

Summary: BUDGET AND FISCAL PLAN – 2005/06 TO 2007/08

Fiscal Plan Summary – 2005/06 to 2007/08

(\$ millions)	2004/05		Budget Estimate 2005/06	Plan 2006/07	Plan 2007/08
	Budget	Updated Forecast			
Revenue	30,640	32,726	33,076	33,497	34,244
Expense	(30,440)	(30,986)	(32,456)	(32,847)	(33,494)
Surplus before forecast allowance	200	1,740	620	650	750
Forecast allowance	(100)	(300)	(400)	(450)	(550)
Surplus	100	1,440	220	200	200
Capital spending:					
Taxpayer-supported capital spending	1,943	2,231	2,795	2,508	2,072
Total capital spending	2,934	3,187	3,857	3,755	3,342
Provincial Debt:					
Government direct operating debt	16,558	14,175	13,990	13,633	12,744
Taxpayer-supported debt	32,115	28,613	29,588	30,479	30,573
Total debt	39,395	36,063	37,332	38,748	39,599
Government direct operating debt-to-GDP ratio	11.3%	9.1%	8.6%	8.0%	7.2%
Taxpayer-supported debt-to-GDP ratio	21.8%	18.5%	18.2%	18.0%	17.3%
Total debt-to GDP ratio	26.8%	23.3%	23.0%	22.9%	22.4%

Building on the Financial Record

Budget 2005 continues government's legislated commitment to balanced budgets. Following an estimated surplus of \$1.44 billion in 2004/05, the updated fiscal plan includes a surplus of \$220 million for 2005/06, and surpluses of \$200 million for each of the 2006/07 and 2007/08 fiscal years.

The updated fiscal plan realizes the benefits of the fiscal and economic strategy set out in February 2002, that was based on two main elements:

- Building a strong, vibrant and competitive economy; and
- Balancing the budget beginning in 2004/05 while protecting funding for health care and education.

Government has successfully met its budget targets for each of the last three years, and the economy

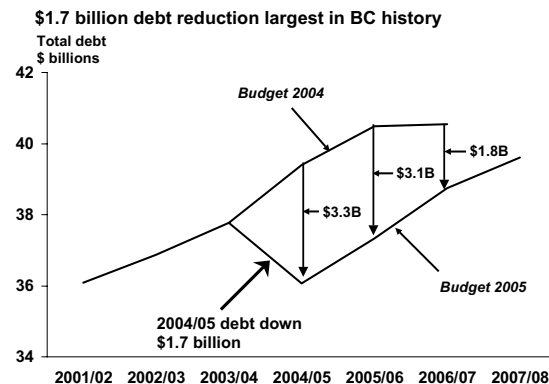
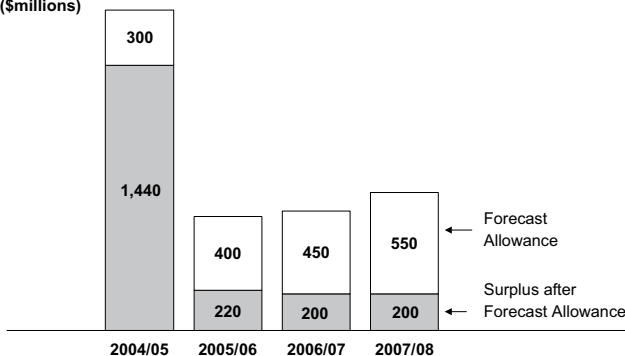
is now gathering momentum. In November 2004, Standard and Poor's upgraded its BC credit rating to AA from AA-. In making this decision, the rating agency noted BC's record for consistently meeting annual budgetary targets, solid economic performance, enhanced transparency of budgetary reporting, and relatively low taxpayer-supported debt burden.

Debt forecast improves

Total provincial debt at the end of 2004/05 is forecast at \$36.1 billion, a \$1.7 billion reduction from 2003/04. This is the largest annual debt reduction in BC history.

