry of Finance forecasts the U.S. economy to grow 2.0 per cent in 2002 and 3.0 per cent in 2003. Currently, the consensus forecast is for growth of 2.3 per cent in 2002 and 3.1 per cent in 2003.

The Ministry of Finance expects the Canadian economy to expand 3.0 per cent in 2002 and 3.2 per cent in 2003.

Table 1.2 September 2002 Economic Forecast: Key Assumptions*

	2002		2003	
	Feb. 19 Budget Forecast	September Forecast	Feb. 19 Budget Forecast	September Forecast
	Per cent change unless otherwise noted			
Canada Real GDP	1.0	3.0	3.3	3.2
US Real GDP	0.9	2.0	3.3	3.0
Japan Real GDP	-1.0	-0.5	0.9	1.0
Europe Real GDP	1.0	1.3	2.5	2.5
US Housing Starts	-4.4	2.4	1.3	-2.5
Canada 3-month Treasury Bill Rate	2.4	2.7	3.8	4.1
US cents / Canadian $	63.5	64.6	64.5	66.5

* More details on the five-year outlook are available in Tables 1.5 through 1.9 at the end of Part One.

Financial Markets

In the first half of 2002, the Bank of Canada raised its key target overnight rate three times for a total of 75 basis points. The U.S. Federal Reserve Board has opted to keep interest rates unchanged so far this year. Last year's eleven rate cuts continue to provide monetary stimulus in the U.S. economy – long-term mortgage rates remain near 32-year lows. As a result, the spread between Canada and U.S. interest rates was positive and widening during the first eight months of 2002.

The positive interest rate spread combined with rising commodity prices earlier in the year, provided some support for the Canadian dollar. During the second quarter, the Canadian dollar averaged 64.3 cents US. But the unwinding of the U.S. equity bubble triggered a sale of Canadian-dollar denominated assets and the value of the dollar fell against the U.S. currency to below 63 cents US. More recently, the value of the Canadian dollar recovered to 64.1 cents US in early September.

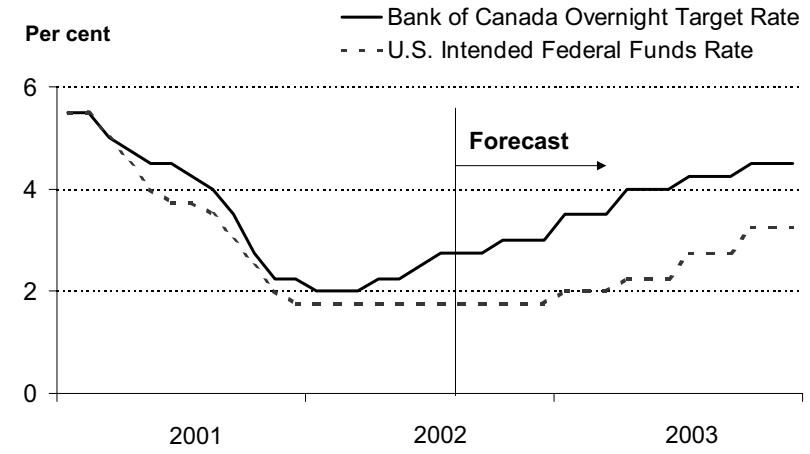
Outlook

The U.S. Federal Reserve Board is expected to keep the federal funds rate unchanged until late 2002. The forecast is for short-term interest rates to rise

gradually over the forecast period, reaching their pre-recession level in late 2004. The Bank of Canada also is expected to raise its overnight target interest rate during the next two years.

As a result of continued stronger economic performance, gradually rising commodity prices and a positive interest rate differential with the U.S., the value of the Canadian dollar is forecast to slowly appreciate against the U.S. dollar. The Canadian dollar is expected to average 64.6 cents US in 2002 and average 66.5 cents US in 2003.

Chart 1.5 Interest rates are forecast to rise

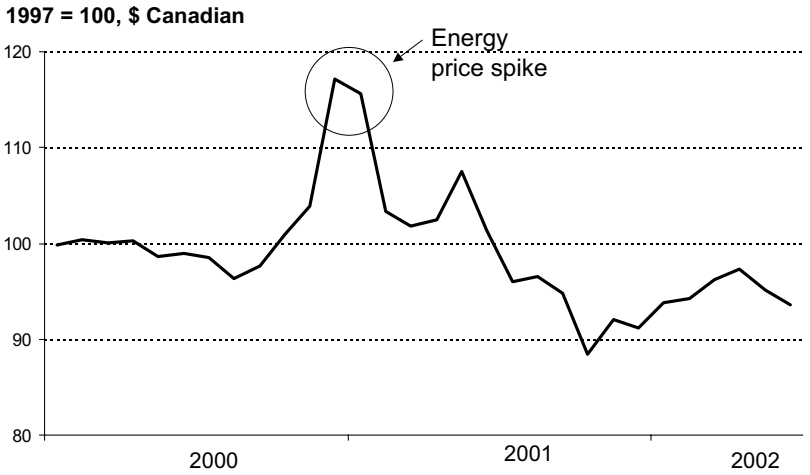


Sources: Bank of Canada and U.S. Federal Reserve Bank, B.C. Ministry of Finance forecast.

Commodity Markets

Although overall British Columbia export commodity prices were on an upward trend in the first five months of 2002, key commodity prices remained down compared to the same period in 2001. Energy prices returned to more normal levels following the price spikes in late 2000 and early 2001. Most forest product prices were down on a year-to-date basis.

Chart 1.6 B.C. export commodity price index



Source: B.C. Ministry of Finance

The final determination of the duty on softwood lumber exports to the U.S. market has reduced the value received by British Columbia lumber producers, depressing export and producer price measures.

Outlook

The average price of British Columbia goods and services exports is expected to be 2.9 per cent lower in 2002 than in 2001 as the impact of the energy price spike of early 2001 diminishes. Most non-energy commodity prices are forecast to increase this year as global demand for commodities picks up. In 2003, the average price of the province's goods and services exports is expected to increase 0.4 per cent.

British Columbia Economic Forecast

The British Columbia economy is expected to grow 1.4 per cent in 2002 and 2.7 per cent in 2003. Consumer spending and the housing sector are expected to be the main contributors to growth.

Table 1.3 September 2002 Economic Forecast: Key Indicators

	2002		2003	
	Feb. 19 Budget Forecast	September Forecast	Feb. 19 Budget Forecast	September Forecast
	Per cent change unless otherwise noted			
Real GDP	0.6	1.4	2.8	2.7
Nominal GDP	1.0	1.9	4.2	4.4
Employment	-0.2	0.7	1.8	1.9
Unemployment Rate	8.7	8.7	8.3	8.3
Net In-Migration ('000 persons)	28.8	31.4	34.2	33.7
Personal Income	2.0	2.4	3.6	3.5
Corporate Pre-tax Profits	-7.5	-2.4	7.5	5.3
Housing Starts	5.6	16.0	8.5	3.3
Retail Sales	2.9	6.0	4.8	6.1

* More details on the five-year outlook are available in Tables 1.5 through 1.9 at the end of Part One.

External Trade

The United States is the province's largest trading partner. Last year's U.S. recession, which was exacerbated by the events of September 11, 2001, reduced demand for British Columbia exports. Tourism to the province was also affected, but has since started to recover.

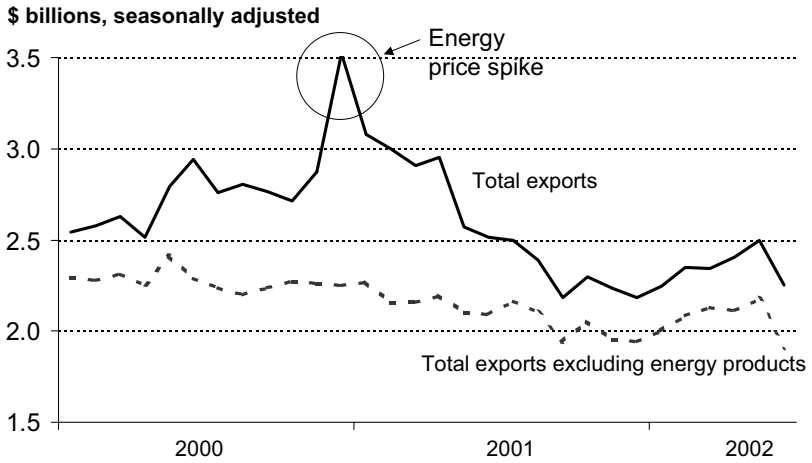
British Columbia origin international exports (in current dollars) were down 17.2 per cent year to date through June, largely the result of lower energy prices. Excluding energy products, provincial exports were down just 4.2 per cent (see Chart 1.7). The sharp decline in seasonally-adjusted exports in June was due to a drop in the value of forest product exports from May. The value of forest product exports was down 4.9 per cent in the January through June period compared to a year earlier, despite high volumes in April and May.

Outlook

Exports of wood products will continue to be hurt by the duties levied on softwood lumber exports to the U.S. In the remainder of 2002, the trade outlook is dependent on a continued pick up in industrial demand for

commodities in the U.S. and the rest of world. Real (inflation adjusted) exports are expected to grow just 0.1 per cent on average in 2002 then pick up to 2.4 per cent growth in 2003 as global growth improves.

Chart 1.7 B.C. merchandise exports



Source: Statistics Canada

The Labour Market

In the second quarter of 2002, employment was up 0.9 per cent from the first quarter. Most of the job growth was in the manufacturing and construction sectors.

Total employment was up 0.2 per cent year-to-date in August and has been climbing for most of 2002, adding just over 88,000 jobs since December 2001. About two-thirds of the employment growth since December has been in full-time jobs. Despite the employment gains, total wages and salaries were up just 0.5 per cent in the first six months of 2002 compared to the first six months of 2001. Chart 1.8 shows the recent growth in employment in British Columbia.

Chart 1.8 Jobs in B.C. rebounding

Source: Statistics Canada

The unemployment rate averaged 8.7 per cent in the first eight months of the year. It stood at 7.8 per cent in August.

Outlook

The North American recovery and gradual rising commodity prices should continue to support employment prospects in 2002. For the year, employment is projected to grow 0.7 per cent, with a decline in goods sector employment more than offset by an increase in the number of service sector jobs. In 2003, employment is forecast to increase by a further 38,000 jobs or 1.9 per cent. The unemployment rate is forecast to average 8.7 per cent in 2002 and decline to 8.3 per cent in 2003.

Domestic Demand

Consumer Spending and Housing

Retail sales have continued to climb through 2002 (see Chart 1.9). In June, the value of retail sales was $3.4 billion, up 6.5 per cent from year-earlier levels. Demand for consumer durables, the strong housing market, federal and provincial tax cuts and low financing rates have helped support consumer spending to date. In particular, incentives offered by car dealers helped increase the sale of new cars and trucks dramatically in the first half of 2002 compared to the first half of 2001.

Chart 1.9 B.C. retail sales continue to climb

Source: Statistics Canada

Activity in the housing sector has been brisk so far in 2002. Existing home sales were up 35 per cent while house prices rose 8.3 per cent. Recent low mortgage interest rates, federal and provincial tax cuts and stock market volatility have unleashed pent-up demand and driven housing starts up. Year-to-date British Columbia housing starts were up 11.7 per cent. In July, housing starts totaled 20,600 units.

As Canada Mortgage and Housing Corporation (CMHC) has indicated, British Columbia's construction sector has recently bottomed and is now entering into a recovery phase.

Outlook

Consumer spending on goods and services is forecast to continue at its current pace for the remainder of the year, barring any drastic changes in consumer confidence. Housing starts are expected to total 20,000 units in 2002 and

20,660 units in 2003. CMHC expects housing starts in the province to total 18,800 units in 2002 and 21,000 units in 2003.

With pent-up demand fuelling housing construction, related consumer purchases should continue to expand. Real consumer spending on goods and services is forecast to increase 2.7 per cent in 2002 and rise to 4.2 per cent in 2003.

Business and Government Activity

The North American slowdown was accompanied by reductions in business investment, particularly in the high tech and manufacturing sectors. This year has been marked by corporate accounting scandals in the U.S. and profit warnings by several major corporations.

In British Columbia, corporate profits in 2001 were better than expected, as preliminary softwood lumber duty bonds were refunded. So far in 2002, the stronger-than-anticipated economic recovery is again positive for the corporate profit outlook.

Non-residential building permits grew strongly in both the first and second calendar quarters of 2002, on a quarter-over-quarter basis, as activity picked up from last year. However, non-residential permits were down 27.2 per cent in the first seven months of the year compared to the same period last year.

Outlook

Although the economic recovery will have a positive effect on business, corporate pre-tax profits are expected to decline 2.4 per cent in 2002 mainly reflecting the U.S. softwood lumber duties, before growing 5.3 per cent in 2003. Business investment will increase as confidence improves and new opportunities arise. Real business investment (non-residential and machinery and equipment) is expected to pick up 5.4 per cent in 2003 following modest growth of 1.6 per cent this year.

Current government expenditures for all levels of government (federal, provincial and local) are forecast to decline by 0.9 per cent in 2002 and 3.0 per cent in 2003, reflecting in part the provincial government's planned 2.0 per cent expenditure reduction in 2002/03 and 3.3 per cent expenditure reduction in 2003/04.

Inflation

Consumer price inflation averaged 2.1 per cent in the first seven months of 2002, reflecting modestly higher prices for most consumer goods.

Outlook

Inflation is expected to average 2.1 per cent in 2002 and 2.0 per cent in 2003.

Medium-Term Outlook

Over the medium term, both the Canadian and U.S. economies are expected to grow 3.0 per cent per year. The Japanese economy is expected to grow at about half that pace.

British Columbia's population is forecast to grow 1.2 per cent per year on average as more people move to the province from the rest of Canada and international in-migration continues.

During the 2003 through 2006 period, the British Columbia economy is expected to grow 3.1 per cent per year, reflecting growth in the province's major trading partners.

Detailed tables of the five-year outlook are provided at the end of Part 1 (see Tables 1.5 through 1.9).

Risks to the Forecast

As with all forecasts, this economic outlook has risks on both the upside and downside. While the global outlook and consumer confidence has improved since the beginning of the year, recent stock market declines, concerns on global security and the slowing U.S. recovery are risks to consumer confidence and continued robust spending trends. The economic outlook for the province includes a cautious U.S. growth assumption for the current year. The most important risk to the British Columbia economic outlook remains the strength of the U.S. recovery. The Vancouver/Whistler bid for the 2010 Olympic Winter Games also poses opportunities related to possible investment in infrastructure. In addition, the implications of the proposed ratification of the Kyoto agreement on climate change are unclear, and may occur outside the forecast period.

The British Columbia economy could grow faster than forecast if:

- Canada and the U.S. return to the high-productivity fuelled growth recorded in the late 1990s, generating stronger demand for goods and services.
- A resolution of the softwood lumber dispute is reached; alongside growing U.S. demand, this would provide an opportunity for growth in British Columbia's forest industry.
- British Columbia business confidence and investment strengthen further; this would provide a base for stronger economic growth in the province.
- Interprovincial net in-migration to British Columbia turns around quickly; this would generate additional demand for goods and services and boost economic growth.

Alternatively, the British Columbia economy could grow slower than forecast if:

- The sluggish growth in the U.S. reflects a shift to a lower long-term productivity growth path, or potentially a double-dip recession.
- The Canadian economy's recent out-performance of the U.S. economy ends sooner than expected. Without a global recovery or strong productivity gains, the Canadian economy cannot indefinitely continue to grow faster than the U.S., its major trading partner.
- The global industrial pick up is weak and fails to generate demand for commodities, and key commodity prices fall, hurting British Columbia exports and the emerging oil and gas sector.
- Business and consumer confidence, recently weakened by the stock market declines and corporate accounting problems, does not recover. Weakening confidence could stall the economic recovery currently underway.

