
Second Quarterly Report

on the Economy, Fiscal Situation,
and Outlook

Fiscal Year 2002/03
Six Months
April – September 2002



BRITISH
COLUMBIA

Ministry of Finance

www.gov.bc.ca

British Columbia Cataloguing in Publication Data

British Columbia. Ministry of Finance.

Quarterly report on the economy, fiscal situation and
Crown corporations. — ongoing—

Quarterly.

Title on cover: Quarterly report.

Continues: British Columbia. Ministry of Finance.

Quarterly financial report. ISSN 0833-1375.

ISSN 1192-2176 — Quarterly Report on the economy,
fiscal situation and Crown corporations.

1. Finance, Public — British Columbia — Accounting
— Periodicals. 2. British Columbia — Economic conditions
— 1945— — Periodicals.*

3. Corporations, Government — British Columbia —
Accounting — Periodicals. I. Title.

HJ13.B77

354.711'007231'05

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SUMMARY

Second Quarterly Report 2002/03

November 28, 2002



Updated 2002/03 Financial Forecast

	2002/03		
	Budget Estimate	Updated Forecast	Variance
		(\$ millions)	
CRF Revenue	22,038	21,926	(112)
CRF Expenditure.....	(25,556)	(25,300)	256
Crown corporation and agency net results ¹	(132)	(126)	6
Subtotal	(3,650)	(3,500)	150
Forecast allowance.....	(750)	(500)	250
Deficit	(4,400)	(4,000)	400
Taxpayer-supported debt	31,601	30,766	(835)
Total debt	40,728	38,909	(1,819)
Taxpayer-supported debt as a per cent of GDP	24.3%	23.1%	-1.2%

¹ Net of dividend payments and contributions to the CRF.

- After turning up in the first six months of the year, economic indicators in British Columbia were mixed during the July to September quarter.
- Currently, the Ministry of Finance is forecasting B.C. real GDP growth of 1.4 per cent in 2002 and 2.7 per cent in 2003. This compares to private sector consensus forecasts of 1.7 per cent in 2002 and 3.0 per cent in 2003.
- The updated 2002/03 deficit forecast now stands at \$4.0 billion, \$400 million lower than budget.
- Consolidated revenue fund (CRF) revenue is forecast to be \$112 million lower than budget. The decrease is mainly due to lower-than-expected taxation and natural resource revenue, partially offset by higher federal equalization payments and higher Crown corporation contributions.
- CRF spending is projected to be \$256 million below budget, mainly due to lower debt interest costs and lower employment assistance caseloads in the Ministry of Human Resources.
- The forecast allowance, originally set at \$750 million in February, has been lowered to \$500 million, reflecting the risks to the bottom line over the remaining months of the fiscal year.
- Overall debt is forecast to be \$1.8 billion below budget.
- Since the first *Quarterly Report*, the deficit forecast has improved by \$15 million reflecting a \$66 million reduction in CRF spending, a \$39 million improvement in Crown corporation net results and the \$250 million reduction in the forecast allowance. These improvements more than offset a \$340 million reduction in CRF revenues due to weaker tax assessments for the 2001 tax year.
- Operating results for the first six months of the 2002/03 fiscal year show a deficit of \$896 million, a \$957 million improvement from budget largely due to lower-than-expected spending of \$577 million.
- A new five-year economic forecast, the third *Quarterly Report* for 2002/03 and an updated three-year fiscal plan for 2003/04 to 2005/06 will be released with the next budget on February 18, 2003.

PART ONE — ECONOMIC REPORT¹

Second Quarterly Report 2002/03

November 28, 2002

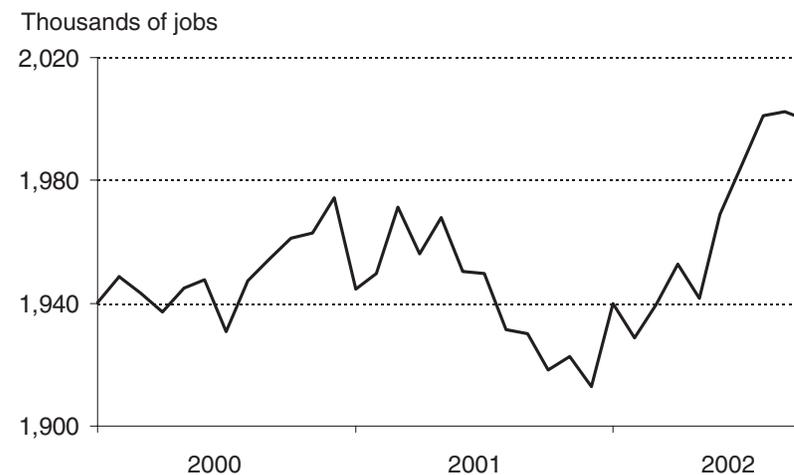
Overview

After turning up in the first six months of the year, economic indicators in British Columbia were mixed during the July to September quarter. Employment and housing starts grew strongly compared to the April to June quarter while retail sales slowed and the value of non-residential building permits declined. Exports and manufacturing shipments posted modest gains during the quarter.

Currently, the Ministry of Finance is forecasting B.C. real GDP growth of 1.4 per cent in 2002 and 2.7 per cent in 2003. The data through September suggest stronger results for 2002 could be achieved.

The Minister of Finance will be meeting with the independent Economic Forecast Council on December 9, 2002, to obtain their views on the outlook for the B.C. economy. A new five-year economic forecast that incorporates their advice will be developed for the February 18, 2003 budget.

Chart 1.1 B.C. job growth strong in third quarter



International Economic Developments

During the July to September quarter, the North American economy expanded at a moderate pace. Signs of a faltering U.S. recovery were apparent while the Canadian economy reported robust growth.

While the U.S. economy expanded at a 3.1 per cent annualized rate in the third quarter, there were some underlying signs of weakness. Though consumer spending was up a seemingly robust 4.2 per cent

¹ The Economic Report and accompanying charts and tables incorporate information available as of November 22, 2002.

annualized, most of the increase was due to a surge in automobile sales caused by dealer incentives. In addition, while overall business fixed investment stabilized after seven consecutive quarters of decline, spending on the non-residential structures component plummeted 16 per cent annualized. This weakness in non-residential investment was a result of the significant excess capacity that has continued to plague the U.S. economy.

U.S. employment growth in the July to September period was moderate, though small declines occurred in September and October. However, the unemployment rate declined from 5.9 per cent in July to 5.6 per cent in September. The Institute of Supply Management (ISM) index fell below 50 per cent for September and October, suggesting a pause in the manufacturing sector's expansion.

On the positive side, although concerns were raised about consumer confidence following the stock market declines, the housing sector continued to benefit from low interest rates. In September, housing starts in the U.S. surged to a 16-year high, reversing three consecutive monthly declines. Although housing starts retreated in October from their September high, robust demand, builder optimism and low interest rates are causing residential construction activity to proceed at a sturdy pace.

Forecasters raised their 2002 U.S. outlook earlier in the year, but since July these forecasts have come down. Forecasters expect economic weakness to continue and have lowered their outlook for 2003. In January 2002, the consensus U.S. growth forecast was for 0.9 per cent growth in 2002 and 3.5 per cent growth in 2003. The latest *Consensus Forecasts* (published in November 2002) has real GDP growth of 2.3 per cent in 2002 and 2.7 per cent in 2003.

Chart 1.2 U.S. consensus forecast, 2002

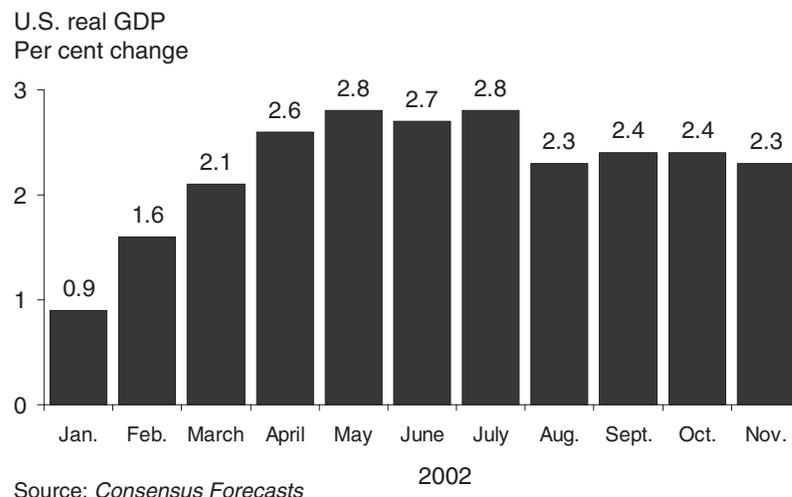
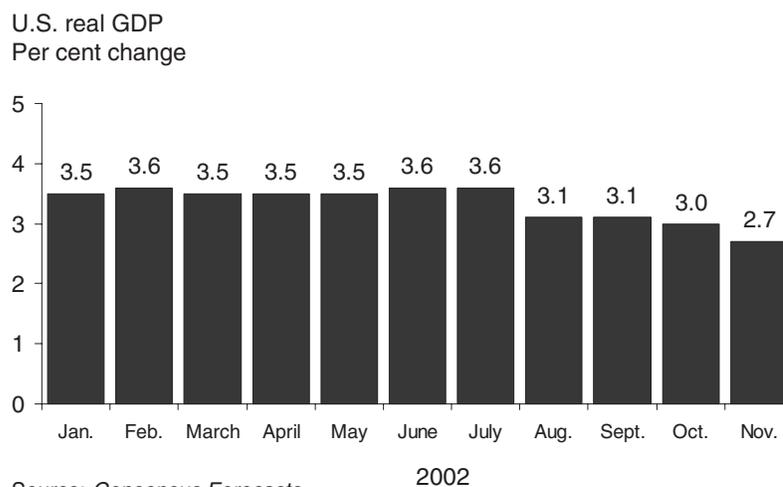


Chart 1.3 2003 U.S. outlook has declined

Japanese real GDP rose 3.0 per cent in the July to September period over the previous three months on an annualized basis, and second quarter real GDP was revised upwards to an annualized 4.2 per cent. The pick up in growth is positive news for the Japanese economy, whose government continues to face pressures for significant structural reforms. However, the outlook remains weak.

Elsewhere, the European economy is confronting challenges including weakening domestic demand and, in Germany, a fragile banking system.