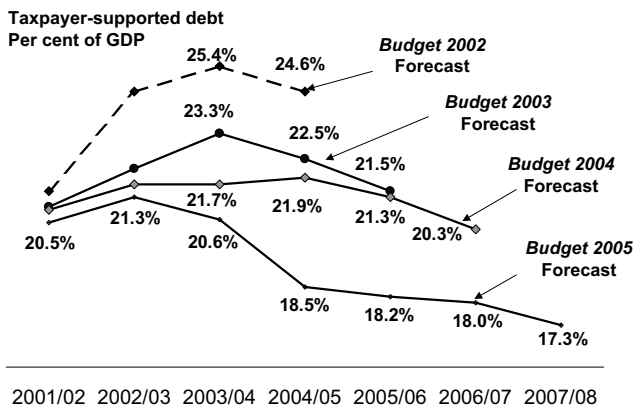
To meet the transportation, health and education infrastructure needs of a growing economy, significant capital investments are planned over the coming years. These investments will result in additional debt.

Sustainable surpluses following 2004/05 revenue gains (\$millions)



Government has committed in its strategic plan to ensure that taxpayer-supported debt as a percentage of GDP declines after the budget is balanced in 2004/05, keeping debt affordable for the future generations of British Columbians. Consistent with this commitment, taxpayer-supported debt as a percentage of GDP is forecast to decline in each of the next three years.

Debt burden declines



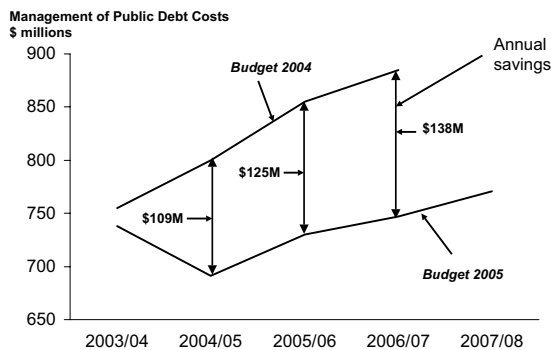
Lower Operating Debt Reduces Interest Costs

Annual reductions in government direct operating debt contribute to \$125 million lower interest costs in 2005/06, providing additional fiscal flexibility.

The \$125 million savings in 2005/06 interest cost helps pay for:

- rate increases for persons with disabilities (\$56 million);
- policing strategy and related court and correction costs (\$44 million);
- new safety programs for women and girls (\$13 million); and
- social housing to support independent living (\$12 million).

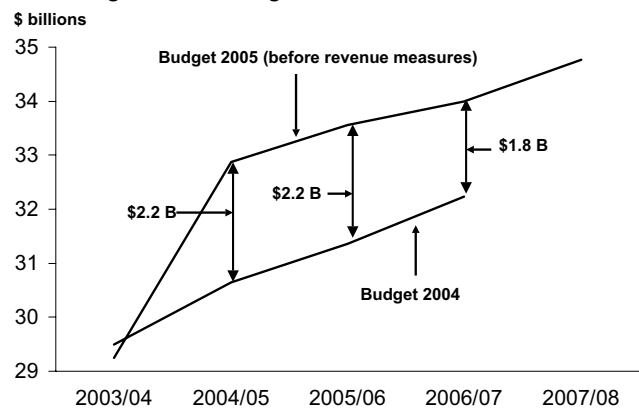
Lower operating debt yields interest cost savings



Revenue increases provide new choices

Compared to *Budget 2004* and before any tax measures, revenues are forecast to increase by \$2.2 billion in 2004/05 and 2005/06, reflecting stronger overall economic activity, higher energy prices, and increased federal contributions. In 2006/07, this increase falls to \$1.8 billion reflecting the end of interim federal equalization allocations combined with declines in other revenue sources such as property transfer taxes, Crown corporation net incomes and forestry revenues. This higher level of government revenues now provides the basis for expanded service levels, lower taxes and lower direct operating debt, while maintaining a balanced budget.