Table 1.4 Current Economic Statistics

	Latest Period		Year-to-Date Average		
			2001	2002	Change
BRITISH COLUMBIA					
LABOUR MARKET					
Employment (s.a.[1], thousands)	August	2,001	1,953	1,957	0.2%
Unemployment rate (s.a., per cent)	August	7.8	7.2	8.7	1.5
Total net in-migration (persons)	Q1	7,867	8,149	7,867	-282
Interprovincial (persons)	Q1	-2,415	-2,406	-2,415	-9
International (persons)	Q1	10,282	10,555	10,282	-273
Wages, salaries and supplementary labour income (s.a. $millions)	June	5,188	5,153	5,177	0.5%
Average weekly wage rate	July	663.53	646.00	663.73	2.7%
CONSUMER SECTOR					
Retail sales (s.a., $ million)	June	3,401	3,129	3,331	6.5%
Car and truck sales (s.a., units)	June	16,625	13,778	16,151	17.2%
Housing starts (all areas, s.a., annual rate)	July	20,600	17,371	19,400	11.7%
Existing home sales (s.a.)	July	6,171	5,455	7,105	30.2%
Building permits (s.a., $ thousands)	July	446	439	462	5.3%
B.C. consumer price index (annual per cent change)	July	1.9	2.0	2.1	0.1
INDUSTRIAL ACTIVITY					
Foreign merchandise exports (s.a., $ million)	June	2,250	2,838	2,350	-17.2%
Manufacturing shipments (s.a., $ million)	June	2,781	2,953	2,811	-4.8%
Lumber production (thousand cubic metres)	June	2,795	2,773	2,833	2.2%
Pulp and paper production (thousand tonnes)	June	605	652	594	-8.9%
Coal production (thousand tonnes)	May	2,379	2,295	2,246	-2.2%
Natural gas production (million cubic metres)	March	2,425	2,133	2,466	15.6%
Copper production (million kg)	May	22.5	22.1	20.8	-5.8%
TOURISM					
Entries of U.S. and overseas residents (thousands)	June	901.1	645.5	581.5	-9.9%
BC ferry passengers to/from Vancouver Island (thousands)	July	1,415	890	879	-1.3%
COMMODITY PRICES					
Lumber (U.S.$/thousand board feet)	August	226	255	255	0.0%
Pulp (U.S. $/tonne)	August	491	580	462	-20.4%
Newsprint (U.S.$/tonne)	August	448	613	466	-24.0%
Copper (U.S.$/lb.)	August	0.68	0.75	0.71	-4.9%
B.C. export commodity price index (Cdn. $ Index:1997 = 100)	Q2	95.3	105.4	95.0	-9.8%
FINANCIAL DATA					
Canadian dollar (U.S. cents)	August	63.8	65.2	63.7	-1.5
Canadian prime rate (per cent)	August	4.50	6.60	4.05	-2.55
Canadian treasury bills (per cent)	August	2.83	4.51	2.40	-2.11
Treasury bill spread - Canada minus U.S. (per cent)	August	1.17	0.51	0.79	0.28

[1] s.a. - seasonally adjusted

Table 1.5 Gross Domestic Product: British Columbia and Canada

			Forecast				
	2000	2001	2002	2003	2004	2005	2006
BRITISH COLUMBIA:							
Gross Domestic Product at Market Prices:							
- Current Dollar ($ million)	127,564	130,396	132,820	138,710	146,000	152,700	159,790
(% change)	5.8	2.2	1.9	4.4	5.3	4.6	4.6
- Real (1997 $ million)	124,464	125,534	127,350	130,830	135,020	139,300	143,890
(% change)	3.9	0.9	1.4	2.7	3.2	3.2	3.3
- GDP Price Deflator (1997 = 100)	102.5	103.9	104.3	106.0	108.1	109.6	111.0
(% change)	1.8	1.3	0.4	1.7	2.0	1.4	1.3
Real GDP Per Person (1997 $)	30,665	30,649	30,814	31,337	31,979	32,594	33,252
(% change)	3.1	-0.1	0.5	1.7	2.0	1.9	2.0
Real GDP Per Employed Person (% change)	1.6	1.2	0.7	0.8	0.7	1.0	1.0
Unit Labour Cost[1] (% change)	1.8	1.2	0.8	1.0	1.3	1.8	1.7
CANADA:							
Gross Domestic Product at Market Prices:							
- Current Dollar ($ billion)	1,065	1,092	1,126	1,181	1,236	1,296	1,362
(% change)	8.6	2.6	3.1	4.9	4.7	4.8	5.1
- Real (1997 $ billion)	1,012	1,028	1,058	1,092	1,126	1,159	1,194
(% change)	4.5	1.5	3.0	3.2	3.1	3.0	3.0
- GDP Price Deflator (1997 = 100)	105.2	106.3	106.4	108.1	109.8	111.8	114.1
(% change)	3.9	1.0	0.1	1.6	1.6	1.8	2.0
Real GDP Per Person (1997 $)	32,900	33,059	33,759	34,577	35,362	36,132	36,960
(% change)	3.6	0.5	2.1	2.4	2.3	2.2	2.3
Real GDP Per Employed Person (% change)	1.9	0.4	0.9	1.0	1.3	1.3	1.4

[1] Unit labour cost is the nominal cost of labour incurred to produce one unit of real output.

Table 1.6 Components of British Columbia Real GDP at Market Prices

	2000	2001	Forecast 2002	2003	2004	2005	2006
Personal Expenditure on							
Goods and Services (1997 $ billion)	78.3	80.7	82.9	86.3	89.8	91.8	94.3
(% change)	3.5	3.0	2.7	4.2	4.1	2.3	2.7
- Goods (1997 $ billion)	33.3	34.5	35.7	37.5	39.3	39.9	40.9
(% change)	3.2	3.5	3.3	5.2	4.7	1.5	2.6
- Services (1997 $ billion)	45.0	46.2	47.2	48.8	50.5	52.0	53.4
(% change)	3.8	2.7	2.2	3.3	3.6	2.9	2.8
Government Current Expenditures							
on Goods and Services (1997 $ billion)	24.1	24.7	24.5	23.8	22.9	23.4	24.0
(% change)	2.6	2.6	-0.9	-3.0	-3.7	2.2	2.4
Investment in Fixed Capital (1997 $ billion)	24.5	25.5	26.2	27.0	28.2	29.7	31.2
(% change)	5.1	4.0	3.1	3.1	4.5	5.0	5.2
Final Domestic Demand[1] (1997 $ billion)	**126.9**	**130.9**	**133.6**	**137.1**	**140.9**	**144.9**	**149.5**
(% change)	**3.7**	**3.1**	**2.1**	**2.6**	**2.8**	**2.8**	**3.2**
Net Exports of Goods							
and Services (1997 $ billion)	-4.2	-5.0	-6.3	-6.9	-6.9	-6.6	-6.8
- Exports Goods & Services (1997 $ billion)	58.6	54.9	54.9	56.3	58.4	60.6	62.6
(% change)	7.0	-6.3	0.1	2.4	3.9	3.7	3.4
- Imports Goods & Services (1997 $ billion)	62.7	59.8	61.3	63.1	65.3	67.2	69.4
(% change)	8.0	-4.7	2.4	3.0	3.5	2.9	3.2
Inventory Change (1997 $ billion)	1.3	-0.5	0.0	0.5	0.9	1.0	1.1
Statistical Discrepancy (1997 $ billion)	0.4	0.1	0.1	0.1	0.1	0.1	0.1
Real GDP at Market Prices[2] (1997 $ billion)	**124.5**	**125.5**	**127.4**	**130.8**	**135.0**	**139.3**	**143.9**
(% change)	**3.9**	**0.9**	**1.4**	**2.7**	**3.2**	**3.2**	**3.3**

[1] Final domestic demand is the sum of personal expenditures, government current expenditures and investment in fixed capital.
[2] Real GDP at market prices is the sum of final domestic demand, net exports, inventory changes and statistical discrepancy.

Table 1.7 Components of Nominal Income and Expenditure

			Forecast				
	2000	2001	2002	2003	2004	2005	2006
Labour Income[1] ($ million)	67,828	69,211	70,770	73,400	76,770	80,600	84,710
(% change)	5.7	2.0	2.3	3.7	4.6	5.0	5.1
Personal Income ($ million)	106,150	108,899	111,520	115,450	120,170	125,550	131,230
(% change)	5.2	2.6	2.4	3.5	4.1	4.5	4.5
Corporate Profits Before Taxes ($ million)	10,287	10,411	10,160	10,700	11,590	12,030	12,190
(% change)	12.7	1.2	-2.4	5.3	8.3	3.8	1.3
Retail Sales ($ million)	35,821	37,979	40,260	42,710	45,190	47,130	49,400
(% change)	6.3	6.0	6.0	6.1	5.8	4.3	4.8
Housing Starts	14,418	17,234	20,000	20,660	21,480	22,350	23,240
(% change)	-11.6	19.5	16.0	3.3	4.0	4.1	4.0
Residential Investment[2] ($ million)	6,707	7,355	8,399	8,967	9,539	9,995	10,556
(% change)	-1.1	9.7	14.2	6.8	6.4	4.8	5.6
B.C. Consumer Price Index (1992 = 100)	113.3	115.2	117.6	119.9	122.5	124.9	127.2
(% change)	1.8	1.7	2.1	2.0	2.1	2.0	1.9

[1] Domestic basis; wages, salaries and supplementary labour income.
[2] Includes renovations and improvements.

Table 1.8 Labour Market Indicators

			Forecast				
	2000	2001	2002	2003	2004	2005	2006
Population (on July 1) (000's)	4,059	4,096	4,133	4,175	4,222	4,274	4,327
(% change)	0.8	0.9	0.9	1.0	1.1	1.2	1.3
Labour Force Population, 15+ Years (000's)	3,237	3,280	3,325	3,375	3,429	3,486	3,545
(% change)	1.4	1.3	1.4	1.5	1.6	1.7	1.7
Net In-Migration							
- International[1]	31,845	32,179	34,300	31,700	32,600	33,800	34,800
- Interprovincial	-17,296	-8,991	-3,000	2,000	8,900	9,900	12,300
- Total[2]	14,549	23,188	31,400	33,700	41,500	43,600	47,100
Participation Rate[3] (%)	64.9	64.1	64.4	64.4	64.3	64.6	64.8
Labour Force (000's)	2,100	2,103	2,142	2,173	2,205	2,251	2,297
(% change)	1.0	0.2	1.8	1.5	1.4	2.1	2.0
Employment (000's)	1,949	1,942	1,956	1,994	2,043	2,088	2,134
(% change)	2.2	-0.3	0.7	1.9	2.5	2.2	2.2
- Goods Sector Employment (000's)	403	380	378	383	389	395	401
(% change)	4.7	-5.7	-0.7	1.4	1.6	1.5	1.6
- Service Sector Employment (000's)	1,546	1,562	1,578	1,611	1,655	1,693	1,734
(% change)	1.6	1.0	1.0	2.1	2.7	2.3	2.4
Unemployment Rate (%)	7.2	7.7	8.7	8.3	7.3	7.3	7.1

[1] International migration includes net non-permanent residents and returning emigrants less net temporary abroad.
[2] Total may not add due to rounding.
[3] Percentage of the population 15 years of age and over in the labour force.

Table 1.9 Major Economic Assumptions

	2000	2001	Forecast 2002	2003	2004	2005	2006
Real GDP (billions)							
Canada (1997 $).....	1,012	1,028	1,058	1,092	1,126	1,159	1,194
(% change).....	4.5	1.5	3.0	3.2	3.1	3.0	3.0
U.S.A. (1996 U.S.$; chain-weighted).....	9,191	9,215	9,403	9,682	9,979	10,275	10,587
(% change).....	3.8	0.3	2.0	3.0	3.1	3.0	3.0
Japan (1990 Yen).....	534,047	532,224	529,480	534,526	542,771	550,962	559,019
(% change).....	2.2	-0.3	-0.5	1.0	1.5	1.5	1.5
Europe[1] (% change).....	3.6	1.6	1.3	2.5	2.5	2.5	2.5
Housing Starts[2] (000's)							
Canada.....	152	163	183	164	164	164	164
(% change).....	1.1	7.3	12.6	-10.3	0.0	0.0	0.0
U.S.A.....	1,573	1,603	1,641	1,600	1,600	1,600	1,600
(% change).....	-4.5	1.9	2.4	-2.5	0.0	0.0	0.0
Japan.....	1,230	1,174	1,154	1,164	1,175	1,180	1,186
(% change).....	1.3	-4.6	-1.7	0.9	0.9	0.5	0.5
Consumer Price Index							
Canada (1997=100).....	113.5	116.4	118.2	120.6	123.0	125.5	128.0
(% change).....	2.7	2.5	1.6	2.0	2.0	2.0	2.0
U.S.A. (1982-1984=100).....	172.2	177.1	179.9	184.2	188.8	193.5	198.4
(% change).....	3.4	2.8	1.6	2.4	2.5	2.5	2.5
Canadian Interest Rates (%)							
3-Month Treasury Bills.....	5.5	3.8	2.7	4.1	4.8	5.0	5.0
Long-Term Government Bonds (10 year).	5.9	5.5	5.6	6.2	6.3	6.3	6.3
United States Interest Rates (%)							
3-Month Treasury Bills.....	5.8	3.4	1.7	2.6	4.1	4.8	4.8
Long-Term Government Bonds (10 year).	6.0	5.0	5.1	5.6	5.9	6.0	6.0
Exchange Rate (U.S. cents / Canadian $)..	67.3	64.6	64.6	66.5	67.2	67.5	67.5
British Columbia Goods and Services Export Price Deflator (% change).....	4.0	2.5	-2.9	0.4	1.0	0.8	1.0

[1] European Union less Luxembourg, plus Austria, Finland, Iceland, Norway, Sweden, Switzerland, Turkey, and former Yugoslavia.

[2] British Columbia housing starts appear in Table 1.7.

PART TWO — UPDATED FINANCIAL FORECAST

Table 2.1 Updated 2002/03 Financial Forecast

	2002/03			
	Budget Estimate	Updated Forecast	Variance	Actual 2001/02 [1]
		($ millions)		
Consolidated revenue fund (CRF):				
Revenue	22,038	22,266	228	23,125
Expenditure	(25,556)	(25,366)	190	(25,255)
CRF balance	**(3,518)**	**(3,100)**	**418**	**(2,130)**
Crown corporations and agencies:				
Taxpayer-supported	(206)	(208)	(2)	(83)
Self-supported commercial	74	43	(31)	(484)
Crown corporation and agency net results [2]	**(132)**	**(165)**	**(33)**	**(567)**
Subtotal	**(3,650)**	**(3,265)**	**385**	**(2,697)**
Forecast allowance	(750)	(750)	-	-
(Deficit) surplus before joint trusteeship	**(4,400)**	**(4,015)**	**385**	**(2,697)**
Joint trusteeship (one-time adjustment)	-	-	-	1,464
(Deficit) surplus	**(4,400)**	**(4,015)**	**385**	**(1,233)**

[1] Restated to be consistent with the presentation used in 2002/03. The change primarily reflects the inclusion of Forest Renewal BC's revenue and expenditures as part of the CRF. The effect of the change on the CRF is a $163-million increase to revenue, a $342-million increase to expenditure, and the elimination of the $256-million wind-up transfer, resulting in a $435-million increase to the CRF negative balance. The CRF effect is offset by a $435-million decrease in the taxpayer-supported Crown corporation net losses. There is no change to the 2001/02 deficit from this restatement.

[2] Net of dividend payments to the CRF.

Overview

On February 19, 2002, the government presented its 2002/03 budget and three-year fiscal plan, setting out a strategy to build a strong and vibrant economy and to balance the budget beginning in 2004/05.

In July, the audited results for the 2001/02 fiscal year were released, showing a $1.23 billion deficit, a significant improvement from the $1.96 billion deficit expected at the time of the February 19 budget. This included better-than-expected expenditure, revenue and debt results. Excluding the one-time pension gain, the deficit for 2001/02 was $2.7 billion.

In this *Quarterly Report*, an updated financial forecast shows an improvement to the fiscal outlook for 2002/03. The revised forecast projects a $4.02-billion deficit for the year, $385 million lower than the budget estimate of a $4.4-billion deficit.

Consolidated revenue fund (CRF) revenue is now forecast to be $228 million higher than budget. The increase is mainly due to higher-than-expected taxation revenue and the inclusion of unexpected federal equalization payments. These increases are partially offset by lower revenue from natural resources.

