
Second Quarterly Report

on the Economy, Fiscal Situation,
and Outlook

Fiscal Year 2007/08
Six Months
April – September 2007



Ministry of
Finance

British Columbia Cataloguing in Publication Data

British Columbia. Ministry of Finance.

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

Quarterly.

Title on cover: Quarterly report.

Continues: British Columbia. Ministry of Finance.

Quarterly financial report. ISSN 0833-1375.

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

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

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

HJ13.B77

354.711'007231'05

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SUMMARY

2007/08 Second Quarterly Report

November 30, 2007

2007/08 Updated Financial Forecast

| (\$ millions) | 2006/07 Actual | 2007/08 | | |
|---|-------------------|--------------|---------------------|--------------|
| | | Budget | Updated Forecast | Variance |
| Revenue | 38,504 | 37,390 | 39,165 | 1,775 |
| Expense | (34,184) | (36,240) | (36,540) | (300) |
| Negotiating Framework incentive payments | (264) | - | - | - |
| Surplus before forecast allowance | 4,056 | 1,150 | 2,625 | 1,475 |
| Forecast allowance | - | (750) | (500) | 250 |
| Surplus | 4,056 | 400 | 2,125 | 1,725 |
| Capital spending: | | | | |
| Taxpayer-supported capital spending | 3,366 | 3,864 | 4,206 | 342 |
| Total capital spending | 4,349 | 5,156 | 5,533 | 377 |
| Provincial Debt: | | | | |
| Taxpayer-supported debt | 25,874 | 27,803 | 26,367 | (1,436) |
| Total debt | 33,347 | 36,837 | 34,908 | (1,929) |
| Taxpayer-supported debt-to-GDP ratio | 14.4% | 14.8% | 13.9% | -0.9% |
| Total debt-to GDP ratio | 18.6% | 19.6% | 18.4% | -1.2% |
| <i>Debt-to-GDP trends (3-year moving average)</i> | | | | |
| Taxpayer-supported debt-to-GDP ratio | 16.2% | 15.2% | 14.8% | -0.4% |
| Total debt-to GDP ratio | 20.6% | 19.7% | 19.1% | -0.6% |

Stronger financial results in 2007/08

- The 2007/08 forecast surplus has improved to \$2.1 billion, \$525 million higher than the surplus forecast in the first *Quarterly Report*.
- Revenue is up \$635 million mainly due to prior year income tax adjustments and a resulting higher estimate of the 2007 tax base. Other revenue increases reflect improvements in property transfer tax, federal transfers and commercial Crown corporation net income. These improvements are partially offset by a reduction in natural resource revenue due to declining lumber and natural gas prices, and the higher Canadian dollar. Forecast natural resource revenues are now down \$754 million from budget.
- The spending forecast is up \$110 million from the first *Quarterly Report*, reflecting higher forest management program expenses, additional spending related to one-time federal funding and higher net spending by service delivery agencies, partially offset by lower projections for Crown land grants, Vancouver Island Gas Pipeline Assistance Agreement charges and interest costs.
- The impact of the Musqueam Agreement is not currently reflected in the fiscal plan pending resolution of several factors, including land transfers and valuations. Government plans to conclude these arrangements by the end of 2007/08.
- At \$4.2 billion, taxpayer-supported capital spending for 2007/08 is largely unchanged from the first

Quarterly Report, with any differences primarily due to the timing of spending on projects.

- Government plans to retain approximately \$1 billion out of the 2007/08 surplus to address additional priority items and help finance updates to the capital plan over the next few years.
- Taxpayer-supported debt is expected to increase \$493 million by year-end. Despite the net increase in debt, the key taxpayer-supported debt-to-GDP ratio is projected to decline to 13.9 per cent.

Economic outlook

- Recent economic indicators demonstrate that, while BC's domestic economy continues to show robust growth, exports and manufacturing shipments have declined throughout 2007, a result of the high Canadian dollar combined with falling lumber and natural gas prices.
- Risks to BC's economic outlook include further deterioration in the US economy, volatile commodity prices, the high Canadian dollar and continued instability in global financial markets.

Budget 2008

- In preparation for *Budget 2008*, the Minister of Finance will be consulting with the independent Economic Forecast Council on December 7, 2007 to obtain their views on the North American and BC economic outlook. An updated government economic forecast, incorporating their advice, will subsequently be developed for the February 19, 2008 budget.

PART ONE — UPDATED FINANCIAL FORECAST

2007/08 Second *Quarterly Report*

November 30, 2007

Introduction

Mainly reflecting additional revenue, the 2007/08 surplus is now forecast to be \$2.1 billion, an increase of \$525 million compared to the \$1.6 billion surplus forecast in the first *Quarterly Report* and \$1.7 billion higher than the budget forecast.

The increased surplus reflects a \$619 million improvement in income tax revenue due to prior year income tax adjustments and a higher 2007 tax base. Other major improvements include higher property transfer tax revenue and additional federal funding in support of the Conservation Investments and Incentives Initiative and the Public Health Surveillance Program.

These improvements are partially offset by a further \$250 million reduction in natural resource revenue, reflecting lower commodity prices and a higher Canadian dollar, partially offset by higher sales of Crown land drilling rights.

The spending forecast is up \$110 million from the first *Quarterly Report*. The increase in part reflects increased forest management program expenses, spending related to additional federal funding and higher net spending by service delivery agencies (including schools, universities, colleges and health organizations). These increases are partially offset by lower projections for Crown land grants, Vancouver Island Gas Pipeline Agreement (VIGAS) charges, and interest costs.

Program spending pressures and recently announced government initiatives that require funding in 2007/08, but cannot be accommodated within existing ministry budgets, have been allocated to the contingencies vote.

At \$4.2 billion, taxpayer-supported capital spending for 2007/08 is largely unchanged from the first *Quarterly Report*, with any differences primarily due to the timing of spending on projects. Government plans to retain approximately \$1 billion out of the 2007/08 surplus to address additional priority items and help finance updates to the capital plan over the next few years.

Taxpayer-supported debt is forecast to be \$26.4 billion at year end, \$136 million higher than the first *Quarterly Report* and \$493 million higher than at the end of 2006/07. Despite the net increase in debt, the key taxpayer-supported debt-to-GDP ratio is projected to decline to 13.9 per cent by the end of 2007/08.

Despite robust growth in domestic demand this year, there are a number of risks and pressures to the fiscal plan, including volatile natural resource revenues and the high Canadian dollar. As a result, a forecast allowance of \$500 million is maintained as continued protection from these risks.

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

Table 1.1 2007/08 Forecast Update

| (\$ millions) | Changes | Updated Forecast |
|---|-------------|------------------|
| Budget 2007 Fiscal Plan (February 20, 2007) | | 400 |
| First Quarterly Report forecast updates: ¹ | | |
| Total revenue increases | 1,140 | |
| Total expense increases | (190) | |
| Forecast allowance decrease | 250 | |
| Net change | | 1,200 |
| 2007/08 surplus – first Quarterly Report | | 1,600 |
| Second Quarterly Report forecast updates: | | |
| Revenue increases (decreases): | | |
| Personal income tax | | |
| – Prior-year adjustment – stronger 2006 tax assessments | 78 | |
| – Higher 2007/08 base including robust earnings from higher-income taxpayers in 2007 | 120 | |
| Corporate income tax | | |
| – Prior-year adjustments for 2006 and prior years including duty deposit refunds | 294 | |
| – Higher federal government instalments | 127 | |
| Property transfer tax – strong housing market | 50 | |
| Natural gas royalties – lower natural gas prices | (164) | |
| Columbia River Treaty – lower electricity prices and higher Canadian dollar | (45) | |
| Other energy, metals and mineral revenues – higher metal, oil prices and sales of | | |
| Crown land drilling rights | 62 | |
| Forest revenue – mainly lower lumber prices and stumpage rates | (120) | |
| – <i>Softwood Lumber Agreement 2006</i> border tax | 32 | |
| Health and social transfers – higher personal income tax base | (19) | |
| Other federal contributions – mainly due to one-time contribution to Conservation Investments and Incentives Initiative and higher funding for the Public Health Surveillance Program | 55 | |
| All other taxpayer supported changes | 107 | |
| Commercial Crown corporation net income: | | |
| LDB – mainly due to higher sales | 23 | |
| BCRC – mainly delayed asset dispositions | (17) | |
| ICBC – mainly higher investment income | 53 | |
| Other Crown corporation changes | (1) | |
| Total revenue changes | | 635 |
| Less expense increases (decreases): | | |
| Agriculture and Lands – primarily fewer Crown land grants | (13) | |
| Energy, Mines and Petroleum Resources – reflects a reduction in VIGAS agreement costs | (20) | |
| Forests – mainly additional forest management program expenses | 33 | |
| Public Safety and Solicitor General – additional emergency protection costs related to floods | 3 | |
| Interest costs – mainly reduced debt levels | (41) | |
| CRF expense changes | (38) | |
| Increased ministry expenditures offset by recoveries – primarily resulting from additional one-time federal funding | 61 | |
| SUCH sector and service delivery agencies: | | |
| School districts – revised spending estimates for additional staffing | 13 | |
| Post-secondary institutions – revised spending estimates | 42 | |
| Other service delivery agencies net spending changes | 32 | |
| Total expense changes | | 110 |
| Net change since the first Quarterly Report | | 525 |
| 2007/08 surplus – second Quarterly Report | | 2,125 |

¹ Further details on the first *Quarterly Report* forecast updates are provided in Appendix Table A.2.

Financial results at September 30, 2007

Financial results for the first six months of the fiscal year show a surplus of \$2.4 billion, \$1.3 billion higher than expected at the six-month point. Revenues for the April to September period totaled \$19.1 billion, \$1.0 billion higher than expected and total expenses were \$16.7 billion, \$0.3 billion lower than expected. Details are shown in the Appendix Tables A.1 to A.13.

Revenue

The 2007/08 updated revenue forecast incorporates year-to-date results for the first six months, more recent personal and corporate income tax assessment information from the federal government for 2006 and prior years, and revised forecasts from ministries, service delivery agencies and commercial Crown corporations.

Revenue is projected to be \$635 million higher than the first *Quarterly Report* forecast and \$1.8 billion higher than budget. The main changes from the first *Quarterly Report* forecast for 2007/08 are:

- Personal income tax revenue is up \$198 million including a \$78 million increase for prior years due to stronger 2006 tax assessment reports. This improved base results in an additional \$120 million in 2007/08 including the effect of strong earnings in 2007 from higher income individuals.
- Corporate income tax revenue is up \$421 million due to \$127 million higher instalment payments from the federal government and an additional \$294 million prior-year adjustment related to 2006 taxes. Improved 2006 results include one-time revenue from 2005 tax returns and duty deposit refunds under the *Softwood Lumber Agreement 2006* (SLA 2006).
- Revenue from property transfer tax is expected to be \$50 million higher reflecting the continuing high level of housing sales this year.
- Natural gas royalties are forecast to be down \$164 million reflecting an 11 per cent decline in the average natural gas price, partially offset by improved production volumes. Revenue from other energy, metal and mineral sources is expected to be up \$17 million as stronger sales of Crown land drilling rights are partially offset by reduced revenue from Columbia River Treaty electricity sales due to lower prices and a higher Canadian dollar.
- Forests revenue is down \$88 million primarily due to the effects of reduced stumpage rates reflecting weak lumber prices, a higher Canadian dollar, and the effects of the bark beetle infestation in BC's interior. These impacts are partially offset by higher revenue from border tax collections resulting from the SLA 2006.
- Total health and social transfers are down \$19 million reflecting the impact of a higher BC personal income tax base. Other federal contribution changes include:
 - a one-time \$30 million contribution to the Conservation Investments and Incentives Initiative (CIII) fund in late September to support conservation management and economic development in the Great Bear Rainforest; and
 - a \$14 million increase to support control of infectious diseases and outbreaks through the Public Health Surveillance Program.

These increases are fully offset by higher expenses.

Appendix Tables A.3 and A.6 provide more details on the revenue forecast and assumptions.

Commercial Crown corporation income

In total, commercial Crown corporation income projections improved by \$58 million since the first *Quarterly Report*, primarily due to a further \$53 million improvement in ICBC's expected results during government's 2007/08 fiscal year. ICBC's revised outlook reflects higher than anticipated investment income and improved premium revenue compared to the projections in the first *Quarterly Report*, partially offset by higher claims and operating costs and an increase to the adjustment that matches ICBC's fiscal year to government's fiscal year.

As well, LDB is projecting a \$23 million improvement in its net income, reflecting a forecast 6.2 per cent increase in sales. The above improvements are partially offset by a \$17 million reduction in BC Rail's expected results during government's 2007/08 fiscal year, primarily due to a delay in real estate property disposals to the following year. The projections from the remaining commercial Crown resulted in a combined \$1.0 million reduction in net income from their updates in the first *Quarterly Report*.

Expense

Government expense includes spending for ministries and other programs of the consolidated revenue fund (CRF), combined with the expense of service delivery agencies, including schools, universities, colleges, and health authorities/hospital societies. The total expense forecast of \$36.5 billion is \$300 million above budget and \$110 million higher than the first *Quarterly Report*.

Appendix Tables A.4 and A.7 provide more details on the expense forecast and assumptions.

Consolidated revenue fund expense

CRF spending is forecast to be \$38 million less than the first *Quarterly Report* projection. The main changes to the 2007/08 forecast since the first *Quarterly Report* are:

- Crown Land Special Account expenditures are expected to be \$13 million lower than forecasted due to deferral or cancellation of several Crown land grants.
- The Ministry of Energy, Mines, and Petroleum Resources anticipates a \$20 million reduction in liabilities associated with the Vancouver Island Gas Pipeline Assistance Agreement.
- Forecast expenditures for BC Timber Sales are up \$29 million, mainly due to revised forecasts for inventory and recognition of expenses associated with forest roads to be taken out of service. As well, based on the latest information, the updated forecast for direct forest fire fighting costs is \$117 million, a \$4 million increase to the first *Quarterly Report* projection.
- The Ministry of Public Safety and Solicitor General is projecting an additional \$3 million in unanticipated costs (\$56 million total) resulting from emergency protection related to floods.

- Management of public funds and debt (debt interest) is forecast to be \$41 million lower than the first *Quarterly Report* and \$64 million below budget, reflecting significantly lower borrowing requirements for government operating purposes.

All other ministries are forecast to be on budget for 2007/08.

Spending commitments and pressures totaling \$44 million have been notionally allocated to contingencies (see Table 1.2). These allocations include:

- \$13 million to address caseload and safety issues within correctional facilities in BC;
- \$10 million for flood-mitigation costs under the Provincial Emergency Program (the initial year of a multi-year commitment);
- \$8 million for expected costs related to the Pickton and other major trials;
- \$6 million to address requirements for 24/7 staffing in homeless emergency shelters;
- \$5 million for the Norman B. Keevil Institute of Mining Engineering at UBC; and
- \$2 million for an enhanced driver's licence pilot program.

Table 1.2 2007/08 Notional Allocations to Contingencies

| | (\$ millions) |
|---|---------------|
| Corrections caseload and safety issues | 13 |
| New funding for flood prevention strategies | 10 |
| Major trials | 8 |
| 24/7 staffing in emergency shelters | 6 |
| Norman B. Keevil Institute of Mining Engineering at UBC | 5 |
| Enhanced driver's licence pilot program | 2 |
| Subtotal notional allocations | 44 |
| Unallocated contingencies | 316 |
| Total contingencies | 360 |

Musqueam Agreement

On November 9, 2007, the government announced a negotiated reconciliation agreement with the Musqueam people to bring a resolution to three court cases. The agreement includes a cash payment of \$20.3 million and land transfers in the Lower Mainland involving the University Golf Course lands, Bridgepoint Casino lands and certain lands within the Pacific Spirit Regional Park.

The overall value and provincial cost of the agreement is dependant on several factors involving land transfers and valuations, which will be addressed in the coming months. When this process is complete, the agreement will be finalized and the sources of funding required for implementation will be identified. The government plans to conclude these arrangements by the end of the 2007/08 fiscal year. An update will be provided in the third *Quarterly Report*.

Service delivery agency expenses

Service delivery agency net spending (i.e. expenses in excess of government transfers) is forecast to be \$4.7 billion in 2007/08, largely unchanged from the first *Quarterly Report* and *Budget 2007* projections.

Projected net spending by school districts for 2007/08 is up \$13 million compared to the first *Quarterly Report*, due to increased staffing levels to address class size and composition, and special needs students.

Projected net spending by universities and colleges for 2007/08 is up \$42 million compared to the first *Quarterly Report*. Of this, \$30 million reflects an updated estimate of expenses to be funded by external sources, which has no impact to the bottom-line. The increase also reflects increased operating costs for education and research programs.

Projected net spending by health authorities and hospital societies for 2007/08 remains relatively unchanged from the first *Quarterly Report* and is \$36 million lower compared to *Budget 2007*. The quarterly updates reflect several efficiency and cost saving strategies that the health authorities plan to implement in 2007/08.

The combined health authority/hospital society projected deficit for 2007/08 is \$44 million – down \$11 million since the first *Quarterly Report* and down \$75 million from the \$119 million deficit forecast in *Budget 2007*. Health authorities' updated forecasts reflect revenue growth, primarily from one-time sources, and efficiency/cost saving measures that are planned for implementation during 2007/08. There are potential risks to the updated forecasts, as some of the recommended measures may not be fully in place in time to have the projected impact in 2007/08.

Health authorities have committed to continue working with the Ministry of Health in achieving a balanced budget as well as in identifying more sustainable solutions for managing the province's health care costs through initiatives funded by the \$100 million Health Innovation Fund.

Full-time equivalents (FTEs)

The 2007/08 projections for taxpayer-supported FTEs – including ministries, special offices, and service delivery agencies (excluding the SUCH sector) – is unchanged from the first *Quarterly Report* (see Appendix Table A.9).

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. Under generally accepted accounting principles, capital expenditures are initially accumulated on the balance sheet and then allocated to operating costs over the useful lives of the related assets through annual amortization expense.

Total capital spending is forecast to be \$5.5 billion in 2007/08, \$65 million lower than the first *Quarterly Report* (see Table 1.3 and Appendix Table A.10).