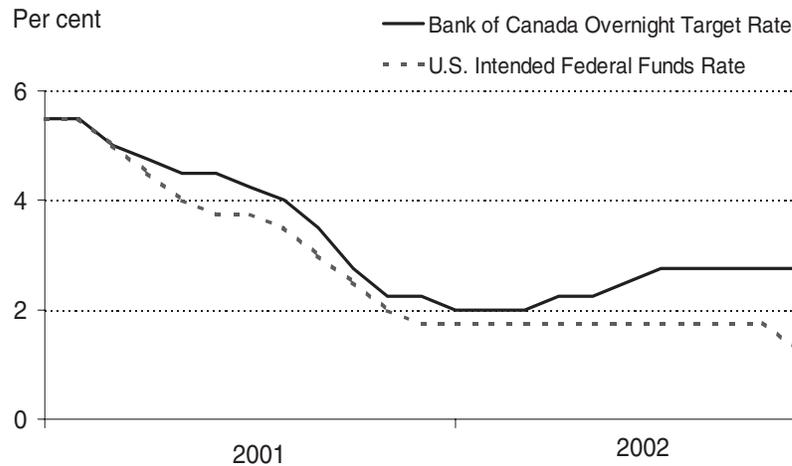
In Canada, steady job growth and consumer spending, and a healthy housing sector suggest overall economic growth will come in at around a 4 per cent annualized rate in the third calendar quarter. The International Monetary Fund expects Canada to lead economic growth in the G-7 nations this year and next.

Much of the job growth in Canada so far in 2002 has been in the manufacturing sector, a sector that has benefited from the relatively low value of the Canadian dollar. However, if the Canadian dollar stabilizes and begins to appreciate against the U.S. currency in the near term, this advantage will be reduced. Growth in Canada could subsequently slow if the U.S. economy, Canada's largest export market, weakens further.

Financial Market Developments

Interest rates held steady during the July to September period, in the face of rising economic, financial and geopolitical uncertainty. Meanwhile, the value of the Canadian currency fell against the U.S. dollar.

In the U.S., the intended federal funds rate was unchanged at 1.75 per cent during the July to September period. However, the recent

Chart 1.4 Interest rates remained low

Sources: Bank of Canada and U.S. Federal Reserve Board

economic weakness in the U.S. economy prompted the Federal Reserve Board to lower the intended federal funds rate by 50 basis points on November 6, 2002. In Canada, the Bank of Canada held the overnight target rate at 2.75 per cent, following a 25 basis point increase on July 16, 2002. Low mortgage interest rates have supported interest sensitive areas of both economies including the retail and housing sectors. The Bank of Canada indicated in its October *Monetary Policy Report* that the amount of monetary stimulus to be removed from the economy had lessened because of slowing economic growth in the U.S. The Bank also expressed concerns about the effects of “headwinds” arising from financial market volatility and global uncertainty.

Chart 1.5 Canadian dollar remains volatile

Source: Bank of Canada

Continuing its volatile track, the Canadian dollar declined in the July to September period to average 64.0 cents US, down from 64.3 cents US in the previous quarter. The downward pressure on the dollar came as increased global uncertainty and geopolitical developments led investors to seek a safe haven in the U.S. markets.

British Columbia Economic Developments

After turning up in the first six months of 2002, British Columbia economic indicators were mixed during the July to September quarter.

Employment growth accelerated in the July to September quarter to 2.1 per cent from 0.9 per cent in the April to June quarter. Retail sales fell in the July to September quarter as automobile sales fell off, although the level of activity remained above last year's levels. Housing starts put in a strong performance, benefiting from low interest rates and federal and provincial tax cuts. On the external side, trade in goods was up in the July to September quarter compared to April to June, despite generally lower commodity prices.

Table 1.1 British Columbia Economic Indicators

	Third Quarter July to Sept. 2002 change from April to June 2002	Year-to-Date Jan to Sept 2002 change from Jan to Sept 2001
All data seasonally adjusted		
	Per cent change	
Employment	+2.1	+0.6
Manufacturing Shipments	+0.7	-2.1
Exports.....	+0.5	-11.5
Retail Sales.....	-0.8	+5.9
Housing Starts	+20.5	+21.6
Non-Residential Building Permits	-7.6	-26.0

Source: Statistics Canada, Canada Mortgage and Housing Corporation

External Trade

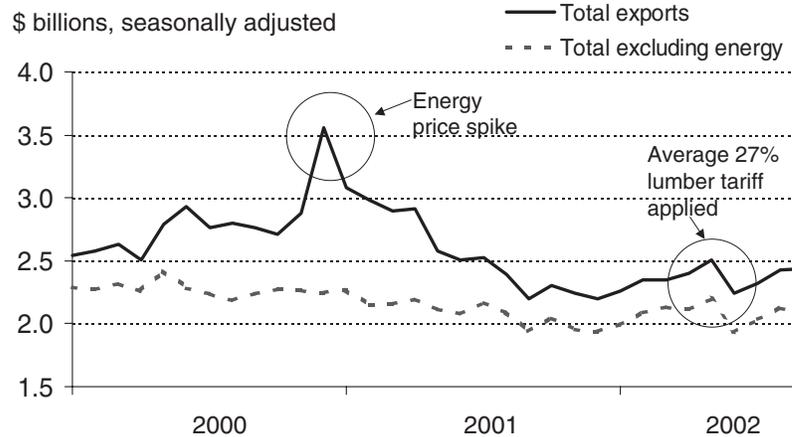
The value of merchandise exports rose 0.5 per cent in the July to September quarter, compared to the April to June period. Increased exports of machinery and equipment, agriculture and fish products, industrial and consumer products, as well as energy, were partly offset by a reduction in forest product exports. This reflected lower forest product prices, particularly for lumber, during this period. In response to the U.S. tariff that came into effect on May 22, 2002, more efficient mills in the province increased production as a way of lowering average costs. Spruce-pine-fir 2x4s averaged \$223 US per thousand board feet in the July to September period, down from \$262 US in the April to June period. Recently, prices have fallen below \$200 US.

Chart 1.6 Softwood lumber prices weakened



The energy price spike in late 2000 and early 2001 continues to affect the year-to-date export figures. Year-to-date, the value of merchandise exports was down 11.5 per cent from the first nine months of last year. Over 80 per cent of this decline was due to the lower value of energy exports compared to 2001 resulting from the energy price decline.

Chart 1.7 B.C. merchandise exports



The port strike in the U.S. does not appear to have had a significant impact on activity at the Port of Vancouver, B.C., as the Vancouver facility was running at or near capacity. Few ships were redirected from U.S. ports to Vancouver and the strike was relatively short.

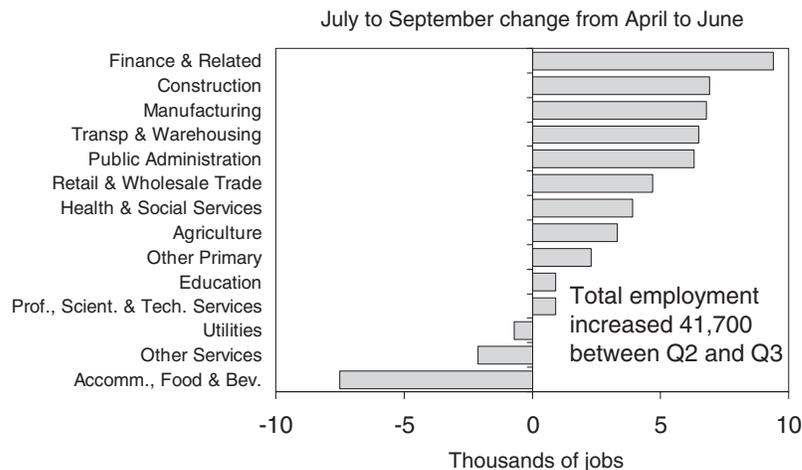
The Labour Market

Topping 2 million jobs for the first time in August, employment grew 2.1 per cent or 41,700 jobs in the July to September quarter compared to the previous quarter. Just over half of the job gains in the quarter were in full-time employment. As well, almost all of the job gains were in

paid private sector employment (versus self employment or the public sector). The unemployment rate averaged 8.0 per cent, down from 9.0 per cent in the April to June period.

Employment gains during the July to September quarter were wide spread. Most sectors recorded job growth, with manufacturing, construction, transportation and warehousing, and real estate related service industries as the main sources of growth. Accommodation, food and beverage services recorded the largest decline, reflecting lower tourism related activity in the July to September quarter. In October, employment declined a slight 0.1 per cent from September.

Chart 1.8 Employment gains wide spread

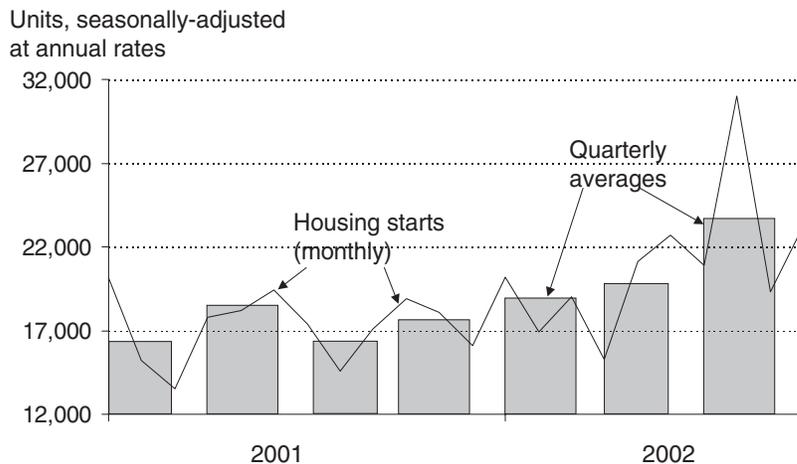


Source: Statistics Canada

Domestic Demand

On the domestic side, employment gains, low interest rates and relatively stable consumer confidence contributed to continued consumer spending. However, retail sales declined 0.8 per cent in the July to September quarter as automobile sales fell off, following strong growth of 2.0 per cent in the April to June quarter.

