BUDGET 2000 REPORTS

Statement by the Secretary to Treasury Board

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BRITISH COLUMBIA

March 27, 2000

Documentation of government's budget plan has been prepared by Treasury Board Staff based on the direction of the Minister of Finance and Treasury Board.

The revenue, expenditure, deficit and debt estimates included in the budget plan have been developed by professionals on my staff in consultation with staff in ministries and in the Crown corporations.

The "Economic Review and Outlook" (Report A) in this document includes a summary of the advice received from the Economic Forecast Council at their January 27, 2000 meeting, and the range of economic forecasts provided for the 2000 and 2001 calendar years.

The major economic, demographic, accounting policy and other assumptions that underpin the revenue, expenditure, deficit and debt forecasts, have been disclosed in Report A and the "Fiscal Review and Outlook" (Report B) of this document. The material financial risks associated with changes to these assumptions have also been disclosed in Report B.

Disclosure of the adjustment to the most likely forecast of the deficit is found in the "Fiscal Review and Outlook" (Report B).

Disclosure in future years will continue to improve as we work to implement the provisions of the *Budget Transparency and Accountability Act.*

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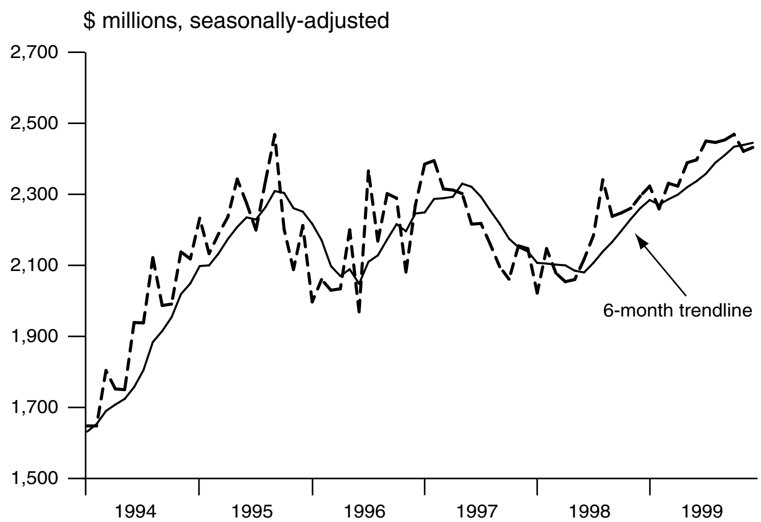
Report A: ECONOMIC REVIEW AND OUTLOOK

Overview[1]

The British Columbia economy grew an estimated 1.4 per cent in 1999, a much-improved performance from 1998. Exports and manufacturing shipments grew strongly early in the year, recovering along with some of the Asian economies, but driven mainly by a red-hot economy in the United States.

The British Columbia economy recovered in 1999

Chart A1
British Columbia Exports



Sources: Statistics Canada, BC Stats

Consumer spending and housing activity were slow through mid-1999, but began to pick up during the second half. Employment grew little until the fourth quarter. Nevertheless, the average level of employment was 1.9 per cent higher in 1999 than the year before. As a result, the unemployment rate fell from 8.8 per cent to 8.3 per cent. Net in-migration from the rest of Canada turned positive in the third quarter.

Business conditions were mixed overall, but improved during the year. The forest industry staged a strong recovery and rapid growth occurred in the high-technology, information and service sectors. Corporate profits and business investment appear to have picked up as the year progressed. Wage and price inflation increased from 1998, but remained low.

Business conditions improved

[1] This report incorporates information available as of March 17, 2000. All annual and quarterly references are for the calendar year.

Faster growth is expected in 2000 and 2001

In 2000, the economy is expected to grow 2.2 per cent, faster than 1999's pace. In 2001, growth of 2.7 per cent is forecast. The resumption of in-migration flows from other provinces and continuing export growth should underpin higher growth in consumer spending and housing activity.

Higher interest rates, a sharper-than-expected rise in the Canada-U.S. exchange rate and economic developments in the U.S. are the main risks to the British Columbia outlook.

The British Columbia Economy: 1999 Performance

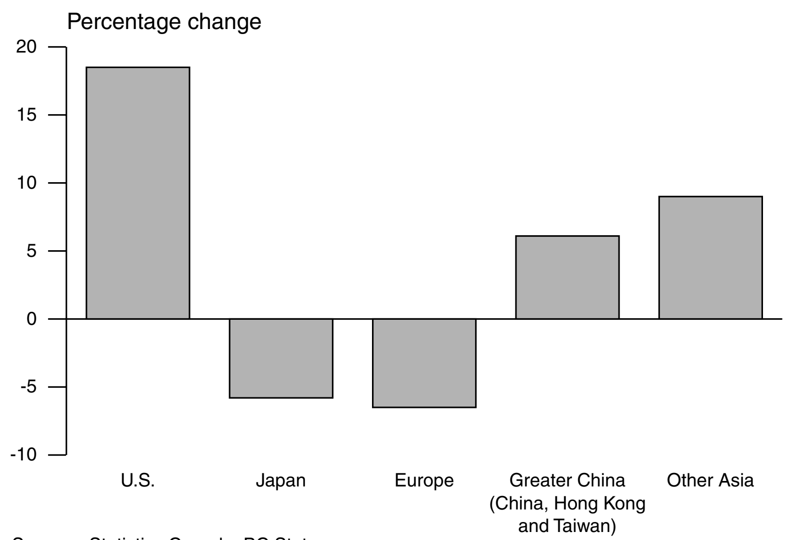
Last year, the economy began to recover from a year of virtually no growth in 1998. The economy is estimated to have grown 1.4 per cent in 1999.

Chart A1 shows that export activity was strong for most of the year. Chart A2 presents export growth rates by market.

Exports to the U.S. grew strongly in 1999

- The value of exports rose 10.2 per cent. Exports to the United States accounted for most of the gain, rising almost 20 per cent. Exports to Japan fell 6 per cent.
- The value of manufacturing shipments rose 9.2 per cent, led by forest products.
- Most of the gains in the value of merchandise exports and manufacturing shipments were due to higher prices. Merchandise export volumes are estimated to have increased about 4 per cent.
- Production volumes of lumber rose 5.3 per cent, pulp and paper 12.8 per cent and natural gas 2.3 per cent. Coal production fell 4.5 per cent. Copper output dropped 38.6 per cent due to the shutdown of the Endako and Gibraltar mines and the six-month shutdown of Highland Valley Copper.

Chart A2
British Columbia Exports by Country, 1999



Sources: Statistics Canada, BC Stats

- Cargo tonnage handled by the Port of Vancouver fell 1 per cent, reflecting still-weak demand in Asia for commodities. In-bound container traffic increased 27 per cent to a record level.
- Air freight traffic through the Vancouver International Airport rose 12.7 per cent.

Consumer demand picked up in the second half of the year

Consumer demand remained sluggish until late in 1999, when there were some signs of improvement.

- Retail sales rose 1.8 per cent in 1999. Sales picked up toward year-end as the British Columbia component of the Conference Board's Index of Consumer Attitudes rose 5 per cent in the final quarter of 1999.
- The dollar value of auto sales was up 11 per cent.
- Wholesale trade increased 2.9 per cent.
- Sales tax collections rose 4.3 per cent (the tax applies to business purchases as well as consumer goods).
- The number of overnight visitors to British Columbia increased 6.2 per cent. Passengers travelling through the Vancouver International Airport rose 2.4 per cent, led by a rebound in Asia-Pacific and European traffic. The number of cruise ship passengers sailing through the Port of Vancouver rose 9 per cent.
- However, restaurant, caterer and tavern revenues for the year fell 3.7 per cent.

Housing starts fell, but sales rose

- Housing starts fell 18.2 per cent. Multiple Listing Service residential sales rose almost 10 per cent, and average sales prices were slightly higher.

Business conditions were generally better than anticipated:

- Business non-residential investment rose 4.8 per cent in 1999, led by machinery and equipment purchases. The value of non-residential building permits was up 4 per cent.

Business investment was up, reflecting improved conditions

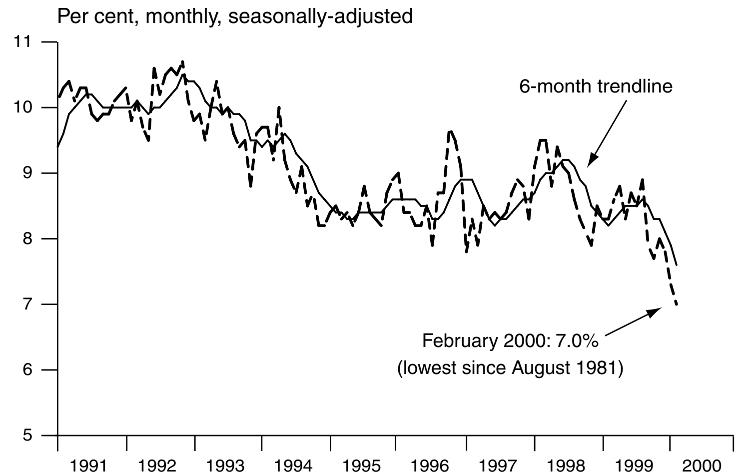
- In its first quarter 2000 survey of business conditions, Statistics Canada found a significant increase in the balance between manufacturers who planned higher and lower levels of production in the next six months.
- Bloomberg's index of the stock prices of British Columbia-headquartered public companies languished through 1999, but rose sharply in the first quarter of 2000, driven largely by high-tech companies.

In the labour market:

- The unemployment rate fell from 8.8 per cent in 1998 to 8.3 per cent in 1999. It hit a 19-year low of 7 per cent in February 2000 (see Chart A3).
- Employment, as measured by the number of jobs, rose 1.9 per cent.
- Full-time paid employment accounted for most of the job gains in 1999, in contrast to 1998 when part-time jobs and self-employment were the sources of growth (see Chart A4).
- Employment fell 3 per cent in goods-producing industries, while it rose 3.3 per cent in the service sector.

The unemployment rate hit a 19-year low in February 2000 . . .

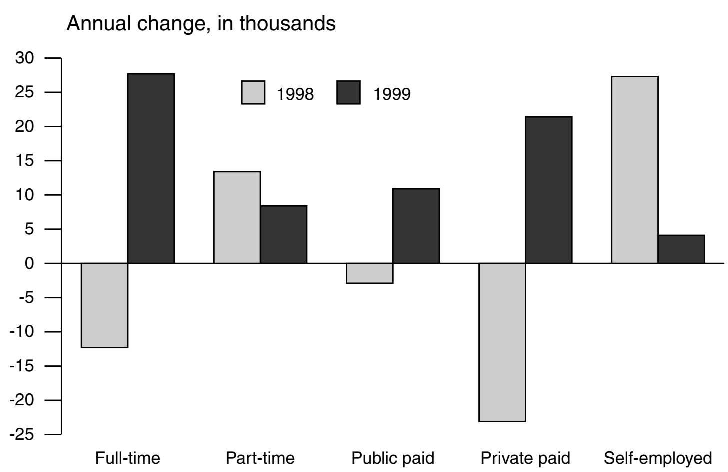
Chart A3
British Columbia Unemployment Rate



Source: Statistics Canada

- The labour force grew 1.4 per cent, while the participation rate (the percentage of people 15 years of age and over in the labour force) increased from 64.9 per cent to 65.1 per cent, ending a decline from the recent peak of 67.2 per cent in 1994.

Chart A4
Employment in British Columbia



Source: Statistics Canada

. . . and labour income rose 2.2 per cent

- Net in-migration in 1999 is estimated at 22,540 persons, up from 7,355 persons in 1998. British Columbia's population grew less than 1 per cent over this period.
- Labour income grew 2.2 per cent, with the largest gains in the service sector. Wage settlements in collective agreements involving 500 or more employees averaged 0.8 per cent, about half the national average.

British Columbia Economic Outlook[2]

British Columbia's economic recovery is forecast to continue into 2000 and 2001

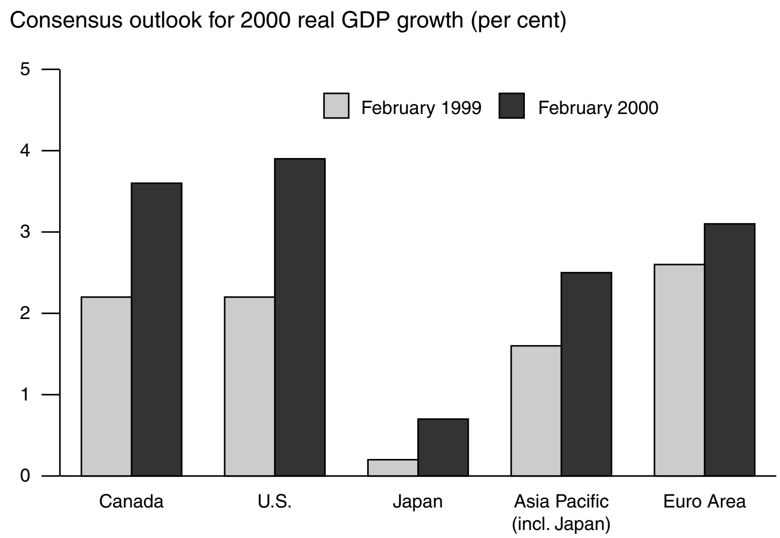
The recovery that emerged in 1999 is expected to broaden and deepen in 2000 and 2001. This is premised on a slight moderation of growth in the North American economy and a relatively small increase in interest rates and appreciation of the Canadian dollar. The forecast incorporates the effects of federal and provincial tax measures introduced in fiscal year 2000/01 budgets.

- **External Conditions and Influences**

As shown in Chart A5, world growth prospects have increased significantly over the last year as Asia recovered more quickly than expected and fears of a global financial crisis faded.

The global outlook is improving

Chart A5
World Growth Prospects Improve



Source: Consensus Economics, Inc.

North America — British Columbia was fortunate that the rest of the North American economy was operating at a high level during the recent downturn in Asia. Strong growth in the U.S. and other parts of Canada in 1998 and 1999 helped moderate the effects of the loss of exports to markets such as Japan. As well, the Asian recession reduced import prices in North America, minimizing the interest rate increases that might have accompanied the rapid expansion in North America.

The key questions for the near-term outlook are:

— Will the U.S. and Canadian expansions continue unabated?

— Or, will interest rates have to rise to moderate an overheating economy (with the risk of turning a boom to bust if the U.S. stock market turns down)?

— Will the large U.S. current account deficit cause the U.S. dollar to depreciate significantly, adding to interest rate pressures?