Table 1.3 2007/08 Capital Spending Update

| (\$ millions) | Changes | Updated Forecast |
|---|---------|------------------|
| Budget 2007 capital spending (February 20, 2007) | | 5,156 |
| First Quarterly Report forecast updates: | | |
| Taxpayer-supported changes | 393 | |
| Self-supported changes | 49 | |
| Net change | | 442 |
| Updated capital spending – first Quarterly Report | | 5,598 |
| Second Quarterly Report forecast updates: | | |
| Taxpayer-supported changes: | | |
| Education – lower spending for computers, furniture and equipment, and vehicle purchases | (25) | |
| Health facilities – spending on Health Innovation Fund projects | 24 | |
| BC Transportation Financing Authority – deferred projects pending confirmation of federal cost-sharing | (17) | |
| Vancouver Convention Centre expansion project – spending delays pending completion of Canada Place lobby design | (33) | |
| Total taxpayer-supported changes | | (51) |
| Self-supported changes: | | |
| BC Rail – timing of real estate property site preparation costs | (13) | |
| BC Lotteries – new gaming equipment | 7 | |
| Other | (8) | |
| Total self-supported changes | | (14) |
| Net change since the first Quarterly Report | | (65) |
| Capital spending – second Quarterly Report | | 5,533 |

Taxpayer-supported capital spending is down \$51 million, mainly reflecting slower than expected spending for education facilities, transportation projects and the Vancouver Convention Centre, partially offset by higher spending for Health Innovation Fund projects.

Self-supported commercial Crown corporation capital spending is down \$14 million, mainly reflecting delays in real estate site preparation costs incurred by BC Rail.

Significant capital projects (those with multi-year budgets totaling \$50 million or more) are shown in Appendix Table A.11.

Provincial debt

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

Total provincial debt is projected to be \$34.9 billion at March 31, 2008, \$148 million higher than the first *Quarterly Report*. Total provincial debt includes a \$500 million borrowing allowance to mirror the operating statement forecast allowance. This allowance is unchanged from the first *Quarterly Report* as the risks to the forecast identified in the first *Quarterly Report* still remain.

Table 1.4 2007/08 Provincial Debt Update

| (\$ millions) | Changes | Updated Forecast |
|--|---------|------------------|
| Budget 2007 total debt (February 20, 2007) | | 36,837 |
| First Quarterly Report forecast updates: | | |
| Taxpayer-supported debt changes | (1,572) | |
| Self-supported debt changes | (255) | |
| Forecast allowance decrease | (250) | |
| Net change | | (2,077) |
| Updated total debt – first Quarterly Report | | 34,760 |
| Second Quarterly Report forecast updates: | | |
| Taxpayer-supported debt changes: | | |
| Government operating: | | |
| – reserve to address priority items and future capital spending | 1,000 | |
| – impact of additional revenue and working capital changes | (823) | |
| BC Transportation Financing Authority – reflects improved fuel tax revenue and deferral of cost-shared projects pending confirmation of external funding | (31) | |
| Other taxpayer-supported changes | (10) | |
| Total taxpayer-supported changes | | 136 |
| Self-supported debt changes: | | |
| BC Hydro – reflects changes to internal financing of capital projects | 15 | |
| BC Transmission Corporation – reduced capital spending | (3) | |
| Total self-supported changes | | 12 |
| Net change since the first Quarterly Report | | 148 |
| Updated total debt – second Quarterly Report | | 34,908 |

Taxpayer-supported debt

In 2007/08, forecast taxpayer-supported debt of \$26.4 billion is \$136 million higher than the first *Quarterly Report*, and \$493 million higher than at the end of 2006/07. The increase reflects government plans to retain approximately \$1 billion out of the 2007/08 surplus to address additional priority items and help finance updates to the capital plan over the next few years. The increase was partially offset by the higher revenue forecast.

Despite the net increase in debt, the key taxpayer-supported debt-to-GDP ratio is projected to decline to 13.9 per cent by the end of 2007/08.

Self-supported debt

Self-supported debt is mainly incurred to finance power generation and distribution projects throughout the province. Self-supported debt is projected to total \$8 billion at March 31, 2008, relatively unchanged from the first *Quarterly Report*.

Risks to the fiscal plan

The major risks to the fiscal plan stem from changes to the main tax bases (personal and corporate income tax, sales and property transfer taxes) that are dependent on economic growth in BC and its trading partners, commodity prices (especially natural gas, lumber and electricity) and exchange rate fluctuations.

As described in the first *Quarterly Report*, the anticipated slowing of the US economy, particularly in the US housing market, poses a risk to the economic outlook for both BC and Canada. As well, although the updated fiscal plan has incorporated significant reductions in projected natural gas revenues in 2007/08 due to lower prices, the risk has been reduced but not eliminated. North American inventory levels remain high and price volatility is expected to continue.

Other risks to the fiscal plan identified since the first *Quarterly Report* include:

- The high Canadian dollar affects the price of BC's goods in its export markets, particularly in the US, potentially resulting in a decline in exports. As well, the high dollar may affect consumer spending patterns in urban areas close to the border, resulting in reduced retail activity in those areas.
- This update for 2007/08 incorporates estimated fiscal impacts resulting from implementation of the *Softwood Lumber Agreement 2006*. However, during times when lumber prices are low, the economic impacts are more uncertain. Consequently, this poses additional risk to the economic and revenue forecasts.
- The spending forecast contained in the fiscal plan is based on ministry and service delivery agency spending plans and strategies. Changes to planning assumptions, such as utilization or demand rates for government services in the health care or community social services sector, represent a spending risk.
- Changes in accounting treatment or revised interpretations of generally accepted accounting principles could affect the bottom line.

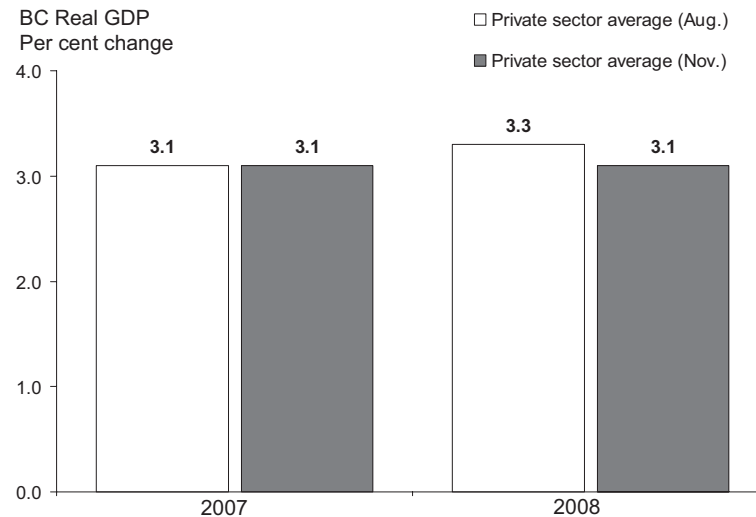
PART TWO — ECONOMIC REVIEW AND OUTLOOK ¹

2007/08 Second Quarterly Report

November 30, 2007

Summary

Chart 2.1 Private sector outlook for BC weakens in 2008



Sources: Private sector forecasters

- The private sector outlook for BC in 2008 has weakened from 3.3 per cent annual real GDP growth to 3.1 per cent. For 2007, average annual real GDP growth remains at 3.1 per cent.
- Risks to British Columbia's economic outlook include further deterioration in the US economy (particularly in the US housing sector), volatile commodity prices, the high Canadian dollar and continued instability in global financial markets. On balance, these place increased downside risk to the outlooks for 2008 and 2009.
- Recent economic indicators demonstrate that British Columbia's domestic economy has performed well in 2007, with growth in retail sales and housing starts remaining robust. However, exports and manufacturing shipments have declined throughout 2007.
- In preparation for *Budget 2008*, the Minister of Finance will meet with the independent Economic Forecast Council on December 7, 2007 to obtain their views on the economic outlook. A revised five-year economic forecast will then be developed for *Budget 2008*, to be released February 19, 2008.

Comparison to private sector forecasts

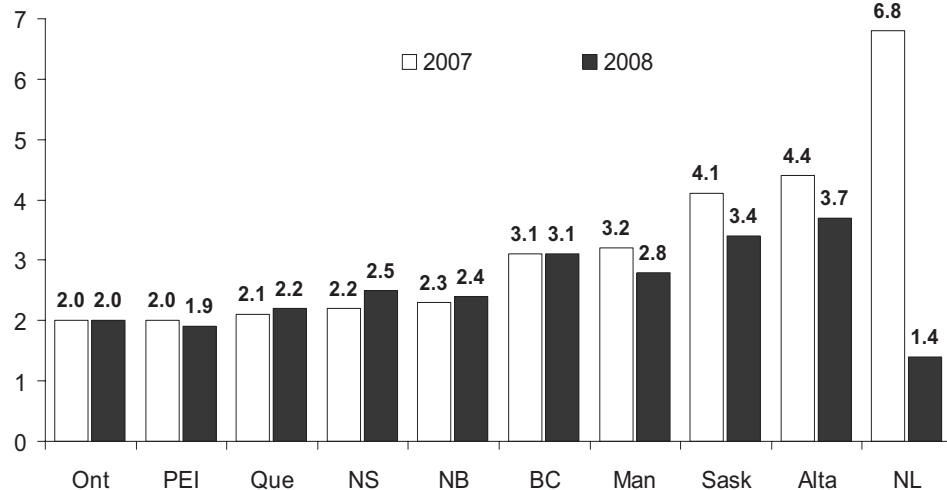
Private sector forecasts for 2007 have remained fairly consistent since the first *Quarterly Report* was released on September 14, 2007. At that time, the average of seven private sector forecasts was 3.1 per cent for BC's real GDP growth in 2007. As of November 21, 2007, the private sector average for 2007 remained at 3.1 per cent, making BC fifth highest among provinces in economic growth projections.

¹ Reflects information available as of November 21, 2007.

Considerable variation exists among outlooks for Canada's regional economies (see Chart 2.2), as private sector forecasters expect western Canada to perform much better than the central and eastern provinces. This is certainly noticeable in Ontario and Quebec, which have been hit hard by an extremely strong Canadian dollar and weaker than expected demand from the US. Newfoundland is the one exception to this trend, as private sector forecasters expect economic growth in Canada's eastern-most province to reach 6.8 per cent in 2007, before declining to 1.4 per cent in 2008.

Chart 2.2 BC's economic growth expected to be robust in 2007 and 2008

Average of seven private sector forecasts
Real GDP, per cent change



Source: Seven private sector forecasters, as of November 21, 2007

Some forecasters have cited increased demand from Asia, particularly from China and India, as well as revitalized trade with Japan as sources of BC's economic growth. Private sector economists also note BC's strong growth in the service and construction sectors, partly related to preparations for the 2010 Winter Olympics.

Private sector forecasters are now expecting provincial economic growth next year to be slightly lower than previous projections, as forecasts for 2008 are currently averaging 3.1 per cent, down from the average forecast of 3.3 per cent at the time of the first *Quarterly Report*. Some forecasters have noted that BC's forestry and manufacturing sectors are suffering from both the high Canadian dollar and reduced demand due to the collapse of the US housing market.

Recent Economic Developments

Indicators of economic performance so far in 2007 confirm that British Columbia is again experiencing strong domestic growth this year. Weakness in export markets has been partly offset by a very healthy domestic economy. The six major indicators in Table 2.1 outline BC's economic performance in the first nine months of 2007 compared to the same period a year ago. Employment has grown steadily year-to-date to September, rising 3.2 per cent relative to the first nine months of 2006. Despite modest growth over the last two quarters, this places BC second in job growth among Canadian provinces for the period, behind only Alberta.

Table 2.1 British Columbia Economic Indicators

| All data seasonally adjusted | Apr. to Jun. 2007 | Jul. to Sep. 2007 | Year-to-Date |
|--|----------------------------------|----------------------------------|---|
| | change from Jan. to Mar. 2007 | change from Apr. to Jun. 2007 | Jan. to Sep. 2007 change from Jan. to Sep. 2006 |
| | Per cent change | | |
| Employment | +0.1 | +0.3 | +3.2 |
| Manufacturing shipments | +1.9 | -2.6 | -2.1 |
| Exports | -0.5 | -6.9 | -4.1 |
| Retail sales | +2.8 | +0.5 | +7.0 |
| Housing starts | -1.3 | 7.4 | +3.2 |
| Non-residential building permits | 16.3 | -32.6 | +10.7 |

Exports, however, have fallen 4.1 per cent year-to-date to September compared to the same period a year ago. The performance of BC's export sector so far in 2007 places it last among provinces. The high Canadian dollar and falling lumber prices have contributed to this decline.

Manufacturing shipments have also dropped year-to-date to September, declining 2.1 per cent compared to the first nine months of 2006. The falling value of shipments of wood products has been a major contributor to this decline.

Retail sales, however, have continued to show robust growth year-to-date to September, reflecting the strong consumer confidence maintained by British Columbians. Housing starts in BC have also shown positive growth year-to-date to September, increasing 3.2 per cent relative to the same period in 2006. Although housing starts have not increased at the same surging pace as in previous years, they have risen overall through 2007 despite earlier private sector expectations for negative growth.

Non-residential building permits have risen year-to-date to September 2007, climbing 10.7 per cent compared to the first nine months of 2006. This growth was fuelled by a 25.1 per cent lift in commercial permits, which offset declines in institutional and industrial permits. However, the July to September quarter showed a 32.6 per cent decline in this volatile series.

External environment

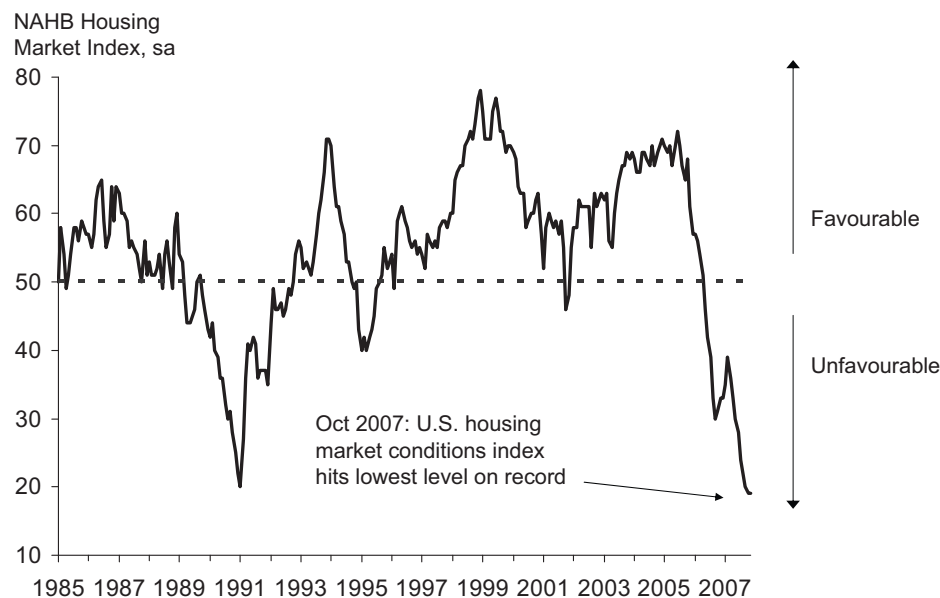
United States

In the United States, real GDP rose 3.9 per cent on an annualized basis in the July to September quarter of this year, following a 3.8 per cent increase in the April to June quarter. Strong economic growth through the third quarter was driven by steady increases in consumption and government spending, and by surging net exports brought on by the depreciating US dollar.

Relatively strong growth in the July to September quarter was significantly higher than expected by private sector forecasters. Despite this high third quarter number, the US economy has softened in the October to December period so far, due to continued drag from both the housing and financial markets. Many analysts are predicting weak or even negative growth in the current quarter.

The rapid decline in the US housing market has continued since the first *Quarterly Report*, and is far more drastic than most private sector analysts had anticipated earlier in the year. US housing starts dropped 25.0 per cent to average 1,391,000 annualized units in the first ten months of 2007 compared to the same period a year ago, with analysts predicting further deterioration. In November, the National Association of Home Builders housing market index, an indicator of homebuilder optimism, reached 19 points. This represents a 16 point drop since January and represents its lowest level on record. Given further declines in all sub-components, the bottoming-out of the US housing market may not occur this year. In fact, some analysts, most notably Robert Shiller of Yale University, are calling for a bottoming out in “five or ten years”.

Chart 2.3 US homebuilders' views continue to be unfavourable



At the heart of the recent financial crisis is the rapid erosion of the subprime mortgage market in the US. Subprime lending refers to the practice of making loans to high-risk borrowers. This type of lending is risky for both lenders and borrowers due to the combination of high interest rates, poor credit history and the weaker financial situation often associated with subprime applicants. In order to offload some of the risks associated with subprime lending, many subprime loans were packaged together by lenders and sold to large investment banks and other financial institutions around the world. Unfortunately, new types of lending instruments made it difficult for buyers of subprime-backed securities to observe the quality of the underlying loans. As a result, there was a large scale mispricing of risk associated with many subprime loans.

Rising interest rates, increasing the monthly payments on newly popular adjustable rate mortgages, together with declines in property values from the demise of the US housing bubble, left many homeowners unable or unwilling to meet financial commitments. As a result, a sharp increase in the number of foreclosures among subprime borrowers in the US housing market began in early 2006, and left many lenders without a means to recoup their investments.

The mispricing of risk associated with many subprime loans finally came to a head in August 2007, as financial markets lost billions due to a massive decrease in confidence among investors. Rapidly spreading concerns over the erosion of the subprime sector since August have resulted in reduced liquidity in financial markets, as investors have tightened up their willingness to lend money and markets struggle to re-price the risk of investments.

