



BRITISH
COLUMBIA

Ministry of Finance

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BUDGET 2002 IN BRIEF

**What
Budget 2002
Means to You**

The 2002/03 provincial budget delivers on three major government commitments:

- To restore sound fiscal management;
- To revitalize the economy; and
- To put patients and students first.

The government's first full budget protects funding for health care and education. It's also a major step toward balancing the budget and maximizing the province's opportunities for new growth and increased private-sector investment.

Reasonable, responsible, affordable and realistic, Budget 2002 sets out a plan to build a strong, vibrant economy and to serve British Columbians well by getting government right. Ultimately, it is a clear, three-year path to renewed hope and prosperity.

RESTORING SOUND FISCAL MANAGEMENT

A First in Detailed, Three-Year Service Plans

- Budget 2002 is the first to include three-year service plans for ministries and Crown corporations. These will be reviewed and updated annually to reflect progress and changing economic and financial circumstances.
- The three-year fiscal plan is based on two main strategies: building a strong, vibrant economy and eliminating the deficit.

Responsible, Accountable Management of Tax Dollars

- As required by legislation, a balanced budget is forecast for 2004/05. This will follow forecast deficits of \$4.4 billion in 2002/03 and \$1.8 billion in 2003/04.
- After 2002/03, revenues will increase by \$2.3 billion and spending will decrease by \$1.4 billion, combining to reduce the deficit to zero by 2004/05.
- The fiscal plan is based on most-likely economic and revenue forecasts. The government is forecasting B.C.'s economy to grow 0.6 per cent in 2002, 2.8 per cent in 2003, 3.1 per cent in 2004 and 3.0 per cent in 2005. These figures are slightly lower than those of the independent British Columbia Economic Forecasting Council.
- Funding will be preserved for health and education. All other ministry spending will be cut by 25 per cent over three years.

- To show leadership in controlling government's costs, all government MLAs are taking a five per cent pay cut, and the government caucus budget has been reduced by 25 per cent.
- Starting April 1, the Premier and cabinet ministers will be collectively and individually accountable for spending control. They will incur cabinet salary penalties of up to 20 per cent if they fail to meet specific budget or performance targets.

Why We Have a Deficit

The \$4.4 billion deficit for 2002/03 results from a number of factors, including:

- An underlying, structural deficit;
- Weak revenues that reflect the global economic slowdown and lower commodity prices;
- Ongoing investment in a competitive personal and business tax structure;
- One-time costs associated with restructuring government (e.g., severance and lease termination);
- Increased compensation costs associated with recruiting and retaining health-sector workers and professionals for whom demand is high that are offset by specific revenue measures;
- The first phase of three-year spending cuts; and
- A \$750 million forecast allowance to protect budget targets against economic risks and revenue shortfalls.

Total government debt is expected to increase over the next three years. Eliminating the deficit, as quickly as possible, is essential to avoid burdening future generations with escalating debt-interest costs. Once the budget is balanced in 2004/05, the ratio of taxpayer-supported debt to GDP is expected to decline.

An Improved Capital Plan

- Capital funds are no longer allocated through a separate budgeting process. Instead, integrated operating and capital budgeting decisions will be driven by service plan objectives and ministry operating budgets. Ministries must meet all operating, maintenance, amortization and debt-interest costs associated with capital facilities.

REVITALIZING THE ECONOMY

A Better and More Competitive Tax System for B.C.

- Budget 2002 builds on the new competitive tax system the government began introducing last summer, by expanding the range of machinery and equipment parts exempt from PST and increasing the threshold for the small business income tax rate to \$300,000 from \$200,000. In 2002/03, these measures will return about \$25 million to B.C. businesses.