[2] A description of the Ministry of Finance and Corporate Relations' economic forecasting process, methodology and econometric model can be found in *The British Columbia Macroeconomic Model*. This 1999 working paper is available in the "Reports and Publications" section of the ministry's Web site: www.fin.gov.bc.ca or by writing to the Communications Branch, Ministry of Finance and Corporate Relations, P.O. Box 9417, STN PROV GOVT, Victoria, British Columbia, V8W 9V1.

North American economic expansion to continue

The assumption in this forecast is that the U.S. and Canadian expansions will continue over the next year, with both economies growing nearly 3.5 per cent on an annual average basis. Growth is expected to moderate during the year, with the year-over-year gain in real GDP at about 3 per cent in the fourth quarter of 2000, close to recent estimates of potential non-inflationary growth. Similarly in 2001, real GDP is forecast to increase 2.8 per cent in Canada and 3 per cent in the United States.

European economic growth to pick up . . .

Europe — The forecast assumes that the European economies will grow 2.8 per cent in 2000 and 2.7 per cent next year. This improvement from estimated growth of 2.1 per cent in 1999 results mainly from the stronger performance of Germany, France and the United Kingdom.

. . . but Japan is still weak

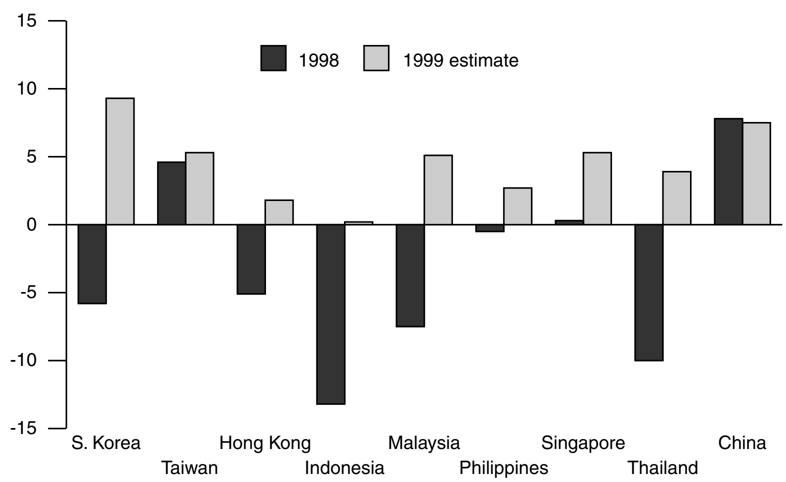
Asia — Japan's economy grew only 0.3 per cent in 1999. Signs of recovery in the first half of the year faded in the second half as real GDP contracted 4.8 per cent (annualized). The economy is assumed to remain sluggish over the next year, held back by weak domestic spending and investment, and the lagged effects of an appreciation of the yen against the U.S. dollar since the autumn of 1998. Recently, the yen has depreciated but the path of the yen/U.S. dollar exchange rate over the next year or two remains a major question mark for Japan's economy. From a policy standpoint, the weakness of the domestic economy calls for yen depreciation, while the outlook for capital and trade flows suggest that appreciation is more likely.

The Japanese economy is expected to grow 0.5 per cent in 2000 and 1.3 per cent in 2001, not much above the 0.3 per cent in 1999.

Other Asian economies will expand

The recovery in other Asian economies that began in 1999 (see Chart A6) is expected to continue over the next couple of years with growth in the 3 to 5 per cent range expected in the region. China's economy is expected to grow in the 7 per cent range. With the currency tied to the U.S. dollar, a sliding greenback in coming months would amount to a de facto devaluation of China's yuan against the Japanese yen and other major currencies.

Chart A6
Asian Recovery in 1999
Real GDP Growth (per cent)



Source: Nomura Research Institute

Interest and Exchange Rates — Based on the global outlook discussed above, North American interest rates are forecast to continue rising through the third quarter of 2000. They are expected to stabilize and begin declining in 2001 as both Canadian and U.S. growth moderate in response.

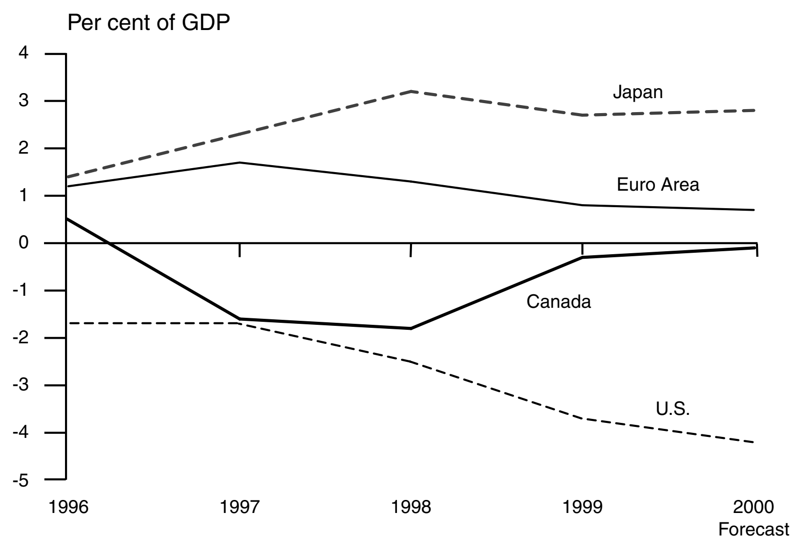
Interest rates are forecast to rise in 2000 . . .

Consistent with the consensus outlook, the Canadian dollar is expected to appreciate against its U.S. counterpart over the next two years, averaging 69.4 U.S. cents in 2000 and 71.4 U.S. cents in 2001.

. . . and the Canadian dollar will appreciate

As Chart A7 shows, the strong U.S. expansion relative to the rest of the world has caused global trade imbalances to widen. As a result, the U.S. has drawn in capital from other countries, helping to hold down U.S. interest rates. Should the attractiveness of investing in the U.S. wane, the greenback could decline against other major currencies and U.S. interest rates might rise as a result. With Canada's external trade position improving recently, the Canadian dollar could appreciate more than expected in such a scenario.

Chart A7
Current Account Balances



Source: Organization for Economic Co-operation and Development

- **British Columbia Real GDP Outlook**

Real GDP is forecast to increase 2.2 per cent in 2000 and 2.7 per cent in 2001. This is generally in line with the consensus view of the Minister of Finance and Corporate Relations' Economic Forecast Council (see Topic Box for details).

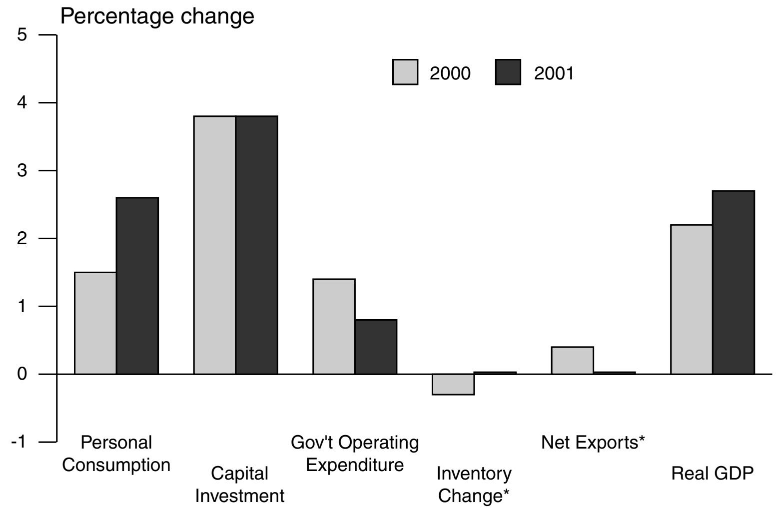
Real GDP growth of 2.2 per cent is expected in 2000

- ***External Trade Outlook***

Export prices are generally expected to rise in 2000 and 2001, although prospects vary widely for individual commodities. The outlook for forest products appears good, but coal and some metal prices are expected to languish. Goods and services export prices are forecast to rise 2.5 per cent this year and 1.8 per cent in 2001.

Export prices will be higher

Chart A8
Real GDP Outlook by Component



* Change as a percentage of 1999 and 2000 real GDP
Source: Ministry of Finance and Corporate Relations

The appreciation of the Canadian dollar should moderate import price inflation. With export prices advancing faster than import prices, another improvement in British Columbia's terms of trade[3] is expected this year.

Export volumes are forecast to rise 4.3 per cent in 2000

Goods and service export volumes are expected to increase 4.3 per cent in 2000 and 4.1 per cent in 2001, largely due to the continued strength of the U.S. economy. While growth in forest product exports is expected to slow, non-resource manufactured exports are forecast to increase rapidly, continuing the pattern of the last few years.

Import volumes are expected to rise 2.6 per cent in 2000 and 3.3 per cent next year. With export growth exceeding import growth, the province's net export deficit is expected to shrink from 9.8 per cent of GDP in 1999 to 9.3 per cent in 2001.

• ***Employment and Income Outlook***

The rise in export volumes and prices in 2000 and 2001 is expected to translate into stronger growth in employment and income.

Employment is forecast to grow 2.3 per cent in 2000 . . .

Employment is expected to increase 2.3 per cent in 2000 and 2.9 per cent in 2001, up from 1.9 per cent in 1999. The unemployment rate is forecast to fall from 8.3 per cent in 1999 to 8.2 per cent this year and 7.5 per cent in 2001. Since the unemployment rate was just 7.0 per cent in February 2000, this forecast may prove to be too pessimistic.

. . . supporting labour income growth

Labour income (wages, salaries and benefits) is expected to rise 3.7 per cent in 2000 and 4.4 per cent in 2001, well above the 1999 growth rate of 2.2 per cent (although preliminary income tax data suggests upward revisions will be made to the 1998 and 1999 labour income figures).

[3] The "terms of trade" is the ratio of export prices to import prices.

Stronger exports are also forecast to boost corporate pre-tax profits by 15 per cent in 2000 and another 5 per cent in 2001. This elevates their share of provincial GDP from an estimated 6.2 per cent in 1999 to 7 per cent in 2001.

Stronger exports will boost profits

As a result of the stronger growth in export earnings and corporate profits, nominal GDP is expected to increase 3.8 per cent in 2000 and 4 per cent in 2001.

• *Consumer Expenditure Outlook*

Consumer spending appears to have grown very slowly in 1999, partly due to depressed consumer confidence.

Consumer expenditure growth of 1.5 per cent is forecast for 2000

The Conference Board's Index of Consumer Attitudes for British Columbia began to recover midway through 1999. As well, employment and income growth are expected to accelerate in 2000. Recently-announced federal tax cuts, provincial tax cuts in *Budget 2000,* and the continued phase-in of previous provincial tax reductions will raise personal disposable income. Interprovincial in-migration is also expected to be a more positive factor in 2000 and 2001, compared to 1998 and 1999.

All these factors should boost consumer spending. However, rising interest rates, a low personal savings rate and a relatively low level of housing starts are expected to limit consumer spending growth to 1.5 per cent in real terms in 2000 and 2.6 per cent in 2001 (see Chart A8). Retail sales in current dollars are forecast to increase 2.8 per cent this year and 4.8 per cent in 2001.

Higher mortgage interest rates and consumer concerns about the quality of multiple-unit dwellings will also restrain housing construction. Housing starts are forecast at 18,000 units in 2000 and 22,000 units in 2001, mainly reflecting pent-up demand and higher in-migration. The Canada Mortgage and Housing Corporation is projecting a 4.9 per cent rise in home sales to 59,800 in 2000 and a further 3.7 per cent increase to 62,000 sales in 2001. The agency expects the average British Columbia home price to rise from $212,000 in 1999 to $213,000 by 2001.

Housing starts are forecast to total 18,000 units in 2000

• *Capital Investment Outlook*

Business non-residential investment is forecast to rise significantly in 2000. This reflects the strong projected growth in corporate profits and export earnings, and a continuing decline in capital goods prices combined with the expected appreciation of the Canadian dollar.

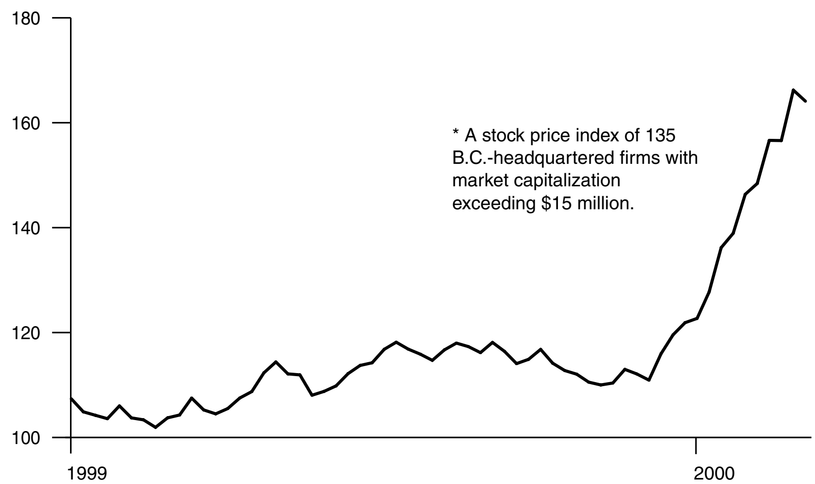
The investment picture will continue to vary widely across industries. Rising prices and profitability in the forest sector should lead to more investment. However, no major capacity expansions are expected. Conditions remain difficult in the mining sector, although the strengthening global economy has boosted the prices of some metals, such as copper. Production capacity is growing rapidly in countries such as Chile, where copper output rose 18 per cent in 1999. Combined with mergers and consolidation in the North American industry, the investment outlook in base metals remains poor. Investment in natural gas development and related pipeline construction has been very strong in recent years. Although the end of the current phase of pipeline expansion is on the horizon, natural gas development is expected to continue.

Investment will vary across industries

British Columbia high-tech sector expected to grow

Outside the resource sector, investment continues to rise in manufacturing and the service sector. In addition, the enormous pool of U.S. venture capital has begun searching out opportunities in Canada, resulting in several high-profile direct investments in British Columbia companies. In March 2000, Ventures West, a Vancouver venture capital firm, announced the formation of a large fund targeted at early stage Canadian technology companies. As well, stock offerings by British Columbia firms have attracted substantial amounts of capital to these new industries. A recent report by the B.C. Technology Industries Association noted that the market value of the largest 20 public technology companies totalled $74 billion at the end of February 2000, up from $6 billion only two years ago. Interest in such companies has fuelled stock prices (see Chart A9).

Chart A9
Bloomberg B.C. Stock Index*
December 30, 1994 = 100, weekly close



Source: Bloomberg

All of this is expected to help fuel continued rapid growth in investment in the Internet and related communications technology, as well as other areas of the technology sector, including bio-technology.