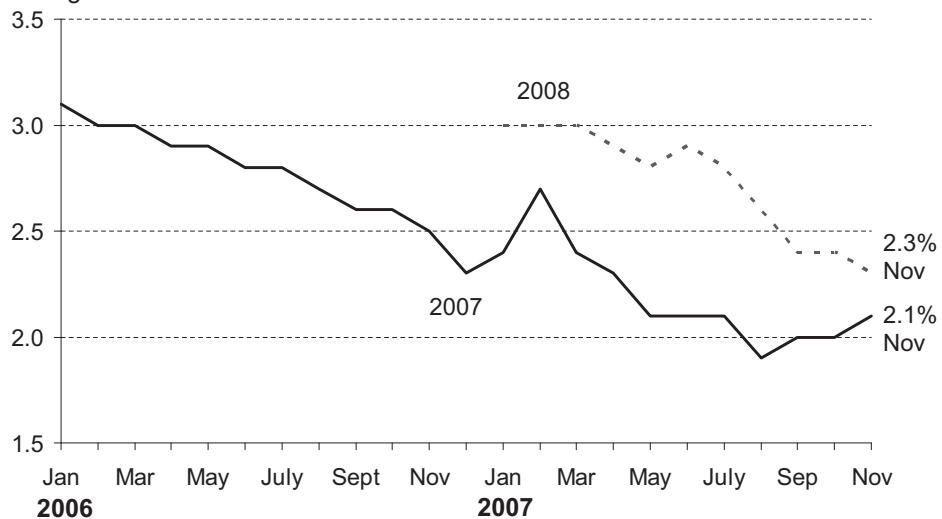
The US labour market situation, a lagging indicator of economic activity, currently remains robust through October. Employment increased by a solid 166,000 jobs in October, and the unemployment rate held steady at 4.7 per cent. However, sectors that showed weakness included housing-related industries, which saw another 30,000 job losses as further casualties of the crashing US housing sector, while manufacturing employment fell by 21,000.

US consumer confidence has also seen declines in recent months, as the Conference Board Consumer Confidence index declined again in October to reach its lowest point since October 2005. The University of Michigan Consumer Sentiment index also fell in November, to reach its second lowest level since the early 1990s. Going forward, continued weakening in the housing market, high debt burdens, increasing energy prices and further turmoil in financial markets are risks to US consumer confidence and a concern for consumer spending.

Looking forward, recent credit problems in US financial markets, a US housing market downturn that has been more drastic than anticipated, combined with a number of soft economic data releases in recent months have led private sector economists to downgrade their expectations for 2007 US GDP growth since the start of the year. As a result, the *Consensus Economics* average for 2007 growth has declined from a high of 2.7 per cent in February to 2.1 per cent in November.

Chart 2.4 Consensus outlook for US economy in 2008 deteriorates

Forecast annual per cent
change in US real GDP



Source: Consensus Economics

The chart represents forecasts for US real GDP growth in 2007 and 2008 as polled on specific dates. For example, forecasters surveyed on November 12, 2007 had an average 2007 U.S. growth forecast of 2.1 per cent, while in February they forecast 2007 U.S. growth at 2.7 per cent.

Estimates for 2008 US real GDP growth have also been downgraded since earlier this year, dropping 0.7 points in the November *Consensus Economics* survey from the 3.0 per cent growth anticipated in January. *Consensus* analysts anticipate that the US economy will grow 2.3 per cent in 2008, driven primarily by business investment and industrial production.

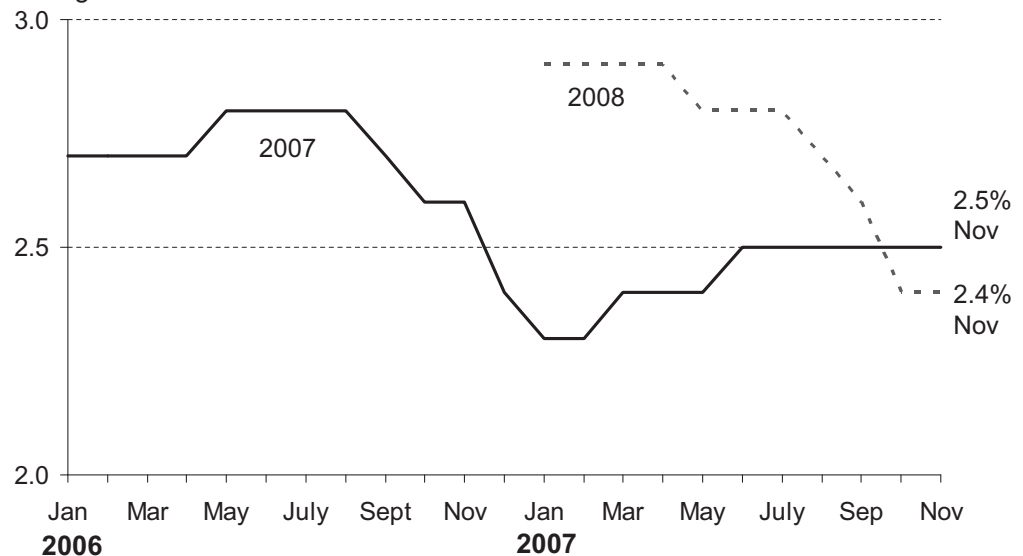
In the first *Quarterly Report*, the Ministry of Finance assumed US real GDP growth of 1.8 per cent in 2007 and 2.3 per cent in 2008. These prudent assumptions were slightly lower than the *Consensus Economics* survey average at the time, and remain slightly lower than current *Consensus* expectations for 2007 and equal to expectations for 2008. Based on further deterioration of the US economic outlook, the Ministry of Finance will be reviewing its forecast assumptions based on more recent economic conditions for its next forecast to be published in *Budget 2008*.

Canada

The outlook for the Canadian economy has held steady in recent months, as the November *Consensus Economics* survey reported 2007 Canadian real GDP growth expectations to be 2.5 per cent, an estimate that has remained unchanged since June. However, the *Consensus* outlook for 2008 has weakened considerably, with its November estimate for 2008 real GDP growth of 2.4 per cent falling from the 2.7 per cent reported in the August survey.

Chart 2.5 Consensus outlook for Canada has held steady in recent months

Forecast annual per cent
change in Canadian real GDP



Source: Consensus Economics

The chart represents forecasts for Canadian real GDP growth in 2007 and 2008 as polled on specific dates. For example, forecasters surveyed on November 12, 2007 had an average 2007 Canadian growth forecast of 2.5 per cent, while in May they forecast 2007 Canadian growth at 2.4 per cent.

Canadian real GDP grew by 3.4 per cent, on an annualized basis, in the April to June quarter of 2007, thanks to improvements in consumer spending and higher investment expenditures. This strong second quarter real GDP growth follows the 3.9 per cent growth seen in the January to March quarter.

Unlike the disastrous housing decline experienced in the US, the Canadian housing market has managed to remain in positive growth territory through the first nine months of 2007. Canadian housing starts have grown slightly this year, rising only 0.7 per cent year-to-date to October 2007, while building permits – a precursor to new building activity – have increased by a robust 15.2 per cent year-to-date to September.

Consumer spending remains robust nationally, with Canadian retail sales up 5.8 per cent through the first nine months of 2007 compared to the same period a year ago. Employment in Canada remains healthy, growing 2.3 per cent over the January to October period relative to the same period a year ago, an increase of 375,000 jobs. The national unemployment rate was 5.8 per cent in October, and is 6.0 per cent year-to-date. Since employment is a lagging indicator of economic activity, slowing Canadian real GDP growth is likely to slow employment growth going forward.

Meanwhile, Canadian exports decreased 2.3 per cent in September, but have grown 4.2 per cent year-to-date despite the high Canadian dollar. The national trade balance with the US narrowed in September, and has been on a downward trend since October 2005.

The Bank of Canada released its *Monetary Policy Update* in October. The Bank raised its projection for real economic growth for Canada in 2007 to 2.6 per cent, due to stronger than expected year-to-date growth and considerable momentum in domestic demand. However, the Bank lowered its expectations for Canadian real GDP growth to 2.3 per cent in 2008, due to a weaker near-term outlook for the US economy and a higher assumed value for the Canadian dollar causing a significant drag on net exports. According to *Monetary Policy Update*, the Bank of Canada expects core inflation to be 2.3 per cent in the final quarter of 2007 and 2.2 per cent through the first half of 2008, due to the current slight excess demand and higher housing prices. Inflation is expected to return to 2.0 per cent in the second half of 2008 as these pressures ease.

Other economies

The outlook for Europe in 2007 and 2008 has been upgraded since the beginning of 2007 due to strong investment activity and improvements in industrial production. The outlook for the German economy is showing steady improvement, especially where industrial production and investment in machinery and equipment are concerned. The November *Consensus Economics* survey forecast Euro zone growth of 2.6 per cent in 2007 and 2.0 per cent in 2008.

According to the November *Consensus Economics* survey, the economic outlook for Japan in 2007 has also been revised upward since the start of this year. Gains in retail sales and industrial production have pushed the *Consensus* outlook for real GDP growth up from the 1.8 per cent expected for 2007 in the January survey. However, concerns remain among *Consensus* forecasters over Japan's overall private consumption growth as well as its tightening labour market. *Consensus* is predicting Japanese economic growth to be 2.0 per cent in 2007, followed by 1.8 per cent in 2008.

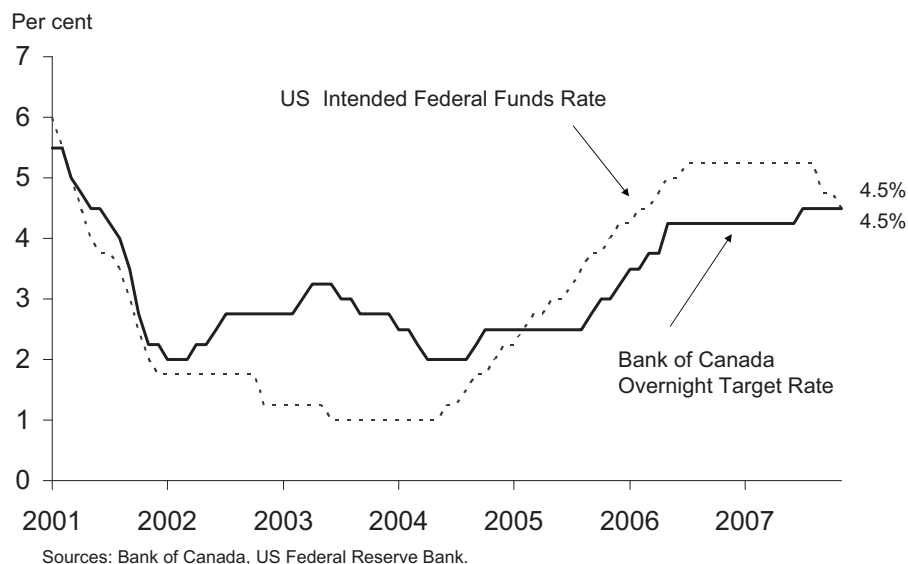
Expectations of real economic growth for China improved in recent months, with the *Blue Chip Economic Indicators* survey in November forecasting real GDP growth of 11.3 per cent in 2007 followed by 10.2 per cent growth in 2008. This compares to the August *Blue Chip* survey average, which forecast China's real GDP growth at 10.7 per cent growth in 2007 and 9.9 per cent in 2008.

Financial markets

Interest rates

After raising its key overnight target rate 25 basis points to 4.50 per cent in July 2007, the Bank of Canada has held this rate constant through both its September and October meetings. In the most recent announcement on October 18, 2007, the Bank noted that risks around its inflation projection are roughly balanced and the current level for the overnight rate was consistent with achieving the inflation target over the medium term.

Chart 2.6 Central banks change interest rates in recent months



As of November 21, 2007, the private sector average forecast for Canadian 3-month Treasury bill interest rates was 4.2 per cent for 2007 and 4.3 per cent in 2008. This compares to the private sector averages in the first *Quarterly Report* of 4.4 per cent for 2007 and 4.8 per cent for 2008.

Table 2.2 Private Sector Canadian Three Month Treasury Bill Interest Rate Forecasts

| Average annual interest rate (per cent) | 2007 | 2008 |
|--|------------|------------|
| Global Insight | 4.2 | 4.7 |
| CIBC | 4.2 | 4.4 |
| Nesbitt Burns | 4.2 | 4.1 |
| Scotiabank | 4.2 | 3.9 |
| TD Economics | 4.2 | 4.4 |
| RBC Capital Markets | 4.2 | 4.3 |
| Average (as of November 21, 2007) | 4.2 | 4.3 |
| First Quarterly Report Forecast | 4.4 | 4.8 |

The private sector average forecast for 10-year government of Canada bonds as of November 21, 2007 was 4.3 per cent for 2007 and 4.5 per cent in 2008. At the time of the first *Quarterly Report*, the private sector average was slightly higher at 4.5 per cent for 2007 and 5.1 per cent for 2008.

Table 2.3 Private Sector Canadian 10-year Government Bond Interest Rate Forecasts

| Average annual interest rate (per cent) | 2007 | 2008 |
|--|------------|------------|
| Global Insight | 4.4 | 4.8 |
| CIBC | 4.3 | 4.5 |
| Nesbitt Burns | 4.3 | 4.3 |
| Scotiabank | 4.3 | 4.3 |
| TD Economics | 4.3 | 4.7 |
| RBC Capital Markets | 4.3 | 4.5 |
| Average (as of November 21, 2007) | 4.3 | 4.5 |
| First Quarterly Report Forecast | 4.5 | 5.1 |

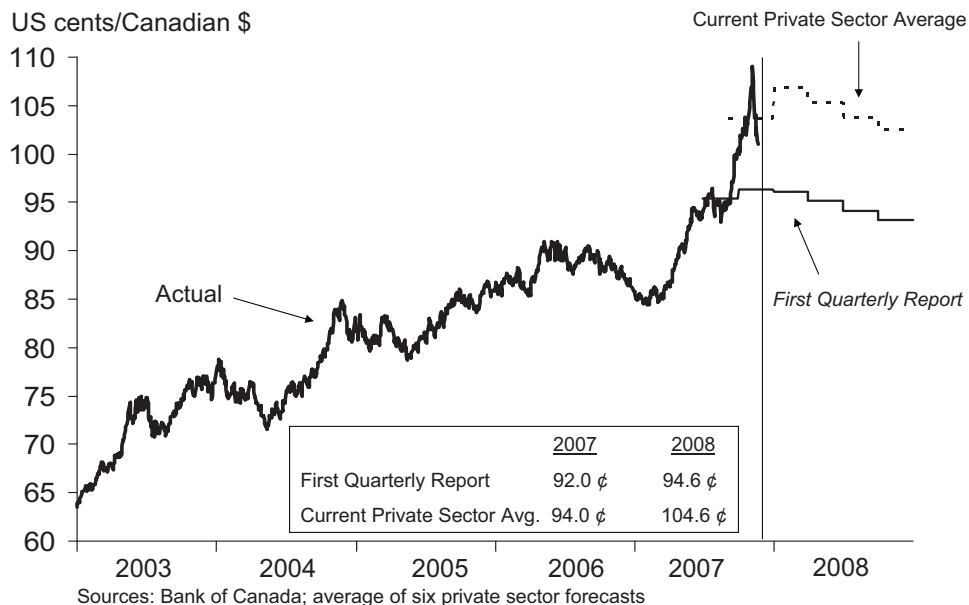
The US Federal Reserve Board (Fed) lowered its key interest rate twice since the first *Quarterly Report*. The Fed lowered its target for the federal funds rate by 50 basis points to 4.75 per cent on September 18, 2007, and by 25 basis points to 4.50 per cent on October 31. The September rate cut marks the first time the Fed has lowered its target for the federal funds rate since 2003.

Following its October meeting, the Fed noted that despite the positive response to its September rate reduction, the US economy is set to slow in the near term as the drag from the housing market continues. The Fed stated that monetary policy actions taken over the past few months – which include the Fed's injection of billions of dollars into US financial markets to improve liquidity – should help to promote growth and counteract some of the negative effects of the US housing downturn and recent turmoil in global financial markets.

Exchange rate

The Canadian dollar continued its rapid appreciation through 2007, averaging 91.9 cents US in the first 10 months of the year, up from 88.3 cents US from the same period a year ago. As of November 21, the loonie was trading at 101.1 cents US.

A number of factors contributed to the loonie's strength in 2007, including solid Canadian economic growth, new merger and acquisition activity, and a declining US dollar due in part to ongoing concerns regarding the US budget and current account deficits. While most analysts expect the Canadian dollar to remain strong through 2008, some have noted concern over possible negative economic impacts such as reduced revenues from exports, manufacturing and tourism. Meanwhile, Bank of Canada deputy governor Paul Jenkins noted that the strong dollar's effect on exports is starting to drag down the Canadian economy. Jenkins stated that "if recent levels of the Canadian dollar were to persist, the risk is that output and inflation would be significantly lower".

Chart 2.7 Private sector average forecasts high loonie

Due to the recent turmoil in world financial markets, there has been a shift out of smaller financial markets into government bonds of major global economies like Japan and the US. The resulting tumult has caused substantial volatility for currencies in smaller economies like Canada and Australia. The noon spot rate for the Canadian dollar has swung from a recent low of 92.98 cents US on August 16, 2007 to a high of 109.05 cents US on November 7, 2007.

Private sector expectations for the Canadian dollar and commodity prices have risen since the first *Quarterly Report*, with the dollar now expected to average 94.0 cents US in 2007 and 104.6 cents US in 2008. This compares to the private sector average of 92.0 cents US in 2007 and 94.6 cents US in 2008 at the time of the first *Quarterly Report*, as shown on Table 2.4.

