

2001-02 Annual Report

GOVERNMENT OF ALBERTA

REPORT TO ALBERTANS ON BUDGET 2001

Alberta

GOVERNMENT OF ALBERTA

This is the report to Albertans on **Budget 2001 – The Future – Meeting Priorities, Sharing Benefits**. It is a permanent public record of ALL the dollars spent and the results achieved by the Government of Alberta for the 2001-02 fiscal year.

ACCOUNTABILITY STATEMENT

The government's Annual Report for the year ended March 31, 2002 was prepared under my direction on behalf of the government in accordance with the *Government Accountability Act* and the government's accounting policies. All of the government's policy decisions as at June 20, 2002 with material economic or fiscal implications have been considered in the preparation of the Annual Report.

[original signed]

Patricia L. Nelson
Minister of Finance

BUDGET 2001

THE FUTURE: MEETING PRIORITIES SHARING BENEFITS

A MESSAGE FROM THE MINISTER OF FINANCE

Fiscal 2001-02 was a year when this government met its commitment to the priorities of Albertans in an environment of global uncertainty. For the first time in nine years, revenue was lower than budgeted. It was a year of turmoil and challenge. Global economic growth slowed more sharply than anticipated, energy prices declined faster than expected and events throughout the world impacted both our economy and our society.

To accompany global events, Alberta also experienced the worst drought in a century and fighting forest fires in the province also required additional funding. However, despite the necessity of making changes to the province's fiscal plan, the primary commitments of *Budget 2001* remained on target. We delivered a balanced budget for the eighth consecutive year. We also continued to pay down the debt, reduced taxes for both personal and corporate taxpayers and enhanced spending in priority areas.

This annual report shows the financial and performance results for the past year and compares our actual results to the budget plan. While no one could have predicted the events of the past year, this government was able to take quick and effective action to ensure it kept its commitments to Albertans.

MEETING PRIORITIES

Albertans priorities were met in a number of ways this past year. They included the corrective measures taken in October that kept the budget balanced and showed fiscal responsibility, something Albertans have come to expect. Albertans have also told us the importance of health and education. On a functional basis, those two areas accounted for 61 per cent of all government spending last year. This included support for the increased costs of medicines and health services, improvements to facilities and equipment as well as rising costs and enrolments at schools.

Infrastructure spending was also a key area. In 2001-02, approximately \$3 billion was allocated for infrastructure initiatives, including transportation, education and health facilities as well as seniors' housing and water management.

Funding was also made available for emergency drought and farm assistance for farmers and ranchers. And to help Albertans with high energy costs in the early part of the fiscal year, rebates were made available.

Debt elimination has also been a priority of Albertans and the government helped meet that goal by reducing the accumulated debt, less cash set aside for future debt repayment, to \$5.3 billion. One of the benefits of lower debt is lower debt servicing costs. This is money that is permanently freed up for use on other priorities.

SHARING BENEFITS

The past year saw Albertans at all income levels share in the benefits of a lower tax regime as more than 200,000 lower income Albertans were removed from the provincial tax rolls and personal exemption limits, indexed to inflation, were increased to \$13,339, the highest in Canada by far. The single rate tax plan saw Albertans save \$1.1 billion on personal income tax in 2001. Business also saved as government reduced their taxes by \$286 million in the past fiscal year.

In 2001-02, there were also new educational opportunities as entry spaces were created in critical areas such as health, education, business, and information technology and over 3,800 apprenticeship spaces were also created.

Albertans enjoy the highest personal disposable income per capita among the provinces, the lowest unemployment rate among the provinces and the opportunities that result from the creation of 43,900 new jobs. Alberta's economy performed strongly despite challenges in the year, growing by an estimated 4.5 per cent.

While many aspects of our fiscal plans were tested last year, we also learned a great deal. All told, we confirmed that the fiscal foundation of the province is solid and able to weather uncertain economic conditions. We also showed that this government can and will take necessary actions to maintain our commitments to the *Fiscal Responsibility Act* and the people of Alberta.

[original signed]

Patricia L. Nelson
Minister of Finance

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PREFACE

The Public Accounts of Alberta are prepared in accordance with the *Financial Administration Act* and the *Government Accountability Act*. The Public Accounts consist of the annual report of the Government of Alberta and the annual reports of each of the 24 ministries.

This annual report of the Government of Alberta contains the Minister of Finance's accountability statement, the consolidated financial statements of the Province and a comparison of the actual performance results to desired results set out in the government's business plan, including the Measuring Up report.

On March 15, 2001, the government announced new ministry structures. Ministry annual reports and financial statements are being prepared as if the new ministries were in existence on April 1, 2000 and throughout the two-year period covered by their financial statements.

The annual reports of ministries, released in the fall of each year, contain Ministers' accountability statements, the audited consolidated financial statements of the ministries and a comparison of actual performance results to desired results set out in the ministries' business plans. Each ministry annual report also includes:

- financial statements of entities making up the ministry including departments (all departments combined form the General Revenue Fund), regulated funds, provincial agencies and Crown-controlled corporations,
- other financial information as required by the *Financial Administration Act* and *Government Accountability Act*, either as separate reports or as a part of financial statements, to the extent that the ministry has anything to report, and
- financial information relating to accountable organizations and trust funds.