Chart 1.9 Housing starts pick up in 2002



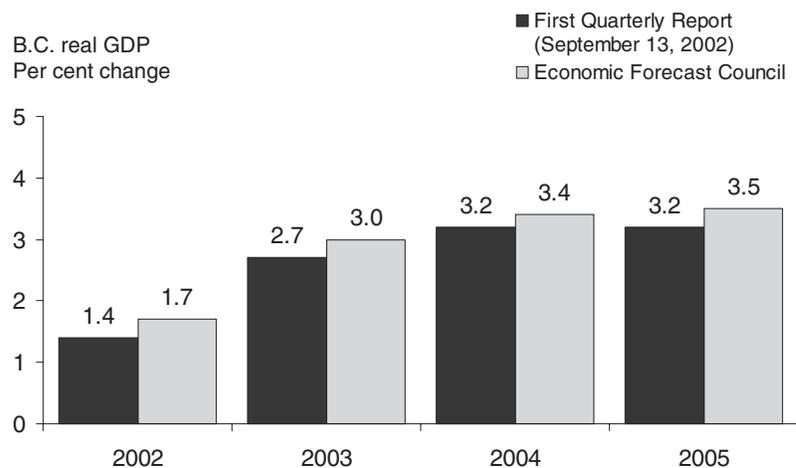
Source: Canada Mortgage and Housing Corporation

The housing sector remained an area of strength in the British Columbia economy. In August, housing starts jumped to their highest level since June 1997. The average for the July to September period was around 23,700 units, up 20.5 per cent from the April to June quarter. In October, starts continued their strong pace, rising 20.2 per cent over the September level.

British Columbia Economic Forecast

In the first *Quarterly Report*, the British Columbia economy was forecast to expand 1.4 per cent in 2002, and 2.7 per cent in 2003. For 2002, this forecast was based on a prudent 2.0 per cent assumption for U.S. economic growth, which compares to the latest consensus forecast of 2.3 per cent. This higher-than-expected U.S. growth, combined with positive trends in British Columbia, could result in B.C. real GDP growth exceeding the current forecast of 1.4 per cent.

Chart 1.10 B.C. economic forecast



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

A different story is emerging for 2003, as recent events in the U.S. have pointed to the possibility of weaker-than-expected U.S. economic growth next year. The main concerns are the delayed recovery of profits and investment in the business sector, the continuing equity market malaise, and the staying power of consumer spending. The latest consensus forecast for U.S. real GDP growth in 2003 is 2.7 per cent (see Chart 1.3), down from both the 3.1 per cent consensus figure that was published in September and the Ministry of Finance assumption of 3.0 per cent economic growth in the first *Quarterly Report*. If these emerging trends continue unabated, lower U.S. economic growth could result in lower British Columbia economic growth in 2003.

For Canada, the Ministry assumption in the first *Quarterly Report* was for growth of 3.0 per cent in 2002 and 3.2 per cent in 2003. These assumptions remain below the current consensus forecast, which is for

“The Bank has lowered its growth projection for Canada through 2003 because of the dampening influences of global economic, financial and geopolitical developments”
— Bank of Canada,
Monetary Policy
Report, October 2002

growth of 3.4 per cent in both 2002 and 2003. However, continued weakness in the U.S. may ultimately spill over to Canada and result in reduced Canadian economic growth in 2003.

The Minister of Finance will be meeting with the independent Economic Forecast Council on December 9, 2002 to obtain their views on the North American and British Columbia economic outlook. A new five-year forecast, incorporating their advice, will be developed for the February 18, 2003 budget.

While the most important risks to the British Columbia economic outlook remain the strength of the U.S. recovery and geopolitical uncertainty, several other factors may also play key roles. For example, the Vancouver/Whistler bid for the 2010 Olympic Winter Games could result in opportunities related to possible new investment in infrastructure. In addition, although a longer term issue, the implications of the proposed ratification of the Kyoto accord on climate change remain unclear.

Other risks, both positive and negative, exist as well.

- A durable and fair solution of the softwood lumber dispute could give a boost to the province’s forest sector.
- The U.S. and Canada may return to the high-productivity fuelled growth recorded in the late 1990s, creating increased demand for British Columbia’s exports.
- Productivity in the U.S. may decline, resulting in slower growth over the longer term.
- A muted global industrial recovery may fail to generate demand for commodities, causing key commodity prices to fall and thus hurting British Columbia exports.
- North American business and consumer confidence, already weakened by stock market declines and corporate accounting problems, may not recover. A further drop in confidence could stall the economic recovery currently underway.

Table 1.2 Current Economic Statistics

		Latest Period	Year-to-Date Average		
			2001	2002	Change
BRITISH COLUMBIA					
LABOUR MARKET					
Employment (s.a. ¹ , thousands).....	Oct	2,000	1,947	1,966	1.0%
Unemployment rate (s.a., per cent).....	Oct	8.3	7.4	8.6	1.2
Total net in-migration (quarterly flows, persons).....	June	6,877	9,143	7,513	(1,630)
Interprovincial (quarterly flows, persons).....	June	(1,841)	(1,684)	(2,015)	(331)
International (quarterly flows, persons).....	June	8,718	10,827	9,528	(1,299)
Wages, salaries and supplementary labour income (s.a. \$millions).....	June	5,881	5,842	5,868	0.4%
Average weekly wage rate.....	Oct	671.53	645.37	665.46	3.1%
CONSUMER SECTOR					
Retail sales (s.a., \$ millions).....	Sept	3,332	3,144	3,330	5.9%
Car and truck sales (s.a., units).....	Sept	16,088	13,994	16,328	16.7%
Housing starts (all areas, s.a., annual rate).....	Oct	23,200	17,220	20,960	21.7%
Existing home sales (s.a.).....	Sept	6,380	5,538	6,933	25.2%
Building permits (s.a., \$ millions).....	Sept	512	429	466	8.6%
B.C. consumer price index (annual per cent change).....	Oct	2.5	1.9	2.1	0.2
INDUSTRIAL ACTIVITY					
Foreign merchandise exports (s.a., \$ millions).....	Sept	2,440	2,675	2,367	-11.5%
Manufacturing shipments (s.a., \$ millions).....	Sept	2,843	2,900	2,838	-2.1%
Lumber production (thousand cubic metres).....	Aug	2,677	2,653	2,808	5.8%
Pulp and paper production (thousand tonnes).....	Sept	620	622	611	-1.8%
Coal production (thousand tonnes).....	June	2,227	2,294	2,242	-2.2%
Natural gas production (million cubic metres).....	March	2,425	2,133	2,466	15.6%
Copper production (million kg).....	Sept	19.5	23.2	20.3	-12.6%
TOURISM					
Entries of U.S. and overseas residents (thousands).....	Aug	1,164	788	720	-8.5%
BC ferry passengers to/from Vancouver Island (thousands).....	Sept	1,003	979	975	-0.5%
COMMODITY PRICES					
Lumber (US\$/thousand board feet).....	Oct	196	254	245	-3.8%
Pulp (US \$/tonne).....	Oct	475	557	465	-16.4%
Newsprint (US\$/tonne).....	Oct	469	603	465	-22.9%
Copper (US\$/lb.).....	Oct	0.67	0.73	0.71	-3.2%
FINANCIAL DATA					
Canadian dollar (US cents).....	Oct	63.4	64.9	63.6	-1.2
Canadian prime rate (per cent).....	Oct	4.50	6.35	4.13	-2.22
Canadian treasury bills (per cent).....	Oct	2.81	4.10	2.56	-1.54
Treasury bill spread - Canada minus U.S. (per cent).....	Oct	1.22	0.39	0.88	0.49

¹ s.a. - seasonally adjusted

Topic Box: British Columbia's Economic Performance in 2001

In 2001, British Columbia experienced reduced economic growth due to a U.S.-led global recession, the negative impact on tourism of the September 11, 2001 terrorist attacks, and U.S. trade restrictions on Canadian lumber exports. According to Statistics Canada's revised provincial economic accounts released November 7, 2002, the British Columbia economy declined by 0.2 per cent in 2001, down from the preliminary estimate of 0.9 per cent growth. This downward revision is primarily due to Statistics Canada's new method of measuring real GDP¹.

Chart 1 B.C. real GDP revisions

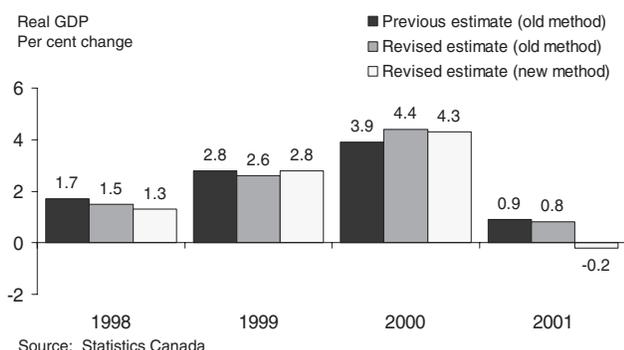
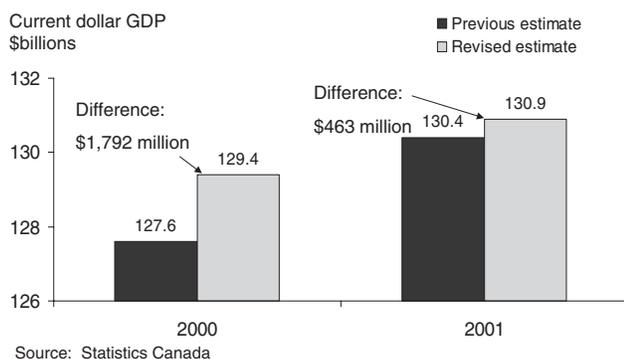


Chart 1 shows the revisions to real GDP from 1998 to 2001. Using the old method, real GDP in 2001 was revised from 0.9 per cent to 0.8 per cent, a relatively small change. The new method² of measuring real GDP resulted in a further drop to a 0.2 per cent decline in 2001.

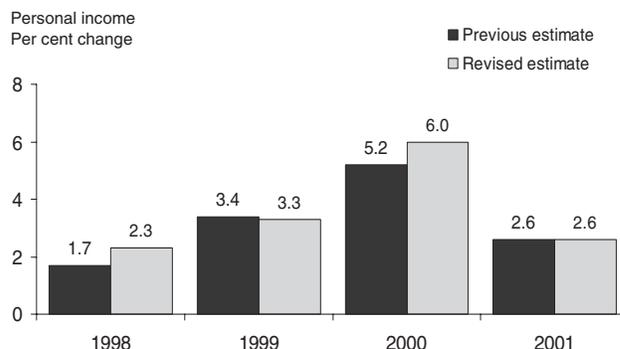
Chart 2 B.C. current dollar GDP revised levels



Current dollar (nominal) GDP was also revised with 2001 growth now at 1.2 per cent, down from an initial 2.2 per cent estimate. Nevertheless, due

to a large upward revision in 2000, the level of current dollar GDP in 2001 increased by \$463 million when compared to the initial 2001 estimate.