Table 2.2 Summary of Changes from the 2002/03 Budget

	Change		Updated Forecast
		($ millions)	
2002/03 deficit - February Budget			**(4,400)**
Consolidated revenue fund (CRF) changes:			
Revenue changes:			
- Weaker 2001 personal income tax assessments	(50)		
- Higher corporation income tax instalments from the federal government and higher B.C. corporate profits in 2001	145		
- Other taxes - mainly property transfer tax	92		
- Natural resources - lower natural gas prices and higher impact of softwood lumber duties	(110)		
- Higher equalization entitlement, partly offset by lower CHST	100		
- Higher BC Hydro dividend payment	59		
- Other revenue changes	(8)	228	
Spending changes:			
- Lower interest costs mainly due to lower debt levels	80		
- Human Resources - lower employment assistance caseloads	107		
- Elections BC - lower referendum costs	3	190	**418**
Crown corporation changes:			
Taxpayer-supported:			
- BC Transportation Financing Authority - lower interest costs	7		
- Other changes and adjustments	(9)	(2)	
Self-supported commercial:			
- BC Hydro - higher dividend paid to the CRF	(59)		
- BC Rail - lower net income before restructuring costs	(5)		
- ICBC - higher net income	25		
- Other changes and adjustments	8	(31)	**(33)**
2002/03 deficit - first *Quarterly Report* updated forecast			**(4,015)**

CRF expenditures are expected to be $190 million below budget, mainly due to lower debt interest costs and lower employment assistance caseloads in the Ministry of Human Resources.

Combined Crown corporation net results (after dividends) are forecast to be $33 million less than budget reflecting a $59-million increase in the dividend paid by BC Hydro to the CRF, partially offset by a $25-million improvement in ICBC's operating results. Excluding the effect of a higher dividend payment to the CRF, Crown corporation net income is forecast to be $36 million above budget (see Table 2.6a).

The forecast allowance remains unchanged at $750 million. This reflects continuing uncertainty and forecast risk related to:

- the impact on North American economies of stock market volatility and corporate accounting problems;
- B.C. personal and corporation income tax assessments for 2001, which will not be finalized until December 2002;
- the effect of the U.S. softwood lumber duties on the B.C. forest industry and provincial stumpage revenues;

- the net revenue increase arising from federal equalization entitlements due to the province;
- unforeseen spending pressures beyond the available funds in the Contingencies vote;
- Crown corporation results; and
- unforeseen accounting changes.

The operating results for the first three months of the 2002/03 fiscal year show a deficit of $800 million, a $624-million improvement from budget (see Appendix Table A.1). However, the improvement from budget is not indicative of forecast year-end results, since a large portion of below-budget spending in the first quarter is expected to be shifted into the remainder of the fiscal year. Further details on financial results for the first quarter of the fiscal year are provided in the appendix.

Table 2.2 summarizes the major changes to the full-year forecast since the February 19 budget.

Consolidated Revenue Fund Revenue

CRF Revenue is projected to be $228 million or 1.0 per cent above budget due to higher forecasts of taxation revenue and the inclusion of equalization payments, partly offset by lower natural resource revenue. The updated forecast in part reflects first-quarter revenue results that show total revenue to be $110 million or 2.1 per cent above budget (see Appendix Table A.2).

The forecast incorporates the effects of an improved economic forecast for 2002, the latest federal government economic outlook, updated estimates of federal equalization entitlements, and revised Crown corporation dividend projections. The forecast also reflects an outlook for weaker natural gas prices in 2002/03 and a more negative impact on stumpage rates due to softwood lumber duties.

- Personal income tax – $50 million below budget due to lower-than-assumed personal income tax assessments for 2001 based on preliminary tax assessment information provided by the federal government. Final assessments for the 2001 tax year as of December 31, 2002 will not be available until late January 2003.
- Corporation income tax – $145 million above budget. A higher federal government forecast of national corporate profits in 2002 will result in higher instalment payments to B.C. in the 2002/03 fiscal year. In addition, higher-than-expected B.C. corporate profits in 2001 results in an improved prior-year adjustment.
- Social service and other taxes – up $92 million mainly due to higher property transfer tax revenue reflecting the year-to-date strength in housing sales.
- Petroleum, natural gas and minerals – $58 million below budget as the effects of weaker-than-assumed natural gas prices are partly offset by higher oil prices.
- Forests – $65 million below budget mainly due to a higher-than-expected impact of U.S. countervail and antidumping duties on stumpage rates. (See

Table 2.3 Consolidated Revenue Fund — Updated Revenue Forecast

	2002/03 Budget Estimate [1]	2002/03 Updated Forecast [1]	Variance [2]	Actual 2001/02 [3]
		($ millions)		
Taxation:				
Personal income	4,854	4,804	(50)	5,375
Corporation income	779	924	145	1,522
Social service	3,802	3,812	10	3,535
Other	3,150	3,232	82	3,220
	12,585	**12,772**	**187**	**13,652**
Natural Resources:				
Petroleum, natural gas and minerals	1,370	1,312	(58)	1,352
Forests	1,145	1,080	(65)	1,253
Columbia River Treaty	85	90	5	360
Water resources, *Wildlife Act* and other	253	261	8	287
	2,853	**2,743**	**(110)**	**3,252**
Other revenue:				
Medical Service Plan premiums	1,299	1,309	10	955
Other	895	878	(17)	974
	2,194	**2,187**	**(7)**	**1,929**
Contributions from Government Enterprises				
Liquor Distribution Branch	640	640	-	637
BC Lottery Corporation	476	485	9	449
BC Hydro	283	342	59	332
Other	21	22	1	19
	1,420	**1,489**	**69**	**1,437**
Contributions from the Federal Government				
Canada health and social transfer	2,805	2,620	(185)	2,445
Equalization	-	285	285	226
Other	181	170	(11)	184
	2,986	**3,075**	**89**	**2,855**
Total Revenue	**22,038**	**22,266**	**228**	**23,125**

[1] Figures exclude dedicated revenue of $768 million collected on behalf of, and transferred to, BC Transit, BC Ferry Corporation, BC Transportation Financing Authority, Greater Vancouver Transportation Authority (*TransLink*), BC Oil and Gas Commission, and Tourism BC. These revenues are included as part of the operations of Crown corporations and agencies, with the exception of *TransLink* and certain other public bodies that are not part of the provincial government.

[2] 2002/03 updated forecast less 2002/03 budget.

[3] For comparative purposes, the figures have been restated to be consistent with the presentation used in 2002/03. The change primarily reflects the inclusion of Forest Renewal BC's revenue in the CRF. The effect of the change is a $163-million increase to the 2001/02 revenue.

the topic box following part two for more details on softwood lumber duties.)

- Contributions from Crown corporations – $69 million above budget mainly due to a $59-million increase in the dividend payment from BC Hydro.
- Federal contributions – up $89 million from budget as B.C.'s estimated equalization entitlement of $285 million is offset by $185 million in lower Canada health and social transfer (CHST) payments and $11 million less from other transfer payments. (See the topic box following part two for a more detailed description on the relationship between equalization and CHST entitlements.)

Revenue Forecast Risks

The main risks to the revenue forecast are related to uncertainty as to:

- the final personal and corporation income tax assessments for the 2001 taxation year;
- economic growth and commodity prices in 2002 and 2003;
- the effect of U.S. softwood lumber duties on stumpage rates;
- the amount of B.C.'s equalization entitlement; and
- national economic growth.

Further information on the revenue forecast and its underlying assumptions are found in Table 2.3 and Appendix Table A.8.

Consolidated Revenue Fund Expenditure

Overall government spending is projected to be $190 million or 0.7 per cent below budget for the full year mainly due to lower debt interest costs and lower caseloads in the Ministry of Human Resources.

The forecast in part reflects spending trends experienced in the first quarter. During the three months ending June 30, total government spending was $363 million lower than expected reflecting below budget spending in almost all programs and lower debt interest costs (see Appendix Table A.3).

In many cases, program spending has been slower-than-planned as ministries introduce structural and program changes outlined in their service plans. However, most ministries are expected to be on budget at year-end with the completion of program changes and the management of various pressures expected later in the year.

Since the February budget, pressures totaling nearly $130 million have been identified. These include $10 million being managed in the Ministry of Forests, $20 million in the Ministry of Public Safety and Solicitor General, and $97 million of pressures that may be funded through the Contingencies vote. These pressures are partially offset by potential savings in the Ministry of Human Resources.

The main changes since the February budget include:

- Children and Family Development – up to $37 million has been allocated from the Contingencies vote to fund school-based programs.
- Forests – although first quarter spending was about 20 per cent below budget due to slower spending in forest investment programs, the ministry is managing a potential spending pressure of $10 million for costs related to the protected area strategies and the softwood lumber dispute.
- Health Services – spending was 4 per cent below budget in the first three months mainly due to slower finalization of restructuring costs in health authority spending plans, lower medical services plan claims caused by physicians' job action and lower-than-assumed Pharmacare claims. However, finalization of health authority service plans and demands in other areas will increase spending so that the ministry is expected to be on budget at year-end.

Table 2.4 Consolidated Revenue Fund — Updated Expenditure Forecast

	2002/03				
	Budget Estimate	Updated Forecast	Variance [1]	Net Pressures/ (Savings) To Be Managed	Actual 2001/02 [2]
			($ millions)		
Legislation	39	39	-	-	38
Officers of the Legislature	32	29	(3)	-	45
Office of the Premier	50	50	-	-	54
Advanced Education	1,900	1,900	-	-	1,935
Agriculture, Food and Fisheries	64	64	-	-	66
Attorney General	556	556	-	-	541
Children and Family Development	1,558	1,558	-	-	1,525
Community, Aboriginal and Women's Services	555	555	-	-	518
Competition, Science and Enterprise	54	54	-	-	73
Education	4,861	4,861	-	-	4,840
Energy and Mines	50	50	-	-	67
Finance	27	27	-	-	26
Forests	621	621	-	10	839
Health Planning	17	17	-	-	25
Health Services	10,205	10,205	-	-	9,689
Human Resources	1,789	1,682	(107)	(10)	1,904
Management Services	48	48	-	-	98
Provincial Revenue	45	45	-	-	49
Public Safety and Solicitor General	506	506	-	20	522
Skills Development and Labour	29	29	-	-	30
Sustainable Resource Management	118	118	-	-	130
Transportation	739	739	-	-	708
Water, Land and Air Protection	162	162	-	-	211
Management of Public Funds and Debt	920	840	(80)	-	761
BC Family Bonus	91	91	-	-	103
Government Restructuring (All Ministries)	230	230	-	-	81
Contingencies (All Ministries) [3]	210	210	-	-	-
Other Appropriations [4]	80	80	-	-	377
Total Expenditure	**25,556**	**25,366**	**(190)**	**20**	**25,255**

1 2002/03 updated forecast less 2002/03 budget.
2 Figures have been restated to reflect the government organization as of June 30, 2002. For comparative purposes, 2001/02 CRF expenditure has been increased $342 million to include Forest Renewal BC expenditures.
3 Contingencies charges of $181 million for 2001/02 are included in ministry spending amounts.
4 Other Appropriations include various boards, commissions, other votes, and special accounts. The 2001/02 amount includes $307 million for assistance to Skeena Cellulose Inc.

- Human Resources – a lower-than-expected employment assistance caseload resulted in spending being $44 million below budget in the first three months. Based on current and expected trends, the monthly caseload is forecast to average 133,000 to 134,000 or about 9 per cent below budget, resulting in potential savings of $107 to $117 million for the year.
- Public Safety and Solicitor General – additional pressures of up to $20 million, primarily for costs relating to the missing women investigation, are being managed by the ministry. An additional $19 million has been

allocated from the Contingencies vote for flood claims under the *Emergency Program Act.*

- Management of public funds and debt (debt interest) – costs were $65 million below budget in the first three months and are expected to be about $80 million below budget for the full year. The improvement reflects a lower-than-expected debt level at the end of 2001/02, the effect of a higher-than-assumed Canada/U.S. exchange rate in the first quarter of 2002/03, and lower borrowing requirements resulting from the updated fiscal outlook.

Table 2.5 2002/03 Pressures Allocated to the Contingencies Vote

Contingencies allocation:	$ millions
Children and Family Development - school based programs	37
Energy and Mines - energy policy and economic initiatives	7
Public Safety and Solicitor General - *Emergency Program Act* - floods	19
Transportation - public transit - deferred interest and start-up costs	34
Subtotal	97
Unallocated	113
Total contingencies budget	**210**

As noted earlier, spending commitments and pressures totaling $97 million have been allocated to the Contingencies vote. Table 2.5 shows that $113 million remains available to offset pressures over the rest of the year.

In addition to the pressures funded for the Ministy of Children and Family Development and Ministry of Public Safety and Solicitor General (noted above), significant allocations of the Contingencies vote include:

- Ministry of Energy and Mines – $7 million for additional costs relating to the energy policy review and economic measures to stimulate activity in the resource sector.
- Ministry of Transportation (Public Transit) – $34 million relating to the write-off of deferred interest and startup costs related to the Port Coquitlam and Vancouver City College-West *SkyTrain* lines.

Further details on the spending forecast, assumptions and sensitivities are provided in Appendix Table A.9.

Crown Corporations and Agencies

Crown corporation net results (after dividend payments) for the fiscal year are forecast to be $33 million below budget reflecting a $59 million increase in the BC Hydro dividend paid to the CRF, partially offset by a $25 million improvement in ICBC. The forecast reflects financial results reported for the April-to-June period as well as expected developments to year-end.

Three-Month Results

For the first three months of the 2002/03 fiscal year, Crown corporations reported a $151-million improvement from budget (see Appendix Table A.4). The better-than-expected results were primarily due to a $63-million improvement by ICBC for the six months ended June 30, 2002, and $27-million higher net income for BC Hydro. The ICBC improvement is mainly due to investment gains realized due to a change in its Canadian equity portfolio management, and lower-than-budget operating expenses.

BC Rail's loss of $51 million for its January-to-June period includes restructuring costs of $65 million. As the restructuring costs were included in the 2001/02 fiscal year, they are excluded from government's 2002/03 results (through a $65-million accounting adjustment). Excluding these costs, BC Rail's results were $10 million above budget.

The above-budget first quarter results do not all flow through to the full-year forecast. For example, BC Hydro's net income will be offset by a higher dividend payment at year-end, and the ICBC investment gains were a one-time occurrence.

Table 2.6 2002/03 Crown Corporation and Agency Updated Forecast

	2002/03			
	Budget Estimate	Updated Forecast	Variance	Actual 2001/02 [1]
		($ millions)		
Taxpayer-supported:				
British Columbia Buildings Corporation	34	35	1	37
British Columbia Ferry Corporation	16	18	2	(23)
BC Transportation Financing Authority	(56)	(49)	7	-
552513 British Columbia Ltd.	-	-	-	(69)
Other [2]	3	(7)	(10)	(6)
	(3)	(3)	-	(61)
Add: Skeena Cellulose Inc. assistance	-	-	-	220
Less: Contributions paid to CRF	(19)	(20)	(1)	(17)
Accounting adjustments [3]	(184)	(185)	(1)	(225)
Taxpayer-supported net results	**(206)**	**(208)**	**(2)**	**(83)**
Self-supported commercial:				
British Columbia Hydro and Power Authority	345	415	70	403
Liquor Distribution Branch	640	640	-	637
British Columbia Lottery Corporation	660	670	10	606
British Columbia Railway Company	14	(56)	(70)	(107)
Insurance Corporation of British Columbia	(10)	15	25	(251)
Other	5	13	8	-
	1,654	1,697	43	1,288
Less: Contributions paid to CRF	(1,401)	(1,469)	(68)	(1,420)
Transfer of BC Hydro earnings (from) to rate stabilization account	5	(65)	(70)	(145)
Accounting adjustments [4]	(184)	(120)	64	(207)
Self-supported commercial net results	**74**	**43**	**(31)**	**(484)**
Crown corporation and agency net results	**(132)**	**(165)**	**(33)**	**(567)**

[1] Restated to be consistent with the presentation used for 2002/03. The change primarily reflects the inclusion of Forest Renewal BC's revenue and expenditures as part of the CRF. The effect of the change is the elimination of FRBC's $179-million loss and the $256-million wind-up transfer to the CRF, resulting in a $435-millon decrease to the net losses of taxpayer-supported Crown corporations.