2001-02 Annual Report

GOVERNMENT OF ALBERTA

Executive Summary

The Government of Alberta Annual Report is comprised of two parts:

- *Consolidated Financial Statements*, which provide an overall accounting of the Government's revenue and spending, and assets and liabilities.
- *Measuring Up*, which reports on the progress achieved on core government performance measures.

Annual reports for each ministry are published in September and provide additional detailed information on performance and financial results.

BUDGET 2001

THE FUTURE: MEETING PRIORITIES SHARING BENEFITS

OVERVIEW

Budget 2001 - The Future: Meeting Priorities, Sharing Benefits was focused on improving and strengthening Alberta's advantages. Within a framework of sound fiscal management and debt repayment, *Budget 2001* set out the following priorities:

- improving the quality of life of Albertans, with a focus on health care, education and social services,
- strengthening the Alberta economic advantage, including increased investment in infrastructure and
- increasing the Alberta tax advantage.

While uncertainty over government revenue forced some changes to budget plans, the basic commitments made in the budget were met.

- The budget was balanced for the eighth consecutive year and debt was reduced.
- Health, education and social services funding was increased to meet the needs of Albertans.
- A plan for reforming health care was established.
- Over \$3 billion was provided to address the infrastructure requirements of Alberta's economy and increasing population.
- The new personal income tax system was implemented on January 1, 2001. On April 1, 2001, the first stage of business tax cuts recommended by the Business Tax Review Committee was implemented.

FISCAL RESPONSIBILITY

- 2001-02 was a year of turmoil and uncertainty. Economic growth slowed more sharply than expected across North America and the world. Alberta farmers faced their worst drought in over a century. Energy prices declined faster than expected. The events of September 11 sent reverberations throughout the economy and society.
- For the first time in nine years, revenue was lower than budgeted. At the same time, additional funding was required to address drought conditions and forest fire-fighting costs. The government was required to adjust its budget plans.
- In October 2001, corrective actions were taken to ensure the budget remained balanced and core public services were protected. Some infrastructure spending was deferred and internal efficiencies, including a freeze on hiring and discretionary spending, were implemented.
- Stronger fourth quarter results for corporate income tax and non-renewable resource revenues allowed the government to restore some of the deferred infrastructure spending at the end of the fiscal year.
- Total revenue in 2001-02 was \$646 million lower than budgeted. Spending was \$601 million lower than budgeted (including the net change in capital assets affecting operations).
- The year-end economic cushion was \$772 million compared to the budget estimate of \$817 million.
- The 2001-02 results will allow accumulated debt less cash set aside for future debt repayment to be reduced to \$5.3 billion.

Fiscal Summary

(millions of dollars)

	2001-02		2000-01
	Budget	Actual	Actual
Revenue	22,673	22,027	25,597
Expense			
Program	20,832	20,145	18,044
Debt servicing costs	750	774	980
Pension provisions	30	29	14
Total Expense	21,612	20,948	19,038
Net revenue	1,061	1,079	6,559
Less: Net increase in capital assets affecting operations	274	336	185
Net results of operations	787	743	6,374
Removal of pension provisions	30	29	14
Economic Cushion^a	817	772	6,388

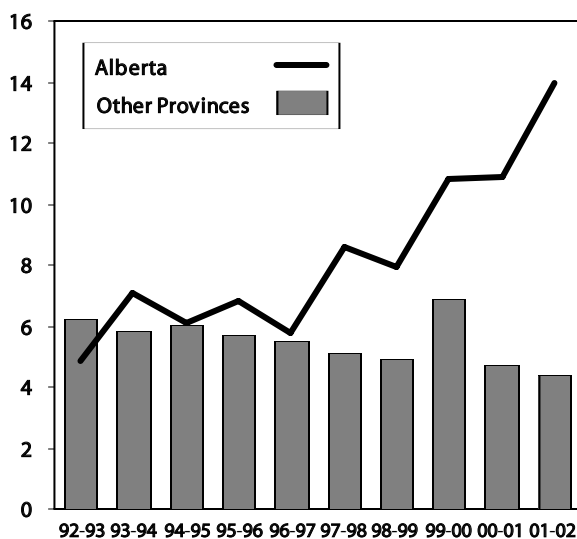
^a Subject to *Fiscal Responsibility Act*, excludes the change in pension provisions. Total spending referred to in the Executive Summary equals total expense plus net increase in capital assets affecting operations less pension provisions.