- Streamlining measures in the budget include rewriting legislation to reflect the elimination of corporation capital tax on non-financial corporations.
- To improve fairness, disability-related credits will be increased to reduce income tax for persons with disabilities and their caregivers. These credits will be indexed annually for inflation.
- Budget 2002 also implements a New Era commitment by refunding PST on school purchases made with funds raised by parent advisory councils.
- Last year, government cut provincial personal income tax by at least 25 per cent for all taxpayers and by 28 per cent for those in the lowest tax bracket.
- British Columbians now pay the lowest rate of provincial personal income tax on their first \$60,000 of income and enjoy the second-lowest top marginal tax rate in Canada. For businesses, the corporation income tax rate fell to 13.5 per cent from 16.5 per cent on Jan. 1, the corporation capital tax on non-financial corporations will be eliminated September 1, 2002, and a new provincial sales tax exemption was introduced for production machinery and equipment on July 30, 2001.

B.C. is Back

Budget 2002 reaffirms government's commitment to maximize the value of B.C.'s resource sector while encouraging emerging industries that offer significant potential for growth. This means:

- Revitalizing the forest industry by moving towards a market-based stumpage system, introducing tenure reforms, providing greater certainty through a working forest base, and streamlining the Forest Practices Code;
- Accelerating development of the energy sector through a new royalty and regulatory structure to encourage the development of coalbed methane, infrastructure projects to improve land access, and a single-window process to speed up and streamline the granting of energy permits;
- Reducing the regulatory burden and levelling the playing field for investment by eliminating business subsidies;
- Supporting mineral exploration and development;
- Working with the Premier's Technology Council to make B.C. one of the world's leading technology centres;
- Encouraging a greater private-sector role in providing public infrastructure and services through P3s and alternative service delivery models;
- Realizing economic benefits by promoting B.C. to the world through the 2010 Olympic bid and a new effort to brand the province; and
- Fostering growth in other sectors, including agriculture and aquaculture, as well as film and television production and new media.

PUTTING PATIENTS AND STUDENTS FIRST

Increased Compensation for Our Health Professionals

- Budget 2002 includes several revenue measures to pay for compensation increases in the health sector and thereby ensure the recruitment and retention of nurses, doctors and other skilled workers.

- To pay for the nearly \$800 million in compensation increases in 2002/03, effective February 20, 2002 the provincial sales tax (PST) rate will rise to 7.5 per cent from 7 per cent and the tobacco tax rate will increase by \$8 a carton. In addition, MSP premiums will increase by 50 per cent on May 1, 2002.
- To protect low-income earners, MSP premiums will decrease or be eliminated for 230,000 people, and the refundable B.C. sales tax credit will rise to \$75 a year from \$50.

Improving Patient Care Through Better Fiscal Management

- Budget 2002 increases the budget for the Ministry of Health Services to \$10.2 billion from \$9.5 billion to help pay for the cost of recruiting and retaining high-demand health sector workers.
- As a result of the streamlined governance structure introduced in 2001, health authorities will be able to reduce administrative costs, realize economies of scale and maximize the value patients receive for every health-care dollar.

Improving Learning Conditions

- The Ministry of Education's budget is \$4.86 billion, and the Ministry of Advanced Education's budget is \$1.9 billion, consistent with 2001/02.
- Lifting the six-year tuition freeze will help colleges and universities access the resources they need to meet growing demands while protecting B.C.'s high quality of education.
- Initiating a \$45 million partnership with the private sector to establish 20 research chairs — in the fields of medical, social, environmental and technical research — will help attract the expertise B.C. needs to compete and lead in the knowledge-based economy.
- Budget 2002 supports government's commitment to double the number of graduates in computer science, electrical engineering and computer engineering in the next five years, to promote growth of the high-tech sector.
- The government will also work with B.C. universities to increase the number of medical school graduates and will increase the number of student spaces for nurses and residential care aides over the next three years.

Third-Quarter Results for 2001/02

The deficit for 2001/02 now is forecast to be \$3.4 billion, excluding the one-time pension adjustment of \$1.4 billion, consistent with the second-quarter update.