[2] Includes BC Pavilion Corporation, BC Assessment Authority, BC Securities Commission, the BC Oil and Gas Commission and other Crown corporations and agencies.

[3] Primarily includes the amortization of the cost of highways transferred to the BC Transportation Financing Authority in 1998/99, and, in 2001/02, a $67 million net write-down of 552513 British Columbia Ltd.'s balance sheet as a result of the disposal of Skeena Cellulose Inc.

[4] Primarily reflects adjustments to account for differences between the fiscal year ends of the government and BC Rail and ICBC, and transfers of BC Lottery revenue to charities and local governments. The 2001/02 adjustment includes $65 million of restructuring costs incurred by BC Rail during the January - March 2002 period because these costs were reported in the 2001/02 fiscal year.

Taxpayer-Supported Crown Corporations and Agencies Forecast

At $208 million, the 2002/03 updated forecast for total losses by taxpayer-supported Crown corporations is relatively unchanged when compared to the budgeted losses of $206 million (see Table 2.6).

The updated forecast losses are $125 million higher than the restated taxpayer-supported Crown corporation results for 2001/02. The change is primarily due to the one-time benefit to 552513 British Columbia Ltd. in 2001/02 from the loan guarantee assistance provided by the province to Skeena Cellulose Inc. (Skeena), partially offset by the write-down of Skeena's assets when the province sold Skeena to NWBC Pulp and Paper Ltd.

Commercial Crown Corporations and Agencies Forecast

Self-supported commercial Crown corporations are projected to record combined net contributions of $43 million (after dividend payments) compared to a budgeted $74 million. This change reflects a $59-million higher payment by BC Hydro to the CRF, and a $25-million improvement for ICBC.

The forecast includes the following:

- While BC Hydro's net income before rate stabilization transfers remains unchanged at $350 million, an accounting policy change approved by the BC Utilities Commission for rate-setting and reporting purposes has resulted in a higher level of equity than assumed in the budget. The consequence of this change will be a higher dividend payment at year-end given BC Hydro's allowed rate of return. There is no impact on the overall government bottom line from this change in policy.
- BC Rail's forecast loss of $56 million for its fiscal year (January-to-December) includes restructuring costs of $65 million. As these costs were included in the 2001/02 results, they are excluded from government's 2002/03 forecast (by an offsetting increase in accounting adjustments). Excluding these costs, BC Rail's forecast net income is $5 million less than budget.
- ICBC is forecasting net income of $15 million for 2002/03 compared to a budgeted $10-million loss. The improvement is due to operating cost savings and a positive prior-year claims adjustment, partially offset by an increase in current claims and related costs, and lower forecast investment income.

Crown Corporations and Agencies Forecast Risks

The major Crown corporation forecast assumptions are provided in Appendix Table A.10. The full-year forecast sensitivities for each Crown corporation represent its ongoing business risks. In addition, new decisions by Crown corporation boards of directors with respect to restructuring, valuation allowances and disposals of business segments or assets can also affect results.

Of the major Crown corporations, the BC Buildings Corporation, BC Lottery Corporation and Liquor Distribution Branch are in the process of implementing their approved core service recommendations. In addition, a number of Crown corporations are completing their core service reviews. Recommendations will be reflected in the forecast once they are approved and the Crown corporations have developed implementation plans.

Crown Corporation Dividend Contributions

Crown corporation dividends are recorded in government financial statements as part of CRF revenue. To avoid double counting, these are deducted from Crown corporation net income to arrive at Crown corporation net results. In the 2002/03 updated forecast, Crown corporation dividend contributions are forecast to be $1,489 million, $69 million higher than budget. This increase more than offsets the $36 million increase in Crown corporation net income (before CRF contributions), leading to a $33 million reduction in Crown corporation net results (see Table 2.6a).

Table 2.6a Crown Corporation and Agency Forecast (Before and After Contributions Paid to the CRF)

	2002/03			
	Budget Estimate	Updated Forecast	Variance	Actual 2001/02
		($ millions)		
Crown corporation and agency net income before contributions paid to the CRF				
Taxpayer-supported	(187)	(188)	(1)	(66)
Self-supported commercial	1,475	1,512	37	936
	1,288	1,324	36	870
Less:				
Contributions paid to the CRF	(1,420)	(1,489)	(69)	(1,437)
Crown corporation and agency net results	**(132)**	**(165)**	**(33)**	**(567)**

Provincial Capital Spending

Capital spending is not included in the government's annual surplus or deficit. In accordance with generally accepted accounting principles, annual amortization expenses that recognize the estimated wear and tear of capital assets during the fiscal year are included in the government's annual expenses instead of recording the full capital costs as they occur.

Total capital spending in 2002/03 is forecast at $2.5 billion, $261 million below budget (see Tables 2.7 and 2.8). The updated forecast in part reflects spending trends experienced in the first quarter. During the three months ended June 30, total capital expenditures were $97 million below budget mainly due to slower-than-expected spending for education and transportation projects, as well as reduced ministry minor capital purchases.

Taxpayer-supported capital spending includes construction of schools, hospitals, post-secondary and transportation projects, plus minor capital purchases by ministries and other taxpayer-supported agencies. The updated forecast assumes that taxpayer-supported capital expenditures will be $271 million below budget mainly due to:

- slower-than-anticipated spending on education capital projects;
- slower-than-anticipated spending on health sector restructuring projects;
- delayed and deferred implementation of some BC Ferry Corporation projects;
- a reduction in the projected completion cost of *SkyTrain's* Millennium Line; and
- slower-than-anticipated spending in other areas such as BC Buildings Corporation projects and ministry minor capital purchases.

Table 2.7 Capital Expenditures — Updated Forecast

	2002/03			
	Budget Estimate	Updated Forecast	Variance [1]	Actual 2001/02
		($ millions)		
Taxpayer-supported				
Education	466	405	(61)	360
Health [2]	273	191	(82)	169
BC Transportation Financing Authority	254	248	(6)	324
British Columbia Ferry Corporation	103	74	(29)	57
Rapid Transit Project 2000 [2]	143	135	(8)	199
Government operating (ministries)	301	269	(32)	203
Other [3]	129	76	(53)	102
Total taxpayer-supported	**1,669**	**1,398**	**(271)**	**1,414**
Self-supported commercial				
British Columbia Hydro and Power Authority	745	745	-	545
British Columbia Railway Company	66	70	4	78
Columbia River power projects [4]	86	98	12	118
Insurance Corporation of British Columbia [5]	116	109	(7)	107
British Columbia Lottery Corporation	26	34	8	20
Liquor Distribution Branch	22	15	(7)	26
Total self-supported commercial	**1,061**	**1,071**	**10**	**894**
Total capital expenditures	**2,730**	**2,469**	**(261)**	**2,308**

[1] 2002/03 updated forecast less 2002/03 budget.

[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] Includes BC Housing Management Commission, Provincial Rental Housing Corporation, BC Buildings Corporation, Ministry of Attorney General, Ministry of Public Safety and Solicitor General, Ministry of Children and Family Development, BC Transit and the Pacific National Exhibition.

[4] Columbia Power Corporation and Columbia Basin Trust.

[5] Includes ICBC Properties Ltd.

Self-supported commercial Crown corporation capital spending includes projects undertaken by BC Hydro, BC Rail, ICBC and for Columbia Basin power projects. The updated forecast projects that self-supported capital expenditures will be $10 million above budget.

$50 Million Projects

Consistent with the *Budget Transparency and Accountability Act*, significant capital projects (those with multi-year budgets totalling $50 million or more) are shown in Appendix Table A.6. The annual expenditures for these projects are included as part of the provincial government's capital spending shown in Table 2.7. Spending on these major projects in 2002/03 is forecast at $490 million, and the cumulative total at June 30, 2002 was $3.3 billion.

New projects since the February 2002 budget over the $50 million threshold include:

- UBC Life Sciences Centre (budget – $110 million).
- 5 Mile (Yoho) Bridge on the Trans Canada Highway (cost-shared with the federal government). The total project budget is $61 million of which the province's share is $38 million.
- Seven Mile Dam safety improvements (budget – $100 million).

Table 2.8 Summary of Changes from the 2002/03 Budget — Capital and Debt

	Change	Updated Forecast
	($ millions)	
Capital spending - February Budget		**2,730**
Taxpayer-supported		
Education facilities	(61)	
Health facilities	(82)	
B.C. Ferries	(29)	
Ministry minor capital	(32)	
Other [1]	(67)	**(271)**
Self-supported commercial		
Columbia power projects	12	
Other	(2)	**10**
Capital spending - first *Quarterly Report* updated forecast		**2,469**
Provincial debt at March 31, 2003 - February Budget		**40,728**
March 31, 2002 year-end changes between budget forecast and the *2001/02 Public Accounts*		
Taxpayer-supported debt	(195)	
Self-supported commercial	(241)	
Adjusted provincial debt at March 31, 2003 - post *Public Accounts*		**40,292**
Fiscal 2002/03 changes		
Taxpayer-supported debt		
Provincial government operating:		
- improved CRF operating results	(418)	
- lower ministry minor capital spending	(32)	
- reduced working capital needs	(24)	
Education and health facilities (lower capital spending)	(143)	
Transportation (mainly lower capital spending)	(119)	
Other (mainly BCBC working capital requirements)	(60)	**(796)**
Self-supported commercial		
BC Hydro (reduced working capital requirements)	(257)	
BC Rail (improved cash flows)	(75)	
Other	(15)	**(347)**
Provincial debt at March 31, 2003 - first *Quarterly Report* updated forecast		**39,149**

[1] Includes Ministry of Attorney General, Ministry of Public Safety and Solicitor General, Ministry of Children and Family Development, BC Transportation Financing Authority, Rapid Transit Project 2000 and BC Transit.

Completed projects no longer on the list include:

- Surrey Memorial Hospital – completed in November 2001 on budget at $77 million.
- Royal Jubilee Hospital – completed in March 2002 on budget at $116 million.
- Lion's Gate Bridge – although final paving continued into 2002, the project was substantially complete in December 2001. The total cost was within the revised budget of $125 million approved in the fall of 2001.

- Port Mann Bridge/Cape Horn Interchange – completed in March 2002 on budget at $61 million.
- BC Hydro's Stave Falls replacement – substantially complete in March 2002 with only minimal costs remaining. The total cost was $140 million compared to a budget of $181 million as the scope of the project was reduced.

Provincial Debt

The government and its Crown corporations borrow to finance their own operations, to finance construction of capital projects or other investments, and to re-finance maturing debt.

Provincial debt is reported using two classifications:

- Taxpayer-supported debt includes debt for government operating and capital purposes, and debt of Crown corporations that require a subsidy from the provincial government.
- Self-supported debt includes debt of commercial Crown corporations and the warehouse borrowing program. Commercial Crown corporation debt is generally used to finance capital since enough revenue is earned through the sale of services at commercial rates to cover operating expenses, interest costs and principal repayments. Warehouse borrowing is used to borrow in advance of requirements. These funds are invested until they are needed by the government or its Crown corporations.

Provincial debt is forecast to increase $3.2 billion from the start of the year, to total $39.1 billion at March 31, 2003. The forecast is $1.6 billion lower than budget mainly due to:

- lower-than-expected debt balances at the end of the 2001/02 fiscal year;
- the improved deficit forecast for 2002/03;
- reduced capital spending for education, health, transportation, and ministry minor capital; and
- reduced working capital requirements and improved cash flows for Crown corporations (see Tables 2.8 and 2.9).

Appendix Table A.11 provides a reconciliation between the deficit forecast and the change in total provincial debt.

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 29.5 per cent of GDP at March 31, 2003, while taxpayer-supported debt is forecast at 23.0 per cent of GDP. These ratios are lower than forecast in the February budget mainly due to lower-than-expected debt balances at the end of 2001/02, a smaller deficit forecast, reduced working capital requirements for 2002/03, and a higher nominal GDP forecast for 2002.

Table 2.9 Provincial Debt Summary[1] — Updated Forecast

	Debt Outstanding March 31, 2002	+	Forecast Net Change [2]	=	Debt Outstanding March 31, 2003 Updated Forecast	Debt Outstanding March 31, 2003 Budget Estimate	Variance Above/ (Below) Budget
					($ millions)		
Taxpayer-supported debt							
Provincial government direct operating	13,789		2,832		16,621	17,182	(561)
Education facilities							
Schools	4,092		245		4,337	4,375	(38)
Post-secondary institutions	1,425		97		1,522	1,637	(115)
	5,517		342		5,859	6,012	(153)
Health facilities	1,920		167		2,087	2,199	(112)
Highways, ferries and public transit							
BC Transportation Financing Authority	2,514		204		2,718	2,743	(25)
British Columbia Ferry Corporation	19		(3)		16	72	(56)
British Columbia Transit	79		9		88	94	(6)
Public transit	936		(4)		932	937	(5)
SkyTrain extension	1,044		131		1,175	1,214	(39)
Rapid Transit Project 2000 Ltd	47		(47)		-	-	-
	4,639		290		4,929	5,060	(131)
Other							
British Columbia Buildings Corporation	596		(112)		484	538	(54)
Social housing [3]	299		(79)		220	218	2
Homeowner Protection Office	113		22		135	139	(4)
Universities and colleges - fiscal agency loans	114		(3)		111	113	(2)
Other [4]	188		(24)		164	140	24
	1,310		(196)		1,114	1,148	(34)
Total taxpayer-supported debt	**27,175**		**3,435**		**30,610**	**31,601**	**(991)**
Self-supported debt							
Commercial Crown corporations and agencies							
British Columbia Hydro and Power Authority	6,863		109		6,972	7,442	(470)
British Columbia Railway Company	614		(71)		543	638	(95)
Columbia River power projects [5]	120		142		262	285	(23)
Columbia Power Corporation	64		(64)		-	-	-
Liquor Distribution Branch	13		(1)		12	12	-
	7,674		115		7,789	8,377	(588)
Warehouse borrowing program	1,067		(1,067)		-	-	-
Total self-supported debt	**8,741**		**(952)**		**7,789**	**8,377**	**(588)**
Forecast allowance	**-**		**750**		**750**	**750**	**-**
Total provincial debt	**35,916**		**3,233**		**39,149**	**40,728**	**(1,579)**
Total provincial debt as a per cent of GDP					29.5%	31.3%	-1.8%
Taxpayer-supported debt as a per cent of GDP					23.0%	24.3%	-1.2%
Taxpayer-supported debt per capita ($)					7,406	7,655	(249)

[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] Includes the BC Housing Management Commission and the Provincial Rental Housing Corporation.

[4] Includes student assistance loans.

[5] Includes joint ventures of the Columbia Power Corporation and the Columbia Basin Trust.

Full-Time Equivalents (FTEs)

Total full-time equivalent (FTE) employees of government and taxpayer-supported Crown corporations are projected at 39,500 in 2002/03, down 908 from budget (see Appendix Table A.12).

The 2002/03 full-year forecast of ministry and special office FTEs is 31,000, down about 600 from budget. The decline in part reflects a higher-than-expected take-up of government's voluntary workforce reduction programs.

The taxpayer-supported Crown corporation reduction of 300 FTEs from budget reflects accelerated implementation of their service plans, with the largest reduction in the Legal Services Society, the BC Pavilion Corporation and BC Assessment Authority.

Three-Year Fiscal Plan Update

While still early in the schedule, the three-year plan to balance the budget by 2004/05 remains on track. Tables 2.10 and 2.11 provide an update to the three-year plan. The updated forecasts show modest improvements in all three years of the plan.

The government will continue to monitor the plan's progress and manage the risks associated with the economic and revenue forecasts; changes set out in ministry and Crown corporation service plans; changes resulting from core services reviews of Crown corporations; and implications arising from the Kyoto agreement on the environment and B.C.'s bid to host the 2010 Olympic Winter Games.