Total investment will grow 3.8 per cent in 2000

Business inventories are expected to be drawn down in line with the pickup in economic activity in 2000 and 2001 (this forecast is subject to considerable uncertainty as no aggregate information on 1999 inventory levels is yet available).

Following strong growth in 1998 and 1999, public sector capital expenditures are assumed to level off in 2000 and 2001.

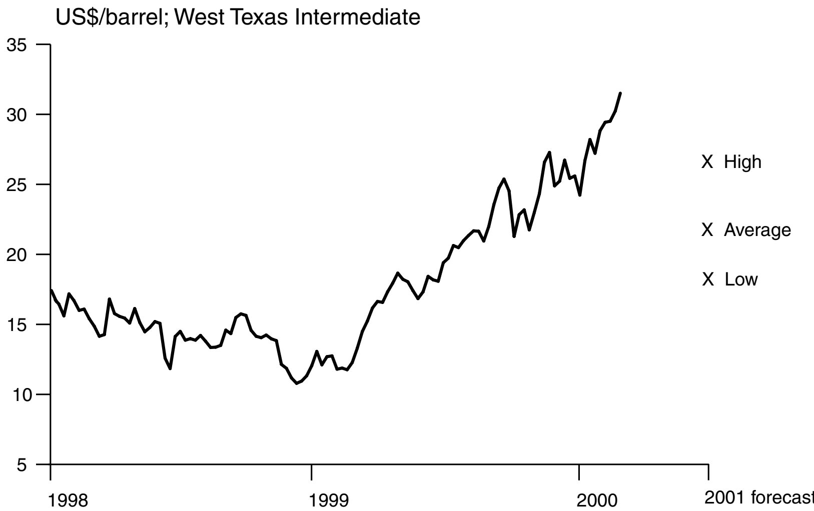
• ***Government Operating Expenditure Outlook***

Spending by all levels of government in British Columbia is estimated to have increased 2.4 per cent in real terms in 1999 after two consecutive years of decline. The forecast assumes a slower rate of growth in inflation-adjusted expenditures over the next two years.

• ***Inflation Outlook***

Sharply higher oil prices have boosted the headline inflation rate in recent months (see Chart A10). However, British Columbia's inflation rate is expected to continue to lag the nation's in 2000. With energy prices expected to moderate and housing prices unchanged, British Columbia consumer price inflation is forecast to average 1.3 per cent, up slightly from 1999.

Chart A10
Oil Prices



Source: Ministry of Energy and Mines; *Consensus Economics, Inc.* forecast

• Risks to the 2000 and 2001 Forecast

Forecast risks include interest rates, the Canada-U.S. exchange rate, U.S. demand and migration patterns

There are several risks to the forecast that could reduce or increase economic growth from projected levels.

Upside risks to the economic outlook include:

- *Higher-than-forecast export prices.* Commodity prices staged a rally in 1999. Rising oil prices and stronger-than-anticipated world growth could be the catalysts for further gains in commodity prices. If so, British Columbia export prices could increase more than the 2.5 per cent forecast in 2000. This would lead to higher export revenues, profits, employment, domestic spending and investment, and overall economic growth.
- *In-migration.* Net in-migration to British Columbia could be stronger than forecast, boosting consumer spending, housing sales and starts.
- *Lower-than-forecast interest rates.* Accelerating productivity gains in Canada could head off core inflation pressures and limit the anticipated rise in interest rates this year. This would lead to higher-than-forecast consumer spending, housing activity and business investment.
- *Stronger consumer and business confidence.* Consumer confidence rose in the fourth quarter of 1999 and recent surveys suggest business sentiment has improved. Tax cuts may also help raise confidence and spending more than is anticipated in the forecast.

Downside risks include:

- *Higher-than-expected interest rates*. In recent testimony to the U.S. Congress, Federal Reserve Chairman Alan Greenspan hinted that interest rates may rise more than markets anticipate. While it is unclear whether the Bank of Canada would follow future U.S. interest rate increases, economic growth has been well above forecasts in Canada. If this pattern continues, Canadian interest rates could be higher than assumed in the forecast. This could reduce consumer outlays and business investment.
- *The U.S. stock market*. Early in 2000, stock markets rose to historically high levels and outsized valuations, based on conventional indicators such as price-earnings ratios. The stock market's rise has been fuelled by technology stocks, principally Internet ("dot.com") and communications-related issues. The increasingly narrow focus of the market's advance raises the concern of a major correction, followed by a decline in consumer expenditures. On the other hand, evidence continues to build that the new technologies are truly boosting productivity, which may help extend the current expansion.
- *Continued weakness in Japan*. Consumer spending remains weak, and bank lending continues to decline. The government's room for further fiscal stimulus is limited — the public debt-to-GDP ratio has soared and Moody's Investors Service recently warned of a possible credit rating downgrade. There are some signs of a recovery in private-sector investment. However, real GDP declined in the second half of 1999, suggesting that the economy may have slipped back into recession. If so, growth could be lower than the 0.5 per cent assumed for 2000.
- *Rising oil prices*. Early in 2000, oil prices rose sharply, raising fears of higher inflation and lower economic growth. However, the world economy is less dependent on oil than it was during the energy crises in the 1970s. As well, some oil-producing nations have recently said that they plan to raise output. As a result, consensus forecasts show oil prices falling from above US$30/barrel to an average of about $22 a year from now (see Chart A10). Parts of British Columbia's economy will benefit from higher oil prices, although consumers will be worse off.
- *A stronger Canadian dollar*. Large international trade imbalances could result in major exchange rate shifts. A larger-than-expected appreciation of the Canadian dollar could reduce British Columbia export growth in the near term.

TABLE A1
BRITISH COLUMBIA ECONOMIC OUTLOOK

	Budget Forecast	Actual/ Estimate	Forecast	
	1999		2000	2001
Gross Domestic Product (current dollars; percentage change)	1.1	3.2[1]	3.8	4.0
Real Gross Domestic Product (Ministry of Finance and Corporate Relations; percentage change)	**0.5**	**1.4**[1]	**2.2**	**2.7**
Consumer Expenditure	1.8	1.4	1.5	2.6
Capital Investment	−0.9	1.0	3.8	3.8
Government Expenditure	0.9	2.4	1.4	0.8
Exports of Goods and Services	1.8	3.5	4.3	4.1
Imports of Goods and Services	1.9	2.6	2.6	3.3
Inventory Investment (change in billions of 1992 dollars)	−0.5	−0.3	−0.3	0.0
Real Gross Domestic Product (Minister's Forecast Council; percentage change)	**0.0**	**1.2**	**2.2**	**2.5**
Population July 1; (percentage change)	0.9	0.6	1.1	1.3
Net In-migration	25,900	22,540	36,800	41,900
Interprovincial	(7,400)	(11,721)	7,700	12,500
International	33,300	34,261[2]	29,100	29,400
Labour Force (thousands)	2,089	2,079[3]	2,123	2,170
(percentage change)	2.3	1.4	2.1	2.2
Employment (thousands)	1,918	1,906[3]	1,949	2,007
(percentage change)	3.1	1.9	2.3	2.9
Unemployment Rate (per cent)	8.2	8.3[3]	8.2	7.5
Retail Sales (millions of current dollars)	34,080	33,653	34,600	36,260
(percentage change)	2.5	1.8	2.8	4.8
Labour Income[4] (millions of current dollars)	63,480	62,250	64,550	67,390
(percentage change)	3.0	2.2	3.7	4.4
Corporate Pre-tax Profits (millions of current dollars)	5,035	7,150[1]	8,225	8,635
(percentage change)	−5.0	11.5	15.0	5.0
Housing Starts (units)	18,000	16,309	18,000	22,000
(percentage change)	−9.7	−18.2	10.4	22.2
Consumer Price Index (1992=100)	110.6	111.2	112.6	114.1
(percentage change)	0.5	1.1	1.3	1.3

[1] Ministry of Finance and Corporate Relations estimates.
[2] Levels are not comparable to 1999 budget forecast due to definition change.
[3] Levels are not comparable to 1999 budget forecast due to Statistics Canada data revisions.
[4] Wages, salaries and supplementary labour income.

TABLE A1
BRITISH COLUMBIA ECONOMIC OUTLOOK — *Continued*

	Budget Forecast	Actual/ Estimate	Forecast	
	1999		2000	2001
Key Assumptions:				
Economic Growth (per cent)				
Canada	2.4	4.2	3.4	2.8
United States	3.0	4.1	3.5	3.0
Japan	−1.3	0.3	0.5	1.3
Europe	2.1	2.1[1]	2.8	2.7
Housing Starts (annual percentage change)				
Canada	1.9	8.1	4.3	2.6
United States	−4.7	3.3	−8.3	−2.0
Japan	0.2	1.7	0.8	0.9
Industrial Production (annual percentage change)				
United States	2.0	3.6	3.7	3.3
Japan	−3.0	0.4	3.0	3.2
Consumer Prices (annual percentage change)				
Canada	1.3	1.7	2.2	2.1
United States	2.0	2.7	2.6	2.5
Canadian Interest Rates (per cent; annual average)				
3-month Treasury Bills	4.7	4.7	5.4	5.4
10-year and over Government of Canada bonds	5.4	5.7	6.7	6.4
United States Interest Rates (per cent; annual average)				
3-month Treasury Bills	4.5	4.7	6.2	6.4
10-year and over U.S. Government bonds	5.2	5.9	7.1	6.8
U.S. cents/Canadian dollar	66.6	67.3	69.4	71.4
Commodity Prices				
BC Goods and Services Export Prices (Cdn $; percentage change)	0.8	2.3	2.5	1.8
Spruce-Pine-Fir Lumber (U.S. $/1,000 board feet)	295	341	323	315
Pulp (U.S. $/tonne)	484	522	650	711
Newsprint (U.S. $/tonne)	536	514	541	575
Copper (U.S. $/lb.)	0.63	0.72	0.85	0.90
Lead (U.S. $/lb.)	0.25	0.23	0.23	0.26
Zinc (U.S. $/lb.)	0.49	0.49	0.57	0.60
Gold (U.S. $/oz.)	310	279	285	300
Aluminum (U.S. $/lb.)	0.56	0.62	0.62	0.62
Natural Gas (U.S. $/gigajoule)	1.09	1.95	1.99	2.03
Coal (U.S. $/tonne)[2]	43	40	40	44

[1] Ministry of Finance and Corporate Relations estimates.
[2] Weighted average of metallurgical and thermal coal prices.

THE REGIONAL ECONOMIES

The modest recovery of the provincial economy in 1999 was led by the two major metropolitan regions. However, regions outside southwest British Columbia experienced a mixed performance. A booming U.S. economy, faster-than-expected Asian recovery, and rising commodity prices benefited parts of the resource sector, but restructuring and cost cutting took their toll on employment in some regions. Housing markets showed signs of improvement, but starts fell below last year's levels due to slow population growth in most regions and fragile consumer confidence. Retail spending grew slowly across B.C. Meanwhile, a small but fast-growing non-resource based new economy is emerging in different sizes and shapes in the regions.

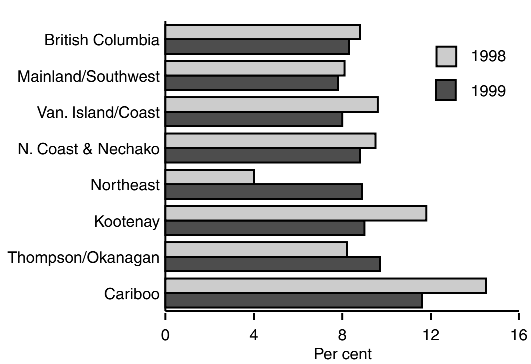
Population

British Columbia's population grew an estimated 0.6 per cent in 1999. The slow population growth was mainly due to lower levels of net in-migration from other provinces. All regions experienced some population growth, although there was virtually no growth in the Vancouver Island/Coast, Cariboo and North Coast/Nechako regions. The Mainland/Southwest led all regions. Among smaller local areas, population grew the fastest in the East Kootenay and Squamish-Lillooet regional districts (which encompasses the booming town of Whistler).

Employment and Labour Markets

In 1999, the Vancouver Island/Coast and Mainland/Southwest regions accounted for most of the province's employment growth. Employment declined in all other regions, perhaps reflecting the delayed impact of the downturn in the resource sector in 1998.

REGIONAL UNEMPLOYMENT RATES



Source: Statistics Canada

The Northeast region experienced the largest decline in employment, as difficulties in the agricultural sector offset a boom in the energy industry.

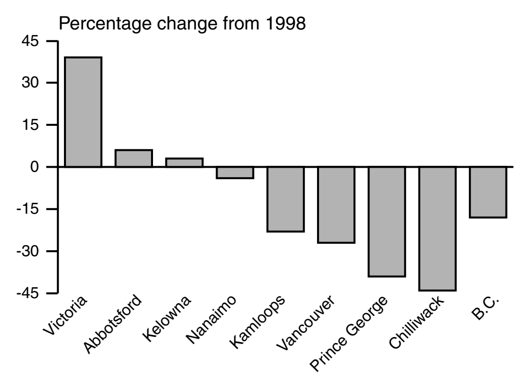
Despite declines in employment, the unemployment rate fell in the North Coast/Nechako and two Interior regions (see chart). This reflects a shrinking labour force, possibly caused by out-migration and early retirement.

Housing Markets and Construction

The net outflow of people to other provinces and low levels of consumer confidence contributed to generally weak housing markets across the province. Housing starts declined in most urban centres (see chart).

Although provincial housing starts were weak, existing home sales rose 9.8 per cent in 1999. Greater Vancouver topped the province with a 17 per cent rise, followed by a 13 per cent increase in the north Okanagan. The Chilliwack area was the only region that experienced a significant decline in sales. Existing home prices rose 1.5 per cent on average across the province, with six of eleven regional real estate boards reporting increases.

URBAN HOUSING STARTS IN 1999



Source: Canada Housing and Mortgage Corporation

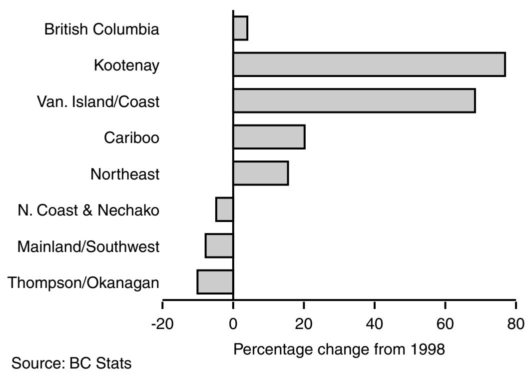
The value of non-residential building permits rose 4 per cent in British Columbia in 1999. The Kootenay region recorded the largest percentage gain (see chart), related to development of ski resorts and recreational facilities. The Vancouver Island/Coast region was close behind with major projects such as the construction of the Island cogeneration project in Campbell River, the West Coast General Hospital in Port Alberni and the Reef Point Resort in Ucluelet boosting construction.

