Chapter 1: THREE-YEAR FISCAL PLAN

1.1 — Overview

TABLE 1.1
SUMMARY ACCOUNTS OPERATING RESULTS

	2001/02 July 30 Update[1]	2001/02 Revised Forecast[1]	Budget Estimate 2002/03	Plan 2003/04	Plan 2004/05	Change[2] from 2001/02
	($ millions)					(per cent)
Consolidated revenue fund (CRF):						
Revenue	22,924	22,853	22,038	23,159	24,325	6.4
Expenditure	(25,102)	(25,637)	(25,556)	(24,935)	(24,128)	(3.9)
CRF balance	(2,178)	(2,784)	(3,518)	(1,776)	197	
Crown corporations and agencies:						
Taxpayer-supported	(226)	(94)	(206)	(198)	(212)	
Self-supported commercial	66	(480)	74	174	115	
Total net contribution (loss) of Crown corporations and agencies	(160)	(574)	(132)	(24)	(97)	
Subtotal	(2,338)	(3,358)	(3,650)	(1,800)	100	
Expanded government entity[3]	—	—	—	—	(100)	
Forecast allowance	(500)	(70)	(750)	—	—	
Deficit before joint trusteeship	(2,838)	(3,428)	(4,400)	(1,800)	—	
Joint trusteeship (one-time adjustment)	1,338	1,464	—	—	—	
Deficit	(1,500)	(1,964)	(4,400)	(1,800)	—	

[1] July 30 Update refers to the *Economic and Fiscal Update* presented July 30, 2001. In order to be consistent with the presentation used for 2002/03, figures have been restated to reflect the dissolution of Forest Renewal BC. The effect of this change increased CRF revenue and expenditure with an offsetting change in the Crown corporation sector. There is no effect on the summary accounts deficit.
[2] Revenue change between the 2004/05 plan and the 2001/02 revised forecast. Expenditure change between the 2004/05 plan and the July 30 Update.
[3] The government has a legislative requirement to comply with generally accepted accounting principles (GAAP) by 2004/05. For the purposes of this presentation, an estimate is provided of the potential impact of including elements of school districts, universities, colleges and health authorities as suggested by GAAP.

This is the government's first three-year fiscal plan since assuming office in June 2001. It continues the strategy started last year to revitalize the economy and it addresses a legislative requirement to balance the budget by 2004/05.

The plan is designed to bring government expenditures into line with revenues over the next three years through planned, phased spending reductions and measures to stimulate the economy. It is based on the current economic forecast and is built on the three-year service plans of ministries and Crown corporations released with this budget.

A provision has been included in 2004/05 in order to meet a legislative reporting requirement to expand the government's bottom-line to include elements of the larger public sector under generally accepted accounting principles.

The fiscal plan will be achieved through two strategies:

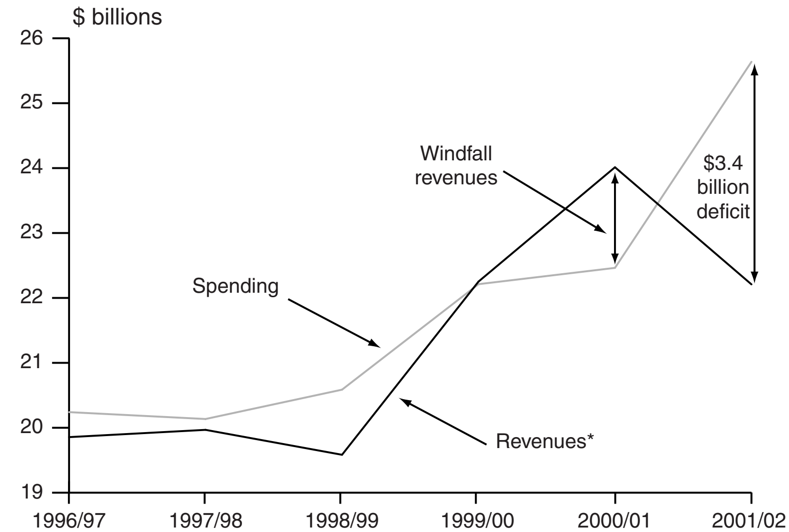
- building a strong and vibrant economy; and
- eliminating the deficit.

Why BC Has a Fiscal Problem

A structural fiscal imbalance occurs when underlying annual revenue growth created through the economy (removing the effect of short-term revenue spikes and windfalls, or recessionary shocks) cannot keep pace with ongoing annual spending.

The following chart shows that the surplus in 2000/01 was mainly the result of windfall revenue caused by a spike in energy prices. However, it also shows that the $2.3-billion budgeted spending increase in 2001/02 is unsustainable now that the energy spike has passed. This has resulted in a deficit of $3.4 billion for 2001/02.

Chart 1.1



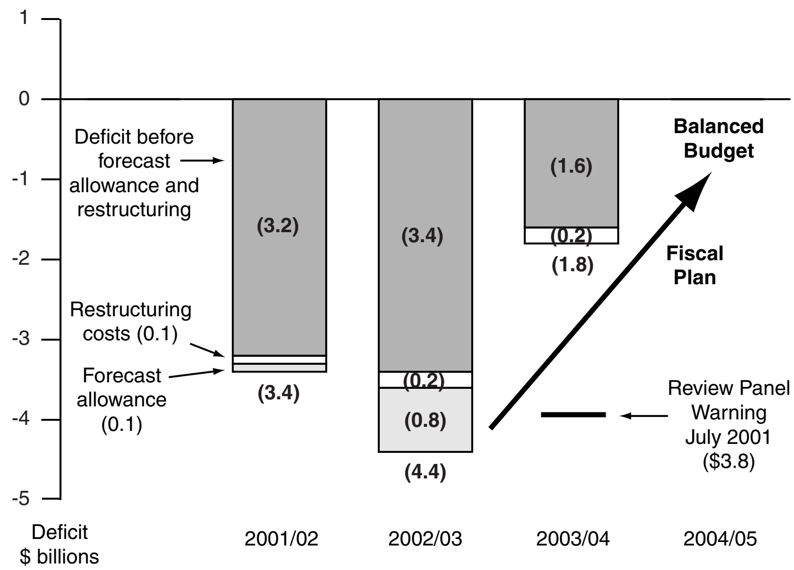
*Revenues include Crown corporations and forecast allowance; excludes one-time pension changes

The erosion of BC's tax and investment climate has contributed to this deficit. Over the last decade, BC's economy has lagged other provinces, its tax rates have become uncompetitive, investment has eroded and many people and businesses have left for other provinces.

In July 2001, the Fiscal Review Panel concluded that the structural fiscal imbalance created over previous years was not sustainable and could pose a serious threat to the future financial health of the province. The government was warned that without changes, it could face a deficit of nearly $4 billion by 2003/04. This status quo was unacceptable to the government.

The fiscal plan addresses this problem by reducing the deficit to $1.8 billion in 2003/04 — below the Fiscal Review Panel's projection — and restoring fiscal balance by 2004/05.

Chart 1.2



To reach a balanced budget however, the deficit will temporarily increase to $4.4 billion in 2002/03. This will allow the government to protect health and education funding despite weakened economic and revenue growth, while continuing to invest in measures necessary to restore economic competitiveness. It also provides time for ministries to complete the restructuring set out in their service plans.

The 2002/03 forecast includes a $750-million forecast allowance and it also recognizes $230 million of restructuring costs needed to prepare the way for balancing the budget in 2004/05.

Many of the economic and fiscal problems today have evolved over the last decade. Likewise, the economic change necessary to restore prosperity will take time and can't happen overnight.

The three-year fiscal plan assumes that with a recovery from the current economic slowdown, the combined positive effects of the strategies to build a strong and vibrant economy and eliminate the deficit will help to ensure that BC's economic and financial prosperity will continue well beyond 2004/05.

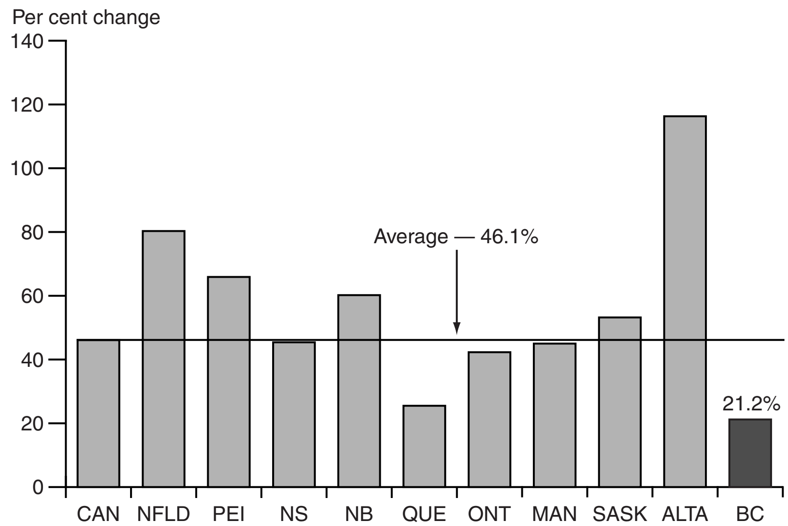
1.2 — Building a Strong and Vibrant Economy

The Challenge

BC's economy suffered during the 1990s. A burdensome tax and regulatory environment, coupled with an untenable fiscal situation, seriously undermined investor and consumer confidence. The results speak for themselves:

- Business investment growth was among the worst in the country.

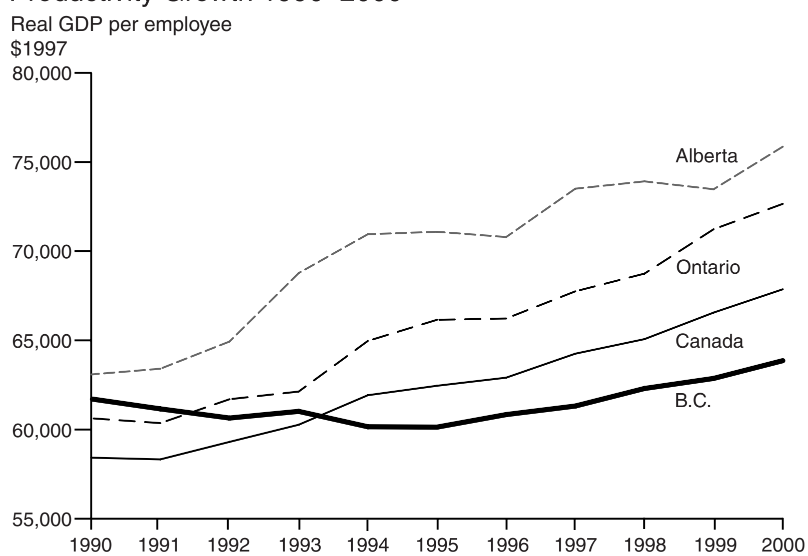
Chart 1.3
Real Private Capital Formation 1990–2000



Source: Statistics Canada

- BC's productivity growth lagged the rest of Canada.

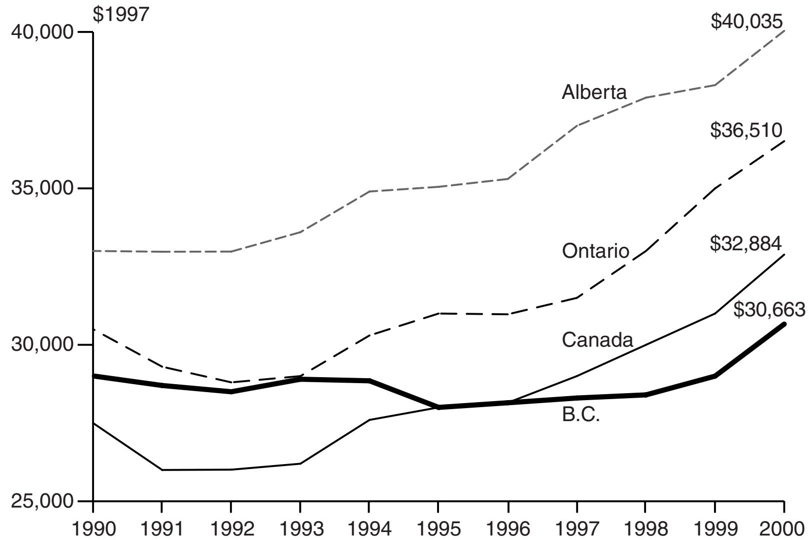
Chart 1.4
Productivity Growth 1990–2000



Source: Statistics Canada

- Real GDP per capita was flat and ended the decade below the Canadian average.

Chart 1.5
Real GDP Per Person 1990–2000



Source: Statistics Canada

- Many people left the province for other parts of Canada.

The challenge is to create an economic environment that fosters confidence, innovation and productivity growth. Successfully meeting this challenge will ultimately lead to greater prosperity for all British Columbians. It will also help the government to meet its fiscal objectives and fund the health and education programs that British Columbians need by generating stable and sustainable revenues.

The *British Columbia Government Strategic Plan 2002/03 – 2004/05* sets ambitious goals for improving the economic situation in the province in terms of increased investment, more job opportunities and higher incomes. The key elements of the government's three-year fiscal plan to achieve these targets are summarized below.

Overall approach

The government's overall strategy for restoring confidence in the economy and creating a stable and growing revenue base has four essential elements:

- A stable, competitive policy framework including:
  - — eliminating the deficit by 2004/05;
  - — a competitive, efficient tax and royalty system;

— flexible, responsive labour policy that is fair to workers and employers;

— improved certainty of land access and tenure; and

— reduced regulatory burden and streamlined approval processes.

- Ambitious, but achievable sector strategies to lay the foundation for increased investment and productivity growth in key sectors of the economy.
- Environmental policy designed to achieve its goals as efficiently as possible with an emphasis on performance-based regulation.
- An education system that offers relevant, affordable education and training programs for British Columbians of all ages and needs.

Stable and Competitive Policy Framework

Personal Income Tax Cut

On June 6, 2001, as a first step toward renewing confidence in BC's economic future, the government cut personal income taxes by 25 per cent.
British Columbians now have the lowest personal income tax rates in the country for the bottom two tax brackets.

The cut also lowered the top marginal income tax rate from the highest in Canada to the second lowest. This addressed a significant competitiveness issue that encouraged tax avoidance and undermined the province's ability to attract and retain the highly skilled people that are essential to securing BC's economic future.

The vehicle surtax threshold was also raised to $47,000 from $32,000. In total, the personal tax cuts will return more than $1.5 billion to taxpayers in 2002/03.

A Competitive Tax Structure for Business

In the July 30 Update the government unveiled an aggressive timetable for restoring BC's business tax competitiveness. Key tax changes included:

- reducing the corporate income tax rate to 13.5 per cent from 16.5 per cent;
- eliminating the corporation capital tax on general corporations in two stages;
- introducing a new provincial sales tax exemption for production machinery and equipment; and
- eliminating the tax on bunker fuel and reducing the domestic jet fuel tax rate by 3 cents per litre.

In total these cuts will lower the business tax burden by more than $700 million annually by 2003/04.

The *Budget and Fiscal Plan* includes new measures to improve competitiveness, including increasing the threshold for the small business income tax rate to $300,000 and expanding the definition of parts that are eligible for exemption from provincial sales tax. These measures will return an additional $25 million to business in 2002/03.

In 2002/03 the personal and business tax cuts will total more than $2.1 billion. The increases to MSP premiums, the provincial sales tax rate and tobacco taxes to help fund health compensation pressures will total about $760 million. Thus the net tax cut in 2002/03 will be almost $1.4 billion.

In addition, the government will strive to ensure that the corporate income tax rate remains competitive.

Deregulation

The government has launched a comprehensive deregulation initiative designed to reduce regulations by one-third over three years.

Each ministry is preparing a three-year deregulation plan under the guidance of the Minister of State for Deregulation. At the same time, business stakeholders are participating in a red-tape-reduction task force to identify unnecessary and burdensome regulations.

This process is the most comprehensive of any deregulation initiative in North America and progress has already been made by:

- restoring the open tendering process;
- eliminating the Highway Constructors Ltd. requirements for government highway and silviculture projects; and
- repealing the fixed-wage law.