Table 2.10 Three-Year Fiscal Plan Update

	Updated Forecast 2002/03	Projected 2003/04	Projected 2004/05
		($ millions)	
Consolidated revenue fund:			
Revenue	22,266	23,307	24,334
Expenditure	(25,366)	(24,935)	(24,128)
CRF balance	(3,100)	(1,628)	206
Crown corporation and agency net results	(165)	(53)	(13)
Expanded entity	-	-	(100)
Forecast allowance	(750)	-	-
Updated (deficit) surplus forecast	(4,015)	(1,681)	93
Capital spending:			
Total capital spending	2,469	2,507	2,231
Taxpayer-supported capital spending	1,398	1,329	1,221
Provincial debt:			
Total debt	39,149	41,917	42,659
Total debt-to-GDP ratio	29.5%	30.2%	29.2%
Taxpayer-supported debt	30,610	32,777	33,160
Taxpayer-supported debt-to-GDP ratio	23.0%	23.6%	22.7%

Consolidated Revenue Fund Revenue

Revenue is forecast to be higher in all three years (2002/03 to 2004/05) compared to the fiscal plan presented on February 19, 2002. Higher revenue from taxation and federal government contributions offset lower revenue from natural resources, Crown contributions and other sources.

- Personal income tax revenue is forecast to be $50 million lower in each year as lower-than-expected 2001 income tax revenue results in a slightly lower revenue base.
- Corporation income tax revenue is forecast to be up $145 million in 2002/03, $196 million in 2003/04 and $61 million in 2004/05. Revenue is up due to a higher forecast for B.C. corporate profits and a higher federal government forecast for national profits. Revenue does not increase as much in 2004/05 as B.C. pays back expected overpayments in respect of 2003/04.
- Other taxes are expected to be up $92 million in 2002/03, and $107 million and $135 million in 2003/04 and 2004/05 respectively, reflecting increases in most taxation sources.
- Natural gas, petroleum and minerals revenue is forecast to be down $58 million in 2003/04 due to weaker-than-expected natural gas prices and lower volumes. The forecast assumes average prices will be slightly higher than the February forecast in 2003/04 and 2004/05, offset by lower volumes.

Table 2.11 Three-Year Fiscal Plan Update Changes from the 2002/03 Budget

	2002/03	2003/04	2004/05
		($ millions)	
2002/03 - 2004/05 Fiscal Plan (deficit)	**(4,400)**	**(1,800)**	**-**
CRF revenue changes:			
Taxation revenue	187	253	146
Energy	(53)	48	9
Forests	(65)	(207)	(188)
BC Hydro dividend	59	(68)	(140)
BC Lottery contribution	9	(26)	(16)
Equalization entitlement, partly offset by reduced CHST	100	150	225
Other	(9)	(2)	(27)
Total revenue changes	**228**	**148**	**9**
CRF expenditure changes:			
Lower debt interest	80	-	-
Lower Ministry of Human Resources and Elections BC referendum costs	110	-	-
Total expenditure changes	**190**	**-**	**-**
Crown corporation and agency changes:			
BC Ferries - improved operating results	2	5	20
BC Hydro - net income (before RSA transfer)	-	(125)	(85)
BC Lottery - net income	10	(30)	(20)
ICBC - improved operating results	25	17	8
Other Crown corporation changes	(1)	11	5
(Increase) decrease in Crown corporation dividends	(69)	93	156
Total Crown corporation and agency changes	**(33)**	**(29)**	**84**
Total changes	**385**	**119**	**93**
Fiscal Plan Update (deficit) surplus	**(4,015)**	**(1,681)**	**93**

- Revenue from electricity sales under the Columbia River Treaty is expected to be up $5 million, $40 million and $30 million over the three years, due to higher electricity prices than assumed in the 2002/03 budget.
- Forests revenue is forecast to be down $65 million in 2002/03, $207 million in 2003/04 and $188 million in 2004/05. The decrease is mainly due to a higher-than-anticipated effect of U.S. softwood lumber duties on stumpage rates.
- The net effect of equalization entitlements and the corresponding offset to CHST revenue is forecast to be an increase of $100 million in 2002/03, $150 million in 2003/04 and $225 million in 2004/05. B.C.'s equalization entitlement is projected to grow as the province's overall economic growth per capita lags the national average over the medium term. (See the topic box at the end of part two.)

Consolidated Revenue Fund Expenditure

Although it is still early in the fiscal year, developments after the first three months of 2002/03 suggest that the government's three-year spending plan remains on track.

In February 2003, the government will be presenting the next three-year fiscal plan extended to 2005/06. In preparation for this, the government will be reviewing its progress in meeting the current three-year plan spending targets, and will also take actions to address a number of emerging pressures and uncertainties that have emerged since the February 2002 budget and fiscal plan.

These uncertainties include:

- Additional cost pressures relating to the Air India trial and the missing women investigation.
- Utilization pressures in the Ministry of Heath Services (e.g. Pharmacare) and other social program areas.
- Additional costs relating to a resolution of the softwood lumber dispute and for implementing protected area strategy decisions.
- Costs relating to treaty agreements with First Nations.
- Additional capital and operating costs should the bid to host the 2010 Winter Olympics be successful. (Economic benefits may also be realized from new infrastructure and related economic activity.)
- Ensuring that public sector compensation remains within the government's current wage mandate.
- Potential savings resulting from successful measures to reduce the provincial employment assistance caseload and helping people to join the workforce.

Developments in these and other areas will be managed within the current three-year plan targets, as well as the plan for 2005/06.

Crown Corporations and Agencies

Crown corporation operating results are subject to market fluctuations, economic changes and policy decisions as outlined in the government's fiscal plan document released in February 2002.

The update shows a decrease to the projected net results of Crown corporations in the first two years of the fiscal plan, followed by an increase in the third year. The changes are primarily due to revised BC Hydro net income and dividend payment projections. It should be noted that BC Hydro's projected fiscal outlook does not assume rate increases, nor does it reflect potential outcomes of the energy policy review. As well, although the government is reviewing the issue, no changes have been made to assumptions regarding grants in lieu of taxes for owned properties.

Capital Spending and Provincial Debt

Projected taxpayer-supported capital spending for the three-year plan is down $271 million in 2002/03, $39 million in 2003/04 and $34 million in 2004/05. The changes to 2003/04 and 2004/05 reflect updated Crown corporation forecasts. Government ministry forecasts remain unchanged, but will be updated as revised service plans are completed this fall.

Projected taxpayer-supported debt outstanding for the three-year plan is down $1.0 billion in 2002/03, $1.1 billion in 2003/04 and $1.2 billion in 2004/05. The lower projected debt outstanding combined with an improved economic forecast has lowered the projected taxpayer-supported debt-to-GDP ratio over the three-year track.

The projections for total provincial debt outstanding are also lower than those presented in February – down $1.6 billion in 2002/03, $1.4 billion in 2003/04 and $1.2 billion in 2004/05.

SOFTWOOD LUMBER COUNTERVAILING AND ANTI-DUMPING DUTIES

One of the major factors affecting B.C.'s economy is the current U.S. duties on Canadian softwood lumber.

Background on Softwood Lumber Duties

When the Softwood Lumber Agreement (SLA) expired in March 2001, the U.S. lumber industry immediately initiated a new countervailing duty (CVD) investigation. In addition to the allegation of subsidies to Canadian lumber producers, the U.S. industry, for the first time, also accused the Canadian industry of dumping (selling below cost) lumber into the U.S. market. The following table summarizes the history of the case.

Softwood Lumber Duties Summary

March 31, 2001	Softwood Lumber Agreement expires.
April 2, 2001	U.S. lumber industry submits petition to U.S. government for countervailing and anti-dumping (AD) investigations.
August 17, 2001	Preliminary countervailing duty applied; bonds required for lumber exports retroactive to May 20, 2001 (19.31%).
November 6, 2001	Preliminary anti-dumping duty applied; bonds required (average 12.58%).
December 15, 2001	Preliminary countervailing duty removed (120 day maximum allowed).
March 22, 2002	Final CVD and AD rulings.
May 2, 2002	Final injury determination of "threat" only; bonds for preliminary duties are cancelled; beginning of "gap period" where no duties apply.
May 22, 2002	Final CVD (18.79%) and AD (average 8.43%) duties applied; cash deposits required.

The duty rates to be applied in the period May 22, 2002 to March 31, 2003 will be recalculated in an Administrative Review based on actual conditions over the April 2002-March 2003 period. The rates determined in the Administrative Review are applied retroactively, and replace the rates imposed on May 22, 2002.

WTO and NAFTA Appeals

The federal government has initiated several challenges at the World Trade Organization (WTO) relating to U.S.-Canada softwood lumber trade issues. These include challenges relating to log export restraints, refunding of duties, the U.S. Department of Commerce's preliminary countervailing duty and anti-dumping determinations, critical circumstances finding, expedited review provisions, and the final countervailing duty determination.

The federal government has also initiated appeals of the final determinations under Chapter 19 of the North American Free Trade Agreement (NAFTA). In addition, Canfor Corporation, Doman Industries and Tembec have announced that they will sue for damages under Chapter 11 of the NAFTA.

The NAFTA and WTO appeals of the CVD and AD determinations are the most important cases. Final rulings in these cases will not be made until the spring of 2003. The results of the WTO appeals

of the preliminary determinations will give an indication as to how the WTO appeals of the final determinations are likely to turn out. The final ruling of the WTO preliminary CVD appeal is to be made public in September 2002.

While it is not softwood lumber specific, the WTO Byrd Amendment case is also important. This amendment states that CVD and AD duties collected by the U.S. government are to be distributed to the "injured" domestic U.S. industry. Ten countries in addition to Canada are challenging the U.S. Byrd amendment and it is expected that the WTO will rule definitively against the U.S.

Negotiations

Talks aimed at a negotiated settlement between the Canadian and U.S. governments began in the summer of 2001. The British Columbia government participated in these discussions to determine whether policy changes could be part of a durable resolution to the dispute. However, the talks broke off on March 21, 2002, the day before the final CVD/AD ruling. Canada and the U.S. were unable to agree on the rate of the proposed transitional export tax, and issues related to provincial forest policy changes. In addition, the U.S. did not accept Canada's proposal for binding dispute resolution by an independent third party. Recent exploratory discussions between Canada and the U.S. are looking at whether resolution of the dispute can be achieved by provinces making policy changes followed by a "changed circumstances" review by the U.S. government.

Production and Prices

Analyzing the impact of the dispute on B.C. lumber production is complex because companies' behaviour hinges on their expectations about how the dispute will be resolved, what level of duties will be applied and when, and how they can affect the calculation of anti-dumping duties.

- After the SLA expired, companies were able to ship duty free into the U.S. until the time of the preliminary determination. Once the preliminary duties were in place and companies were required to put up bonds to cover them, there were still expectations in the Canadian industry that the final rates would be lower, or that negotiations would lead to some lower trade barrier. As noted above, the actual amount of duties owed on current shipments is uncertain until after the Administrative Review.

- One clear effect is that interior B.C. companies increased production and shipments to the U.S. considerably during the gap period, just before the final rate came into effect. Interior production in April 2002 reached a new record, and lumber exports to the U.S. were high as well. However, many analysts expect the impact of the duties could lower B.C. lumber production this fall and winter.

- The North American lumber market is subject to wide price swings. Some of this instability is caused by U.S. trade actions against Canadian lumber. Generally, the price impact of a tariff will be shared with a portion of the duty passed through to consumers and the remainder absorbed by producers. The amount of the duty borne by consumers compared to exporters depends on the nature of demand and supply in each region.

- In addition, the B.C. industry has been operating under some form of U.S. trade barrier, or threat of one, since the early 1980s. Thus, the 27% tariff, while the highest barrier erected by the U.S. so far, is being applied to a market that was already distorted and may not have the same impact as a 27% tariff applied in a formerly free market.

- To date, the preliminary and final duties do not appear to have increased Spruce-Pine-Fir (SPF) lumber prices. There is currently abundant supply in the North American lumber market, and prices are low. In addition to the high levels of production in the first part of the year due to

good weather and the gap period, many interior B.C. companies are maintaining relatively high production levels in order to lower unit costs and reduce dumping duty rates in the Administrative Review. Adding to the competition are high U.S. production levels, imports from other countries into the U.S., and the use of substitutes in construction. Despite strong U.S. demand for SPF lumber, duties have not led to price increases due to ample supply and availability of substitute products.

- Over the medium term, a 27% duty on Canadian lumber (which supplies over 30% of U.S. lumber requirements) is expected to have a negative effect on Canadian lumber production. A positive effect on U.S. lumber prices is anticipated, if U.S. demand remains strong.
- In contrast to SPF, the duties applied to cedar do appear to have been passed through to consumers resulting in higher cedar prices in U.S. markets. Canada is the main source of supply and cedar is a speciality product without close substitutes. Therefore, Canadian producers are able to pass through more of the duty on cedar than on SPF lumber.

Regional and Sectoral Issues

The B.C. coast and interior lumber industries are fundamentally different. The interior is highly competitive, whereas the Coast is in the middle of a major restructuring phase, due largely to higher logging costs and the lingering effects of the collapse of the Japanese market, as well as the softwood lumber dispute. Several coastal mills shut down in 2001 due partially to the imposition of the preliminary duties, and many of these mills remain closed.

For Interior mills, prices are currently low at about US$210/thousand board feet for SPF 2X4s although prices are expected to increase over the next few months. At current prices, a duty of 27% reduces B.C. sawmill returns to about US$165/thousand board feet on SPF 2X4 production. Market observers used to consider that the "break even point" for B.C. interior sawmills was about US$220/thousand board feet. However, recent evidence suggests it is lower than this in the B.C. Interior, and there is significant variation in costs around this average. Furthermore, some Interior companies pay a lower dumping duty than the 8.43% "all others" rate (Canfor 5.96%; Slocan 7.71%; West Fraser 2.18%), while others pay higher rates (Abitibi 12.44%; Tembec 10.21%; Weyerhaeuser 12.39%).

Regionally, there are some parts of British Columbia that are always on the margin of being economically viable for logging. Operators in these areas will likely be the first to be affected by the duty. In addition, some companies have been running several sawmills at less than capacity for a number of years. The duty might be the final straw to force these companies to shut their most inefficient mills. In the longer run, the tariff will reduce the profitability of Canadian sawmills relative to the U.S. and lead to proportionately less investment in the sector and a decrease in relative competitiveness. Slocan has announced shutdowns at Valemount and Slocan, and was the first major interior company to indefinitely curtail production at some of its mills since the imposition of the duties.

Remanufacturers are particularly hurt by the duty since U.S. Customs is charging it on a final mill basis, rather than a first mill basis. A first mill duty would be assessed on the value of the lumber input in remanufacturers' products rather than on the products' final value. Canada argues that remanufacturers should be excluded since any subsidy on stumpage is extinguished in an arms length sale of logs or lumber.

Stumpage Rates and B.C. Government Revenue

The provincial government uses the Comparative Value Pricing (CVP) system to set stumpage rates for much of the province. In general terms, CVP stumpage rates are based on the price received by B.C. producers. Stumpage rates are set every 3 months.

As the duties lower the prices received by producers, this in turn leads to lower stumpage rates. Interior stumpage rates will therefore drop significantly on October 1, 2002 as a result of the duties and low lumber prices. Coastal stumpage rates will remain at about the same level as before because coastal cedar lumber prices increased when the duties were applied by the U.S.

The main change in the revised revenue forecast compared to the February 19 budget is the assumption that producer prices will decline by up to 27% and that stumpage rates will be correspondingly reduced. This forecast assumes no change to provincial stumpage policy and no resolution of the softwood lumber dispute. It could therefore be thought of as a conservative outlook.

Uncertainty

In general, the outlook for the forest sector is quite uncertain and has the potential to be volatile. The CVD and AD duties have significantly increased the usual uncertainty about future lumber prices. However, if a satisfactory resolution to the dispute is achieved, either due to negotiations or through decisions at the WTO or NAFTA, it would increase stability in the sector and have a positive effect on B.C. and the softwood lumber industry.

EQUALIZATION

What is Equalization?

Equalization is a federal program of unconditional transfers intended to provide less wealthy provinces with "sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation" (Section 36(2) of the *Constitution Act* of 1982).

The Equalization program is authorized by federal legislation and funded entirely out of federal revenues. All Canadian taxpayers contribute to the financing of the Equalization program, whether they live in a province that receives Equalization or in a province that does not.