Major projects currently underway in various regions include:

- the $500-million Predator Ridge golf resort development near Vernon;
- a $258-million expenditure on three Louisiana Pacific wood product mills in Dawson Creek and Chetwynd;

- the $200-million Sierra-Ekwan gas plant and expansion east of Fort Nelson;
- the $200-million Big White ski resort expansion near Kelowna;
- the $200-million Furry Creek recreation/residential project near Squamish;
- the $150-million Golden Peaks ski resort near Golden;
- the $25-million Hotel Grand Pacific expansion in Victoria;
- a $23-million recreation complex in Cranbrook; and
- the Alliance Pipeline project from Fort St. John to the Alberta border.

NON-RESIDENTIAL BUILDING PERMITS, 1999



Source: BC Stats

Regional Resource Sector Developments

For the resource sector, 1999 was a year of restructuring and recovery, although conditions varied widely from industry to industry.

A robust U.S. housing market and rising lumber and pulp prices helped the forest industry rebound in 1999. After a combined loss of $1 billion in 1998, publicly-traded British Columbia forest companies earned $600 million in 1999. Timber harvest and lumber production levels soared from depressed 1998 levels in the Interior and on the Coast.

In contrast to the forest industry, mining output declined in 1999 as a result of the lengthy labour dispute at the Highland Valley Mine in Logan Lake, and the closure of the Blackdome mine at 100 Mile House, the Snip mine near Smithers and the Parson mine near Golden. On March 1, 2000, Teck Corporation announced that it would permanently close the Quintette coal mine at Tumbler Ridge on August 31 due to low prices and high production costs. The mine accounted for about 10 per cent of the province's production of metallurgical coal in 1999.

Strong economic growth and rising energy demand in North America contributed to strong growth in oil and gas activity in the Northeast. Sales of Crown drilling rights almost doubled in 1999, and the value of natural gas production rose 24 per cent. During the first 10 months of 1999, 522 wells were drilled, close to 1998's record levels. The Northeast's agriculture sector suffered from low grain prices, offsetting the boom in the oil and gas sector.

Coastal regions dependent on the fishery continued to face challenges due to harvesting restrictions and capacity reductions. However, fishing employment rose last year after bottoming out in 1998, and the value of fish exports rose almost 5 per cent.

In 1999, British Columbia farm cash receipts rose 7.4 per cent, well above the national increase of 2.2 per cent. Areas of strength included poultry and other livestock, berries and grapes, floriculture and nursery products. Cash receipts from canola, barley, oats and tree fruit declined.

Development of More Diversified Regional Economies

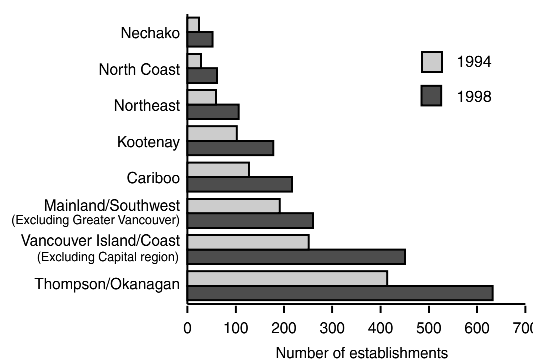
Regional economies continued to diversify into non-resource activities in 1999, ranging from new high-tech ventures to expansion of value-added manufacturing and food processing, and new industries such as "nutraceuticals" (natural health products). For example, Western Star Trucks expanded the production capacity of its Kelowna facility.

- ***High-tech industries***

The British Columbia high-tech sector continues to grow at a rapid rate compared to the rest of the economy.

Although the Greater Vancouver and Victoria areas remain the main location of British Columbia's high-tech sector, every region has several success stories. The number of high-tech establishments outside Greater Vancouver and Victoria increased 62 per cent between 1994 and 1998 (see chart). Regional centres such as Prince George and Kelowna are beginning to develop clusters of high-tech start-up companies.

HIGH-TECH GROWS IN B.C.'s REGIONS



Sources: BC Stats and Statistics Canada

• *Agri-food sector*

Several small but fast-growing new product areas contributed to a more diversified agri-food sector: expanded hothouse and organic farming and nutraceuticals. In addition, the province's wine industry expanded.

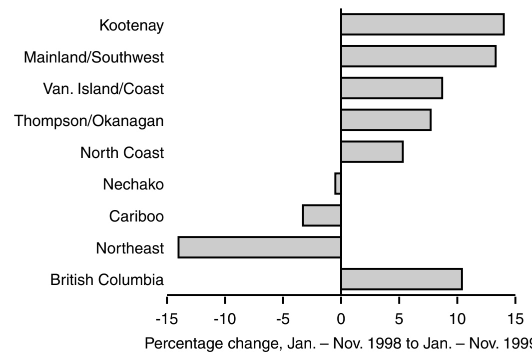
Fuelled by demand from the U.S., production of hothouse vegetables in the Fraser Valley and Delta areas grew rapidly in 1999. As well, organic produce is grown in all regions of the province and the number of certified organic farmers doubled last year.

A notable new industry was the fast-growing nutraceuticals sector. The Ministry of Agriculture, Food and Fisheries estimates that retail sales of these products in British Columbia totalled $200 million in 1999. As in any new, fast-growing industry, numerous firms have entered the market and overcapacity for some products has resulted. Recently, Langley-based Chai-Na-Ta Corporation, North America's biggest ginseng producer, filed for court protection from its creditors. Ginseng prices peaked at nearly US$50/pound in the 1990s and are now less than $10/pound, due to reduced demand from China and increased supply in North America.

• *Tourism*

In 1999, the number of international visitors to the province rose 5.4 per cent. As a result, tourism room revenue was up 10.4 per cent through November 1999. Room revenue grew in five of eight regions (see chart).

ROOM REVENUE BY REGION



Source: BC Stats

THE ECONOMIC FORECAST COUNCIL

Background

The Economic Forecast Council (the Council) was established by legislation last year as part of the government's commitment to implement recommendations of the Auditor General's report, *A Review of the Estimates Process in British Columbia*. The Council is the successor to the economic forecasting conferences held in the previous three years. The Honourable Paul Ramsey, Minister of Finance and Corporate Relations, appointed the 18 members of the Forecast Council by ministerial order. The Council members were chosen based on their expert knowledge of the British Columbia, Canadian and world economies, their economic forecasting experience, and familiarity with current economic developments.

Council members were asked to submit a forecast survey prior to the inaugural meeting on January 27, 2000. Seventeen participants tabled forecasts for the economy. The results are summarized in the table at the end of this Topic Box.

As in the preceding economic forecast conferences, the Council members discussed their views of the province's economic outlook for the near term, as well as factors affecting the province's longer-term outlook.

Report on Forecast Council Meeting

The general view of the Council was that the British Columbia economy will post stronger growth in 2000 and 2001, although there is a risk that higher interest rates could derail a recovery in the interest-sensitive housing and consumer goods sectors. Most participants agreed that economic growth in the United States has played a significant role in the province's recovery to date and the Council expected slower growth south of the border to result in lower exports. Asian growth is expected to pick up although participants expressed concerns about the longer-term prospects for Japan, a key market for British Columbia goods.

International Developments

Participants agreed that the United States economic expansion would slow in 2000 and 2001. There were two views about the extent of the slowdown. Most Council members expected the U.S. Federal Reserve ("the Fed") to raise interest rates moderately during the next six months, slowing the U.S. economy and keeping inflation under control. However, other participants warned that the Fed could act more aggressively to curb emerging inflation, raising interest rates more than expected. This could lead to a stock market correction that would then feed back into lower consumer spending as investors see their wealth decline. In either case, the British Columbia economy would be faced with slower growth of its major trading partner.

On balance, participants agreed that for 2000, growth in the U.S. would stay in the 3 to 4 per cent range because it would take some time for higher interest rates to have an impact and they expected the U.S. economy to end 1999 at a high level.

Overseas, the outlook was positive but the Council still had reservations about the Japanese economic recovery. Participants agreed that the recovery in Japan's economy is not yet on solid footing but that British Columbia was well positioned to benefit from any improvements. The future of other Asian countries is also tied to economic developments in China. One participant who had recently visited several Asian countries noted the building momentum in these economies. The European economies were expected to post stronger growth in 2000 than in 1999.

Continued growth in the U.S., Asia and Europe was expected to support commodity prices in the short-term.

The Canadian Economy

The Council expected the Canadian economy to grow at a slower but still respectable pace during the next two years alongside the slowdown in the U.S. economy. The consensus was that Canadian economic growth in 2000 would average 3.3 per cent; forecasts ranged from 2.8 per cent to 3.9 per cent.

Financial Markets

Council members expected that the Bank of Canada would raise short-term interest rates in 2000. Although inflation in Canada was likely to be lower than in the United States, the Council felt that the Canadian economy was operating close to potential and some hike in interest rates would be needed to keep inflation in the 1 to 3 per cent target range. Short-term interest rates were expected to rise to an average of 5.25 per cent in 2000, up from 4.68 per cent in 1999. Long-term interest rates were also expected to rise from 1999 levels.

With strong global growth contributing to demand for commodities and higher commodity prices, the Council forecast that the Canadian dollar would appreciate to 69.9 cents U.S. on average in 2000 and 71.2 cents in 2001, up from 67.3 cents in 1999. Only one Council member forecast that the Canadian dollar would depreciate in the next two years.

British Columbia

Participants on average expected real GDP growth of 2.2 per cent in 2000, following average estimated growth of 1.2 per cent in 1999. The current-year forecast range was much narrower this year than last. Forecasts ranged from 1.7 per cent to 2.8 per cent in 2000, compared to -2.0 per cent to 2.0 per cent last year. Anticipated sources of growth included continued increases in exports and manufacturing shipments as well as a broadening of the recovery to the domestic side of the British Columbia economy.

External Developments

British Columbia exports were expected to continue to contribute to economic growth in the province, with the U.S. remaining the dominant market. The gradual improvement in the Japanese economy was expected to lead to growth in Japan's share of the province's exports as the U.S. economy slows.

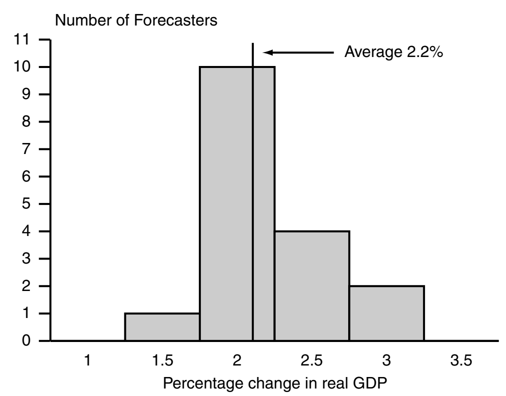
Most participants noted that commodity prices would rise in 2000, but this would be partly offset by an appreciating Canadian dollar. It was also noted that price trends would vary widely by commodity. Metals and pulp prices were expected to rise as demand increased. However, lumber prices would be stable or decline as U.S. housing starts were expected to slow.

Domestic Developments

Consumer spending growth was expected to increase in 2000, reflecting recent employment and income gains. Employment, on average, was expected to rise at the same pace as in 1999, adding about 34,200 jobs. Most participants anticipated a decline in the unemployment rate in 2000. On average, the unemployment rate was expected to be 8.0 per cent, down from 8.3 per cent in 1999.

Along with employment growth of 1.9 per cent, total wage and salary income was expected to increase 2.6 per cent on average in 2000, up from 2.2 per cent in 1999. One participant anticipated that British Columbia's real personal disposable income per person would rise in 2000 following several years of decline, citing rising employment and wages, and federal and provincial income tax cuts.

ECONOMIC GROWTH FORECASTS, 2000



Most participants anticipated higher growth in retail sales. On average, Council members expected retail sales to increase 3.0 per cent in 2000, a significant improvement from the 1.8 per cent growth posted in 1999. Pent-up demand and growth in total wage and salary income should contribute to the stronger growth in income spending. A recovery in the housing sector was also expected to flow through to higher sales of household-related goods, including furnishings and appliances.

Housing starts were expected to grow 12.2 per cent on average to 18,300 units in 2000, up from 16,309 units in 1999. The outlook for residential construction depends on interest rates, population growth and household formation. One participant noted that the range in the housing outlook — from a 3.0 per cent decline to a 34.9 per cent increase — was related to different assumptions on changes in the province's population. One Council member said that if interprovincial net migration does not increase significantly from 1999, housing starts could decline in 2000. Another participant noted that declining existing home sales during the second half of 1999 could indicate a slowdown in the housing sector and lead to reduced housing starts this year.

Profits in the forest sector were up significantly during 1999 following losses in 1998. Business investment was expected to pick up on average as corporate profits improve. One participant noted that there was an apparent failure of some businesses to take an objective read of the provincial economy in making business investment decisions.

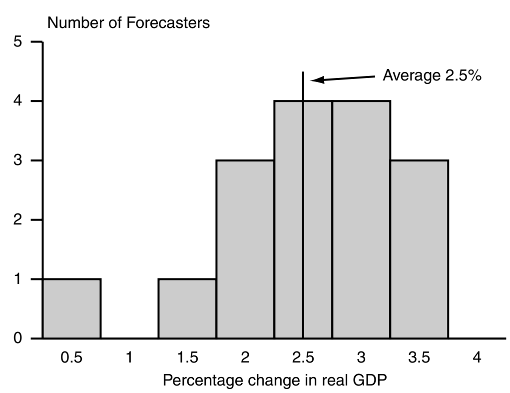
In total, 17 Council members submitted forecasts for real GDP. However, forecasts for some variables including total wage and salary income, profits, business investment and goods and services export prices were omitted by several members.

Outlook for 2001

The range of real GDP forecasts was wider for 2001, from 0.5 per cent to 3.7 per cent. Most Council members expected stronger growth than in 2000 but three participants expected growth to slow. On average, real GDP in British Columbia was expected to increase 2.5 per cent in 2001.

One of the Council members who predicted slower growth expected stronger-than-expected interest rate hikes by the U.S. Federal Reserve that would dramatically slow economic growth in the United States. Others anticipated less of a lift in commodity prices than in 2000.

ECONOMIC GROWTH FORECASTS, 2001



Risks to the Outlook

The Council discussed upside and downside risks facing the British Columbia economy during the next two years.

On the upside, risks included:

- stronger than anticipated U.S. growth; and
- higher commodity prices along with stronger global growth.

