
First Quarterly Report

on the Economy, Fiscal Situation,
and Outlook

Fiscal Year 2003/04

Three Months

April – June 2003



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SUMMARY

First Quarterly Report 2003/04

September 2003



(\$ millions)	2003/04 Updated Forecast	Updated Plan	
		2004/05	2005/06
Revenue	26,485	27,449	28,087
Expense	(28,335)	(27,479)	(28,047)
(Deficit) surplus before forecast allowance	(1,850)	(30)	40
Expanded reporting entity	-	100	100
Forecast allowance	(450)	-	-
(Deficit) surplus	(2,300)	70	140
Provincial debt:			
Taxpayer-supported debt	30,631	31,449	31,724
Taxpayer-supported debt as a per cent of GDP	21.9%	21.5%	20.7%
Total debt	38,980	40,178	40,731
Total debt as a per cent of GDP	27.9%	27.5%	26.6%

- Government's plan to balance the budget beginning in 2004/05 remains on track, despite a number of significant economic and fiscal challenges.
- The forecast deficit for 2003/04 remains unchanged from the February budget at \$2.3 billion. Forest fire fighting and related costs, and lower revenues from slower economic growth are offset by higher energy revenues, an improved BC Hydro outlook and debt interest savings. In addition, a \$50 million draw from the forecast allowance has also been used to offset some of the unforeseen forest fire costs, leaving a \$450 million cushion to absorb any further shocks in the remainder of the fiscal year.
- In the worst fire season on record, forest fire fighting and related costs are expected to total \$545 million, \$487 million higher than budgeted. However, major fiscal impacts are not expected beyond 2003/04.
- Outside of forest fire and related costs, ministries are expected to be on budget for the year. An unallocated contingencies budget of \$126 million is also in place to protect against spending pressures.
- Since the budget, B.C.'s economy has been buffeted by a slowing North American economy, the rapid rise in the Canadian dollar, and events such as the SARS and BSE outbreaks. As a result, B.C.'s real GDP growth forecast has been lowered to 1.5 per cent from 2.4 per cent for 2003 and to 2.6 per cent from 3.0 per cent for 2004. The GDP growth forecast for 2005, 2006 and 2007 is essentially unchanged at 3.0 per cent.
- For 2004/05 and 2005/06, government continues to forecast modest surpluses. Additional funding for the Ministry of Children and Family Development is offset by higher energy revenues. In 2004/05, the revenue effects of slower economic growth are offset by BC Hydro improvements, debt interest savings and the required inclusion of school districts, universities, colleges and health authorities into government's reporting entity. However, in 2005/06 the gains only partially offset the revenue losses, leading to a \$235 million smaller surplus than expected in the February budget.
- Provincial debt at the end of the 2003/04 fiscal year is now expected to be \$2 billion lower than in the February budget, mainly due to a stronger financial position at the end of the 2002/03 fiscal year and reductions in forecast cash requirements.
- The key taxpayer-supported debt-to-GDP ratio is now forecast to reach 21.9 per cent for 2003/04, lower than the 23.0 per cent *Budget 2003* forecast. The taxpayer-supported debt-to-GDP ratio is forecast to decline subsequently, reaching 20.7 per cent by the end of 2005/06.

PART ONE — UPDATED FINANCIAL FORECAST

First Quarterly Report 2003/04

September 2003

Introduction

The government's plan to balance the budget beginning in 2004/05 remains on track despite the fiscal impact of a number of significant challenges including this summer's forest fires and slower than expected economic growth.

In 2003/04, forest fire fighting and related costs and lower tax revenues are offset by higher energy revenues, an improved BC Hydro outlook, debt interest savings and a \$50 million reduction in the \$500 million forecast allowance, resulting in a forecast deficit of \$2.3 billion, unchanged from budget.

In 2004/05, the effects on revenue of slower economic growth, and additional funding for the Ministry of Children and Family Development are partially offset by higher energy revenues, an improved BC Hydro outlook, and debt interest savings. In addition, the estimated impact of full incorporation of school districts, universities, colleges, and health authorities (SUCH) into the government reporting entity will have a positive effect on the bottom line. A modest surplus of \$70 million is forecast for 2004/05.

In 2005/06, the improvements in energy revenue, BC Hydro income and debt interest savings are smaller and only partially offset lower tax revenues and the additional funding requirement for the Ministry of Children and Family Development. As a result, the expected surplus is now \$140 million, \$235 million less than forecast in the February budget.

The main changes to the fiscal plan are summarized in Table 1.1.

First Ministers' Accord on Health Care Renewal

Subsequent to the February provincial budget, the new federal revenue contribution to health care was finalized. As a result, spending targets for the Ministry of Health Services were increased \$319 million in 2003/04, \$398 million in 2004/05 and \$596 million in 2005/06. These adjustments reflect the government's commitment to reinvest all additional federal contributions received under the Accord into the provincial health care system. These revenue and expense increases therefore have no net effect on the forecast deficit in 2003/04, or the surpluses in 2004/05 and 2005/06.

Since these additions were included in the final *Supply Act* passed by the Legislative Assembly on May 29, 2003, they have now been added to the February budget amounts.

Revenue

In addition to the federal health accord funding, the updated revenue forecast incorporates new information since the February budget, mainly updated economic and commodity price forecasts. The updated forecast also includes

**Table 1.1 Fiscal Plan Update
Changes from Budget 2003**

(\$ millions)	2003/04	2004/05	2005/06
Budget 2003 Fiscal Plan (February 18, 2003)	(2,300)	50	375
First Ministers' Accord on Health Care Renewal:			
Additional revenues from the federal government	319	398	596
Additional BC commitments to health care.....	(319)	(398)	(596)
Fiscal Plan (May 29, 2003 Supply Act)	(2,300)	50	375
1st Quarterly Report Forecast Updates:			
Revenue increases (decreases):			
Tax revenue - mainly lower social service tax, updated economic outlook	(107)	(212)	(283)
Energy revenue - increased activity / higher prices.....	246	175	95
Forestry revenue - impact of higher Canadian dollar.....	(50)	(75)	(50)
Federal transfers - mainly impact of updated population and economic forecasts on CHST and equalization entitlements	(7)	(29)	(24)
Federal transfers - cost recoveries: mainly accounting for federal highway funding.....	(31)	(77)	(76)
Other cost recoveries - mainly lower interest charges on self-supported debt	(113)	(128)	(125)
All other taxpayer-supported revenue	(12)	(36)	(32)
Commercial Crown corporation net income:			
BC Hydro - improved water levels and interest savings	185	100	40
Other Crown corporation changes - mainly ICBC	55	48	1
Total revenue changes	166	(234)	(454)
Less expense increases (decreases):			
Forest fire and related costs	487	-	-
Children and Family Development - revised service plan	-	122	115
Early learning and childcare - increased federal funding	-	10	20
Transportation - pass-through of federal ferries subsidy	-	24	24
BC Family Bonus - reduced provincial funding requirements	(6)	(8)	(8)
Interest costs - mainly reduced debt levels	(125)	(100)	(75)
CRF expense changes	356	48	76
Taxpayer-supported Crown corporation and agency expense and adjustment changes - mainly lower cost recoveries	(140)	(202)	(195)
Total expense changes	216	(154)	(119)
Conversion to GAAP:			
Effect of fully including SUCH sector in government's reporting entity	-	100	100
Forecast allowance reduction	50		
Total changes to Fiscal Plan	-	20	(235)
Updated Fiscal Plan	(2,300)	70	140

final results for 2002/03 released in the *Public Accounts* on June 27, 2003, and actual revenue results recorded for the April to June 2003 period. For the first three months of the fiscal year, revenues were \$279 million ahead of budget (see Appendix Table A.2).

Government revenue, including commercial Crown corporation net incomes, is expected to be \$166 million higher than the budget forecast for the full 2003/04 fiscal year, but \$234 million lower in 2004/05 and \$454 million lower in 2005/06 (see Table 1.1). The deterioration in forecast revenues in 2004/05 and 2005/06 results from:

- slower growth in taxation revenues, with larger social service tax and income tax revenue reductions in 2004/05 and 2005/06; and
- increases to energy revenues and BC Hydro net income that are smaller in 2004/05 and 2005/06.

The main changes to the three-year revenue outlook by revenue source are:

- Personal income tax revenue is expected to be \$71 million below budget in 2003/04, rising to \$80 million below plan by 2005/06. This reflects reduced personal income growth in 2002 and a lower personal income forecast for 2003 to 2006.
- Corporation income tax revenue is forecast to be lower than the plan by \$11 million in 2003/04, and down \$25 million and \$81 million in the next two years. The forecast reflects expected changes to cash receipts under the terms of the tax collection agreement with the federal government due to reductions in Canadian and B.C. corporate profit forecasts.
- Property transfer tax revenue is forecast to be \$60 million higher than budget in 2003/04 and \$30 million higher in 2004/05, reflecting stronger-than-expected year-to-date collections and the strong housing market outlook.
- Property tax revenues are forecast to be \$15 million higher in 2003/04, and up \$20 million and \$49 million in the next two years, due to a higher property tax base for 2002/03 and an inflationary adjustment in 2005/06.
- While property and property transfer tax improvements partially offset the income tax losses, the most significant change in tax revenues is for the social service tax. Social service tax revenue is expected to be \$100 million below budget in 2003/04, reflecting collections in the first three months of the fiscal year that were \$51 million below budget. This loss is consistent with recent weakness in consumer spending, particularly on durable products such as autos and major appliances. The full-year loss of \$100 million assumes some of the first quarter loss will persist. The lower base in 2003/04 and reduced consumer spending growth in 2004 result in reductions of \$154 million and \$161 million from plan in 2004/05 and 2005/06, respectively.
- Other taxes are relatively unchanged in 2003/04 and down \$10 million in each of the next two years as lower collections from fuel and hotel room taxes are partially offset by higher insurance premium taxes.
- Energy revenues are the main increases to the revenue forecast:
 - Revenues from natural gas and petroleum royalties and related permits and fees are \$237 million, \$219 million and \$137 million higher than planned, due to higher energy commodity prices and increased natural gas drilling and extraction activity. This is partially offset by the effects of the faster than expected depletion of the Ladyfern gas field, and a higher than anticipated Canadian dollar.

The forecast incorporates the effect of various government initiatives to promote natural gas production in B.C. These effects, included in the changes noted above, are estimated to increase natural gas royalties by \$113 million in 2003/04, rising to \$148 million by 2005/06.

- Mineral revenues are \$21 million, \$44 million and \$37 million lower than planned due to a drop in the metallurgical coal price and the stronger Canadian dollar.
- Revenues from electricity sales under the Columbia River Treaty are \$30 million above budget in 2003/04 due to higher electricity prices. Revenue is unchanged in 2004/05, and down \$5 million in 2005/06 as the effect of a higher Canadian dollar more than offsets higher electricity prices.
- The effect of the stronger Canadian dollar reduces the forest revenue forecast by \$50 million, \$75 million and \$50 million over the three years of the plan. The harvest volume forecast is assumed to be the same and the price forecast for the bellwether Spruce-Pine-Fir 2x4 is little changed from budget assumptions.
- Other revenues are \$124 million below budget in 2003/04 mainly due to reduced recoveries of interest costs from self-supported Crown corporations. However, since these revenues are also treated as expenditure offsets, they have no bottom line impact. These are also the main changes to other revenues in 2004/05 and 2005/06.
- Canada health and social transfer revenue is forecast to be \$27 million, \$13 million and \$4 million lower than planned over the three-year plan mainly due to slower population growth.
- Equalization revenue is forecast to be \$6 million, \$47 million and \$52 million lower than plan, reflecting changes to previous-year estimates, population adjustments, and the updated economic forecast which has slightly higher nominal GDP per capita growth rates compared to the national average in 2004 and 2005.
- Other federal contributions are lower than budget mainly due to a change in accounting treatment by the BC Transportation Financing Authority. Partially offsetting these reductions are the inclusion of federal grants that the province flows through to BC Ferry Services Inc., and an estimated \$20 million federal contribution towards forest fires in 2003/04 under the federal Disaster Financial Assistance Arrangement. Additional federal contributions to the forest fire costs are anticipated, but will not be included until they are confirmed.

Commercial Crown Corporations Net Income

- BC Hydro's operating results are projected to be better than expected in the February budget. The 2003/04 forecast is a \$185 million improvement over budget primarily due to 8 per cent higher inflows into reservoirs that enable increased production of less expensive hydro-generated electricity. As well, BC Hydro is expecting lower interest costs for its debt.

In 2004/05 and 2005/06, BC Hydro projects further improvements of \$100 million and \$40 million respectively, mainly due to lower-than-expected interest rates. As well, the positive impact of improved water inflows this year will reduce energy purchase costs in 2004/05. The forecast does not include the effect of any possible rate increases that may result from a submission to the BC Utilities Commission later this fiscal year.

- BC Rail forecasts an annual \$8 million improvement to its rail operating results projection in *Budget 2003* for the 2003, 2004 and 2005 calendar

years, reflecting both higher lumber shipments to the U.S. and reduced costs. The 2003 improvement is offset by a \$7 million negative impact from marine operations in the process of disposition. BC Rail's forecast does not include any impacts from the current partnerships initiative as discussions are still underway.

- ICBC's results for the 2003 calendar year are projected to improve by \$77 million (excluding any potential legal tariff cost increases). Dry weather conditions in the first half of 2003 resulted in lower claims costs and insurance operations expenses. ICBC projects a \$39 million improvement over plan for 2004, primarily due to a 1.5 per cent increase in premium revenue. However, claims costs are expected to increase an average of 4.3 per cent annually over the term of the fiscal plan, and are projected to fully offset premium revenue increases by 2005.

The forecast for ICBC includes the requested premium rate increases currently before the BC Utilities Commission for review and approval, but does not include the impacts of a potential increase in tariffs for litigation costs. This could increase costs by \$85 million, \$28 million and \$37 million in each year of the current fiscal plan.

The government's financial reports include an adjustment to convert ICBC's calendar year results to government's fiscal year. The adjustment effectively drops the first quarter of ICBC's calendar year and adds the first quarter of the subsequent year to provide an April 1 to March 31 result. The adjustment in the 2002/03 *Public Accounts* reflected ICBC's strong January to March 2003 performance and added \$30 million to the government's 2002/03 results. ICBC's 2003 forecast has therefore been offset by a \$30 million accounting adjustment to avoid double counting the gain in the January to March period.

Expense

Government expense includes spending for ministries and other programs of the Consolidated Revenue Fund (CRF), combined with the expense of taxpayer-supported Crown corporations and agencies. For the April to June quarter of the 2003/04 fiscal year, total expense was \$183 million below budget. Before adding the cost of forest fires, total expense is expected to be \$271 million below budget for the full fiscal year. After including the costs of the fires, total expenses are forecast to be \$216 million higher than budget.

Consolidated Revenue Fund expense

During the first three months of the fiscal year, total CRF spending (ministries, special offices and other programs) was \$85 million lower than expected, reflecting below-budget spending in most programs and lower debt interest costs (see Appendix Table A.3).

In total, spending for ministries and other programs is forecast to be \$131 million below budget for the full 2003/04 fiscal year before including the unprecedented high costs of this year's forest fires. After taking into account additional forest fire related costs, spending is forecast to be \$356 million higher than budget for the full 2003/04 fiscal year.

Spending targets are expected to increase \$48 million for 2004/05 and \$76 million in 2005/06 (see Table 1.1). This mainly reflects revisions to the targets for the Ministry of Children and Family Development and the pass through of federal funding for specific programs, partially offset by reduced debt interest costs.

The main changes to the three-year spending plan are:

- Forest fire and related costs — in total, spending for these areas could be \$487 million higher than budgeted in 2003/04. Ministry of Forests costs for fire fighting and rehabilitation could be \$415 million higher than budget while directly related emergency co-ordination and assistance costs in the Ministry of Public Safety and Solicitor General could be \$72 million higher than planned (further information is shown in the topic box at the end of Part One).
- Ministry of Children and Family Development — spending targets for 2004/05 and 2005/06 have been increased as a result of a mid-term review of the ministry's three-year service plan. As a result, the previous 23 per cent budget reduction target for the ministry has been reduced to 11 per cent by 2004/05. The ministry determined that it was not able to meet projected child-in-care caseload and unit cost reductions for residential services. Within the revised budget targets, early childhood development programs will be maintained, the ministry will continue to invest in child and youth mental health services and the health and safety of children, families and vulnerable adults will be protected.