Chart 3 Personal income revisions

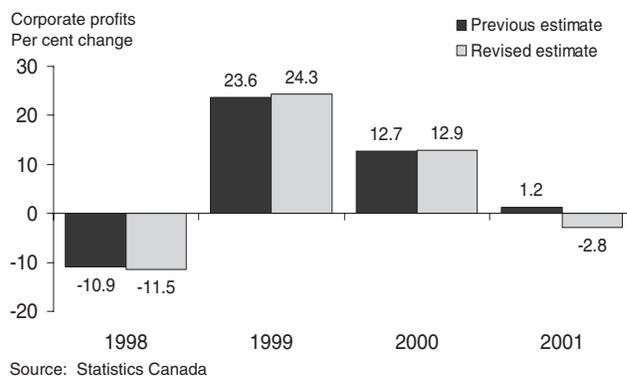


Personal income growth remained unchanged at 2.6 per cent in 2001. However, the level of personal income is higher than before due to the upward revision in 2000. There will be further revisions to personal income by Statistics Canada.

Statistics Canada revised their estimate of corporate profits downwards by \$400 million, resulting in a decline of 2.8 per cent from 2000.

These revisions confirm the weak economic performance in B.C. in 2001. The weakness is also showing up in tax reports received from the Canada Customs and Revenue Agency as they complete processing of 2001 tax returns, and which indicate lower-than-expected personal and corporate income tax revenues for the 2001 tax year. These are discussed in Part Two of this *Quarterly* report.

Chart 4 Corporate profits revisions



¹ Constant dollar or 'real' GDP is a measure of the volume of goods and services produced in the economy, and removes the effect of price inflation. By contrast, current dollar or 'nominal' GDP measures the value of goods and service without adjustment for price changes.

² Statistics Canada's new method — called the Chain Fisher method — updates the weights of GDP components annually rather than every four or five years.

PART TWO — UPDATED FINANCIAL FORECAST

Second Quarterly Report 2002/03

November 28, 2002

Overview

Table 2.1 Updated 2002/03 Financial Forecast

	2002/03			Actual 2001/02 ¹
	Budget Estimate	Updated Forecast	Variance	
(\$ millions)				
Consolidated revenue fund (CRF)				
Revenue	22,038	21,926	(112)	23,125
Expenditure.....	(25,556)	(25,300)	256	(25,255)
CRF balance.....	(3,518)	(3,374)	144	(2,130)
Crown corporations and agencies				
Taxpayer-supported.....	(206)	(174)	32	(83)
Self-supported commercial	74	48	(26)	(484)
Crown corporation and agency net results²	(132)	(126)	6	(567)
Subtotal	(3,650)	(3,500)	150	(2,697)
Forecast allowance.....	(750)	(500)	250	-
Deficit before joint trusteeship	(4,400)	(4,000)	400	(2,697)
Joint trusteeship (one-time adjustment).....	-	-	-	1,464
Deficit	(4,400)	(4,000)	400	(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 and contributions to the CRF.

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. On September 13, 2002, the government issued its first *Quarterly Report* for 2002/03, updating its economic and financial projections and forecasting a \$4.015 billion deficit for 2002/03. The updated 2002/03 deficit forecast now stands at \$4.0 billion, \$400 million lower than budget and a small improvement from the \$4.015 billion deficit forecast in September.

Consolidated revenue fund (CRF) revenue is forecast to be \$112 million lower than budget. The decrease is mainly due to lower-than-expected taxation and natural resource revenue, partially offset by higher federal equalization payments and higher Crown corporation contributions.

CRF spending is projected to be \$256 million below budget, mainly due to lower debt interest costs and lower employment assistance caseloads in the Ministry of Human Resources.

Table 2.2 Summary of Updates to the 2002/03 Budget

	Change	Updated Forecast
	(\$ millions)	
2002/03 deficit - February Budget		(4,400)
Updates in the first Quarterly Report		
Consolidated revenue fund (CRF) updates		
Revenue		
- Weaker 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		
- Lower interest costs mainly due to lower debt levels.....	80	
- Human Resources - lower employment assistance caseloads	107	
- Elections BC - lower referendum costs.....	3	190
Crown corporation updates		
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)
2002/03 deficit - first Quarterly Report forecast		(4,015)
Updates in the second Quarterly Report		
Consolidated revenue fund (CRF) updates		
Revenue		
- Weaker 2001 personal income tax assessments	(300)	
- Weaker 2002 personal income tax base	(250)	
- Weaker 2001 corporation income tax assessments.....	(125)	
- Higher 2001 corporation income tax credits.....	(63)	
- Lower corporation income tax instalments and higher B.C. corporation income tax credits in 2002.....	(72)	
- Natural resources - higher sales of Crown land leases and higher forest harvest volumes.....	80	
- Increased equalization entitlement, partly offset by lower CHST.....	400	
- Other revenue changes	(10)	(340)
Spending		
- Lower interest costs mainly due to lower debt levels.....	40	
- Human Resources - lower employment assistance caseloads	10	
- Attorney General - lower stumpage collected and disbursed under the McLeod Lake Treaty.....	16	66
Crown corporation updates		
Taxpayer-supported		
- BC Transportation Financing Authority - lower interest costs	12	
- BC Ferries - higher net income	6	
- Other changes and adjustments	16	34
Self-supported commercial		
- BC Rail - improved net income before restructuring costs.....	3	
- Other changes and adjustments	2	5
Forecast allowance reduction		250
2002/03 deficit - second Quarterly Report updated forecast		(4,000)

Combined Crown corporation net results are forecast to be \$6 million higher than budget primarily reflecting a small improvement in operating results for the Insurance Corporation of British Columbia (ICBC) and lower debt interest costs for the BC Transportation Financing Authority (BCTFA). These gains are partially offset by a higher dividend payment by the British Columbia Hydro and Power Authority (BC Hydro).

The forecast allowance, originally set at \$750 million in February, has been lowered to \$500 million, reflecting the risks to the bottom line over the remaining months of the fiscal year.

The \$15 million deficit improvement from the first *Quarterly Report* reflects a \$66 million reduction in CRF spending, a \$39 million improvement in Crown corporation net results and the \$250 million reduction in the forecast allowance. These improvements more than offset a \$340 million reduction in CRF revenues due to weaker tax assessments for the 2001 tax year (see Table 2.2).

The main risks to the fiscal outlook over the remaining months of the fiscal year include:

- changes to the estimates of federal transfers owed to the province;
- final personal and corporation income tax assessments for 2001 (these will not be available until late January 2003);
- the effect of the U.S. softwood lumber duties on the B.C. forest industry and provincial stumpage revenues;
- any spending pressures beyond ministry budget limits and available funds in the Contingencies vote;
- Crown corporation results and any changes resulting from implementation of Core review decisions; and
- unforeseen accounting changes.

Operating results for the first six months of the 2002/03 fiscal year show a deficit of \$896 million, a \$957 million improvement from budget largely due to lower-than-expected spending of \$577 million (see Appendix Table A.1). These first-half results should not be extrapolated to compare to the full-year forecast. While \$256 million of the spending improvement is forecast to continue through year-end, the remaining below-budget spending is expected to be shifted into the last half of the fiscal year. As well, Crown corporations such as BC Ferries and ICBC typically realize better financial results during the summer months. Further details on second quarter financial results to September 30, 2002 are provided in the appendix.

An update to the three-year fiscal plan will be provided in the February 18, 2003 budget. The updated plan will reflect a new budget

economic forecast and related revenue adjustments. The updated plan will also include any refinements to the spending plan arising from budget reviews and the report on the 2003 budget consultation process by the Legislature's Select Standing Committee on Finance and Government Services. As well, the fiscal plan will be extended to include the 2005/06 fiscal year.

Consolidated Revenue Fund Revenue

Table 2.3 Consolidated Revenue Fund - Updated Revenue Forecast ¹

	2002/03		Variance ²	Actual 2001/02 ³
	Budget Estimate	Updated Forecast		
	(\$ millions)			
Taxation				
Personal income	4,854	4,254	(600)	5,375
Corporation income	779	664	(115)	1,522
Social service	3,802	3,812	10	3,535
Other	3,150	3,227	77	3,220
	12,585	11,957	(628)	13,652
Natural Resources				
Petroleum, natural gas and minerals	1,370	1,352	(18)	1,352
Forests	1,145	1,120	(25)	1,253
Columbia River Treaty	85	90	5	360
Water resources, <i>Wildlife Act</i> and other	253	261	8	287
	2,853	2,823	(30)	3,252
Other revenue				
Medical Service Plan premiums	1,299	1,327	28	955
Other	895	851	(44)	974
	2,194	2,178	(16)	1,929
Contributions from Government Enterprises				
Liquor Distribution Branch	640	641	1	637
British Columbia Lottery Corporation	476	485	9	449
British Columbia Hydro and Power Authority	283	341	58	332
Other	21	16	(5)	19
	1,420	1,483	63	1,437
Contributions from the Federal Government				
Canada health and social transfer	2,805	2,535	(270)	2,445
Equalization	-	770	770	226
Other	181	180	(1)	184
	2,986	3,485	499	2,855
Total Revenue	22,038	21,926	(112)	23,125

¹ Figures exclude 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, 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, 2001/02 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.

CRF revenue is now forecast to be \$112 million or 0.5 per cent lower than budget. The decrease is mainly due to lower-than-expected

taxation and natural resource revenue, partially offset by higher federal equalization payments and higher Crown corporation contributions.

The updated revenue forecast incorporates six-month results showing revenue \$196 million above budget (see Appendix Table A.2), 2001 personal and corporation income tax assessment information as of October 15th from the federal government, the economic forecast from the first *Quarterly Report*, updated estimates of federal transfer entitlements, and revised Crown corporation dividend projections.