On the downside, risks included:

- a stock market correction of greater than 10 per cent in the U.S.;
- higher short- and long-term interest rates; and
- a U.S. recession.

Most participants anticipated a one-half to three-quarter percentage point increase in short-term interest rates to 6.25 per cent would be enough to bring about a "soft-landing" in the United States. However, a couple of Council members noted the risk of a significant depreciation of the U.S. currency leading to higher inflation and a more aggressive 1 percentage point or greater increase. Interest rate increases of this magnitude could derail a recovery in British Columbia's housing sector. They could also cause a sharp slowdown in U.S. housing starts and British Columbia lumber exports.

A major stock market correction in the U.S. was not expected to pose a significant risk to British Columbia. Participants noted the wealth effect (decrease in wealth leading to lower spending) has been smaller historically than the real estate effect (decrease/increase in wealth from real estate holdings leading to lower/higher consumer spending). Others noted the October 1987 stock market correction did not appear to have affected the British Columbia economy (although economic conditions now are different). One participant noted that the U.S. stock market run-up may turn out to benefit the British Columbia economy as more people hold investments in funds that include U.S. equities. A contrary point was made by another Council member who argued that Canadian investors were jumping into U.S. equity mutual funds at just the wrong time (i.e., at a U.S. market peak).

Policy Discussion

Council members discussed fiscal policy options with the Minister of Finance and Corporate Relations during the January 27th meeting. There was a wide range of opinion among the Council members about the appropriate direction of fiscal policy. Some Council members advocated tax cuts as a higher priority than balancing the budget. Others stressed the importance of eliminating the deficit first. One participant suggested that British Columbia's higher marginal tax rate was a premium some people were willing to pay to live in this province, but with taxes falling in other jurisdictions, British Columbia would have to follow suit. Others said that the province's attractiveness was not enough to make up for the higher marginal tax rate.

Several Council members also cautioned government about the pitfalls of supporting specific industries using targeted financial support, rather than levelling the playing field by removing general impediments to business.

The Ministry of Finance and Corporate Relations would like to thank all the participants in the inaugural meeting of the Economic Forecast Council.

Economic Forecast Council Members/Delegates:*

Rod Dobell (Moderator)	University of Victoria
Paul Darby*	Conference Board of Canada
Carl Sonnen	Informetrica Ltd.
Teresa Courchene*	Toronto Dominion Bank
Alister Smith*	Canadian Imperial Bank of Commerce
John McCallum	Royal Bank
Tim O'Neill	Bank of Montreal
Mary Webb*	Scotiabank
Jock Finlayson	Business Council of British Columbia
Dave Park	Vancouver Board of Trade
George Pedersson	G.A. Pedersson & Associates
Ernie Stokes	Stokes Economic Consulting
John de Wolf	CCG Consulting
William Tharp	M. Murenbeeld & Associates
Ken Peacock*	Credit Union Central of British Columbia
Dale Orr	WEFA Canada
John Helliwell	University of British Columbia
Michael Goldberg	University of British Columbia
Paul Bowles	University of Northern British Columbia

Forecast Survey

All figures are based on annual averages	2000 Range of Participants' Opinions	2000 Average of Participants' Opinions[1]	2001 Range of Participants' Opinions	2001 Average of Participants' Opinions[1]
Canada				
— Real GDP (% change)	2.8-3.9	3.3 (17)	1.0-3.6	2.8 (17)
— 3-month interest rates (%)	4.80-5.68	5.25 (16)	4.20-6.25	5.16 (16)
— 10-year (+ over) interest rates (%)	5.80-7.10	6.40 (15)	5.40-7.30	6.16 (15)
— Exchange rate (US¢/Can.$)	68.80-72.00	69.86 (15)	65.00-75.00	71.23 (15)
British Columbia				
— Real GDP (% change)	1.7-2.8	2.2 (17)	0.5-3.7	2.5 (16)
— Employment (% change)	0.8-3.0	1.9 (15)	0.5-3.2	2.0 (14)
— Unemployment rate (%)	7.0-8.8	8.0 (15)	6.9-9.2	8.0 (14)
— Total wage and salary income (% change)	1.0-4.4	2.6 (9)	0.0-6.0	2.9 (9)
— Corporate pre-tax profits (% change)	−4.9-20.0	7.4 (6)	1.1-15.0	6.3 (6)
— Real business non-residential investment (% change)	1.5-8.0	3.9 (6)	2.5-15.0	5.6 (6)
— Goods and services export price deflator (% change)	1.2-5.0	2.5 (5)	0.0-10.0	3.1 (5)
— Housing starts (% change)	−3.0-34.9	12.2 (14)	−5.0-50.0	13.4 (14)
— Retail sales (% change)	1.0-4.5	3.0 (13)	1.0-7.0	3.2 (12)

[1] Based on responses from participants providing forecasts. The number of respondents is shown in parentheses.

Update of 1999/00

Reporting is on a summary accounts basis

Consistent with the recommendations of the Budget Process Review Panel, the focus of the government's budgeting and reporting has shifted to the summary accounts basis. The summary accounts combine the financial results of the government with all of its Crown corporations and agencies.

Table B1 provides an update to the revised fiscal forecast for 1999/00. Operating results are presented for the summary accounts and for the government's consolidated revenue fund (CRF).

1999/00 deficit is forecast to be $1.1 billion, $384 million less than budget . . .

The summary accounts deficit is projected at $1.1 billion in 1999/00, $384 million less than budget. This is $241 million lower than the forecast in the *Third Quarterly Report,* and includes a $100-million forecast allowance for changes before fiscal year-end.

TABLE B1
1999/00 REVISED FISCAL FORECAST

	Budget Estimate 1999/00	*Third Quarterly Report* Forecast	**Revised Forecast 1999/00**	Change From *Third Quarterly Report*
	($ millions)			
Consolidated Revenue Fund (CRF):				
Revenue	20,385[1]	21,248	**21,385**	137
Expenditure	(21,045)	(21,449)	**(22,593)**	(1,144)
CRF balance	(660)[1]	(201)[2]	**(1,208)**	(1,007)
Taxpayer-supported Crown corporations and agencies	(685)	(362)	**453**	815
Self-supported Crown corporations and agencies	46	(423)	**(290)**	133
	(1,299)	(986)	**(1,045)**	(59)
Forecast allowance	(230)[1]	(400)[2]	**(100)**	300
Summary accounts deficit	(1,529)	(1,386)	**(1,145)**	241
Taxpayer-supported debt	26,184	25,334	**24,904**	(430)
Total provincial debt	34,722	34,425	**34,256**	(169)

[1] The 1999/00 budget included a revenue allowance of $230 million, which was deducted from revenue. In order to be consistent with the presentation used for 2000/01, this allowance has been shown as a forecast allowance for the summary accounts deficit.
[2] The *Third Quarterly Report* presented forecast allowances of $200 million for the consolidated revenue fund and $200 million for Crown corporations and agencies. In the presentation used for 2000/01, the allowances are combined as a forecast allowance for the summary accounts deficit.

. . . . and lower than forecast in the Third Quarterly Report

The forecast reflects the following changes since the *Third Quarterly Report*:

- The revenue forecast of the CRF increased $137 million. Spending increased $1.1 billion, primarily to reflect the forgiveness of $1.1 billion of debt owed to the government by the British Columbia Ferry Corporation. As a result, the forecast of the CRF shortfall increased $1.0 billion.
- Net earnings of taxpayer-supported Crown corporations improved $815 million due to the positive effect of removing $1.1 billion of British Columbia Ferry Corporation's debt, partially offset by a $240-million write-down of fast ferries.
- Net earnings of self-supported Crown corporations improved $133 million after including additional net income of the British Columbia Hydro and Power Authority that was transferred to its rate stabilization account.
- An allowance of $100 million is included in the forecast for unanticipated events prior to year-end.

The revised forecast for the 1999/00 summary accounts deficit includes one-time write-down adjustments of $617 million for the British Columbia Railway Company, $240 million for the British Columbia Ferry Corporation, $70 million for the Vancouver Trade and Convention Centre and $41 million for the Kemess mine. Excluding these adjustments, the summary accounts deficit is estimated at $177 million in 1999/00.

Provincial debt will total $34.3 billion, $466 million below budget

Total provincial debt is projected to total $34.3 billion by year-end, down $169 million from the level forecast in the *Third Quarterly Report*. A $430-million reduction in taxpayer-supported debt and a $98-million reduction in commercial Crown corporation debt are partially offset by additional warehouse borrowing in advance of 2000/01 requirements.

Details on changes to the fiscal forecast compared to budget are shown in Table B2.

TABLE B2

CHANGES IN THE 1999/00 FISCAL FORECAST DURING THE YEAR

	Full-Year Forecast Changes		**Revised Forecast**
	($ millions)		
Summary accounts deficit — 1999/00 budget estimate			**(1,529)**
Consolidated Revenue Fund (CRF) revenue changes:			
Personal and corporation income tax:			
— higher-than-expected 1998 final assessments	293		
— higher forecast of tax base	179		
Sales and other taxes — improving economy	177		
Natural resources — higher commodity prices and volumes	532		
Crown corporations and other revenue — lower dividends, asset sales and fees, etc.	(318)		
Federal contributions — higher CHST and other payments	137	1,000	
CRF spending changes:			
Special warrants announced February 11, 2000	(377)		
Net statutory spending pressures	(27)		
Third Quarterly Report spending pressures	(404)		
Forgiveness of British Columbia Ferry Corporation debt	(1,080)		
Changes in public service pension plan policy and a new actuarial valuation	(69)		
Additional write-down of investment in Kemess mine	(33)		
Lower debt interest costs and additional savings in ministries	38	(1,548)	
CRF — increased shortfall			**(548)**
Taxpayer-supported Crown corporations and agencies:			
British Columbia Ferry Corporation—fast-ferry write-down/other adjustments		(257)	
Forest Renewal BC — lower loss due to higher revenue		196	
British Columbia Buildings Corporation — lower dividends paid to CRF		175	
Forgiveness of British Columbia Ferry Corporation debt		1,080	
Other Crown corporation changes and adjustments		(56)	**1,138**
Self-supported Crown corporations and agencies:			
British Columbia Railway Company — writedown of rail investments		(617)	
Insurance Corporation of British Columbia — higher net income		103	
British Columbia Hydro and Power Authority (transfer to rate stabilization account) and other Crown corporation adjustments		178	**(336)**
Forecast allowance reduced requirement[1]			**130**
Summary accounts deficit — 1999/00 revised forecast			**(1,145)**
Provincial net debt — 1999/00 budget estimate			**34,722**
Taxpayer-supported debt changes:			
Provincial government direct debt:			
— reduced operating and other requirements		(963)	
— assumption of debt from British Columbia Ferry Corporation		1,080	
— reduced borrowing for Vancouver Trade and Convention Centre		(211)	
British Columbia Ferry Corporation — forgiveness of debt		(1,080)	
Other changes		(106)	**(1,280)**
Self-supported debt changes:			
British Columbia Hydro and Power Authority — debt reduction/other changes		(344)	
Warehouse borrowing program — increased pre-borrowing for 2000/01		1,158	**814**
Provincial net debt — 1999/00 revised forecast			**34,256**

[1] The budgeted CRF revenue forecast allowance of $230 million is reduced to $100 million in the summary accounts revised forecast.

2000/01 Fiscal Plan

The deficit for 2000/01 is estimated at $1.3 billion . . .

The summary accounts deficit is projected to be $1.3 billion in 2000/01, $133 million higher than the 1999/00 revised forecast. As shown in Chart B1 and Table B3:

- The consolidated revenue fund shortfall is projected to be $408 million lower than the 1999/00 forecast, at $800 million.
- Taxpayer-supported Crown corporations and agencies will show a $306-million combined loss in 2000/01, compared to forecast net income of $453 million in 1999/00. This change largely reflects the one-time positive effect in 1999/00 of the government's forgiveness of debt owed by the British Columbia Ferry Corporation.
- Self-supported Crown corporations and agencies are projected to have combined net income of $128 million in 2000/01, compared to a forecast net loss of $290 million in the previous year. The improvement is primarily due to the one-time $617-million write-down of British Columbia Railway Company investments that occurred in 1999/00.

. . . including a $300 million forecast allowance for unforeseen events

- A $300-million forecast allowance for unexpected developments during the fiscal year is included in the 2000/01 budget estimates.

Chart B1
Summary Accounts Forecast

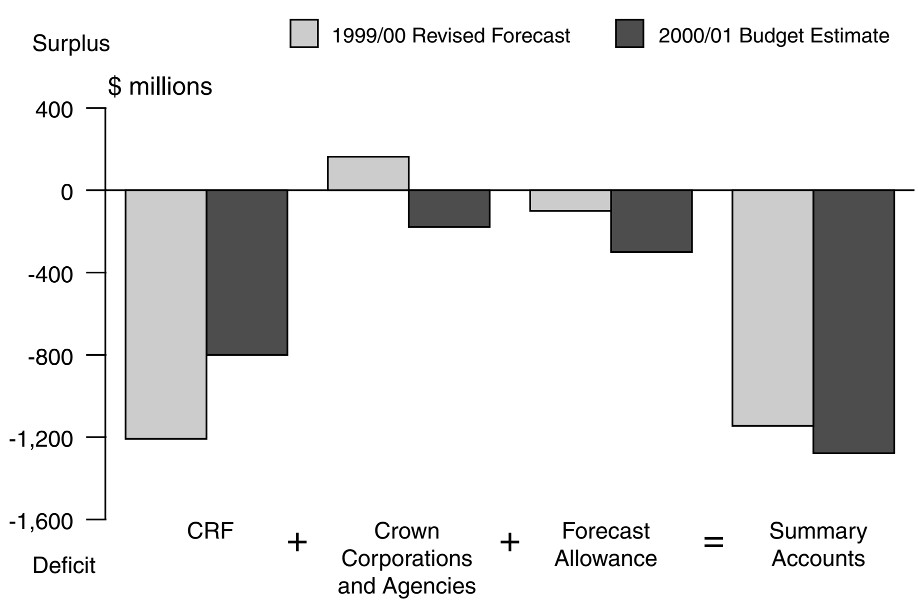


TABLE B3
SUMMARY ACCOUNTS OPERATING RESULTS — 2000/01 BUDGET ESTIMATE

	Budget Estimate 1999/00	Revised Forecast 1999/00	**Budget Estimate 2000/01**
	($ millions)		
Consolidated revenue fund balance	(660)[1]	(1,208)	**(800)**
Taxpayer-supported Crown corporations and agencies	(685)	453	**(306)**
Self-supported Crown corporations and agencies	46	(290)	**128**
Forecast allowance	(230)[1]	(100)	**(300)**
Total summary accounts deficit	(1,529)	(1,145)	**(1,278)**

[1] The 1999/00 budget included a revenue allowance of $230 million, which was deducted from revenue. In order to be consistent with the presentation used for 2000/01, this allowance has been shown as a forecast allowance for the summary accounts deficit.