Other initiatives that are underway include:

- developing single-window permitting agencies;
- reviewing the Workers' Compensation Board (WCB) to ensure it operates as efficiently as possible; and
- examining current employment standards with a focus on improving flexibility.

Eliminating Business Subsidies

Business subsidies that provide an economic advantage to firms on a selective basis tend to undermine investor confidence. Subsidies create uncertainty because successful investors can never be sure whether the government will step in and offer artificial support for their less adept competitors.

In August 2001, the government established a framework for reviewing all ministry programs to determine which ones constituted business subsidies. The first phase of this review has now been completed and the business subsidies identified through this process have been eliminated.

The process of identifying and removing additional business subsidies is continuing.

Infrastructure

The government is committed to a modern, efficient transportation and communications infrastructure based on innovative partnerships with the private sector.

The emphasis will be on developing public-private partnerships (P3s) that encourage innovative and flexible approaches to supplying the infrastructure and services needed for an efficient modern economy. Attracting private sector participation in the development of BC's infrastructure reflects the government's commitment to achieve the maximum benefit for every tax dollar invested.

This new approach should also allow BC to develop a world class capability in this area that can be exported to other jurisdictions.

Strategies for Key Sectors

Forestry

BC's forest industry will remain an important nucleus of the provincial economy, particularly in areas outside the lower mainland. In the short term, the softwood lumber dispute with the U.S. poses a major risk to the health of the industry in BC. However, the government is introducing several initiatives to place the industry on a more secure and competitive footing for the future including:

- moving toward a market-based stumpage system to ensure that stumpage payments reflect the real value of the resource;
- introducing tenure reforms to increase flexibility for forest companies to adapt to changing market conditions;
- establishing a working forest base to provide greater certainty for the future of the industry;
- streamlining the Forest Practices Code to establish a results-based regulatory environment that will ensure sustainability and accountability; and
- over time, working to increase the annual allowable cut based on improved management of the resource.

Energy Development

The energy sector in BC is poised to assume an even more important role in the provincial economy. Provincial revenues from electricity as well as oil and gas have shown strong growth in recent years and there is considerable potential for future expansion.

The government established a task force to initiate a comprehensive review of BC's energy policy. An interim report was submitted in November 2001. On the electricity side, the report calls for:

- restructuring BC Hydro based on market principles;
- a gradual move to market prices for electricity; and
- the private sector to construct new generation facilities in the province.

It also advocates enhanced conservation, development of alternative energy sources and the consideration of coal as a possible source of electrical generation capacity. The Energy Policy Task Force is currently finalizing its report based on comments received from interested parties. The final report is due by March 15, 2002. The government will consider the recommendations with a view to securing the long-term future of the energy sector.

BC's oil and gas sector, in particular, is an emerging star of the provincial economy. It demonstrated significant growth during the 1990s. The government is working to accelerate the development of the industry through initiatives such as:

- a new royalty and regulatory structure to encourage drilling and production of coalbed methane;
- extending the date to which preferential Base 9 royalty rates apply until December 31, 2003;
- strategic infrastructure projects to improve land access; and
- the introduction of a single-window permitting process.

In January 2002, a report on the offshore oil and gas moratorium was submitted to the Minister of Energy and Mines by a scientific panel appointed by government. The government will consider the opportunities for offshore development based on the scientific evidence and the potential opportunities for northern coastal communities.

Mining

BC's mining sector has suffered through a turbulent ten years. In part this was a result of relatively low commodity prices, but it was also due to an uncompetitive tax regime, uncertain access to the resource and a complicated and often indeterminate environmental review process. However, the long-term prospects for the industry are bright.

The province has extensive mineral potential and the recent tax changes have improved competitiveness considerably. The government is committed to improving the certainty of access to the resource by adopting "go" or "no go" designations for exploration and development. Regulatory requirements will be streamlined while ensuring that high environmental standards are maintained. The province will also work with the mining industry to increase economic opportunities for First Nations.

With these changes and with some recovery in prices, there are realistic prospects for several new mines to open in the province during the next few years.

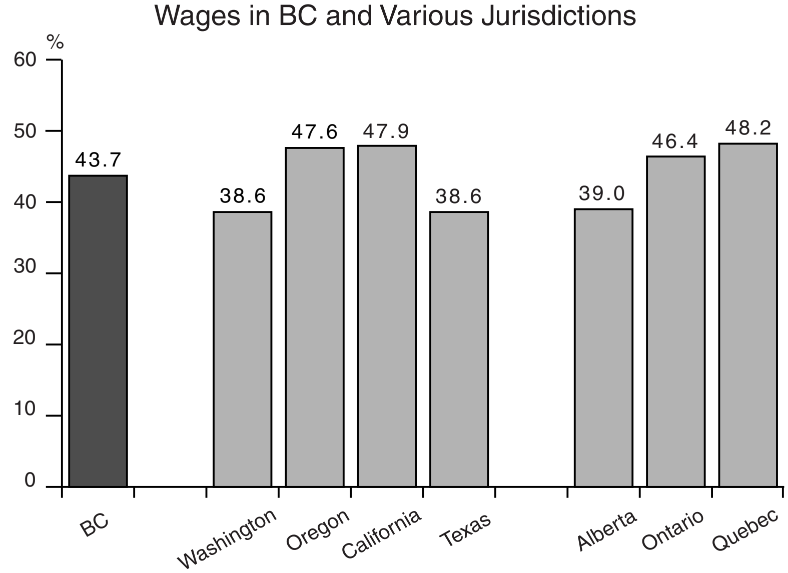
High-Tech

The Premier's Technology Council believes that BC can become one of the leading technology centres in the world. Based on a realizable annual growth rate of 10 per cent, high-tech could become the largest industrial sector in the province within ten years.

The government has already taken several steps toward achieving this growth target, including:

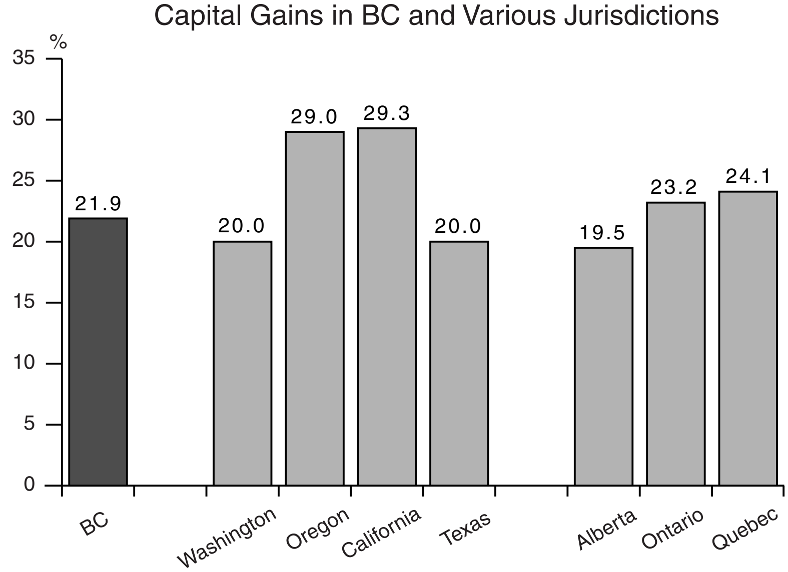
- cutting the top marginal personal income tax rate to the second lowest in Canada. This will be key to attracting and retaining the highly skilled workers and entrepreneurs needed for the high-tech industry;

Chart 1.6 Top Marginal Personal Income Tax Rate on Wages in BC and Various Jurisdictions



- improving the tax treatment of stock option plans that many high-tech companies rely on to attract the people they need for success. The cut in provincial tax rates combined with federal tax changes has significantly reduced the tax paid on stock options and capital gains in the province. The government will work with the Premier's Technology Council to ensure that British Columbia is competitive in this area;

Chart 1.7 Top Marginal Personal Income Tax Rate on Capital Gains in BC and Various Jurisdictions



- BC's 10-per-cent research and development tax credit enhances Canada's already favourable tax regime for research and development activities;
- phasing out the corporation capital tax for general corporations will reduce the fixed costs of operating a high-tech manufacturing plant in BC; and
- the new provincial sales tax exemption for production machinery and equipment will assist BC's high-tech manufacturing and software development sectors.

Beyond these substantial steps, the government is committed to additional initiatives to encourage the sector, including:

- doubling the number of computing science and electrical engineering graduates from BC's universities and colleges;
- establishing 20 leading-edge research chairs in partnership with the private sector and post-secondary institutions; and
- adopting new strategies to attract senior management to BC.

Film and Television

Through a combination of carefully designed tax incentives, a skilled work force, excellent facilities and an attractive exchange rate, BC's film and television industry has blossomed in recent years. There is considerable potential for further expansion.

In particular, opportunities exist in animation and new media, and over the next several months the government will consider the possibility of introducing changes to provide additional encouragement in these exciting new areas.

Tourism

Tourism has been a mainstay of the provincial economy in recent years and has been a source of growth throughout the province. The government is committed to doubling tourism's contribution to BC's economy through initiatives such as:

- streamlining decisions regarding access to Crown land;
- encouraging the cruise-ship industry through expanded facilities and removing the tax on bunker fuel;
- creating more flexible working arrangements;
- aggressively championing Vancouver's bid for the 2010 Olympic Winter Games; and
- promoting private sector participation in the expanded Vancouver Convention and Exhibition Centre and the Sea-to-Sky Highway.

Aquaculture and Agriculture

In 1995, a moratorium was imposed on new marine salmon farm tenures. An Environmental Assessment Office scientific review, completed in 1997, concluded that, as practised, the risks of salmon aquaculture to the environment were low. The review made 49 recommendations that would further reduce risks of salmon aquaculture, all of which were accepted in full by government and industry.

Many of the recommendations have already been adopted. Improved and new policies for fish escapes, fish health, pen siting and relocation, fish waste, and research and development have been developed and will be finalized by April 30, 2002.

New comprehensive environmental standards and practices will allow for the managed expansion of the salmon aquaculture industry in BC beginning April 30, 2002.

BC farmers will benefit from a more regionally responsive Agricultural Land Commission. In addition, government will gradually phase-out subsidies to generate greater competitiveness, self-regulation and independence in agriculture.

To encourage additional research and development in agriculture, BC will mirror the recent federal announcement to make farm producers who contribute funds for research and development eligible for investment tax credits.

Small Business

In addition to increasing the threshold for the small business income tax rate, the small business community will benefit from many of the government's earlier tax cuts.

Small businesses have consistently argued that the cost of interacting with government is too high. The Premier will lead a series of roundtables on small business to seek advice on how to reduce these costs, remove barriers to expansion and create new opportunities for growth. Many of the deregulation initiatives such as the review of the WCB and employment standards will be of particular benefit to small businesses. In addition, the introduction of a new *Company Act* will provide a modern operating framework for businesses of all types.

Marketing the BC Economy

Realizing the full economic benefits of this comprehensive and far-reaching strategy will depend on ensuring the world is aware of BC's new economic vitality.

Other jurisdictions have had considerable success in establishing a "brand" that reinforces their economic vision. The government is currently developing a similar campaign to market BC as an attractive place to work, live and invest.

Sustainable Environmental Policies

The government places a high priority on encouraging a thriving private sector economy that creates high-paying jobs, maintains high environmental standards and respects the strong environmental values of British Columbians.

BC's economy is based both on the direct use of natural resources (for example, by forestry) and on activities (such as tourism) that depend strongly on natural diversity and environmental quality.

Prudent management and protection of the natural environment will help ensure that the benefits we enjoy today will be available for our children and grandchildren in the future.

The government is committed to the following environmental principles as it works to develop a vibrant economy that supports the social and environmental values of British Columbians:

- Appropriate environmental standards — set appropriate environmental standards that ensure standards are met and that provide incentives for improved performance.
- Sustainability — manage our natural resources to ensure that the needs of present and future generations of British Columbians are met by balancing economic, environmental and social values.
- Integrated resource management — minimize conflicts over the use of land and resources through co-ordinated decision-making that takes all resource values into account.
- Science-based decision-making — use the best available knowledge and technology to support consistent decision-making.
- Shared stewardship — exercise our stewardship responsibilities in a consultative and collaborative manner, to address diverse interests and build strong governmental, industrial and environmental partnerships.
- Public and client consultation — provide opportunities to contribute to decision-making and improvement of service quality.
- Intergovernmental harmonization — partner with all levels of government to harmonize policies, legislation and standards and establish clear accountability for results.

Educational Excellence

In the new economy, BC's economic prosperity will depend on a high quality, relevant education system that equips students with the skills and knowledge they need. To achieve this goal, the government is refocusing the education system to increase the emphasis on students, to increase accountability and to make the system more flexible and responsive.

Key initiatives include:

- creating more choice for students through enhanced on-line learning and expanded transferability of credits between institutions;
- increasing the number of high-tech graduates, particularly in computer science and electrical and computer engineering;
- expanding industry training in areas such as general trades training and new apprenticeships;
- rationalizing student financial aid to make it more coherent and understandable;
- removing the tuition freeze to increase autonomy and allow institutions to meet the increased demand for high quality programs;
- changing the funding formula for post-secondary institutions to increase accountability, and to focus on results; and
- forging closer links between education and the economy through professional interchanges and leading edge research chairs funded in partnership with the private sector.

Summary

Although BC's economy suffered through a difficult decade in the 1990s, the province has all the fundamental characteristics needed for economic success. The government's economic strategy is designed to unleash this underlying potential. The four key elements to building a strong and innovative economy and securing BC's economic future are:

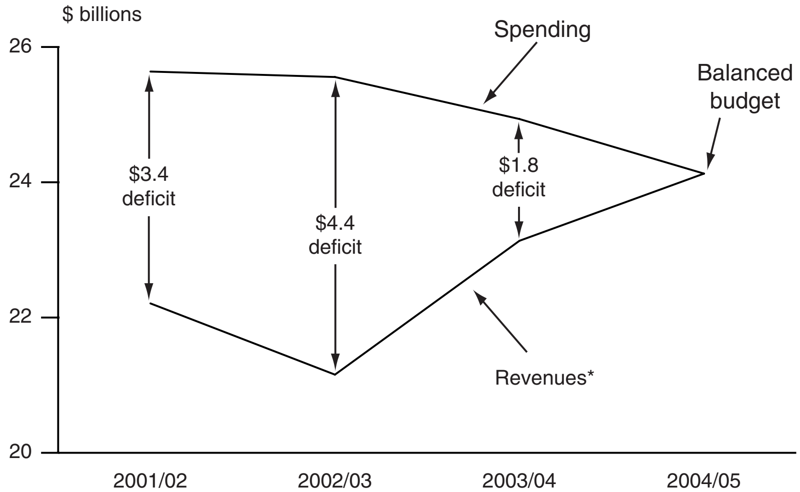
- a competitive policy framework;
- ambitious but achievable sector strategies;
- efficient and sustainable environmental policies; and
- a relevant, affordable education system.

The government is well on the way to achieving its goals in these four areas and is committed to meeting these strategic requirements into the future.

The result should be increased innovation and investment in the economy, more and higher paying jobs, a stable and sustainable revenue base for funding government programs and a bright economic future for BC.

1.3 — Eliminating the Deficit

Chart 1.8
Fiscal Plan



*Includes CRF revenues, Crown corporations, and forecast allowance
Excludes one-time pension adjustment

The fiscal plan shows that after excluding the one-time pension gain in 2001/02, the deficit will increase $1 billion to a total of $4.4 billion in 2002/03. It will be cut by more than half to $1.8 billion in 2003/04 and eliminated by 2004/05.