Due to the mid-term review of the ministry's three-year service plan, the timing for the transfer of operations to authorities is being reviewed. The updated fiscal plan assumes that the transfer to authorities will occur beginning in spring/summer 2004.

- Federal ferry subsidy — the Ministry of Transportation budget will increase \$24 million per year starting in 2004/05, to reflect the pass-through of the federal ferry subsidy to BC Ferry Services Inc. Under a federal/provincial agreement, the federal government contributes funding to help support coastal ferry services. Previously, this contribution was received directly by the former BC Ferry Corporation. The contribution will now flow to government and then out to the BC Ferry Services Inc. Therefore, there is no impact on the government's bottom line.
- Early learning and childcare programs — the province will receive increased federal funding under the new five-year framework on Early Learning and Child Care. This funding has been notionally allocated between the Ministries of Children and Family Development and Community, Aboriginal and Women's Services. There is no impact on the government's bottom line targets from this change.
- BC Family Bonus — the decrease reflects federal increases to the National Child Benefit that reduce provincial funding requirements. Overall, grants to beneficiaries will not be reduced as a result of this change.
- Management of public funds and debt (debt interest) is forecast to be \$125 million below budget in 2003/04, and \$100 million and \$75 million below plan for 2004/05 and 2005/06, as a result of lower opening

debt balances for the 2003/04 fiscal year, significantly lower borrowing requirements for government operating purposes (see Table 1.5), and lower-than-expected interest rates.

Except for forest fire related program areas, ministries are expected to be on budget at year-end. As shown in Table 1.2, other pressures being managed total \$37 million for 2003/04 and include:

- Attorney General — pressures relate to potentially higher-than-expected costs for litigation in various areas and potential settlements of claims under the *Crown Proceeding Act*.
- Energy and Mines — as part of the 1995 Vancouver Island Gas Pipeline Assistance Agreement, the province is required to make payments to Terasen Inc. for the value of a volume of natural gas set out in the agreement. Higher-than-assumed natural gas prices have increased the estimated payment required for 2003/04. However, this is more than offset by increased provincial revenues resulting from the higher natural gas prices.

Table 1.2 2003/04 Pressures Being Managed

	(\$ millions)
Attorney General - higher claims costs under the <i>Crown Proceeding Act</i> and other pressures.....	26
Energy and Mines - higher payments under the Vancouver Island Gas Pipeline Assistance Agreement.....	11
Total pressures being managed	<u>37</u>

Spending commitments and pressures totaling \$44 million have been notionally allocated to the Contingencies vote. These allocations include:

- \$2 million to fund the provincial share of the Canada-BC BSE Recovery Program. The program will assist cattle producers and packers affected by the export ban on beef resulting from the discovery of bovine spongiform encephalopathy (BSE) in one animal in Alberta.
- Up to \$16 million for expected costs related to the Pickton and Air India trials. Potential costs were unknown at the time of the budget and will be reviewed later in the fall when further information becomes available.

Table 1.3 2003/04 Pressures Allocated to the Contingencies Vote

	(\$ millions)
Agricultural bovine spongiform encephalopathy (BSE) assistance.....	2
Pickton trial.....	4
Port Coquitlam missing persons investigation.....	26
Air India trial.....	12
Subtotal	<u>44</u>
Unallocated	126
Total contingencies budget	<u>170</u>

- Up to \$26 million for expected costs related to the Port Coquitlam missing persons investigation (known as Project Evenhanded). Potential costs were unknown at the time of the budget and will be reviewed later in the fall when further information becomes available.

While Table 1.3 shows that \$126 million remains available to offset unforeseen events over the rest of the year, it will be not be enough to fund the significantly higher-than-expected costs for forest fires this year. However, funding for forest fire related costs is statutorily provided for under the authority of the *Forests Practices Code* and *Emergency Program Act* and does not require additional approval of the Legislature.

Other expense

To determine total government spending, the expenses of taxpayer-supported Crown corporations are combined with CRF expense. Accounting adjustments are used to eliminate double counting of expenses and to record, as revenues, costs recovered from external agencies. The main changes from the February budget are to the recovered costs. The changes reflect reduced debt interest costs for borrowing on behalf of commercial Crown corporations, and a change in the accounting treatment of highway costs recoverable from the federal government.

The review of the timing for the transfer of operations by the Ministry of Children and Family Development to authorities in 2003/04 resulted in reduced grants by the ministry and therefore reduced spending by the authorities. As this funding was redirected to maintain services within the ministry, there was no effect on total expense from this change.

Expanded Government Reporting Entity

Government is required by legislation to fully comply with Generally Accepted Accounting Principles by the 2004/05 fiscal year. At the time of the February budget, it was assumed that this would require fully incorporating school districts, colleges, and health authorities, but not universities, into the government reporting entity, and that this would not materially affect government's bottom line. The Auditor General has subsequently indicated that universities should also be included in the entity as he believes that the government controls the financial affairs and resources of the public universities in British Columbia. The government has therefore decided to include universities in the reporting entity. However, the issue will be reviewed as further guidance from the Public Sector Advisory Board becomes available.

The inclusion of universities is currently estimated to have a positive impact on the bottom line of some \$100 million annually. By way of comparison, had the universities been included in the last two fiscal years, they would have had a positive impact of \$140 million in 2001/02, and \$180 million in 2002/03. The forecast will be refined further as more information becomes available. Government's balance sheet will also change in 2004/05 to reflect the additional assets, liabilities and debt of these organizations.

Full-Time Equivalents (FTEs)

The 2003/04 projection for taxpayer-supported FTEs, including ministries and special offices, taxpayer-supported Crown corporations and agencies, and children and family development governance authorities, is 34,199. This projection reflects a 270 FTE reduction from the February budget in taxpayer-supported Crown corporations and agencies. By 2005/06, FTEs are projected to decline to 31,246 (see Appendix Table A.11).

Provincial Capital Spending

Capital spending is needed to build, acquire or replace assets such as roads, schools, post-secondary facilities, hospitals and related major equipment. Capital spending is not directly counted in the government's annual surplus or deficit. Instead, Generally Accepted Accounting Principles require capital costs to be spread out over the useful lives of the related assets through annual amortization expenses.

**Table 1.4 Capital Spending
Changes from Budget 2003**

(\$ millions)	2003/04	2004/05	2005/06
Budget 2003 Capital Spending	2,513	2,378	2,127
Taxpayer-supported changes:			
Health	(44)	(37)	(40)
Rapid Transit Project 2000	(19)	44	-
Government operating (ministries).....	(36)	-	-
BC Buildings.....	(18)	(29)	(10)
Other.....	(37)	10	(3)
Total taxpayer-supported	(154)	(12)	(53)
Self-supported changes:			
Columbia River power projects.....	36	4	-
Other.....	(12)	(14)	(6)
Total self-supported	24	(10)	(6)
Total changes	(130)	(22)	(59)
Updated Capital Spending	2,383	2,356	2,068

Total capital spending is forecast to be \$2.4 billion in 2003/04 and 2004/05, decreasing to \$2.1 billion in 2005/06, slightly lower than the *Budget 2003* projections (see Table 1.4 and Appendix Table A.12).

Taxpayer-supported capital spending is forecast to be:

- \$154 million lower than budget in 2003/04 mainly due to reduced expenditures for health facilities, office space, *SkyTrain* and government operating (ministry) capital;
- \$12 million below budget in 2004/05 mainly reflecting lower health facility and office space expenditures, partially offset by higher *SkyTrain* expenditures delayed from previous years; and

- \$53 million below budget in 2005/06 mainly reflecting lower health facility and office space expenditures.

Self-supported commercial Crown corporation capital spending is forecast to be \$24 million higher than budget in 2003/04 mainly reflecting expenditures for Columbia River power projects delayed from previous years. Capital spending will be \$10 million lower than budget in 2004/05 and \$6 million lower in 2005/06.

Significant capital projects (those with multi-year budgets totaling \$50 million or more) are shown in Appendix Table A.13. Total spending for these projects over the next three years is forecast at \$1.3 billion, unchanged from the *Budget 2003* projections.

Provincial Debt

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

Total provincial debt is projected to total \$39.0 billion at March 31, 2004 (27.9 per cent of provincial GDP), \$40.2 billion at March 31, 2005 (27.5 per cent of GDP) and \$40.7 billion at March 31, 2006 (26.6 per cent

**Table 1.5 Debt Summary
Changes from *Budget 2003***

(\$ millions)	2003/04	2004/05	2005/06
Budget 2003 total debt	40,966	41,763	42,066
Taxpayer-supported debt changes:			
Opening balance adjustment.....	(221) ¹	(1,415)	(1,081)
Government operating:			
- Consolidated revenue fund operating results.....	177	125	334
- Health accord funding - cash/accrual differences.....	(344)	203	141
- BC Hydro dividend - cash/accrual differences.....	(244)	72	(92)
- Reduced working capital requirements.....	(554)	(99)	(194)
- Higher cash balances at the start of the year.....	(104)	-	-
- Reduced loans and advances.....	(64)	-	-
- Reduced minor capital spending.....	(36)	-	-
Health facilities (mainly lower capital spending).....	(45)	(38)	(41)
Transportation (mainly higher working capital requirements).....	30	67	30
Other.....	(10)	4	5
Total taxpayer-supported.....	<u>(1,415)</u>	<u>(1,081)</u>	<u>(898)</u>
Self-supported debt changes:			
Opening balance adjustment.....	(190) ¹	(521)	(454)
BC Hydro operating results/working capital requirements.....	(321)	14	65
Other.....	(10)	53	2
Total self-supported.....	<u>(521)</u>	<u>(454)</u>	<u>(387)</u>
Forecast allowance reduction	(50)	(50)	(50)
Total changes	<u>(1,986)</u>	<u>(1,585)</u>	<u>(1,335)</u>
Updated total debt	<u>38,980</u>	<u>40,178</u>	<u>40,731</u>

¹ March 31, 2003 year-end changes between the February 2003 budget forecast and the 2002/03 *Public Accounts*.

of GDP). These amounts are all significantly lower than the *Budget 2003* projections (see Table 1.5 and Appendix Table A.14), mainly due to reduced cash needs in 2003/04.

Taxpayer-supported Debt

In 2003/04, taxpayer-supported debt is forecast to be \$1.4 billion below budget and total \$30.6 billion at year-end (21.9 per cent of GDP), due to:

- lower-than-forecast debt balances at the end of the 2002/03 fiscal year;
- lower borrowing requirements for direct government operating purposes due to updated information on cash flows for health accord spending and dividend payments from BC Hydro, reduced working capital requirements, and higher cash balances at the start of the fiscal year; and
- reduced capital spending on health projects and by government ministries.

The impact of the lower debt requirements will carry forward into 2004/05 and 2005/06, but will be partially offset by declines in consolidated revenue fund operating results and cash/accrual timing differences for health accord spending. Taxpayer-supported debt is projected to total \$31.4 billion (21.5 per cent of GDP) at the end of 2004/05 and \$31.7 billion (20.7 per cent of GDP) at the end of 2005/06.

Self-supported Debt

In 2003/04, self-supported debt is forecast to be \$0.5 billion below budget and total \$7.9 billion at year end. This is mainly due to improved operating results and reduced working capital requirements for BC Hydro. The improvement will be partially offset in the next two years by additional working capital requirements for BC Hydro and Columbia River power projects. Self-supported debt is projected to total \$8.3 billion at March 31, 2005 and \$8.6 billion at March 31, 2006.

Risks to the Fiscal Plan

The main changes to the three-year fiscal plan risk profile described in the February 2003 budget are summarized below.

Perhaps the single largest spending risk to the forecast for 2003/04 is the extent and magnitude of the forest fire situation. The current forecast assumes some moderation in activity and costs starting in the latter part of September, however weather remains a key risk. Treasury Board will be reviewing the fire fighting budget allocation for future years as part of the development of *Budget 2004*.

Other spending risks include:

- Potential caseload trends in the ministries of Human Resources and Children and Family Development;
- Potential costs for pending litigation and settlement. These types of costs are difficult to forecast as to amounts and timing of settlements;
- Actuarial valuations of the larger public sector pension plans. These valuations are under way and could change the estimated liabilities of these

plans. Key parameters which affect these valuations are the recent history, and forecasts for investment returns on assets held by pension plans, inflation and salary growth; and

- Current trends in interest rates are resulting in lower debt service costs for the health and education programs as well as the rest of government. These could change in the event of unexpected developments in financial markets.

The major revenue risks to the forecast stem from changes to economic variables, including the economic growth of B.C.'s trading partners, commodity price fluctuations (especially natural gas, lumber and electricity), and consumer spending and tourism activity in the province.

As noted in the detailed description of ongoing risks to the fiscal plan found in the February budget document, other risks include:

- Higher or lower-than-expected final personal and corporate income tax assessments for the 2002 taxation year, which could increase or decrease the forecast income tax bases in subsequent years;
- The outcome of the softwood lumber dispute with the U.S. which could have both an economic and fiscal impact on British Columbia depending on the terms of the final settlement and industry's response;
- Commercial Crown corporation operating results; and
- B.C.'s equalization entitlements.

The federal government's equalization formula is very sensitive to economic developments in other provinces as well as in B.C. Additionally, changes to the Equalization Program as the federal government revises the formula to be used over the next five years could have significant effects on expected equalization revenues. Some options being considered by the federal government could eliminate B.C.'s equalization entitlements entirely.

BC Hydro's net income is significantly affected by weather patterns, which can change both reservoir levels and demand for power, and in turn BC Hydro's energy costs for domestic consumption as well as electricity trade margins.

BC Hydro continues to defend the trading practices of its Powerex subsidiary during the California energy crisis and it is still owed \$US 286 million from U.S. customers. However a negative ruling by the U.S. Federal Energy Regulatory Commission could result in a potential liability of up to \$1 billion.

The provincial government is currently exploring partnership arrangements for the operation of BC Rail. The financial impact of any arrangement will be reflected in the fiscal year in which it is finalized and will impact net income projections in subsequent years.

ICBC faces a risk to its forecast in the form of a potential legal tariff increase that is currently under review by the Supreme Court Rules Revision Committee. The committee is expected to finalize its review in late 2003 or early 2004. ICBC has estimated the potential impact of a tariff increase at \$85 million in 2003, \$28 million in 2004, and \$37 million in 2005. These potential costs are included in ICBC's rate increase application to the BC Utilities Commission.

Forest Fires in British Columbia, 2003

Worst Fire Season Ever

Year	Fires (Number)	Hectares (Number)	Direct Fire Fighting ¹ (\$ millions)
2003 (to August 28).....	2,249	180,800	210
2002.....	1,781	8,581	38
2001.....	1,266	9,677	54
2000.....	1,539	17,673	53
1999.....	1,207	11,581	21
1998.....	2,665	76,574	154
1997.....	1,175	2,960	19
1996.....	1,358	20,669	37
1995.....	1,474	48,080	38
1994.....	4,088	30,310	91
1993.....	1,497	5,183	25
1992.....	3,805	30,453	70
Average (1992-2002)	1,987	23,795	55
2003 year to date variance from average...	262	157,005	155

¹ Excluding emergency programs

This year has been the worst fire season on record with 2,249 fires and over 180,000 hectares damaged as of August 28. From 1992 through 2002 the annual average number of fires was under 2,000 resulting in an annual average of about 24,000 hectares burned. However, describing an average or typical fire season is difficult given the significant variation from year to year in the number of fires, their size, and proximity to communities. Forest fires that threaten homes and communities are referred to as urban interface fires. Interface fires are generally more expensive to fight and require response not only by the Forest Service, but also the RCMP, B.C. Ambulance Service and the Provincial Emergency Program. This year, there have been 25 interface fires as of the end of August, compared to less than five per year historically. Total direct fire fighting costs to August 28 were about \$210 million. At the height of fire fighting efforts in late August the province was spending almost \$9 million a day on fire suppression. Prior to 2003, the worst fire year in terms of fire fighting expenditures was 1998, with direct fire costs totaling \$154 million.

Fires that put people's lives and homes at risk are always the first priority of provincial fire fighting efforts and emergency response programs. Provincial emergency programs focus on co-ordination of emergency response efforts and evacuations and care of evacuees. The province-wide state of emergency which was declared on August 2, 2003 was extended to September 15 due to the extreme fire hazard conditions. As of August 28, there were about 4,700 people directly fighting fires throughout the province including 770 Canadian military personnel.