Table 2.4 Private Sector Exchange Rate Forecasts

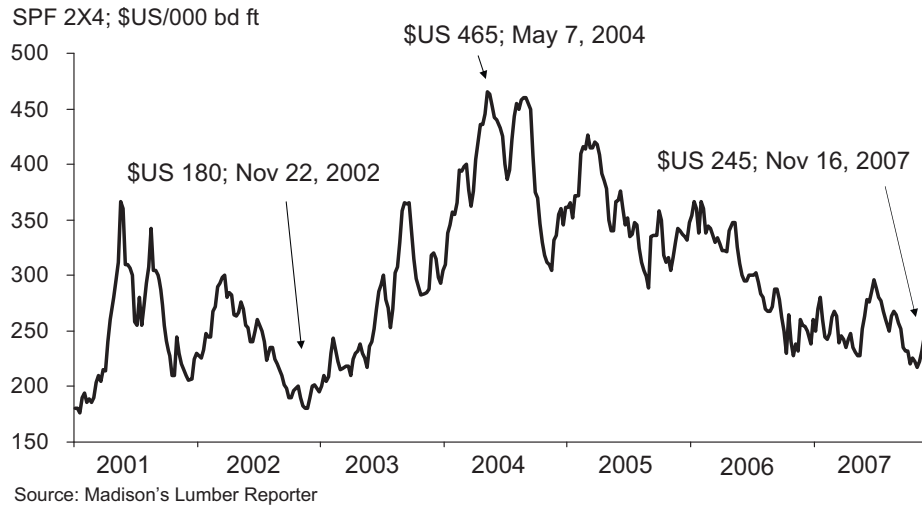
| Average annual exchange rate (US cents/Can \$) | 2007 | 2008 |
|--|-------------|--------------|
| Global Insight | 94.3 | 100.7 |
| CIBC | 93.4 | 103.1 |
| Nesbitt Burns | 94.2 | 105.4 |
| Scotiabank | 94.1 | 108.8 |
| TD Economics | 93.7 | 105.3 |
| RBC Capital Markets | 94.0 | 104.4 |
| Average (as of November 21, 2007) | 94.0 | 104.6 |
| First Quarterly Report forecast | 92.0 | 94.6 |

Commodity markets

A mixture of activity in commodity markets has been seen so far in 2007, with weaker lumber and natural gas prices offset by surging oil prices and strong metal and mineral prices. Lumber prices have been substantially lower this year, as demand continues to falter due to the eroding US housing market. Western spruce-pine-fir (SPF) 2x4 prices hit a recent low of \$217 US per thousand board feet in the last week of October, before making a small

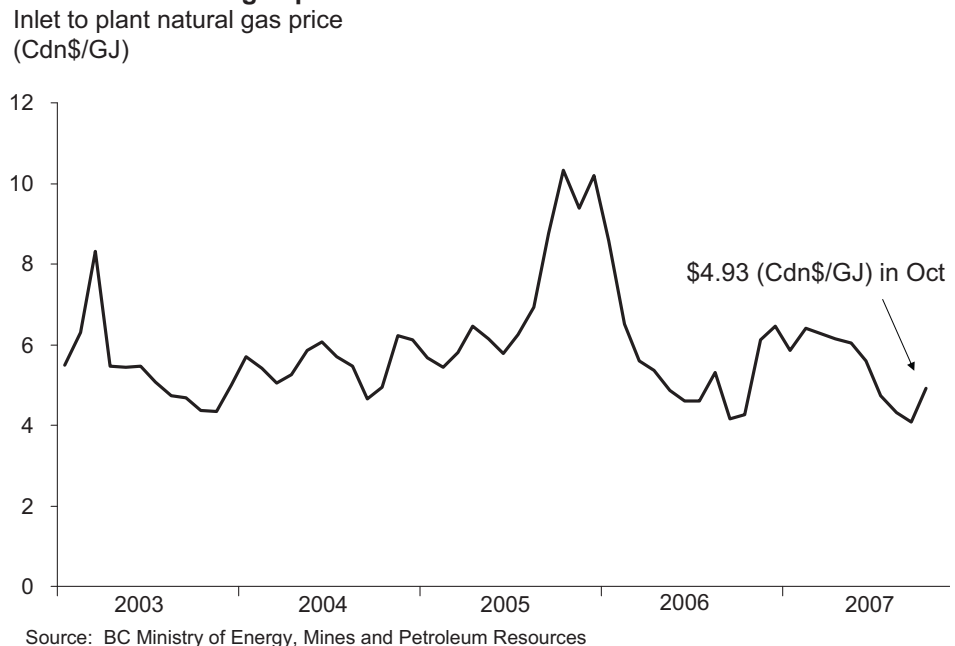
comeback to \$245 US in the third week of November. For the first ten months of this year, lumber prices averaged \$252 US, down 17.6 per cent compared to the same period a year ago.

Chart 2.8 Lumber prices continue to decline



Natural gas prices have been declining since the end of last year, falling 23.8 per cent from the December 2006 price of 6.46 \$/GJ to reach 4.93 \$/GJ by October 2007. Several factors have contributed to natural gas prices falling throughout 2007, including higher than average storage levels of natural gas, weaker demand due to milder weather and an appreciating Canadian dollar. Oil prices have been very high in recent months due to supply concerns and instability in the Middle East, but this has not translated into higher natural gas prices. West Texas Intermediate oil price averaged \$69.47 US per barrel in the first ten months of 2007, and was \$99.16 US/bbl as of November 20, 2007.

Chart 2.9 Natural gas prices decline



Metal and mineral prices have experienced strong growth on a year-to-date basis so far in 2007. Copper prices have appreciated 7.1 per cent year-to-date to October, averaging \$3.27 US per pound. Other commodity prices such as gold, silver and zinc have seen remarkable growth relative to last year, while prices for lead have more than doubled.

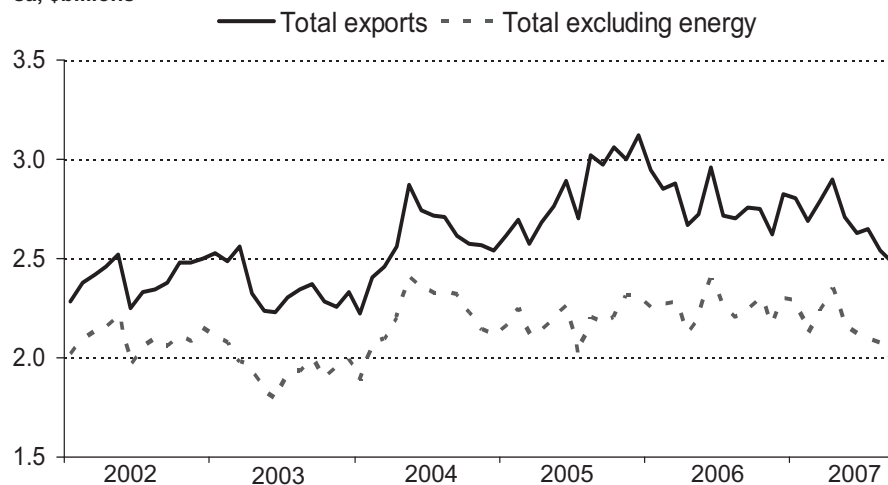
British Columbia economic developments

British Columbia's key economic indicators continued to show healthy year-to-date results in terms of retail sales, housing starts, employment and non-residential building permits, although exports and manufacturing shipments have been showing signs of weakening.

External trade

The value of British Columbia's exports has declined significantly since the beginning of this year, due in part to the rapidly appreciating Canadian dollar and the weakening of some commodity prices, notably lumber and natural gas. The total value of international merchandise exports from BC to the rest of the world fell by 4.1 per cent year-to-date to September compared to the same period a year ago. BC's declining forestry sector was the main contributor to this year's drop in export growth, as forestry exports fell 7.9 per cent through the first nine months of 2007, reflecting both lower prices and slowing lumber production. Faltering demand from the US – a result of its housing market fallout – is a major contributor to the reduced value of lumber exports in 2007. Also pulling the value of total exports down in 2007 was a decline in total energy exports, which dropped 4.6 per cent year-to-date to September compared to the same period in 2006. Declines were observed in both coal and natural gas. The agriculture and fish sector managed to see positive export growth through the first nine months of 2007, with the value of these exports rising 1.9 per cent compared to the same period a year ago.

Chart 2.10 Exports down due to falling lumber and natural gas prices
sa, \$billions

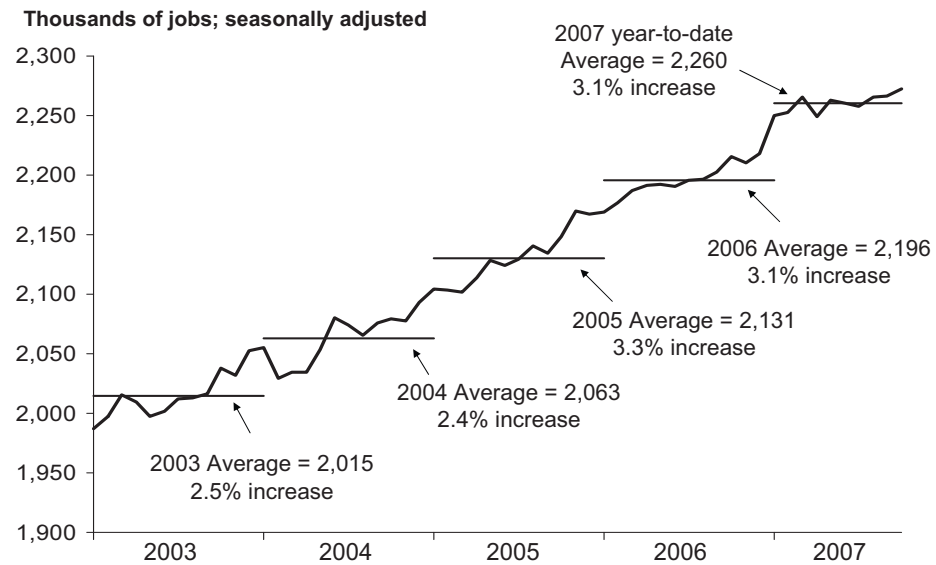


Source: BC Stats

Labour market

BC saw healthy employment growth through the first ten months of 2007, as 68,470 jobs were added, resulting in a 3.1 per cent increase over the same period the previous year. Meanwhile, the unemployment rate averaged 4.2 per cent over this period. Sectors that saw the largest job increases (in terms of growth rates) were construction, utilities and the finance, insurance and real estate sectors. Gains were largely focused in full-time employment with 56,330 jobs added, while part-time employment rose by 12,390 jobs.

Chart 2.11 Employment growth continues



Employment growth slowed during the July to September quarter, increasing just 0.3 per cent, or by just over 5,900 jobs compared to the previous quarter. However, full-time employment continued to increase, adding approximately 17,600 jobs in the quarter, though part-time employment declined by about 11,600 jobs.

Demographic developments

BC's population growth held steady at 1.4 per cent in the April to June quarter of this year, compared to the same period in 2006. Net inter-provincial migration added 3,295 persons to BC's population in the April to June quarter of 2007, while net international migration added 8,152 people.

Alberta was the largest beneficiary of inter-provincial migration in recent quarters, adding 7,437 persons from other provinces in the April to June quarter. Alberta's hot economy continues to attract individuals from other provinces, and is likely to continue to put pressure on other provincial labour markets going forward.

Domestic demand

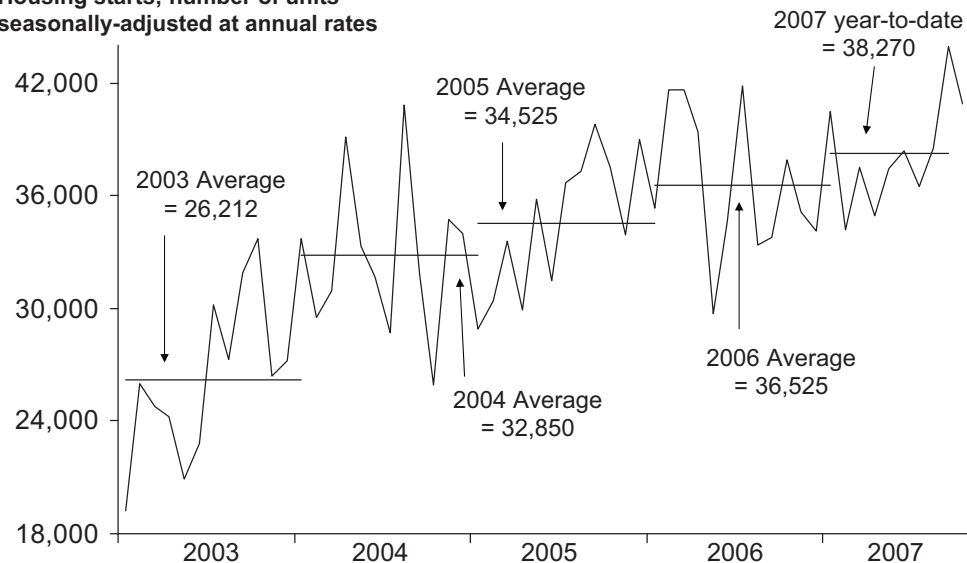
Consumer spending and housing

Retail sales grew by a robust 7.0 per cent through the first nine months of 2007 compared to the same period in 2006. Strong gains have been made this year within several retail categories including home centres and hardware stores, building materials and garden centres, as well as home electronics and appliance stores.

Housing starts in British Columbia tend to fluctuate month-over-month. Year-to-date, however, housing starts have shown positive growth, averaging 38,270 units on an annualized basis through the first ten months of 2007 – an increase of 3.7 per cent over 2006. Residential building permits have increased by a solid 16.4 per cent year-to-date to September, but growth of permits has slowed in recent quarters, suggesting that housing starts may have reached a peak and are anticipated to gradually decline going forward.

Chart 2.12 Housing starts up year-to-date

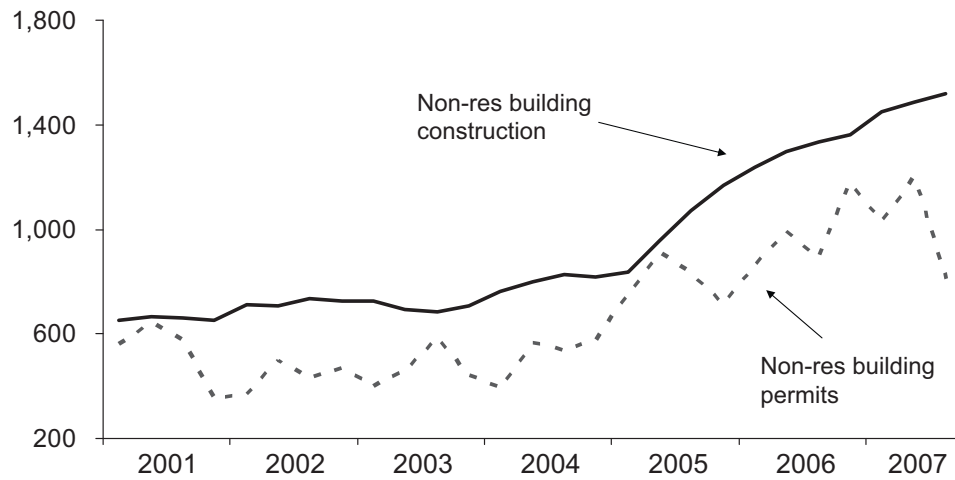
Housing starts; number of units
seasonally-adjusted at annual rates



Source: Canada Mortgage and Housing Corporation

Non-residential building permits have risen 10.7 per cent for the first nine months of 2007, compared to the same period the previous year, with strong gains in the commercial sector offsetting losses in the institutional and government sectors. However, the July to September quarter showed a 32.6 per cent decline in this volatile series, due to weakness in the institutional and government sectors, as well as the industrial sector.

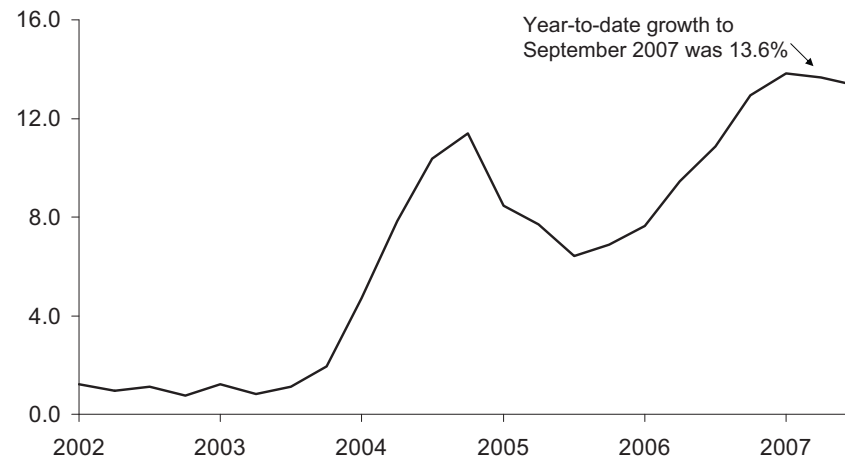
Chart 2.13 Non-residential construction strong
seasonally adjusted, (\$millions)



Source: Statistics Canada; quarterly data

Concern continues to mount regarding the strength of investment in both residential and non-residential construction, possibly leading to a shortage of skilled labour, putting additional pressure on wages and contributing to further material price inflation. The non-residential construction price index for Vancouver increased 13.6 per cent in the first nine months of 2007, relative to the same period the previous year.

Chart 2.14 Vancouver non-residential construction inflation at 13.6 per cent
Vancouver Non-Residential Building Construction Price Index
(year-over-year per cent change)



Source: Statistics Canada

British Columbia economic outlook

In the first *Quarterly Report*, BC's economy was forecast to grow by 3.0 per cent in 2007. This forecast was based on US growth assumptions of 1.8 per cent in 2007, compared to the August *Consensus Economics* survey average of 1.9 per cent. Since then, the *Consensus* average has crept up to 2.1 per cent for 2007, slightly higher than the Ministry of Finance assumptions.

Recent economic data, particularly with regard to strong domestic demand in retail sales and employment, tend to back up this forecast of robust economic growth for BC in 2007.

However, the softening US economy (particularly focused in the imploding US housing sector), the recent credit turmoil in financial markets, along with weakness in lumber and natural gas prices, will likely dampen the outlook for BC's exports in 2008. The Ministry of Finance forecast of 2.9 per cent growth in 2008 published in the first *Quarterly Report* was based on an assumption of US economic growth of 2.3 per cent growth for 2008, compared to the August *Consensus Economics* survey average of 2.6 per cent. Unfortunately, the outlook for the US economy has deteriorated significantly in recent months. In preparation for *Budget 2008*, evolving views on the US economy from numerous sources will be assessed and incorporated to ensure that the Ministry of Finance economic forecast maintains its prudent assumptions.

In its first *Quarterly Report*, the Ministry of Finance assumed Canadian economic growth would be 2.3 per cent in 2007 and 2.5 per cent in 2008. These forecasts were slightly lower than the August *Consensus Economics* survey average, which called for 2.5 per cent growth 2007 and 2.7 per cent growth in 2008. Currently, the November *Consensus Economics* survey expects real GDP growth of 2.5 per cent and 2.4 per cent for 2007 and 2008, respectively. Weakening exports, slowing US demand and declining lumber prices suggest that prudent assumptions for Canadian economic growth were necessary, but must be reviewed for *Budget 2008*.