Key Plan Assumptions — 2002/03 to 2004/05

- A $4.4 billion deficit for 2002/03 results from a 3.6-per-cent decline in CRF revenue, a 0.3-per-cent decrease in spending, a $442-million improvement in the Crown corporation sector, and a $750-million forecast allowance as a cushion against potential risks to the budget.
- After 2002/03, revenues will grow an average of 5.1 per cent annually, in line with the 4.6-per-cent average growth in nominal GDP. This reflects an expected turn around in the North American economy and a rebound in the provincial economy in part due to the tax reduction measures announced last year.
- Total spending will decline by an average 2.8 per cent per year after 2002/03. After addressing health sector compensation pressures in 2002/03, spending for the health and education ministries will remain unchanged in 2003/04 and 2004/05. Spending for other ministries will decline by $1.9 billion or 25 per cent over the three years.
- Crown corporation finances will remain relatively stable over the three years, in part due to restructuring started in 2001/02.
- Over the three-year plan, the resultant revenue increases, spending reductions and Crown corporation improvements will combine to reduce the deficit from $4.4 billion to zero by 2004/05.

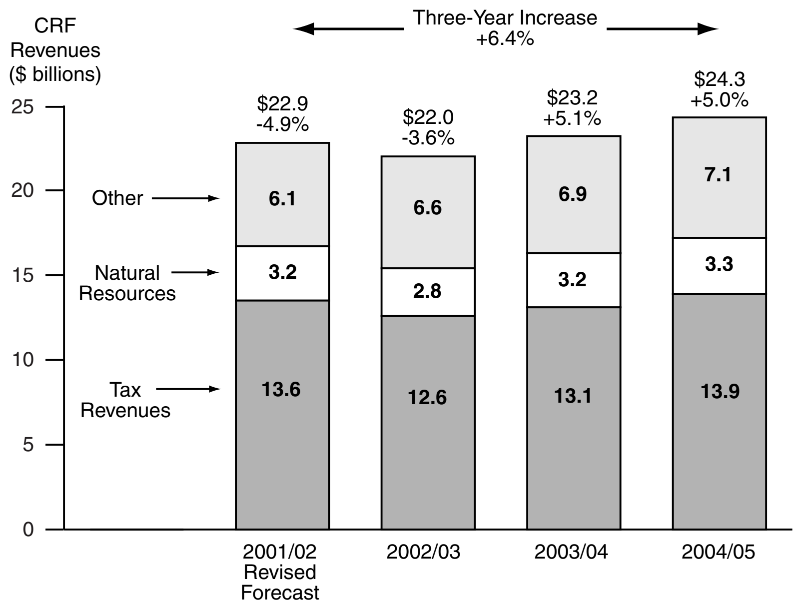
- No forecast allowances are included for 2003/04 or 2004/05 in the fiscal plan. In subsequent budgets, an allowance will be included to help ensure government meets its financial targets and it will be based on an assessment of risks at that time.
- A $100-million provision is included in 2004/05 to recognize a legislative requirement that certain elements of the broader public sector will be included in the government's bottom-line under generally accepted accounting principles.
- In 2002/03, total capital spending will increase $237 million to total $2.7 billion. After 2002/03, capital spending will be reduced $534 million to total $2.2 billion by 2004/05.

1.4 — CRF Revenue

Overview

The revenue forecast is based on the current economic forecast set out in Chapter 2. Despite a brief pause in 2002/03, over the next three years CRF revenues are projected to increase about $1.5 billion or 6.4 per cent from the 2001/02 revised forecast (see Table 1.2).

Chart 1.9



The forecast incorporates the full-year effects of over $2.1 billion of tax reduction measures announced last year plus further reductions in this budget.

It also incorporates new measures introduced to provide funding for regional health sector compensation pressures and to address a recent arbitration decision on physicians' compensation (see Section 1.5 — Revenue Measures for further details).

Revenue Forecast Changes

Revenue is expected to decline 3.6 per cent in 2002/03. This reflects:

- lower assumed electricity prices, a weakened North American and provincial economy, and the lagged effect of weak corporate profits in 2001;
- various one-time revenues occurring in 2001/02 that will not occur in 2002/03 (e.g. prior-year income tax settlements);
- the second phase of the tax-cut investment strategy announced on June 6 and July 30, 2001, worth an additional $755 million in 2002/03;
- further tax competitiveness measures worth roughly $25 million; and
- the introduction of $758 million of new revenue measures, including increases to Medical Services Plan premiums and the social service and tobacco tax rates. These measures will help pay for regional health sector compensation pressures, the recent interim arbitration award on physicians' compensation, and volume increases for physicians' services.

After factoring in tax competitiveness and other measures, total revenue measures in 2002/03 are reduced to $736 million.

In 2003/04 and 2004/05, revenue is projected to grow an average 5.1 per cent per year. A more competitive tax structure, rising consumer and business confidence and a recovery in the North American and provincial economies are expected to contribute to strengthening commodity prices, new investment and employment growth.

Details on the three-year revenue outlook are shown in Table 1.2. Based on the 2001/02 revised forecast, highlights of major revenue changes include:

Taxation Revenue

After weakening in 2002/03, overall taxation revenue in the following two years will begin to pick up. This reflects a recovery in the economy in part due to the tax reduction and investment measures started last year and new measures in this budget.

- *Personal income tax* — a 9.4-per-cent decline in 2002/03 is mainly the result of non-recurring prior-year assessments received in 2001/02 and tax cuts announced last June and July. Over the next two years, growth will average 6.4 per cent annually due to higher tax yields in response to stronger personal and labour income growth.
- *Corporation income tax* — the effect of lags in the federal tax collection system, a lower national tax base, a projected decline in provincial corporate profits in 2001 and 2002, and tax cuts announced last year will result in a 49-per-cent drop in revenue in 2002/03 and only a small increase in 2003/04. However, revenue is expected to rebound by 2004/05.
- *Social service and other taxes* — social service tax revenue will increase 18 per cent over the three-year period. The increase reflects the net effect of a higher tax rate in 2002/03 and an outlook for stronger consumer spending growth.

A higher tobacco tax rate in 2002/03 will result in a 33-per-cent increase in tobacco tax revenue by 2004/05. Corporation capital tax revenue will decline due to the tax-competitive measures introduced last year while other sources will grow generally in line with the economy.

Natural Resource Revenue

Revenue will increase 3.1 per cent over the three-year period. A 10.7-per-cent drop is expected in 2002/03 mainly due to lower assumed electricity prices and forest harvest volumes reflecting weak U.S. demand and economic growth in 2002.

Over the following two years, revenue will recover as commodity prices rise with strengthening global economies and increased electricity sales under the Columbia River Treaty, and grow an average 7.5 per cent per year.

TABLE 1.2
REVENUE BY SOURCE[1]
CONSOLIDATED REVENUE FUND

	2001/02 July 30 Update	2001/02 Revised Forecast	Budget Estimate 2002/03	Plan 2003/04	Plan 2004/05	Change[2] from 2001/02
	($ millions)					(per cent)
Taxation Revenue:						
Personal income	4,935	5,355	4,854	5,159	5,499	2.7
Corporation income	1,154	1,520	779	793	1,009	(33.6)
Social service	3,664	3,535	3,802	3,982	4,175	18.1
Property	1,406	1,397	1,425	1,454	1,485	6.3
Fuel	416	400	395	398	413	3.3
Tobacco	463	470	622	624	627	33.4
Corporation capital	347	367	165	90	91	(75.2)
Other[3]	572	580	598	617	639	10.2
Less: commissions and doubtful account provisions	(49)	(61)	(55)	(55)	(55)	(9.8)
	12,908	13,563	12,585	13,062	13,883	2.4
Natural Resource Revenue:						
Natural gas royalties	1,323	805	925	1,028	1,073	33.3
Petroleum royalties, permits, fees and minerals	543	505	445	447	456	(9.7)
Forests[4]	1,337	1,245	1,145	1,278	1,297	4.2
Columbia River Treaty	475	355	85	165	185	(47.9)
Water and other resources	315	298	265	293	297	(0.3)
Less: commissions and doubtful account provisions	(12)	(12)	(12)	(12)	(12)	0.0
	3,981	3,196	2,853	3,199	3,296	3.1
Other Revenue:						
Medical Services Plan premiums	904	947	1,299	1,342	1,353	42.9
Motor vehicle licences and permits	345	345	347	357	368	6.7
Other[5]	577	549	548	565	601	9.5
	1,826	1,841	2,194	2,264	2,322	26.1
Contributions from Government Enterprises:						
Liquor Distribution Branch	616	627	640	650	650	3.7
British Columbia Hydro and Power Authority	346	329	283	301	297	(9.7)
British Columbia Lottery Corporation	429	444	476	553	596	34.2
Other	20	24	21	19	25	4.2
	1,411	1,424	1,420	1,523	1,568	10.1
Contributions from the Federal Government:						
Canada health and social transfer	2,620	2,660	2,805	2,930	3,075	15.6
Other cost-shared agreements	178	169	181	181	181	7.1
	2,798	2,829	2,986	3,111	3,256	15.1
TOTAL REVENUE	22,924	22,853	22,038	23,159	24,325	6.4

[1] Revenue amounts exclude dedicated revenue collected on behalf of, and transferred to, Crown corporations, agencies and other entities (2001/02 July 30 Update: $706 million; 2001/02 revised forecast: $706 million; 2002/03 budget estimate: $765 million; 2003/04 plan: $793 million; 2004/05 plan: $824 million). For details, see Table A7.
[2] Per cent change between the 2004/05 plan and 2001/02 revised forecast.
[3] Includes revenue from property transfer tax, insurance premium tax, and hotel room tax.
[4] For comparison purposes, figures for 2001/02 have been restated to include revenue of Forest Renewal BC, which will be dissolved at the end of 2001/02.
[5] Includes revenue from fees and licences, asset dispositions, investment earnings, other miscellaneous sources and adjustments for commissions and doubtful accounts.

- *Energy* — revenue from petroleum and natural gas will increase 17 per cent by 2004/05 due to gradually increasing natural gas prices and higher energy requirements in response to growth in the North American economy.

  Electricity sales under the Columbia River Treaty show a significant drop in 2002/03 due to lower assumed electricity prices in the U.S., but will pick up in the next two years due to higher volume entitlements under the treaty.

- *Forests* — commodity prices are expected to rise as the North American economies recover from the slowdown in 2001. Aided by planned provincial tenure reform, this will contribute to a 4.2-per-cent increase in revenue by 2004/05. The forecast is based on prudent assumptions pending resolution of the softwood lumber dispute.

Other Revenues

- *Fees, licences and other sources* — The forecast incorporates additional full-year revenue of $392 million ($358 million in 2002/03) resulting from an increase in Medical Services Plan premiums mainly to provide funding to address health care compensation pressures.
- Crown corporation dividends are based on the three-year service plans of those agencies and are expected to increase 10 per cent over the next three years.
- *Federal contributions* — the forecast assumes that contributions will increase 15 per cent over the next three years primarily due to increased Canada health and social transfer (CHST) entitlements. The forecast assumes that no significant revenue entitlements, if any, will occur under the federal equalization program.

Appendix Table A9 provides the fiscal plan's key economic and other assumptions for the main revenue sources over the next three years. The table also provides estimates of the sensitivities of revenues to changes in individual assumptions.

1.5 — Revenue Measures

Summary of Revenue Measures

The revenue measures included in the *Budget and Fiscal Plan* are designed to:

- raise additional revenue to help offset the cost of compensation increases in the health sector. These increases are required to help ensure the recruitment and retention of high-demand health workers and professionals, including doctors;
- continue with modest changes to make the tax system more competitive; and
- streamline and improve the fairness of the tax system.

The changes that will help to offset the almost $800-million cost of health care sector compensation pressures in 2002/03.

- A 50-per-cent increase in MSP premiums that will raise $358 million in 2002/03. However, enhancements to the premium assistance program mean that premiums will actually be lower for 230,000 British Columbians.
- Raising the provincial sales tax rate to 7.5 per cent from 7 per cent. This will raise $250 million in 2002/03. To protect taxpayers that currently receive the refundable sales tax credit from the higher rate, the credit will be increased to $75 from $50 per adult.
- Increasing the tobacco tax rate by $8 per carton of 200 cigarettes and the tax on fine-cut tobacco by an equivalent amount. After taking into account changes in smoker behaviour, this is expected to raise $150 million in 2002/03.

Other tax changes include:

- Increasing the average residential school property tax by 2 per cent (2002/03 revenue increase: $20 million).
- Increasing the average residential rural area property tax by 2 per cent (2002/03 revenue increase: $1 million).

To build on the process of improving BC's tax competitiveness:

- the definition of parts that can be purchased exempt from provincial sales tax will be expanded; and
- the threshold for the small business income tax rate will be increased to $300,000. The threshold increase parallels similar changes in five other provinces. These measures will return roughly $25 million to business taxpayers in 2002/03.

The major streamlining and fairness measures include:

- meeting a New Era commitment by introducing a refund of provincial sales tax paid on purchases for schools with parent advisory council raised funds;
- rewriting the *Corporation Capital Tax Act* to fully reflect the elimination of the tax on general corporations;
- introducing a new provincial sales tax exemption for chemicals used to make ammonium bisulfite for pulp production;
- introducing an exemption for boats and travel trailers owned by non-resident individuals; and
- making changes to the residential school property tax to allow a separate tax rate in municipalities that have much higher property values than the rest of the school district. For the 2002 property tax year, Tofino will be the only municipality to qualify for a separate rate.

TABLE 1.3
SUMMARY OF REVENUE MEASURES

	Effective Date	Taxpayer Impacts 2002/03	2003/04
		($ millions)	
***Income Tax Act** — Personal Income Tax*			
• Change tax adjustment rates for alternative minimum tax	January 1, 2002	*	*
• Change overseas employment tax credit rate	January 1, 2002	*	*
• Increase disability-related credits	January 1, 2002	(4)	(4)
• Increase sales tax credit	January 1, 2002	(20)	(20)
• Adjust BC Family Bonus[1]	July 1, 2002	8	19
***Income Tax Act** — Corporate Income Tax*			
• Raise small business tax rate threshold to $300,000	April 1, 2002	(10)	(13)
Medicare Protection Act			
• Increase medical services plan premiums and enhance premium assistance	May 1, 2002	358	392
Corporation Capital Tax Act			
• Introduce investment allowance for banks and trust companies	September 1, 2002	*	*
• Amend formula for calculating paid-up capital of authorized foreign banks	February 19, 2002	*	*
• Remove references to general corporations and partnerships	September 1, 2002	*	*
Petroleum and Natural Gas Act			
• Introduce new royalty formula for coalbed methane	March 1, 2002	*	*
• Extend Base 9 land sales to December 31, 2003	January 1, 2002	*	*
Social Service Tax Act			
• Increase provincial sales tax rate to 7.5 per cent from 7 per cent	February 20, 2002	250	250
• Provide additional tax exemptions for *bona fide* farmers	February 20, 2002	(1)	(1)
• Expand tax exemption for parts used for exempt machinery and equipment	February 20, 2002	(15)	(15)
• Provide tax refunds for purchases for schools made with Parent Advisory Council funds	July 1, 2002	(1)	(1)
• Introduce tax exemption for chemicals to make ammonium bisulfite for pulp production	March 31, 1998	*	*
• Introduce tax exemption for boats and travel trailers owned by non-resident individuals	February 20, 2002	*	*
• Allow pick-up trucks and service vehicles to qualify for multi-jurisdictional vehicle tax	January 1, 1996	*	*
• Clarify application of tax to royalty payments and licence fees	March 31, 1998	*	*
Tobacco Tax Act			
• Increase tobacco tax rate to $30 from $22 per carton of 200 cigarettes and to 15 cents from 11 cents per gram of loose tobacco	February 20, 2002	150	150
Hospital District Act and Assessment Authority Act			
• Ensure taxpayer exemptions are consistent for all taxing authorities which use the hospital roll	December 31, 2001	*	*
School Act			
• Increase average gross residential school property taxes by 2 per cent; rates will vary by school district	January 1, 2002	20	20
• Leave non-residential school property tax rates unchanged	January 1, 2002	*	*
• Allow more than one residential school tax rate within a school district	January 1, 2002	*	*
Taxation (Rural Area) Act			
• Increase average gross residential taxes by 2 per cent	January 1, 2002	1	1
• Leave non-residential provincial rural area tax rates unchanged	January 1, 2002	*	*
Home Owner Grant Act			
• Confirm existing rules for disability portion of the home owner grant and initiate a review of options for the future	various	*	*
Total		736	778

[1] The amount shown is the full impact on the program's cost, 60 per cent of which is reported in the *Estimates* as an expenditure with the remaining 40 per cent reported as a reduction in personal income tax revenue.
* Denotes measures that have no material impact on the status quo revenue forecast for provincial revenues.