- Personal income tax – \$600 million below budget due to lower-than-assumed personal income tax assessments for 2001 based on the October 15th tax assessment information from the federal government. The weaker 2001 personal income tax assessments result in a one-time \$300 million retroactive adjustment for the 2001/02 fiscal year and reduce this year's revenue by an additional \$300 million due to a lower base forecast for 2002/03. Final assessments for the 2001 tax year will not be available until late January 2003.
- The reduction in personal income tax revenue is larger than anticipated at the time of the first *Quarterly Report*, as assessment information received from the federal government this fall resulted in a much weaker estimate of 2001 tax revenues.
- Corporation income tax – \$115 million below budget. Lower-than-expected tax assessments and higher tax credits for 2001 result in a \$103 million revenue reduction on account of the 2001 tax year. As well, \$47 million higher tax credits are forecast for the 2002 tax year. These revenue reductions are partly offset by \$35 million higher federal government instalment payments in the 2002/03 fiscal year.
- Although larger than expected, the personal and corporation income tax declines are consistent with economic conditions in 2001, as British Columbia experienced reduced economic growth in the face of a U.S.-led global recession, the negative impact on tourism caused by the September 11, 2001 terrorist attacks, and U.S. trade restrictions on Canadian lumber exports.
- Other tax revenue – up \$87 million mainly due to higher property transfer tax revenue reflecting the year-to-date strength in housing sales.
- Petroleum, natural gas and minerals – \$18 million below budget as the effects of weaker-than-assumed natural gas prices are partly offset by higher oil prices and stronger sales of Crown land leases.
- Forests – \$25 million below budget mainly due to lower stumpage rates, in part due to the impact of U.S. countervail and antidumping duties, partially offset by higher harvest volumes.
- Contributions from Crown corporations – \$63 million above budget mainly due to a \$58 million increase in the dividend payment from BC Hydro.

- Federal contributions – up \$499 million from budget as B.C.'s estimated equalization entitlement of \$770 million is offset by \$270 million in lower Canada health and social transfer (CHST) payments and \$1 million less from other transfer payments. The change in CHST and equalization transfer payments is a result of the lower-than-expected personal and corporation income tax revenues for 2001/02 and 2002/03 as well as an updated federal forecast of B.C.'s equalization entitlement.
- Equalization revenues are dependent on B.C. economic performance as well as activity in other provinces. Estimates are subject to ongoing revisions, going back as many as three fiscal years. These factors combine to make equalization a very volatile source of revenue.

**Revenue Forecast
Risks**

The main risks to the revenue forecast are due to:

- the amount of B.C.'s equalization entitlement and CHST transfer;
- personal and corporation income tax revenues for the 2001 taxation year — two more tax assessment reports will be received from the federal government before these are finalized;
- the effect of U.S. softwood lumber duties on stumpage revenues;
- changes in commodity prices affecting natural resource revenue; and
- economic prospects in B.C. related mainly to the strength of the U.S. recovery and geopolitical uncertainty.

**Consolidated
Revenue Fund
Expenditure**

Overall CRF spending is projected to be \$256 million or 1.0 per cent below budget for the full year mainly due to lower debt interest costs and lower employment assistance caseloads in the Ministry of Human Resources.

The forecast in part reflects spending trends experienced in the first half of the year. During the six months ending September 30, spending was \$577 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 less than planned as ministries introduce structural and program changes outlined in their service plans. With the completion of program changes and the management of various pressures expected later in the year, most ministries are expected to be on budget at year-end.

Since the February 19, 2002 budget, pressures totalling \$118 million have been identified. These include \$6 million being managed in the Ministry of Forests, \$24 million in the Ministry of Public Safety and Solicitor General, and \$88 million of pressures that may be funded through the Contingencies vote.

is expected to increase in the third quarter. The ministry is also managing potential spending pressures of \$6 million for costs related to the protected area strategies, the softwood lumber dispute, and other areas.

- Health Services – spending was 2.8 per cent below budget in the first six months mainly due to lower medical services plan claims caused by a delay in finalizing physician negotiations, lower-than-assumed Pharmacare claims, lower capital debt interest costs, and a delay in the start-up of other initiatives. However the ministry is expected to be on budget at year-end.
- Human Resources – a lower-than-forecast employment assistance caseload resulted in spending being \$98 million below budget in the first six months. Based on current and expected trends, the monthly caseload is forecast to average about 134,000 or 8.7 per cent below budget, resulting in lower expenditures of \$117 million for the year.
- Public Safety and Solicitor General – additional pressures of up to \$24 million are being managed by the ministry, primarily for the missing persons investigation. 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 (operating debt interest) – costs were \$94 million below budget in the first six months and are expected to be \$120 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 U.S. exchange rate in the first quarter of 2002/03, and lower borrowing requirements in the first half of the year.

Table 2.4 also shows that at the end of the second quarter, net pressures being managed by ministries totaled \$26 million. The \$6 million increase from the first quarter mainly reflects increased pressures in the Ministry of Public Safety and Solicitor General.

As noted earlier, spending commitments and pressures totalling \$88 million have been allocated to the Contingencies vote.

Table 2.5 2002/03 Pressures Allocated to the Contingencies Vote

	(\$ millions)
Contingencies allocation	
Children and Family Development - school based programs.....	37
Energy and Mines - energy policy and economic initiatives.....	6
Public Safety and Solicitor General - <i>Emergency Program Act</i> - floods...	19
Transportation - public transit - deferred interest and start-up costs.....	26
Subtotal.....	<u>88</u>
Unallocated.....	122
Total contingencies budget.....	<u>210</u>

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

- Ministry of Energy and Mines – \$6 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) – \$26 million relating to the write-off of deferred interest and start-up costs related to the Port Moody/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

Combined Crown corporation net results are forecast to be \$6 million higher than budget primarily reflecting an improvement in operating results at ICBC and lower debt interest costs for BCTFA. These gains are partially offset by a higher dividend payment by BC Hydro.

Before payments to the CRF, net income of Crown corporations are forecast to total \$1,357 million – \$1,517 million from self-supported Crown corporations partially offset by a \$160 million combined loss from taxpayer-supported Crown corporations. This forecast is \$69 million higher than budget.

Six-Month Results

For the first six months of the 2002/03 fiscal year, Crown corporations reported a \$184 million improvement to their operating results compared to budget (\$228 million before payments to the CRF). Most Crown corporations posted better-than-expected results, led by \$59 million of higher net income for BC Hydro (primarily due to higher-than-expected net power exports) and a \$55 million improvement by ICBC (mainly due to higher premium revenue and lower-than-budget operating expenses). Appendix Table A.4 provides more details on six-month results.

The British Columbia Railway Company (BC Rail) loss of \$39 million for its January-to-September period includes restructuring costs of \$65 million. As the restructuring costs were included in the government's 2001/02 fiscal year, they are excluded from the 2002/03 results by a \$65 million offsetting improvement in accounting adjustments. Excluding these costs, BC Rail's results were \$20 million above budget.

The above-budget six-month results do not all flow through to the full-year forecast as BC Ferries typically realizes stronger results during the summer months and ICBC's claims costs increase during the last quarter of each year. As well, ICBC's year-to-date results include a one-time investment gain due to a change in the management of its Canadian equity portfolio.

The forecast includes the following:

- BC Hydro's operating results (before rate stabilization transfers) remain unchanged at \$350 million. However, approval by the BC Utilities Commission (BCUC) to use historical accounting policy for rate-setting and reporting purposes authorized BC Hydro to reverse a \$450 million reduction in equity that was assumed in the budget as a result of a CICA accounting pronouncement. The BCUC decision will result in a higher rate stabilization account transfer to meet BC Hydro's allowed rate of return and a higher dividend payment. There is no impact on the overall government bottom line from this change.
- BC Rail's forecast loss of \$53 million for its fiscal year (January to December) includes restructuring costs of \$65 million. As these costs were included in the government's 2001/02 results, they are excluded from the 2002/03 deficit forecast by an offsetting improvement in accounting adjustments. Excluding these costs, BC Rail's forecast net income is \$2 million less than budget.
- ICBC is forecasting net income of \$15 million for 2002 compared to a budgeted \$10 million loss. The improvement is due to operating cost savings, higher premium revenue and a positive prior-year claims adjustment, partially offset by an increase in current claims costs and lower forecast investment income. Recent decisions affecting insurance rates will have a minimum impact on this forecast as the rate increases apply only to new policies issued during the remainder of this calendar year, and to renewals starting in 2003.
- BC Lotteries, the Liquor Distribution Branch and the Columbia Power Corporation are all forecasting higher operating income resulting in a total bottom-line improvement of \$20 million from these sources.

Crown Corporation and Agency 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, government direction subsequent to the Core review and 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.

Full-Time Equivalents (FTEs)

Total full-time equivalent (FTE) employees of government and taxpayer-supported Crown corporations are projected at 38,822 in 2002/03, down 1,586 from budget (see Appendix Table A.12).

The 2002/03 full year forecast of ministry and special office FTEs is 30,300, down 1,308 from budget and 700 FTEs lower than the updated forecast in the first *Quarterly Report*. The decline reflects a higher-than-anticipated number of voluntary departures and early retirements. At this time, ministries do not expect any significant changes to their 2004/05 staffing level targets.

The updated FTE forecast for taxpayer-supported Crown corporations shows a reduction of 278 FTEs from budget compared to the first *Quarterly Report* update of 300 fewer FTEs. The reduction from budget reflects accelerated implementation of service plans, with the largest reduction in the Legal Services Society and BC Assessment Authority. The change from the first *Quarterly Report* is primarily due to the transfer of employees from the Ministry of Finance to the recently created Partnerships BC Inc.

Provincial Capital Spending

Table 2.7 Capital Expenditures - Updated Forecast

	2002/03			Actual 2001/02
	Budget Estimate	Updated Forecast	Variance ¹	
	(\$ millions)			
Taxpayer-supported				
Education.....	466	402	(64)	360
Health ²	273	173	(100)	169
BC Transportation Financing Authority	254	256	2	324
British Columbia Ferry Corporation	103	84	(19)	57
Rapid Transit Project 2000 ²	143	125	(18)	199
Government operating (ministries).....	301	257	(44)	203
Other ³	129	102	(27)	102
Total taxpayer-supported.....	1,669	1,399	(270)	1,414
Self-supported commercial				
British Columbia Hydro and Power Authority	745	745	-	545
British Columbia Railway Company	66	58	(8)	78
Columbia River power projects ⁴	86	91	5	118
Insurance Corporation of British Columbia ⁵	116	109	(7)	107
British Columbia Lottery Corporation	26	34	8	20
Liquor Distribution Branch.....	22	11	(11)	26
Total self-supported commercial	1,061	1,048	(13)	894
Total capital expenditures.....	2,730	2,447	(283)	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.

Total capital spending¹ in 2002/03 is forecast at \$2.4 billion, \$283 million below budget (see Tables 2.7 and 2.8). The decrease is mainly due to slower-than-expected spending for health, education, transportation and minor capital purchases by ministries. The updated forecast reflects

¹ Capital spending is not included in the government's annual surplus or deficit. In accordance with generally accepted accounting principles (GAAP), 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.