Private sector economists continue to see BC's economic growth in 2007 being relatively strong among Canadian provinces, behind Newfoundland, Alberta, Saskatchewan and Manitoba. The current private sector average, as of November 21, 2007, expects BC's real GDP to grow by 3.1 per cent in 2007 and again by 3.1 per cent in 2008. This compares to private sector averages of 3.1 per cent in 2007 and 3.3 per cent in 2008 at the time of the first *Quarterly Report*. The Ministry of Finance forecast BC's economic growth to be 3.0 per cent in 2007 and 2.9 per cent in 2008 in the first *Quarterly Report*.

The Minister of Finance will be meeting with the independent Economic Forecast Council on December 7, 2007 to obtain their views on the North American and British Columbian economic outlooks. An updated five-year economic forecast, incorporating their advice, will be developed for the February 19, 2008 budget.

Risks to the outlook

While the economic outlook has both upside and downside risks associated with it, the overall direction of risk to the outlook is weighted to the downside over the next year.

The main downside risks to the British Columbia economic outlook remain:

- the US housing market downturn and recent turmoil in global financial markets;
- the high Canadian dollar;
- high oil prices; and
- volatile commodity markets.

On the upside, risks include:

- growth resulting from development of the Asia Pacific Gateway is stronger than expected;
- visitors to BC increase more than expected as Vancouver gains further international recognition as a tourist destination through promotion of the 2010 Olympics; and
- a US housing market that recovers from its current state of decline more quickly than expected.

Table 2.5 Current Economic Statistics

| | Latest Period | Year-to-Date Average | | | |
|---|---------------|----------------------|--------|--------|--------|
| | | 2006 | 2007 | Change | |
| BRITISH COLUMBIA | | | | | |
| LABOUR MARKET | | | | | |
| Employment (s.a. ¹ , thousands) | October | 2,273 | 2,192 | 2,260 | 3.1% |
| Unemployment rate (s.a., per cent) | October | 4.4 | 4.7 | 4.2 | -0.5 |
| Total net in-migration (persons) | Apr.-Jun. | 11,447 | 12,357 | 10,425 | -1,932 |
| Interprovincial (persons) | Apr.-Jun. | 3,295 | 2,686 | 2,899 | 213 |
| International (persons) | Apr.-Jun. | 8,152 | 9,671 | 7,527 | -2,145 |
| Wages and salaries (s.a. \$millions) | June | 7,202 | 6,635 | 7,057 | 6.4% |
| Average weekly wage rate | October | 749 | 723 | 746 | 3.2% |
| CONSUMER SECTOR | | | | | |
| Retail sales (s.a., \$ million) | September | 4,730 | 4,367 | 4,672 | 7.0% |
| Car and truck sales (s.a., units) | September | 16,819 | 16,126 | 16,937 | 5.0% |
| Housing starts (all areas, s.a., annual rate) | October | 40,900 | 36,910 | 38,270 | 3.7% |
| Existing home sales (s.a.) | September | 8,581 | 8,281 | 8,598 | 3.8% |
| Building permits (s.a., \$ millions) | September | 817 | 915 | 1,048 | 14.5% |
| BC consumer price index (annual per cent change) | October | 1.6 | 1.8 | 1.8 | 0.0 |
| INDUSTRIAL ACTIVITY | | | | | |
| Foreign merchandise exports (s.a., \$ million) | September | 2,481 | 2,802 | 2,688 | -4.1% |
| Manufacturing shipments (s.a., \$ million) | September | 3,517 | 3,724 | 3,645 | -2.1% |
| Lumber production (thousand cubic metres) | August | 2,867 | 3,536 | 3,258 | -7.9% |
| Pulp and paper shipments (thousand tonnes) | September | 553 | 656 | 626 | -4.6% |
| Copper production (million kg) | September | 21.2 | 24.5 | 21.2 | -13.3% |
| TOURISM | | | | | |
| Entries of U.S. and overseas residents (thousands) | September | 539.9 | 572.5 | 551.2 | -3.7% |
| BC ferry passengers to/from Vancouver Island (thousands) .. | October | 842 | 966 | 974 | 0.7% |
| COMMODITY PRICES | | | | | |
| Lumber (US \$/thousand board feet) | October | 221 | 306 | 252 | -17.6% |
| Pulp (US \$/tonne) | October | 829 | 663 | 782 | 17.9% |
| Newsprint (US \$/tonne) | October | 564 | 667 | 602 | -9.7% |
| Copper (US \$/lb) | October | 3.64 | 3.05 | 3.27 | 7.1% |
| FINANCIAL DATA | | | | | |
| Canadian dollar (US cents) | October | 102.5 | 88.3 | 91.9 | 3.6 |
| Canadian prime rate (per cent) | October | 6.25 | 5.78 | 6.10 | 0.32 |
| Canadian treasury bills (per cent) | October | 3.97 | 4.01 | 4.20 | 0.19 |
| Treasury bill spread – Canada minus US (per cent) | October | 0.07 | -0.69 | -0.39 | 0.29 |

¹ s.a. - seasonally adjusted

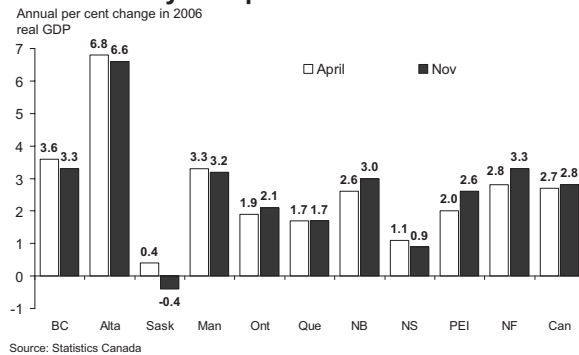
Provincial Economic Accounts Update

Provincial Economic Accounts

Statistics Canada released revised estimates of provincial GDP for 2003 to 2006 on November 8, 2007.

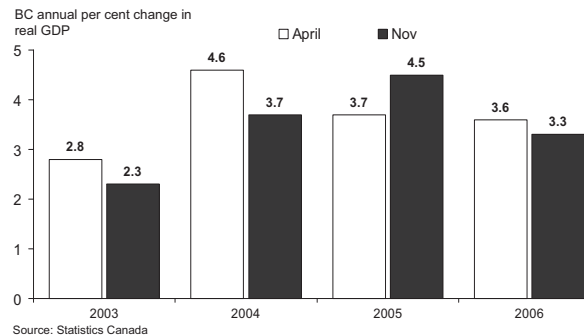
Economic growth in British Columbia for 2006 was revised down to 3.3 per cent from the preliminary estimate of 3.6 per cent released in April. Four provinces had their 2006 growth revised upwards from April's preliminary estimates, while five provinces were revised down and one province was held constant (see Chart 1). British Columbia was tied with Newfoundland for the second highest annual growth rate among the provinces in 2006, and grew faster than Canada as a whole.

Chart 1 – 2006 real GDP growth revised up in only four provinces



BC's strong performance in 2006 was mainly due to healthy investment spending by businesses (10.0 per cent) and government (7.7 per cent). Consumer spending was up 5.5 per cent in 2006 from the 4.4 per cent growth seen in 2005. However, real export growth of 2.5 per cent was offset by a substantial 8.1 per cent increase in imports.

Chart 2 – BC real GDP



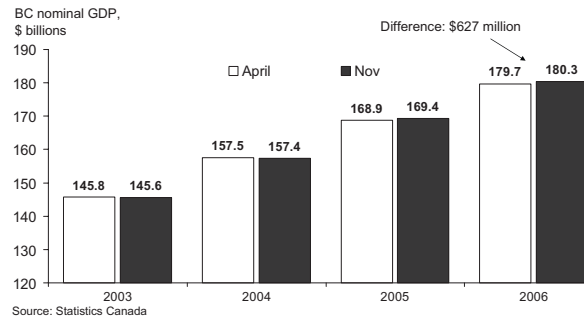
Historical changes

Chart 2 shows the revisions to real GDP for BC from 2003 to 2006. Downward revisions to growth estimates were seen in all years except 2005. The most significant revision was to 2004, where the previous estimate of 4.6 per cent growth was revised down to 3.7 per cent.

Nominal GDP

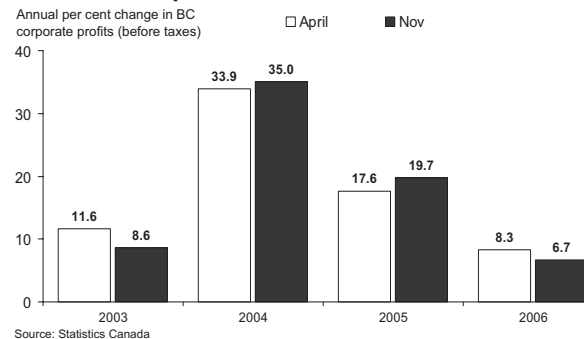
Nominal GDP for British Columbia was revised downwards in 2003 and 2004, but upwards in 2005 and 2006. The revisions result in an increase of \$627 million (or 0.3 per cent) in the level of nominal GDP in 2006. While historical revisions to nominal GDP can sometimes create noticeable changes to government's debt to GDP ratio, the latest revisions had little impact, changing the taxpayer-supported debt to GDP ratio for 2006/07 from 14.4 per cent to 14.3 per cent.

Chart 3 – BC nominal GDP



Corporate profits growth was revised downwards in 2003, upwards in 2004 and 2005, and downwards again in 2006. The largest revision (in growth rate terms) was made to 2003 corporate profits, which were revised to 8.6 per cent growth, down 3 percentage points from the April estimate of 11.6 per cent.

Chart 4 – Corporate Profits



APPENDIX: FINANCIAL RESULTS

**For the Six Months Ended September 30, 2007
and 2007/08 Full-Year Forecast**

2007/08 Second Quarterly Report

November 30, 2007

| | |
|------------|--|
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Table A.1 2007/08 Operating Statement

| (\$ millions) | Year-to-Date to September 30 | | | | Full Year | | | |
|--|------------------------------|--------------|--------------|--------------|----------------|--------------|--------------|--------------|
| | 2007/08 | | | Actual | 2007/08 | | | Actual |
| | Budget | Actual | Variance | 2006/07 | Budget | Forecast | Variance | 2006/07 |
| Taxpayer-supported programs and agencies: | | | | | | | | |
| Revenue | 16,946 | 17,577 | 631 | 17,097 | 34,887 | 36,350 | 1,463 | 35,819 |
| Expense | (16,996) | (16,732) | 264 | (15,915) | (36,240) | (36,540) | (300) | (34,184) |
| Negotiating Framework incentive payments | - | - | - | (244) | - | - | - | (264) |
| Taxpayer-supported balance | (50) | 845 | 895 | 938 | (1,353) | (190) | 1,163 | 1,371 |
| Commercial Crown corporation income | 1,172 | 1,559 | 387 | 1,263 | 2,503 | 2,815 | 312 | 2,685 |
| Surplus before forecast allowance | 1,122 | 2,404 | 1,282 | 2,201 | 1,150 | 2,625 | 1,475 | 4,056 |
| Forecast allowance | - | - | - | - | (750) | (500) | 250 | - |
| Surplus | 1,122 | 2,404 | 1,282 | 2,201 | 400 | 2,125 | 1,725 | 4,056 |

Table A.2 2007/08 Forecast Update – Changes from Budget 2007

| (\$ millions) | Changes | Updated Forecast |
|--|------------|---------------------|
| Budget 2007 Fiscal Plan (February 20, 2007) | | 400 |
| First Quarterly Report Forecast Updates: | | |
| Revenue increases (decreases): | | |
| Personal income tax: | | |
| Base – improved economic growth and continuation of robust earnings from higher-income taxpayers in 2007 | 124 | |
| Prior-year adjustment – weaker 2006 tax assessments | (75) | |
| Corporate income tax – improved 2006 corporate profits and tax assessments including higher impact of duty deposit refunds on forest firms' income | 377 | |
| Social service tax – higher 2006/07 results and stronger 2007 sales growth | 200 | |
| Property tax – lower than expected property tax base | (69) | |
| Property transfer tax – strong year-to-date results and improved short-term outlook | 96 | |
| Natural gas royalties – lower natural gas prices and volumes | (369) | |
| Coal, metals and other minerals – higher coal and metal prices | 1 | |
| Other energy and sales of Crown land leases – offsetting effects of higher Canadian dollar and stronger electricity and oil prices | (31) | |
| Forest revenue – lower harvest volumes, lower price in 2008, higher Canadian dollar, offset by higher Softwood Lumber Agreement border tax collections in 2008/09 | (99) | |
| Medical Services Plan premiums – higher 2006/07 results and a change in accounting treatment | 53 | |
| Federal transfers: | | |
| Health Transfers: | | |
| One-time trusts: HPV immunization and Patient wait times guarantee | 116 | |
| Mainly higher national tax points, partially offset by higher BC tax point deductions | 60 | |
| Canada Social Transfer – mainly federal budget impact of higher national base with equal per capita cash funding (elimination of tax point transfers) | 50 | |
| Other transfers – one-time eco-Trust, multiculturalism and immigration funding, Millennium Scholarship Fund and direct post-secondary research grant funding | 368 | |
| All other taxpayer supported changes | 84 | |
| Commercial Crown corporation net income: | | |
| Liquor Distribution Branch – lower operating costs | 12 | |
| BC Rail – timing of asset dispositions | (13) | |
| ICBC – primarily higher premium revenue and, in 2007/08, the sale of Surrey Central City Mall | 259 | |
| Other Crown corporation changes | (4) | |
| Total revenue changes | | 1,140 |
| Less: expense increases (decreases): | | |
| Forest fire costs | 57 | |
| Children and Family Development – federal child care funding (2007/08 amount shown as a recovery) | - | |
| Forests and Range – increase in BC Timber Sales costs | 15 | |
| Public Safety and Solicitor General – flood costs and disaster assistance | 53 | |
| Tourism, Sport and the Arts – additional construction funding for VCCEP | - | |
| Changes to MLA compensation and pensions | 43 | |
| Interest costs – mainly reduced operating debt levels | (23) | |
| CRF expense changes | 145 | |
| Increased ministry expenditures recoverable mainly from the federal government | 114 | |
| Service delivery agency net spending changes: | | |
| School districts – additional grants/timing of grants in 2007/08 and increased operating costs for the out-years | (29) | |
| Post-secondary institutions – additional grants in 2007/08 in part for Aboriginal programs and increased faculty and operating costs for out-years | (22) | |
| Health authorities – implementation of efficiency/cost saving strategies | (33) | |
| Other service delivery agencies – in 2008/09, primarily the impact of VCCEP funding | 15 | |
| Total expense changes | | 190 |
| Subtotal | | 950 |
| Forecast allowance decrease | | 250 |
| Net change | | 1,200 |
| 2007/08 surplus – first Quarterly Report | | 1,600 |



Table A.2 2007/08 Forecast Update – Changes from Budget 2007 – Continued

| (\$ millions) | Changes | Updated Forecast |
|---|-------------|---------------------|
| Second Quarterly Report forecast updates: | | |
| Revenue increases (decreases): | | |
| Personal income tax | | |
| – Prior-year adjustment mainly due to higher 2006 tax assessments..... | 78 | |
| – Higher 2007/08 base including robust earnings from higher-income taxpayers in 2007 | 120 | |
| Corporate income tax | | |
| – Prior-year adjustments for 2006 and prior years including duty deposit refunds..... | 294 | |
| – Higher federal government instalments..... | 127 | |
| Property transfer tax – strong housing market | 50 | |
| Natural gas royalties – lower natural gas prices | (164) | |
| Columbia River Treaty – lower electricity prices and impact of higher Canadian dollar | (45) | |
| Other energy, metals and mineral revenues – higher metal, oil prices and sales of Crown land drilling rights | 62 | |
| Forest revenue – mainly lower lumber prices and stumpage rates | (120) | |
| – higher <i>Softwood Lumber Agreement 2006</i> border tax collections | 32 | |
| Health and social transfers – higher personal income tax base | (19) | |
| Other federal contributions – mainly due to a one-time contribution to the CIII fund and higher funding for the Public Health Surveillance Program | 55 | |
| All other taxpayer supported changes | 107 | |
| Commercial Crown corporation net income: | | |
| LDB – mainly due to higher sales | 23 | |
| BCRC – mainly delayed asset dispositions | (17) | |
| ICBC – mainly higher investment income | 53 | |
| Other Crown corporation changes | (1) | |
| Total revenue changes | | 635 |
| Less expense increases (decreases): | | |
| Agriculture and Lands – primarily fewer Crown land grants | (13) | |
| Energy, Mines and Petroleum Resources – reflects a reduction in VIGAS agreement costs | (20) | |
| Forests – mainly additional forest management program expenses | 33 | |
| Public Safety and Solicitor General – additional emergency protection costs related to floods | 3 | |
| Interest costs – mainly reduced debt levels | (41) | |
| CRF expense changes | (38) | |
| Increased ministry expenditures offset by recoveries – primarily resulting from additional one-time federal funding | 61 | |
| SUCH sector and service delivery agencies: | | |
| School districts – revised spending estimates for additional staffing | 13 | |
| Post-secondary institutions – revised spending estimates | 42 | |
| Other service delivery agencies net spending changes | 32 | |
| Total expense changes | | 110 |
| Net change | | 525 |
| 2007/08 surplus – second Quarterly Report | | 2,125 |