ALBERTA'S ECONOMY

- Alberta's economy performed strongly in 2001 despite declining energy prices and a U.S. recession. The economy grew by an estimated 4.5% (real gross domestic product), the highest growth among provinces and only slightly lower than the 4.8% growth forecast in the budget.
- Employment grew by 2.8% or 43,900 new jobs. Alberta's unemployment rate averaged 4.6% in 2001, the lowest rate since 1981 and one-third lower than the national rate of 7.2%.
- Alberta had the highest personal disposable income per capita among provinces in 2001. Strong growth in personal income and the introduction of a single rate personal tax system contributed to 8.1% growth in personal disposable income, close to double the Canadian growth of 4.3%.
- Alberta's population was estimated to be 3,088,706 as of January 1, 2002, up 1.8% from the previous year, the strongest growth among provinces.
- The strong economic and population growth placed increased demands on Alberta's infrastructure. In 2001-02, over \$3 billion was provided for health, education, transportation and other infrastructure projects. This represented over 14% of total spending and approximately three times the average rate of other provinces.

Interprovincial Comparison of Capital Expenditure

(percent of total spending)



Source: Dominion Bond Rating Service Limited, The Canadian Federal and Provincial Governments, November 2001. Alberta data for 2001-02 updated by Alberta Finance.

ALBERTA'S TAX ADVANTAGE

- In 2001, Albertans received the full benefit of the move to the single rate personal income tax system, saving \$1.1 billion.
- The government reduced business taxes by \$286 million in 2001-02 and announced a schedule for further cuts, subject to affordability. *Budget 2002* indicated that future tax cuts will proceed but at a slower rate.
- The general business income tax rate was cut from 15.5% to 13.5% effective April 1, 2001. The small business income tax rate was cut from 6% to 5% and the small business income threshold increased to \$300,000.
- The capital tax on financial institutions was eliminated.
- Albertans, 16 years and older, received \$150 each as the second installment of their Energy Tax Refund.

HEALTH

- The Premier's Advisory Council on Health undertook an extensive investigation into health care in Alberta and released its recommendations in January 2002. All 44 recommendations were accepted and the government began to implement the Action Plan on Health Care Reform.
- Immunization programs were expanded. A province-wide meningococcal immunization program was implemented. A new meningitis vaccine was made available to children under two years of age and a new chickenpox vaccine was added to the infant immunization program.
- Increased funding for MRIs allowed the number of scans to reach 24 per thousand population, the highest rate in Canada.
- Funding was provided to increase the recruitment of physicians, including highly skilled neurosurgeons, cardio-vascular surgeons and other specialists. Thirty-seven medical residency positions in a new two-year rural family medicine training program were also established.
- Amendments were made to the *Health Professions Act* to establish consistent regulatory rules for health professions in Alberta.
- A tobacco reduction strategy was developed, including tax increases on tobacco products in March 2002.
- On January 1, 2002, long-term accommodation rates were raised for the first time since 1994 to provide additional funding for the operation of long-term care facilities. Residents with low income were shielded from the rate increase.
- The first election of members of the boards of Regional Health Authorities was held in October 2001.
- Approximately \$500 million was provided for the construction and upgrading of health facilities, and for health equipment. This included the upgrading of Foothills Hospital in Calgary, Royal Alexandra and University of Alberta Hospitals in Edmonton and the Red Deer Regional Hospital.
- Total health spending, including grants for construction and upgrading of health facilities, reached \$6.8 billion, an increase of 14.5% or \$862 million from the previous year.

EDUCATION

- A major upgrading and expansion of education facilities took place in 2001-02. Approximately \$1 billion in capital support was provided for school and post-secondary facilities, a \$748 million increase from the previous year.
- The increased capital funding will allow for the building of 18 new schools and upgrading and expansion of approximately 90 other schools in the province. Capital support for post-secondary facilities included the expansion of the Red Deer College, Mount Royal College, Medicine Hat College, Lethbridge Community College, Southern Alberta Institute of Technology, the engineering facility at the University of Alberta, Bow Valley College and Athabasca University.
- Increased entry spaces were provided in critical post-secondary areas. This included over 1,300 new entry spaces in health, business, teacher education, and information technology, and over 3,800 new apprenticeship spaces. The Registered Nurse Accelerated Track Education program was introduced to help alleviate the shortage of nurses.
- Additional funding was provided to attract and retain high quality faculty, especially in critical areas such as medicine, computer science, engineering and business.
- Student loan programs were restructured in 2001-02. The province assumed responsibility for financing of all Alberta student loans issued after July 31, 2001. Student finance programs were enhanced and a new student loan relief program was implemented for eligible first-year students.

- The Alberta Initiative for School Improvement continued to help in the development of new ideas and approaches to improved learning through more than 700 projects across Alberta. The Initiative gives schools the flexibility to propose a range of improvement strategies such as early literacy, math skills, smaller class sizes, and stay-in-school programs.
- The Family Literacy Strategy was implemented to expand and enhance community-based literacy programs.
- The Alberta Computers for Schools program distributed 24,000 refurbished computers to schools and libraries so students have extra resources to develop technology skills.
- A new "LearnAlberta" website was established to enhance students learning in the classroom with resources such as curriculum-based concept lessons and a comprehensive online reference centre.
- Total spending on basic and post-secondary education, including grants for capital upgrading and expansion, reached \$6.1 billion, an increase of 21.4% or \$1.1 billion from the previous year.