There were still several weeks of hot, dry weather forecast for most of the province, so the fire danger remained high as this report went to print. It will take some time to ascertain total costs of direct fire fighting and related emergency support for this fiscal year. Once the fires have been suppressed, the focus will turn to clean up and rehabilitation to ensure that environmental risks are mitigated.

Projected Costs

\$ millions	Costs to August 28	Full Year Forecast	Budget	Forecast Over Budget
Direct fire fighting.....	210	410	55	355
Clean up and remediation...	-	60	-	60
Emergency response.....	40	75	3	72
Total.....	250	545	58	487

The federal government has designated the firestorms as an event eligible for federal assistance to the province. It is too early to determine the amount of federal assistance that will eventually be made available. However, a preliminary estimate suggests that only about \$20 million in emergency costs could be recovered from the federal government under current cost

sharing arrangements. The Prime Minister and the federal government have stated that additional support would be available; provincial and federal officials will continue to monitor costs and discuss further cost sharing potential.

Direct Impact on Fiscal Plan and Funding Sources

Both the Ministry of Forests and the Ministry of Public Safety and Solicitor General may access additional funds under what is known as statutory spending authority if, as is the case this year, their budgets for emergencies like fires and floods are insufficient to meet actual costs for fire suppression or emergency response. This type of spending authority was expressly put into the legislation so that there would be no delay in responding to emergency situations.

An alternative, or supplement to statutory spending authority is the provincial Contingencies vote, which has a \$170 million allocation this year. However, forecast fire related costs will substantially exceed the available contingencies funding.

Fire-related costs will be managed within the overall fiscal plan. Savings in public debt costs, higher energy revenues, and an improved BC Hydro outlook will help offset the impact on the fiscal plan. Success in obtaining further federal assistance will also help reduce the unprecedented burden on the people affected as well as provincial finances.

The 2003/04 direct fire-fighting budget was set based on an historical average of actual fire fighting costs (from 1990/91 through 2001/02). Using an historical average is an accepted practice for programs such as fire fighting, which vary significantly from year to year. The budget plan for the Ministry of

Forests currently assumes a constant budget of \$55 million for future years through to 2005/06, consistent with historical average costs. The fire suppression budget will be reviewed during the upcoming budget process.

Economic Impact

The forest fires have affected various regions of the province, with the Southern Interior particularly hard hit. The forest fires have been devastating for the communities and individuals affected and have hurt the tourism, agriculture and forestry sectors of the economy. In terms of the overall provincial economy, the forest fires are expected to dampen economic growth in B.C. for the year, although the extent is not expected to be significant in terms of province wide growth.

An estimated 238 homes have been destroyed by fire in Southern Kelowna and 65 homes were lost in Louis Creek, north of Barriere. According to press releases, an initial assessment pegs the residential property damage in Kelowna at \$92 million, and that number is likely to rise. About 880 B.C. residents remained on evacuation order as of September 1st, mainly in the Cranbrook, Barriere and Kelowna areas. A further 69,000 people are on evacuation alert, meaning they are packed up and ready to leave their homes at a moment's notice.

The Tolko mill in Louis Creek was destroyed by fire, eliminating between 170 and 200 direct jobs. Some layoffs have occurred and a number of forestry jobs are in jeopardy as mills in the Southern Interior face timber shortages due to the fires.

Many of the fires, mostly in the Kamloops and South East regions of the province, have been classified as Stage 6 fires (the

most extreme category). However, it is too early to determine the impact on the forest industry. This is because a substantial amount of the burned area such as Okanagan Mountain Park was, in fact, off limits to harvesting. Salvage operations to recover fire-damaged wood may mitigate the effects on the forest industry. Once the temporary harvesting ban is lifted, companies could recover some lost revenue by shifting to salvage operations in the burned out forest areas.

According to press reports, Helmut Pastrick (chief economist with Credit Union Central of BC) expects the fires may result in a 0.1 or 0.2 percentage point reduction in the GDP growth rate for 2003. TD Bank has recently released an estimate that translates

into roughly a 0.3 percentage point reduction in the 2003 GDP growth rate for B.C. Economists Andrew Pyle (Scotiabank) and Jock Finlayson (Business Council of B.C.) suggest that the fires will not have a major negative impact on economic growth.

While the impact on GDP growth is relatively small for the province as a whole, the localized impacts in the affected communities can be staggering. The fires are continuing to cause tremendous hardship and loss. For those individuals, businesses and communities directly affected by the fires of 2003, the emotional and economic impacts will continue to be felt for some time.

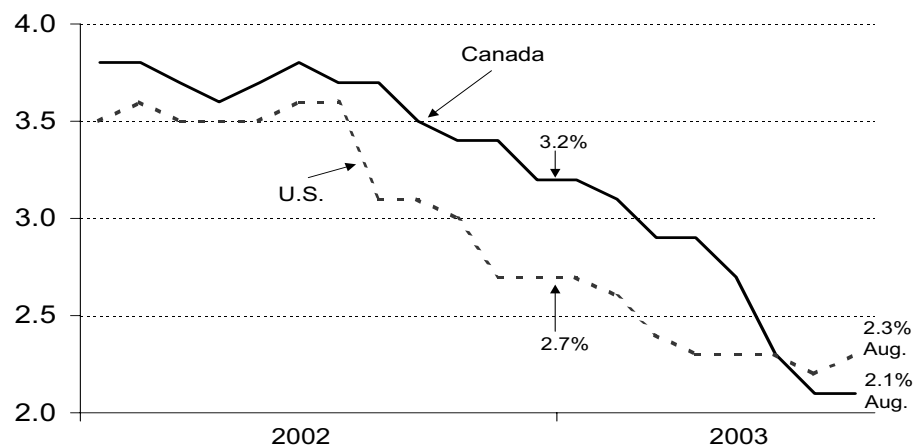
PART TWO — ECONOMIC REVIEW AND OUTLOOK¹

Overview

At the beginning of this year the U.S. economy was expected to grow by a healthy 2.7 per cent in 2003, slightly stronger than the 2.4 per cent in 2002. As the months passed, geopolitical uncertainty increased and consumer confidence faltered. By August, the Consensus Economics U.S. forecast had been downgraded to 2.3 per cent growth for 2003.

Chart 2.1 External outlook declines

Forecast annual per cent change in 2003 Real GDP



Source: Consensus Economics

The chart above represents forecasts for real GDP growth in 2003 as polled on specific dates. For example, forecasters surveyed on January 13, 2003 had an average U.S. growth forecast of 2.7 per cent. On August 11, 2003 these forecasters had revised down their outlook to an average of 2.3 per cent.

Mid-year, indicators of U.S. economic performance are mixed. The labour market has been contracting for much of the first six months of this year and the unemployment rate has been on the rise, peaking at 6.4 per cent in June. Weakness in the labour market has also hit consumer confidence. On the upside, housing starts have been strong so far this year as people take advantage of record low interest rates. Sales of autos have also been a bright spot with dealer incentives encouraging new vehicle purchases.

The Canadian economy outperformed the U.S. economy in the January to March period of 2003 posting annualized growth of 2.6 per cent compared to U.S. growth of 1.4 per cent. The January Consensus Economics survey showed that forecasters were expecting the Canadian economy to post robust growth of 3.2 per cent in 2003.

Subsequently, the SARS crisis hit the domestic retail sector hard, causing declines in March and April, and the rapid rise in the Canadian dollar hurt exporters. As in the U.S., housing starts have been strong, up 5.4 per cent in the first seven months of 2003 from the same period last year. Forecasters

¹ Reflects information available as of September 5, 2003.

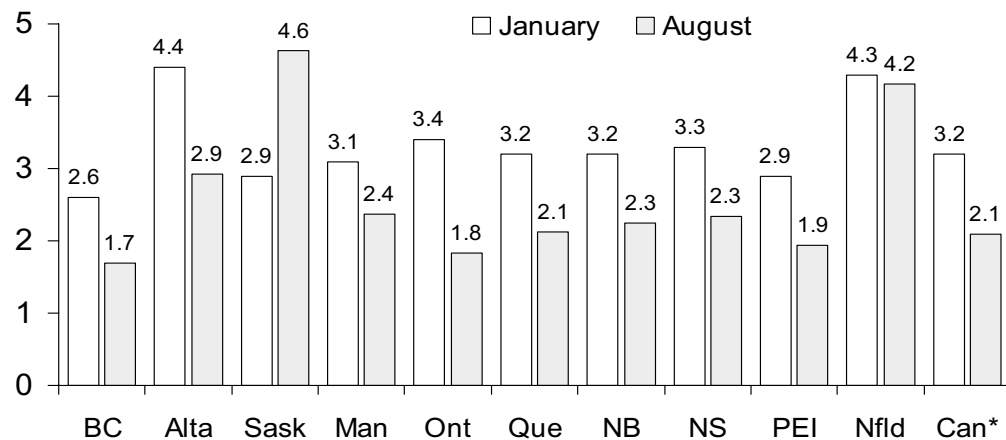
downgraded their Canadian outlook through the spring, and now expect 2.1 per cent growth for 2003.

Canadian real GDP declined 0.3 per cent for the April to June period due to external factors such as the SARS outbreak, BSE and the war in Iraq, as well as the rapid appreciation of the Canadian dollar. The demonstrated weakness in the Canadian economy for the second quarter was a key consideration in the Bank of Canada's decision to cut interest rates 25 basis points to 2.75 per cent in early September.

The North American economic slowdown is expected to dampen growth across Canada, with the provincial economic forecast for all provinces except Saskatchewan significantly downgraded for 2003 (see Chart 2.2). Growth expectations for this year have been reduced the most in Ontario and Alberta, with the private sector average outlook falling about 1.5 percentage points from January to August.

Chart 2.2 2003 GDP outlook falls in most provinces

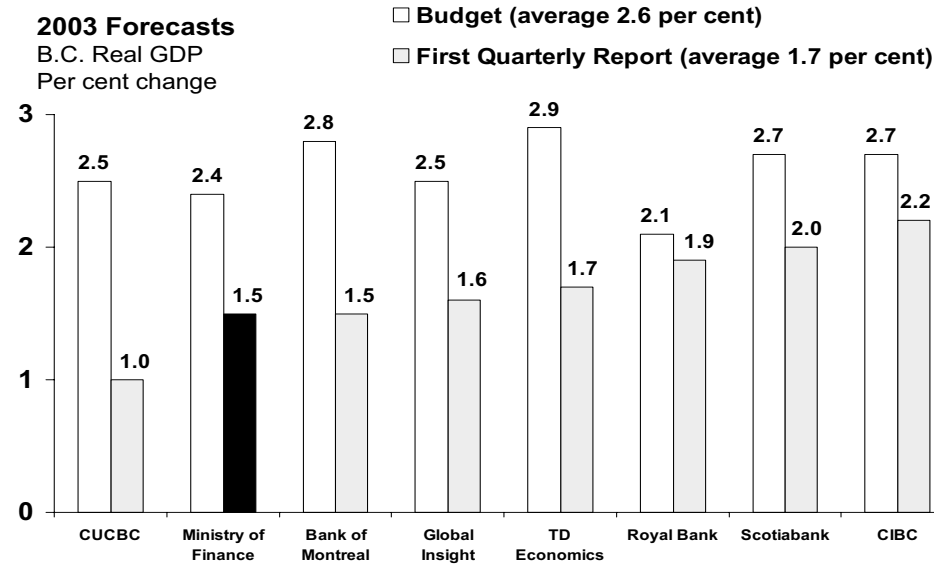
Annual per cent change
2003 Real GDP



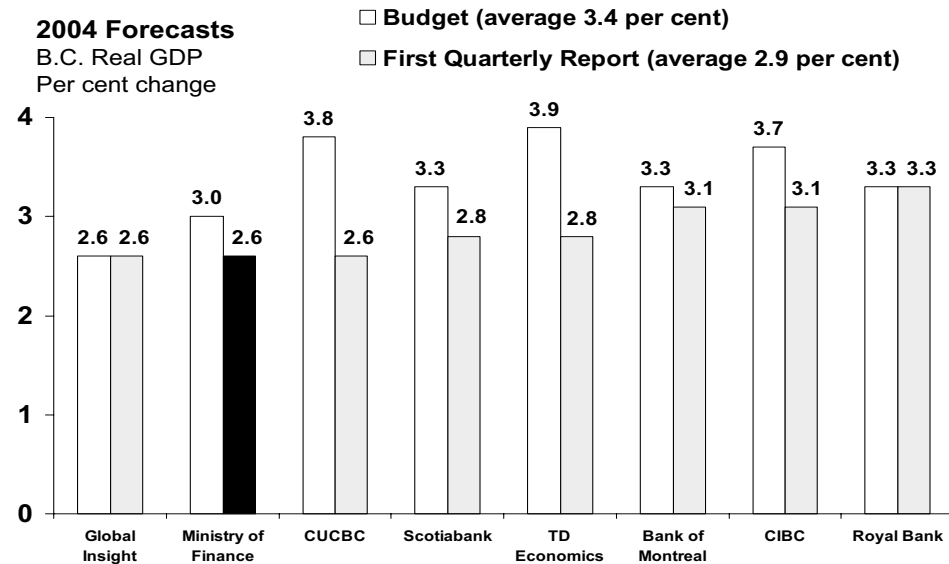
Source: Average of private sector forecasters; January 3 and August 29, 2003
* Consensus Economics

Private sector growth expectations for British Columbia have also been lowered, reflecting the impact of events such as the SARS outbreak, the rise in the exchange rate and the North American slowdown. Charts 2.3 and 2.4 compare recent private sector forecasts for British Columbia economic growth with those made at budget time. At that time, growth forecasts for 2003 averaged 2.6 per cent. The latest private sector forecasts have dropped 0.9 percentage points on average to 1.7 per cent. Provincial economic growth is expected to be stronger next year with the private sector forecasts averaging 2.9 per cent, down from 3.4 per cent at the time of the budget.

The Ministry of Finance has also updated its forecast of British Columbia economic growth to 1.5 per cent in 2003 and 2.6 per cent in 2004.

Chart 2.3 Evolution of 2003 growth forecasts for B.C.

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

Chart 2.4 Evolution of 2004 growth forecasts for B.C.

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

The updated forecast incorporates the performance of economic indicators to date, including weaker-than-expected economic growth in the first half of 2003 in the U.S. and Canada, as well as the impact on the B.C. economy from external shocks, particularly in the tourism, forestry and retail sectors.

The economic forecast was completed just as the forest fires were escalating, and until the forest fire season is over it will not be possible to assess their full impact. Preliminary private sector estimates suggest the negative impact of forest fires could be in the 0.1 to 0.3 per cent of GDP range. The Ministry of Finance economic forecast calls for economic growth in the U.S., Canada and B.C. to be between 0.2 and 0.3 percentage points below the average of private sector forecasts for 2003 and 2004. This should provide room to accommodate the economic impact that arises from the forest fires. The ongoing impact

should be small in relative terms since the annual timber harvest in future years is not expected to change significantly.

British Columbia Economic Developments

Available data so far in 2003 suggests that the British Columbia economy has been growing at a slower rate than anticipated in the February budget. Manufacturing shipments and retail sales have declined in the April to June period. However, the housing market continues to thrive with housing starts up significantly over last year (see Table 2.1).

In the first two quarters of 2003, the value of B.C.'s exports increased 5.5 per cent compared to the first half of 2002. This increase is largely due to higher energy prices, particularly in the natural gas sector. Non-energy exports declined by 7.3 per cent in the January to June period of this year compared to the same period of 2002.

The softwood lumber tariffs coupled with the high value of the Canadian dollar and weak lumber prices earlier in the year have caused the value of lumber exports to weaken considerably this year. However, in volume terms, lumber production has increased 5.2 per cent in the first six months of 2003 over the same period last year.

Retail sales are up this year, however car and truck sales were weaker in the first half of 2003, and led the retail sales decline in the April to June quarter. Manufacturing shipments have declined, primarily caused by a slide in the value of wood product shipments due to the continuation of the softwood lumber dispute as well as the rapid increase in the Canadian dollar.

After a slight drop in the number of jobs in the last quarter of 2002, employment in the province expanded in both of the first two quarters of 2003. New jobs created during 2003 were mainly in the goods processing sectors.

Housing starts are up considerably so far this year, when compared to the same period of 2002, helped by low interest rates. Non-residential building permits have declined so far in 2003 compared to last year's levels.