TABLE 1.3
SUMMARY OF REVENUE MEASURES — *Continued*

	Effective Date	Taxpayer Impacts 2002/03	2003/04
		($ millions)	
Additional Revenue for Greater Vancouver Transportation Authority (TransLink)			
Motor Fuel Tax Act			
• On behalf of *TransLink*, increase tax rates on clear gasoline and diesel collected in the Greater Vancouver transportation service region by 2 cents per litre[2]	April 1, 2002	42	43
Social Service Tax Act			
• Provide authority for *TransLink* to increase its parking tax rate up to 21 per cent[2]	June 1, 2002	—	—

[2] Taxpayers in the Greater Vancouver transportation service area will be affected by the increase, but it has no impact on provincial revenues.

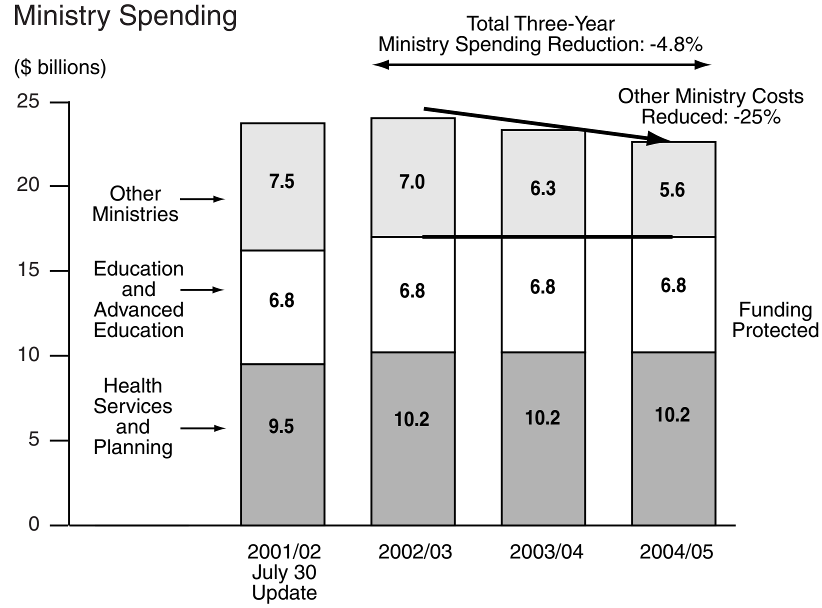
1.6 — CRF Spending

Overview

Compared to the July 30 *Economic and Fiscal Update,* overall government spending will fall by $974 million or 3.9 per cent by the end of the next three years. After a 1.8-per-cent budget increase in 2002/03, mainly to fund high-demand health professionals and workers, including physicians, annual spending will decline by about 2.8 per cent in each of the following two years.

Ministry spending, including the Premier's Office, will show an overall decline of 4.8 per cent by 2004/05. This decrease is partially offset by increasing costs for debt interest.

Chart 1.10
Ministry Spending



The spending plan is based on the ministry three-year service plan summaries announced on January 17, 2002. It has been updated to incorporate additional funding provided for physicians, health authorities and other areas, and it also includes spending plans for special offices, contingencies, restructuring and debt interest.

TABLE 1.4
MINISTRY 3-YEAR SPENDING PLANS
CHANGES SINCE JANUARY 17, 2002

	Budget Estimate 2002/03	Plan 2003/04	Plan 2004/05
Total Ministries and Premier's Office — January 17, 2002	**23,321**	**22,633**	**21,936**
Changes Since January 17, 2002:			
Advanced Education — cost of MSP premium increases for workers	8	8	8
Education — cost of MSP premium increases for workers	19	19	19
Health Services and Planning:			
— additional compensation funding for health sector	365	365	365
— additional costs resulting from arbitration decision on physicians' compensation*	320	320	320
Transportation and other minor changes	12	(2)	—
Subtotal	**724**	**710**	**712**
Total Ministries and Premier's Office	**24,045**	**23,343**	**22,648**

* A further $73 million was added to contingencies for health compensation.

Table 1.4 provides a summary of changes to ministry spending plans since the January 17, 2002 announcements. The most significant changes reflect required increases to Medical Services Plan premiums and the social service and tobacco tax rates to help pay for additional funding for health sector compensation.

Details of ministry three-year spending plans are shown in Table 1.6 and in ministry service plans being released with the budget. Key assumptions and sensitivities are provided in Appendix Table A10.

Restructuring Costs

The fiscal plan includes a provision for one-time restructuring costs to assist ministries with restructuring needed to achieve their service plans. These costs include severance, facility closures and costs to consolidate and relocate operations.

A provision of $490 million for operating costs and $60 million for capital costs is included in the fiscal plan. It is expected that all restructuring will be completed by March 31, 2004. The following table shows the projected deficits over the plan, excluding forecast allowances, the one-time joint trusteeship adjustment in 2001/02 and the non-recurring costs of restructuring. Further information is provided in a topic box.

TABLE 1.5
DEFICIT BEFORE ADJUSTMENTS

	2001/02 July 30 Update	2001/02 Revised Forecast	Budget Estimate 2002/03	Plan 2003/04	Plan 2004/05
	($ millions)				
Deficit before joint trusteeship, forecast allowance and restructuring costs	**(2,338)**	**(3,263)**	**(3,420)**	**(1,635)**	—
Forecast allowance	(500)	(70)	(750)	—	—
Operating restructuring costs[1]	—	(95)	(230)	(165)	—
Joint trusteeship (one-time adjustment)	1,338	1,464	—	—	—
Deficit	**(1,500)**	**(1,964)**	**(4,400)**	**(1,800)**	—

[1] An additional $60 million is provided for capital restructuring costs and is included as part of capital spending shown in Table 1.8.

Ministry Budget Plan Highlights

The following is a summary of major ministry changes during the next three years. Additional information is found in the individual ministry service plans.

Ministry of Advanced Education

Ministry of Advanced Education's budget is increased by $8 million in 2002/03 to provide for the cost of Medical Services Plan premium increases in the post-secondary sector. Given that the ministry's budget is otherwise held constant, it has developed strategies to manage wage, demand and inflation pressures. The ministry will:

- Implement a new tuition fee policy which allows post-secondary institutions to set tuition rates.
- Provide institutions with tools to increase productivity in the post-secondary system, for example by removing class size restrictions (estimated savings: $37 million over three years).
- Reorganize the ministry to focus on achieving New Era commitments and to move to results-based management (estimated savings: $14 million over three years).
- Eliminate the Youth Community Action and the Student Summer Works programs (estimated savings: $13 million over three years).
- Eliminate the Skills for Employment program and redirecting those funds to other programs and priorities (estimated reallocation: $13 million over three years).

TABLE 1.6

EXPENDITURE BY MINISTRY
CONSOLIDATED REVENUE FUND

	July 30 Update 2001/02[1]	Revised Forecast 2001/02[1]	Budget Estimate 2002/03	Plan 2003/04	Plan 2004/05
			($ millions)		
Advanced Education	1,892	1,892	1,900	1,900	1,900
Education	4,842	4,842	4,861	4,861	4,861
Health Planning	26	25	17	16	16
Health Services	9,516	9,746	10,205	10,206	10,206
Subtotal	16,276	16,505	16,983	16,983	16,983
Office of the Premier	56	56	50	43	36
Agriculture, Food and Fisheries	66	66	64	58	45
Attorney General	564	564	556	497	481
Children and Family Development	1,553	1,544	1,558	1,394	1,191
Community, Aboriginal and Women's Services[2]	559	559	555	533	478
Competition, Science and Enterprise	69	69	54	50	45
Energy and Mines	67	67	50	45	40
Finance	29	27	27	24	18
BC Family Bonus	120	105	91	85	78
Forests	538	506	475	392	350
Forest Investment (FRBC)	294	361	146	136	126
Human Resources	1,937	1,929	1,789	1,550	1,356
Management Services	65	65	48	39	34
Provincial Revenue	50	49	45	45	44
Public Safety and Solicitor General	498	497	506	475	441
Skills Development and Labour	30	30	29	26	19
Sustainable Resource Management[3]	133	130	118	99	75
Transportation[4]	673	671	739	725	681
Water, Land and Air Protection[5]	214	212	162	144	127
Subtotal	7,515	7,507	7,062	6,360	5,665
Total Ministries and Premier's Office[6]	23,791	24,012	24,045	23,343	22,648
Legislation	43	43	39	39	39
Officers of the Legislature	52	52	32	23	20
Management of Public Funds and Debt	823	798	920	1,085	1,182
Government Restructuring (All Ministries)	95	95	230	165	—
Contingencies (All Ministries) and New Programs	225[7]	225	210	210	210
Other Appropriations[8]	73	72	80	70	29
Skeena Cellulose Inc. Assistance	—	340	—	—	—
TOTAL EXPENDITURE	**25,102**	**25,637**	**25,556**	**24,935**	**24,128**

[1] Figures for 2001/02 have been restated to conform to the 2002/03 presentation. For comparison purposes, CRF expenditure has been increased (budget: $294 million; revised forecast: $361 million) to include Forest Renewal BC expenditures. CRF expenditure has been increased by $58 million to reflect a reclassification of the amortization of unfunded pension liabilities as part of joint trusteeship which is shown as a separate adjustment to the summary accounts bottom line. There is no effect on the summary accounts deficit.
[2] Also includes funding for protected local government grants, housing grants, and one-time funding of $10 million in 2001/02 for the Millennium Fund/ university endowment lands. In the January 17, 2002 announcements, these programs were presented separately.
[3] Also includes one-time funding of $15 million in 2001/02 for parkland acquisition and Central Coast land use plans. In the January 17, 2002 announcements, these programs were presented separately.
[4] Also includes funding for highway operations and public transit. In the January 17, 2002 announcements, these programs were presented separately.
[5] Also includes one-time funding of $47 million in 2001/02 for Britannia Mine and the grizzly bear moratorium. In the January 17, 2002 announcements, these programs were presented separately.
[6] Comparable to spending plans announced on January 17, 2002.
[7] Restated to allocate portions to other programs for comparison purposes.
[8] Includes various boards, commissions, other votes and special accounts.

Ministry of Agriculture, Food and Fisheries

The ministry will:

- Move from prescriptive regulations to an outcome-based regulatory model.
- Increase private-sector responsibility for management of farming risks.
- Eliminate Fisheries Renewal BC by March 31, 2002 and Okanagan Valley Tree Fruit Authority by March 31, 2004.
- Focus on food safety and quality.
- Commence harmonization of federal/provincial regulatory processes.

Ministry of Attorney General

The ministry will:

- Close 24 staffed courthouses through improved court utilization, expanded use of technology and innovative processes in the court system; reform of by-law and traffic offences; and provision of out-of-court resolutions (estimated savings: $9 million over three years).
- Redesign the delivery model for legal aid to focus on areas of major need including criminal, young offender, and child protection (estimated savings: $34 million over three years).

Treaty Negotiations Office

The new Economic Measures Program ($10 million per year for three years) will contribute to an improved investment climate in the province and provide economic opportunities for First Nations.

The treaty negotiations strategy will change from comprehensive treaty making to incremental treaty making.

After a referendum on treaty negotiations, the office will implement the results and develop negotiation options for dealing with the land question.

A major reorganization of the office, along with reductions in transfers and elimination of funding for advisory bodies, will result in estimated savings of $6 million.

Ministry of Children and Family Development

The ministry will:

- Implement new governance models and community-based service delivery systems for children and family services, services for aboriginal communities, and services for adults with developmental disabilities (estimated one-time cost: $24 million over 2002/03 and 2003/04).
- Build family and community capacity to protect children in order to maintain them with their families where possible (estimated cost: $10 million over three years).
- Maintain children within their family unit and move children in care from contracted care to foster care (estimated savings: $146 million over three years).

- Introduce a range of funding options for families with developmentally-disabled adults to better meet their needs, including individualized and direct funding (estimated cost: $7 million over three years).
- Move developmentally disabled adults from contracted group homes to family care homes and establish specialized, cost-effective residential resources for developmentally-disabled adults with complex needs (estimated savings: $90 million over three years).
- Target programs to clients with the greatest needs through standardizing and restricting eligibility criteria and introducing new rate structures for some services (estimated savings: $5 million over three years).
- Streamline ministry operations consistent with the new regionalized, community-based service delivery system (estimated savings: $29 million over three years).

Ministry of Community, Aboriginal and Women's Services

The ministry will:

- Move from provincial control to local autonomy by enacting a Community Charter.
- Move from direct delivery of programs and services by provincial government employees, to delivery by communities and third parties.
- Move from prescriptive regulations to objective-based codes and standards.

Ministry of Competition, Science and Enterprise

The ministry will:

- Remove barriers to business (12-per-cent reduction of regulatory burden in 2002/03, with additional reductions of at least 21 per cent by 2004/05).
- Eliminate business subsidies.
- Market BC to increase private sector investment and increase economic growth in key strategic sectors.
- Encourage innovation and the development and transfer of new knowledge.

Ministry of Education

The ministry's budget is increased by $19 million in 2002/03 to provide for the cost of Medical Services Plan increases in the K-12 sector. Given that the ministry's budget is otherwise held constant, it has developed strategies to manage wage, demand and inflation pressures. Its key strategy is to provide school districts with tools to increase productivity in the K-12 system, for example through more flexible class size limits and by eliminating mandatory non-enrolling teacher ratios (estimated savings: $306 million over three years).

Ministry of Energy and Mines

The ministry will:

- Increase investment in energy and mineral resource development in British Columbia (e.g. double oil and gas production by 2011).

- Move from process-based, prescriptive regulations to results-based regulations and performance-based compliance and enforcement models.
- Move from a multi-agency permitting process to a single-window, full authority permitting regime.

Ministry of Finance

The ministry will:

- Introduce a new *Company Act* and move to full electronic filing of incorporations and corporate registrations, that will enhance accessibility for the business community while also significantly reducing administrative costs.
- Expand government's risk management and self-insurance programs to the broader public sector and introduce the enterprise-wide risk management program to create up to $35 million per year in incremental savings by 2004/05.
- Implement a new capital management framework and take lead responsibility for sponsorship of private sector investment in public infrastructure.

Ministry of Forests

The ministry will:

- Transition to forest management under a defined forest area management model.
- Develop and implement a results-based Forest Practices Code.
- Implement a market-based pricing system.
- Implement a new compliance and enforcement regime that addresses a new results-based code, new pricing system and changes to the tenure system.
- Expand and maintain markets for BC forest products.
- Implement a cost-shared forest fire protection model.
- Increase effectiveness of the Small Business Forest Enterprise Program (to be renamed the Timber Sales Program) and put the program on a commercial footing.
- Devolve responsibility for non-industrial forest road and bridge maintenance, discretionary forest health and silviculture activities, and maintenance of forest recreation sites and trails.
- Eliminate Forest Renewal BC and establish the Forest Investment Vote to provide for the operation and management of forest investments and international marketing.

Ministry of Health Services and Ministry of Health Planning

The health ministries' budgets increase by $685 million in 2002/03, primarily to fund high-demand health professionals and workers, partially offset by a $5-million reduction due to one-time funding in 2001/02. Of this, $365 million is added to address compensation increases in the regional health sector and to provide for the cost of Medical Services Plan premium increases in the regional health sector, and $320 million is added for the estimated cost of the interim award in the arbitration of the Working Agreement with the British Columbia Medical Association. Given that the ministries' budgets are otherwise held constant, they have developed strategies to manage additional wage, demand and inflation pressures. The ministries will:

- Consolidate and restructure the regional health authorities (estimated savings: $70 million over three years).
- Increase opportunities for private sector involvement in health capital projects and non-medical health services, and reduce the number of health capital projects (estimated savings: $140 million over three years).
- Clearly define the ministries' relationship with the health authorities in performance contracts and move to outcome/results-based performance measures (estimated savings: $260 million over three years).
- Shift costs for services not mandated under the *Canada Health Act* from government to consumers and/or private health insurers (estimated savings: $70 million over three years).
- Implement interim changes to Pharmacare deductibles and co-payments for the seniors and universal plans (January 2002), replace both plans with a single income-tested plan (January 2003), and delist miscellaneous drugs (estimated savings: $405 million over three years).