INFRASTRUCTURE / TRANSPORTATION INITIATIVES

- Over \$3 billion was provided for infrastructure initiatives in 2001-02. This included approximately \$1 billion for transportation, \$1 billion for educational facilities, \$0.5 billion for health facilities and equipment, and \$0.5 billion for other infrastructure (including seniors' housing, water and water management, and SuperNet).

- Transportation initiatives included over \$700 million for maintenance, rehabilitation and construction of provincial highways and continued work on the North-South Trade Corridor.
- Approximately \$260 million was provided for municipal transportation partnerships, including Rural Transportation Partnerships, Alberta Cities Transportation Partnerships, resource/new industry roads, and streets improvement program. All municipalities received the equivalent of the full Premier's Task Force grant levels to March 31, 2003.
- A review of security and emergency response plans was undertaken. Increased funding was provided for Crown prosecutors and provincial policing programs.
- Environment initiatives included initial planning for a provincial water strategy, new emission standards for new coal-fired power plants, and research funding on climate change and flaring emissions.
- Following a review of the province's gaming licensing policies, new policies were approved to manage future expansion of gaming in Alberta.

OTHER KEY INITIATIVES

- Spending on services for children increased by 9%, responding to growth in caseloads and allowing for the expansion of early intervention and outreach programs. A new method for the management of child welfare cases was established which emphasizes strengthening community supports for families.
- Nearly \$500 million in emergency agriculture assistance was provided through the Farm Income Assistance Program and higher-than-normal payments for safety net programs.
- The Healthy Aging Partnership Initiative assisted the development of seniors' supportive housing projects.
- Over \$500 million in energy cost assistance was provided to Albertans and Alberta businesses to help with high energy costs in the early part of the fiscal year. This included the second installment of the Energy Tax Refund and energy rebate programs.

ACHIEVING BUSINESS PLAN GOALS

The Measuring Up section of the Annual Report provides non-financial information on Alberta's progress in achieving the goals outlined in the 2001-04 Government Business Plan, *Budget 2001 - The Future: Meeting Priorities, Sharing Benefits*.

PEOPLE

- *Albertans will be healthy.* – Albertans continued to rank among the top ten countries in the world for life expectancy. Albertans' self reported health status was lower than in previous years.
- *Alberta's children will be well cared for, safe, successful at learning and healthy.* – As reported last year, fewer children were economically disadvantaged compared to children in other provinces, based upon preliminary 1997 methodology for the new Market Basket Measure of low income. 2000 data is anticipated for release in Fall 2002.
- *Alberta students will excel.* – Albertans aged 25-34 continued to rank third and fifth respectively among the provinces in completing high school and post-secondary. Alberta students continued to perform well on cross-Canada and international achievement tests. Alberta Grade 9 students continued to do well on language arts provincial achievement tests; however, their performance on mathematics tests, which improved slightly, remained below provincial expectations.
- *Albertans will be independent.* – In comparison to other provinces, Alberta had the highest percentage of Albertans who lived above the Market Basket Measure low income threshold, based upon preliminary 1997 methodology. 2000 data is anticipated for release in Fall 2002.
- *Albertans unable to provide for their basic needs will receive help.* – See above comment on Market Basket Measure.

- *The well-being and self reliance of Aboriginal people will be comparable to that of other Albertans.* – Socio-economic disparities between First Nations, Metis and other Aboriginal communities and other Albertans in life expectancy, employment and education need to be narrowed. Census data for 2001 will be available in 2003.

PROSPERITY

- *Alberta will have a prosperous economy.* – Alberta's economy performed well despite a global economic slowdown and the September 11 terrorist attacks on the U.S. that further weakened the U.S. economy. The provincial economy continued to expand due to strong growth in oilsands investment, record receipts in the livestock sector, a boost in housing starts, and healthy household spending fuelled by a robust labour market and large provincial income tax cuts. Alberta's personal disposable income per capita was the highest in Canada.
- *Alberta's workforce will be skilled and productive.* – Alberta employers continued to be satisfied with the skills of recent degree, diploma and apprenticeship graduates. Alberta's labour productivity continued to rank highest among the provinces.
- *Alberta businesses will be increasingly innovative.* – Results for Alberta business use of the Internet to sell goods and services were not available from Statistics Canada as previously expected. Next year, the percentage of households surveyed that have a family member using the Internet at work will be used as an indicator of the innovativeness of Alberta businesses. Gross expenditure on R&D by Alberta's business sector continued to decline in 1999 in value and as a share of total Canadian business R&D expenditure.