Table 2.1 British Columbia Economic Indicators

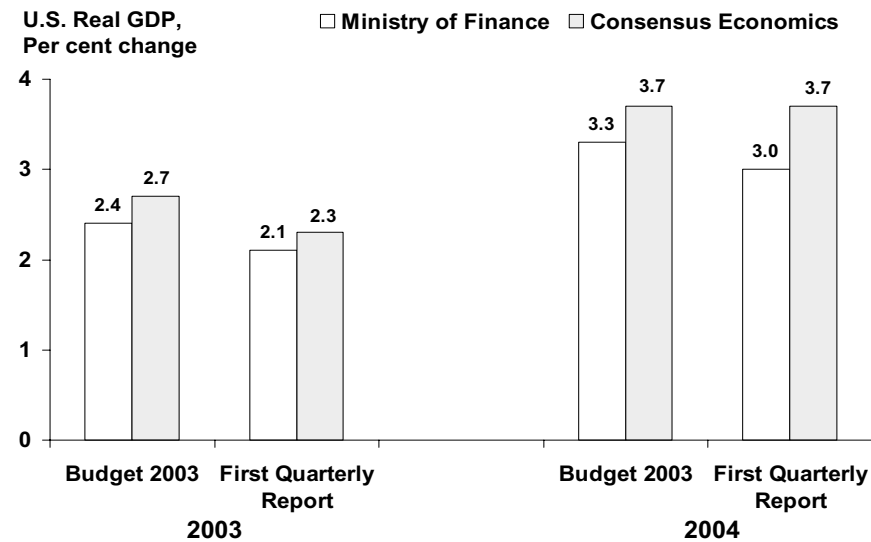
	First Quarter	Second Quarter	Year-to-Date
	Jan. to Mar. 2003	Apr. to Jun. 2003	Jan. to Jun. 2003
	change from	change from	change from
All data seasonally adjusted	Oct. to Dec. 2002	Jan. to Mar. 2003	Jan. to Jun. 2002
	Per cent change		
Employment.....	+0.4	+0.2	+2.9
Manufacturing Shipments.....	-2.0	-3.7	-1.6
Exports.....	+0.4	+1.6	+5.5
Retail Sales.....	+0.8	-0.8	+2.3
Housing Starts.....	+1.0	-4.6	+17.4
Non-Residential Building Permits.....	-7.6	+3.4	-2.5

External Environment

United States and Canada

Some analysts expect the U.S. economy to rebound strongly in the last half of this year and grow well above potential in 2004. This view sees the fiscal and monetary stimulus already present as playing a key role in the second half strength.

Chart 2.5 Ministry of Finance assumptions below consensus



Sources: *Budget 2003* and *Consensus Economics Forecast* (January and August 2003 issues)

Other analysts call for a good third quarter, returning to muddled growth in the fourth quarter due to underlying capacity and other structural issues. The U.S. growth assumption used in the Ministry of Finance forecast is consistent with this view, assuming 2.1 per cent growth this year and 3.0 per cent next year. This is more prudent than the consensus, recognizing current risks to the outlook (see Chart 2.5).

Table 2.2 September 2003 Economic Forecast: Key Assumptions*

	2003		2004	
	Feb. 18 Budget Forecast	September Forecast	Feb. 18 Budget Forecast	September Forecast
Canada Real GDP.....	3.1	1.8	3.2	2.7
U.S. Real GDP.....	2.4	2.1	3.3	3.0
Japan Real GDP.....	0.4	0.7	0.8	0.8
Europe Real GDP.....	1.3	0.5	2.5	1.5
U.S. Housing Starts.....	-5.4	-0.6	0.0	-3.5
Canada 3-month Treasury Bill Rate....	3.3	2.9	4.6	3.1
US cents / Canadian \$.....	64.5	71.1	65.8	74.9

* More details on the five-year outlook are available in Tables 2.6.1 through 2.6.5 at the end of Part Two.

The Canadian economy has been hit by a number of shocks so far in 2003 including SARS, BSE, a higher Canadian dollar, and the recent power outages in Ontario and the northeastern U.S. The impact of these shocks will be felt particularly in the retail, tourism and export sectors of the economy, weakening the economic outlook for Canada. The Ministry of Finance is assuming slightly lower growth than the August consensus given recent developments and the risks to the U.S. outlook. The Canadian economy is forecast to expand 1.8 per cent in 2003 and 2.7 per cent in 2004.

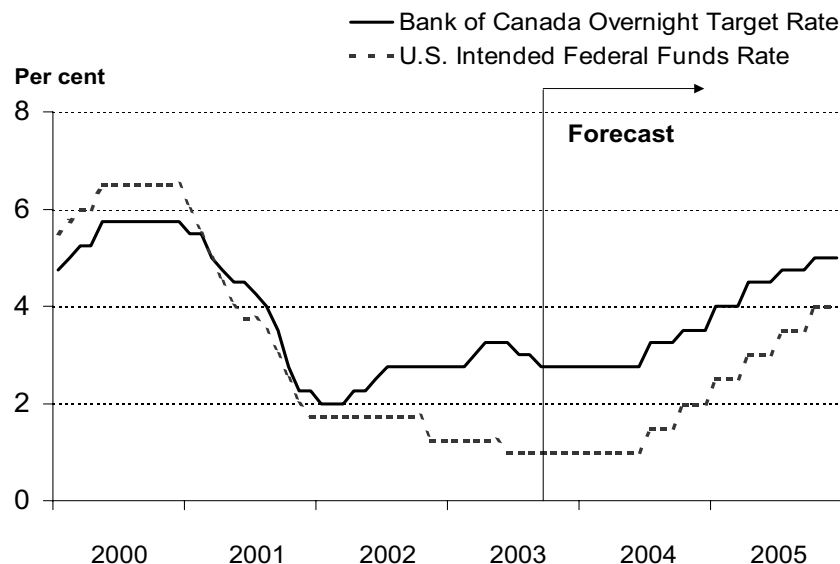
Financial Markets

In the first four months of 2003 the Bank of Canada raised its key target overnight rate twice for a total of 50 basis points in anticipation of increasing inflationary pressures. Subsequently, falling inflation and the weakening economy prompted the Bank of Canada to cut rates by 25 basis points in July and early September to 2.75 per cent. The U.S. Federal Reserve Board cut 25 basis points from its key interest rate in June of this year to 1.0 per cent, in large part as extra insurance against the possibility of deflation. As interest rates remain very low by historical standards, they continue to provide monetary stimulus to the North American economy.

Higher Canadian interest rates and stronger economic performance early in the year gave rise to a rapid appreciation in the Canadian dollar, which peaked in June at 74.95 cents US, 18 per cent higher than in December 2002. The weakening U.S. dollar was also a result of foreign investors becoming less willing to accumulate U.S. dollar assets to finance large ongoing U.S. current account deficits. When it became apparent that the Canadian economy was slowing and the Bank of Canada cut rates in July, the dollar lost some ground and ended August around 72 cents US.

Outlook

Chart 2.6 Interest rates are forecast to rise in 2004



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

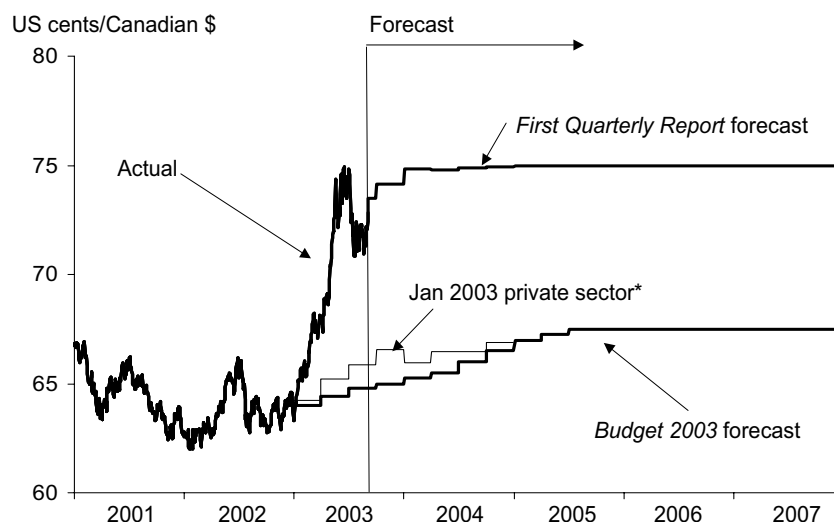
The U.S. Federal Reserve Board is expected to leave the federal funds rate unchanged until mid-2004. The outlook is for U.S. short-term interest rates to rise steadily starting in the last half of 2004. The Bank of Canada is forecast to leave its target interest rate untouched until mid-2004. As in the U.S., the Bank of Canada is expected to start raising interest rates in the second half of 2004.

Table 2.3 Private Sector Exchange Rate Forecasts

Average annual exchange rate (US cents/Can \$)	2003	2004
CIBC World Markets.....	70.4	73.4
Nesbitt Burns.....	70.6	74.1
RBC Capital Markets.....	71.2	75.5
Scotiabank.....	72.6	76.6
TD Economics.....	70.4	74.6
Royal Bank.....	71.3	75.4
Average (as of August 20, 2003).....	71.1	74.9
First Quarterly Report Forecast.....	71.1	74.9

The Canadian dollar is expected to appreciate to 75 cents US by mid-2004, supported by the interest rate differential with the U.S. and improving economic conditions in Canada. The Ministry of Finance exchange rate outlook is consistent with the private sector average (see Table 2.3). The Canadian dollar is expected to average 71.1 cents US in 2003 and 74.9 cents US in 2004.

Chart 2.7 Canadian dollar surprises on the upside



Sources: Bank of Canada and B.C. Ministry of Finance forecasts. *Private sector average as of January 9, 2003.

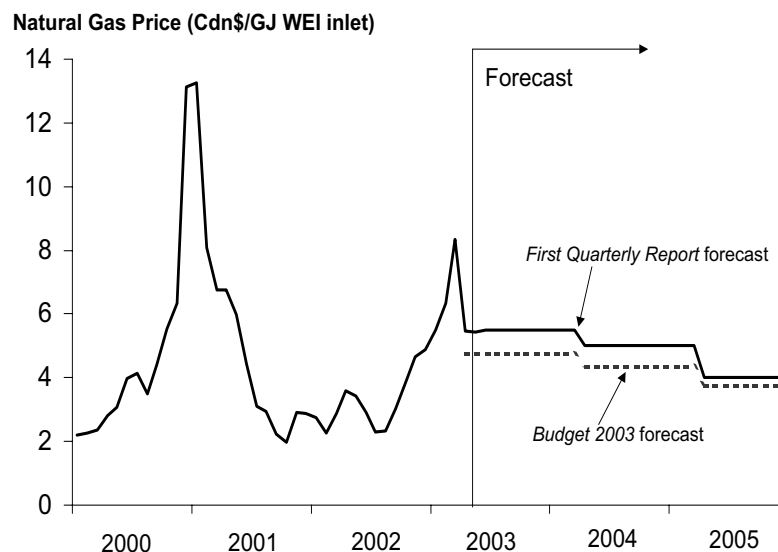
Commodity Markets

Overall, commodity prices have been on the rise so far this year, particularly energy prices. Natural gas prices are over 100 per cent higher on average for the first five months of 2003 than the same period last year. Oil prices have also been high, with West Texas Intermediate hovering around the \$30 US per barrel mark all year. Lumber prices have moved up in the last couple of months hitting \$358 US in the last week of August.

Outlook

The average price of British Columbia exports of goods and services is expected to rise 1.6 per cent in 2003 mainly due to higher energy prices. In 2004, the average price of provincial goods and services exports is forecast to decline 0.6 per cent as energy prices return to trend levels.

Chart 2.8 Natural gas prices forecast to stay high



Source: B.C. Ministry of Energy and Mines

British Columbia Economic Forecast

The British Columbia economy is expected to grow 1.5 per cent in 2003 and 2.6 per cent in 2004. Residential construction is expected to be the main contributor to growth this year, with exports picking up in 2004.

Table 2.4 September 2003 Economic Forecast: Key Indicators*

	2003		2004	
	Feb. 18 Budget Forecast	September Forecast	Feb. 18 Budget Forecast	September Forecast
	Annual per cent change unless otherwise noted			
Real GDP.....	2.4	1.5	3.0	2.6
Nominal GDP.....	4.3	3.9	5.3	4.8
Employment.....	1.7	1.7	2.4	1.8
Unemployment Rate.....	8.5	8.5	7.6	8.0
Net In-Migration ('000 persons).....	31.9	22.4	38.7	31.9
Personal Income.....	3.1	2.8	4.2	4.1
Corporate Pre-tax Profits.....	3.5	1.1	8.1	5.1
Housing Starts ('000s).....	22.5	24.1	23.1	24.3
Retail Sales.....	4.8	2.9	5.3	4.8

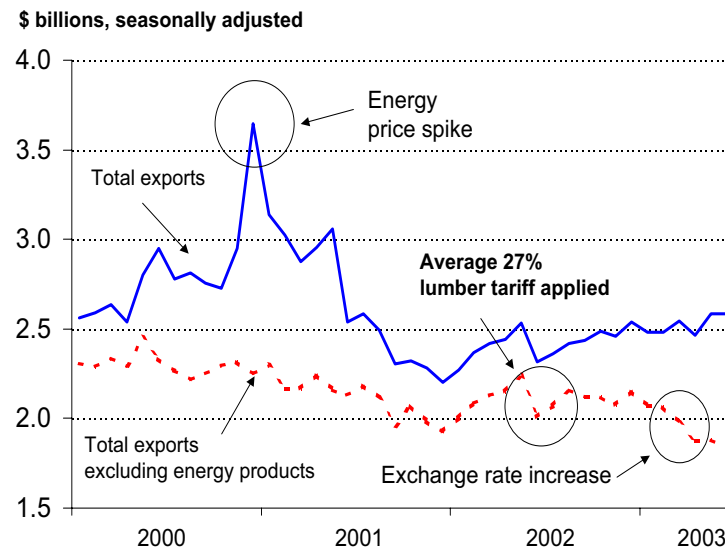
* More details on the five-year outlook are available in Tables 2.6.1 through 2.6.5 at the end of Part Two.

External Trade

British Columbia exports have been affected by the slowdown in the U.S. economy, B.C.'s largest trading partner, which began in 2001. Tourism to the province has also been affected by the SARS outbreak and a reluctance to travel in the wake of the terrorist attacks and geopolitical tensions. In particular, tourist traffic from Asia has fallen significantly.

International exports (in current dollars) originating in British Columbia were up 5.5 per cent year to date through June, largely due to higher energy prices. Excluding energy products, provincial exports were down 7.3 per cent in the first six months of this year. The major contributor to this decline was the value of forest product exports, which were down 13.7 per cent in the January through June period compared to a year earlier. The forest product decline reflects weaker lumber prices earlier this year and the rise in the Canadian dollar.

Chart 2.9 B.C. merchandise exports buoyed by natural gas prices



Source: B.C. Stats

Outlook

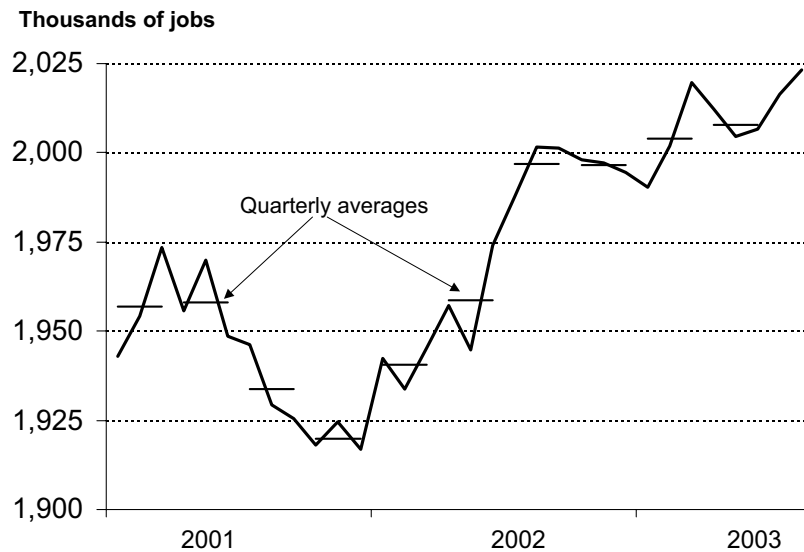
Exports of wood products will continue to be negatively impacted by the duties levied on softwood lumber exports to the U.S.; however, strong U.S. housing starts should offset some of the negative impact. For the remainder of 2003 the outlook for exports will be supported by increasing demand for commodities in the U.S. and other industrialized countries.