A topic box on federal funding of health care is provided in this chapter.

Ministry of Human Resources

The ministry will:

- Implement new income assistance programs focused on moving people into employment. Changes include revised eligibility, work search and employment program participation requirements, and revised limits on the length of time that employable individuals can receive assistance. Programs will be tailored to support persons with disabilities seeking employment (estimated savings: $549 million over three years).
- Target resources to clients with the greatest need consistent with the ministry's mandate for employment, training and assistance to those in need. Focus will be on core programs that support clients' efforts to achieve independence (estimated savings: $7 million over three years due to changes to supplementary assistance, employability criteria, and program restructuring).
- Implement an alternate service delivery mechanism by developing more effective practices to make service delivery to the public more efficient and cost effective (estimated savings: $26 million over three years).

Ministry of Management Services

The ministry will plan and implement a shared services program for the delivery of certain transactional and administrative services across government (e.g. accounts payable, travel voucher processing, etc.).

The Public Service Employee Relations Commission is responsible for the delivery of government's three-year workforce adjustment program designed to reduce the size of the direct public service.

Ministry of Provincial Revenue

The ministry will increase its focus on revenue and accounts receivable collection and enforcement activities.

The ministry is expected to generate an additional $35 million in net revenue to the province by 2004/05.

Ministry of Public Safety and Solicitor General

The ministry will:

- Focus additional resources in 2002/03 and 2003/04 on infrastructure for police services that will substantially improve policing capabilities and efficiencies (estimated one-time costs: $28 million over the period 2002/03 to 2003/04).
- Move to risk-based supervision and proven rehabilitation programs in the corrections branch and consolidate facilities for greater efficiencies (estimated savings: $44 million over three years).
- Eliminate pain and suffering awards and increase efficiencies in the victim services program (estimated savings: $10 million over three years).

Ministry of Skills Development and Labour

The ministry will:

- Phase-out industrial adjustment services and labour market policy activities by the end of 2002/03 (estimated savings: $4 million annually).
- Reduce the scope of Employment Standards Branch activities with a corresponding reduction in resources of about one third (estimated savings: $3 million by 2004/05).
- Continue a review of Workers' Compensation Review Board services (budget at almost $23 million).

Ministry of Sustainable Resource Management

The ministry will:

- Reduce the number of regulatory requirements to streamline decision-making and increase opportunities for economic development. Additionally, the ministry will move to an improved regulatory framework that uses performance-based standards.
- Use Web-based systems to improve access to land and resource information, and enable clients to submit land titles, land surveys, applications for licences, and fee payments electronically.
- Place greater reliance on partnerships to provide public and private sector clients with standardized land, resource and geographical data.

- Reduce the range of services provided by regional land title offices.
- Restructure the Land Reserve Commission to be more regionally responsive to community needs. The Agricultural Land Reserve will continue to be administered through the Land Reserve Commission. The Forest Land Reserve will be phased-out and replaced in part through the establishment of a working forest land base.

Ministry of Transportation

The ministry will:

- Fund new or expanded highway infrastructure through private investment.
- Transfer to the private sector all activities that can be delivered more effectively. Services being considered include inland ferries, sign manufacturing, pavement marking, and radio and electrical systems maintenance.
- Focus resources on protecting the safety and condition of the highway system. Funding to improve northern and rural roads will increase $10 million per year.

Ministry of Water, Land and Air Protection

The ministry will:

- Move to a shared stewardship model.
- Change from using prescriptive approaches using prohibitions and controls, to setting appropriate results-based environmental standards, and ensuring those standards are met.
- Put more emphasis on planning functions — such as developing clear environmental standards and performance expectations, and expanding partnerships — and on checking functions — such as monitoring and public reporting, and ensuring positive compliance with expectations.

The ministry will have fewer staff and resources directed to:

- Permitting of low- and medium-risk pollution sources (protection will be addressed through codes of practice and other authorization tools).
- Directly protecting habitat and fish and wildlife species where risks are relatively low.
- Providing camping and recreational services such as hunting and angling opportunities where recreational use is low or costs cannot be recovered.

1.7 — Crown Corporation and Agency Service Plan Highlights

Overview

Crown corporation finances are forecast to improve significantly from a combined net loss of $574 million in 2001/02. In 2002/03, combined net losses are projected to fall to $132 million and by 2004/05 they will be reduced to a $97-million loss. The forecast is based on the service plans approved by the Boards of Directors of the various Crown corporations (see Table 1.7).

- *Taxpayer-supported Crown corporations and agencies* — a $212-million combined net loss in 2004/05 is $118 million higher than in 2001/02. This is largely due to accumulated highway amortization and debt interest costs for the BC Transportation Financing Authority. Excluding these costs, the corporations show a combined operating net income of almost $90 million in 2004/05 due to improvements in BC Ferry Corporation and BC Buildings Corporation.

  The forecast assumes that operations of Forest Renewal BC, Fisheries Renewal BC and Duke Point Developments Ltd. will be wound up effective 2001/02.

- *Self-supported commercial Crown corporations* — combined net income (after adjustments) will total $115 million in 2004/05, a significant improvement from a $480-million loss in 2001/02. A significant part of the loss in 2001/02 reflects some one-time restructuring costs necessary to help Crown corporations achieve their three-year service plans.

  The government is continuing its core services review of the operations of Crown corporations. As well, there are number of other initiatives, such as the Energy Policy Review, that will likely affect the future of Crown corporation activities. As these reviews are completed, the service plans will be updated to reflect new directions and decisions of the Boards of Directors.

  Details of the forecast are shown in Table 1.7 and in the three-year service plans of Crown corporations. Key assumptions used in the forecasts are shown in Appendix Table A11. They do not incorporate the effect of new revenue measures introduced in this budget. The following provides a summary of operating assumptions and changes for selected Crown corporations over the next three years.

Selected Crown Corporation Service Plan Highlights

BC Buildings Corporation

The corporation plans to:

- Optimize savings for customers by rationalizing accommodation and property infrastructure related to each customer's new business direction.

- Restructure and streamline operations to enhance performance and implement an enhanced shared services model.
- Dispose of assets strategically.
- Increase focus on health and education sectors.

BC Ferry Corporation

The corporation plans to:

- Enhance catering revenue through branding and retail initiatives that include expansion of the White Spot food services initiative to other routes.
- Operate at break-even or better with average tariff increases no greater than the rate of inflation.
- Complete a sale of the *PacifiCats* by the end of 2003/04.
- Implement a capital management program to reduce operating costs by replacing aging vessels with larger, standarized vessels and encourage more private sector participation through public/private partnerships.

BC Hydro

The corporation plans to:

- Reduce costs for operations, maintenance and administration 5.6 per cent by 2004/05 while ensuring maintenance spending remains sufficient to ensure system reliability.
- Explore private-sector interest in joint-venture partnership arrangements or other options to ensure the most efficient and effective delivery of support services.
- Participate in discussions with other utilities regarding the structure, ownership and management of electricity transmission in the Pacific Northwest to ensure continued access to U.S. energy markets.
- Ensure efficient use of energy by developing programs to promote demand-side management for targeted energy savings of 240 Gwh, 450 Gwh, and 500 Gwh over the next three years, respectively.

Liquor Distribution Branch

The branch plans to:

- Continue to work to reduce operating expenses through streamlining processes while updating and maintaining technology and information systems.
- Continue to enhance customer service through improvements to the retail store network.
- Complete the new retail management system project to further improve supply chain management and operational labour efficiencies.

TABLE 1.7
CROWN CORPORATIONS AND AGENCIES[1]

	2001/02 July 30 Update[2]	2001/02 Revised Forecast[2]	Budget Estimate 2002/03	Plan 2003/04	Plan 2004/05
	($ millions)				
Taxpayer-supported:					
British Columbia Buildings Corporation	40	38	34	43	56
British Columbia Ferry Corporation	3	17	16	25	21
BC Transportation Financing Authority	—	1	(56)	(77)	(102)
552513 British Columbia Ltd. (Skeena Cellulose Inc.)	(53)	(142)	—	—	—
Other	(7)	(15)	3	6	10
	(17)	(101)	(3)	(3)	(15)
Less: Contributions paid to CRF	(18)	(22)	(19)	(17)	(23)
Other accounting adjustments[3]	(191)	(191)	(184)	(178)	(174)
Add: Skeena assistance	—	220	—	—	—
Total taxpayer-supported	(226)	(94)	(206)	(198)	(212)
Self-supported commercial:					
British Columbia Hydro and Power Authority (BC Hydro)	420	395	345	365	360
Liquor Distribution Branch	616	627	640	650	650
British Columbia Lottery Corporation	585	600	660	715	765
British Columbia Railway Company	1	(118)	14	52	74
Insurance Corporation of British Columbia	35	(258)	(10)	22	51
Other	3	—	5	3	4
	1,660	1,246	1,654	1,807	1,904
Less: Contributions paid to CRF	(1,393)	(1,402)	(1,401)	(1,506)	(1,545)
Accounting adjustments:					
— Transfer of BC Hydro earnings to (from) rate stabilization account	(45)	(195)	5	35	(75)
— Other accounting adjustments[4]	(156)	(129)	(184)	(162)	(169)
Total self-supported commercial	66	(480)	74	174	115
Total net contribution (loss) of Crown corporations and agencies	(160)	(574)	(132)	(24)	(97)

[1] Based on information provided by Crown corporations and agencies. These forecasts may be revised as a result of operating developments over the rest of the year, as well as decisions taken by the government and the Boards of Directors of the various Crown corporations and agencies.
[2] Restated to exclude operating results of Forest Renewal BC, which is to be dissolved effective 2001/02. These results are included as part of revenues and expenditures to the CRF for comparisons to future years.
[3] Primarily includes adjustments to record the amortization of the cost of highways transferred to the BC Transportation Financing Authority in 1998/99.
[4] Includes transfers of British Columbia Lottery Corporation revenue to charities and local governments, and adjustments to the Insurance Corporation of British Columbia and the British Columbia Railway Company to adjust their reporting results from a calendar year basis to government's fiscal reporting period ending March 31.

BC Lottery Corporation

The corporation plans to:

- Continue to develop the lottery retail network through product enhancements and improvements to distribution channels.
- Develop a joint strategic business plan with the bingo industry to build a strong and healthy industry, and to increase bingo revenues to charities.
- Target to reduce operating expenses from a projected 5.8 per cent of sales in 2001/02, to 5 per cent of sales in 2002/03 and 4.7 per cent in 2003/04.
- Within government's current gaming policy, continue to develop the casino business through improvements to facilities, products and services.

BC Rail

The corporation plans to:

- Develop new traffic so that 2004 revenues match or exceed 2001.
- Reduce operating expenses and eliminate lines of business that do not yield positive net contributions by rationalizing the core rail system and discontinuing non-core transportation businesses and services.
- Evaluate new opportunities with an objective of a 25-per-cent return on capital invested.
- Negotiate a commercially viable contract with Prince Rupert Port Authority for Fairview Terminal and prepare for renewal of the Vancouver Port Authority water lot lease in 2002.

ICBC

The corporation plans to:

- Manage claims costs and premium revenues to reduce the ratio of claims and claims-related costs to insurance premium dollars earned to 89 per cent in 2004, from 94 per cent in 2001.
- Manage operating and administration costs to reduce the ratio of non-claims costs to insurance premium dollars earned to 17.5 per cent in 2004, from 19 per cent in 2001.
- Manage the general expense ratio (costs for administration and internal costs compared to premium dollars earned) to 11 per cent by 2004, from 12.7 per cent in 2001.

1.8 — Capital Spending

Overview

Capital spending is needed to maintain the province's existing asset base, to replace ageing infrastructure and to meet the needs of a changing population. Financing to build schools, hospitals, long-term care facilities, roads, dams and other forms of provincial infrastructure is largely met through borrowed funds and is a major component of provincial debt.

Over the next three years, combined capital spending of the government and taxpayer-supported and commercial Crown corporations will fall to $2.2 billion. This decline reflects two principle changes:

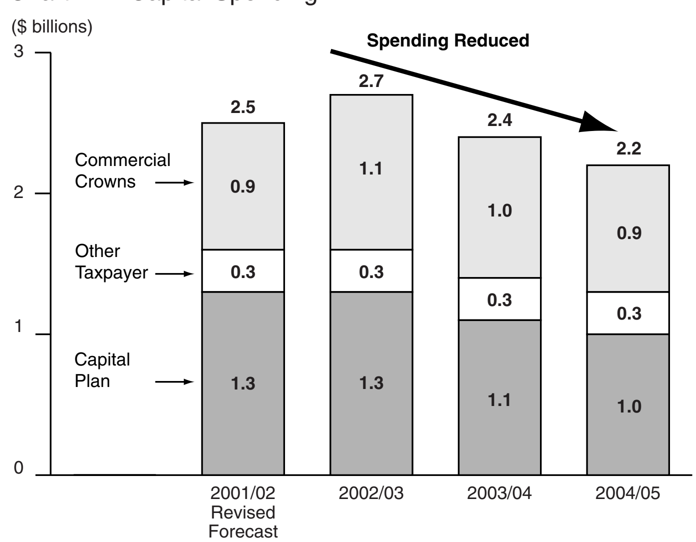
- introduction of a new capital management framework to balance the need for provincial infrastructure with the province's financial ability; and
- completion of the *SkyTrain* Millenium line and the Surrey City Centre development.

In 2002/03, total capital spending will increase by $237 million to total $2.7 billion. The increase mainly reflects higher commercial capital spending by BC Hydro. After 2002/03, total capital spending will be reduced $534 million by 2004/05.

Taxpayer-supported capital spending includes schools, hospitals, universities and transportation projects covered in the government's capital plan, plus minor capital purchases by ministries and other minor taxpayer-supported agencies.

Commercial Crown corporation capital spending includes projects undertaken by BC Hydro, BC Rail, ICBC and for Columbia Basin power projects.

Chart 1.11 Capital Spending



Significant changes in capital spending over the next three years include:

- reduced spending for health facilities;
- reduced spending for major road projects;
- reduced spending by Rapid Transit Project 2000 with the completion of the *SkyTrain* Millenium line;
- reduced spending by ICBC with the completion of the Surrey City Centre development; and
- increased spending to replace aging ferries.

Further detail on capital spending over the three years is shown in Table 1.8 and in ministry and Crown corporation service plans.

TABLE 1.8
CAPITAL EXPENDITURES

	2001/02 July 30 Update	2001/02 Revised Forecast	Budget Estimate 2002/03	Plan 2003/04	Plan 2004/05	Change[1] From 2001/02
	($ millions)					(per cent)
Taxpayer-supported						
Capital plan[2]						
Education	428	402	466	398	399	(0.7)
Health	274	200	273	152	125	(37.5)
BC Transportation Financing Authority	331	331	254	221	217	(34.4)
British Columbia Ferry Corporation	89	68	103	187	164	141.2
Rapid Transit Project 2000	309	231	143	5	—	(100.0)
Other[3]	93	75	99	94	81	8.0
Net capital plan	1,524	1,307	1,338	1,057	986	(24.6)
Other taxpayer-supported						
Government operating (ministries)	293	233	301	269	249	6.9
Other[4]	65	54	30	42	20	(63.0)
Total taxpayer-supported	**1,882**	**1,594**	**1,669**	**1,368**	**1,255**	(21.3)
Self-supported commercial						
British Columbia Hydro and Power Authority	600	535	745	790	745	39.3
British Columbia Railway Company	72	73	66	125	65	(11.0)
Columbia River power projects[5]	141	128	86	66	65	(49.2)
Insurance Corporation of British Columbia[6]	151	107	116	30	30	(72.0)
British Columbia Lottery Corporation	26	26	26	26	26	—
Liquor Distribution Branch	31	30	22	11	10	(66.7)
Total self-supported commercial	**1,021**	**899**	**1,061**	**1,048**	**941**	4.7
Total capital expenditures	**2,903**	**2,493**	**2,730**	**2,416**	**2,196**	(11.9)

[1] Percentage change between the 2004/05 plan and the 2001/02 revised forecast.
[2] Net of expenditures by hospital districts for cost-shared projects and capital spending on behalf of, and recovered from, the Greater Vancouver Transportation Authority *(TransLink)*.
[3] British Columbia Buildings Corporation, Ministry of Attorney General, Ministry of Public Safety and Solicitor General, Ministry of Children and Family Development and British Columbia Transit.
[4] Includes British Columbia Housing Management Commission and Provincial Rental Housing Corporation (net of construction costs recoverable from non-profit societies).
[5] Columbia Power Corporation and Columbia Basin Trust.
[6] Includes ICBC Properties Ltd.