- *Alberta's value-added industries will lead economic growth.* – Alberta's value-added sector continued to expand at the same rate as the rest of the economy so its share of Alberta's economy remained the same. Both the manufacturing and knowledge intensive services industries contributed to the expansion of the value-added sector.
- *Alberta will have effective and efficient infrastructure.* – Rural sections of the National Highway System continued to meet the target to provide good traffic flow. Export gas pipeline capacity exceeded throughput demand. Industry and non-profit sponsored research at Alberta universities was up as a percentage of total sponsored research but still below the percentages achieved in previous years.
- *Alberta will have a financially stable, open and accountable government.* – The province earned a triple A credit rating from all three major credit rating agencies, the highest possible rating and highest among the provinces. Alberta had the lowest provincial tax load on persons among the provinces and the second lowest provincial tax load on business. The province continued to be ahead of schedule for accumulated debt repayment and to be the only province in an overall net asset position. Provincial government expenditure per capita grew faster than the average of the nine other provinces; however, Alberta government spending as a percentage of GDP was lowest among the provinces.
- *Alberta will have a fair and safe work environment.* – In 2001, Alberta ranked second lowest among the provinces for person-days lost due to work stoppages up from fourth lowest, and was third lowest for workplace injury and disease in 1999.
- *Alberta businesses will increase exports.* – The value of Alberta's value-added exports declined following a notable surge in value-added exports in 2000. A global slump in the information and

technology sector and weak forest product prices dampened manufacturing exports. Tourism was down as a result of the September 11 terrorist attacks on the U.S.

PRESERVATION

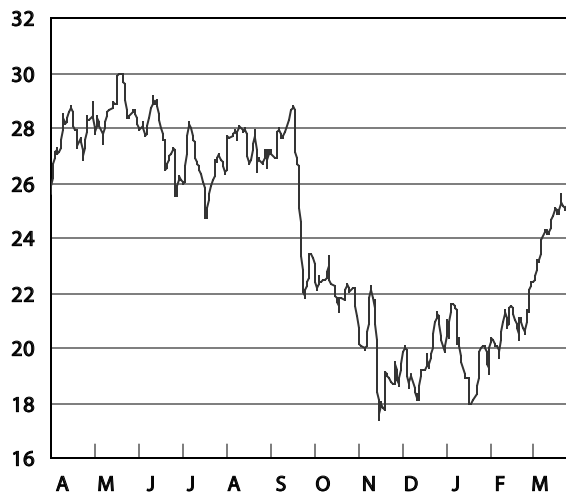
- *Alberta will be a safe place to live and raise families.* – The gap between Alberta's crime rate and the national rate narrowed last year, although Alberta's crime rate remained above the national rate. Alberta's property and violent crime rates are the lowest of the four western provinces.
- *Alberta's renewable natural resources will be sustained.* – Alberta's timber harvest remained below the annual allowable cut, which is a measure of sustainability. Land productivity continued to fall owing to dry conditions in much of southern and central Alberta.
- *The high quality of Alberta's environment will be maintained.* – There were no days of poor air quality last year and water quality improved as a result of better control of effluent discharged into the rivers and improvements in wastewater treatment facilities. Land quality was lower due to drought conditions. Twelve species of wildlife are considered "at risk".
- *Albertans will have the opportunity to enjoy the province's natural, historical and cultural resources.* – The government continued to increase the area within the province designated as parks and protected areas. In 2000-01 there was a slight increase in the number of Albertans visiting these areas, and there has been a decline in visitors to provincially-owned historic sites, museums and interpretive centres.
- *Alberta will work with other governments and maintain its strong position in Canada.* – The Alberta government's rating on federal-provincial relations improved last year and continued to be above the four-province average.

FINANCIAL RESULTS – MANAGING DOLLARS

- The province lowered its revenue forecast during the first half of the year in response to lower-than-expected energy prices, weakening world economies and a decline in world equity markets.
- This situation, combined with higher-than-budgeted costs for agriculture assistance and forest fire-fighting, required the government to take corrective actions to keep the budget in balance. In October 2001, a freeze on hiring and discretionary spending and the deferral of \$735 million in infrastructure projects were announced.
- During the fourth quarter of the fiscal year, the province's fiscal outlook started to recover (primarily due to stronger corporate income tax revenue and a partial recovery in energy prices) and about \$350 million of infrastructure funding was restored.
- The province ended the year with an economic cushion of \$772 million (excluding the change in pension liabilities). This was \$45 million lower than budgeted.

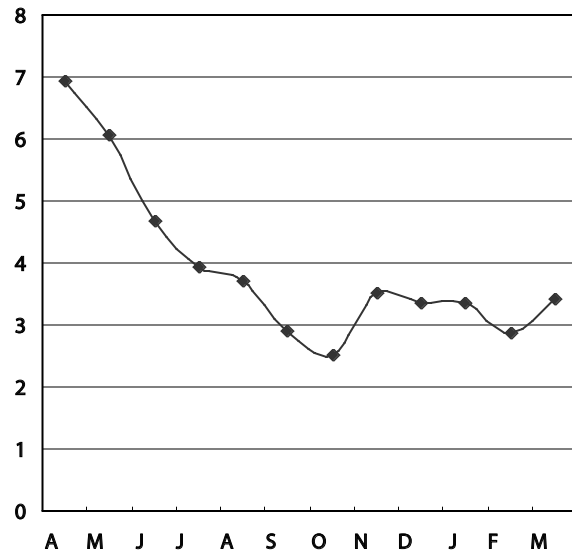
Oil Prices, 2001-02

West Texas Intermediate
(US\$/barrel)