Real (price adjusted) exports are expected to grow a modest 1.3 per cent for 2003. In 2004, real export growth is forecast to strengthen to 3.1 per cent, as demand in the manufacturing and service sectors increases with the rebound in the U.S. economy.

Labour Market

Total employment increased 0.2 per cent in the April to June period from the first three months of the year. Most of the job growth was in the information, culture and recreation and professional, scientific and technical sectors.

Chart 2.10 Employment trends are positive in the first two quarters of 2003



Source: Statistics Canada

In the January to June period employment was up 2.9 per cent over the same period last year, adding 56,300 jobs. Full-time employment accounted for 80 per cent or 45,000 of the jobs created in the first six months of this year. The private sector contributed more than half of the jobs in B.C. over the first six months of this year, adding 35,800 jobs.

The unemployment rate was 8.2 per cent in the January to June period, down 0.7 percentage points from the first six months of 2002.

Total employment in British Columbia increased 0.3 per cent in August over the previous month; the provincial economy has gained 16,700 jobs since June. However, due to an increase in the labour force the unemployment rate rose to 8.7 per cent in August from 8.3 per cent in June.

Wages and salaries in B.C. were flat in the April to June period, after increasing 0.8 per cent in the first three months of 2003. Wages and salaries increased 3.9 per cent in the January to June period of this year over the first six months of 2002. This compares to an increase of 4.5 per cent in Canadian wages and salaries for the first six months of this year.

Outlook

Employment is forecast to grow 1.7 per cent in 2003, adding around 33,000 jobs. Much of the strength this year is expected to be in the goods processing sectors. In 2004, the economy is expected to add about 37,000 jobs for a

1.8 per cent increase in employment. The unemployment rate is expected to average 8.5 per cent this year falling to 8.0 per cent in 2004.

Demographic Developments

During the first three months of 2003, B.C. gained a total of 4,448 persons as a result of net migration from all sources. This compares to the increase of 8,148 persons in the January to March period of 2002. This decline in total net migration for the latest quarter was a result of a larger net outflow to other provinces and a large decline in net international migration.

Outlook

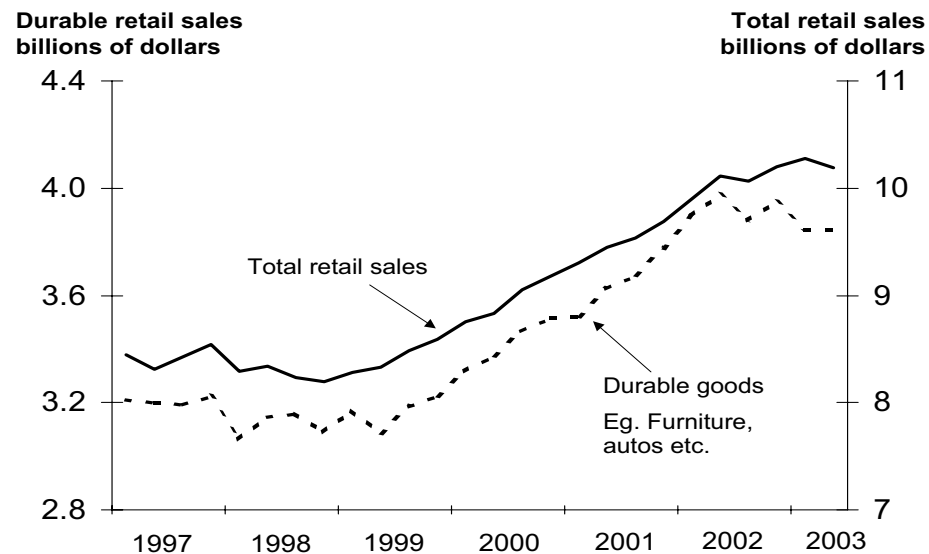
In light of reduced international net migration so far this year, the outlook for net in-migration in 2003 is substantially lower than in the budget forecast. The Ministry of Finance is expecting B.C. to gain 22,400 people this year compared to 31,900 forecast in the February budget. In 2004, interprovincial migration is expected to pick up and total net migration is forecast to be 31,900 people.

Domestic Demand

Consumer Spending and Housing

Retail sales began the year with two months of strong growth, but have since leveled off, resulting in a modest increase of 2.3 per cent year-to-date. Sales of new cars and trucks year-to-date are 9.3 per cent below the first six months of last year as pent-up demand tapered off despite dealer incentives. Low financing rates and the strong housing market helped support sales of other durable and semi-durable goods for the first half of this year.

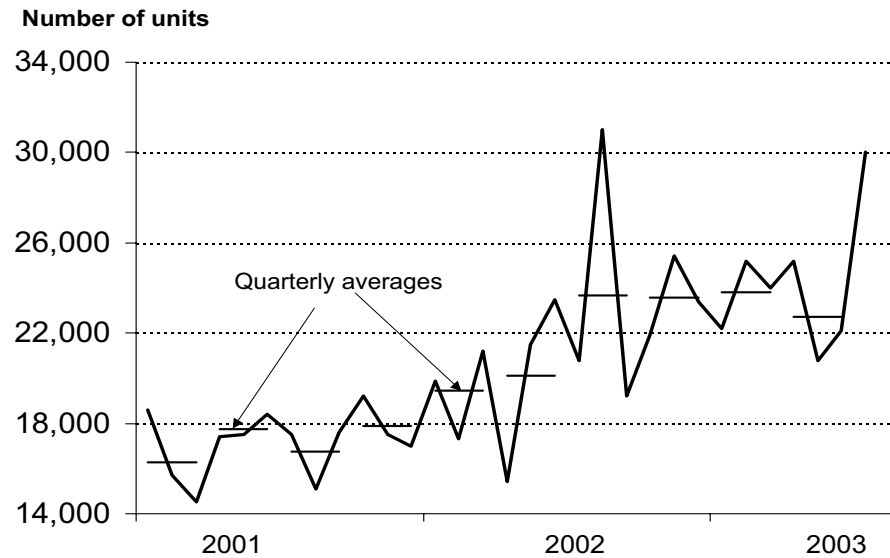
Chart 2.11 Consumer durable spending pauses



Sources: Statistics Canada and Ministry of Finance; seasonally adjusted

British Columbia housing starts remain high, reaching 30,000 units in July, despite a pause in the April to June quarter. Low mortgage rates as well as federal and provincial tax cuts, continued to fuel demand in the housing sector. This high level of activity should moderate over the medium-term with future growth in line with population and migration trends. In the first half of 2003, British Columbia housing starts were up 17.4 per cent over the first six months of 2002.

Chart 2.12 B.C. housing starts remain high



Source: Canadian Mortgage and Housing Corporation; seasonally adjusted

Outlook

Retail sales are expected to grow a moderate 2.9 per cent this year, falling below the 5.1 per cent ten-year average. This below average performance assumes a modest bounce-back in consumer spending in the second half of the year, particularly in the durables category. Growth is expected to strengthen to 4.8 per cent in 2004.

Housing starts are expected to total 24,140 units in 2003 and 24,345 in 2004. The continued strength in housing construction and low financing rates will boost related consumer purchases. Real consumer spending on goods and services is forecast to rise 1.8 per cent this year, increasing to growth of 3.0 per cent in 2004.

Business and Government Activity

The North American slowdown was accompanied by reductions in business investment, particularly in the high tech and manufacturing sectors.

Corporate profits fell 1.9 per cent in 2002. A gradual recovery in corporate profits from the declines recorded in 2001 and 2002 is expected starting in 2003.

Non-residential building permits fell in the first calendar quarter of 2003, driven mainly by retreats in commercial permits in Vancouver. The second quarter showed some moderate growth, on a quarter-over-quarter basis, as activity picked up. As a result, non-residential permits were down 2.5 per cent in the first six months of the year compared to the same period of 2002.

Outlook

Corporate pre-tax profits are expected to grow 1.1 per cent in 2003, hindered by the U.S. softwood lumber duties and the volatile and high valued dollar, before growing 5.1 per cent in 2004. Business investment is expected to recover as confidence improves and economic performance returns to more normal levels. Real business investment (residential and non-residential construction, and machinery and equipment) is expected to pick up 4.7 per cent in 2003 following a decline of 2.0 per cent last year.

An improved investment performance is predicted for 2004 to 2007, with average growth of around 5.0 per cent per year. This improved outlook is due to increased business investment in machinery and equipment and non-residential structures by the oil and gas, high-tech and other manufacturing sectors such as the electronics, communications and biotech industries. Investment in the service sector is also forecast to grow in line with increased demand and lower prices for investment goods.

Real government expenditures for all levels of government (federal, provincial and local) are forecast to decrease by 0.7 per cent in 2003, before falling a further 1.9 per cent in 2004, reflecting in part the provincial government's expenditure reductions in 2003/04 and 2004/05.

Inflation

Consumer price inflation averaged 2.6 per cent in the first six months of 2003, reflecting higher prices for non-durable goods. Prices of durable goods rose an average of 0.7 per cent, while the cost of non-durable goods increased an average 4.7 per cent over the first six months of 2003, compared to the same period in 2002. The rise in the price of non-durable goods can be partially attributed to a 16.8 per cent increase in fuel prices in the January to June period of 2003.

Outlook

Inflation is expected to average 2.3 per cent in 2003 and 2.2 per cent in 2004, settling to 2.0 per cent starting in 2005 in line with the Bank of Canada's target range.

Medium-Term Outlook

Over the medium term, both the Canadian and U.S. economies are expected to grow around 3.0 per cent per year. This is in line with recent estimates of potential output growth for these countries. The Japanese economy is expected to grow at about one-third that pace.

British Columbia's population is forecast to grow around 1.0 per cent per year as more people move to the province from the rest of Canada and international in-migration continues.

British Columbia economic growth is expected to accelerate from 1.5 per cent this year, to a medium-term trend of 3.0 per cent in 2005 and thereafter, reflecting the recovery of the province's major trading partners and increasing stability of export prices.

Detailed tables of the five-year outlook are provided at the end of Part Two (see Tables 2.6.1 through 2.6.5).

Risks to the Forecast

As with all forecasts, this economic outlook has risks on both the upside and downside. While a global recovery seems likely, potential challenges in B.C., Canada and the U.S. could hinder B.C.'s economic performance. The most significant risk to the British Columbia economic outlook remains the strength of the U.S. recovery. As a result, the economic outlook for the province includes cautious U.S. and Canadian growth assumptions for the current year and 2004.

The British Columbia economy could grow faster than forecast if:

- Canada and the U.S. return to the high-productivity fuelled growth recorded in the late 1990s, generating stronger demand for goods and services.
- A resolution of the softwood lumber dispute is reached; alongside growing U.S. demand, this would provide an opportunity for growth in British Columbia's forest industry.
- British Columbia business confidence and investment strengthen further; this would provide a base for stronger economic growth in the province.
- Interprovincial net in-migration to British Columbia turns around quickly; this would generate additional demand for goods and services and boost economic growth.
- Visitors to B.C. increase as Vancouver gains further international recognition as a tourism destination through promotion of the 2010 Winter Olympic Games. The successful Vancouver/Whistler bid will boost the outlook in the longer-term as infrastructure spending gets underway.
- The Canadian dollar and interest rates do not increase as forecast.

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

- The sluggish growth in the U.S. reflects a shift to a lower long-term productivity growth path, or potentially a double-dip recession.
- The Canadian dollar movements continue to be erratic or the loonie rises further.
- Geopolitical uncertainty in the U.S. accelerates due to persistent military involvement in the Middle East.
- Tourism does not recover as anticipated.

Table 2.5 Current Economic Statistics

		Latest Period	Year-to-Date Average		
			2002	2003	Change
BRITISH COLUMBIA					
LABOUR MARKET					
Employment (s.a. ¹ , thousands).....	August	2,023	1,961	2,009	2.5%
Unemployment rate (s.a., per cent).....	August	8.7	8.7	8.3	-0.4
Total net in-migration (persons).....	Jan.-Mar.	4,448	8,148	4,448	-3,700
Interprovincial (persons).....	Jan.-Mar.	(2,747)	(2,189)	(2,747)	-558
International (persons).....	Jan.-Mar.	7,195	10,337	7,195	-3,142
Wages and salaries (s.a. \$millions).....	June	5,401	5,192	5,394	3.9%
Average weekly wage rate.....	August	687.38	664.26	683.58	2.9%
CONSUMER SECTOR					
Retail sales (s.a., \$ million).....	June	3,399	3,335	3,412	2.3%
Car and truck sales (s.a., units).....	June	13,653	16,181	14,682	-9.3%
Housing starts (all areas, s.a., annual rate).....	July	30,000	19,943	24,214	21.4%
Existing home sales (s.a.).....	July	8,830	7,107	7,508	5.6%
Building permits (s.a., \$ millions).....	June	483	446	495	10.9%
B.C. consumer price index (annual per cent change)....	July	1.7	2.1	2.5	0.4
INDUSTRIAL ACTIVITY					
Foreign merchandise exports (s.a., \$ million).....	June	2,584	2,391	2,523	5.5%
Manufacturing shipments (s.a., \$ million).....	June	2,667	2,816	2,771	-1.6%
Lumber production (thousand cubic metres).....	June	2,873	2,996	3,152	5.2%
Pulp and paper shipments (thousand tonnes).....	June	590	605	625	3.3%
Coal production (thousand tonnes).....	May	2,124	2,100	1,995	-5.0%
Copper production (million kg).....	May	21.1	20.6	20.0	-3.0%
TOURISM					
Entries of U.S. and overseas residents (thousands).....	June	584.3	651.8	602.3	-7.6%
BC ferry passengers					
to/from Vancouver Island (thousands).....	July	1,383	876	867	-1.1%
COMMODITY PRICES					
Lumber (U.S.\$/thousand board feet).....	August	314	255	247	-2.8%
Pulp (U.S. \$/tonne).....	August	511	462	514	11.2%
Newsprint (U.S.\$/tonne).....	August	507	466	492	5.4%
Copper (U.S.\$/lb.).....	July	0.76	0.72	0.75	4.2%
FINANCIAL DATA					
Canadian dollar (U.S. cents).....	August	71.7	63.7	69.6	5.9
Canadian prime rate (per cent).....	August	4.75	4.06	4.78	0.72
Canadian treasury bills (per cent).....	August	2.70	2.50	2.99	0.49
Treasury bill spread - Canada minus U.S. (per cent).....	August	1.75	0.80	1.93	1.14

¹ s.a. - seasonally adjusted

Table 2.6.1 Gross Domestic Product: British Columbia and Canada¹

	2001	2002	Forecast				
			2003	2004	2005	2006	2007
BRITISH COLUMBIA:							
Gross Domestic Product							
at Market Prices:							
- Real (1997 \$ million; chain-weighted)	123,912	126,141	128,000	131,350	135,260	139,380	143,580
(% change).....	-0.2	1.8	1.5	2.6	3.0	3.0	3.0
- Current Dollar (\$ million).....	130,859	134,365	139,590	146,240	153,290	160,480	168,250
(% change).....	1.2	2.7	3.9	4.8	4.8	4.7	4.8
- GDP Price Deflator (1997 = 100).....	105.6	106.5	109.1	111.3	113.3	115.1	117.2
(% change).....	1.3	0.9	2.4	2.1	1.8	1.6	1.8
Real GDP Per Person							
(1997 \$; chain-weighted).....	30,211	30,459	30,694	31,225	31,821	32,421	33,006
(% change).....	-1.2	0.8	0.8	1.7	1.9	1.9	1.8
Real GDP Per Employed Person							
(% change; chain-weighted).....	0.1	0.2	-0.2	0.8	1.0	1.0	1.0
Unit Labour Cost ² (% change).....	2.7	0.7	1.1	1.5	1.6	1.6	1.7
CANADA:							
Gross Domestic Product							
at Market Prices:							
- Real (1997 \$ billion; chain-weighted).....	1,040	1,075	1,094	1,123	1,158	1,192	1,228
(% change).....	1.9	3.3	1.8	2.7	3.0	3.0	3.0
- Current Dollar (\$ billion).....	1,107	1,155	1,216	1,267	1,326	1,392	1,461
(% change).....	3.0	4.3	5.3	4.2	4.7	5.0	5.0
- GDP Price Deflator (1997 = 100).....	106.4	107.5	111.1	112.8	114.6	116.8	119.0
(% change).....	1.0	1.0	3.4	1.5	1.6	1.9	1.9
Real GDP Per Person (1997 \$).....	33,442	34,205	34,520	35,107	35,851	36,586	37,362
(% change).....	0.9	2.3	0.9	1.7	2.1	2.1	2.1
Real GDP Per Employed Person							
(% change).....	0.8	1.0	-0.2	1.2	1.2	1.4	1.7

¹ All constant dollar or "real" figures in Tables 2.6.1-2.6.5 are chain-weighted, reflecting Statistic Canada's new method of measuring provincial and federal GDP. Statistics Canada's new method of measuring constant dollar GDP ("chain-weighted") updates the weights of GDP components annually. Prior to this change, the Laspeyres, or "fixed-weighted", method was used to measure constant dollar GDP, where the weights were held constant for five years.