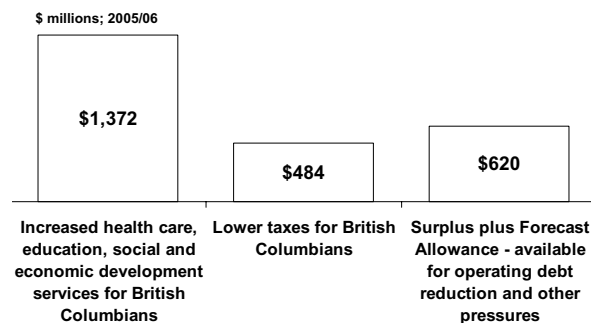
Revenue gains since Budget 2004



The available revenues have been allocated amongst:

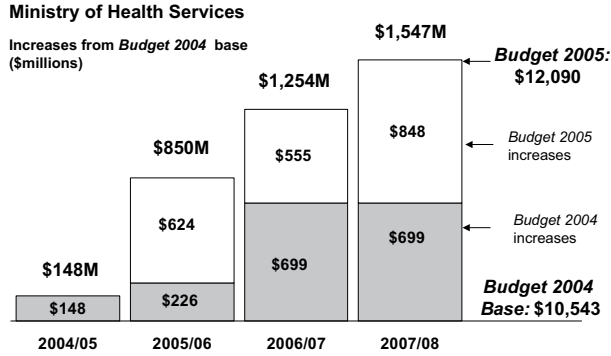
- new spending commitments for health care, education, and priority initiatives for children, communities, safety, economic development, culture and the environment;
- tax reductions for those British Columbians at lower income levels, and to ensure key business sectors remain competitive; and
- the surplus and forecast allowance, which if unspent, reduce direct operating debt.

Allocation of available revenues*



* Available revenue includes the \$275 million surplus from the Budget 2004 fiscal plan.

Health Care Funding



Budget 2005 maintains BC's commitment to health care, as health funding will increase by over \$1.5 billion by 2007/08 – the largest ministry increase. BC continues its promise to reinvest every dollar of federal health funding back into health care services focused on improving access to care and reducing wait times. The new funding will provide for enhanced public health initiatives to promote healthy lifestyles, immunization programs, early screening for children with key health problems, and improved wait times for critical services such as cancer, cardiac, joint replacements and sight restoration.

Communities

Budget 2005 also commits additional funding to strengthen BC communities, by focusing on people in need. Additional funding is included in this budget for contributions to persons with disabilities, for initiatives aimed at winter homelessness and for social housing. As well, the New Era commitment to share traffic fines with municipalities is now fulfilled, enabling local governments to fund improved policing or other services at the community level.

Communities
(\$ millions)

	2004/05	2005/06	2006/07	2007/08
Traffic fine revenue sharing.....	32	29	17	17
Skilled immigrant accreditation.....	-	5	5	5
Public library funding.....	-	3	4	5
Arts funding.....	25	3	3	3
Persons with disabilities.....	18	56	58	62
Adult community living services.....	-	22	28	41
Homelessness.....	8	15	8	17
Social housing – independent living.....	-	12	10	14
Family law funding.....	-	5	5	5

Safety

Budget 2005 provides new funding to help address crime and violence, increasing the provincial police force by an additional 215 RCMP officers. The corresponding additional resources in the courts and the correctional system are also provided.

Safety

(\$ millions)

	2004/05	2005/06	2006/07	2007/08
Personal safety for women and girls.....	-	13	12	12
Policing strategy.....	-	35	42	45
Related courts and corrections costs.....	-	9	14	16

Enhancing Services for Children

Budget 2005 provides \$241 million in additional funding to support greater access to child care, to help protect vulnerable children and youth, and to provide additional services for special needs children. Anticipated federal funding for child care has not been included in *Budget 2005*; the new funds will be committed to the child care budget once details of the transfer arrangements are known and the accounting treatment is confirmed.