Natural Gas Prices, 2001-02

Alberta Reference Price
Monthly Average
(Cdn\$/mcf)



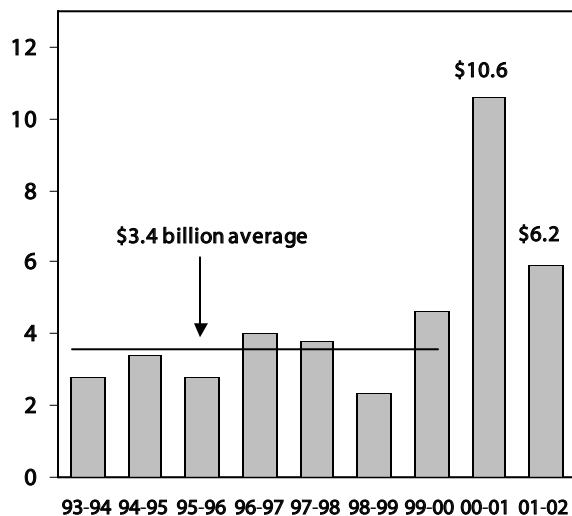
REVENUE

- Total revenue was \$22 billion in 2001-02. This was \$3.6 billion, or 13.9%, lower than in 2000-01 and \$646 million, or 2.8%, lower than budgeted. The decline in revenue was primarily due to lower natural gas prices and a reduction in investment income.
- **Non-renewable resource revenue** was \$6.2 billion in 2001-02. This was \$4.4 billion, or 41.2%, lower than in 2000-01 and \$1.3 billion, or 17.4%, lower than budgeted.

Non-renewable resource revenue was at a record level in 2000-01 and was expected to gradually fall back to more 'normal' levels over the following three years. This adjustment took place more quickly than expected, in part due to a rapid slowdown in world economies.

Non-renewable Resource Revenue

(billions of dollars)



Natural gas prices fell from an average of Cdn\$6.08 per thousand cubic feet in 2000-01 to an average of Cdn\$3.94 in 2001-02. This was \$1.09 lower than the budget estimate.

Oil prices declined from an average of US\$30.20 per barrel in 2000-01 to US\$24.17 in 2001-02. This was 83 cents lower than the budget estimate.

- **Tax revenue** was \$9 billion in 2001-02. This was an increase of 5.6%, or \$472 million from 2000-01, and 6.1%, or \$517 million, higher than budgeted.

Personal income tax revenue increased by 6.1% or \$240 million from 2000-01, largely due to prior-year adjustments. The growth in tax revenue due to employment and income growth was offset by the 2001 personal income tax cuts. Personal income tax revenue was \$106 million higher than budgeted.

Corporate income tax revenue increased by 10.2% or \$206 million from 2000-01 largely due to continued strength in energy industry profits. Corporate income tax revenue was \$255 million higher than budgeted.

Other tax revenues were essentially unchanged from 2000-01 but \$156 million higher than budgeted. The higher-than-budgeted revenue reflected increases in freehold mineral rights, tobacco and school property tax revenues.

- **Transfers from the Government of Canada** were \$2.3 billion. This was an increase of 25.2% or \$455 million from 2000-01, and \$186 million higher than budgeted. The increase was due to higher Canada Health and Social Transfer payments and federal agriculture assistance.
- **Investment income** was \$788 million. This was a decrease of 41.6%, or \$562 million, from 2000-01 and \$468 million lower than estimated in the budget. The decline reflected the weakness in the world equity markets, particularly in the high technology sector.
- **Revenue from all other sources** was \$3.8 billion. This was an increase of 12.7%, or \$424 million from 2000-01, and \$428 million higher than budgeted. This reflected higher revenue from lottery operations, private re-insurance proceeds for crop claims, refunds of prior-year expenditures for energy rebates and increased restricted revenue and expense of the Alberta Dairy Control Board.

SPENDING

Total spending (including net change in capital assets affecting operations) was \$21.3 billion in 2001-02. This was \$2 billion, or 10.7% higher than in 2000-01. The year-over-year increase reflects:

- \$1 billion increase in spending on infrastructure (including education, transportation and health capital);
- \$1.2 billion net increase in program spending for health, education, agriculture assistance and other areas (excluding spending on infrastructure); and
- \$206 million decrease in debt servicing costs.

Spending in 2001-02 was \$601 million, or 2.8% lower than estimated in the budget primarily due to lower energy shielding costs and deferral of some infrastructure projects.