Table A.3 2007/08 Revenue by Source

| (\$ millions) | Year-to-Date to September 30 | | | | Full Year | | | |
|--|------------------------------|---------------|--------------|---------------|---------------|---------------|--------------|---------------|
| | 2007/08 | | | Actual | 2007/08 | | | Actual |
| | Budget | Actual | Variance | 2006/07 | Budget | Forecast | Variance | 2006/07 |
| Taxation | | | | | | | | |
| Personal income | 3,180 | 3,224 | 44 | 3,056 | 6,389 | 6,636 | 247 | 6,905 |
| Corporate income | 643 | 661 | 18 | 652 | 1,395 | 2,193 | 798 | 1,538 |
| Social service | 2,485 | 2,584 | 99 | 2,407 | 4,890 | 5,090 | 200 | 4,714 |
| Fuel | 474 | 477 | 3 | 465 | 919 | 925 | 6 | 901 |
| Tobacco | 376 | 377 | 1 | 393 | 705 | 705 | - | 726 |
| Property | 922 | 890 | (32) | 855 | 1,863 | 1,794 | (69) | 1,732 |
| Property transfer | 500 | 620 | 120 | 526 | 904 | 1,050 | 146 | 914 |
| Other | 320 | 324 | 4 | 327 | 606 | 615 | 9 | 588 |
| | 8,900 | 9,157 | 257 | 8,681 | 17,671 | 19,008 | 1,337 | 18,018 |
| Natural resources | | | | | | | | |
| Natural gas royalties | 774 | 525 | (249) | 574 | 1,699 | 1,166 | (533) | 1,207 |
| Columbia River Treaty | 142 | 113 | (29) | 110 | 285 | 225 | (60) | 223 |
| Other energy, metals and minerals | 446 | 464 | 18 | 482 | 902 | 949 | 47 | 935 |
| Forests | 480 | 515 | 35 | 358 | 1,395 | 1,208 | (187) | 1,276 |
| Water and other resources | 167 | 160 | (7) | 174 | 347 | 326 | (21) | 341 |
| | 2,009 | 1,777 | (232) | 1,698 | 4,628 | 3,874 | (754) | 3,982 |
| Other revenue | | | | | | | | |
| Medical Services Plan premiums | 739 | 777 | 38 | 754 | 1,497 | 1,547 | 50 | 1,524 |
| Post-secondary education fees | 403 | 390 | (13) | 404 | 964 | 956 | (8) | 928 |
| Other health-care related fees | 110 | 114 | 4 | 107 | 219 | 226 | 7 | 216 |
| Motor vehicle licences and permits | 222 | 228 | 6 | 219 | 435 | 435 | - | 424 |
| Other fees and licences | 335 | 363 | 28 | 357 | 756 | 770 | 14 | 699 |
| Investment earnings | 375 | 464 | 89 | 483 | 914 | 886 | (28) | 1,032 |
| Sales of goods and services | 349 | 331 | (18) | 344 | 706 | 659 | (47) | 693 |
| Miscellaneous | 773 | 948 | 175 | 858 | 1,554 | 1,816 | 262 | 1,917 |
| | 3,306 | 3,615 | 309 | 3,526 | 7,045 | 7,295 | 250 | 7,433 |
| Contributions from the federal government | | | | | | | | |
| Health and social transfers | 2,322 | 2,484 | 162 | 2,153 | 4,644 | 4,851 | 207 | 4,473 |
| Equalization | - | - | - | 230 | - | - | - | 459 |
| Other federal contributions | 409 | 544 | 135 | 809 | 899 | 1,322 | 423 | 1,454 |
| | 2,731 | 3,028 | 297 | 3,192 | 5,543 | 6,173 | 630 | 6,386 |
| Taxpayer-supported programs and agencies | | | | | | | | |
| | 16,946 | 17,577 | 631 | 17,097 | 34,887 | 36,350 | 1,463 | 35,819 |
| Commercial Crown corporation net income | | | | | | | | |
| BC Hydro | 105 | 162 | 57 | 204 | 365 | 365 | - | 407 |
| Liquor Distribution Branch | 415 | 446 | 31 | 436 | 810 | 845 | 35 | 840 |
| BC Lotteries (net of payments to the federal government) | 488 | 522 | 34 | 500 | 1,024 | 1,026 | 2 | 1,011 |
| BCRC ¹ | 35 | 18 | (17) | 19 | 60 | 30 | (30) | 29 |
| ICBC ² | 119 | 402 | 283 | 90 | 225 | 537 | 312 | 381 |
| Other | 10 | 9 | (1) | 14 | 19 | 12 | (7) | 17 |
| | 1,172 | 1,559 | 387 | 1,263 | 2,503 | 2,815 | 312 | 2,685 |
| Total revenue | 18,118 | 19,136 | 1,018 | 18,360 | 37,390 | 39,165 | 1,775 | 38,504 |

¹ The year to date figures reflect BCRC's budget and results for the April to June period. The full year forecast represents BCRC's earnings during government's fiscal year. On BCRC's fiscal year basis (December), the outlook is – 2007 (budget): \$79 million; 2007 (forecast): \$30 million.

² The year to date figures reflect ICBC's budget and results for the April to June period. The full-year forecast represents ICBC's earnings during government's fiscal year. On ICBC's fiscal year basis (December), the outlook is – 2007 (budget): \$225 million; 2007 (forecast): \$584 million.

Table A.4 2007/08 Expense by Ministry, Program and Agency

| (\$ millions) | Year-to-Date to September 30 | | | | Full Year | | | |
|---|------------------------------|---------------|--------------|---------------|---------------|---------------|------------|---------------|
| | 2007/08 | | | Actual | 2007/08 | | | Actual |
| | Budget | Actual | Variance | 2006/07 | Budget | Forecast | Variance | 2006/07 |
| Advanced Education | 1,103 | 1,098 | (5) | 978 | 2,151 | 2,151 | - | 2,027 |
| Education | 2,813 | 2,789 | (24) | 2,630 | 5,494 | 5,494 | - | 5,312 |
| Health | 6,400 | 6,377 | (23) | 5,950 | 12,967 | 12,967 | - | 12,124 |
| Contingencies – Health Innovation Fund | 50 | 47 | (3) | - | 100 | 100 | - | - |
| Subtotal | 10,366 | 10,311 | (55) | 9,558 | 20,712 | 20,712 | - | 19,463 |
| Office of the Premier | 7 | 7 | - | 6 | 14 | 14 | - | 12 |
| Aboriginal Relations and Reconciliation | 24 | 22 | (2) | 17 | 55 | 55 | - | 43 |
| Agriculture and Lands | 77 | 74 | (3) | 59 | 270 | 257 | (13) | 238 |
| Attorney General | 256 | 251 | (5) | 245 | 520 | 520 | - | 485 |
| Children and Family Development | 932 | 908 | (24) | 853 | 1,867 | 1,867 | - | 1,852 |
| Community Services | 174 | 96 | (78) | 116 | 274 | 274 | - | 267 |
| Economic Development | 78 | 116 | 38 | 93 | 266 | 266 | - | 282 |
| Employment and Income Assistance | 730 | 696 | (34) | 638 | 1,480 | 1,480 | - | 1,358 |
| Energy, Mines and Petroleum Resources | 39 | 34 | (5) | 44 | 77 | 57 | (20) | 75 |
| Environment | 111 | 96 | (15) | 90 | 223 | 223 | - | 193 |
| Finance | 46 | 36 | (10) | 36 | 91 | 91 | - | 75 |
| Forests and Range | 506 | 594 | 88 | 549 | 1,078 | 1,183 | 105 | 1,000 |
| Labour and Citizen's Services | 47 | 29 | (18) | 20 | 97 | 97 | - | 210 |
| Public Safety and Solicitor General | 290 | 331 | 41 | 277 | 603 | 659 | 56 | 594 |
| Small Business and Revenue | 29 | 30 | 1 | 22 | 60 | 60 | - | 45 |
| Tourism, Sport and the Arts | 67 | 60 | (7) | 111 | 130 | 130 | - | 214 |
| Transportation | 439 | 448 | 9 | 411 | 882 | 882 | - | 842 |
| Total ministries and Office of the Premier | 14,218 | 14,139 | (79) | 13,145 | 28,699 | 28,827 | 128 | 27,248 |
| Legislation | 29 | 25 | (4) | 23 | 58 | 101 | 43 | 49 |
| Officers of the Legislature | 17 | 14 | (3) | 11 | 34 | 34 | - | 24 |
| BC Family Bonus | 9 | 9 | - | 13 | 17 | 17 | - | 23 |
| Management of public funds and debt | 279 | 248 | (31) | 298 | 558 | 494 | (64) | 544 |
| Contingencies – new programs | 4 | 4 | - | 22 | 360 | 360 | - | 53 |
| Contingencies – Negotiating Framework | - | - | - | - | 39 | 39 | - | - |
| Other appropriations | (8) | (13) | (5) | (21) | 10 | 10 | - | 4 |
| Consolidated revenue fund expense before | | | | | | | | |
| Negotiating Framework incentive payments . | 14,548 | 14,426 | (122) | 13,491 | 29,775 | 29,882 | 107 | 27,945 |
| Negotiating Framework incentive payments | - | - | - | 244 | - | - | - | 264 |
| Total consolidated revenue fund expense | 14,548 | 14,426 | (122) | 13,735 | 29,775 | 29,882 | 107 | 28,209 |
| Expenses recovered from external entities | 914 | 860 | (54) | 940 | 1,827 | 2,002 | 175 | 2,117 |
| Grants to service delivery agencies and other internal transfers: | | | | | | | | |
| School districts | (2,485) | (2,493) | (8) | (2,357) | (4,743) | (4,776) | (33) | (4,677) |
| Universities | (595) | (590) | 5 | (559) | (1,204) | (1,209) | (5) | (1,109) |
| Colleges, university colleges, and institutes ... | (418) | (438) | (20) | (404) | (808) | (857) | (49) | (842) |
| Health authorities and hospital societies | (4,264) | (4,432) | (168) | (4,113) | (8,605) | (8,815) | (210) | (8,132) |
| Children and family development agencies | (342) | (340) | 2 | (303) | (684) | (684) | - | (629) |
| Other service delivery agencies | (398) | (409) | (11) | (321) | (776) | (714) | 62 | (913) |
| | (8,502) | (8,702) | (200) | (8,057) | (16,820) | (17,055) | (235) | (16,302) |
| Service delivery agency expense: | | | | | | | | |
| School districts | 2,227 | 2,226 | (1) | 2,180 | 5,149 | 5,166 | 17 | 5,041 |
| Universities | 1,309 | 1,299 | (10) | 1,251 | 2,794 | 2,831 | 37 | 2,593 |
| Colleges, university colleges, and institutes ... | 644 | 666 | 22 | 624 | 1,353 | 1,390 | 37 | 1,310 |
| Health authorities and hospital societies | 4,626 | 4,721 | 95 | 4,402 | 9,345 | 9,519 | 174 | 8,892 |
| Children and family development agencies | 344 | 341 | (3) | 300 | 687 | 687 | - | 631 |
| Other service delivery agencies | 886 | 895 | 9 | 784 | 2,130 | 2,118 | (12) | 1,957 |
| | 10,036 | 10,148 | 112 | 9,541 | 21,458 | 21,711 | 253 | 20,424 |
| Net spending of service delivery agencies | 1,534 | 1,446 | (88) | 1,484 | 4,638 | 4,656 | 18 | 4,122 |
| Total taxpayer-supported expense | 16,996 | 16,732 | (264) | 16,159 | 36,240 | 36,540 | 300 | 34,448 |

Table A.5 2007/08 Expense By Function

| (\$ millions) | Year-to-Date to September 30 | | | | Full Year | | | |
|---|------------------------------|---------------|--------------|---------------|---------------|---------------|------------|---------------|
| | 2007/08 | | | Actual | 2007/08 | | | Actual |
| | Budget | Actual | Variance | 2006/07 | Budget | Forecast | Variance | 2006/07 |
| Health: | | | | | | | | |
| Medical Services Plan | 1,579 | 1,566 | (13) | 1,401 | 3,154 | 3,183 | 29 | 2,969 |
| Pharmacare | 506 | 473 | (33) | 457 | 1,023 | 1,023 | - | 914 |
| Regional services | 4,541 | 4,433 | (108) | 4,154 | 9,048 | 9,036 | (12) | 8,500 |
| Other healthcare expenses | 411 | 393 | (18) | 365 | 890 | 905 | 15 | 867 |
| Health Innovation Fund | - | - | - | - | 100 | 100 | - | - |
| | <u>7,037</u> | <u>6,865</u> | <u>(172)</u> | <u>6,377</u> | <u>14,215</u> | <u>14,247</u> | <u>32</u> | <u>13,250</u> |
| Education: | | | | | | | | |
| Elementary and secondary | 2,379 | 2,346 | (33) | 2,321 | 5,545 | 5,531 | (14) | 5,272 |
| Post-secondary | 2,010 | 2,002 | (8) | 2,116 | 4,123 | 4,200 | 77 | 4,088 |
| Other education expenses | 95 | 99 | 4 | 89 | 169 | 170 | 1 | 159 |
| | <u>4,484</u> | <u>4,447</u> | <u>(37)</u> | <u>4,526</u> | <u>9,837</u> | <u>9,901</u> | <u>64</u> | <u>9,519</u> |
| Social services: | | | | | | | | |
| Social assistance | 942 | 917 | (25) | 836 | 1,912 | 1,912 | - | 1,713 |
| Childcare services | 519 | 514 | (5) | 482 | 1,106 | 1,139 | 33 | 1,085 |
| Other social services expenses | 32 | 25 | (7) | 26 | 88 | 98 | 10 | 94 |
| | <u>1,493</u> | <u>1,456</u> | <u>(37)</u> | <u>1,344</u> | <u>3,106</u> | <u>3,149</u> | <u>43</u> | <u>2,892</u> |
| Protection of persons and property | 691 | 718 | 27 | 614 | 1,418 | 1,503 | 85 | 1,329 |
| Transportation | 601 | 609 | 8 | 552 | 1,351 | 1,365 | 14 | 1,251 |
| Natural resources and economic development | 695 | 755 | 60 | 734 | 1,566 | 1,730 | 164 | 1,663 |
| Other | 564 | 515 | (49) | 478 | 1,335 | 1,356 | 21 | 1,278 |
| Contingencies – new programs | 4 | 4 | - | 22 | 360 | 360 | - | - |
| Contingencies – Negotiating Framework | - | - | - | - | 39 | 39 | - | - |
| General government | 288 | 272 | (16) | 136 | 668 | 688 | 20 | 768 |
| Interest | 1,139 | 1,091 | (48) | 1,132 | 2,345 | 2,202 | (143) | 2,234 |
| Subtotal | 16,996 | 16,732 | (264) | 15,915 | 36,240 | 36,540 | 300 | 34,184 |
| Negotiating framework incentive payments | - | - | - | 244 | - | - | - | 264 |
| Total expense | 16,996 | 16,732 | (264) | 16,159 | 36,240 | 36,540 | 300 | 34,448 |

Table A.6 2007/08 Updated Revenue Assumptions

| Revenue Source and Assumptions (\$ millions unless otherwise specified) | Budget | 1 st Quarter Forecast | 2 nd Quarter Forecast |
|--|----------------|-------------------------------------|-------------------------------------|
| Personal income tax | \$6,389 | \$6,438 | \$6,636 |
| <u>Current calendar year assumptions</u> | | | |
| Personal income growth | 4.2% | 4.7% | 4.7% |
| Labour income growth | 4.1% | 5.6% | 5.6% |
| Tax base growth | 4.0% | 5.5% | 6.9% |
| Average tax yield | 5.69% | 5.64% | 5.70% |
| Current-year tax | \$6,276 | \$6,373 | \$6,526 |
| BC Tax Reduction | -\$111 | -\$110 | -\$114 |
| Refundable sales tax credit | -\$60 | -\$60 | -\$56 |
| Other tax credits and refunds | -\$87 | -\$92 | -\$97 |
| Policy neutral elasticity * | 1.3 | 1.5 | 1.8 |
| <u>Fiscal year assumptions</u> | | | |
| Prior-year adjustment | \$0 | -\$65 | -\$2 |
| Family Bonus offset | -\$17 | -\$17 | -\$17 |
| <u>Previous calendar year assumptions</u> | | 2006 Assumptions | |
| Personal income growth | 6.5% | 7.2% | 7.2% |
| Labour income growth | 7.8% | 8.2% | 8.2% |
| Tax base growth | 8.0% | 9.2% | 9.2% |
| Average 2006 tax yield | 5.89% | 5.84% | 5.89% |
| 2006 tax | \$6,240 | \$6,249 | \$6,312 |
| 2005 and previous years tax | \$325 | \$320 | \$290 |
| BC Tax Reduction | -\$109 | -\$108 | -\$111 |
| Refundable sales tax credit | -\$60 | -\$60 | -\$55 |
| Other tax credits and refunds | -\$75 | -\$80 | -\$85 |
| Policy neutral elasticity * | 1.8 | 1.7 | 1.8 |
| * Ratio of annual per cent change in current-year revenue to annual per cent change in personal income | | | |
| Corporate income tax | \$1,395 | \$1,772 | \$2,193 |
| <u>Components of revenue</u> | | | |
| Advance instalments (fiscal year) | \$1,267 | \$1,355 | \$1,482 |
| International Financial Activity Act refunds | -\$25 | -\$25 | -\$25 |
| Prior-year adjustment | \$153 | \$442 | \$736 |
| <u>Current year assumptions</u> | | | |
| National tax base (\$ billions) | \$168.2 | \$181.5 | \$194.1 |
| BC tax base growth | -1.8% | -6.7% | -11.4% |
| BC corporate profits growth | 5.2% | 5.0% | 5.0% |
| BC Tax credits | | | |
| Film, Television and Production Services | -\$130 | -\$150 | -\$150 |
| Scientific Research and Experimental Development | -\$125 | -\$150 | -\$150 |
| Other | -\$38 | -\$45 | -\$45 |
| <u>Previous calendar year assumptions</u> | | 2006 Assumptions | |
| National tax base growth | 5.4% | 12.6% | 20.3% |
| National corporate profits growth | 5.3% | 5.0% | 5.0% |
| BC tax base growth | 14.0% | 27.7% | 41.8% |
| BC corporate profits growth | 1.9% | 8.3% | 8.3% |
| Gross 2006 tax | \$1,671 | \$1,936 | \$2,177 |
| 2005 and previous years tax | \$0 | \$75 | \$150 |
| BC Tax credits | | | |
| Film, Television and Production Services | -\$120 | -\$140 | -\$140 |
| Scientific Research and Experimental Development | -\$115 | -\$140 | -\$140 |
| Other | -\$14 | -\$20 | -\$42 |
| 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 forecasts affect revenue in the succeeding year. For example, 2007/08 instalments from the federal government are based on BC's share of the national tax base for the 2005 tax year (assessed as of December 31, 2006) and a forecast of the 2007 national tax base. Cash adjustments for any under/over payments from the federal government in respect of 2006 will be received/paid on March 31, 2008. | | | |