Revenue totals $21.5 billion including $227 million of new provincial tax reductions

CRF revenue is estimated at $21.5 billion in 2000/01, an increase of 0.5 per cent from the 1999/00 revised forecast. The 2000/01 budget estimate incorporates new provincial tax reductions introduced in this year's budget totaling $227 million, and the phase-in of tax reductions introduced in the federal and provincial budgets during the last two years. These reductions are partially offset by the withdrawal of British Columbia's remaining entitlements to the federal Canada health and social transfer (CHST) supplements in 2000/01.

Ministry spending totals $22.3 billion

CRF expenditure will total $22.3 billion in 2000/01, an increase of $1.26 billion or 6 per cent from the 1999/00 budget estimate. The increase incorporates the full-year effect of a number of spending pressures in 1999/00, new expenditures for key priorities in 2000/01, and a $125-million contingencies reserve for unforeseen spending pressures.

Excluding one-time expenditures in 1999/00 for assistance to the British Columbia Ferry Corporation and the write-down of various investments, CRF spending in 2000/01 will be $898 million, or 4.2 per cent higher than the 1999/00 revised forecast.

Expenditure will exceed revenue in 2000/01, resulting in a consolidated revenue fund shortfall of $800 million. This shortfall is $408 million lower than the revised forecast for 1999/00, and $50 million below the five-year planning assumption shown in the 1999/00 budget.

Crown corporations project a loss of $178 million

In total, Crown corporations and agencies are projected to show a combined loss of $178 million in 2000/01.

Taxpayer-supported Crown corporation and agency net losses (after adjustments) are estimated at $306 million. This consists of operating losses totaling $17 million, a $62-million dividend paid by the British Columbia Buildings Corporation, and accounting adjustments of $227 million to primarily reflect the amortization of the costs of highways transferred to the BC Transportation Financing Authority in 1998/99.

The net contribution from self-supported Crown corporations is estimated at $128 million in 2000/01. Combined net income of $1.7 billion is partially offset by $1.4 billion of contributions paid to the consolidated revenue fund and accounting adjustments totaling $154 million. These accounting adjustments primarily reflect the transfer of British Columbia Lottery Corporation revenue to charities and municipalities, and British Columbia Hydro and Power Authority's required withdrawal from its rate stabilization account.

TABLE B4

SUMMARY ACCOUNTS OPERATING RESULTS — 2000/01 BUDGET ESTIMATE DETAILS

	Budget Estimate 1999/00	Revised Forecast 1999/00	**Budget Estimate 2000/01**
		($ millions)	
Consolidated revenue fund (CRF):			
Revenue	20,385[1]	21,385	**21,500**
Expenditure	(21,045)	(22,593)	**(22,300)**
CRF balance	(660)	(1,208)	**(800)**
Crown corporations and agencies:[2]			
Taxpayer-supported:			
British Columbia Buildings Corporation	75	39	**62**
British Columbia Ferry Corporation	(51)	(308)	**(10)**
BC Transportation Financing Authority	4	3	**(1)**
Forest Renewal BC	(243)	(47)	**(52)**
Other[3]	25	(17)	**(16)**
	(190)	(330)	**(17)**
Less: contributions paid to CRF[4]	(246)	(71)	**(62)**
Less: accounting adjustments—			
Forgiveness of British Columbia Ferry Corporation debt	—	1,080	**—**
Other accounting adjustments[5]	(249)	(226)	**(227)**
Total taxpayer-supported	(685)	453	**(306)**
Self-supported:			
British Columbia Hydro and Power Authority (BC Hydro)	417	418	**429**
Liquor Distribution Branch	620	615	**620**
British Columbia Lottery Corporation	510	525	**534**
British Columbia Railway Company	32	(582)	**40**
Insurance Corporation of British Columbia	(7)	96	**3**
Other[6]	(7)	(7)	**42**
	1,565	1,065	**1,668**
Less: contributions paid to CRF[7]	(1,433)	(1,380)	**(1,386)**
Less: accounting adjustments—			
BC Hydro transfer to (from) rate stabilization account	—	137	**(17)**
Other accounting adjustments[8]	(86)	(112)	**(137)**
Total self-supported	46	(290)	**128**
Total Crown corporations and agencies	(639)	163	**(178)**
Forecast allowance	(230)[1]	(100)	**(300)**
Total summary accounts deficit	(1,529)	(1,145)	**(1,278)**

[1] The 1999/00 budget included a revenue allowance of $230 million, which was deducted from revenue. In order to be consistent with the presentation used for 2000/01, this allowance has been shown as a forecast allowance for the summary accounts deficit.
[2] In the 1999/00 budget, only aggregate estimates were prepared for taxpayer-supported and self-supported Crown corporations and agencies. In this presentation, detailed budget estimates are provided based on forecasts prepared by the Ministry of Finance and Corporate Relations.
[3] Includes earnings/(losses) of British Columbia Transit, British Columbia Securities Commission, Okanagan Valley Tree Fruit Authority, Tourism British Columbia and other taxpayer-supported Crown corporations and agencies.
[4] Dividends from the British Columbia Buildings Corporation that are included in CRF revenue.
[5] Primarily includes adjustments to record the amortization of the cost of highways transferred to the BC Transportation Financing Authority.
[6] Includes earnings/(losses) of the Columbia Power Corporation and 552513 British Columbia Ltd. (Skeena Cellulose Inc.) and other self-supported Crown corporations.
[7] Includes dividends from self-supported Crown corporations that are included in CRF revenue.
[8] Primarily includes the transfer of British Columbia Lottery Corporation revenue to charities and local governments.

Consolidated Revenue Fund

2000/01 Revenue

Revenue of the consolidated revenue fund is projected to increase $115 million or 0.5 per cent from the 1999/00 revised forecast.

Modest revenue growth reflects tax cuts

Personal income tax revenue — Personal income is expected to grow 3.2 per cent in 2000/01, but this is more than offset by:

- — the loss of $293 million in one-time revenue received in 1999/00 for additional assessments related to previous years;
- — a further reduction of $63 million due to the continuation of federal and provincial tax reductions introduced in 1998/99 and 1999/00;
- — a reduction of $12 million due to the previous announcements to reduce the top marginal personal income tax rate to 49.9 per cent.
- — a $175-million loss of provincial revenue due to new provincial tax reduction measures to reduce taxes in conjunction with recent federal changes in 2000/01; and
- — an additional provincial tax reduction measure introduced in 2000/01 to further reduce provincial taxes by $50 million in 2000/01.

As a result, personal income tax revenue will decline 4.2 per cent in 2000/01, and there will also be a reduction in 1999/00 revenue of $46 million.

The forecast incorporates British Columbia's new personal income tax (tax-on-income) system introduced for the 2000 tax year (see Report C for further information on the new tax system).

Corporation income tax revenue includes tax reductions of $31 million

Corporation income tax revenue — down 2.6 per cent. Despite a higher federal forecast of the national tax base in 2000, lags in the corporate income tax system and a lower share of the national tax base in 1998 mean that the province will receive lower installment payments in 2000/01. The forecast incorporates tax reductions of $50 million introduced in the last two budgets, and new measures that reduce revenue by $31 million in 2000/01. This includes a reduction in the small business tax rate to 4.75 per cent from 5.5 per cent, effective July 1, 2000, and a new manufacturing and processing investment tax credit effective April 1, 2000.

Other tax revenue — strengthening growth in retail sales and investment spending will result in a 3.6-per-cent increase in social service tax revenue. A 4.2-per-cent decline is projected for fuel tax revenue mainly due to a $30-million increase in transfers of dedicated tax to Crown corporations and agencies. Elsewhere, growth in revenue from property tax, property transfer tax, insurance premium tax and hotel room tax will be partially offset by lower revenue from corporation capital tax due to threshold reductions introduced in the 1998/99 budget.

Natural resource revenue will decline slightly

Petroleum, natural gas and minerals revenue — down 4.4 per cent. Continuing strength in natural gas royalties, due to strong prices, will be more than offset by lower revenue from sales of Crown land drilling rights and minerals. The particularly high levels of drilling right sales in 1999/00 are not expected to continue in 2000/01.

Forests revenue — up 0.3 per cent. The effect of an expected decline in harvest volumes, together with a lower forecast of average spruce-pine-fir (2 x 4) prices, is offset by higher logging tax revenue.

Other revenue — a 2.3-per-cent increase in 2000/01 will result from increased volumes of fees and licences and additional sales of Crown land. The forecast assumes that $50 million will be realized from sales of surplus assets and other properties.

TABLE B5

REVENUE BY SOURCE[1]
CONSOLIDATED REVENUE FUND

	Budget Estimate 1999/00	Revised Forecast 1999/00	**Budget Estimate 2000/01**	Increase (Decrease)[2]
	($ millions)			(per cent)
Taxation Revenue:				
Personal income	5,374	5,754	**5,513**	(4.2)
Corporation income	847	939	**915**	(2.6)
Social service	3,190	3,325	**3,446**	3.6
Property	1,345	1,330	**1,360**	2.3
Fuel	436	456	**437**	(4.2)
Other	1,387	1,430	**1,444**	1.0
Less: commissions on collections of public funds	(24)	(24)	**(24)**	—
Less: allowances for doubtful accounts	(9)	(15)	**(15)**	—
	12,546	13,195	**13,076**	(0.9)
Natural Resource Revenue:				
Petroleum, natural gas and minerals	422	704	**673**	(4.4)
Forests	1,073	1,298	**1,302**	0.3
Water and other	390	415	**412**	(0.7)
Less: commissions on collections of public funds	(1)	(1)	**(1)**	—
Less: allowances for doubtful accounts	(4)	(4)	**(8)**	100.0
	1,880	2,412	**2,378**	(1.4)
Other Revenue[3]	1,928	1,838	**1,881**	2.3
Contributions from Government Enterprises	1,679	1,451	**1,448**	(0.2)
Contributions from the Federal Government:				
Canada health and social transfer	2,208	2,327	**2,549**	9.5
Other	144	162	**168**	3.7
	2,352	2,489	**2,717**	9.2
Total Revenue[4]	20,385	21,385	**21,500**	0.5

[1] Revenue amounts exclude dedicated revenue collected on behalf of, and transferred to, Crown corporations, agencies and other entities (1999/00 budget estimate: $731 million; 1999/00 revised forecast: $890 million; 2000/01 budget estimate: $913 million). For details, see Table H6.
[2] Percentage change between the 1999/00 revised forecast and the 2000/01 budget estimate.
[3] Includes revenue from fees and licences, asset dispositions, investment earnings, and other miscellaneous sources.
[4] The 1999/00 budget included a revenue allowance of $230 million, which was deducted from revenue. In order to be consistent with the presentation used for 2000/01, this allowance has been shown as a forecast allowance for the summary accounts deficit (see Table B4).

Crown corporation contributions — a slight decrease is expected in 2000/01, as lower contributions from the British Columbia Lottery Corporation and British Columbia Buildings Corporation are partially offset by higher contributions from British Columbia Hydro and Power Authority and other Crown corporations and agencies.

Federal contributions — CHST contributions will increase $222 million in 2000/01. As planned, in 1999/00 the provincial government withdrew $350 million of its full entitlement to the CHST supplement announced in the 1999/00 federal budget. In 2000/01, the provincial government will withdraw the remaining $121 million of this entitlement, and will also withdraw its full $333-million entitlement to the additional supplement announced in the 2000/01 federal budget.

The province will withdraw $454 million of the federal CHST supplement to fund health care in 2000/01

An additional $118 million will be received due to federal changes to the national basic entitlement, partially offset by the loss of $50 million in one-time revenue received in 1999/00.

The revenue forecast excludes $568 million of dedicated revenues collected on behalf of taxpayer-supported Crown corporations and agencies in 2000/01. These revenues are reported as part of the net income of the Crown corporations and agencies shown in Table B4.

With the transition to summary accounts budgeting and reporting, a specific revenue allowance is no longer presented for consolidated revenue fund revenue. As shown in Table B4, and explained in the *Budget 2000 Forecast Allowance* topic box in this report, a $300-million allowance is provided at the summary accounts level to allow for unforeseen developments in both the consolidated revenue fund and in Crown corporations and agencies.

A forecast allowance provides for uncertainties

A detailed breakdown of forecasts for individual revenue sources is shown in Table H6.

Factors Affecting the 2000/01 Revenue Budget Estimate

Although nominal growth in the provincial economy is estimated at 3.8 per cent in 2000, and contributes almost $600 million in additional revenue, a number of factors will offset this revenue growth in 2000/01. Table B6 provides an overview of key factors affecting the 1999/00 revised forecast, the starting point in preparing the 2000/01 revenue forecast.

Economic growth boosts 2000/01 revenues . . .

Like some other provinces, British Columbia received significant one-time revenue in 1999/00 as a result of final personal income tax assessments for 1998 and previous years. An adjustment was also received for additional CHST entitlements. These prior-year adjustments are not expected to recur in 2000/01.

. . . partly offset by provincial tax reduction measures

Continuing federal and provincial tax reduction measures introduced during the last two years, and new provincial measures introduced in this budget will further reduce revenue by $426 million in 2000/01.

TABLE B6
FACTORS AFFECTING THE 2000/01 REVENUE BUDGET ESTIMATE

	Factors	Forecast
	($ millions)	
1999/00 revised revenue forecast		**21,385**
Less:		
— One-time revenue received in 1999/00 for additional assessments of personal income tax for 1998 and previous years	(293)	
— One-time CHST revenue received in 1999/00 for changes to entitlements for 1998/99 and previous years	(50)	
— Further reductions in 2000/01 due to 1998/99 and 1999/00 federal and provincial budget measures:		
Provincial	(110)[1]	
Federal	(45)	
— Reductions due to 2000/01 federal and provincial budget measures:		
Provincial	(227)	
Federal	(44)	**(769)**
Add:		
— Effect of economic growth in 2000 and 2001	590	
— CHST: formula and supplement changes	236	
— Other policy and base changes (e.g. land sales and other sources)	58	**884**
2000/01 revenue budget estimate		**21,500**

[1] Includes an additional $14 million of dedicated fuel tax transferred to the BC Transportation Financing Authority in 2000/01 (increased to 3.25 cents/litre from 3.00 cents/litre, effective April 1, 2000).

The effects of stronger economic growth are expected to mainly affect taxation revenue sources. However, this will be partially offset by a decline in natural resource revenue, as the rapid growth in activity during 1999/00 is not expected to continue at the same pace in 2000/01.