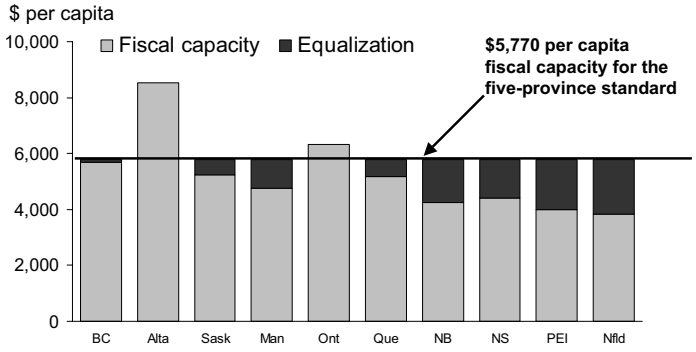
How Are Equalization Payments Calculated?

The Equalization formula begins by estimating each province's ability to raise revenue from over 30 separate revenue sources. This ability, called *fiscal capacity*, is measured as the per capita revenue that would be derived if national average tax rates were applied to each of the 30-plus tax bases.

Equalization is based on a province's ability to raise revenue, not actual revenue-raising or tax effort. For example, although Alberta does not levy a retail sales tax, its fiscal capacity as measured by the Equalization program includes the revenues it would collect if it did have a sales tax (levied at the national average rate).

The fiscal capacity (prior to federal transfers) of the ten provinces currently ranges from a low of $3,828 per capita in Newfoundland to a high of $8,532 per capita in Alberta. In other words, applying national average tax rates would generate well over twice as much revenue in Alberta than in Newfoundland (see Chart 1).

Chart 1 2002/03 Fiscal Capacity & Equalization



	BC	Alta	Sask	Man	Ont	Que	NB	NS	PEI	Nfld
Fiscal capacity	5,691	8,532	5,253	4,767	6,314	5,162	4,244	4,424	3,991	3,828
Equalization	79	--	517	1,003	--	609	1,527	1,346	1,779	1,942

Note: Fiscal capacity calculated at national average rates as measured in the Equalization program.
Source: Finance Canada official estimates, February 2002

To determine eligibility for Equalization, each province's fiscal capacity in each of the 30-plus revenue sources is compared to the "five-province standard", a population-weighted average of fiscal capacities in British Columbia, Saskatchewan, Manitoba, Ontario and Quebec. If a province's fiscal capacity is lower than the standard, a fiscal capacity deficiency is established for that base; if it is higher, a fiscal capacity surplus is established. A province receives Equalization payments if, after its fiscal capacity deficiencies and surpluses are summed for all of the revenue sources, an overall fiscal capacity deficiency is demonstrated.

Provinces with overall fiscal capacity deficiencies are provided with cash transfers (Equalization payments) sufficient to bring their fiscal capacity up to the level of the five-province standard. Currently, the federal government estimates this to be $5,770 per capita for 2002/03.

Note that, while Equalization payments serve to mitigate some of the provincial variance in revenue-raising ability, they do not eliminate all of the disparities. The current Equalization system raises the fiscal capacities of the recipient provinces to 97.4 per cent of the national average. Ontario's fiscal capacity is almost 107 per cent of the national average and Alberta's 144 per cent.

Relative Provincial Performance is What Matters for Equalization

Eligibility for Equalization is not based directly on the economic performance of individual provinces considered in isolation. What matters in Equalization is the ability of a province to raise revenues relative to other provinces.

By itself, economic growth is insufficient to determine a province's Equalization status. As explained above, a province is entitled to receive Equalization payments if it has an overall fiscal capacity deficiency. It is the province's economic growth relative to that of other provinces, particularly Ontario, which is relevant (Ontario tends to dominate the Equalization formula because of its size and inclusion in the five-province standard). Hence, despite improving economic conditions, a province's equalization entitlement may still increase from one year to the next because other provincial economies are growing more rapidly.

Similarly, improving economic fortunes may not be sufficient for B.C. to shed its recipient status. What matters is whether or not B.C.'s revenue-raising capacity improves sufficiently relative to that of other provinces.

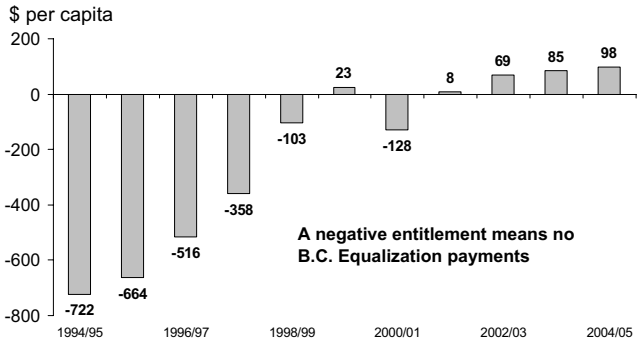
B.C. as a Recipient Province

B.C. is currently receiving Equalization payments for 1999/00, 2001/02 and 2002/03. B.C. was not eligible for Equalization for 2000/01, primarily due to a spike in energy-related revenues in that year (see Chart 2).

B.C. is expected to retain its status as a recipient province over the forecast period (2002/03 through 2004/05) as the forecast assumes slower economic growth per capita in B.C. than the national average. As a result the gap between B.C.'s fiscal capacity and the five-province standard is expected to widen. B.C.'s fiscal capacity would have to grow faster than the standard in order to return to its former non-recipient status.

B.C.'s recent status as a recipient province is not unprecedented. B.C. received Equalization payments in the first five years of the program (1957/58 - 1961/62). However, at that time, only three tax bases were included in the formula (succession duties and personal and corporation income taxes), and the standard was the average yield of the two wealthiest provinces (at that time, Ontario and B.C.). In

Chart 2 Trends in B.C. Equalization Entitlements



Source: Finance Canada historical estimates; BC Ministry of Finance 2001/02 to 2004/05 forecasts

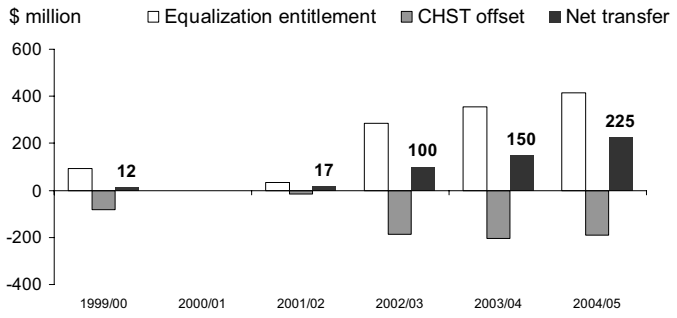
terms of the modern program (full range of tax bases, five-province standard), B.C. also came close to receiving Equalization in the mid-1980s.

Interaction Between CHST and Equalization

Because B.C. is receiving Equalization, its CHST cash is reduced from what it would have been had the province retained its non-recipient status. This is a result of the CHST allocation formula that ensures that those provinces receiving Equalization payments are not compensated twice for their relatively weaker tax bases.

In 1999/00 and 2001/02, B.C.'s Equalization entitlements were almost completely offset by CHST declines, so the net fiscal impact is minimal (see Chart 3). This is due to the low amount of B.C.'s Equalization entitlement for those two years. As Equalization entitlement increases, the relative size of the CHST offset declines.

Chart 3 B.C. Equalization/CHST Net Transfers



Source: Finance Canada historical estimates; BC Ministry of Finance 2001/02 to 2004/05 forecasts

The Estimation Process

Estimates of payment amounts are calculated by the federal government twice per year and, for any given year, are not finalized until 30 months after the end of the fiscal year. For example, federal estimates of Equalization entitlements for 2002/03 will be calculated twice per year, starting in February/March 2002, and will not be finalized until September/October 2005. With each new calculation, payments are adjusted to reflect earlier over- or under-payments.

This lag between the fiscal year-end and the final Equalization estimates reflects the time it takes to obtain actual data for the approximately 400 variables required for the very complex Equalization formula. Since preliminary federal estimates are based on data from previous years, Equalization entitlements can change significantly over the three and half year period. For example, B.C.'s Equalization entitlement for 1999/00 is currently over $1 billion higher than initially estimated in February 1999 (see Chart 4).

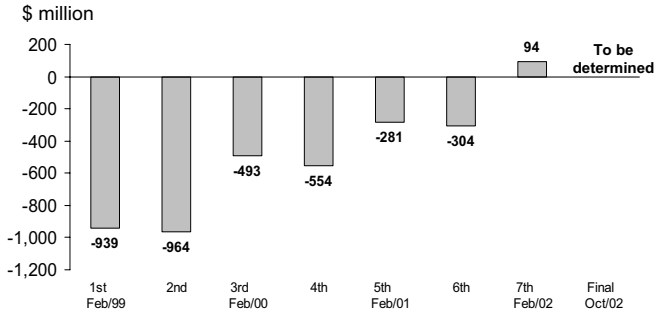
The main reason for the shift in February 2002 (from the 6th to the 7th estimate) was a methodological change by Statistics Canada to data used in the Equalization formula to measure the property tax base.

The volatility of Equalization estimates from one estimate to the next, and from one year to the next, has several sources:

- Changes in relative provincial economic circumstances.
- Policy changes, such as provincial tax increases or decreases, which can affect the national average tax rate.

- Changes in data used in the formula (e.g. availability of new data, adjustments or updates to existing data; and methodological changes).
- Changes in the Equalization formula itself. The Equalization program must be renewed, through federal legislation, every five years and the current five-year cycle ends March 31, 2004. The federal government typically introduces changes to the Equalization formula at the beginning of each renewal period.

Chart 4 B.C.'s 1999/00 Equalization Entitlement



Source: Finance Canada official estimates

APPENDIX: FINANCIAL RESULTS
For the Three Months Ended June 30, 2002

First Quarterly Report 2002/03 September 2002

Table A.1 Operating Results
for the Three Months Ended June 30, 2002
(Unaudited)

	2002/03			Actual
	Budget [1]	Actual	Variance [2]	2001/02 [3]
		($ millions)		
Consolidated revenue fund (CRF):				
Revenue	5,250	5,360	110	5,467
Expenditure	(6,612)	(6,249)	363	(6,174) [4]
CRF balance	**(1,362)**	**(889)**	**473**	**(707)**
Crown corporations and agencies:				
Taxpayer-supported	(37)	7	44	19
Self-supported commercial	(25)	82	107	73
Crown corporation and agency net results	**(62)**	**89**	**151**	**92**
(Deficit) surplus before joint trusteeship	**(1,424)**	**(800)**	**624**	**(615)**
Joint trusteeship (one-time adjustment)	-	-	-	1,464 [4]
(Deficit) surplus	**(1,424)**	**(800)**	**624**	**849**

[1] Figures reflect three-month allocations of the full-year budget based on planned activities and seasonal patterns.

[2] 2002/03 actual less 2002/03 budget

[3] Restated to be consistent with the presentation used in 2002/03. The change primarily reflects the inclusion of Forest Renewal BC's revenue and expenditures as part of the CRF. The effect of the change on the CRF is a $3-million increase to revenue and a $40-million increase to expenditure, resulting in a $37-million increase to the CRF negative balance. The CRF effect is offset by a $37-million decrease in the taxpayer-supported Crown corporation net losses. There is no change to the 2001/02 surplus from this restatement.

[4] In addition to the FRBC restatement, CRF expenditures for 2001/02 have been increased by $15 million to reflect the reclassification of the amortization of unfunded pension liabilities as part of joint trusteeship which is shown as an adjustment to the summary accounts bottom line. The joint trusteeship adjustment was also increased an additional $169-million to reflect updated actuarial valuation information. The impact of this restatement is a $169-million increase to the 2001/02 first quarter surplus.

Table A.2 Consolidated Revenue Fund Revenue by Source
for the Three Months Ended June 30, 2002
(Unaudited)

	2002/03			Actual
	Budget [1]	Actual [2]	Variance [3]	2001/02 [4]
			($ millions)	
Taxation:				
Personal income	1,195	**1,195**	-	1,115
Corporation income	217	**217**	-	317
Social service	969	**965**	(4)	912
Other	840	**892**	52	832
	3,221	**3,269**	**48**	**3,176**
Natural Resources:				
Petroleum, natural gas and minerals	324	**290**	(34)	478
Forests	116	**127**	11	124
Columbia River Treaty	16	**17**	1	194
Water resources, *Wildlife Act* and other	66	**63**	(3)	77
	522	**497**	**(25)**	**873**
Other revenue:				
Medical Services Plan premiums	316	**324**	8	237
Other	191	**202**	11	218
	507	**526**	**19**	**455**
Contributions from Government Enterprises:				
Liquor Distribution Branch	143	**151**	8	144
British Columbia Lottery Corporation	111	**138**	27	113
Bristish Columbia Hydro and Power Authority	-	**-**	-	-
Other	-	**-**	-	-
	254	**289**	**35**	**257**
Contributions from the Federal Government:				
Canada health and social transfer	701	**655**	(46)	662
Equalization	-	**82**	82	-
Other	45	**42**	(3)	44
	746	**779**	**33**	**706**
Total Revenue	**5,250**	**5,360**	**110**	**5,467**

[1] Figures reflect three-month allocations of the full-year budget based on planned activity and seasonal patterns.

[2] Actual figures for 2002/03 exclude $192 million of dedicated revenue collected on behalf of, and transferred to, BC Transit, BC Ferries, BC Transportation Financing Authority, Greater Vancouver Transportation Authority (*TransLink*), BC Oil and Gas Commission, Tourism BC and other entities.

[3] 2002/03 actual less 2002/03 budget.

[4] For comparative purposes, the figures have been restated to be consistent with the presentation used in 2002/03. The change primarily reflects the inclusion of Forest Renewal BC's revenue in the CRF. The effect of the change is a $3-million increase to the 2001/02 revenue.

Table A.3 Consolidated Revenue Fund Expenditure by Ministry
for the Three Months Ended June 30, 2002
(Unaudited)

	2002/03			Actual
	Budget [1]	Actual	Variance [2]	2001/02 [3]
		($ millions)		
Legislation	10	10	-	7
Officers of the Legislature	11	6	(5)	20
Office of the Premier	12	9	(3)	13
Advanced Education	449	445	(4)	444
Agriculture, Food and Fisheries	24	23	(1)	14
Attorney General	134	121	(13)	127
Children and Family Development	390	371	(19)	353
Community, Aboriginal and Women's Services	148	130	(18)	139
Competition, Science and Enterprise	15	8	(7)	20
Education	1,442	1,428	(14)	1,355
Energy and Mines	14	13	(1)	18
Finance	6	5	(1)	8
Forests	118	95	(23)	141
Health Planning	4	3	(1)	7
Health Services	2,680	2,572	(108)	2,345
Human Resources	450	406	(44)	452
Management Services	12	11	(1)	14
Provincial Revenue	11	8	(3)	16
Public Safety and Solicitor General	126	116	(10)	120
Skills Development and Labour	6	6	-	6
Sustainable Resource Management	23	24	1	28
Transportation	182	174	(8)	187
Water, Land and Air Protection	37	32	(5)	76
Management of Public Funds and Debt	226	161	(65)	196
BC Family Bonus	24	24	-	37
Government Restructuring (All Ministries)	38	28	(10)	-
Other Appropriations [4,5]	20	20	-	31
Total Expenditure	**6,612**	**6,249**	**(363)**	**6,174**

1 2002/03 actual less 2002/03 budget.

2 Figures reflect three-month allocations of the full-year budget based on planned activities and seasonal patterns.

3 Figures have been restated to reflect the government organization as of June 30, 2002. For comparative purposes, 2001/02 expenditure has been increased $40 million to include Forest Renewal BC expenditures, and $15 million to reflect the reclassification of the amortization of unfunded pension liabilities as part of joint trusteeship which is shown as an adjustment to the summary accounts bottom line.

4 Charges to the Contingencies vote have been allocated to individual ministry spending.

5 Other Appropriations include the Contingencies (All Ministries) and New Programs Vote, the Commissions on Collection of Public Funds and Allowance for Doubtful Accounts Vote, the Environmental Assessment Office Vote, the Environmental Boards and Forest Appeals Commission Vote, the Forest Practices Board Vote, the Public Sector Employers' Council Vote, Seismic Mitigation Vote, the Insurance and Risk Management Special Account, the Unclaimed Property Special Account, and other appropriations.