On a functional basis, health and education accounted for 61% of total expense. Major changes in spending from the previous year and from budget include:

- **Health** spending increased by \$862 million or 14.5% from 2000-01 to \$6.8 billion. This additional spending supported the increased costs of drugs and health services, wage settlements and initiatives to improve access. Spending was \$350 million less than budgeted primarily due to the deferral of some health capital projects.
- **Education** spending increased by \$1,075 million or 21.4% from 2000-01 to \$6.1 billion. Operating grants were increased for both basic and post-secondary education to cover rising costs and enrollment. There was a \$748 million increase in the construction and modernization of schools and post-secondary facilities. Spending was \$33 million higher than budgeted primarily due to infrastructure spending.

- **Social Services** spending increased by \$154 million or 8.6% over 2000-01 to \$1.9 billion. This reflected increased spending on children's services and services for Albertans' with disabilities. Spending was \$8 million higher than budgeted.
- **Agriculture and Economic Development** spending increased by \$391 million or 35.1% over 2000-01 to \$1.5 billion. This was also \$221 million higher than budgeted. The increase reflected enhanced agriculture and drought assistance, higher crop insurance payments, and changes in the Alberta Dairy Control Board mandate.

Part of the higher-than-budgeted spending was offset by increases in dedicated revenue from the Alberta Dairy Control Board, crop re-insurance payments and federal agriculture assistance programs.

- **Transportation and Utilities** spending decreased by \$546 million or 33.1% from 2000-01 to \$1.1 billion. The decrease was totally due to a \$588 million reduction in energy shielding program costs. Actual capital investment on construction and operation of the transportation system increased by nearly 14% (using capital investment rather than capital amortization costs).

Spending was \$524 million lower than budgeted. Lower spending on energy shielding programs accounted for \$396 million of the reduction. The remaining \$128 million reduction was due to deferred infrastructure projects and other changes.

- **Other Program** spending increased by \$165 million, or 6.5%, from the previous year to \$2.7 billion. This included higher spending for forest fire-fighting, police services and Crown prosecutors.

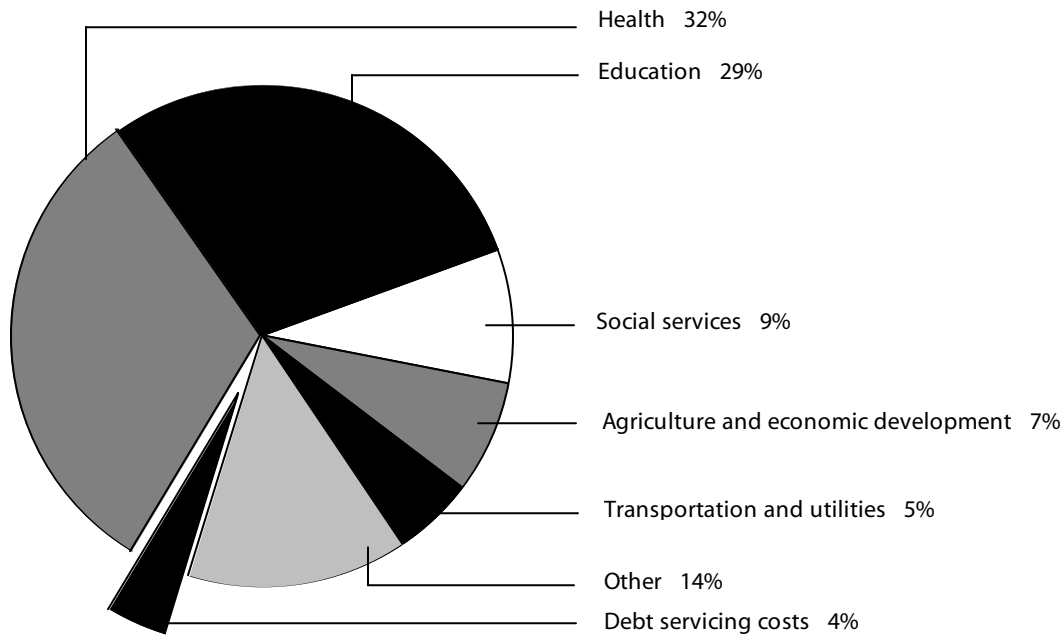
Spending was \$75 million lower than budgeted, largely due to a hiring freeze, reductions in discretionary spending and the reclassification of SuperNet spending as capital investment (which reduced program spending by \$48 million).

- **Debt Servicing Costs** were \$206 million lower than in 2000-01 as a result of repayment of debt. Debt servicing costs were \$24 million higher than budgeted due to an increase in the foreign exchange provision on debt held in U.S. dollars.

- **Net Change in Assets Affecting Operations** – The province's bottom line is based on actual capital expenditure on government-owned capital rather than the amortized costs (which are included in program expense). The net change in assets affecting operations line converts capital expense to a pay-as-you-go basis. Actual capital spending on government owned projects exceeded the amortization provision by \$336 million in 2001-02. This was \$62 million higher than the budget estimate and \$151 million higher than in 2000-01.