The $236-million increase in CHST due to formula and supplement changes is made up of $104-million in additional CHST supplement in 2000/01 ($454 million in total), and $132 million due to federal changes to the national cash floor base.

Revenue Assumptions and Forecast Risks

Revenue assumptions and risks are disclosed

Typically, changes to the revenue forecast 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, foreign trade restrictions (e.g. domestic and external market responses to the Canada/U.S. Softwood Lumber Agreement), and labour disruptions. Usually, some changes offset others. For example, the higher-than-expected natural resource revenue in 1999/00 helped offset lower-than-planned contributions from Crown corporations.

Table B7 details key economic and other assumptions for the main revenue sources in the 2000/01 revenue forecast. In addition, the table provides estimates of the sensitivity of revenues to changes in individual assumptions.

TABLE B7

MAIN REVENUE ASSUMPTIONS AND FORECAST RISKS — CONSOLIDATED REVENUE FUND

Revenue Source	Key Assumptions	Risks and Sensitivities
Personal Income Tax $5,513 million	Personal income growth of 3.2% in 2000, 3.6% in 2001. Assumes family bonus tax reduction of $85 million in 2000/01.	A 1% change in personal income affects revenue growth by 1.1% (after federal/provincial measures). ±1% change in 2000 personal income growth equals ±$10 million to $25 million in 1999/00; ±$45 million to $75 million in 2000/01.
Corporation Income Tax $915 million	Recorded on cash basis; payments based on a lagged share of the national tax base. Small business tax rate reduced to 4.75% (effective July 1, 2000). British Columbia corporate profits increase of 11.5% in 1999. National corporate taxable income (CTY) increase of 6% in 2000.	±1% change in 1999 British Columbia corporate profits growth equals ±$10 million. ±1% change in national CTY growth equals ±$11 million.
Social Services Tax $3,446 million	Retail sales growth of 2.8% in 2000 and 4.8% in 2001. Machinery/equipment spending increase of 6.0% in 2000 and 6.4% in 2001.	±1% change in retail sales growth equals ±$26 million. ±1% change in machinery/equipment spending growth equals ±$7 million.
Fuel and Tobacco Tax $905 million	Fuel and tobacco taxes are dependent on volumes sold only — tax rates are fixed.	Fuel: Higher pump prices could slow consumption. ±1% change in real GDP growth equals ±$4 million. Tobacco: ±1% change in population growth equals ±$1 million.
Property Tax $1,360 million	Tax base growth at 2.3%, reflecting new construction and expected changes in property values. Assumes home owner grant tax reduction of $502 million in 2000/01.	±1% change in assessed value equals ±$11 million.
Petroleum, Gas and Minerals Revenue $673 million	Natural gas price at $2.15/gigajoule in 2000/01; volumes up 2.0%. Sale of Crown land drilling rights down $20 million in 2000/01, reflecting lower volume and average price. Sale of Crown land drilling rights assumes average price of $240/hectare and 730,000 hectares sold. Small change in petroleum royalties for 2000/01; price of oil at US $20/bbl. Minerals revenue down $13 million.	Commodity prices remain a risk in 2000/01. Price of oil can affect sales of Crown land drilling rights. ±5% change in natural gas price equals ±$24 million. ±5% change in natural gas volumes equals ±$18 million. ±5% change in price or volume of land sales equals ±$9 million.
Forests Revenue $1,302 million	Crown coastal harvest volumes at 16.5 million m^3 in 2000/01, down 6.8% from 1999/00 (17.7 million m^3); Crown interior harvest volumes at 45.7 million m^3 in 2000/01, down 7.1% from 1999/00 (49.1 million m^3). Average SPF 2×4 price in 2000 at US $323/1,000 bd ft. Average hemlock (HBSQ) price in 2000 at US $600/1,000 bd ft. Exchange rate 69.4 cents US in 2000. Average pulp price in 2000 at US $650/tonne. Pulp prices do not have a direct effect on CRF revenue, other than through harvest volumes.	Effects of the termination of the Canada/U.S. Softwood Lumber Agreement are unknown. ±US $25 change in SPF 2×4 price equals ±$46 million. ±US $50 change in HBSQ price equals ±$8 million. ±5% change in coastal harvest volumes equals ±$15 million. ±5% change in interior harvest volumes equals ±$40 million. A 1 cent US increase (decrease) in the exchange rate reduces (increases) revenue by $10 million.
Other Sources: Fees, Licences, Fines and Miscellaneous $1,881 million	Usage rate generally varies with population growth. Population growth of 1.1% in 2000. Revenue includes MSP premiums, motor vehicle registration and other fees, licences and fines.	±1% change in usage rate/population growth equals ±$15 million.
Government Enterprises: LDB, BC Hydro and other Crown corporations $1,448 million	Generally dependent on growth in real GDP and population. Population growth of 1.1% in 2000. Real GDP growth of 2.2% in 2000.	BC Hydro contributions can be affected by weather. ±1% change in population or real GDP growth equals ±$10 million to $20 million.
Canada health and social transfer (CHST) $2,549 million	Includes $121 million of British Columbia's $471-million share of the $3.5-billion supplement (1999 federal budget); British Columbia's full $333-million share of the new $2.5 billion supplement (2000 federal budget). National income growth of 5.3% in 2000 and 4.8% in 2001. British Columbia population growth of 1.1% in 2000.	±1% change in British Columbia population growth with no change in national population growth is equivalent to ±$35 million to $40 million. ±1% increase (decrease) in British Columbia income tax base reduces (increases) revenue by $15 million to $20 million. ±1% in national tax points equals ±$35 million to $40 million.

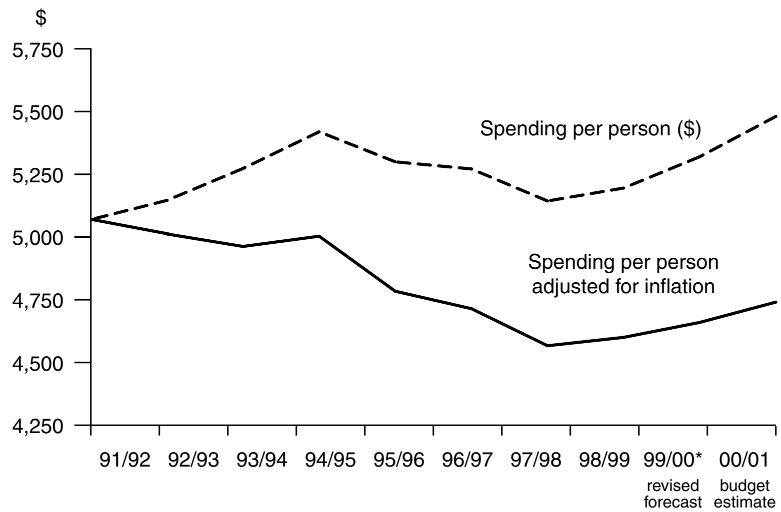
2000/01 Expenditure

Budgeted spending will increase by 6 per cent in 2000/01

Expenditure of the consolidated revenue fund is estimated to increase $1,255 million or 6.0 per cent from the 1999/00 budget estimate. Excluding one-time expenditures of $1,191 million in 1999/00, for assistance to the British Columbia Ferry Corporation and the write-down of various investments, spending is projected to increase $898 million or 4.2 per cent from the 1999/00 revised forecast.

Chart B2 shows that in real per person terms (total expenditure divided by the British Columbia population and adjusted for inflation), consolidated revenue fund spending is projected to grow 1.7 per cent in 2000/01, slightly higher than the 1.3 per cent increase in 1999/00, excluding one-time expenditure items.

Chart B2
Consolidated Revenue Fund Spending Per Person



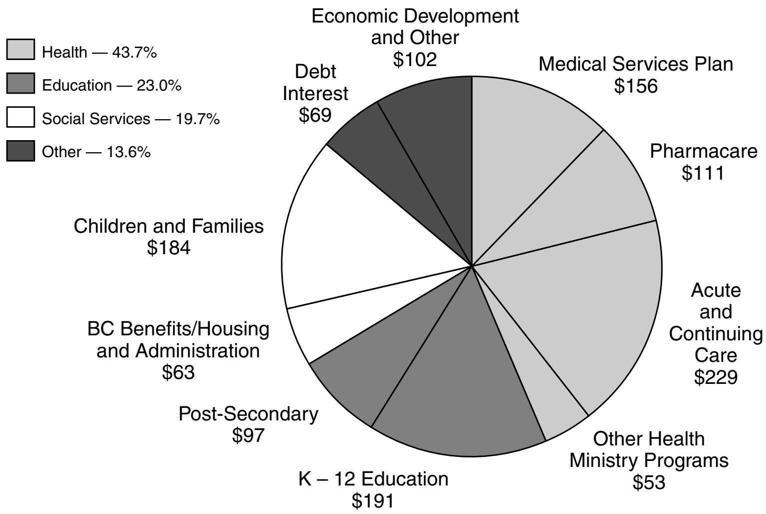
* 1999/00 excludes one-time expenditures.

Over 85 per cent of the budget increase in 2000/01 will be used to provide increased funding for core social program areas. A portion of this increase reflects the recognition of some of the unexpected spending increases experienced in 1999/00.

Chart B3 provides an overview of major increases from the 1999/00 expenditure budget, the starting point in preparing the 2000/01 expenditure estimates.

Most of the spending increase is for health, education and children and family services

Chart B3
2000/01 Expenditure Budget Increases
Consolidated Revenue Fund ($ millions)



Total Increase: $1,255 million

Highlights of spending changes from the 1999/00 budget estimates include:

A $549 million health care increase provides new beds, more nurses, and more health services

Ministry of Health — up $549 million including $183 million for compensation increases for health care workers in regional programs. The budget for acute and continuing care includes increased funding of $42 million for additional beds and home care services. This provides for the opening of 194 new continuing care beds in 2000/01, and the full-year cost of new beds and services announced in mid-1999/00. The ministry budget also provides a 4.9-per-cent or $33-million increase for provincial critical services including cancer treatment, cardiac care and transplants, and renal dialysis.

The Medical Services Plan budget increases by $156 million and provides for the recent negotiated agreement with physicians, in addition to demographic changes, anticipated fee increases and additional physician services at the British Columbia Cancer Agency. The Pharmacare budget will increase $111 million to recognize the unexpected funding shortfall in 1999/00, and to accommodate both increasing utilization and expected costs of providing access to new and more expensive drug therapies in 2000/01.

Other increases in the Ministry of Health include an additional $22 million for capital and debt servicing.

The education budget funds smaller classes for children

Ministry of Education — up $191 million. A 3.6-per-cent increase in public school operating contributions includes $14 million to support the third year of the K-3 class size reduction initiative (to a maximum of 20 pupils for Kindergarten classes and 22 pupils for grades one to three). All signed collective agreements are funded. The budget also reflects changes in the composition of the student population (e.g. ESL and special needs children).

Other ministry increases include $2 million for independent schools, an additional $4.5 million for learning resources and $59 million for capital and debt servicing.

5,025 new post-secondary seats are funded

Ministry of Advanced Education, Training and Technology — up $110 million. The post-secondary education programs budget will increase 6.1 per cent to provide $39 million for 5,025 new post-secondary seats; $38 million for contracted salary and benefit increases and tuition freeze compensation for institutions; $6 million to fund increased demand for student financial assistance; and for enhancements/new initiatives in the post-secondary system. The budget also includes additional funding for the Industry Training Apprenticeship Commission. Royal Roads University will receive an additional $4 million to replace federal funding.

The budget also provides $4 million for increased capital and debt servicing costs and a $10-million increase for British Columbia Transit.

Before and after school child care helps working families

Ministry of Social Development and Economic Security — up $63 million. The BC Benefits program budget will increase $42 million. It provides $23 million for a planned 2-per-cent income assistance rate increase in July 2000, $30 million for the reinstatement of the flat-rate earnings exemption, and $14 million for implementation of a before-and after-school child care program on school sites.

The budget increases are partly offset by $52 million of savings resulting from a projected 4.2-per-cent decline in the income assistance caseload (in 1999/00, the caseload fell 4.5 per cent). Housing programs will increase $16 million to provide subsidies for new affordable housing units completed in 2000/01, higher maintenance costs to address water penetration problems in provincial social housing complexes, and full-year funding for the sales tax relief grant program introduced in 1999/00.

Ministry for Children and Families — up $184 million. Services for children and families will increase $54 million and community living services for adults will increase $113 million. The increases primarily reflect the direct and indirect costs of contract changes for community social services workers. Additional funding of $15 million is provided to reduce wait-lists for Children's Health and Community Living Services, and to establish an early-intervention children's health program. The budget also provides $12 million for care of migrant children.

Ministry of Attorney General — an $18-million budget increase provides $8 million for additional police officers, $6 million for pre-trial facilities, and additional funding for the Organized Crime Agency and BC2000 grants.

Ministry of Agriculture, Food and Fisheries — up $17 million to provide funding of $8 million to Fisheries Renewal BC, $11 million for program enhancements and rural development, and funding for seafood, shellfish and freshwater fisheries development. These increases are partially offset by reduced spending in other ministry programs.

Forests — up $12 million to provide increased funding for bridge rehabilitation and pest management.

Ministry of Women's Equality — up $11 million to provide for labour cost increases in the contracted community social services sector and other program enhancements.

BC Family Bonus — down $29 million due to expected program changes to the federal National Child Benefit System.

Management of Public Funds and Debt (debt interest) — up $69 million due to higher borrowing requirements and additional costs of assuming debt of the British Columbia Ferry Corporation and the Vancouver Trade and Convention Centre in 1999/00.