Table A.4 Crown Corporation and Agency Results
for the Three Months Ended June 30, 2002
(Unaudited)

	2002/03			Actual
	Budget [1]	Actual	Variance [2]	2001/02 [3]
		($ millions)		
Taxpayer-supported:				
British Columbia Buildings Corporation	9	13	4	10
British Columbia Ferry Corporation	5	12	7	8
BC Transportation Financing Authority	(12)	(4)	8	30
552513 British Columbia Ltd (Skeena Cellulose)	-	-	-	(13)
Other [4]	(9)	(7)	2	1
	(7)	14	21	36
Less: Accounting adjustments [5]	(30)	(7)	23	(17)
Taxpayer-supported net results	**(37)**	**7**	**44**	**19**
Self-supported commercial:				
British Columbia Hydro and Power Authority	13	40	27	74
Liquor Distribution Branch	143	151	8	144
British Columbia Lottery Corporation	157	178	21	151
British Columbia Railway Company	4	(51)	(55)	(4)
Insurance Corporation of British Columbia	(54)	9	63	(31)
Other	1	1	-	1
	264	328	64	335
Less: Contributions paid to CRF	(254)	(289)	(35)	(257)
Accounting adjustments [6]	(35)	43	78	(5)
Self-supported commercial net results	**(25)**	**82**	**107**	**73**
Crown corporation and agency net results	**(62)**	**89**	**151**	**92**

[1] Figures reflect three-month allocations of the full-year budget based on planned activities and seasonal patterns.

[2] 2002/03 actual less 2002/03 budget.

[3] Restated to be consistent with the presentation used in 2002/03. The change primarily reflects the inclusion of Forest Renewal BC's revenue and expenditures as part of the CRF. The effect of the change is the elimination of FRBC's $37-million loss, resulting in a positive impact on the net results of taxpayer-supported Crown corporations.

[4] Includes BC Pavilion Corporation, BC Assessment Authority, BC Securities Commission, the Oil and Gas Commission and other Crown corporations and agencies.

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

[6] Primarily reflects adjustments to account for differences between the fiscal year-ends of the government and BC Rail and ICBC, and transfers of BC Lottery revenue to charities and local governments. The 2002/03 adjustment includes a reversal of $65 million in additional restructuring costs incurred by BC Rail during the January - March 2002 period because these costs were included in the 2001/02 summary accounts results.

Table A.5 Capital Expenditures
for the three Months Ended June 30, 2002
(Unaudited)

	2002/03			Actual
	Budget [1]	Actual	Variance [2]	2001/02
		($ millions)		
Taxpayer-supported				
Education	82	61	(21)	53
Health [3]	28	27	(1)	31
BC Transportation Financing Authority	51	40	(11)	67
British Columbia Ferry Corporation	26	14	(12)	7
Rapid Transit Project 2000 [3]	29	22	(7)	59
Government operating (ministries)	42	21	(21)	21
Other [4]	34	18	(16)	45
Total taxpayer-supported	**292**	**203**	**(89)**	**283**
Self-supported commercial				
British Columbia Hydro and Power Authority	142	160	18	105
British Columbia Railway Company	17	17	-	22
Columbia River power projects [5]	20	12	(8)	56
Insurance Corporation of British Columbia [6]	32	19	(13)	20
British Columbia Lottery Corporation	9	9	-	3
Liquor Distribution Branch	7	2	(5)	6
Total self-supported commercial	**227**	**219**	**(8)**	**212**
Total capital expenditures	**519**	**422**	**(97)**	**495**

[1] Reflects three-month allocations of the full-year budget based on planned activities and seasonal patterns.

[2] 2002/03 actual less 2002/03 budget.

[3] 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*).

[4] Includes BC Housing Management Commission, Provincial Rental Housing Corporation, BC Buildings Corporation, Ministry of Attorney General, Ministry of Public Safety and Solicitor General, Ministry of Children and Family Development, BC Transit and the Pacific National Exhibition.

[6] Columbia Power Corporation and Columbia Basin Trust.

[7] Includes ICBC Properties Ltd.

Table A.6 Capital Expenditure Projects Greater Than $50 million

Note: Information in bold type denotes changes from the February 19 Budget

Project	Start Date	Forecast Completion Date	Cumulative Spending at Mar. 31, 2002[1] +	Estimated Spending April 1 to June 30	Estimated Cumulative Spending at = June 30, 2002	Total Project Budget[2]	Total Project Forecast [2]
				$ millions			
Advanced Education Facilities							
UBC - Life Sciences Centre	**Apr. 2002**	**Sept. 2004**	**-**	**-**	**-**	**110**	**110**
Health Facilities							
Vancouver General Hospital, Jim Pattison Pavilion	Sept. 2000	**Jan. 2005** [3]	36	4	40	156	156
Prince George Regional Hospital	Spring 2001	Mar. 2004	20	3	23	50	50
Fraser Valley Health Centre/Eastern Fraser Valley Cancer Clinic	April 2001	Mar. 2007	1	1	2	211	211
Total health facilities			57	8	65	417	417
Transportation							
Vancouver Island Highway	1991	Dec. 2002	1,253	4	1,257	**1,294** [4]	**1,278**
Trans Canada Highway - 5 Mile (Yoho) Bridge	**May 1999**	**Oct. 2005**	**11**	**2**	**13**	**38** [5]	**38** [5]
Nisga'a Highway	Aug. 1998	Fall 2005	18	2	20	52	52
SkyTrain Extension - Phase 1	Sept. 1998	Dec. 2002	1,007	18	1,025	1,167	**1,127**
SkyTrain Systems Upgrades [6]	Oct. 1999	June 2002	74	1	75	94	**87**
SkyTrain Fleet Expansion [6]	Oct. 1998	Mar. 2002	65	-	65	68	68
Total transportation			2,428	27	2,455	2,713	2,650
Power Generation							
British Columbia Hydro and Power Authority							
- Burrard Upgrade (including 6 selective catalytic reduction systems) [7]	June 1993	**Mar. 2004**	177	2	179	222	**220**
- Georgia Strait Pipeline Crossing [8]	April 2000 [9]	Oct. 2004	18	2	20	131	**170**
- Vancouver Island Generation Project	April 2000 [9]	Nov. 2004	24	25	49	**370** [10]	**370** [10]
- Addition of Fourth Generating Unit at Seven Mile Dam	Feb. 1995	Mar. 2003	41	10	51	97	**93**
- Seven Mile Dam safety improvements	**June 1999**	**Mar. 2005**	**11**	**2**	**13**	**100**	**100**
Arrow Lakes Power Company [11]							
- Arrow Lakes Generating Station	Feb. 1999	Dec. 2002	260	4	264	270	270
Total power generation			531	45	576	1,190	1,223
Other							
ICBC Properties Ltd.							
- Surrey City Centre	Sept. 1999	Jan. 2003	169	17	186	253	253

1 Total expenditures since commencement of each project.
2 Represents sum of annual budgeted expenditures to complete each project.
3 Project components were completed starting in December 2000 and will continue over the next three years.
4 The budget was decreased by $14 million to reflect a reduction in the scope of the project.
5 Amount represents the provincial portion of this cost-shared project with the federal government. Total project budget is $61 million.
6 Funds for these projects are fully recovered from the Greater Vancouver Transportation Authority (*TransLink*).
7 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.
8 Project co-sponsored with a private sector company. The amounts shown represent BC Hydro's 50 per cent share of the costs; however, only partial funding has been approved to date.
9 Initial planning, preliminary field work and engineering design costs. Physical construction will begin at a later date.
10 In May 2002, a proposed private sector partnership to develop this project was terminated. The total budget and revised forecast amounts have been increased to reflect BC Hydro's 100 per cent ownership of the project.
11 A joint venture of the Columbia Power Corporation and the Columbia Basin Trust.

Table A.7 Provincial Debt[1] Outstanding
For the Three Months Ended June 30, 2002
(Unaudited)

	Debt Outstanding March 31, 2002 +	Net Change [2] =	Debt Outstanding June 30, 2002 Actual	Debt Outstanding June 30, 2002 Budget [3]	Variance Above/(Below) Budget	Debt Outstanding June 30, 2001 [4]
			($ millions)			
Taxpayer-supported debt						
Provincial government direct operating	13,789	770	14,559	15,055	(496)	12,347
Education facilities						
Schools	4,092	40	4,132	4,180	(48)	3,909
Post-secondary institutions	1,425	5	1,430	1,495	(65)	1,402
	5,517	45	5,562	5,675	(113)	5,311
Health facilities	1,920	19	1,939	1,981	(42)	1,810
Highways, ferries and public transit						
BC Transportation Financing Authority	2,514	(14)	2,500	2,575	(75)	2,204
British Columbia Ferry Corporation	19	(1)	18	32	(14)	20
British Columbia Transit	79	2	81	87	(6)	78
Public transit	936	-	936	939	(3)	944
SkyTrain extension	1,044	31	1,075	1,100	(25)	896
Rapid Transit Project 2000 Ltd	47	(42)	5	3	2	115
	4,639	(24)	4,615	4,736	(121)	4,257
Other						
British Columbia Buildings Corporation	596	(85)	511	553	(42)	558
552513 British Columbia Ltd. (Skeena Cellulose Inc.)	-	-	-	-	-	351
Social housing [5]	299	(37)	262	251	11	264
Homeowner Protection Office	113	4	117	120	(3)	82
Universities and colleges - fiscal agency loans	114	(2)	112	114	(2)	120
Other [6]	188	1	189	166	23	281
	1,310	(119)	1,191	1,204	(13)	1,656
Total taxpayer-supported debt	**27,175**	**691**	**27,866**	**28,651**	**(785)**	**25,381**
Self-supported debt						
Commercial Crown corporations and agencies						
British Columbia Hydro and Power Authority	6,863	284	7,147	7,398	(251)	6,696
British Columbia Railway Company	614	(9)	605	635	(30)	612
Columbia River power projects [7]	120	(1)	119	119	-	92
Columbia Power Corporation	64	(40)	24	48	(24)	54
Liquor Distribution Branch	13	-	13	13	-	2
	7,674	234	7,908	8,213	(305)	7,456
Warehouse borrowing program	1,067	397	1,464	730	734	1,060
Total self-supported debt	**8,741**	**631**	**9,372**	**8,943**	**429**	**8,516**
Total provincial debt	**35,916**	**1,322**	**37,238**	**37,594**	**(356)**	**33,897**

[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 three-month allocation of the full-year budget based on planned activities and seasonal patterns.

[4] Restated to include vehicle lease obligations of $45 million.

[5] Includes the BC Housing Management Commission and the Provincial Rental Housing Corporation.

[6] Includes student assistance loans.

[7] Includes joint ventures of the Columbia Power Corporation and the Columbia Basin Trust.

Table A.8 Main Revenue Assumptions and Sensitivities — Consolidated Revenue Fund

Revenue Source and Assumptions ($ millions)	2002/03 Budget Estimate	2002/03 Updated Forecast	2002/03 Full-Year Sensitivities
Personal Income Tax	**$4,854**	**$4,804**	
B.C. personal income growth	2.0%	2.4%	±1% change in 2002 B.C. personal income growth equals ±$50 to $100 million
B.C. tax base growth	2.5%	2.9%	
Includes Budget 2002 measures:			
Increase the sales tax credit	-$20	-$20	
Increase disability tax credits	-$4	-$4	
B.C. Family bonus adjustments	+$3	+$3	
Prior-year assessments:			
2001 personal income growth	2.2%	2.6%	±0.01% change in 2001 effective yield equals ±$90 million one-time and ±$90 million revenue-base change.
2001 tax-base growth	2.2%	2.6%	
A correction of a recent federal error in the calculation of personal income tax remittances to B.C. has been factored into the revenue forecast for 2002/03 and onwards. The federal government has recently forgiven the potential liability for the 1997 to 1999 tax years.			
Corporation Income Tax	**$779**	**$924**	
National tax base growth	-10.0%	-0.5%	±1% change in the 2002 national tax base equals ±$10 to $15 million.
B.C. instalment share	9.5%	9.5%	
B.C. corporate profits growth	-7.5%	-2.4%	±1% change in the 2001 B.C. tax base equals ±$10 to $15 million in 2002/03.
B.C. general tax rate	13.5%	13.5%	
Includes Budget 2002 measure of raising the small business taxable income threshold	-$10	-$10	
Prior-year adjustment:	-$152	-$67	
Revenue is recorded on a cash basis. Due to lags in the federal collection and instalment systems, changes to the B.C. corporate profits and tax base forecasts affect revenue in the succeeding year. For example, 2002/03 instalments from the federal government are based on B.C.'s share of the national tax base for the 2000 tax-year (assessed as of December 31, 2001) and a forecast of the 2002 national tax base.			
Social Service Tax	**$3,802**	**$3,812**	
Consumer expenditure growth	3.2%	4.6%	±1% change equals up to ±$30 million.
Machinery and equipment spending growth	2.3%	0.0%	±1% change equals up to ±$10 million.
Other final demand	n.a.	-0.7%	±1% change in other expenditure equals up to ±$20 million.
Includes Budget 2002 measures:			
Various exemptions/refunds	-$17	-$19	
General rate increased to 7.5%	+$250	+$250	
Other Taxes	**$3,150**	**$3,232**	
Nominal GDP growth	1.0%	1.9%	±1% change in nominal GDP equals ±$30 to $35 million.
Real GDP growth	0.6%	1.4%	Individual sources depend on other factors, e.g. property transfer taxes depend on real estate sales.
Petroleum, Natural Gas and Minerals	**$1,370**	**$1,312**	
Natural gas price ($Cdn/gigajoule)	$3.65	$3.45	±$0.50 change in the natural gas price equals ±$125 to $175 million.
Natural gas volumes (annual per cent change)	3.8%	1.9%	±1% change in natural gas volumes equals ±$5 to $15 million.
Auctioned land base (000 hectares)	653	610	±5% change in price or volume of land sales equals ±$11 million.
Average bid price/hectare ($)	$375	$350	

Table A.8 Main Revenue Assumptions and Sensitivities — Consolidated Revenue Fund — *Continued*

Revenue Source and Assumptions ($ millions)	2002/03		2002/03 Full-Year Sensitivities
	Budget Estimate	Updated Forecast	
Forests	**$1,145**	**$1,080**	
SPF 2x4 price ($US/1000 bd ft, calendar year average)	$250	$249	±US$50 change in SPF price equals ±$125 to $150 million.
Hemlock price ($US/1000 bd ft, calendar year average)	$600	$600	±US$100 change in hemlock price equals ±$15 to $25 million.
Pulp price ($US/tonne, calendar year average)	$500	$458	±US$50 change in pulp price equals ±$10 to $15 million.
Interior Crown harvest volumes (million cubic metres)	44.0	45.0	±10% change in Interior harvest volumes equals ±$60 to $100 million.
Coastal Crown harvest volumes (million cubic metres)	14.0	13.0	±10% change in Coastal harvest volumes equals ±$20 to $30 million.
Countervail and anti-dumping duties have the effect of reducing the industrial producer price indices (published by Statistics Canada) and stumpage rates.			
Columbia River Treaty Sales	**$85**	**$90**	
Annual quantity fixed by treaty (million mega-watt hours)	2.5	2.5	
Market prices (annual per cent change)	-69.2%	-66.5%	±10% change in average selling price equals ±$5 to $15 million.
Based on BC Hydro's July 2002 outlook for forward prices			
Other Sources: Fees, Licences and Miscellaneous	**$2,194**	**$2,187**	
Real GDP	0.6%	1.4%	
Nominal GDP	1.0%	1.9%	
Population	0.8%	0.9%	
MSP Premiums	$1,299	$1,309	±1% change in population growth equals up to ±$15 million in MSP premiums.
Other fees and licences	$652	$639	
Investment earnings and other miscellaneous revenue	$243	$239	
Contributions from Government Enterprises — based on Business Service Plans	**$1,420**	**$1,489**	See Table A.10 for assumptions and sensitivities for the Crown corporations.
Canada health and social transfer (CHST)	**$2,805**	**$2,620**	
National cash ($ billion)	$18.6	$18.6	Due to the interactions between the CHST and Equalization programs, the sensitivities reflect the combined fiscal effect on both revenue sources.
National tax points ($ billion)	$16.4	$16.8	
B.C. entitlement (share of national population)	13.1%	13.2%	±0.1% change in B.C.'s population share equals ±$15 to $20 million.
B.C. tax point offset ($ billion)	-$1.8	-$1.8	
Associated equalization tax point offset ($ billion)	--	-$0.3	1% increase (decrease) in B.C. basic federal tax (BFT) and no change in other provincial/territorial BFT decreases (increases) revenue by $40 to $60 million.
Equalization	**$0**	**$285**	±1% change in national BFT and no change in B.C. BFT equals ±$15 to $85 million.