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.....	(271)	
Self-supported commercial.....	10	(261)
Capital spending - first Quarterly Report updated forecast.....		2,469
Taxpayer-supported		
Health facilities.....	(18)	
B.C. Ferries.....	10	
BC Transportation Financing Authority.....	8	
Rapid Transit Project 2000.....	(10)	
Minor capital purchases by ministries.....	(12)	
Other.....	23	1
Self-supported commercial		
BC Rail.....	(12)	
Other.....	(11)	(23)
Capital spending - second Quarterly Report updated forecast.....		2,447
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)	(436)
Adjusted provincial debt at March 31, 2003 - post Public Accounts		40,292
Fiscal 2002/03 changes - first Quarterly Report		
Taxpayer-supported debt.....	(796)	
Self-supported commercial.....	(347)	(1,143)
Provincial debt at March 31, 2003 - first Quarterly Report updated forecast.....		39,149
Fiscal 2002/03 changes - second Quarterly Report		
Taxpayer-supported debt		
Provincial government operating:		
- weaker CRF revenue.....	274	
- lower minor capital purchases by ministries.....	(12)	
- reduced working capital needs.....	(45)	
Education facilities (higher sinking fund revenue).....	(16)	
Health facilities (mainly lower capital spending).....	(18)	
Transportation (mainly lower capital spending).....	(14)	
Other (mainly BCBC working capital requirements).....	(13)	156
Self-supported commercial		
BC Hydro (reduced working capital requirements).....	(37)	
BC Rail (higher cash flows).....	(58)	
Columbia basin power projects (deferred borrowing).....	(49)	
Other.....	(2)	(146)
Debt forecast allowance reduction.....		(250)
Provincial debt at March 31, 2003 - second Quarterly Report updated forecast.....		38,909

spending trends experienced in the first half of the fiscal year as total capital expenditures were \$262 million below budget to the end of September.

Taxpayer-supported capital spending, which includes construction of schools, hospitals, post-secondary and transportation projects, plus minor capital purchases by ministries and other taxpayer-supported agencies, is forecast to be \$270 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 lower forecast of costs to complete *SkyTrain's* Millennium Line; and
- slower-than-anticipated purchases of minor capital by ministries.

Self-supported commercial Crown corporation capital spending, which includes construction on BC Hydro, BC Rail, ICBC and Columbia Basin projects, is forecast to be \$13 million below budget.

Capital Projects over \$50 million

Consistent with the *Budget Transparency and Accountability Act*, capital projects with multi-year budgets totalling \$50 million or more, are identified individually in Appendix Table A.6. Spending on these major projects in 2002/03 is forecast at \$0.5 billion, and the cumulative total at September 30, 2002 was \$3.4 billion.

Changes since the first *Quarterly Report* include:

- *SkyTrain* extension (Phase 1) – the total cost of the project is forecast at \$1,117 million, down \$50 million from the project budget and down \$10 million from the amount reported in the first *Quarterly Report*. The lower costs reflect better estimates of total costs as the project nears completion.
- BC Hydro's Burrard power station upgrade – the revised completion date is now June 2003 (from March 2004). The total cost is forecast to be \$195 million, down \$27 million from budget and \$25 million lower than the first *Quarterly Report*. The changes reflect a reduced scope for the project.
- BC Hydro's Seven Mile Dam safety improvements – the total cost of the project is now forecast at \$88 million, \$12 million below budget and the amount reported in the first *Quarterly Report*. The lower forecast reflects the removal of a budget reserve that anticipated a larger project scope. The reserve is no longer necessary based on work completed to date.
- Arrow Lakes Generating Station – the total project budget and forecast have been adjusted to \$284 million, up \$14 million from the first *Quarterly Report*. The increase reflects the adoption of an accounting policy to capitalize a portion of the contractor's share of revenue from

power sales resulting from early completion of generating facilities. The revenue sharing agreement expires on December 31, 2002.

- ICBC's Surrey City Centre project – the total project budget and forecast have been increased to \$312 million, up \$59 million from the amounts reported in the first *Quarterly Report*. The increase reflects additional costs required to modify space for new tenants caused by cancellation of a lease for TechBC and a decision to lease out space previously intended for occupancy by ICBC. The increased project costs are partially offset by a \$41 million payment related to the TechBC lease cancellation. The forecast completion date for the base building is January 2003. However, work will continue well beyond this date as new tenants are identified and space is modified for their use.

Provincial Debt

Provincial debt is forecast to increase \$3.0 billion from the start of the year, to total \$38.9 billion at March 31, 2003. The forecast is \$1.8 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 minor capital purchases by ministries; and
- reduced working capital requirements and improved cash flows for Crown corporations (see Tables 2.8 and 2.9).

The total provincial debt forecast is \$240 million lower than the first *Quarterly Report* mainly due to:

- a \$146 million decline in self-supported debt reflecting BC Rail's improved cash flows, and deferred borrowing for Columbia basin power projects; and
- a \$250 million decline in the forecast allowance mirroring a similar reduction for the updated fiscal forecast;

partially offset by

- a \$217 million increase in direct operating debt reflecting the reduced CRF revenue forecast.

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

Total provincial debt is forecast at 29.2 per cent of GDP at March 31, 2003, while taxpayer-supported debt is forecast at 23.1 per cent of GDP². These ratios have improved since the February budget due to lower-than-expected debt balances at the end of 2001/02, the improved deficit forecast, reduced working capital requirements for 2002/03, and higher nominal GDP.

² 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.

Table 2.9 Provincial Debt Summary ¹ - Updated Forecast

	Debt Outstanding March 31, 2002 +	Forecast Net Change ² =	Debt Outstanding March 31, 2003		Variance Above/ (Below) Budget
			Updated Forecast	Budget Estimate	
			(\$ millions)		
Taxpayer-supported debt					
Provincial government direct operating.....	13,789	3,049	16,838	17,182	(344)
Education facilities					
Schools.....	4,092	238	4,330	4,375	(45)
Post-secondary institutions.....	1,425	89	1,514	1,637	(123)
	5,517	327	5,844	6,012	(168)
Health facilities.....	1,920	149	2,069	2,199	(130)
Highways, ferries and public transit					
BC Transportation Financing Authority.....	2,514	201	2,715	2,743	(28)
British Columbia Ferry Corporation.....	19	(3)	16	72	(56)
British Columbia Transit.....	79	9	88	94	(6)
Public transit.....	936	(5)	931	937	(6)
<i>SkyTrain</i> extension.....	1,044	121	1,165	1,214	(49)
Rapid Transit Project 2000 Ltd.....	47	(47)	-	-	-
	4,639	276	4,915	5,060	(145)
Other					
British Columbia Buildings Corporation.....	596	(120)	476	538	(62)
Social housing ³	299	(79)	220	218	2
Homeowner Protection Office.....	113	17	130	139	(9)
Universities and colleges - fiscal agency loans.....	114	(3)	111	113	(2)
Other ⁴	188	(25)	163	140	23
	1,310	(210)	1,100	1,148	(48)
Total taxpayer-supported debt.....	27,175	3,591	30,766	31,601	(835)
Self-supported debt					
Commercial Crown corporations and agencies					
British Columbia Hydro and Power Authority.....	6,863	72	6,935	7,442	(507)
British Columbia Railway Company.....	614	(129)	485	638	(153)
Columbia River power projects ⁵	120	(2)	118	285	(167)
Columbia Power Corporation.....	64	32	96	-	96
Liquor Distribution Branch.....	13	(4)	9	12	(3)
	7,674	(31)	7,643	8,377	(734)
Warehouse borrowing program.....	1,067	(1,067)	-	-	-
Total self-supported debt.....	8,741	(1,098)	7,643	8,377	(734)
Forecast allowance.....	-	500	500	750	(250)
Total provincial debt.....	35,916	2,993	38,909	40,728	(1,819)
Total provincial debt as a per cent of GDP.....			29.2%	31.3%	-2.1%
Taxpayer-supported debt as a per cent of GDP.....			23.1%	24.3%	-1.2%
Taxpayer-supported debt per capita (\$).....			7,444	7,655	(211)

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.

APPENDIX: FINANCIAL RESULTS

For the Six Months Ended September 30, 2002

Second Quarterly Report 2002/03

November 28, 2002

- Table A.1 Operating Results
- Table A.2 Consolidated Revenue Fund Revenue by Source
- Table A.3 Consolidated Revenue Fund Expenditure by Ministry
- Table A.4 Crown Corporation and Agency Results
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Table A.1 Operating Results
for the Six Months Ended September 30, 2002
(unaudited)

	2002/03		Actual 2001/02 ²
	Budget ¹	Actual	
	(\$ millions)		
Consolidated revenue fund (CRF)			
Revenue	10,808	11,004	11,290
Expenditure.....	(12,729)	(12,152)	(12,214) ³
CRF balance.....	(1,921)	(1,148)	(924)
Crown corporations and agencies			
Taxpayer-supported.....	(33)	38	122
Self-supported commercial	101	214	155
Crown corporation and agency net results	68	252	277
(Deficit) surplus before joint trusteeship	(1,853)	(896)	(647)
Joint trusteeship (one-time adjustment).....	-	-	1,464 ³
(Deficit) surplus	(1,853)	(896)	817

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

² 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 \$31 million increase to revenue and a \$116 million increase to expenditure, resulting in an \$85 million increase to the CRF negative balance. The CRF effect is offset by an \$85 million decrease in the taxpayer-supported Crown corporation net losses. There is no change to the 2001/02 surplus from this restatement.

³ In addition to the FRBC restatement, CRF expenditures for 2001/02 have been increased by \$30 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 bottom line. The joint trusteeship adjustment for the first half of 2001/02 was also increased by \$28 million that was previously accrued in the second half of the fiscal year. This change reflects the substance of the transaction which occurred at the beginning of 2001/02. The total impact of these changes on the summary bottom line is a \$28 million increase to the second quarter surplus.