² Unit labour cost is the nominal cost of labour incurred to produce one unit of real output.

Table 2.6.2 Components of British Columbia Real GDP at Market Prices

	2001	2002	Forecast				
			2003	2004	2005	2006	2007
1997\$ billion; chain-weighted							
Personal Expenditure on							
Goods and Services.....	80.3	82.5	83.9	86.5	88.9	91.1	93.5
(% change).....	2.9	2.7	1.8	3.0	2.8	2.5	2.6
- Goods.....	34.7	35.8	36.1	37.2	38.2	39.1	39.9
(% change).....	3.2	3.2	0.8	3.2	2.8	2.3	2.0
- Services.....	45.6	46.7	47.9	49.3	50.6	52.0	53.6
(% change).....	2.6	2.3	2.5	2.9	2.8	2.7	3.0
Government Current Expenditures							
on Goods and Services.....	24.7	24.9	24.7	24.3	24.4	25.0	25.6
(% change).....	5.7	0.8	-0.7	-1.9	0.7	2.2	2.3
Investment in Fixed Capital.....	25.4	25.2	26.1	27.3	29.0	29.9	31.2
(% change).....	5.4	-0.9	3.9	4.6	6.1	3.0	4.5
Final Domestic Demand.....	130.4	132.6	134.8	138.0	142.2	145.9	150.1
(% change).....	3.8	1.7	1.7	2.4	3.0	2.6	2.9
Exports Goods & Services.....	55.0	55.4	56.2	57.9	60.0	62.2	64.3
(% change).....	-4.3	0.8	1.3	3.1	3.6	3.5	3.5
Imports Goods & Services.....	60.7	61.9	63.3	65.3	67.4	69.2	71.3
(% change).....	1.0	1.9	2.3	3.1	3.3	2.7	2.9
Inventory Change.....	-0.2	0.4	0.8	1.1	0.9	1.1	0.9
Statistical Discrepancy.....	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Real GDP at Market Prices.....	123.9	126.1	128.0	131.4	135.3	139.4	143.6
(% change).....	-0.2	1.8	1.5	2.6	3.0	3.0	3.0

Table 2.6.3 Components of Nominal Income and Expenditure

	2001	2002	Forecast				
			2003	2004	2005	2006	2007
Labour Income ¹ (\$ million).....	70,044	71,792	73,620	76,690	80,270	84,050	88,070
(% change).....	2.4	2.5	2.5	4.2	4.7	4.7	4.8
Personal Income (\$ million).....	110,258	111,955	115,050	119,730	124,880	130,180	135,860
(% change).....	2.6	1.5	2.8	4.1	4.3	4.2	4.4
Corporate Profits Before Taxes (\$ million)...	10,009	9,821	9,930	10,440	11,290	12,190	13,090
(% change).....	-2.8	-1.9	1.1	5.1	8.1	8.0	7.4
Retail Sales (\$ million).....	37,979	40,273	41,440	43,440	45,440	47,560	49,880
(% change).....	6.0	6.0	2.9	4.8	4.6	4.7	4.9
Housing Starts.....	17,234	21,625	24,140	24,340	24,900	25,690	26,370
(% change).....	19.5	25.5	11.6	0.8	2.3	3.2	2.6
Residential Investment ² (\$ million).....	7,569	8,997	10,137	10,657	11,126	11,784	12,497
(% change).....	11.3	18.9	12.7	5.1	4.4	5.9	6.0
B.C. Consumer Price Index (1992 = 100)....	115.2	117.9	120.7	123.3	125.7	128.3	131.0
(% change).....	1.7	2.3	2.3	2.2	2.0	2.0	2.1

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

Table 2.6.4 Labour Market Indicators

	2001	2002	Forecast				
			2003	2004	2005	2006	2007
Population (on July 1) (000's).....	4,102	4,141	4,170	4,207	4,251	4,299	4,350
(% change).....	1.0	1.0	0.7	0.9	1.0	1.1	1.2
Labour Force Population, 15+ Years (000's)..	3,280	3,325	3,367	3,412	3,464	3,518	3,574
(% change).....	1.3	1.4	1.2	1.4	1.5	1.6	1.6
Net In-Migration							
- International ¹	37,966	28,835	26,400	26,900	28,700	30,000	31,500
- Interprovincial.....	-6,332	-5,337	-4,000	5,000	10,200	12,000	13,900
- Total	31,634	23,498	22,400	31,900	38,900	42,000	45,400
Participation Rate ² (%)	64.1	64.9	65.1	65.1	65.2	65.2	65.3
Labour Force (000's).....	2,104	2,158	2,192	2,221	2,257	2,295	2,335
(% change).....	0.2	2.6	1.6	1.4	1.6	1.7	1.7
Employment (000's).....	1,942	1,973	2,006	2,043	2,084	2,126	2,168
(% change).....	-0.3	1.6	1.7	1.8	2.0	2.0	2.0
- Goods Sector Employment (000's).....	380	387	414	421	434	448	462
(% change).....	-5.7	1.7	7.2	1.6	3.1	3.1	3.3
- Service Sector Employment (000's).....	1,562	1,587	1,592	1,622	1,650	1,679	1,706
(% change).....	1.0	1.6	0.3	1.9	1.7	1.7	1.6
Unemployment Rate (%).....	7.7	8.5	8.5	8.0	7.7	7.4	7.1

¹ International migration includes net non-permanent residents and returning emigrants less net temporary residents abroad.

² Percentage of the population 15 years of age and over in the labour force.

Table 2.6.5 Major Economic Assumptions

	2001	2002	Forecast				
			2003	2004	2005	2006	2007
Real GDP (billions)							
Canada (1997 \$; chain-weighted).....	1,040	1,075	1,094	1,123	1,158	1,192	1,228
(% change).....	1.9	3.3	1.8	2.7	3.0	3.0	3.0
U.S.A. (1996 U.S.\$; chain-weighted).....	9,215	9,440	9,638	9,924	10,236	10,539	10,855
(% change).....	0.3	2.4	2.1	3.0	3.1	3.0	3.0
Japan (1990 Yen).....	536,621	537,550	541,450	545,518	550,850	556,243	561,824
(% change).....	0.4	0.2	0.7	0.8	1.0	1.0	1.0
Europe ¹ (% change).....	3.3	0.8	0.5	1.5	2.5	2.5	2.5
Housing Starts² (000's)							
Canada.....	163	205	214	170	165	165	165
(% change).....	7.3	26.0	4.1	-20.5	-2.9	0.0	0.0
U.S.A.....	1,601	1,711	1,700	1,640	1,600	1,600	1,600
(% change).....	1.8	6.9	-0.6	-3.5	-2.4	0.0	0.0
Japan.....	1,174	1,151	1,140	1,150	1,150	1,150	1,150
(% change).....	-4.6	-1.9	-1.0	0.9	0.0	0.0	0.0
Consumer Price Index							
Canada (1992=100).....	116.4	119.0	122.3	124.8	127.2	129.8	132.4
(% change).....	2.6	2.2	2.8	2.0	2.0	2.0	2.0
U.S.A. (1982-1984=100).....	177.1	179.9	183.8	187.0	190.7	195.5	200.4
(% change).....	2.8	1.6	2.2	1.7	2.0	2.5	2.5
Canadian Interest Rates (%)							
3-Month Treasury Bills.....	3.8	2.6	2.9	3.1	4.6	5.0	5.0
Long-Term Government Bonds (10 year).....	5.5	5.3	4.8	5.1	5.7	6.3	6.3
United States Interest Rates (%)							
3-Month Treasury Bills.....	3.4	1.6	1.0	1.4	3.3	4.9	5.0
Long-Term Government Bonds (10 year).....	5.0	4.6	4.0	4.7	5.4	6.0	6.0
Exchange Rate (U.S. cents / Canadian \$) ..							
	64.6	63.7	71.1	74.9	75.0	75.0	75.0
British Columbia Goods and Services							
Export Price Deflator (% change).....	2.9	-5.0	1.6	-0.6	1.0	1.2	1.6

¹ Euro zone (12) is Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain .

² British Columbia housing starts appear in Table 2.6.3

APPENDIX: FINANCIAL RESULTS
For the Three Months Ended June 30, 2003

UPDATED FINANCIAL PLAN
For the Three Years 2003/04 - 2005/06

First Quarterly Report 2003/04

September 2003

Three Months Ended June 30, 2003 and 2003/04 Full-Year Forecast

Table A.1	2003/04 Year-to-Date Actuals and Full-Year Forecast
Table A.2	2003/04 Revenue by Source
Table A.3	2003/04 Expense by Ministry, Program and Agency
Table A.4	2003/04 Capital Spending
Table A.5	2003/04 Provincial Debt

Updated Financial Plan: 2003/04 - 2005/06

Table A.6	Revenue by Source
Table A.7	Revenue Assumptions – Changes from <i>Budget 2003</i>
Table A.8	Expense by Ministry, Program and Agency
Table A.9	Expense Assumptions – Changes from <i>Budget 2003</i>
Table A.10	Expense by Function
Table A.11	Full-Time Equivalents
Table A.12	Capital Spending
Table A.13	Capital Expenditure Projects Greater Than \$50 Million
Table A.14	Debt Summary
Table A.15	Statement of Financial Position

Table A.1 2003/04 Year-to-Date Actuals and Full-Year Forecast

(\$ millions)	Year-to-Date to June 30				Full Year			
	2003/04			Actual 2002/03	2003/04			Actual 2002/03
	Budget	Actual	Variance		Budget	Forecast	Variance	
Taxpayer-supported programs and agencies:								
Revenue	5,960	6,070	110	5,691	24,938	24,864	(74)	23,419
Expense.....	(7,075)	(6,892)	183	(6,901)	(28,119)	(28,335)	(216)	(28,354)
Taxpayer-supported balance	(1,115)	(822)	293	(1,210)	(3,181)	(3,471)	(290)	(4,935)
Commercial Crown corporation net income	254	423	169	410	1,381	1,621	240	1,766
Deficit before forecast allowance	(861)	(399)	462	(800)	(1,800)	(1,850)	(50)	(3,169)
Forecast allowance	-	-	-	-	(500)	(450)	50	-
Deficit	(861)	(399)	462	(800)	(2,300)	(2,300)	-	(3,169)

Table A.2 2003/04 Revenue by Source

(\$ millions)	Year-to-Date to June 30				Full Year			
	2003/04			Actual 2002/03	2003/04			Actual 2002/03
	Budget	Actual	Variance		Budget	Forecast	Variance	
Taxation								
Personal income	1,160	1,149	(11)	1,195	4,722	4,651	(71)	4,150
Corporation income	221	221	-	217	755	744	(11)	612
Social service	1,023	972	(51)	977	3,995	3,895	(100)	3,795
Fuel	221	213	(8)	187	866	862	(4)	684
Tobacco	161	157	(4)	166	635	635	-	606
Property	382	382	-	373	1,550	1,565	15	1,520
Property transfer.....	103	122	19	111	368	428	60	407
Corporation capital	25	24	(1)	54	101	101	-	198
Other	89	89	-	98	349	353	4	359
	3,385	3,329	(56)	3,378	13,341	13,234	(107)	12,331
Natural resources								
Natural gas royalties.....	255	369	114	209	1,289	1,443	154	1,056
Petroleum royalties, permits, fees & minerals..	109	117	8	83	477	539	62	532
Columbia River Treaty.....	45	50	5	17	240	270	30	100
Forests.....	123	166	43	127	1,102	1,052	(50)	1,323
Water resources, <i>Wildlife Act</i> and other.....	74	73	(1)	65	288	287	(1)	270
	606	775	169	501	3,396	3,591	195	3,281
Other revenue								
Medical Services Plan premiums	357	354	(3)	324	1,410	1,393	(17)	1,355
Motor vehicle licences and permits	88	92	4	88	352	353	1	351
BC Ferries tolls	-	-	-	79	-	-	-	315
Other fees and licences	122	176	54	163	500	534	34	595
Investment earnings	167	136	(31)	151	728	642	(86)	640
Sales of goods and services by taxpayer-supported Crown corporations ...	67	30	(37)	68	266	268	2	275
Miscellaneous	127	157	30	84	634	576	(58)	629
	928	945	17	957	3,890	3,766	(124)	4,160
Contributions from the federal government ¹								
Canada health and social transfer.....	755	744	(11)	655	3,082	3,055	(27)	2,606
Equalization.....	169	169	-	82	675	669	(6)	543
Other.....	117	108	(9)	118	554	549	(5)	498
	1,041	1,021	(20)	855	4,311	4,273	(38)	3,647
Taxpayer-supported programs and agencies	5,960	6,070	110	5,691	24,938	24,864	(74)	23,419
Commercial Crown corporation net income								
BC Hydro	(83)	(4)	79	40	(48)	136	184	418
Rate stabilization account transfer	-	-	-	-	(22)	(21)	1	(66)
BC Hydro net operating results	(83)	(4)	79	40	(70)	115	185	352
Liquor Distribution Branch	159	174	15	151	655	655	-	654
BC Lotteries	161	171	10	178	725	725	-	671
BC Rail	46	47	1	(51)	61	62	1	(84)
ICBC	22	77	55	9	45	122	77	45
Other	1	1	-	1	5	7	2	14
Accounting adjustments	(52)	(43)	9	82	(40)	(65)	(25)	114
	254	423	169	410	1,381	1,621	240	1,766
Total Revenue.....	6,214	6,493	279	6,101	26,319	26,485	166	25,185

¹ Includes additional federal contributions received under the First Ministers' Accord on Health Care Renewal.

Table A.3 2003/04 Expense by Ministry, Program and Agency

(\$ millions)	Year-to-Date to June 30				Full Year			
	2003/04			Actual	2003/04			Actual
	Budget	Actual	Variance	2002/03	Budget	Forecast	Variance	2002/03
Advanced Education.....	457	437	(20)	445	1,899	1,899	-	1,897
Education.....	1,405	1,400	(5)	1,428	4,860	4,860	-	4,858
Health Planning.....	5	4	(1)	5	24	24	-	22
Health Services.....	2,704	2,671	(33)	2,568	10,504 ¹	10,504	-	10,154
Subtotal	4,571	4,512	(59)	4,446	17,287	17,287	-	16,931
Office of the Premier.....	13	8	(5)	8	52	52	-	40
Agriculture, Food and Fisheries.....	17	15	(2)	23	49	49	-	72
Attorney General.....	125	120	(5)	122	506	506	-	532
Children and Family Development.....	356	356	-	370	1,451	1,451	-	1,567
Community, Aboriginal and Women's Services.....	159	158	(1)	155	665	665	-	638
Competition, Science and Enterprise.....	78	76	(2)	8	115	115	-	55
Energy and Mines.....	15	16	1	13	57	57	-	47
Finance.....	16	16	-	12	55	55	-	63
Forests.....	81	94	13	95	565	980	415	618
Human Resources.....	359	348	(11)	377	1,417	1,417	-	1,515
Management Services.....	19	30	11	12	47	47	-	63
Provincial Revenue.....	11	10	(1)	9	50	50	-	55
Public Safety and Solicitor General.....	128	129	1	116	507	579	72	528
Skills Development and Labour.....	5	5	-	6	26	26	-	24
Sustainable Resource Management.....	21	22	1	24	92	92	-	124
Transportation.....	205	206	1	173	834	834	-	744
Water, Land and Air Protection.....	26	28	2	28	130	130	-	149
Subtotal	1,634	1,637	3	1,551	6,618	7,105	487	6,834
Total Ministries and Premier's Office	6,205	6,149	(56)	5,997	23,905	24,392	487	23,765
Legislation.....	11	10	(1)	10	43	43	-	39
Officers of the Legislature.....	6	6	-	6	23	23	-	25
BC Family Bonus.....	22	21	(1)	24	85	79	(6)	88
Management of public funds and debt.....	209	193	(16)	161	926	801	(125)	711
Government restructuring (ministries).....	12	6	(6)	28	190	190	-	212
Contingencies and new programs.....	-	-	-	-	170	170	-	-
Other appropriations	11	6	(5)	20	11	11	-	67
Subtotal	6,476	6,391	(85)	6,246	25,353	25,709	356	24,907
Forestry restructuring.....	-	-	-	-	-	-	-	275
CRF expense	6,476	6,391	(85)	6,246	25,353	25,709	356	25,182
Less: Grants/internal transfers	(250)	(322)	(72)	(205)	(1,087)	(868)	219	(1,107)
Add: Recoveries	378	375	(3)	316	1,615	1,462	(153)	1,737
	6,604	6,444	(160)	6,357	25,881	26,303	422	25,812
Taxpayer-supported Crown corporations and agencies (net of adjustments)	470	447	(23)	544	1,955	2,029	74	2,542
Children and family development governance authorities	1	1	-	-	283	3	(280) ²	-
Total taxpayer-supported expense	7,075	6,892	(183)	6,901	28,119	28,335	216	28,354

¹ Includes additional federal contributions received under the First Ministers' Accord on Health Care Renewal.