Table A.6 2007/08 Updated Revenue Assumptions – Continued

| Revenue Source and Assumptions (\$ millions unless otherwise specified) | Budget | 1st Quarter Forecast | 2nd Quarter Forecast |
|--|----------------|--|--|
| Social service tax | \$4,890 | \$5,090 | \$5,090 |
| Consumer expenditure growth (calendar year) | 5.2% | 6.1% | 6.1% |
| Business investment growth (calendar year) | 8.4% | 8.3% | 8.3% |
| Other expenditure growth (calendar year) | 4.6% | 3.8% | 3.8% |
| Social service tax base growth (fiscal year) | 5.4% | 8.0% | 8.0% |
| <u>Components of revenue</u> | | | |
| Consolidated Revenue Fund | \$4,821 | \$5,021 | \$5,021 |
| BC Transportation Financing Authority | \$12 | \$12 | \$12 |
| Recoveries | \$57 | \$57 | \$57 |
| Fuel tax | \$919 | \$919 | \$925 |
| Real GDP growth (calendar year) | 3.1% | 3.0% | 3.0% |
| Gasoline and diesel assumed volume growth (calendar year) | 2.0% | 2.0% | 2.0% |
| <u>Components of revenue</u> | | | |
| Gasoline and diesel: | | | |
| Consolidated Revenue Fund | \$374 | \$360 | \$366 |
| BC Transit | \$8 | \$8 | \$8 |
| BC Transportation Financing Authority | \$419 | \$419 | \$425 |
| Other fuel sources | \$118 | \$132 | \$126 |
| Property tax | \$1,863 | \$1,794 | \$1,794 |
| BC Consumer Price Index (calendar year) | 2.0% | 2.0% | 2.0% |
| Housing Starts (calendar year) | 33,590 | 36,500 | 36,500 |
| Home Owner Grants (fiscal year) | -\$667 | -\$663 | -\$663 |
| <u>Components of revenue</u> | | | |
| Residential (net of home owner grants) | \$659 | \$602 | \$602 |
| Non-residential | \$992 | \$984 | \$984 |
| Rural Area | \$86 | \$88 | \$88 |
| Police | \$25 | \$19 | \$19 |
| BC Assessment Authority | \$66 | \$66 | \$66 |
| BC Transit | \$37 | \$37 | \$37 |
| Commissions | (\$2) | (\$2) | (\$2) |
| Other taxes | \$2,215 | \$2,320 | \$2,370 |
| <u>Calendar year growth</u> | | | |
| Population | 1.1% | 1.3% | 1.3% |
| BC Consumer Price Index | 2.0% | 2.0% | 2.0% |
| Housing Starts | -7.7% | 0.2% | 0.2% |
| Nominal GDP | 5.0% | 5.7% | 5.7% |
| Real GDP | 3.1% | 3.0% | 3.0% |
| <u>Components of revenue</u> | | | |
| Property transfer | \$904 | \$1,000 | \$1,050 |
| Tobacco | \$705 | \$705 | \$705 |
| Corporation capital | \$110 | \$105 | \$105 |
| Insurance premium | \$348 | \$362 | \$362 |
| Hotel room | | | |
| Consolidated Revenue Fund | \$116 | \$116 | \$116 |
| Tourism BC | \$32 | \$32 | \$32 |



Table A.6 2007/08 Updated Revenue Assumptions – Continued

| Revenue Source and Assumptions (\$ millions unless otherwise specified) | Budget | 1 st Quarter Forecast | 2 nd Quarter Forecast |
|---|----------------|-------------------------------------|-------------------------------------|
| Petroleum, natural gas, minerals and Columbia River | | | |
| Treaty export electricity sales | \$2,886 | \$2,487 | \$2,340 |
| Natural gas price (\$Cdn/gigajoule at plant inlet) | \$6.50 | \$5.94 | \$5.31 |
| Natural gas volumes (petajoules) | 1,116 | 1,066 | 1,084 |
| Annual per cent change | 1.9% | -1.3% | 0.4% |
| Oil price (\$US/bbl at Cushing, Ok) | \$62.41 | \$65.57 | \$71.54 |
| Auctioned land base (000 hectares) | 411 | 404 | 618 |
| Average bid price/hectare (\$) | \$1,000 | \$858 | \$1,172 |
| Metallurgical coal price (\$US/tonne, fob west coast) | \$90 | \$92 | \$92 |
| Copper price (\$US/lb) | \$2.55 | \$3.15 | \$3.38 |
| <u>Columbia River Treaty sales</u> | | | |
| Annual quantity set by treaty (million mega-watt hours) | 4.1 | 4.1 | 4.1 |
| Mid-Columbia electricity price (\$US/mega-watt hour) | \$65 | \$66 | \$57 |
| <u>Components of revenue</u> | | | |
| Natural gas royalties | \$1,699 | \$1,330 | \$1,166 |
| Bonus bids, permits and fees | \$500 | \$496 | \$544 |
| Petroleum royalties | \$112 | \$100 | \$107 |
| Columbia River Treaty electricity sales | \$285 | \$270 | \$225 |
| Coal | \$98 | \$93 | \$92 |
| Minerals, metals and other | \$161 | \$167 | \$175 |
| Oil and Gas Commission fees | \$31 | \$31 | \$31 |
| <u>Royalty programs and infrastructure credits</u> | | | |
| Summer drilling | -\$40 | -\$46 | -\$47 |
| Deep drilling | -\$56 | -\$59 | -\$60 |
| Marginal, low production and ultramarginal | -\$113 | -\$121 | -\$124 |
| Road and pipeline infrastructure | -\$54 | -\$47 | -\$49 |
| Implicit natural gas royalty rate | 23.4% | 21.0% | 20.3% |
| Royalty program (marginal, low production and ultra marginal drilling) adjustments reflect reduced royalty rates. | | | |
| Forests | \$1,395 | \$1,296 | \$1,208 |
| <u>Prices (calendar year average)</u> | | | |
| SPF 2x4 (\$US/1000 bd ft) | \$269 | \$265 | \$248 |
| Random Lengths Composite (\$US/thousand board feet) | \$304 | \$300 | \$283 |
| Hemlock (\$US/1000 bd ft) | \$600 | \$600 | \$598 |
| Pulp (\$US/tonne) | \$713 | \$776 | \$789 |
| Coastal log (\$Cdn/cubic metre, Vancouver Log Market, fiscal year) | \$86 | \$104 | \$104 |
| <u>Fiscal Year Trade Assumptions</u> | | | |
| Export tax rate | 12.7% | 12.5% | 15.0% |
| Lumber shipments and consumption (billion board feet) | | | |
| U.S. lumber consumption | 55.0 | 51.9 | 49.4 |
| BC surge trigger volumes | 11.7 | 11.0 | 10.5 |
| BC lumber exports to US | 9.8 | 9.7 | 9.4 |
| <u>Crown harvest volumes (million cubic metres)</u> | | | |
| Interior | 52.0 | 51.0 | 51.8 |
| Coast | 14.0 | 12.8 | 13.2 |
| Total | 66.0 | 63.8 | 65.0 |
| BC Timber Sales (included in above) | 14.3 | 12.5 | 12.5 |
| <u>Components of revenue</u> | | | |
| Timber Tenures | \$659 | \$644 | \$526 |
| BC Timber Sales | \$318 | \$303 | \$303 |
| Softwood Lumber Agreement 2006 border tax | \$376 | \$305 | \$337 |
| Logging tax and other | \$42 | \$44 | \$42 |



Table A.6 2007/08 Updated Revenue Assumptions – Continued

| Revenue Source and Assumptions (\$ millions unless otherwise specified) | Budget | 1st Quarter Forecast | 2nd Quarter Forecast |
|---|----------------|--|--|
| Health and social transfers | \$4,644 | \$4,870 | \$4,851 |
| <u>National Cash Transfers</u> | | | |
| Canada Health Transfer (CHT) excluding Trusts, September 2004 First Ministers' Meeting (FMM) and prior-year adjustments | \$13,750 | \$13,750 | \$13,750 |
| FMM | \$7,598 | \$7,598 | \$7,598 |
| Canada Social Transfer (CST) | \$8,450 | \$9,487 | \$9,487 |
| BC share of national population (June 1) | 13.24% | 13.27% | 13.27% |
| <u>BC health and social transfers revenue</u> | | | |
| CHT | \$2,045 | \$2,091 | \$2,070 |
| FMM | \$1,006 | \$1,008 | \$1,008 |
| Human Papillomavirus Immunization Trust | \$0 | \$40 | \$40 |
| Patient Wait Times Guarantee Trust | \$0 | \$76 | \$76 |
| 2003 Medical Equipment (\$200 million) | \$19 | \$16 | \$16 |
| FMM Capital Equipment Funding | \$4 | \$4 | \$4 |
| FMM Deferral (Base and Wait Times) | \$267 | \$267 | \$268 |
| CST | \$1,303 | \$1,311 | \$1,311 |
| 2007/08 Child care spaces funding (one time) | \$0 | \$33 | \$33 |
| Prior-year adjustments | \$0 | \$24 | \$25 |
| Service delivery agency direct revenue | \$4,430 | \$4,551 | \$4,680 |
| School districts | \$475 | \$484 | \$490 |
| Universities | \$1,661 | \$1,726 | \$1,752 |
| Colleges, university colleges, and institutes | \$550 | \$545 | \$546 |
| Health authorities and hospital societies | \$599 | \$650 | \$686 |
| Children and family development agencies | \$2 | \$2 | \$2 |
| BC Transportation Financing Authority | \$463 | \$466 | \$472 |
| Other service delivery agencies | \$680 | \$678 | \$732 |
| Commercial Crown corporation net income | \$2,503 | \$2,757 | \$2,815 |
| BC Hydro | \$365 | \$365 | \$365 |
| reservoir water inflows (per cent of normal) | 100% | 109% | 109% |
| (August 2006 forecast) | | | |
| mean gas price | 7.44 | 7.65 | 6.48 |
| (Sumas, \$US/Mmbtu – BC Hydro forecast based on NYMEX forward selling prices) | | | |
| electricity prices | 60.00 | 59.05 | 52.10 |
| (Mid-C, \$US/MWh) | | | |
| rate increases | 2.10% | 2.10% | 2.10% |
| ICBC (projected earnings during government's fiscal year) | \$225 | \$484 | \$537 |
| vehicle growth | +2.5% | +2.5% | +3.3% |
| claims cost trend | +6.3% | +4.0% | +4.5% |
| investment return (calculated on investment assets at cost) | 5.5% | 7.3% | 7.8% |
| loss ratio | 88.9% | 85.2% | 85.2% |

Table A.7 2007/08 Updated Expense Assumptions

| Ministry Programs and Assumptions (\$ millions unless otherwise specified) | Budget | 1 st Quarter Forecast | 2 nd Quarter Forecast |
|---|---------------|-------------------------------------|-------------------------------------|
| Advanced Education | 2,151 | 2,151 | 2,151 |
| Student spaces (# of FTEs) | 190,442 | 190,442 | 190,442 |
| Attorney General | 520 | 520 | 520 |
| New cases filed/processed (# for all courts) | 295,000 | 295,000 | 295,000 |
| Crown Proceeding Act | 28 | 28 | 28 |
| Agriculture and Lands | 270 | 270 | 257 |
| Crown Land Special Account | 80 | 80 | 67 |
| Children and Family Development | 1,867 | 1,867 | 1,867 |
| Average children-in-care caseload (#) | 9,150 | 9,200 | 9,200 |
| Adult Community Living: | | | |
| Residential Services: | | | |
| Average caseload (#) | 5,486 | 5,486 | 5,486 |
| Average cost per client (\$) | 65,300 | 65,300 | 65,300 |
| Day Programs: | | | |
| Average caseload (#) | 10,496 | 10,496 | 10,496 |
| Average cost per client (\$) | 17,000 | 17,000 | 17,000 |
| Education | 5,494 | 5,494 | 5,494 |
| Student enrolment (# of FTEs) | 549,304 | 549,304 | 549,304 |
| Energy, Mines and Petroleum Resources | 77 | 77 | 57 |
| Vancouver Island Gas Pipeline Assistance Agreement | 34 | 34 | 14 |
| Employment and Income Assistance | 1,480 | 1,480 | 1,480 |
| Average annual temporary assistance caseload (#) | 41,870 | 41,870 | 41,870 |
| Average annual disability assistance caseload (#) | 64,000 | 64,000 | 64,000 |
| Average annual total assistance caseload (#) | 105,870 | 105,870 | 105,870 |
| Forests and Range | 1,078 | 1,150 | 1,183 |
| Direct fire fighting | 55 | 113 | 117 |
| BC timber sales | 182 | 200 | 229 |
| Health | 12,967 | 12,967 | 12,967 |
| Pharmacare demand/cost growth (per cent of change) | 7.3% | 7.3% | 7.3% |
| Medical Services Plan (MSP) | 3,057 | 3,057 | 3,057 |
| Regional health sector funding | 8,407 | 8,047 | 8,047 |
| Public Safety and Solicitor General | 603 | 656 | 659 |
| Emergency Program Act | 16 | 53 | 56 |
| Management of public funds and debt | 558 | 535 | 494 |
| Interest rates for new provincial borrowing: | | | |
| Short-term | 4.24% | 4.80% | 4.49% |
| Long-term | 4.84% | 5.42% | 5.16% |
| CDN/US exchange rate (cents) | 87.1 | 94.7 | 96.5 |
| Service delivery agency net spending | 4,638 | 4,569 | 4,656 |
| School districts | 406 | 377 | 390 |
| Universities | 1,590 | 1,587 | 1,622 |
| Colleges, university colleges, and institutes | 545 | 526 | 533 |
| Health authorities and hospital societies | 740 | 707 | 704 |
| Children and family development agencies | 3 | 3 | 3 |
| BC Transportation Financing Authority | 720 | 719 | 705 |
| Other service delivery agencies | 634 | 650 | 699 |

Table A.8 2007/08 Service Delivery Agency Operating Results ¹

| (\$ millions) | Year-to-Date to September 30 | | | | Full Year | | | |
|--|------------------------------|---------|----------|---------|-----------|----------|----------|---------|
| | 2007/08 | | | Actual | 2007/08 | | | Actual |
| | Budget | Actual | Variance | 2006/07 | Budget | Forecast | Variance | 2006/07 |
| School districts | | | | | | | | |
| Revenue | 2,678 | 2,769 | 91 | 2,667 | 5,200 | 5,244 | 44 | 5,178 |
| Expense | (2,227) | (2,226) | 1 | (2,180) | (5,149) | (5,166) | (17) | (5,041) |
| | 451 | 543 | 92 | 487 | 51 | 78 | 27 | 137 |
| Accounting adjustments | 35 | 1 | (34) | (17) | 18 | 22 | 4 | 61 |
| Net impact | 486 | 544 | 58 | 470 | 69 | 100 | 31 | 198 |
| Universities | | | | | | | | |
| Revenue | 1,279 | 1,305 | 26 | 1,251 | 2,813 | 2,917 | 104 | 2,751 |
| Expense | (1,309) | (1,299) | 10 | (1,251) | (2,794) | (2,831) | (37) | (2,593) |
| | (30) | 6 | 36 | - | 19 | 86 | 67 | 158 |
| Accounting adjustments | 26 | 4 | (22) | 22 | 52 | 44 | (8) | 95 |
| Net impact | (4) | 10 | 14 | 22 | 71 | 130 | 59 | 253 |
| Colleges, university colleges, and institutes | | | | | | | | |
| Revenue | 670 | 729 | 59 | 673 | 1,343 | 1,403 | 60 | 1,378 |
| Expense | (644) | (666) | (22) | (624) | (1,353) | (1,390) | (37) | (1,310) |
| | 26 | 63 | 37 | 49 | (10) | 13 | 23 | 68 |
| Accounting adjustments | (9) | (3) | 6 | 9 | 15 | - | (15) | 22 |
| Net impact | 17 | 60 | 43 | 58 | 5 | 13 | 8 | 90 |
| Health authorities and hospital societies | | | | | | | | |
| Revenue | 4,567 | 4,734 | 167 | 4,400 | 9,226 | 9,475 | 249 | 8,857 |
| Expense | (4,626) | (4,721) | (95) | (4,402) | (9,345) | (9,519) | (174) | (8,892) |
| | (59) | 13 | 72 | (2) | (119) | (44) | 75 | (35) |
| Accounting adjustments | (8) | 6 | 14 | (11) | (22) | 26 | 48 | (88) |
| Net impact | (67) | 19 | 86 | (13) | (141) | (18) | 123 | (123) |
| Children and family development agencies | | | | | | | | |
| Revenue | 344 | 340 | (4) | 305 | 687 | 687 | - | 631 |
| Expense | (344) | (341) | 3 | (300) | (687) | (687) | - | (631) |
| | - | (1) | (1) | 5 | - | - | - | - |
| Accounting adjustments | - | 2 | 2 | - | (1) | (1) | - | 1 |
| Net impact | - | 1 | 1 | 5 | (1) | (1) | - | 1 |
| BC Transportation Financing Authority | | | | | | | | |
| Revenue | 315 | 332 | 17 | 307 | 609 | 617 | 8 | 618 |
| Expense | (266) | (276) | (10) | (259) | (720) | (705) | 15 | (585) |
| | 49 | 56 | 7 | 48 | (111) | (88) | 23 | 33 |
| Accounting adjustments | (73) | (74) | (1) | (82) | (145) | (145) | - | (155) |
| Net impact | (24) | (18) | 6 | (34) | (256) | (233) | 23 | (122) |



Table A.8 2007/08 Service Delivery Agency Operating Results ¹ – Continued

| (\$ millions) | Year-to-Date to September 30 | | | | Full Year | | | |
|---|------------------------------|------------|------------|-------------------|--------------|-----------|------------|-------------------|
| | 2007/08 | | | Actual 2006/07 | 2007/08 | | | Actual 2006/07 |
| | Budget | Actual | Variance | | Budget | Forecast | Variance | |
| British Columbia Housing Management Commission | | | | | | | | |
| Revenue | 208 | 198 | (10) | 150 | 505 | 505 | - | 497 |
| Expense | (208) | (198) | 10 | (148) | (505) | (505) | - | (497) |
| | - | - | - | 2 | - | - | - | - |
| Accounting adjustments | (2) | 51 | 53 | 11 | (4) | (5) | (1) | (15) |
| Net impact | (2) | 51 | 53 | 13 | (4) | (5) | (1) | (15) |
| British Columbia Transit | | | | | | | | |
| Revenue | 69 | 71 | 2 | 65 | 187 | 187 | - | 165 |
| Expense | (69) | (71) | (2) | (65) | (187) | (187) | - | (167) |
| | - | - | - | - | - | - | - | (2) |
| Accounting adjustments | (3) | (4) | (1) | 3 | (6) | (6) | - | - |
| Net impact | (3) | (4) | (1) | 3 | (6) | (6) | - | (2) |
| Tourism British Columbia | | | | | | | | |
| Revenue | 38 | 35 | (3) | 39 | 58 | 58 | - | 60 |
| Expense | (21) | (20) | 1 | (21) | (58) | (58) | - | (59) |
| | 17 | 15 | (2) | 18 | - | - | - | 1 |
| Accounting adjustments | - | (1) | (1) | 1 | - | - | - | 7 |
| Net impact | 17 | 14 | (3) | 19 | - | - | - | 8 |
| Vancouver Convention Centre Expansion Project Ltd. | | | | | | | | |
| Revenue | - | - | - | - | - | - | - | - |
| Expense | - | - | - | - | - | - | - | - |
| | - | - | - | - | - | - | - | - |
| Accounting adjustments | 18 | 17 | (1) | - | 36 | 40 | 4 | 107 |
| Net impact | 18 | 17 | (1) | - | 36 | 40 | 4 | 107 |
| Other service delivery agencies | | | | | | | | |
| Revenue | 336 | 397 | 61 | 292 | 671 | 706 | 35 | 722 |
| Expense | (330) | (330) | - | (279) | (660) | (663) | (3) | (649) |
| | 6 | 67 | 61 | 13 | 11 | 43 | 32 | 73 |
| Accounting adjustments | 4 | 29 | 25 | 64 | 8 | (39) | (47) | 48 |
| Net impact | 10 | 96 | 86 | 77 | 19 | 4 | (15) | 121 |
| Total net impact | 448 | 790 | 342 | 620 | (208) | 24 | 232 | 516 |
| Total service delivery agency operating results: | | | | | | | | |
| Revenue | 10,504 | 10,910 | 406 | 10,149 | 21,299 | 21,799 | 500 | 20,857 |
| Accounting adjustments | (20) | 30 | 50 | 2 | (66) | (79) | (13) | 73 |
| | 10,484 | 10,940 | 456 | 10,151 | 21,233 | 21,720 | 487 | 20,930 |
| Expense | (10,044) | (10,148) | (104) | (9,529) | (21,458) | (21,711) | (253) | (20,424) |
| Accounting adjustments | 8 | (2) | (10) | (2) | 17 | 15 | (2) | 10 |
| | (10,036) | (10,150) | (114) | (9,531) | (21,441) | (21,696) | (255) | (20,414) |
| Total net impact | 448 | 790 | 342 | 620 | (208) | 24 | 232 | 516 |

¹ Revenue and expense are shown as reported in the entity financial statements and service plans, before consolidation and accounting adjustments.