Table A.9 Main Expenditure Assumptions and Sensitivities — Consolidated Revenue Fund

Ministry Programs and Assumptions	2002/03		2002/03 Full-Year Sensitivities and Forecast Details
	Budget Estimate	Updated Forecast	
Advanced Education $ millions	**1,900**	**Unchanged**	
Student Spaces (# of FTEs)	*157,500*	*Unchanged*	*The number of student spaces may vary depending on the tuition fee policies adopted by post-secondary institutions.*
Debt Service Costs - $ millions	*145*	*Unchanged*	*A 1% change in interest rates affects annual debt service costs by approximately $1.8 million.*
Student Loans Authorized - $ millions	*143*	*Unchanged*	*A 1% change in interest rates affects annual costs by approximately $3.6 million.*
Loans and Grants - volume (#)	*71,740*	*Unchanged*	*A 1% change in demand affects costs by $1.4 million.*
Attorney General $ millions	**556**	**Unchanged**	
Criminal caseload - volume (#)	*125,000*	*Unchanged*	*A 10% change in criminal caseload level affects cost by approximately $9 million annually.*
Civil Court hours - volume (#)	*72,900*	*Unchanged*	*A 10% change in the number of civil court hours affects costs by approximately $5 million annually.*
Court Locations (#)	*74 locations - 43 staffed; 31 unstaffed*		*The average savings per court closure is $400,000.*
Statutory services - Crown Proceeding Act - $ millions	*30*	*Unchanged*	*Actual annual expenditures vary with the volume/size of claims and timing of settlements. Over the past ten years, the annual cost of settlements has varied from $2 million to $81 million.*
Children and Family Development $ millions	**1,558**	**Unchanged**	
Children-in-care caseload (#)	*9,700*	*Unchanged*	*A 5% change in caseload affects annual costs by approximately $14 million.*
Community Living Services caseload (#)	*8,850*	*Unchanged*	*A 5% change in caseload affects annual costs by approximately $30 million.*
Community, Aboriginal and Women's Services $ millions	**555**	**Unchanged**	
2010 Winter Olympics Bid - $ millions	*2*	*Unchanged*	*In June, the federal and provincial governments announced that they would each commit $310 million for core sport and event venues if Canada is chosen to host the games. A decision on the winning bid will be made in July 2003. No funding for hosting the Games or for related infrastructure has been included in the budget.*
Education $ millions	**4,861**	**Unchanged**	
Student Enrolment (# of FTEs)	*592,000*	*Unchanged*	*A 1% change in enrolment affects annual costs by approximately $32 million.*
Class size Kindergarten	*19 district average*	*Unchanged*	*A one-student per class change in K -12 affects annual costs by approximately $60 million.*
Class size Grades 1-3	*21 district average*	*Unchanged*	
Class size Grades 4-12	*30 district average*	*Unchanged*	
Debt Service Costs - $ millions	*363*	*Unchanged*	*A 1% increase in interest rates affects annual debt service costs by $7 million.*
Energy and Mines $ millions	**50**	**Unchanged**	
Vancouver Island gas pipeline and the Squamish Rate Stabilization Facility - $ millions	*21*	*Unchanged*	*Each Cdn$1 per GJ change in the average natural gas price for the fiscal year affects annual costs by $6 million.*

Table A.9 Main Expenditure Assumptions and Sensitivities — Consolidated Revenue Fund — *Continued*

Ministry Programs and Assumptions	2002/03		2002/03 Full-Year Sensitivities and Forecast Details
	Budget Estimate	Updated Forecast	
Forests **$ millions**	**621**	**Unchanged**	
Direct Fire Fighting - $ millions	*55*	*Unchanged*	*The budget provides funding based on a historical median fire year and assumes implementation of a cost-shared fire protection model.* *Dryer than normal weather, particularly in the Interior, would likely affect costs. The annual cost of fighting forest fires has varied from $19 million to $154 million.* *B.C. experienced normal weather patterns in the first quarter and was able to deploy firefighters to help Oregon and California fight the Biscuit fire. However, fire danger in B.C. has been increasing due to sustained warm weather.*
Health Services **$ millions**	**10,205**	**Unchanged**	
Pharmacare - $ millions	*718*	*Unchanged*	*Savings from implementation of income testing for Plans A (Seniors) and E (Universal) on January 1, 2003 are expected to offset anticipated demand/cost pressures.*
Demand/cost growth (per cent change)	*15*	*Unchanged*	*An 11% change in utilization affects costs by approximately $70 million; a 4% change in drug prices affects costs by approximately $25 million.*
Medical Services Plan (MSP) - $ millions	2,518	Unchanged	
Population/demographic growth in physician costs (per cent change)	*1.6*	*Unchanged*	*A 2% change in the volume of services provided by fee-for-service physicians affects MSP costs by approximately $38 million.*
Arbitration of Working Agreement with physicians			*The Working Agreement is being finalized.*
Supplementary Benefits			*A 1% change in the average number of supplementary services per beneficiary affects MSP costs by approximately $0.5 million.*
Regional Health Sector - $ millions	6,337	*Unchanged*	*A 1% change in population affects annual costs by approximately $60 million.*
Anticipated service changes include:			
Acute inpatient and day surgery cases (#)	*615,000*	*Unchanged*	
Mental Health - new community beds to replace Riverview beds (#)	*106*	*Unchanged*	
Home and Community Care assisted living units construction (#)	*0*	*Unchanged*	
Administrative expenses as a per cent of total expenses	*25.8*	*Unchanged*	
Emergency Health Services - $ millions	*188*	*Unchanged*	

Table A.9 Main Expenditure Assumptions and Sensitivities — Consolidated Revenue Fund — *Continued*

Ministry Programs and Assumptions	2002/03		2002/03 Full-Year Sensitivities and Forecast Details
	Budget Estimate	Updated Forecast	
Human Resources **$ millions**	**1,789**	**1,682**	
Temporary and Continuous Assistance Average Caseload (#)	*146,700*	*133,000 - 134,000*	*A 1% change in caseload affects expenditures by approximately $12 million annually. A 1% change in the unemployment rate affects expenditures by approximately $40 million annually.*
Temporary and Continuous Assistance - Average Cost per Case ($)	*665*	*Unchanged*	*The average cost per case is sensitive to behaviour changes, composition of the caseload, and factors such as treatment of income and length of time on income assistance.* *A 1% change in the annual average cost per case affects expenditure by approximately $8 - $12 million.*
Public Safety and Solicitor General **$ millions**	**506**	**Unchanged**	
Corrections - number of inmates (#)	*2,150 – 2,350*	*Unchanged*	*A 1% change in the prison population affects costs by $1.1 million.*
Emergency Program Act - $ millions	*16*	*Unchanged*	*Actual costs will vary depending on the number or severity of natural disasters such as earthquakes or floods.*
Transportation **$ millions**	**739**	**Unchanged**	
Amortization portion of the Public Transit Vote - $ millions	*53*	*Unchanged*	*Earlier completion could affect annual amortization expenditures*
Management of Public Funds and Debt **$ millions**	**920**	**840**	*The full-year impact of a one per cent change in interest rates affects direct operating debt interest expense by $88 million and by $121 million when taxpayer-supported debt is included.*
Expected interest rates			
Short-Term	*2.94 %*	*3.40 %*	
Long-Term	*6.51 %*	*6.45 %*	
Cdn/US exchange rate ($)	*0.6375*	*0.6546*	
Government Restructuring (All Ministries) **$ millions**	**230**	**Unchanged**	
Workforce Adjustment $ millions	**65**	*Unchanged*	
FTE reduction incurring severance costs (#)	*1,900*	*Unchanged*	*A 10% change in the estimated number of FTEs incurring severance, or in the average cost of severance, would affect costs by approximately $22 million.*
Accommodation Initiative $ millions	**135**	*Unchanged*	*As ministry plans are confirmed, costs may change.*
Government Wide Issues		**Unchanged**	
Compensation			*Agreements expiring this year will be settled under a 0-0-0 bargaining mandate. There will be no across-the-board, general wage increases for sectors. Legitimate skills shortages may be addressed by employers through market adjustment increases. The provincial government will not provide funding for market adjustment increases.*

Table A.10 Crown Corporation Assumptions and Sensitivities

Crown Corporation and Assumptions ($millions)	2002/03 Budget Estimate	2002/03 Updated Forecast	2002/03 Full-Year Sensitivites
British Columbia Buildings Corporation			
Net income (loss)	34	35	±10% in timing/extent of ministry restructuring = ±$2-$4 million
Short-term interest rates	2.9%	2.7%	±10% in energy prices = ±$2 million
Gains on disposal of property	6.0	7.1	±1% in interest rates = ±$0.3 million
Capital spending	up to 70	47	Value and timing of property sales depend on market.
Dividend to CRF	13	14	±$10 million in capital spending = ±$0.5 million in net expenses
Grants in lieu of taxes for owned properties	19	19	Potential move to full property tax = up to ±$14 million in costs depending on implementation timing
British Columbia Ferry Corporation			
Net income (loss)	16	18	
Capital spending	103	74	
Traffic volume trends	+1.6%	+1.6%	±1% in traffic volumes = ±$3 million
Toll increases	CPI	nil	± 1% in fuel prices = ±$0.5 million
Fuel costs	51	49	
Dedicated motor fuel tax	74	74	
BC Transportation Financing Authority			
Net income (loss)	(56)	(49)	
Capital spending	254	248	±1% in provincial fuel consumption volumes = ±$2 million
Dedicated tax revenue	203	199	±1% in floating/new fixed-borrowing rates = ±$5 million in interest costs
Average floating/new fixed borrowing rate	5.6%	5.4%	
British Columbia Hydro and Power Authority			
Net income before transfer (to) from rate stabilization account	350	350	Range of net income from $285-$500 million, depending on the total impact of the following non-controllable factors:
Transfer (to) from rate stabilization account	(5)	65	± 5% in average temperatures = ±$5 million
Dividend to CRF	283	342	±1% in hydro generation = ±$15 million
Capital spending	745	745	± $5/MW·h in electricity trade margins = ±$125 million
Water inflow levels (snowpack)	100%	111%	±10% in natural gas prices = ±$10 million
Domestic load growth	-0.1%	0.4	±100 basis points in borrowing rate = ±$25 million
BC real GDP	0.6%	1.4%	±$0.01 in exchange rates = ±$10 million
Forward energy price date	mid-Jan/02	mid-Jul/02	
CDN short-term interest rates	2.9%	2.7%	
Exchange rate (US/CDN)	$0.64	$0.65	
British Columbia Liquor Distribution Branch			
Net income	640	640	Price competition, economic conditions, weather patterns and timing of holidays affect sales
Net sales increase	1.8%	1.8%	
Capital spending	22	15	±1% in sales volume = ±$6 million in net income
British Columbia Lottery Corporation			
Net income	660	670	
Dividend to CRF	476	485	
Capital spending	26	34	
Gaming activity	+6.3%	+7.2%	±1% in gaming activity = ±$6 million
British Columbia Railway Company			
Net income (loss) before write-downs	14	9	Total traffic disruption could reduce net income by $4 million per week
Capital spending	66	70	
Insurance Corporation of British Columbia			
Net income (loss)	(10)	15	
Investment income	399	374	±0.25% in investment returns = ±$14 million
Capital spending			± 1% in investment balance = ±$4 million
· operational	30	25	
· ICBC Properties Ltd.	86	84	
Restructuring costs	15	8	
Policy premium revenue trend	+5.2%	+5.4%	±1% in premium revenue = ±$26 million
Premium rate changes	CPI+	CPI+	
Claims-incurred trends	+2.0%	+5.3%	±1% in assumed claims trend = ±$21-$25 million
Adjustment to prior year claims	-	(78)	±1% in prior year unpaid claims estimate = ±$40 million

Table A.11 Summary Accounts Statement of Financial Position
(Unaudited)

	Actual March 31 2002	Year-to-Date June 30 2002	Year-to-Date Increase/ (Decrease) [1]	Updated Forecast March 31 2003	Updated Forecast Increase/ (Decrease) [1]
			($ millions)		
Financial Assets					
Cash and temporary investments	780	398	(382)	142	(638)
Other financial assets	4,342	4,236	(106)	4,803	461
Investments in commercial Crown corporations and agencies:					
Retained earnings of self-supported Crown corporations	*2,525*	*2,607*	*82*	*2,568*	43
Loans for purchases of assets recoverable from agencies	*7,552*	*7,787*	*235*	*7,530*	*(22)*
	10,077	10,394	317	10,098	21
Warehouse borrowing program assets	1,067	1,464	397	-	(1,067)
	16,266	**16,492**	**226**	**15,043**	**(1,223)**
Liabilities					
Current liabilities	4,044	3,711	(333)	4,046	2
Debt:					
Taxpayer-supported debt	*27,175*	*27,866*	*691*	*30,610*	*3,435*
Self-supported debt	*8,741*	*9,372*	*631*	*7,789*	*(952)*
Forecast allowance	-	-	-	*750*	*750*
Total provincial debt	*35,916*	*37,238*	*1,322*	*39,149*	*3,233*
Less: guarantees and non-guaranteed debt	*(464)*	*(451)*	*13*	*(587)*	*(123)*
	35,452	36,787	1,335	38,562	3,110
	39,496	**40,498**	**1,002**	**42,608**	**3,112**
Net Liabilities	**(23,230)**	**(24,006)**	**(776)**	**(27,565)**	**(4,335)**
Capital and Other Assets					
Prepaid capital advances	7,033	7,021	(12)	7,208	175
Tangible capital assets	11,206	11,171	(35)	11,324	118
Other assets	281	286	5	285	4
	18,520	**18,478**	**(42)**	**18,817**	**297**
Accumulated surplus (deficit)	**(4,710)**	**(5,528)**	**(818)** [2]	**(8,748)**	**(4,038)** [2]

[1] Change from March 31, 2002
[2] Change includes accounting policy equity adjustments.

Change in Summary Accounts Financial Position

	June 30 2002	March 31 2003
	($ millions)	
Change in accumulated (surplus) deficit:		
(Surplus) deficit for the period	800	4,015
Accounting policy equity adjustments	18	23
	818	**4,038**
Working capital changes:		
Increase (reduction) in cash and temporary investments	(382)	(638)
Increase (decrease) in guarantees and non-guaranteed debt	(13)	123
Other working capital changes	232	463
	(163)	**(52)**
Capital asset and investment changes:		
Increase in taxpayer-supported capital investments	*203*	*1,398*
Less: amortization and other accounting changes	*(250)*	*(1,105)*
	(47)	293
Increase in total investment in commercial Crown corporations	*301*	*1,114*
Less: loan repayments and other accounting changes	*16*	*(1,093)*
	317	21
Increase (decrease) in warehouse borrowing investments	397	(1,067)
	667	**(753)**
Increase (decrease) in total provincial debt	**1,322**	**3,233**

Table A.12 Full-Time Equivalents (FTEs)[1] — Updated Forecast

	2002/03			
	Budget Estimate	Updated Forecast	Variance	Actual 2001/02
Ministries and special offices	31,608	31,000	(608) [2]	33,214
Taxpayer-supported Crown corporations and agencies	8,800	8,500	(300) [3]	9,178
Total FTEs	**40,408**	**39,500**	**(908)**	**42,392**

[1] Full-time equivalents (FTEs) are a measure of staff employment. FTEs are calculated by dividing the total hours of employment paid for in a given period by the number of hours and 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] Primarily due to accelerated implementation of service plan reductions, and higher participation in the voluntary departure and early retirement programs.

[3] Primarily due to earlier-than-anticipated staffing reductions resulting from the implementation of core review recommendations.