² Reflects a review of the timing for the transfer of operations by the Ministry of Children and Family Development to authorities. The updated fiscal plan assumes that the transfer to the authorities will occur beginning in the spring/summer of 2004.

Table A.4 2003/04 Capital Spending

(\$ millions)	Year-to-Date to June 30				Full Year			
	2003/04			Actual 2002/03	2003/04			Actual 2002/03
	Budget	Actual	Variance		Budget	Forecast	Variance	
Taxpayer-supported								
Education.....	64	51	(13)	61	407	403	(4)	367
Health ¹	34	19	(15)	27	203	159	(44)	117
BC Transportation Financing Authority.....	60	58	(2)	40	298	290	(8)	255
BC Ferries.....	-	-	-	14	-	-	-	58
Rapid Transit Project 2000 ¹	15	7	(8)	22	42	23	(19)	59
Vancouver Convention and Exhibition Centre expansion.....	38	32	(6)	-	67	65	(2)	-
Government operating (ministries).....	30	12	(18)	21	325	289	(36)	183
Other ²	17	12	(5)	18	108	67	(41)	92
Total taxpayer-supported.....	258	191	(67)	203	1,450	1,296	(154)	1,131
Self-supported								
BC Hydro.....	211	132	(79)	160	820	820	-	741
BC Rail.....	10	10	-	17	39	36	(3)	52
Columbia River power projects ³	20	24	4	12	76	112	36	54
ICBC ⁴	16	5	(11)	19	71	62	(9)	41
BC Lotteries.....	13	17	4	9	52	52	-	28
Liquor Distribution Branch.....	-	1	1	2	5	5	-	9
Total self-supported.....	270	189	(81)	219	1,063	1,087	24	925
Total capital expenditures.....	528	380	(148)	422	2,513	2,383	(130)	2,056

¹ Net of spending by hospital districts for cost-shared projects and capital spending on behalf of, and recovered from, the Greater Vancouver Transportation Authority (*TransLink*).

² 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 and BC Transit.

³ Columbia Power Corporation and Columbia Basin Trust.

⁴ Includes ICBC Properties Ltd.

Table A.5 2003/04 Provincial Debt¹

(\$ millions)	Balance March 31, 2003	Balance as at June 30, 2003				Balance as at March 31, 2004			
		Net Change ²	Debt Outstanding			Net Change ²	Debt Outstanding		
			Actual	Budget	Variance		Forecast	Budget	Variance
Taxpayer-supported debt									
Provincial government operating.....	15,453	518	15,971	16,103	(132)	1,049	16,502	17,782	(1,280)
Education facilities									
Schools.....	4,294	11	4,305	4,335	(30)	155	4,449	4,468	(19)
Post-secondary institutions.....	1,499	22	1,521	1,529	(8)	196	1,695	1,702	(7)
	5,793	33	5,826	5,864	(38)	351	6,144	6,170	(26)
Health facilities.....	2,004	12	2,016	2,051	(35)	138	2,142	2,205	(63)
Highways, ferries and public transit									
BC Transportation Financing									
Authority.....	2,661	(19)	2,642	2,674	(32)	163	2,824	2,812	12
BC Transit.....	87	(2)	85	78	7	6	93	82	11
Public transit.....	930	(4)	926	929	(3)	(5)	925	923	2
SkyTrain extension.....	1,105	7	1,112	1,142	(30)	25	1,130	1,170	(40)
Rapid Transit Project 2000.....	3	(2)	1	-	1	(3)	-	-	-
	4,786	(20)	4,766	4,823	(57)	186	4,972	4,987	(15)
Other									
BC Buildings.....	456	(47)	409	412	(3)	(105)	351	372	(21)
Social housing ³	161	(11)	150	172	(22)	21	182	178	4
Homeowner Protection Office.....	123	7	130	131	(1)	8	131	134	(3)
Universities and colleges - fiscal agency loans.....	105	(10)	95	110	(15)	(12)	93	108	(15)
Other ⁴	179	(20)	159	139	20	(65)	114	110	4
	1,024	(81)	943	964	(21)	(153)	871	902	(31)
Total taxpayer-supported debt.....	29,060	462	29,522	29,805	(283)	1,571	30,631	32,046	(1,415)
Self-supported debt									
Commercial Crown corporations and agencies									
BC Hydro.....	6,829	163	6,992	7,287	(295)	370	7,199	7,689	(490)
BC Rail.....	494	(6)	488	483	5	(17)	477	478	(1)
Columbia River power projects.....	118	(1)	117	117	-	95	213	243	(30)
Columbia Power Corporation.....	47	(29)	18	23	(5)	(47)	-	-	-
Liquor Distribution Branch.....	9	-	9	11	(2)	1	10	10	-
	7,497	127	7,624	7,921	(297)	402	7,899	8,420	(521)
Warehouse borrowing program.....	-	224	224	338	(114)	-	-	-	-
Total self-supported debt.....	7,497	351	7,848	8,259	(411)	402	7,899	8,420	(521)
Forecast allowance.....	-	-	-	-	-	450	450	500	(50)
Total provincial debt.....	36,557	813	37,370	38,064	(694)	2,423	38,980	40,966	(1,986)

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 loan guarantees.

Table A.6 Revenue by Source: 2003/04 - 2005/06

(\$ millions)	Forecast 2003/04	Updated Plan	
		2004/05	2005/06
Taxation:			
Personal income	4,651	4,954	5,257
Corporation income	744	848	848
Social service	3,895	4,070	4,269
Fuel	862	882	901
Tobacco	635	635	635
Property	1,565	1,625	1,685
Property transfer	428	398	373
Corporation capital	101	99	97
Other ¹	353	376	390
	<u>13,234</u>	<u>13,887</u>	<u>14,455</u>
Natural Resources:			
Natural gas royalties	1,443	1,318	1,086
Petroleum royalties, permits, fees and minerals	539	513	505
Columbia River Treaty	270	240	220
Forests	1,052	1,130	1,176
Water and other resources	287	295	292
	<u>3,591</u>	<u>3,496</u>	<u>3,279</u>
Other Revenue			
Medical Services Plan premiums	1,393	1,418	1,435
Motor vehicle licences and permits	353	360	366
Other fees and licences	534	502	489
Investment earnings	642	672	692
Sales of goods and services by taxpayer-supported Crown corporations	268	249	260
Miscellaneous ²	576	558	561
	<u>3,766</u>	<u>3,759</u>	<u>3,803</u>
Contributions from the federal government ³			
Canada health and social transfer	3,055	3,309	3,616
Equalization	669	653	648
Other cost-shared agreements ⁴	549	528	506
	<u>4,273</u>	<u>4,490</u>	<u>4,770</u>
Taxpayer-supported programs and agencies	<u>24,864</u>	<u>25,632</u>	<u>26,307</u>
Commercial Crown corporation net income			
BC Hydro	136	225	120
Less: Rate stabilization account transfer	(21)	-	-
	<u>115</u>	<u>225</u>	<u>120</u>
Liquor Distribution Branch	655	655	655
BC Lotteries	725	825	900
BC Rail	62	39	43
ICBC	122	75	63
Other	7	6	7
Less: Accounting adjustments	(65)	(8)	(8)
	<u>1,621</u>	<u>1,817</u>	<u>1,780</u>
Total Revenue	<u>26,485</u>	<u>27,449</u>	<u>28,087</u>

¹ Composed of revenue from insurance premium tax and hotel room tax.

² Includes asset dispositions, reimbursements for health care and other services provided to external agencies, and other recoveries.

³ Includes additional federal contributions received under the First Ministers' Accord on Health Care Renewal.

⁴ Includes contributions for health, education, housing and social service programs, and transportation projects.

Table A.7 Revenue Assumptions: 2003/04 - 2005/06
Changes from Budget 2003

Revenue Source and Assumptions	Forecast 2003/04	Plan 2004/05	Plan 2005/06
	(\$ millions)		
Personal Income Tax	\$4,651	\$4,954	\$5,257
BC personal income growth	2.8%	4.1%	4.3%
BC tax base growth	3.3%	4.8%	4.8%
Average tax yield	5.47%	5.54%	5.62%
Corporation Income Tax	\$744	\$848	\$848
National tax base (\$ billions)	\$117.7	\$127.3	\$132.7
BC instalment share	8.49%	8.22%	7.71%
Prior-year adjustments	-\$114	-\$85	-\$88
BC tax base (\$ billions)	\$9.1	\$9.5	\$10.3
BC tax base growth	1.0%	5.0%	8.0%
BC corporate profits growth	1.1%	5.1%	8.1%
Revenue is recorded on a cash basis. Due to lags in the federal collection and instalment systems, changes to the BC corporate profits and tax base affect revenue in the succeeding year. For example, 2003/04 instalments from the federal government are based on B.C.'s share of the national tax base for the 2001 tax-year (assessed as of December 31, 2002) and a forecast of the 2003 national tax base.			
Social Service Tax	\$3,895	\$4,070	\$4,269
Consumer expenditure growth	4.0%	5.3%	4.8%
Business investment growth	3.3%	6.5%	8.0%
Other expenditure growth	3.4%	2.0%	4.2%
Fuel Tax	\$862	\$882	\$901
Real GDP growth	1.5%	2.6%	3.0%
Petroleum, natural gas, minerals and Columbia River			
Treaty export electricity sales	\$2,252	\$2,071	\$1,811
Natural gas price (\$Cdn/gigajoule at plant inlet)	\$5.50	\$5.00	\$4.00
Natural gas volumes (annual per cent change)	-0.8%	3.7%	5.2%
Oil price (\$US/barrel at Cushing, Oklahoma)	\$29.00	\$24.65	\$23.40
Auctioned land base (000 hectares)	795	783	752
Average bid price/hectare (\$)	\$400	\$415	\$425
<u>Columbia River Treaty electricity sales</u>			
Annual quantity set by treaty (million mega-watt hours)	4.5	4.5	4.5
Mid-Columbia electricity price (\$US/mega-watt hour)	\$45	\$42	\$40
Forests	\$1,052	\$1,130	\$1,176
<u>Prices (calendar year average)</u>			
SPF 2x4 price (\$US/thousand board feet)	\$253	\$294	\$300
Hemlock price (\$US/thousand board feet)	\$515	\$500	\$550
Pulp (\$US/tonne)	\$506	\$500	\$550
Exchange rate (\$US/\$Cdn)	\$0.711	\$0.749	\$0.750
<u>Crown harvest volumes (million cubic metres)</u>			
Interior harvest volumes	48.0	48.5	49.0
Coastal harvest volumes	15.0	15.0	15.0

Table A.7 Revenue Assumptions: 2003/04 - 2005/06
Changes from Budget 2003

Revenue Source and Assumptions	Forecast 2003/04	Plan 2004/05	Plan 2005/06
	(\$ millions)		
Canada health and social transfer (CHST)	\$3,055	\$3,309	\$3,616
Equalization	\$669	\$653	\$648
<u>National CHST cash (\$ billions) excluding trust funds</u>			
Base before 2003 Health Accord	\$19.3	\$20.4	\$21.0
Health Reform Fund	\$1.0	\$1.5	\$3.5
Early Learning and Child Care Services	\$0.025	\$0.075	\$0.150
BC basic federal tax (BFT) (\$ billions)	\$11.0	\$11.6	\$12.2
National BFT (\$ billions) (includes estimate of prior years)	\$95.5	\$101.1	\$107.9
BC share of national population	13.1%	13.1%	13.1%
BC nominal GDP/capita (\$ 000)	\$33.48	\$34.77	\$36.07
Canada nominal GDP/capita (\$ 000)	\$38.36	\$39.59	\$41.06
<u>Components of BC CHST revenue (\$ millions)</u>			
Current year base before 2003 Health Accord	\$2,738	\$2,901	\$3,000
Prior year adjustments	-\$5	\$0	\$0
Health Reform Fund (base)	\$130	\$195	\$455
Diagnostic/Medical Equipment Trust (\$200 million total)	\$60	\$70	\$70
2003 CHST Supplement Trust (\$333 million total)	\$129	\$133	\$71
	\$319	\$398	\$596
Early Learning and Child Care Services	\$3	\$10	\$20
<u>Components of Equalization revenue (\$ millions)</u>			
Current-year base	\$717	\$661	\$653
Prior year adjustments	-\$48	\$0	\$0
Commercial Crown corporation net income	\$1,621	\$1,817	\$1,780
BC Hydro (before RSA transfer)	\$115	\$225	\$120
reservoir water inflows (August 1, 2003 forecast)	94%	100%	100%
mean gas price (\$US/MMbtu at Sumas)	4.82	4.41	4.16
ICBC	\$122	\$75	\$63
investment income	\$302	\$315	\$316
adjustment to prior-year claims	-\$6	-	-
premium revenue trend	+8.2%	+4.6%	+5.1%
claims-incurred trend	+6.3%	+2.3%	+6.0%

Table A.8 Expense by Ministry, Program and Agency: 2003/04 - 2005/06

(\$ millions)	Forecast 2003/04	Updated Plan	
		2004/05	2005/06
Advanced Education	1,899	1,899	1,929
Education	4,860	4,943	5,003
Health Planning	24	24	24
Health Services ¹	10,504	10,583	10,781
Subtotal	<u>17,287</u>	<u>17,449</u>	<u>17,737</u>
Office of the Premier	52	50	46
Agriculture, Food and Fisheries	49	45	45
Attorney General	506	491	490
Children and Family Development ²	1,451	1,386	1,401
Community, Aboriginal and Women's Services ²	665	603	637
Competition, Science and Enterprise	115	105	112
Energy and Mines	57	45	45
Finance	55	48	49
Forests	980	536	583
Human Resources	1,417	1,221	1,266
Management Services	47	41	38
Provincial Revenue	50	49	49
Public Safety and Solicitor General	579	472	471
Skills Development and Labour	26	19	19
Sustainable Resource Management	92	71	71
Transportation	834	814	814
Water, Land and Air Protection	130	113	113
Subtotal	<u>7,105</u>	<u>6,109</u>	<u>6,249</u>
Total Ministries and Premier's Office	24,392	23,558	23,986
Legislation	43	43	43
Officers of the Legislature	23	26	39
BC Family Bonus	79	70	70
Management of public funds and debt	801	942	949
Government restructuring (all ministries)	190	-	-
Contingencies (all ministries) and new programs	170	200	200
Other appropriations ³	11	9	8
Subtotal	<u>25,709</u>	<u>24,848</u>	<u>25,295</u>
Consolidated Revenue Fund expense	25,709	24,848	25,295
Less: Grants to agencies and other internal transfers ⁴	(868)	(1,964)	(2,000)
Add: Expenses recovered from external entities ⁵	1,462	1,490	1,517
	<u>26,303</u>	<u>24,374</u>	<u>24,812</u>
Taxpayer-supported Crown corporations and agencies (net of adjustments)	2,029	1,962	2,070
Ministry of Children and Family Development governance authorities ⁶	3	1,143	1,165
Total taxpayer-supported expense	28,335	27,479	28,047

¹ Includes additional funding from the First Ministers' Accord on Health Care Renewal.

² Includes notional allocation of federal funding for early learning and child care in 2004/05 and 2005/06.

³ Includes various boards, commissions, other votes and special accounts.