Starting in 2001/02, some major changes are being introduced that will affect how capital expenditures are being planned, financed and implemented. This will assist the government to achieve the capital and operating targets assumed in the fiscal plan. Further details are provided in a topic box.

As required under the *Budget Transparency and Accountability Act,* significant capital projects with multi-year budgets totalling $50 million or more are shown in Table 1.9. Annual allocations of the full budget for these projects are included as part of the provincial government's capital spending shown in Table 1.8.

By 2004/05, total spending on these major projects will decline $572 million from the $734 million forecast for 2001/02, reflecting the completion of projects. By March 31, 2005, $4.6 billion will have been spent on major capital projects including:

- $2.9 billion for major transportation capital projects including the Vancouver Island Highway and the *SkyTrain* extension. All of the transportation projects are forecast to be completed by March 31, 2005 except for the Nisga'a Highway (expected to be completed by Fall 2005);
- $484 million for major health facilities including Vancouver General Hospital, the Royal Jubilee Hospital in Victoria, and the Surrey Memorial Hospital. All of the health facility projects are forecast to be completed by March 31, 2005 except for the Fraser Valley Health Centre/Eastern Fraser Valley Cancer Centre (expected to be completed by March 2007);
- $1 billion for power generation capital projects by BC Hydro and the Arrow Lakes Power Company. All of the power generation projects are forecast to be completed by March 31, 2005; and
- $253 million for the acquisition and renovation of Surrey City Centre development by ICBC Properties Ltd. (a unit of the Insurance Corporation of British Columbia). This project is forecast to be completed during 2002/03.

TABLE 1.9
CAPITAL PROJECTS GREATER THAN $50 MILLION

Project[1]	Start Date	Forecast Completion Date	Estimated: Cumulative Spending at Mar.31, 2002[2] +	Spending 2002/03 +	Spending 2003/04 +	Spending 2004/05 =	Cumulative Spending at Mar.31, 2005	Total Project: Budget[3]	Total Project: Forecast[3]
			($ millions)						
Transportation									
Vancouver Island Highway	1991	Dec. 2002	1,252	12	—	—	1,264	1,308[4]	1,264
Lion's Gate Bridge	May 1998	Dec. 2001[5]	124	1	—	—	125	125	125
Port Mann Bridge/Cape Horn Interchange	Aug. 1998	March 2002	61	—	—	—	61	61	61
SkyTrain Extension — Phase 1	Sept. 1998	Dec. 2002	1,088	79	—	—	1,167	1,167	1,167
SkyTrain Systems Upgrades[6]	Oct. 1999	June 2002	78	12	—	—	90	94	90
SkyTrain Fleet Expansion[6]	Oct. 1998	March 2002	68	—	—	—	68	68	68
Nisga'a Highway	Aug. 1998	Fall 2005	18	11	9	8	46	52	52
BC Rail — acquisition of oriented-strand board cars	Spring 2003	Winter 2003	—	—	52	—	52	52	52
Total transportation			2,689	115	61	8	2,873	2,927	2,879
Health Facilities[7]									
Vancouver General Hospital, Jim Pattison Pavilion	Sept. 2000	Fall 2004[8]	39	53	42	22	156	156	156
Royal Jubilee Hospital (Victoria)	Aug. 1999	April 2002	100	16	—	—	116	116	116
Surrey Memorial Hospital	July 1998	Nov. 2001	77	—	—	—	77	77	77
Prince George Regional Hospital	Spring 2001	March 2004	18	21	11	—	50	50	50
Fraser Valley Health Centre/Eastern Fraser Valley Cancer Centre[9]	April 2001	March 2007	1	6	17	61	85	211	211
Total health facilities			235	96	70	83	484	610	610
Power Generation									
British Columbia Hydro and Power Authority									
— Stave Falls Replacement	Feb. 1995	2003[10]	140	4	—	—	144	181	144
— Burrard Upgrade (including six SCRs)[11]	June 1993	March 2003	177	28	7	—	212	222	212
— Island Generation Project[12]	April 2000[13]	Nov. 2004	24	48	88	20	180	180	180
— Georgia Strait Pipeline Crossing[12]	April 2000[13]	Oct.2004	18	6	57	51	132	131	132
— Addition of Fourth Generating Unit at Seven Mile Dam	Feb. 1995[13]	March 2003	41	46	10	—	97	97	97
Arrow Lakes Power Company[14]									
— Arrow Lakes Generating Station	Feb. 1999	Dec. 2002	262	8	—	—	270	270	270
Total power generation			662	140	162	71	1,035	1,081	1,035
Other									
ICBC Properties Ltd.									
— Surrey City Centre	Sept. 1999	Jan. 2003	167	86	—	—	253	253	253

[1] Only projects that have been approved by Treasury Board are included in this table. Ministry service plans may include projects that have not yet received final approval.
[2] Total expenditures since commencement of each project.
[3] Represents sum of annual budgeted expenditures to complete each project.
[4] Adjusted for inflation. Budget in 1993 dollars is $1.2 billion.
[5] Final paving on the bridge will occur in the spring of 2002, but the project was substantially completed in December 2001.
[6] Funds for these projects are fully recoverable from the Greater Vancouver Transportation Authority (*TransLink*). In previous reports, the systems upgrades project did not appear in the major capital projects list.
[7] The Nelson Health Campus, previously included on the major projects list, has been removed pending further review.
[8] Project components were completed starting in December 2000 and will continue over the next four years.
[9] Previously only the Fraser Valley Health Centre was reported in the major projects list. Amounts have been revised to include the Eastern Fraser Valley Cancer Centre. Alternative procurement options are also under review for this project.
[10] In service as of December 1999. Additional costs will be incurred, but the project is substantially completed.
[11] Burrard generating station upgrade includes installation of selective catalytic reduction (SCRs) systems on all 6 generating units. SCRs reduce emissions from the units and are required to meet the air quality standards for the Greater Vancouver Regional District.
[12] Joint ventures with private sector partners. Amounts shown represent BC Hydro's 50 per cent share of the costs; however, only partial funding has been approved to date.
[13] Initial planning, preliminary field work and engineering design costs. Physical construction will begin at a later date.
[14] A joint venture of the Columbia Power Corporation and the Columbia Basin Trust.

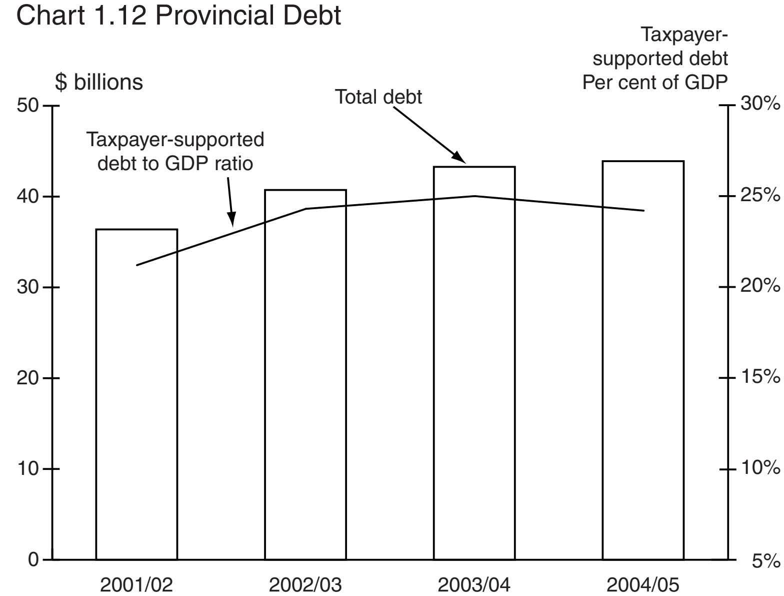
1.9 — Provincial Debt

Overview

Under the fiscal plan, provincial debt is projected to increase from $36.4 billion to $43.9 billion over the next three years primarily due to the cumulative effect of annual deficits and capital spending. However, as the deficit is reduced to zero, the rate of annual debt increases will slow.

The ratio of taxpayer-supported debt, which excludes commercial Crown corporations and other self-supported debt, to GDP is a key measure often used by financial analysts and investors to assess a province's ability to repay debt. Based on the budget economic forecast, taxpayer-supported debt as a percentage of provincial GDP will increase to 25 per cent in 2003/04. With economic recovery underway, and elimination of the deficit, the ratio is forecast to decline to 24.2 per cent by 2004/05.

Chart 1.12 Provincial Debt



Taxpayer-supported debt includes debt for government operating and capital purposes, and debt of Crown corporations and agencies that require a subsidy from the provincial government.

Over the next three years, taxpayer-supported debt will increase $7 billion due to the annual operating and capital requirements under the fiscal plan. However after 2002/03, annual debt increases will gradually be reduced in part due to the declining deficit each year as well as lower capital debt requirements resulting from the completion of projects and the new capital management framework (see topic box on New Approach to Capital Planning).

Self-supported debt includes debt of commercial Crown corporations and the warehouse borrowing program. Commercial Crown corporation debt is generally used only to finance capital since enough revenue is earned through the sale of services at commercial rates to cover operating expenses, interest costs, and debt repayments. Warehouse borrowing is used to take advantage of market opportunities to borrow in advance of requirements and remains invested until it is needed by the government or its Crown corporations and agencies.

TABLE 1.10
PROVINCIAL DEBT SUMMARY[1]

As at March 31	Actual 2001	2002 July 30 Update	2002 Revised Forecast	Budget Estimate 2003	Plan 2004	Plan 2005
	($ millions unless otherwise indicated)					
Taxpayer-supported debt						
Provincial government direct operating[2, 3]	12,113	14,142	13,876	17,182	18,897	18,646
Education facilities	5,263	5,605	5,609	6,012	6,356	6,709
Health facilities	1,780	2,021	1,950	2,199	2,331	2,439
Highways, ferries and public transit	4,191	4,784	4,651	5,060	5,246	5,530
Other[4]	1,650	1,668	1,284	1,148	1,087	1,037
Total taxpayer-supported debt	**24,997**	**28,220**	**27,370**	**31,601**	**33,917**	**34,361**
Self-supported debt						
Commercial Crown corporations and agencies	7,570	7,458	7,915	8,377	8,608	8,791
Warehouse borrowing program	1,312	600	1,100	—	—	—
Total self-supported debt	**8,882**	**8,058**	**9,015**	**8,377**	**8,608**	**8,791**
Forecast borrowing allowance	—	**500**	—	**750[5]**	**750[5]**	**750[5]**
Total provincial debt	**33,879**	**36,778**	**36,385**	**40,728**	**43,275**	**43,902**
Total provincial debt as a per cent of GDP	26.6%	28.2%	28.2%	31.3%	31.9%	30.9%
Taxpayer-supported debt as a per cent of GDP	19.6%	21.7%	21.2%	24.3%	25.0%	24.2%
Taxpayer-supported debt per capita ($)	6,159	6,885	6,682	7,655	8,132	8,142
Taxpayer-supported interest bite (cents per dollar of revenue)	6.8	7.4	7.1	8.1	8.6	8.6

[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] A change in accounting policy has resulted in vehicle leases being recorded as capital costs rather than operating expenditures. Government operating debt has been restated to include the vehicle lease obligations of $44 million in 2000/01.
[3] By March 31, 2002, Skeena Cellulose Inc. will have either been sold or declared bankrupt. In either case, debt of 552513 British Columbia Ltd. (Skeena Cellulose Inc.), will have been assumed by the provincial government ($261 million) and by the minority shareholder ($94 million).
[4] Includes government services Crown corporations and agencies, other fiscal agency loans, student assistance loans, loan guarantees to agricultural producers, guarantees issued under economic development and home mortgage assistance programs, and loan guarantee provisions.
[5] Reflects the effect over the plan of a one-time debt increase in 2002/03 due to the inclusion of a borrowing allowance. As it is unknown as to which agency would require this debt in 2002/03, the borrowing allowance is shown as a separate item over the plan.

By the end of 2004/05, self-supported debt will fall $224 million, due to a drawdown of the remaining $1.1 billion in the warehouse borrowing program in 2002/03, partially offset by increased commercial debt for BC Hydro and Columbia River power projects.

The forecast assumes a borrowing allowance of $750 million in 2002/03 to mirror the forecast allowance used in the summary accounts forecast. Should the government not require this allowance, projected debt levels under the fiscal plan would be $750 million lower for 2002/03 and each subsequent year (see Table 1.10).

In 2002/03 taxpayer-supported debt is forecast to increase to 24.3 per cent of GDP and to 25.0 per cent of GDP in 2003/04. In 2004/05, it is expected to decline to 24.2 per cent of GDP. Taxpayer-supported interest costs are expected to increase to 8.6 cents per dollar of revenue in 2003/04 and remain unchanged in 2004/05.

Further details on the debt outstanding for the government, Crown corporations and agencies are provided in Appendix Tables A14 and A15.

TABLE 1.11
PROVINCIAL FINANCING

	Debt[1] Outstanding at March 31, 2001	Debt Change 2001/02	Forecast Debt[1] Outstanding at March 31, 2002	2002/03 Transactions: New Borrowing[2]	2002/03 Transactions: Retirement Provision[3]	2002/03 Transactions: Net Change	Estimated Debt[1] Outstanding at March 31, 2003
	($ millions)						
Taxpayer-supported debt							
Provincial government direct operating[4]	12,113	1,763	13,876	4,679	1,373	3,306	17,182
Education facilities	5,263	346	5,609	580	177	403	6,012
Health facilities	1,780	170	1,950	377	128	249	2,199
Highways, ferries and public transit	4,191	460	4,651	679	270	409	5,060
Other debt[5]	1,650	(366)	1,284	40	176	(136)	1,148
Total taxpayer-supported debt	**24,997**	**2,373**	**27,370**	**6,355**	**2,124**	**4,231**	**31,601**
Self-supported debt							
Commercial Crown corporations and agencies	7,570	345	7,915	1,038	576	462	8,377
Warehouse borrowing program	1,312	(212)	1,100	(1,100)	—	(1,100)	—
Total self-supported debt	**8,882**	**133**	**9,015**	**(62)**	**576**	**(638)**	**8,377**
Forecast borrowing allowance	—	—	—	750	—	750	750
Total provincial debt	**33,879**	**2,506**	**36,385**	**7,043**	**2,700**	**4,343**	**40,728**

[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] New long-term borrowing plus net change in short-term debt.
[3] Sinking fund contributions, sinking fund earnings and net maturities of long-term debt (after deduction of sinking fund balances for maturing issues).
[4] A change in accounting policy has resulted in vehicle leases being recorded as capital costs rather than operating expenditures. Government operating debt has been restated to include the vehicle lease obligations of $44 million in 2000/01.
[5] Includes government services Crown corporations and agencies, other fiscal agency loans, student assistance loans, loan guarantees to agricultural producers, guarantees issued under economic development and home mortgage assistance programs, and loan guarantee provisions.

In 2002/03, provincial debt will increase $4.3 billion to total $40.7 billion. This change reflects:

- a $4.2-billion increase in taxpayer-supported debt to finance operating and net capital requirements of the government and taxpayer-supported Crown corporations and agencies;
- a $462-million increase in commercial Crown corporation debt, largely due to increased borrowing for BC Hydro and for Columbia River power projects;
- the inclusion of a $750-million borrowing allowance for unforeseen changes (mirrors the summary accounts forecast allowance); and
- a drawdown of $1.1 billion from the warehouse borrowing program.