Expense by Function

(Percentage)



DEBT REPAYMENT AND INCREASE IN FINANCIAL ASSETS

- Based on 2001-02 final results, the province is currently ten years ahead of its legislated schedule to eliminate accumulated debt.
- At March 31, 2002, accumulated debt less cash set aside for future debt repayment equalled \$5.7 billion.
- Most of the reduction in accumulated debt in 2001-02 is due to exceptionally high revenue accrued in 2000-01. As noted in the *2000-01 Annual Report*, some of the cash from accrued natural gas royalties would not become available for debt repayment until 2001-02.
- The allocation for debt repayment from 2001-02 operations was based on a March preliminary actual forecast of the economic cushion. The actual year-end cushion was about \$400 million higher.

- This additional cash, which is currently reported as a financial asset on the balance sheet, will be transferred in 2002-03 to the debt repayment account. Including this transfer, accumulated debt less cash set aside will be \$5.3 billion.

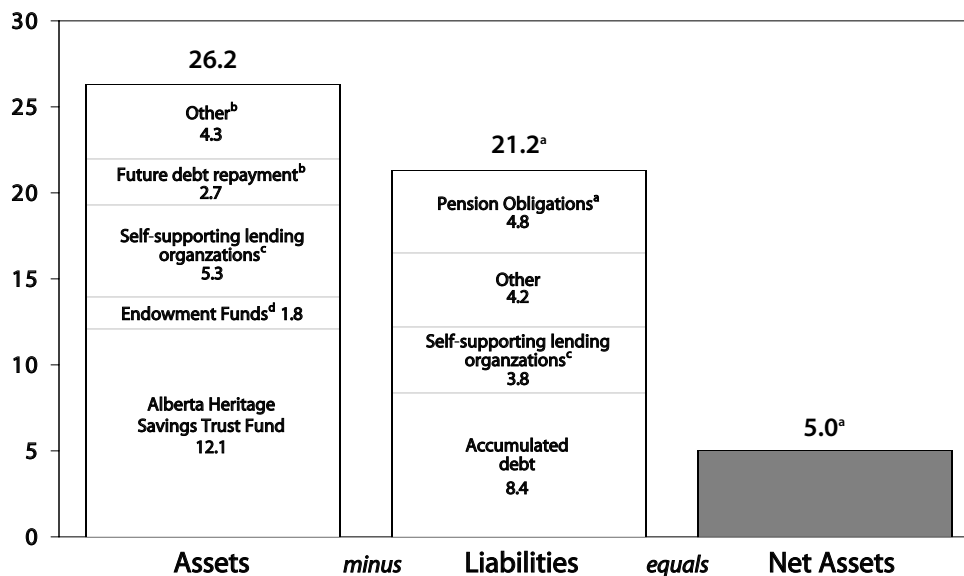
ACCUMULATED DEBT

(millions of dollars)

	2000-01	2001-02
Accumulated debt (start of year)	12,490	10,265
Repayment of debt maturities	<u>2,225</u>	<u>1,849</u>
Accumulated debt (end of year)	10,265	8,416
Cash set aside for future debt payment	<u>2,070</u>	<u>2,741</u>
Accumulated debt less cash set aside	<u>8,195</u>	<u>5,675</u>
Cash to be transferred in 2002-03		<u>414</u>
		<u>5,261</u>

Assets, Liabilities and Net Assets at March 31, 2002

(billions of dollars)



a Pension obligations of \$4.8 billion are scheduled for elimination under a separate 1993 legislated plan. For purposes of the *Fiscal Responsibility Act* liabilities do not include pension obligations. This results in \$9.8 billion in net assets (excluding pension obligations).

b \$414 million to be transferred in 2002-03 from other assets to the special account for future debt repayment.

c Includes Alberta Municipal Financing Corporation, Agriculture Financial Services Corporation and Alberta Opportunity Company.

d Includes Alberta Heritage Foundation for Medical Research Endowment Fund, Alberta Heritage Scholarship Fund and Alberta Heritage Science and Engineering Research Endowment Fund.

LOOKING AHEAD

In 2001-02, Alberta faced dramatically changing circumstances. Energy prices dropped sharply, world economies weakened and terrorist actions sent shock waves throughout society.

Albertans and their government were able to adjust to these changing circumstances. Alberta's economy remained the strongest in the country. The budget remained balanced and debt was reduced. Funding increases were provided for Albertans' key priorities and \$3 billion in infrastructure funding was provided to address growth pressures.

The government continued to consult with Albertans over future directions to be taken. The Future Summit asked Albertans about their vision for the future. The Premier's Advisory Council on Health completed its report on health reform and new policy directions will be implemented based on these recommendations.

Further consultations in other key priority areas are planned or underway, including:

- A review of the fiscal framework of the province by the Financial Management Commission.
- A review of provincial/municipal partnerships.
- A broad review of the learning system.
- A review of Alberta's water strategy.

Next year, the government will again report completely and openly on what was achieved – both in measuring progress towards goals and in managing the province's finances.

Throughout the 2002-03 fiscal year, Albertans will also receive regular quarterly reports on the government's fiscal situation and activities.