⁴ Grants and other payments between the government and taxpayer-supported Crown corporations and agencies are eliminated to avoid double counting.

⁵ Represents ministry spending where the costs are recovered from external agencies. Previously, these recoveries were presented as deductions from spending. On consolidation, the recoveries are reported as revenue and spending increases by the same amounts. Consequently, there is no impact on the bottom-line surplus/deficit. This amount also includes interest costs paid by organizations that receive fiscal agency loans from the government.

⁶ Reflects a review of the timing for the transfer of operations by the Ministry of Children and Family Development to authorities. The updated fiscal plan assumes that the transfer to the authorities will occur beginning in the spring/summer of 2004.

Table A.9 Expense Assumptions: 2003/04 - 2005/06
Changes from Budget 2003

Ministry Programs and Assumptions (\$ millions unless otherwise specified)	Forecast 2003/04	Updated Plan	
		2004/05	2005/06
Children and Family Development	1,451	1,386	1,401
Children-in-care caseload (#)	9,450	9,350	9,350
Average annual residential cost per child in care (\$)	26,300	26,300	26,300
Increased federal funding for early learning and child care programs	- ¹	3	3
Adult community living			
Residential services caseload (#)	5,245	5,350	5,460
Average cost per client (\$)	66,800	65,600	64,300
Training and support services (#)	9,450	9,600	9,800
Average cost per client (\$)	12,900	11,700	11,400
Community, Aboriginal and Women's Services	665	603	637
Increased federal funding for early learning and child care programs	- ¹	7	17
Forests	980	536	583
Direct Fire Fighting			
Assumes intense firefighting to September 20, 2003 with moderate activity to October 2, 2003	410		
Assumes rehabilitation based on average costs of clean up	<u>60</u>		
	<u>470</u>		
2004/05 and 2005/06 forecasts unchanged from plan		55	55
Health Services	10,504	10,583	10,781
Pharmacare	743	854	973
Demand/cost growth (per cent change)	6.0%	15.0%	13.9%
Regional Health Sector Funding	6,609	6,574	6,585
Public Safety and Solicitor General	579	472	471
<i>Emergency Program Act</i>			
Forest fire response assumes intense firefighting to September 20, 2003 with moderate activity to October 2, 2003	75		
Floods	<u>13</u>		
	<u>88</u>		
2004/05 and 2005/06 forecasts unchanged from plan		16	16
Management of Public Funds and Debt	801	942	949
Interest rates for new provincial borrowing:			
Short-term	3.15	3.63	5.06
Long-term	5.45	5.91	6.64
CDN/US exchange rate (\$)	0.7324	0.7490	0.7500
Government-Wide Issues			
Government Reporting Entity (GRE)	-	100	100
The Auditor General has determined that universities should be included in the GRE. Including the SUCH sector (i.e. health authorities, hospital societies, school districts, colleges and universities) is now estimated to have an annual impact of \$100 million.			
Taxpayer-supported Crown corporations and agencies			
Updated net expense	2,029	1,962	2,070
¹ \$3 million will flow through the Ministry of Children and Family Development through a <i>Financial Administration Act</i> section 25 account in 2003/04. Amounts for 2004/05 and 2005/06 have been notionally allocated between the Ministry of Children and Family Development and the Ministry of Community, Aboriginal and Women's Services.			

Table A.10 Expense By Function: 2003/04 - 2005/06

(\$millions)	Forecast	Updated Plan	
	2003/04	2004/05	2005/06
Health.....	11,027	11,124	11,346
Social services.....	2,846	2,552	2,613
Education.....	6,936	7,018	7,110
Protection of persons and property.....	1,501	1,364	1,372
Transportation.....	1,327	1,300	1,388
Natural resources and economic development.....	1,547	1,032	1,086
Other.....	756	684	689
Government restructuring (all ministries).....	190	-	-
Contingencies (all ministries)	170	200	200
General government.....	438	433	435
Debt servicing.....	1,597	1,772	1,808
Total expense.....	28,335	27,479	28,047

Table A.11 Full-Time Equivalents (FTEs)¹: 2003/04 - 2005/06

FTEs	Forecast	Updated Plan	
	2003/04	2004/05	2005/06
Ministries and special offices (Consolidated Revenue Fund).....	29,199	23,867	23,816
Taxpayer-supported Crown corporations and agencies.....	5,000	4,650	4,630
Children and family development governance authorities	- ²	2,800	2,800
Total FTEs	34,199	31,317	31,246

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 an individual, full-time person would normally work in that period. This does not equate to the physical number of employees. For example, two half-time employees would equal one FTE, or alternatively, three FTEs may represent two full-time employees who have worked sufficient overtime hours to equal an additional FTE.

² Reflects a review of the timing for the transfer of operations by the Ministry of Children and Family Development to authorities. The updated fiscal plan assumes that the transfer to the authorities will occur beginning in the spring/summer of 2004.

Table A.12 Capital Spending: 2003/04 - 2005/06

(\$ millions)	Forecast	Updated Plan	
	2003/04	2004/05	2005/06
Taxpayer-supported			
Education.....	403	317	283
Health ¹	159	141	121
BC Transportation Financing Authority.....	290	309	273
Rapid Transit Project 2000 ¹	23	44	-
Vancouver Convention and Exhibition Centre expansion.....	65	64	70
Government operating (ministries).....	289	191	185
Other ²	67	73	70
Total taxpayer-supported	1,296	1,139	1,002
Self-supported			
BC Hydro.....	820	980	910
BC Rail.....	36	40	40
Columbia River power projects ³	112	82	26
ICBC ⁴	62	71	48
BC Lotteries.....	52	40	40
Liquor Distribution Branch.....	5	4	2
Total self-supported	1,087	1,217	1,066
Total capital spending	2,383	2,356	2,068

¹ 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*).

² 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, and BC Transit.

³ Columbia Power Corporation and Columbia Basin Trust.

⁴ Includes ICBC Properties Ltd.

Table A.13 Capital Expenditure Projects Greater Than \$50 million¹: 2003/04 - 2005/06**Note: Information in bold type denotes changes from the February 18, 2003 Budget and Fiscal Plan .**

(\$ millions)	Forecast Start Date Completion Date		Estimated				Cumulative		Total Project	
			Cumulative	Spending	Spending	Spending	Spending at	Budget ³	Forecast ³	
			Spending at Mar. 31, 2003 ² *	2003/04 *	2004/05 *	2005/06 *	Mar. 31, 2006			
Advanced education facilities										
UBC - Life Sciences Centre.....	Apr. 2002	Sept. 2004	22	59	29	-	110	110	110	
Health facilities										
Vancouver General Hospital, redevelopment project.....	Sept. 2000	Jan. 2007 ⁴	61	25	24	32	142	156	156	
Prince George Regional Hospital...	Spring 2001	Mar. 2004	32	18	-	-	50	50	50	
Total health facilities.....			93	43	24	32	192	206	206	
Transportation										
Trans Canada Highway - 5 Mile (Yoho) Bridge.....	May 1999	Fall 2006	19	8	7	6	40	42⁵	42⁵	
Nisga'a Highway.....	Aug. 1998	Fall 2005	26	13	6	7	52	52	52	
SkyTrain extension - phase 1.....	Sept. 1998	Dec. 2005	1,050	31	12	24	1,117	1,167	1,117	
SkyTrain fleet expansion ⁶	Oct. 1998	Sept. 2003	65	3	-	-	68	68	68	
Total transportation.....			1,160	55	25	37	1,277	1,329	1,279	
Power generation										
BC Hydro										
- Burrard upgrade (including 6 selective catalytic reduction systems) ⁷	June 1993	Oct. 2003	191	4	-	-	195	222	195	
- Georgia Strait pipeline crossing ⁸	April 2000 ⁹	Oct. 2005	25	10	65	70	170	131	170	
- Vancouver Island generation project.....	April 2000 ⁷	Nov. 2006	77	(9)	138	140	346	370	370	
- Addition of fourth generating unit at Seven Mile Dam.....	Feb. 1995	Apr. 2003	81	8	-	-	89	97	89	
- Seven Mile Dam safety improvements.....	June 1999	Mar. 2005	23	26	30	5	84	100	84	
- Customer information system.....	July 2001	Dec. 2003	39	24	-	-	63	63	63	
- Finance business transformation.....	Jan. 1999	May. 2003	49	8	-	-	57	61	57	
Brilliant Expansion Power Corporation ¹⁰										
- Brilliant Dam power expansion.....	Oct. 2002	Aug. 2006	11	76	80	22	189	205	205	
Total power generation.....			496	147	313	237	1,193	1,249	1,233	
Other										
ICBC Properties Ltd.										
- Surrey Central City	Sept. 1999	Dec. 2005¹¹	216	37	41	18	312	312	312	
Vancouver Convention and Exhibition										
Centre expansion	2003	2008	-	65	64	70	199	230	230 ¹²	
Seymour water filtration plant	Dec. 2002	Mar. 2006	50	-	-	-	50	50	50 ¹³	
Total other.....			266	102	105	88	561	592	592	

¹ Only projects that have been approved by Treasury Board and/or Crown corporation boards are included in this table. Ministry service plans may include projects that still require final approval.

² Total expenditures since commencement of each project.

³ Represents sum of annual budgeted expenditures to complete each project.

⁴ Individual components were completed starting in December 2000 and will continue to be completed before the end of the overall project.

⁵ Amount represents the provincial portion of this cost-shared project with the federal government. Total project budget is \$65 million.

⁶ Funds are fully recovered from the Greater Vancouver Transportation Authority (*TransLink*).

⁷ Burrard generating station upgrade includes installation of Selective Catalytic Reduction (SCRs) systems on all 6 generating units. SCRs reduce emissions from the units and are required to meet the air quality standards for the Greater Vancouver Regional District.

⁸ Project co-sponsored with a private sector company. The amounts shown represent BC Hydro's 50 per cent share of the costs; however, only partial funding has been approved to date.

⁹ Initial planning, preliminary field work and engineering design costs. Physical construction will begin at a later date.

¹⁰ A joint venture of the Columbia Power Corporation and the Columbia Basin Trust.

¹¹ The base building was substantially completed in January 2003; however, work to prepare space for new tenants is required.

¹² Represents the provincial portion of this cost-shared project with the federal government and the tourism industry. Total project budget is \$550 million.

¹³ Represents the provincial portion of this cost-shared project under the Canada/BC Infrastructure Program.

Table A.14 Debt Summary ¹: 2003/04 - 2005/06

(\$ millions)	Forecast 2003/04	Updated Plan	
		2004/05	2005/06
Taxpayer-supported debt			
Provincial government direct operating.....	16,502	16,735	16,482
Education facilities			
Schools.....	4,449	4,525	4,617
Post-secondary institutions.....	1,695	1,893	2,045
	<u>6,144</u>	<u>6,418</u>	<u>6,662</u>
Health facilities.....	2,142	2,266	2,372
Highways, ferries and public transit			
BC Transportation Financing Authority.....	2,824	2,981	3,186
BC Transit.....	93	102	104
Public transit.....	925	929	928
SkyTrain extension.....	1,130	1,174	1,175
	<u>4,972</u>	<u>5,186</u>	<u>5,393</u>
Other			
BC Buildings.....	351	332	314
Social housing ²	182	186	189
Homeowner Protection Office.....	131	126	114
Universities and colleges - fiscal agency loans.....	93	90	87
Other ³	114	110	111
	<u>871</u>	<u>844</u>	<u>815</u>
Total taxpayer-supported debt.....	<u>30,631</u>	<u>31,449</u>	<u>31,724</u>
Self-supported debt			
Commercial Crown corporations and Agencies			
BC Hydro.....	7,199	7,544	7,839
BC Rail.....	477	471	465
Columbia River power projects ⁴	213	256	246
Liquor Distribution Branch.....	10	8	7
	<u>7,899</u>	<u>8,279</u>	<u>8,557</u>
Total self-supported debt.....	<u>7,899</u>	<u>8,279</u>	<u>8,557</u>
Forecast allowance.....	<u>450</u>	<u>450</u>	<u>450</u>
Total provincial debt.....	<u>38,980</u>	<u>40,178</u>	<u>40,731</u>
Debt as a per cent of GDP			
Total provincial debt	27.9%	27.5%	26.6%
Taxpayer-supported	21.9%	21.5%	20.7%

¹ Debt is after deduction of sinking funds and unamortized discounts, and excludes accrued interest. Government direct and fiscal agency accrued interest is reported in the government's accounts as an accounts payable.

² Includes the BC Housing Management Commission and the Provincial Rental Housing Corporation.

³ Includes other taxpayer-supported Crown corporations and agencies, student loan guarantees, loan guarantees to agricultural producers, guarantees issued under economic development and home mortgage assistance programs, and loan guarantee provisions.

⁴ Joint ventures of the Columbia Power Corporation and Columbia Basin Trust.

Table A.15 Statement of Financial Position¹: 2003/04 - 2005/06

(\$ millions)	Actual	Year-to-Date	Forecast	Updated Plan	
	March 31 2003	June 30 2003	March 31 2004	March 31 2005	March 31 2006
Financial Assets					
Cash and temporary investments	326	943	300	307	605
Other financial assets	4,093	4,555	4,926	5,207	5,275
Investments in commercial Crown corporations:					
Retained earnings	2,629	2,710	2,782	2,959	3,116
Recoverable capital loans	7,381	7,502	7,764	8,100	8,386
	<u>10,010</u>	<u>10,212</u>	<u>10,546</u>	<u>11,059</u>	<u>11,502</u>
	14,429	15,710	15,772	16,573	17,382
Liabilities					
Current and accrued liabilities	4,580	4,768	5,464	5,278	5,452
Debt:					
Taxpayer-supported debt	29,060	29,522	30,631	31,449	31,724
Self-supported debt	7,497	7,848	7,899	8,279	8,557
Forecast allowance.....	-	-	450	450	450
Total provincial debt	<u>36,557</u>	<u>37,370</u>	<u>38,980</u>	<u>40,178</u>	<u>40,731</u>
Less: guarantees and non-guaranteed debt	<u>(416)</u>	<u>(413)</u>	<u>(408)</u>	<u>(425)</u>	<u>(392)</u>
	<u>36,141</u>	<u>36,957</u>	<u>38,572</u>	<u>39,753</u>	<u>40,339</u>
	40,721	41,725	44,036	45,031	45,791
Net Liabilities	(26,292)	(26,015)	(28,264)	(28,458)	(28,409)
Capital and Other Assets					
Prepaid capital advances	7,108	7,070	7,232	7,235	7,169
Tangible capital assets	10,950	10,338	10,521	10,681	10,746
Other assets	280	254	257	258	250
	<u>18,338</u>	<u>17,662</u>	<u>18,010</u>	<u>18,174</u>	<u>18,165</u>
Accumulated surplus (deficit)	(7,954)	(8,353)	(10,254)	(10,284)	(10,244)

Changes in Financial Position

(\$ millions)	Actual	Forecast	Updated Plan	
	June 30 2003	March 31 2004	March 31 2005	March 31 2006
Change in accumulated (surplus) deficit:				
(Surplus) deficit for the period	399	2,300	(70)	(140)
Effect of fully including SUCH sector in government ¹	-	-	100	100
	<u>399</u>	<u>2,300</u>	<u>30</u>	<u>(40)</u>
Working capital changes:				
Increase (reduction) in cash and temporary investments	617	(26)	7	298
Other working capital changes	248	(74)	468	(114)
	<u>865</u>	<u>(100)</u>	<u>475</u>	<u>184</u>
Capital asset and investment changes:				
Increase in taxpayer-supported capital investments	191	1,296	1,139	1,002
Less: amortization and other accounting changes	(841)	(1,601)	(976)	(1,003)
	<u>(650)</u>	<u>(305)</u>	<u>163</u>	<u>(1)</u>
Increase in total investment in commercial Crown corporations	270	1,240	1,394	1,223
Less: loan repayments and other accounting changes	(68)	(704)	(881)	(780)
	<u>202</u>	<u>536</u>	<u>513</u>	<u>443</u>
	(448)	231	676	442
Increase (decrease) in guarantees and non-guaranteed debt	(3)	(8)	17	(33)
Increase (decrease) in total provincial debt	813	2,423	1,198	553

¹ Consistent with the presentation in *Budget 2003*, the SUCH sector (schools, universities and colleges, health authorities) assets and liabilities are not reflected in the balance sheet projections. Full incorporation of the SUCH sector will occur in the fiscal plan prepared for *Budget 2004*.