Details of the change in debt in 2002/03 are provided in Table 1.11 and in the Summary Accounts Balance Sheet (Appendix Table A13).

1.10 — Fiscal Plan Risks

Information has been provided in the *Budget and Fiscal Plan* on the major economic and policy assumptions underpinning the fiscal plan. These are accompanied by sensitivity estimates in order to provide an assessment of how individual fiscal forecasts could change as a result of changes to major assumptions.

Overall, the government considers the assumptions presented in the fiscal plan to be in the middle of the range of reasonable expectations, and that in aggregate they result in the most likely forecast of the summary accounts results for each of the years presented in the fiscal plan.

Like all financial plans, there are uncertainties that present risks to the forecast. Some risks, such as higher-than-expected commodity prices, may potentially result in better-than-expected revenue for the government and some of its Crown corporations. Other risks, such as drier-than-expected weather, could result in higher-than-expected forest fire-fighting costs.

Risks can also sometimes be offsetting. For example, in 2001/02 the effect on government revenue of lower-than-expected energy prices was partially offset by higher-than-expected income tax assessments for the previous year.

CRF Revenue

Changes to the revenue forecast can result from a combination of factors. These include changes in economic conditions, policy changes implemented mid-year, and other unpredictable events such as changing weather patterns, commodity prices, foreign trade restrictions, labour disruptions and delays in receiving current federal information on the income tax bases.

The revenue forecast contained in the fiscal plan is based on the budget economic forecast detailed in Chapter 2. Details on major assumptions and sensitivities resulting from changes to those assumptions are shown in Appendix Table A9.

Highlights of significant uncertainties:

- Timing and strength of the global economic recovery could affect strength in revenue. A rebound could occur earlier or later than assumed in the forecast (see Chapter 2). In addition, domestic growth could be higher or lower than assumed in the forecast.
- Final assessments of personal and corporation income tax for 2001 could be higher or lower than assumed. In addition, the national corporation income tax base could be higher or lower than assumed.

- A correction of a recent federal error in the calculation of personal income tax remittances to BC has been factored into the revenue forecasts for 2001/02 and onwards. As the amount and resolution of errors relating to 1999 and prior years are under verification and legal review, the forecast does not assume a reduction in revenue in respect of those years.
- Favourable or unfavourable resolution of the countervail softwood lumber dispute could affect forest, personal and corporation income taxes and other revenues. As negotiations remain ongoing, further details on assumptions are not disclosed.
- Energy, forest and other commodity prices could be higher or lower than assumed.

Single changes or combinations of changes in assumptions can affect government revenue in different and sometimes unexpected ways. Depending on specific assumptions, a 1-per-cent change in provincial nominal GDP (the main driver of provincial revenue) could result in an overall change in revenue of approximately $200 – $300 million (excluding commodity price impacts).

CRF Spending

The spending forecast contained in the fiscal plan is based on ministry spending plans and strategies. Details on major assumptions and sensitivities resulting from changes to those assumptions are shown in Appendix Table A10 and in ministry service plans.

The government and its ministries have several options for dealing with major financial risks, should they arise. Ministries may take action to mitigate the impact through specific or general cost reduction measures or reductions in service levels. In addition, the fiscal plan includes an annual $210-million contingency reserve for use by the Minister of Finance in managing the overall spending plan.

Highlights of spending risks:

Compensation

With the exception of funding for the interim arbitration award for the British Columbia Medical Association and for the regional health sector, the fiscal plan does not provide incremental funding for compensation settlements currently in effect or to be negotiated within the fiscal plan timeframe. During the 2002/03 through 2004/05 period, virtually all collective agreements expire. Collective agreements expiring over the next three years will be settled under a new bargaining mandate.

Demand-driven Programs

The government funds a number of demand-driven programs such as Pharmacare, K-12 education, student financial assistance and income assistance.

The nature of demand-driven programs is that eligible clients receive service. The budgets for these programs reflect the best estimate of demand and other factors such as labour costs and price inflation. If demand is higher than estimated, this will result in a spending pressure to be managed.

Public Sector Program Delivery

The vast majority of government funded services are delivered through third party delivery agencies that provide programs such as acute and continuing health care, K-12 education, post-secondary education, and community social services. All of these sectors face cost pressures in the form of program demand, non-wage inflation and compensation increases.

The provincial government recently implemented legislative changes to provide public sector delivery agencies with greater flexibility to determine how they will deliver services. The lower cost structure made possible by the recent legislative changes and upcoming accountability contracts with public sector delivery agencies is reflected in the 2002/03 budget and the three-year fiscal plan. If public-sector delivery agencies are unable to achieve the estimated savings, budgetary pressures could arise.

Treaty Negotiations

The government is committed to negotiating affordable, working treaties with First Nations that provide certainty, finality and equality. A treaty referendum will give British Columbians a say in treaty negotiations and revitalize the treaty process. Outcomes of negotiations could affect both the economic outlook and fiscal plan.

Restructuring Costs

Ministry restructuring costs are based on preliminary estimates. Restructuring is a complex and detailed undertaking that will take some time to plan and implement. The fiscal plan includes $550 million in non-recurring operating and capital costs related to ministry restructuring. This estimate is based on assumptions around the number of people expected to leave government and the average cost of their departure, assumptions around reduced requirements for office space, and other costs such as systems changes.

As ministries implement their restructuring plans, better estimates of actual costs will become available. This could result in restructuring costs being higher or lower than assumed in the fiscal plan.

Catastrophes and Disasters

The spending plans for the Ministries of Forests, Public Safety and Solicitor General, and Water, Land and Air Protection include amounts to fight forest fires and other emergencies such as floods and blizzards. These amounts assume normal to moderate conditions and severity of costs, based on a ten-year historical average of actual spending.

Express provisions are not included for catastrophes or disasters beyond the amounts already identified in ministry service plans. Costs of such unforeseen events may also affect other ministry programs.

Pending Litigation

The three-year spending plan for the Ministry of Attorney General contains provisions for settlements under the *Crown Proceeding Act* based on estimates of expected claims and related costs of settlements likely to be incurred. These estimates are based on a historical ten-year average of actual spending.

Litigation developments may occur that are beyond the assumptions used in the plan (for example, higher-than-expected volumes or size of claims and the timing of settlements). These developments may also affect expenditures in other ministries.

Recoveries Within Ministry Budgets

A number of ministry spending plans assume that a portion of expenditures will be recovered from other agencies. The spending plan assumes that budgeted recoveries will be fully realized.

One-time Write-downs and Other Adjustments

The overall spending forecast does not make allowance for unusual or extraordinary items other than the amount provided in the Contingencies vote or in ministry spending plans.

Other Accounting Issues

Government has committed to fully adopt generally accepted accounting principles (GAAP) by 2004/05. This means potentially changing government accounting policies in three areas (see the Compliance With Generally Accepted Accounting Principles topic box):

- expansion of the reporting entity to include elements of the schools, post-secondary institutions and health authorities sectors (SUCH);
- writing off prepaid capital advances when they are advanced; and
- writing off tangible capital assets when they are acquired or built.

Recommendations relating to SUCH and tangible capital assets are currently under review by the Canadian Institute of Chartered Accountants (CICA) and may change before the end of 2004/05. These recommendations may affect the fiscal plan.

The fiscal plan includes a $100-million loss provision to reflect the estimated impact of including the SUCH sector in 2004/05. As reliable information on operating results for the SUCH sector is unavailable, an estimate of non-provincially-guaranteed SUCH sector debt is not included in the plan.

Including SUCH would largely remove the prepaid capital advance issue. The plan assumes that GAAP recommendations regarding tangible capital assets will be changed by 2004/05, to conform with the government's current accounting practice. If the CICA does not change its recommendations around tangible capital assets, this would adversely affect the government's bottom line because of a requirement to expense capital assets.

Crown Corporations and Agencies

Crown corporations and agencies have provided their own forecasts that were used to prepare the fiscal plan, as well as their own statements of assumptions. Details of major forecast assumptions are shown in Appendix Table A11. The various boards of those corporations and agencies have included these forecasts, along with further details on assumptions and risks, in the service plans being released with the budget.

The fiscal plan does not assume or make allowance for unusual or extraordinary adjustments other than those noted in the assumptions provided by the Crown corporations and agencies. Factors such as weather, electricity prices, fuel costs, accident trends, interest and exchange rates, or pending litigation could significantly change their financial forecasts.

The government is continuing its core services review of the operations of Crown corporations and agencies. As well, there are number of other initiatives, such as the Energy Policy Review, that could affect the future of Crown corporation and agency activities. As these reviews are completed, the service plans will be annually updated to reflect new directions and decisions of the Boards of Directors.

New decisions or directions by the Boards of Directors may result in additional costs due to restructuring, valuation allowances and asset writedowns, or gains and losses on disposals of businesses or assets.

Capital

The capital spending projections assumed in the fiscal plan do not include potential projects such as:

- event and transportation infrastructure related to a successful bid for the 2010 Olympic Winter Games;
- expansion of the *SkyTrain* line to Port Moody/Coquitlam and west of Vancouver City College; and
- the Vancouver Convention and Exhibition Centre.

The provincial share of the total costs for these projects has not been estimated because the role of the province and the scope and structure of these projects have not been determined.

The capital spending forecasts assumed in the fiscal plan may be affected by various factors including:

- weather and geotechnical conditions causing project delays;
- changes in market conditions including inflation, borrowing costs and wage settlements;
- scope, design and technology changes;
- building code changes;

- school class sizes;
- municipal requirements including zoning amendments;
- environmental impact studies;
- cost-sharing agreements with other jurisdictions; and
- results of public-private sector partnerships.

As the financial impact of these uncertainties is difficult to estimate and because changes in one direction are often offset by changes in another direction, a monetary value is not provided in the fiscal plan.

Forecast Allowance

In 2002/03, the government will continue to apply a forecast allowance to the summary accounts bottom-line, to account for risks to revenue, expenditure and Crown corporation forecasts and to increase the likelihood of meeting the forecast targets established in the fiscal plan.

A forecast allowance of $750 million — over three per cent of revenues — is included in the 2002/03 budget. This forecast allowance increases the expected deficit from the government's most likely forecast of $3.65 billion in 2002/03 to a more conservative forecast of $4.4 billion.

A $750-million borrowing allowance has also been included in the provincial debt forecast for 2002/03, to mirror the summary accounts forecast allowance.

Forecast allowances are not included in the fiscal plan for 2003/04 and 2004/05. Over these two years, the government will take further action as necessary and will incorporate annual forecast allowances with the budgets for those years based on a risk assessment at that time.

1.11 — Eliminating the Deficit — Summary

The starting point for the three-year fiscal plan is based on the revised forecast for 2001/02. Excluding the one-time joint trusteeship gain, the deficit for 2001/02 is projected at $3.4 billion, an increase of $0.6 billion since the July 30 Update. Further details on the 2001/02 revised forecast are presented in Chapter 3.

Table 1.12 provides a summary of how the fiscal plan has evolved since the July 30 Update presented last year. It incorporates a number of developments in 2001/02, such as low energy revenues, the recent physicians' interim arbitration award and the resultant decisions to raise revenues. It also includes the results of ministry and Crown corporation service plans.

The table itemizes the main changes expected over the next three years. The most significant changes are a recovery in revenues after 2002/03 as the economic recovery takes hold, and the decline in spending by 2004/05 due to the effect of ministry spending plans.

TABLE 1.12

SUMMARY OF YEARLY BUDGET CHANGES — THREE-YEAR FISCAL PLAN

	July 30 Update 2001/02	Budget Estimate 2002/03	Plan 2003/04	Plan 2004/05
	($ billions rounded)			
Starting summary accounts deficit (excluding joint trusteeship)[1]	**(2.8)**	**(3.4)**	**(4.4)**	**(1.8)**
Changes during the year:				
CRF revenue:				
— energy revenues	(0.7)	(0.2)	0.2	0.1
— taxes and other revenues (mainly economic related)	0.6	(0.8)	1.0	1.0
— additional effect of July 30 Update tax cuts	—	(0.7)	—	—
— increased sales tax, tobacco tax and MSP premiums to provide compensation funding to health authorities and address physician compensation	—	0.8	—	—
	(0.1)	**(0.9)**	**1.2**	**1.1**
CRF spending:				
— One-time Skeena Cellulose Inc. writedowns, etc.[2]	(0.3)	0.3	—	—
— Additional Health spending due to physicians' arbitration	(0.2)	(0.1)	—	—
— Compensation funding to health authorities	—	(0.4)	—	—
— Further reductions to non-health and education ministry budgets	—	0.5	0.7	0.7
— Other changes (debt interest, restructuring, etc.)	—	(0.2)	(0.1)	0.1
	(0.5)	**0.1**	**0.6**	**0.8**
Crown corporations and agencies:				
— ICBC — one-time restructuring, valuations and other changes[2]	(0.3)	0.3	—	0.1
— BC Hydro — mainly economic changes	(0.2)	0.2	—	(0.1)
— BC Rail — one-time restructuring, etc.[2]	(0.1)	0.1	—	0.1
— Other Crown corporation changes	0.2	(0.1)	0.1	(0.1)
	(0.4)	**0.5**	**0.1**	**—**
Subtotal	**(1.0)**	**(0.3)**	**1.9**	**1.9**
Expanded entity (to follow GAAP)	**—**	**—**	**—**	**(0.1)**
Forecast allowance[2]	**0.4**	**(0.7)**	**0.7**	**—**
Total changes	**(0.6)**	**(1.0)**	**2.6**	**1.8**
Ending summary accounts deficit (excluding joint trusteeship)[3]	**(3.4)**	**(4.4)**	**(1.8)**	**—**

[1] The starting point for each year is the previous year's ending deficit.
[2] One-time changes result in an offsetting change in the next year.
[3] The ending point for each year is the starting deficit plus total revenue, spending, Crown corporation, and other changes for each year.

2002/03 HEALTH COMPENSATION INCREASES

For the past 15 years, the Government of BC and the BC Medical Association have settled compensation issues through negotiation. In February 2000, the two parties settled a Framework Memorandum to renew their relationship. This agreement included binding arbitration to resolve disputes.

Since December 2000, the parties have been working on a new agreement. After months of negotiations, the parties proceeded to mediation in July. Mediation ended in November when the parties agreed to proceed to arbitration.

On February 8, 2002, arbitrator Allan McEachern delivered his interim award on some, but not all, of the outstanding issues between the parties. The interim award gives BC physicians an estimated $307-million (16.2%) increase in 2001/02. When annualized through 2002/03, it means a $392-million (20.6%) increase.

This annualized increase for doctors is more than the total compensation increase for the entire regionalized health sector in 2002/03. While the estimated cost of the arbitrator award is $392 million for doctors (including volume increases of $60 million), the total compensation increase for the regionalized health sector is $325 million, including a $164-million increase for the province's 26,000 nurses.

The following table illustrates the costs described above and the annual cost of the compensation increases in the regionalized health sector. The table also shows the effect of the revenue measures implemented to fund these costs in 2002/03.

Over the 2001/02 to 2004/05 period, compensation settlements in the health care sector will cost over $1 billion annually. This includes almost $300 million for nurses and almost $400 million for doctors.

2002/03 Health Compensation Increases and Offsetting Revenue Measures

$millions

Compensation Increases		Revenue Measures	
Doctors[1]	392	MSP fees	358
Nurses (2002/03 incremental cost)	164	Sales tax	250
Paramedicals/Other (2002/03 incremental cost)	161	Tobacco tax	150
Associated payroll costs[2]	52		758[3]
	769		

[1] Based on preliminary estimates of the cost of the first phase of arbitration.
[2] Funding provided to the Ministries of Health Services, Education and Advanced Education for the cost of employer paid MSP premiums for service delivery agencies.
[3] $685 million allocated to Ministry of Health Services, $73 million added to the contingencies vote for health sector compensation costs.