Table A.2 Consolidated Revenue Fund Revenue by Source ¹

for the Six Months Ended September 30, 2002
(unaudited)

	2002/03		Variance ³	Actual 2001/02 ⁴
	Budget ²	Actual		
			(\$ millions)	
Taxation				
Personal income.....	2,390	2,295	(95)	2,461
Corporation income.....	441	452	11	634
Social service.....	1,938	1,944	6	1,836
Other.....	1,672	1,760	88	1,691
	6,441	6,451	10	6,622
Natural Resources				
Petroleum, natural gas and minerals	690	602	(88)	824
Forests.....	419	507	88	513
Columbia River Treaty.....	43	31	(12)	313
Water resources, <i>Wildlife Act</i> and other.....	136	128	(8)	157
	1,288	1,268	(20)	1,807
Other revenue				
Medical Services Plan premiums.....	648	680	32	477
Other.....	403	411	8	454
	1,051	1,091	40	931
Contributions from Government Enterprises				
Liquor Distribution Branch.....	321	336	15	320
British Columbia Lottery Corporation.....	227	256	29	214
British Columbia Hydro and Power Authority.....	-	-	-	-
Other.....	-	-	-	-
	548	592	44	534
Contributions from the Federal Government				
Canada health and social transfer.....	1,402	1,298	(104)	1,323
Equalization.....	-	226	226	-
Other.....	78	78	-	73
	1,480	1,602	122	1,396
Total Revenue.....	10,808	11,004	196	11,290

¹ Figures exclude 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.

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

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 \$31 million increase to the 2001/02 revenue.

Table A.4 Crown Corporation and Agency Results
for the Six Months Ended September 30, 2002
(unaudited)

	2002/03			Actual 2001/02 ²
	Budget ¹	Actual	Variance	
		(\$ millions)		
Taxpayer-supported				
British Columbia Buildings Corporation	17	26	9	21
British Columbia Ferry Corporation	53	63	10	56
BC Transportation Financing Authority	(25)	(4)	21	31
552513 British Columbia Ltd (Skeena Cellulose) ³	-	-	-	65
Other	44	59	15	85
Less: Accounting adjustments ⁴	(122)	(106)	16	(136)
Taxpayer-supported net results	(33)	38	71	122
Self-supported commercial				
British Columbia Hydro and Power Authority	82	141	59	164
Liquor Distribution Branch	321	336	15	320
British Columbia Lottery Corporation	324	340	16	289
British Columbia Railway Company	6	(39)	(45)	(5)
Insurance Corporation of British Columbia	(31)	24	55	(38)
Other	3	7	4	3
Less: Accounting adjustments ⁵	(56)	(3)	53	(44)
Self-supported commercial Crown corporation results				
before contributions to CRF	649	806	157	689
Less: Contributions paid to CRF	(548)	(592)	(44)	(534)
Self-supported commercial net results	101	214	113	155
Crown corporation and agency net results	68	252	184	277

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

² 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 \$85 million loss, resulting in a positive impact on the net results of taxpayer-supported Crown corporations.

³ In 2001/02, includes debt assistance of \$88 million.

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

⁵ 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 Six Months Ended September 30, 2002
(Unaudited)

	2002/03			Actual 2001/02
	Budget ¹	Actual	Variance ²	
		(\$ millions)		
Taxpayer-supported				
Education.....	199	160	(39)	159
Health ³	56	56	-	74
BC Transportation Financing Authority	191	169	(22)	248
British Columbia Ferry Corporation	51	20	(31)	17
Rapid Transit Project 2000 ³	58	24	(34)	126
Government operating (ministries).....	99	43	(56)	31
Other ⁴	59	27	(32)	58
Total taxpayer-supported	713	499	(214)	713
Self-supported commercial				
British Columbia Hydro and Power Authority	358	357	(1)	224
British Columbia Railway Company	33	28	(5)	45 ⁵
Columbia River power projects ⁶	20	13	(7)	87
Insurance Corporation of British Columbia ⁷	62	33	(29)	40
British Columbia Lottery Corporation.....	13	18	5	7
Liquor Distribution Branch.....	14	3	(11)	13
Total self-supported commercial	500	452	(48)	416
Total capital expenditures	1,213	951	(262)	1,129

¹ Reflects six-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.

⁵ Restated to reflect consolidated capital spending of the BCR Group of Companies.

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 first Quarterly Report released on September 13, 2002 .**

Project	Start Date	Forecast Completion Date	Cumulative Spending at Mar. 31, 2002 ^{1 +}	Estimated Spending April 1 to Sept. 30	Estimated Cumulative Spending at =Sept. 30, 2002	Total Project Budget ²	Total Project Forecast ²
\$ millions							
Advanced Education Facilities							
UBC - Life Sciences Centre.....	Apr. 2002	Sept. 2004	-	4	4	110	110
Health Facilities							
Vancouver General Hospital, Jim Pattison Pavilion.....	Sept. 2000	Jan. 2005 ³	36	11	47	156	156
Prince George Regional Hospital.....	Spring 2001	Mar. 2004	20	6	26	50	50
Fraser Valley Health Centre/Eastern Fraser Valley Cancer Clinic	April 2001	Mar. 2007	<u>1</u>	<u>3</u>	<u>4</u>	<u>211</u>	<u>211</u>
Total health facilities.....			57	20	77	417	417
Transportation							
Vancouver Island Highway.....	1991	Dec. 2002	1,253	10	1,263	1,294 ⁴	1,278
Trans Canada Highway - 5 Mile (Yoho) Bridge.....	May 1999	Oct. 2005	11	5	16	38 ⁴	38 ⁴
Nisga'a Highway.....	Aug. 1998	Fall 2005	18	6	24	52	52
SkyTrain Extension - Phase 1.....	Sept. 1998	Dec. 2002	1,007	33	1,040	1,167	1,117
SkyTrain Systems Upgrades ⁵	Oct. 1999	Dec. 2002	74	5	79	94	87
SkyTrain Fleet Expansion ⁵	Oct. 1998	Mar. 2003	<u>65</u>	<u>-</u>	<u>65</u>	<u>68</u>	<u>68</u>
Total transportation.....			2,428	59	2,487	2,713	2,640
Power Generation							
British Columbia Hydro and Power Authority							
- Burrard Upgrade (including 6 selective catalytic reduction systems) ⁶	June 1993	June 2003	177	7	184	222	195
- Georgia Strait Pipeline Crossing ⁷	April 2000 ⁸	Oct. 2004	18	5	23	131	170
- Vancouver Island Generation Project.....	April 2000 ⁸	Nov. 2004	24	38	62	370 ⁹	370 ⁹
- Addition of Fourth Generating Unit at Seven Mile Dam.....	Feb. 1995	Mar. 2003	41	24	65	97	93
- Seven Mile Dam safety improvements.....	June 1999	Mar. 2005	11	5	16	100	88
Arrow Lakes Power Company ¹⁰							
- Arrow Lakes Generating Station.....	Feb. 1999	Dec. 2002	<u>260</u>	<u>11</u>	<u>271</u>	<u>284</u>	<u>284</u>
Total power generation.....			531	90	621	1,204	1,200
Other							
ICBC Properties Ltd.							
- Surrey City Centre	Sept. 1999	Jan. 2003 ¹¹	169	30	199	312 ¹²	312 ¹²

¹ Total expenditures since commencement of each project.² Represents sum of annual budgeted expenditures to complete each project.³ Individual components were completed starting in December 2000 and will continue to be completed before the end of the overall project.⁴ Amount represents the provincial portion of this cost-shared project with the federal government. Total project budget is \$61 million.⁵ Funds for these projects are fully recovered from the Greater Vancouver Transportation Authority (*TransLink*).⁶ Burrard generating station upgrade includes installation of Selective Catalytic Reduction (SCRs) systems on all 6 generating units. SCRs reduce emissions from the units and are required to meet the air quality standards for the Greater Vancouver Regional District.⁷ 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.⁸ Initial planning, preliminary field work and engineering design costs. Physical construction will begin at a later date.⁹ 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.¹⁰ A joint venture of the Columbia Power Corporation and the Columbia Basin Trust.¹¹ The base building is forecast to be completed in January 2003; however, work to prepare space for new tenants will extend well beyond this date.¹² The increase reflects additional costs required to modify space for new tenants caused by cancellation of a lease for TechBC and a decision to lease out space previously intended for occupancy by ICBC. The higher costs are partially offset by a \$41 million payment related to the TechBC lease cancellation.

Table A.7 Provincial Debt¹ Outstanding

For the Six Months Ended September 30, 2002

(Unaudited)

	Debt		Debt Outstanding		Variance	Debt
	Outstanding March 31, 2002 +	Net Change ²	September 30, 2002		Above/(Below) Budget	Outstanding Sept. 30, 2001 ⁴
		=	Actual	Budget ³		
(\$ millions)						
Taxpayer-supported debt						
Provincial government direct operating.....	13,789	822	14,611	15,049	(438)	12,062
Education facilities						
Schools.....	4,092	90	4,182	4,244	(62)	3,980
Post-secondary institutions.....	1,425	14	1,439	1,532	(93)	1,424
	5,517	104	5,621	5,776	(155)	5,404
Health facilities.....	1,920	41	1,961	2,014	(53)	1,840
Highways, ferries and public transit						
BC Transportation Financing Authority.....	2,514	63	2,577	2,651	(74)	2,336
British Columbia Ferry Corporation.....	19	(2)	17	32	(15)	20
British Columbia Transit.....	79	3	82	89	(7)	73
Public transit.....	936	(1)	935	939	(4)	939
SkyTrain extension.....	1,044	38	1,082	1,129	(47)	965
Rapid Transit Project 2000 Ltd.....	47	(36)	11	-	11	120
	4,639	65	4,704	4,840	(136)	4,453
Other						
British Columbia Buildings Corporation.....	596	(128)	468	559	(91)	544
552513 British Columbia Ltd. (Skeena Cellulose Inc.).....	-	-	-	-	-	230
Social housing ⁵	299	(69)	230	234	(4)	267
Homeowner Protection Office.....	113	4	117	126	(9)	95
Universities and colleges - fiscal agency loans..	114	(5)	109	114	(5)	118
Other ⁶	188	(24)	164	158	6	231
	1,310	(222)	1,088	1,191	(103)	1,485
Total taxpayer-supported debt.....	27,175	810	27,985	28,870	(885)	25,244
Self-supported debt						
Commercial Crown corporations and agencies						
British Columbia Hydro and Power Authority....	6,863	486	7,349	7,562	(213)	6,846
British Columbia Railway Company.....	614	(6)	608	637	(29)	622
Columbia River power projects ⁷	120	(1)	119	286	(167)	120
Columbia Power Corporation.....	64	(31)	33	-	33	45
Liquor Distribution Branch.....	13	-	13	12	1	2
	7,674	448	8,122	8,497	(375)	7,635
Warehouse borrowing program.....	1,067	139	1,206	901	305	2,646
Total self-supported debt.....	8,741	587	9,328	9,398	(70)	10,281
Total provincial debt.....	35,916	1,397	37,313	38,268	(955)	35,525