Children

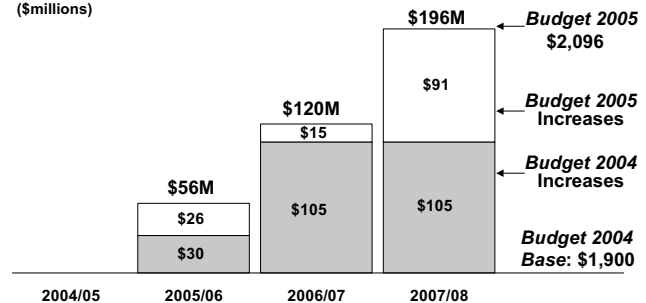
(\$ millions)

	2004/05	2005/06	2006/07	2007/08
Increased access to childcare.....	-	4	1	-
Children and Youth with special needs				
– Assessments.....	-	3	5	6
– Reduced waitlists.....	-	11	14	17
– Services for school aged children.....	-	26	26	26
Early childhood screening.....	3	21	25	27
Children in care and Family Development..	-	8	9	9

Post-Secondary Education and Skills Development

The government continues to develop a top-notch education system for students of all ages. Additional funds were provided in *Budget 2004*, and are increased in *Budget 2005*, to expand access to post-secondary education. By the end of 2007/08 there will be 16,205 new seats, and 25,000 new spaces will have been added at BC's universities and colleges by 2010. *Budget 2005* also provides over

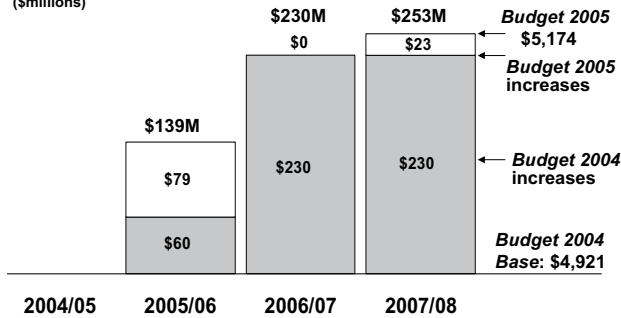
Post-Secondary Education Budget Change
Change from Budget 2004 base (\$millions)



\$450 million over the next three years in funding for a comprehensive student financial assistance system including loan-reduction and loan-forgiveness programs.

K-12 Education

**K-12 Education Budget
Change from Budget 2004 base
(Millions)**



Budget 2005 accelerates the *Budget 2004* increase in K–12 funding to 2005/06, continuing the trend of increased per pupil funding to school districts. This increased funding will ensure that every student has access to school libraries and quality learning resources, music and art programs and improved services to support every special needs student. Funding is also provided to seismically upgrade all at-risk schools within 15 years.

Promoting Economic Growth

Budget 2005 provides funding for BC’s natural resource industries; promoting economic growth in areas such as tourism; participating in local infrastructure funding with other governments; and accelerating where practical provincial commitments to the 2010 Olympic and Paralympic Winter Games.

Economic Development Initiatives

(\$ millions)	2004/05	2005/06	2006/07	2007/08
Agriculture and aquaculture.....	41	4	2	2
Forestry initiatives.....	123	61	19	63
Mining plan, geoscience, oil and gas.....	45	45	11	9
Municipal and regional infrastructure.....	92	75	27	13
Tourism marketing.....	14	24	22	21

Protecting the Environment

Additional funding has been provided in *Budget 2005* to support land use planning, contaminated site investigation and remediation, the drinking water action plan, and other conservation activities.