FEDERAL FUNDING OF HEALTH CARE IN BRITISH COLUMBIA

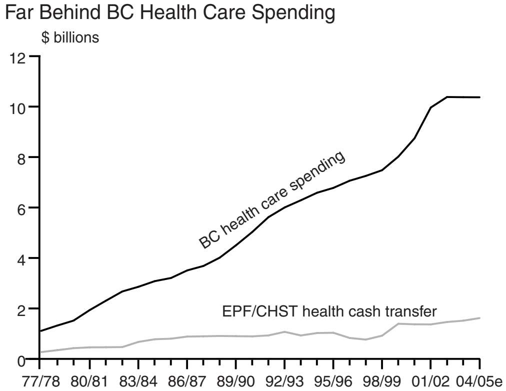
One of the major fiscal problems British Columbia has been confronted with over the years is the increasing gap between the cost of funding its commitments for health programming and the amount of federal assistance provided through cash transfers. Indeed, all provinces have been negatively affected by this gap.

In the formative years of providing federal transfers for major social programs, the federal government was a full funding partner of the provinces, sharing costs on a 50:50 basis.

A new type of arrangement — block funding — was introduced in 1977/78. Henceforth, the federal transfer for health care and education would be uncoupled from provincial costs. Instead, it was set to grow in line with growth in the national economy. Unfortunately, only five years after the introduction of block funding, the federal government began to implement a multi-year series of measures designed to reduce its financial commitment.

Years of restraint in transfers culminated in the introduction of the Canada Health and Social Transfer (CHST) in 1996/97. The CHST combined funding for health care, education and social services into a single transfer, and reduced the overall level of federal support. By 1997/98, the value of the federal transfer to all provinces had fallen by 33 per cent, to $12.5 billion, compared to 1994/95.

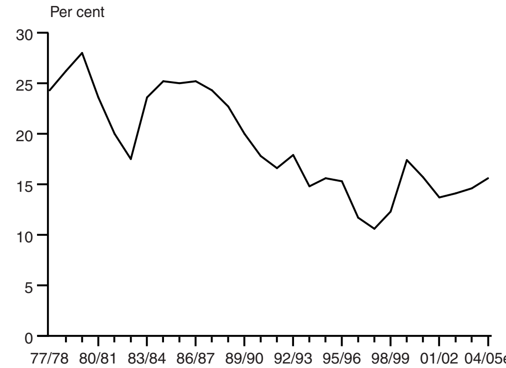
Growth of Federal Cash Transfers Has Fallen Far Behind BC Health Care Spending



The preceding chart, illustrating the 25 year block funding period, reveals the weakness of the growth of the cash transfer in relation to BC's strongly growing health care costs.

With its 1999 budget, the federal government began to increase the value of the CHST transfer beyond the $12.5 billion level to which it had dropped. This culminated in the five year arrangement offered to the provinces in September 2000.

Falling Proportion of BC Health Care Costs Offset by Federal Transfers



As the above chart shows, the new funding offers BC only a small respite from the long erosion in federal support for health care.

It will be a difficult task for BC, as for other provinces, to continue sustaining its health care system without a genuine renewal of the funding partnership with the federal government. Health care is BC's number one priority and it is the BC government's number one budget priority. It is time for the federal government to show that health care is its number one priority by paying its fair share.

GOVERNMENT RESTRUCTURING

The government's three-year fiscal plan includes budget and planning targets for each ministry. All ministry spending, except for health and education, will be reduced by an average of 25 per cent.

Ministries will need to restructure their programs and activities to achieve their budgets and planning targets. Over three years, government is forecasting a full-time equivalent (FTE) reduction of 11,800. Voluntary departure and early retirement incentive programs have been established to help achieve these reductions.

A provision of $550 million over three years has been made for restructuring — $490 million for operating costs and a further $60 million to address capital related requirements.

Given the magnitude of the restructuring that will take place over the next several years, these cost estimates are preliminary. Accordingly, the numbers will be refined as plans become more definitive and specific costs are identified.

No funds have been set aside for the 2004/05 fiscal year. If needed, any costs will be absorbed in ministry budgets.

Restructuring charges include the cost of employee termination benefits and related severance costs, facility closure costs, costs to consolidate and relocate operations and other costs associated with the government's approved plan for restructuring. These costs are recorded in the year in which the restructuring decisions are finalized. Most restructuring charges are generally recovered after one year due to the lower overall operating cost for government.

Workforce Adjustment Strategy

The workforce adjustment strategy announced in November 2001 is aimed at aligning provincial government staff resources with core service needs, re-profiling the public service and helping to reduce the province's deficit. Restructuring costs associated with this strategy include the recognition of costs associated with the voluntary departure and early retirement incentive programs as well as employee severance costs, such as termination pay and salary during the notice period for affected employees. A provision of $215 million has been made for these costs.

Accommodation Restructuring Initiative

The accommodation restructuring initiative addresses the upcoming changes in ministry program delivery needs across government. Restructuring costs associated with this initiative primarily include the costs associated with reductions and/or changes in demand for accommodation. A provision of $200 million — $180 million for operating costs and $20 million for capital requirements — has been made for these costs.

Other Restructuring Costs

The remaining $135 million in restructuring costs — $95 million for operating costs and $40 million for capital requirements — will be used to address other costs associated with the government's approved plan for restructuring. Examples include costs for new systems development, losses related to asset impairments and disposals and penalties incurred to cancel existing contractual obligations.

	2001/02	2002/03	2003/04	2004/05	Total
			($ millions)		
Funding Categories					
Operating					
Workforce Adjustment Strategy	85	65	65	0	215
Accommodation Restructuring Initiative	0	135	45	0	180
Other Restructuring Costs	10	30	55	0	95
	95	230	165	0	490
Capital					
Accommodation Restructuring Initiative	0	15	5	0	20
Other Restructuring Costs	0	20	20	0	40
	0	35	25	0	60
Total Restructuring Costs	95	265	190	0	550

NEW APPROACH TO CAPITAL PLANNING

Investment in hospitals, schools, highways and other infrastructure is essential to the delivery of needed public services, and the province's economic growth. Investment in these assets has traditionally been at the expense of the province, and has contributed to overall provincial debt.

In order to help bridge the gap between the need for provincial infrastructure investment and the province's financial capacity, government is introducing some important changes that will affect how capital expenditures are planned, financed and implemented.

First, starting this year, agencies are required to accommodate debt service and amortization costs associated with capital expenditures within their operating spending targets. In the past, these costs were built into ministry budgets. In developing their capital plans, agencies must now consider not only what they need with respect to capital, but also what they can afford in terms of debt service and amortization, as well as funding to operate and maintain new facilities.

Second, recognizing the budget pressures faced by agencies and their on-going need for capital, agencies are being asked to explore new ways of funding and managing infrastructure projects in order to ensure the most effective and efficient delivery of public services. A broad range of alternative service delivery and public-private partnership opportunities will be considered.

Recognizing this practical and economic imperative, a Capital Asset Management Framework will be introduced in 2002 that has two key objectives:

- to establish best practices in capital asset management across the public sector; and
- to help ministries, health authorities, school districts and other public agencies find efficient and innovative ways to meet British Columbia's infrastructure needs.

The framework will require public sector agencies to challenge service delivery assumptions and explore a full range of options for effectively and efficiently meeting public needs. For example, as a first step in capital planning, agencies will ask:

- Is there another way to meet our service delivery needs that could avoid new capital spending? For example, is it more cost-effective to purchase services instead of building infrastructure?
- Is there a way to better manage or use existing assets that could reduce the need for additional capital expenditures?
- Is there a way to share the cost and risk of capital acquisition with, for example, a private sector partner?

The framework will also ensure the necessary checks and balances are in place to provide accountability, protect the public interest and effectively manage risk through all phases of capital projects. The following principles will be applied:

- *Sound Financial and Risk Management:* Capital spending will be managed within financial limits, and all capital projects will be supported by rigorous business case analysis.
- *Strong Accountability:* Agencies responsible for capital management will measure their performance and report results to the government and the public.
- *Emphasis on Service Delivery:* Agencies will challenge traditional service delivery assumptions and explore a full range of options for effectively and efficiently meeting public needs.
- *Value for Taxpayers' Dollars:* Capital decisions will be based on practical, project-specific assessments of a full range of options to achieve the best value for money while protecting the public interest.

- *Protecting the Public Interest:* Agencies will ensure their capital decisions safeguard the public interest by thoroughly considering factors such as public health, safety, environmental protection, accessibility, equity, privacy, security and reliability.
- *Competition and Transparency:* Services will be procured through competitive, open, and transparent processes.

Benefits of the New Approach

Government's new approach to capital planning and budgeting sets a new standard for the way the government acquires capital assets. It paves the way for a high-quality infrastructure system that meets people's needs and delivers on government's commitment to make the best use of every tax dollar.

The new framework will allow BC to develop a world-class capability that can be exported to other jurisdictions. This new approach will attract private sector investment in the province's infrastructure while creating a 'home grown' capability that will allow local business to export their expertise to other jurisdictions.

COMPLIANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The *Budget Transparency and Accountability Amendment Act, 2001* requires government to fully implement generally accepted accounting principles (GAAP) by April 1, 2004.

The Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants provides clarification and guidance with respect to the application of GAAP to senior governments in Canada. In practice, there are areas where PSAB recommendations are under review, or where application is varied among provincial governments.

British Columbia's financial statements and reports comply with PSAB/GAAP in all material ways with the following exceptions:

1 Reporting Entity

PSAB recommends that the government reporting entity include all organizations that are accountable for the administration of their financial affairs and resources either to a minister of the government or directly to the legislature and are owned or controlled by the government. An organization's governance structure is a significant factor in the determination of that organization's inclusion or exclusion.

Government's financial statements do not include school districts, universities and institutes, colleges (and other advanced education institutions), and health authorities (SUCH). The Auditor General has qualified his opinion on the government's audited Summary Financial Statements for a number of years arguing that, in his opinion, these entities meet the criteria for inclusion.

In the recent past, the government's bottom line would typically have improved slightly if these entities had been included. In 2000/01 the improvement would have been $98 million.

Inclusion of SUCH in the 2000/01 government entity would have also added some $5.3 billion worth of assets and $2.4 billion worth of liabilities to the government's financial statements.

2 Prepaid Capital Advances

PSAB recommends that governments write off amounts paid to organizations such as school districts and health authorities, to build or acquire capital assets such as schools, hospitals and diagnostic equipment, in the year in which they are paid.

The province records these payments as assets and amortizes them over the life of the underlying assets. The Auditor General supported adoption of this accounting treatment.

The 2000/01 *Public Accounts* includes approximately $6.9 billion in cumulative prepaid capital advances. In the same year the government paid some $750 million in capital advances and recorded approximately $360 million in related amortization expense.

Complying with PSAB would have resulted in the full write off of the advances and the reversal of the amortization expense — a net reduction in the bottom line of about $390 million.

Complying with PSAB would have also required the government to write off the cumulative amount of prepaid capital advances. If the SUCH sector was included in the reporting entity, most of the prepaid capital advances would be replaced by SUCH sector assets.

3 Tangible Capital Assets

PSAB currently recommends that governments fully write off tangible capital assets such as buildings, equipment, and highways in the year in which they are acquired or built.

The government uses private sector accounting practices for tangible capital assets — the assets are recorded on the balance sheet and written off (amortized) over their useful life. The Auditor General supports this accounting treatment. The 2000/01 *Public Accounts* includes approximately $11 billion in cumulative tangible capital assets.

In 2000/01 the government acquired some $1.2 billion in tangible capital assets and recorded approximately $500 million in amortization expense. Complying with PSAB would have resulted in the full write off of the acquired assets and the reversal of the amortization expense — a net deterioration in the operating statement bottom line of about $700 million.

PSAB Developments

There are many significant policy and implementation issues that will have to be resolved as government moves toward fully adopting PSAB recommendations. One of the most challenging is the definition of the government reporting entity. PSAB has established a task force to review the current recommendations and, accordingly, changes may be made in the not too distant future.

PSAB is also reviewing its recommendations with respect to capitalization of tangible capital assets. Future changes may be forthcoming in this area as well.

Government Implementation Plan

The government has established an accounting policy advisory committee to provide advice to Treasury Board on the full implementation of PSAB/GAAP. At least two members of the committee must be from a recognized professional accounting body, but employees of the government reporting entity and members of the Legislative Assembly may not be on the committee.

In addition, the Office of the Comptroller General will be working with Treasury Board Staff, ministries, Crown corporations and other organizations such as school districts, health authorities, universities and colleges to develop strategies for implementing PSAB recommendations.

Since the government is required to fully adopt GAAP/PSAB recommendations by 2004/05, the three-year fiscal plan includes an estimate of the bottom line impact of incorporating the SUCH sector into the government reporting entity in 2004/05.

The impact of fully writing off capital assets in the year in which they are acquired/built has not been factored into the fiscal plan, since the PSAB recommendations are being reviewed and may be changed to agree with the province's policies.

Fully adopting PSAB recommendations represents a significant challenge in terms of gathering information for budgets, three-year fiscal plans, quarterly reports and the Public Accounts. It will also require public agencies included in the government entity to adapt their financial reporting procedures. While presenting significant challenges, this step will maintain British Columbia at the forefront of Canadian public sector accounting practices and disclosure.

MINISTERIAL ACCOUNTABILITY FOR FISCAL TARGETS

The *Balanced Budget and Ministerial Accountability Act* (BBMAA) addresses fiscal responsibility by legislating balanced budgets beginning in 2004/05. The act also provides for greater ministerial accountability by imposing penalties if spending targets and, in some cases, performance targets are not met. The act comes into effect on April 1, 2002.

The BBMAA works in concert with the *Budget Transparency and Accountability Act* (BTAA). The BTAA legislates the requirement for service plans and annual service plan reports. Ministries and government organizations must publish these documents, which set out their goals and specific objectives and performance measures, and later report on results achieved. The BTAA also requires ministers to sign accountability statements in service plans confirming they are responsible for the basis of the plans and for achieving the specific objectives.

The BBMAA requires balanced budgets beginning in 2004/05, prohibiting deficits thereafter. Deficits are permitted in 2002/03 and 2003/04. However, if the actual financial results are worse than the original budgeted amounts, salary penalties will apply both to Cabinet as a whole and to individual ministers.

For the next two years, the provisions of the act work in the following manner:

- Each minister's Cabinet salary[1] is reduced by 20 per cent, effective April 1 of each year.
- This reduction may then be restored, in whole or in part, based on the following conditions:
  - — 10 per cent is restored if the government's bottom line result meets or beats the deficit target for that year.
  - — The other 10 per cent is restored to individual ministers if the actual spending in their ministry (including other appropriations under their responsibility) is less than or equal to the target set out in the main *Estimates* for that year.

For the 2004/05 fiscal year and thereafter, the first 10-per-cent reduction is restored if there is not a deficit and if the actual surplus is at least 50 per cent of the budgeted amount.

As before, the other 10-per-cent reduction is restored for individual ministers if they remain on or under their spending budgets, as set out in each year's main *Estimates*.

There are two unique cases, one for the Minister of Provincial Revenue, and one for ministers of state. They are:

- The second half of the 20-per-cent reduction is restored for the Minister of Provincial Revenue if the actual incremental revenue received in the year from designated sources as a result of audit and collection activity meets or beats the target specified by Treasury Board regulation each year.
- The second half of the 20-per-cent reduction is restored for ministers of state if specific performance targets, documented in their respective ministry service plan accountability statements and specified in regulation, are achieved. For example, in 2002/03 the Minister of State for Deregulation is to achieve a 12-per-cent reduction in the regulation burden, and the Minister of State for Early Childhood Development is to establish urban Aboriginal early childhood development programs in 18 communities.

The financial results for a given year will be published in the Public Accounts and performance results will be published in annual service plan reports produced by each ministry. These documents will be made public by August each year. At that time, if the conditions of the BBMAA have been met, the portions of ministers' salaries that had been withheld will be reimbursed.

[1] The Cabinet portion of salaries is $45,000 for the Premier, $39,000 for Ministers and $25,000 for Ministers of State.