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

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

³ Reflects six-month allocation of the full-year budget 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		2002/03 Full-Year Sensitivities and Forecast Details
	Budget Estimate	Updated Forecast	
	(\$ millions)		
Personal Income Tax	\$4,854	\$4,254	
B.C. personal income growth	2.0%	2.4%	+/- 1% change in 2002 B.C. personal income
B.C. tax base growth	2.5%	2.9%	equals +/- \$50 to \$100 million
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 tax-year entitlement (\$ millions)	\$5,398	\$5,169	
2001 personal income growth	2.2%	2.6%	+/- 0.01% change in 2001 effective yield equals
2001 tax-base growth	2.2%	1.8%	+/- \$90 million one-time and +/- \$90 million revenue base change
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	\$664	
National tax base growth	-10.0%	-3.0%	+/- 1% change in the 2002 national tax base equals +/- \$10 to \$15 million
B.C. corporate profit growth - 2001	-15.0%	-2.8%	+/- 1% change in the 2001 B.C. tax base equals +/- \$10 to \$15 million
Instalments from the federal government			
National tax base (\$ billions)	\$105.2	\$107.6	
B.C. instalment share	9.5%	9.5%	
Revenue (\$ millions)			
Gross advances	\$1,030	\$1,065	
Less credits for 2002 tax year	-\$99	-\$146	Higher credits reflecting 2001 tax assessments
Prior-year adjustment	-\$152	-\$255	
Adjustment for 2001 and prior years			
2001 BC tax base (\$ billions)	\$9.3	\$9.7	
Small business share of tax base	34%	40%	
Revenue for 2001 and prior years (\$ millions)			Revenue forecast for 2001 and prior years is based on tax assessment information as of October 15, 2002 provided by the federal government.
Gross tax revenue	\$1,149	\$1,138	
Less credits for 2001 tax year	-\$98	-\$165	
Revenue for 2000 and prior years	\$75	\$50	
Revenue is recorded on a cash basis. Due to lags in the federal collections and instalment systems, changes to the B.C. corporate profits and tax base forecasts affect revenue mainly 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 the federal government's forecast of the 2002 national tax base. Final payments for the year are adjusted to reflect 2001 assessments for B.C. (assessed as of December 31, 2002).			
Social Services 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 expenditures equals up to +/- \$20 million.
Includes Budget 2002 measures:			
Various exemptions / refunds	-\$17	-\$19	
General rate increased to 7.5%	+\$250	+\$250	



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

Revenue Source and Assumptions (\$ millions)	2002/03		2002/03 Full-Year Sensitivities and Forecast Details
	Budget Estimate	Updated Forecast	
	(\$ millions)		
Petroleum, Natural Gas and Minerals	\$1,370	\$1,352	
Natural gas price (\$Cdn/gigajoule)	\$3.65	\$3.45	+/- \$.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	780	+/- 5% change in price or volume of land sales equals +/- \$13 million.
Average bid price/hectare (\$)	\$375	\$325	
Forests	\$1,145	\$1,120	
SPF 2x4 price (\$US/1000 bd ft. calendar year average)	\$250	\$237	+/- 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	\$467	+/- US\$50 change in pulp price equals +/- \$10 to \$15 million.
Interior Crown harvest volumes (million cubic metres)	44.0	46.0	+/- 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 by an assumed 15 per cent, resulting in lower stumpage rates.			
Contributions from Government Enterprises -- based on Business Service Plans	\$1,420	\$1,483	See Table A.10 for assumptions and sensitivities for the Crown corporations
Canada health and social transfer (CHST)	\$2,805	\$2,535	
Equalization	\$0	\$770	
National CHST 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	-\$1.6	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.
Associated equalization tax point offset (\$ billion)	--	-\$0.3	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	
	(\$ millions)		
Advanced Education	\$1,900	Unchanged	
Student spaces - (# of FTEs)	157,500	Unchanged	The number of student spaces may vary depending on the financial and other policies adopted by post-secondary institutions.
Debt Service costs	\$145	Unchanged	A 1% change in interest rates affects annual debt service costs by approximately \$1.8 million.
Student Loans Authorized	\$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	\$556	\$540	
Criminal caseload - volume (#)	125,000	Unchanged	A 10% change in criminal caseload level affects costs 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	Unchanged	In seven locations where courthouses were to have been closed, circuit courts have been established. Negotiations with other locations requesting circuit courts are on-going.
Treaty Negotiations Office	\$51	\$35	Mainly due to lower forestry stumpage collected and disbursed under the McLeod Lake Treaty Adhesion Agreement.
Statutory Services - <i>Crown Proceeding Act</i>	\$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	\$1,558	Unchanged	
Children-in-care caseload (#)	9,700	Unchanged	A 5% change in caseload affects annual costs by approximately \$10 to \$13 million.
Community Living Services caseload (#)	8,850	Unchanged	A 5% change in caseload affects annual costs by approximately \$22 to \$26 million.
Community, Aboriginal and Women's Services	\$555	Unchanged	
2010 Winter Olympics Bid	\$2	Unchanged	In June, the federal and provincial governments announced that they would cost-share on a 50:50 basis, venues costs of \$620 million, 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.



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	
	(\$ millions)		
Education	\$4,861	Unchanged	
Student Enrolment (# of FTEs)	592,000	Unchanged	
Class Size - Kindergarten	19 district average	Unchanged	A 1% change in enrolment affects annual costs by approximately \$32 million.
Class Size - Grades 1-3	21 district average	Unchanged	A one-student per class change in K-12 affects annual costs by approximately \$60 million.
Class Size - Grades 4-12	30 district average	Unchanged	
Debt Service Costs	\$363	Unchanged	A 1% increase in interest rates affects annual debt service costs by \$7 million.
Energy and Mines	\$50	Unchanged	
Vancouver Island gas pipeline and the Squamish Rate Stabilization Facility	\$21	Unchanged	Each \$1 Cdn per GJ change in the average natural gas price for the fiscal year affects annual costs by \$6 million. At current gas price forecasts, it is unlikely that costs will exceed the budget estimate in 2002/03.
Forests	\$621	Unchanged	
Direct Fire Fighting	\$55	\$43	<p>The budget provides funding based on a historical median fire year and assumes implementation of a cost-shared fire protection model.</p> <p>Drier 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.</p> <p>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. The ministry is expecting savings of \$12 million due to the low fire season in B.C., but it is also managing pressures in other areas.</p>



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	
	(\$ millions)		
Health Services	\$10,205	Unchanged	
Pharmacare	\$718	Unchanged	
Demand/cost growth (per cent change)	15.0%	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)	\$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.		Unchanged	The Working Agreement has been finalized.
Supplementary Benefits		Unchanged	A 1% change in the average number of supplementary services per beneficiary affects MSP costs by approximately \$0.5 million.
Regional Health Sector	\$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 (#)	-	Unchanged	
Administrative expenses as a per cent of total expenses	25.8%	Unchanged	
Emergency Health Services	\$188	Unchanged	
Human Resources	\$1,789	\$1,672	
Temporary and Continuous Assistance - average caseload (#)	146,700	134,000	A 1% change in caseload affects expenditures by approximately \$10 million annually. A 1% change in the unemployment rate affects expenditures by approximately \$12 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.



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	
	(\$ millions)		
Public Safety and Solicitor General	\$506	Unchanged	
Corrections - number of inmates (#)	2,150 - 2,350	Approx 2,150	A 1% change in the prison population affects costs by \$1.1 million.
<i>Emergency Program Act</i>	\$16	\$22	Actual costs will vary depending on the number or severity of natural disasters such as earthquakes and floods (additional costs of \$19 million are funded from contingencies).
Transportation	\$739	Unchanged	
Amortization portion of the Public Transit Vote	\$53	Unchanged	Earlier completion could affect annual amortization expenditures.
Management of Public Funds and Debt	\$920	\$800	
Expected interest rates for new provincial borrowing:			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.
Short-term	2.94%	3.40%	
Long-term	6.51%	6.45%	
US exchange rate (\$)	\$0.6375	\$0.6546	
Government Restructuring (All Ministries)	\$230	Unchanged	
Workforce Adjustment	\$65	\$100	Includes severance and other associated costs.
FTE reduction incurring severance costs (#)	1,900	2,100	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	\$135	\$100	As ministry plans are confirmed, costs may change.
Other restructuring	\$30	\$30	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 incremental funding for market adjustment increases.

Table A.10 Crown Corporation Assumptions and Sensitivities

Crown Corporation and Assumptions (\$millions)	2002/03		2002/03 Full-Year Sensitivities
	Budget Estimate	Updated Forecast	
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	7.2	±1% in interest rates = ±\$0.3 million
Capital spending	up to 70	46	Value and timing of property sales depend on market timing and values. Shareholder-directed disposal could impact gains.
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	24	
Capital spending	103	84	
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	47	
Dedicated motor fuel tax	74	74	
BC Transportation Financing Authority			
Net income (loss)	(56)	(37)	
Capital spending	254	256	±1% in provincial fuel consumption volumes = ±\$2 million
Dedicated tax revenue	203	203	±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-\$430 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	341	±1% in hydro generation = ±\$20 million
Capital spending	745	745	± \$1/MW-h in electricity trade margins = ±\$30 million
Water inflow levels (snowpack)	100%	109%	±10% in natural gas prices = ±\$5 million
Domestic load growth	-0.1%	0.4%	±100 basis points in borrowing rate = ±\$20 million
BC real GDP	0.6%	1.4%	±\$0.01 in exchange rates = ±\$10 million
Forward energy price date	mid-Jan/02	mid-Sep/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	641	Price competition, economic conditions, weather patterns and timing of holidays affect sales
Net sales increase	1.8%	1.8%	±1% in sales volume = ±\$6 million in net income
Capital spending	22	11	
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	12	Total traffic disruption could reduce net income by \$4 million per week
Capital spending	66	58	
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	15	
· ICBC Properties Ltd.	86	94	Capital spending shown at gross expenditures before recoveries of \$41 million due to a lease cancellation settlement
Restructuring costs	15	8	±1% in premium revenue = ±\$27 million (Increase in revenue trend reflects higher-than-expected optional insurance sales.)
Policy premium revenue trend	+5.2%	+5.4%	
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.12 Full-Time Equivalents (FTEs) ¹ - Updated Forecast

	2002/03			Actual 2001/02
	Budget Estimate	Updated Forecast	Variance	
Ministries and special offices.....	31,608	30,300	(1,308) ²	33,214
Taxpayer-supported Crown corporations and agencies.....	8,800	8,522	(278) ³	9,178
Total FTEs	40,408	38,822	(1,586)	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.