Environment

(\$ millions)	2004/05	2005/06	2006/07	2007/08
BC Conservation Corps, park services.....	-	5	5	6
Contaminated sites remediation	25	21	22	23
Drinking water action plan.....	-	2	3	3
Environmental assessment capacity.....	-	1	2	2
Land-use planning.....	2	12	8	8

Public Sector Compensation

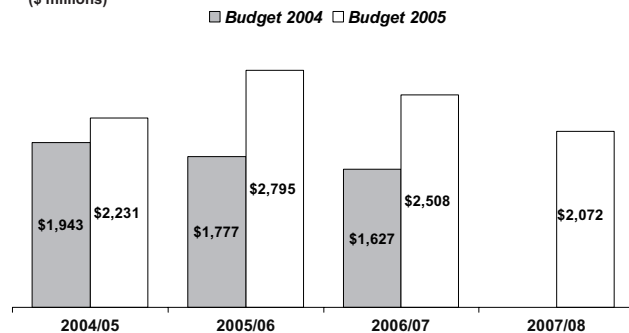
The current public sector compensation mandate of 0-0-0 until March 31, 2006 remains unchanged. Seventy per cent of all public sector employees have agreements in place under this mandate. As the next mandate is still under development, no compensation increase has been included in the fiscal plan. As government has publicly acknowledged the need for compensation increases in the next wage mandate, future wage settlements are likely to create a pressure against the surplus and forecast allowance in 2006/07 and 2007/08.

Capital

Budget 2005 includes a capital plan for ministries and taxpayer supported agencies that is substantially higher than last year’s plan, including an additional \$1 billion in 2005/06 and \$881 million in 2006/07. This reflects increased capital spending to address government priorities in the K–12, post-secondary and health sectors along with transportation projects. The expanded level of capital spending is financed in part by new borrowing.

Expanded capital plan the main driver of new debt

**Taxpayer- supported capital spending
(\$ millions)**

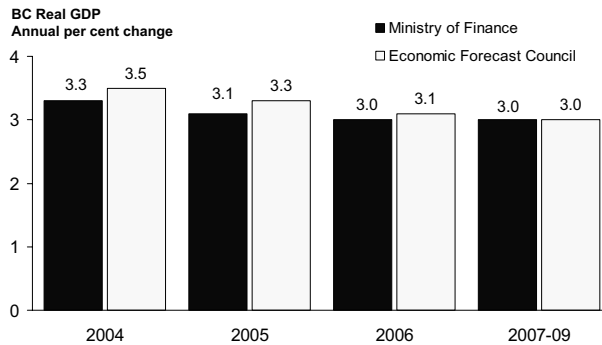


Robust economic performance to continue

The BC economy performed impressively in 2004, with robust domestic demand evident in strong growth rates for employment, consumer spending, home construction and non-residential investment. The export sector also gathered momentum early in the year, fueled by demand for forest products and other industrial goods such as copper, aluminum and molybdenum.

This broadly based economic activity is expected to yield real economic growth of 3.3 per cent in 2004. The Ministry of Finance forecasts economic growth of 3.1 per cent for 2005 and 3.0 per cent in 2006, slightly below the independent Economic Forecast Council's average.

BC economic growth forecast at 3.0 per cent or higher



2004/05 forecast

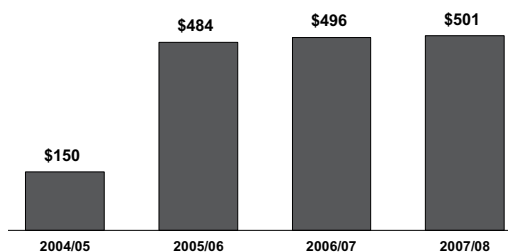
The updated fiscal plan reflects government's decision to allocate \$452 million from the 2004/05 surplus to one-time or accelerated spending initiatives, matching the one-time nature of some of the 2004/05 revenues. *Supplementary Estimates* will be introduced in the Legislature to authorize this additional spending.

Ensuring a fair and competitive tax system

Since 2001, the government has cut taxes by a total of \$1.4 billion to improve competitiveness and make the tax system more fair. The cuts include:

- A 25 per cent average reduction in provincial personal income taxes and a 28 per cent reduction for taxpayers earning less than \$30,000;
- An 18 per cent cut in the general corporate income tax rate;

Financial impact of Budget 2005 revenue measures (\$ millions)



- Exempting production machinery and equipment from the provincial sales tax;
- Eliminating the corporation capital tax for general corporations; and
- Introducing a range of more targeted cuts to improve the competitiveness of sectors such as mining exploration and provincial ports.