Table A.9 2007/08 Full-Time Equivalents (FTEs) ¹

| FTEs | 2007/08 | | | Actual 2006/07 |
|--|---------------|---------------|----------|-------------------|
| | Budget | Forecast | Variance | |
| Ministries and special offices (consolidated revenue fund) | 30,416 | 30,416 | - | 28,647 |
| Service delivery agencies ² | 3,975 | 3,975 | - | 3,917 |
| Total FTEs | 34,391 | 34,391 | - | 32,564 |

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 Service delivery agencies FTE amounts do not include SUCH sector staff employment.

Table A.10 2007/08 Capital Spending

| (\$ millions) | Year-to-Date to September 30 | | | | Full Year | | | |
|--|------------------------------|--------------|-------------|-------------------|--------------|--------------|------------|-------------------|
| | 2007/08 | | | Actual 2006/07 | 2007/08 | | | Actual 2006/07 |
| | Budget | Actual | Variance | | Budget | Forecast | Variance | |
| Taxpayer-supported | | | | | | | | |
| Education | | | | | | | | |
| Schools (K–12) | 206 | 205 | (1) | 182 | 365 | 391 | 26 | 322 |
| Post-secondary | 326 | 422 | 96 | 389 | 857 | 966 | 109 | 874 |
| Health | 282 | 251 | (31) | 310 | 819 | 978 | 159 | 760 |
| BC Transportation Financing Authority | 461 | 479 | 18 | 436 | 922 | 1,056 | 134 | 821 |
| Vancouver Convention Centre expansion project | 134 | 113 | (21) | 41 | 206 | 257 | 51 | 108 |
| Government operating (ministries) | 136 | 62 | (74) | 75 | 325 | 325 | - | 309 |
| Other ¹ | 38 | 69 | 31 | 44 | 75 | 128 | 53 | 172 |
| Capital spending contingencies | - | - | - | - | 295 | 105 | (190) | - |
| Total taxpayer-supported | 1,583 | 1,601 | 18 | 1,477 | 3,864 | 4,206 | 342 | 3,366 |
| Self-supported | | | | | | | | |
| BC Hydro | 523 | 491 | (32) | 356 | 995 | 1,063 | 68 | 807 |
| BC Transmission Corporation | 50 | 42 | (8) | 19 | 68 | 82 | 14 | 50 |
| Columbia River power projects ² | 16 | 6 | (10) | 11 | 30 | 29 | (1) | 19 |
| BC Rail | 33 | 12 | (21) | 8 | 66 | 20 | (46) | 19 |
| ICBC ³ | 7 | 8 | 1 | 11 | 30 | 24 | (6) | 22 |
| BC Lotteries | 42 | 21 | (21) | 15 | 85 | 91 | 6 | 44 |
| Liquor Distribution Branch | 8 | 4 | (4) | 5 | 18 | 18 | - | 22 |
| Total self-supported | 679 | 584 | (95) | 425 | 1,292 | 1,327 | 35 | 983 |
| Total capital spending | 2,262 | 2,185 | (77) | 1,902 | 5,156 | 5,533 | 377 | 4,349 |

¹ Includes BC Housing Management Commission, Provincial Rental Housing Corporation, Rapid Transit Project 2000, BC Transit and other service delivery agencies.

² Joint ventures of the Columbia Power Corporation and Columbia Basin Trust.

³ Includes ICBC Properties Ltd.

Table A.11 2007/08 Capital Expenditure Projects Greater Than \$50 million ¹**Note: Information in bold type denotes changes from the first Quarterly Report.**

| (\$ millions) | Anticipated Completion Date | Total Costs to Sept. 30, 2007 | Anticipated Costs to Complete | Total Anticipated Costs | Funding Sources | | |
|---|-----------------------------------|-------------------------------------|-------------------------------------|-------------------------------|--------------------------|-----------------------|------------|
| | | | | | Provincial Government | Federal Government | Other |
| Health facilities ² | | | | | | | |
| Vancouver General Hospital redevelopment project ... | Fall 2007 | 155 | 1 | 156 | 156 | - | - |
| Abbotsford Regional Hospital and Cancer Centre | Summer 2008 | 213 | 169 | 382 | 316 | - | 66 |
| Surrey Outpatient Facility | Spring 2010 | 3 | 148 | 151 | 151 | - | - |
| Victoria Royal Jubilee Hospital inpatient facility | Spring 2010 | 1 | 268 | 269 | 150 | - | 119 |
| Kelowna General Hospital Ambulatory Care Centre and Emergency Department | Summer 2010 | - | 119 | 119 | 61 | - | 58 |
| Vernon Jubilee Hospital Diagnostic and Treatment Building | Fall 2010 | - | 81 | 81 | 49 | - | 32 |
| Total health facilities | | 372 | 786 | 1,158 | 883 | - | 275 |
| Transportation ² | | | | | | | |
| Trans Canada Highway – 10 Mile (Park) Bridge | Winter 2007 | 116 | 14 | 130 | 68 | 62 | - |
| Pitt River Bridge | Spring 2010 | 63 | 135 | 198 | 108 | 90 | - |
| Sea-to-Sky Highway | Summer 2009 | 449 | 151 | 600 | 600 ³ | - | - |
| William R. Bennett Bridge | Summer 2008 | 113 | 31 | 144 | 144 | - | - |
| Total transportation | | 741 | 331 | 1,072 | 920 | 152 | - |
| Power generation | | | | | | | |
| BC Hydro | | | | | | | |
| – Mica Dam – generator stator replacement | Spring 2010 | 46 | 30 | 76 | 76 | - | - |
| – Peace Canyon Dam – generator stator replacement and rotor modification | Fall 2009 | 36 | 31 | 67 | 67 | - | - |
| – Coquitlam Dam seismic upgrade | Fall 2007 | 56 | 10 | 66 | 66 | - | - |
| – Aberfeldie redevelopment | Summer 2008 | 24 | 68 | 92 | 92 | - | - |
| – GM Shrum G2–G4 stator replacement | Summer 2010 | 26 | 40 | 66 | 66 | - | - |
| – Peace Canyon G1–G4 turbine overhaul | Fall 2009 | 18 | 37 | 55 | 55 | - | - |
| – Revelstoke Unit 5 project | Fall 2010 | 12 | 318 | 330 | 330 | - | - |
| BC Transmission Corporation | | | | | | | |
| – System control centre modernization project | Fall 2008 | 96 | 37 | 133 | 133 | - | - |
| Brilliant Expansion Power Corporation ⁴ | | | | | | | |
| – Brilliant Dam power expansion | Summer 2007 | 196 | 9 | 205 | 205 | - | - |
| Total power generation | | 510 | 580 | 1,090 | 1,090 | - | - |
| Other | | | | | | | |
| Vancouver Convention Centre expansion project ² | Summer 2009 | 408 | 475 | 883 | 541 | 222 | 120 |

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 Amounts shown include cost of construction, equipment, deferred development costs and land. Interest costs during construction are applied to the value of projects where direct borrowing is incurred.

³ Represents capital construction costs before the addition of enhanced rehabilitation and safety features. The total estimated outlays (including both capital construction and operating activities) for the project over 25 years is \$1.983 billion, which assumes 2 per cent inflation per year and maximum performance payments.

⁴ A joint venture of the Columbia Power Corporation and the Columbia Basin Trust.

Table A.12 2007/08 Provincial Debt ¹

| (\$ millions) | Balance March 31, 2007 | Balance at September 30, 2007 | | | | Forecast at March 31, 2008 | | | |
|---|------------------------------|-------------------------------|------------------|---------------|----------------|----------------------------|------------------|---------------|----------------|
| | | Net Change ² | Debt Outstanding | | Variance | Net Change ² | Debt Outstanding | | Variance |
| | | | Actual | Budget | | | Forecast | Budget | |
| Taxpayer-supported debt | | | | | | | | | |
| Provincial government operating .. | 9,505 | (763) | 8,742 | 9,464 | (722) | (1,607) | 7,898 | 9,125 | (1,227) |
| Other taxpayer-supported debt (mainly capital) | | | | | | | | | |
| Education ³ | | | | | | | | | |
| Schools | 4,724 | 76 | 4,800 | 4,847 | (47) | 241 | 4,965 | 4,961 | 4 |
| Post-secondary institutions | 2,909 | 84 | 2,993 | 3,203 | (210) | 422 | 3,331 | 3,438 | (107) |
| | <u>7,633</u> | <u>160</u> | <u>7,793</u> | <u>8,050</u> | <u>(257)</u> | <u>663</u> | <u>8,296</u> | <u>8,399</u> | <u>(103)</u> |
| Health ³ | 2,813 | 101 | 2,914 | 3,107 | (193) | 473 | 3,286 | 3,348 | (62) |
| Highways and public transit | | | | | | | | | |
| BC Transportation Financing | | | | | | | | | |
| Authority | 3,237 | 432 | 3,669 | 3,710 | (41) | 847 | 4,084 | 4,058 | 26 |
| Public transit | 892 | 21 | 913 | 908 | 5 | 20 | 912 | 916 | (4) |
| SkyTrain extension | 1,153 | - | 1,153 | 1,150 | 3 | - | 1,153 | 1,150 | 3 |
| BC Transit | 96 | (4) | 92 | 81 | 11 | (5) | 91 | 78 | 13 |
| | <u>5,378</u> | <u>449</u> | <u>5,827</u> | <u>5,849</u> | <u>(22)</u> | <u>862</u> | <u>6,240</u> | <u>6,202</u> | <u>38</u> |
| Other | | | | | | | | | |
| Social housing ⁴ | 216 | 4 | 220 | 290 | (70) | (3) | 213 | 272 | (59) |
| Homeowner Protection Office | 110 | 2 | 112 | 136 | (24) | 38 | 148 | 148 | - |
| Other ⁵ | 219 | 54 | 273 | 259 | 14 | 67 | 286 | 309 | (23) |
| | <u>545</u> | <u>60</u> | <u>605</u> | <u>685</u> | <u>(80)</u> | <u>102</u> | <u>647</u> | <u>729</u> | <u>(82)</u> |
| Total other taxpayer-supported ... | 16,369 | 770 | 17,139 | 17,691 | (552) | 2,100 | 18,469 | 18,678 | (209) |
| Total taxpayer-supported debt | 25,874 | 7 | 25,881 | 27,155 | (1,274) | 493 | 26,367 | 27,803 | (1,436) |
| Self-supported debt | | | | | | | | | |
| Commercial Crown corporations | | | | | | | | | |
| BC Hydro | 7,144 | 512 | 7,656 | 7,344 | 312 | 523 | 7,667 | 7,806 | (139) |
| BC Transmission Corporation | 37 | 40 | 77 | 71 | 6 | 58 | 95 | 95 | - |
| Columbia River power projects ⁶ | 236 | (6) | 230 | 315 | (85) | (12) | 224 | 381 | (157) |
| Liquor Distribution Branch | 3 | - | 3 | 3 | - | (1) | 2 | 2 | - |
| Post-secondary institutions' subsidiaries | | | | | | | | | |
| | 53 | - | 53 | - | 53 | - | 53 | - | 53 |
| | <u>7,473</u> | <u>546</u> | <u>8,019</u> | <u>7,733</u> | <u>286</u> | <u>568</u> | <u>8,041</u> | <u>8,284</u> | <u>(243)</u> |
| Warehouse borrowing program | - | 354 | 354 | - | 354 | - | - | - | - |
| Total self-supported debt | 7,473 | 900 | 8,373 | 7,733 | 640 | 568 | 8,041 | 8,284 | (243) |
| Forecast allowance | - | - | - | - | - | 500 | 500 | 750 | (250) |
| Total provincial debt | 33,347 | 907 | 34,254 | 34,888 | (634) | 1,561 | 34,908 | 36,837 | (1,929) |

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 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 debt and guarantees incurred by the government on behalf of school districts, universities, colleges and health authorities/hospital societies (SUCH), and debt directly incurred by these entities.

⁴ Includes the BC Housing Management Commission and the Provincial Rental Housing Corporation.

⁵ Includes debt of other taxpayer-supported Crown corporations and agencies and fiscal agency loans to local governments. Also includes student loan guarantees, loan guarantees to agricultural producers, guarantees under economic development and home mortgage assistance programs, and loan guarantee provisions.

⁶ Joint ventures of the Columbia Power Corporation and Columbia Basin Trust.

Table A.13 2007/08 Statement of Financial Position

| (\$ millions) | Actual March 31, 2007 | Year-to-Date September 30, 2007 | Forecast March 31, 2008 |
|--|-----------------------------|---------------------------------------|-------------------------------|
| Financial assets | | | |
| Cash and temporary investments | 3,367 | 4,309 | 3,516 |
| Other financial assets | 7,854 | 8,609 | 8,180 |
| Sinking funds | 3,798 | 3,737 | 3,789 |
| Investments in commercial Crown corporations: | | | |
| Retained earnings | 4,396 | 4,910 | 5,047 |
| Recoverable capital loans | 7,170 | 7,733 | 7,761 |
| | <u>11,566</u> | <u>12,643</u> | <u>12,808</u> |
| | 26,585 | 29,298 | 28,293 |
| Liabilities | | | |
| Accounts payable and accrued liabilities | 7,094 | 6,307 | 7,514 |
| Deferred revenue | 5,986 | 7,075 | 6,256 |
| Debt: | | | |
| Taxpayer-supported debt | 25,874 | 25,881 | 26,367 |
| Self-supported debt | 7,473 | 8,373 | 8,041 |
| Forecast allowance | - | - | 500 |
| Total provincial debt | 33,347 | 34,254 | 34,908 |
| Add: debt offset by sinking funds | 3,798 | 3,737 | 3,789 |
| Less: guarantees and non-guaranteed debt | (407) | (402) | (422) |
| Financial statement debt | 36,738 | 37,589 | 38,275 |
| | <u>49,818</u> | <u>50,971</u> | <u>52,045</u> |
| Net liabilities | (23,233) | (21,673) | (23,752) |
| Capital and other non-financial assets | | | |
| Tangible capital assets | 26,626 | 27,370 | 29,275 |
| Other non-financial assets | 943 | 966 | 938 |
| | <u>27,569</u> | <u>28,336</u> | <u>30,213</u> |
| Accumulated surplus (deficit) | 4,336 | 6,663 | 6,461 |

Changes in Financial Position

| (\$ millions) | Year-to-Date September 30, 2007 | Forecast March 31, 2008 |
|---|---------------------------------------|-------------------------------|
| (Increase) decrease in accumulated surplus | (2,327) | (2,125) |
| Change in comprehensive income and other equity adjustments | (77) | - |
| Surplus for the period | (2,404) | (2,125) |
| Capital and other non-financial asset changes: | | |
| Increase in taxpayer-supported capital investments | 1,601 | 4,206 |
| Less: amortization and other accounting changes | (857) | (1,557) |
| Change in net capital assets | 744 | 2,649 |
| Increase (decrease) in other non-financial assets | 23 | (5) |
| | <u>767</u> | <u>2,644</u> |
| Increase (decrease) in net liabilities | (1,637) | 519 |
| Investment and working capital changes: | | |
| Increase (reduction) in cash and temporary investments | 942 | 149 |
| Increase in total investment in commercial Crown corporations: | | |
| Increase (decrease) in retained earnings | 514 | 651 |
| Less: Change in comprehensive income | 77 | - |
| Self-supported capital investments | 584 | 1,327 |
| Less: loan repayments and other accounting changes | 56 | (736) |
| | <u>1,154</u> | <u>1,242</u> |
| Other working capital changes | 392 | (373) |
| | <u>2,488</u> | <u>1,018</u> |
| Increase (decrease) in financial statement debt | 851 | 1,537 |
| (Increase) decrease in sinking fund debt | 61 | 9 |
| Increase (decrease) in guarantees and non-guaranteed debt | (5) | 15 |
| Increase (decrease) in total provincial debt | 907 | 1,561 |