In October 2004, the provincial sales tax rate was reduced to 7 per cent, reversing a half point increase introduced in 2002 to fund compensation increases for health care professionals.

Budget 2005 builds on this foundation by introducing new cuts to:

- reduce taxes for those with low and moderate incomes;
- help meet environmental goals; and
- further enhance competitiveness.

The new \$120 million BC Tax Reduction will ensure that low and moderate income British Columbians have the lowest income taxes in Canada. The new tax credit will eliminate provincial personal income taxes for British Columbians earning less than \$15,500 and will reduce taxes for those earning under \$26,000. The BC Reduction will benefit 730,000 British Columbians of which 330,000 will have their provincial income taxes eliminated. In addition, the MSP premium assistance program will be enhanced effective August 1, 2005 to reduce or eliminate premiums for about 215,000 people, many of whom are seniors.

In recognition of the impact of rising home values, and as previously announced, the threshold at which the home owner grant starts to be phased out is increased by \$100,000 to \$685,000 and the grant for homes valued above that will be phased out more slowly. In addition, the thresholds for the First Time Homebuyers program under the property transfer tax will be raised by 18 per cent across the province.

The government will promote greenhouse gas reductions and energy conservation by enhancing the incentives available for hybrid vehicles and introducing a new provincial sales tax exemption for highly efficient residential heating equipment effective February 16, 2005. Both of these measures will be time-limited.

A partial property tax exemption is introduced for environmentally friendly energy projects such as run of the river hydro projects. This will make it easier for BC Hydro to achieve its goal of 50 per cent of incremental power requirements from clean energy sources.

The threshold income level that will qualify for the provincial small business corporate income tax rate is increased to \$400,000 from \$300,000 effective January 1, 2005.

The Mineral Exploration Tax Credit will be extended for ten years to 2016. The extension will build on the renewed interest in BC's mining industry and the resurgence in mineral exploration.

To meet competitive pressures at home and abroad, and as an interim measure, the province's film tax credits are increased until March 31, 2006. The basic Film Incentive BC credit available for domestic productions is increased to 30 per cent from 20 per cent and the productions services tax credit for foreign productions is increased to 18 per cent from 11 per cent, effective January 1, 2005.

Combined with the October sales tax cut, these measures will reduce revenues by \$484 million in 2005/06, \$496 million in 2006/07 and \$501 million in 2007/08.

Prudent Fiscal Management

A \$300 million forecast allowance is included in 2004/05 to protect the bottom line against unanticipated revenue shortfalls or spending pressures, which may arise before the end of the fiscal year. *Budget 2005* includes forecast allowances of \$400 million in 2005/06, \$450 million in 2006/07,

and \$550 million in 2007/08 to protect the fiscal plan from revenue risks such as sudden changes in energy prices or forest fires or spending pressures such as future public sector wage settlements.

Over and above the expected surpluses and forecast allowances, a \$270 million contingency vote is included in 2005/06 and 2006/07 for unexpected spending requirements by government ministries. The contingency vote is increased by \$40 million to \$310 million in 2007/08 to include a portion of the 2010 Olympics contingency budget, as part of the government's \$600 million commitment to the 2010 Games.

Balanced, Transparent and Accountable

Balanced budgets are required under the British Columbia's balanced budget legislation. The three-year fiscal plan is also required to conform to the standards set by the accounting profession for senior governments in Canada referred to as generally accepted accounting principles or "GAAP". Continuing the practice established in *Budget 2004*, financial forecasts for schools, universities, colleges and health authorities (the SUCH sector) are incorporated into government's revenue, spending and balance sheet projections.

To complete government's accountability framework, the three-year fiscal plan is complemented by government's strategic plan, and service plans that detail the goals, objectives and performance targets of ministries and Crown corporations. Government ministers are subject to ministerial salary deductions for not achieving financial targets and ministers of state are subject to salary deductions if performance targets are not achieved.