TABLE B8
EXPENDITURE BY MINISTRY CONSOLIDATED REVENUE FUND

	Budget Estimate 1999/00[1]	Revised Forecast 1999/00	**Budget Estimate 2000/01**	Increase (Decrease)[2]
	($ millions)			(per cent)
Legislation	37	35	**38**	4.1
Officers of the Legislature	28	28	**26**	(7.7)
Office of the Premier	3	3	**3**	—
Aboriginal Affairs	35	35	**43**	22.3
Advanced Education, Training and Technology	1,794	1,813	**1,904**	6.1
Agriculture, Food and Fisheries	83	83	**100**	21.1
Attorney General	923	1,009	**941**	2.0
Children and Families	1,317	1,356	**1,501**	14.0
Community Development, Cooperatives and Volunteers	18	16	**23**	25.4
Education	4,345	4,372	**4,536**	4.4
Employment and Investment	37	36	**37**	(1.1)
Energy and Mines	36	35	**42**	16.8
Environment, Lands and Parks	194	194	**188**	(3.0)
Finance and Corporate Relations	114	114	**113**	(1.0)
Forests	500	507	**512**	2.4
Health	7,720	7,936	**8,269**	7.1
Labour	28	28	**30**	6.8
Multiculturalism and Immigration	21	37	**24**	13.1
Municipal Affairs	142	142	**141**	(0.4)
Small Business, Tourism and Culture	84	84	**86**	2.5
Social Development and Economic Security	1,963	1,959	**2,026**	3.2
Transportation and Highways	463	462	**465**	0.4
Women's Equality	43	43	**54**	25.6
Other appropriations:				
Management of Public Funds and Debt	940	840	**1,009**	7.3
BC Family Bonus	181	185	**152**	(16.1)
Contingencies (All Ministries) and New Programs	76	66	**125**	64.7
Amortization of change in unfunded pension liability	(117)	(130)	**(130)**	11.2
Pension adjustments	—	82	**—**	—
Other appropriations[3]	37	32	**42**	13.6
Total program expenditure before one-time items	21,045	21,402	**22,300**	6.0[4]
One-time expenditures:[4]				
British Columbia Ferry Corporation debt forgiveness	—	1,080	**—**	—
Vancouver Trade and Convention Centre write-down	—	70	**—**	—
Kemess Mine investment writedown	—	41	**—**	—
Total Expenditure	21,045	22,593	**22,300**	6.0

[1] Restated to conform to the 2000/01 budget estimate presentation.
[2] Percentage change between the 1999/00 budget estimate and the 2000/01 budget estimate (figures based on unrounded figures shown in the *2000/01 Estimates* budget estimates).
[3] Other appropriations include the Commissions on Collection of Public Funds and Allowance for Doubtful Revenue Accounts Vote, the Environmental Assessment and Land Use Coordination Vote, the Environmental Boards and Forest Appeals Commission Vote, the Forest Practices Board Vote, the Green Economy Initiative Vote, the Public Sector Employers' Council Vote, the Insurance and Risk Management Special Account, the Unclaimed Property Special Account, and other appropriations.
[4] Excluding one-time expenditures of $1,191 million in 1999/00, the 2000/01 budget increase is 4.2 per cent compared to the 1999/00 revised forecast.

Other budget changes include:

- *Ministry of Aboriginal Affairs* — up $8 million to provide resources to support the treaty process and programs associated with First Nation's heritage, language and culture;
- *Community Development, Cooperatives and Volunteers* — up $5 million to provide full-year funding;
- *Energy and Mines* — up $6 million mainly due to new funding for phase two of the provincial *Oil and Gas Initiative;*
- *Environment, Lands and Parks* — down $5.9 million mainly due to the completion of 1,500 new campsites funded in 1999/00 as part of the *Campgrounds BC initiative;*
- *Small Business, Tourism and Culture* — up $2.1 million primarily for new funding for the eco-tourism strategy and other tourism development and regional film development programs;
- *Green Economy Initiative* — new funding of $5 million;
- *Employment and Investment* (down $0.4 million); *Finance and Corporate Relations* (down $1.2 million); *Labour* (up $1.9 million), *Multiculturalism and Immigration* (up $2.8 million), *Municipal Affairs* (down $0.5 million) and *Transportation and Highways* (up $1.6 million).

Expenditure Assumptions and Forecast Risks

Spending forecast assumptions are disclosed

The main assumptions supporting the 2000/01 expenditure estimates are summarized in Table B9, together with a description of the major risks and sensitivities.

Other Expenditure Assumptions and Risks

- *Catastrophes and disasters:*

  The expenditure budgets for the Ministries of Forests and Attorney General include amounts to fight forest fires and for other emergencies such as floods and blizzards. These amounts assume normal to moderate conditions and severity of costs based on historical patterns. Although the overall expenditure budget includes a $125-million contingency vote, express provisions are not included for catastrophes or disasters beyond the amounts already identified in ministry budgets. Costs of such unforeseen events may also affect other ministry programs.

- *Pending litigation:*

  The revised expenditure forecast for 1999/00 includes estimates of potential liabilities for known or likely settlements of completed or pending litigation where amounts are determinable. The Ministry of Attorney General provides an assessment of the likelihood of potential liabilities resulting from pending litigation as part of the finalization of the *Public Accounts* after March 31st each year. Depending on the opinions of legal counsel and other developments, estimated costs and liabilities could be different than assumed in the 1999/00 revised forecast.

  The 2000/01 expenditure budget for the Ministry of Attorney General contains provisions for settlements under the *Criminal Injuries Compensation Act* and *Crown Proceeding Act,* based on estimates of expected claims and related costs of settlements likely to be incurred in 2000/01. Other litigation developments may occur that are beyond the assumptions used in the budget forecast, and may also affect expenditures in other ministries.

TABLE B9

MAIN EXPENDITURE ASSUMPTIONS AND FORECAST RISKS — CONSOLIDATED REVENUE FUND

Expenditure Area	Key Assumptions	Forecast Risks and Sensitivities
Ministry of Health Acute and Continuing Care $4,491 million	Funds all signed collective agreements ($164 million increase). Funds up to an additional 600 nurses. Provides for a combination of enhanced continuing care services — up to 520 new beds (current provincial total is 25,600) or 1 million additional hours of home support services (current provincial total is 9.3 million). Funds operating costs ($4.4 million) of 194 new continuing care beds opening in 2000/01. Funds treatments for up to 560 additional cancer cases; 70 additional organ transplants; 259 additional cardiac cases; and 250 additional renal dialysis cases. Assumes zero population growth for other acute and continuing care.	A 1% change in population affects regional health programs expenditure by approximately $50 million.
Medical Services Plan $2,053 million	Funds population growth (1.4%), but assumes no utilization growth for supplementary benefits; forecast growth in utilization of physician services (1.5%) to be partially offset by new utilization management measures.	A 1% change in utilization of physician services affects costs by $16 million. A 1% change in utilization of supplementary benefits affects costs by $1.3 million. There is no hard cap on physician billings for the duration of the working agreement (i.e. to the end of March 2001).
Pharmacare $661 million	Funds 1999/00 shortfall ($23.6 million) and provides for increased program demand, drug costs and some new drugs ($87.8 million). Assumes average utilization increase of 4.6% and a drug cost increase of 3.8%.	A 1% change in utilization (average across all plans) affects expenditures by $6.6 million. A 1% change in drug prices affects expenditures by $6 million.
Emergency Health Services $145 million	Funds operation of ambulance services, including all existing collective agreements. Assumes zero call volume growth in 2000/01. Funds approximately 300 paramedics to access training in 2000/01 to upgrade their accreditation in accordance with the collective agreement.	Negotiations between government and the BC Ambulance Service to renew the collective agreement (expires March 31/00) were not concluded prior to the budget. A 2% change in compensation costs affects expenditure by $1.7 million. A 1% change in call volume (ground) affects expenditure by $1.3 million.
Ministry of Education K to 12 Education Programs $4,520 million	Enrollment is currently 601,846 students. Forecast assumes zero enrollment growth for 2000/01 (compared to a 0.2% decline in 1999/00). Funds class size reduction in K to 3 grades at a cost of $13.7 million. Funds all signed collective agreements and accords. Reflects changes in student population composition. A $10-million contingency buffer is included for unexpected enrollment growth or other pressures.	Higher or lower enrollment growth may affect expenditures. A 1% change in enrollment affects costs by $37.3 million. Collective agreement negotiations with CUPE were not concluded prior to the budget. A 1% increase in support salaries costs $7 million. A 1% change in interest rates affects debt service costs by $3 million.

TABLE B9

MAIN EXPENDITURE ASSUMPTIONS AND FORECAST RISKS — CONSOLIDATED REVENUE FUND — *Continued*

Expenditure Area	Key Assumptions	Forecast Risks and Sensitivities
Ministry of Advanced Education, Training and Technology Post Secondary Education Programs $1,652 million	The budget reflects: — total funded spaces in 2000/01 of 149,470; — 5,025 new post-secondary student spaces ($39 million); — enhanced funding for post-secondary institutions ($38 million), which includes the cost of the tuition freeze and salary and benefit increases; — replacing the federal contribution to Royal Roads University ($3.8 million); and — new initiatives such as equipment and libraries ($9 million).	Collective agreement and accord negotiations with CUPE were not concluded prior to the budget. Each 1% increase in CUPE salary and benefits costs approximately $3.6 million.
Student Financial Assistance $130 million (included in Post Secondary Education Programs above)	Provides for: — recognition of actual 1999/00 costs and an anticipated 5% increase in demand in 2000/01 ($14 million); — the anticipated increased cost of the risk-sharing program with financial institutions; and — extending British Columbia student grants to private institutions ($5 million). These increases are partially offset by savings/ reductions, including: — making the BC student loan program consistent with the federal student loan program and transferring the loan collection function to the provincial government Loans Administration Branch ($8 million); and — increasing the weekly needs thresholds at which a student is eligible for a British Columbia student grant, from $105 to $125 ($8 million).	Higher or lower demand rates are variables beyond the control of government. A 1% change in demand affects costs by $1.3 million. A 1% change in interest rates affects costs by $2.4 million. The cost of renewing the risk-sharing agreement with financial institutions could be higher than anticipated.
Ministry of Social Development and Economic Security BC Benefits Programs (Income assistance (IA) and related programs) $1,681 million	Caseload will decline 4.2% in 2000/01 (the decline in 1999/00 was 4.5%). Average caseload in 2000/01 is estimated at 154,639. Reflects reinstatement of the flat-rate earnings exemption ($30 million), effective January 2000; and a 2% IA rate increase, effective July 2000 ($23 million).	Deterioration of the provincial economy is a risk to the IA budget. A 1% change in caseload affects expenditure by $12.4 million.
Child Care Services $166 million (included in BC Benefits programs above)	Assumes the number of subsidized day care spaces will increase 5.2%, from 38,300 in 1999/00 to 40,300 in 2000/01. Provides a $14-million partial-year allocation for a school-based day care program — full-year costs are estimated at approximately $30 million in 2001/02. This program is still under development.	Higher or lower demand for child care services are variables beyond the control of government. A 1% change in caseload affects expenditure by $12 million.
Housing Programs $104 million	Provides for subsidy requirements for housing units and full-year funding for the sales tax relief grant program introduced in 1999/00. Assumes a five-year mortgage interest rate of 7% and no change in tenant incomes. No additional funding provided to implement recommendations of the second Barrett report on condominiums.	Rent subsidies account for 70% of expenditures and are sensitive to changes in mortgage rates and changes in tenant incomes (tenant rent revenue is equal to 30% of income). A 1% change in mortgage rates affects provincial contributions by $0.8 million. A 1% change in tenant incomes affects provincial contributions by $0.9 million.
BC Family Bonus Program (administered by the Ministry of Finance and Corporate Relations) $152 million	Caseload levels expected to increase by 1% (to approximately 230,000 families), and family incomes to rise, which will offset budget pressures from caseload adjustments. Provincial costs have been reduced in response to improvements to the federal program.	A 1% decrease in family incomes, without any change in caseload, results in a $3 million increase in provincial costs.

TABLE B9

MAIN EXPENDITURE ASSUMPTIONS AND FORECAST RISKS — CONSOLIDATED REVENUE FUND — *Continued*

Expenditure Area	Key Assumptions	Forecast Risks and Sensitivities
Ministry for Children and Families $1,501 million	Assumes the average monthly children-in-care caseload will decline 3.1%, from 9,650 in 1999/00 to 9,350 in 2000/01. Provides $111 million for the direct compensation costs of the Community Social Services agreement, and $27 million for the indirect costs. Provides a $12-million allowance for the continued care of the 97 migrant children who arrived in 1999, and for an additional 90 to 120 children.	Costs could vary depending on the rate of unionization, the demand for labour adjustment and the impact on cost reduction initiatives. Additional migrant children each cost approximately $6,000 per month. There is no provision for foster care rate increases, which could result in children being placed in higher cost care.
Ministry of Labour British Columbia Gaming Commission Distribution of Gaming Revenues to Charities $100 million	Assumes revenue sharing with charities at $100 million. This provides for inflation; an expected decline of $6 million in direct bingo revenues; and a $6-million increase in reimbursements to bingo operators.	If charitable bingo revenue is 5% lower than assumed, this could result in an increase of $2 million in government assistance to charities and operators.
Ministry of Attorney General Statutory Services $50 million	Provides: — $25 million for *Criminal Injuries Compensation Act* settlements, — $11 million for *Crown Proceeding Act* settlements (based on 5 year average settlement costs), — $12 million for emergencies such as floods and blizzards; and — $2 million for inquiries that may arise over the course of the year.	An unusual number or severity of natural disasters, such as forest fires or floods is a risk. Higher-than-assumed volumes or costs per case for *Criminal Injuries Compensation Act* and *Crown Proceeding Act* settlements also represent a risk.
Police Services $153 million	Funds provincial portion of policing services to municipalities having a population of less than 5,000, rural populations and specialized functions including highway patrol (total 1,691 officers). Provincial funding requirement is dependent on the federal allocation of funds to provinces and the RCMP allocation to the provincial force.	Federal allocation to the province and the RCMP allocation to the provincial force may be higher than expected. A higher-than-expected allocation to the provincial force has to be matched by the province. These allocations are dependent on the number of members and vacancies (currently 150 provincial vacancies) and both allocations are beyond the province's control. Policing is a provincial responsibility with the federal government paying 30% of the provincial force. Each additional provincial officer costs the province $90,000.
Adult Custody $158 million	Assumes the number of remanded and sentenced adult offenders remains within 2,200 to 2,400 target (currently 2,325) in 2000/01.	Costs are affected by the number of prisoners held in provincial correctional facilities. Every 1% change in the prison population affects costs by $1.4 million.
Ministry of Aboriginal Affairs $43 million	Provides for resources to support the treaty process and for programs associated with First Nations' heritage, language and culture. Assumes Nisga'a and one additional treaty will be ratified in 2000/01. Independent studies indicate that all treaties could be settled by 2019. Provides $2.2 million for the amortization of settlement and implementation costs.	Actual expenditures are affected by the pace of treaty settlements. There is minimal expenditure risk to the province in 2000/01 for ratifying additional treaties, due to the structure of cost-sharing arrangements with the federal government.

TABLE B9

MAIN EXPENDITURE ASSUMPTIONS AND FORECAST RISKS — CONSOLIDATED REVENUE FUND — *Continued*

Expenditure Area	Key Assumptions	Forecast Risks and Sensitivities
Ministry of Agriculture, Food and Fisheries $100 million	Provides for agriculture and food program enhancements and programs in support of rural development. Risk management programs, including crop insurance and whole farm insurance are adequately funded to cover crop loss as a result of natural disasters. Provides contributions to Fisheries Renewal BC for salmonid renewal, development and diversification, and planning.	An extraordinary agricultural disaster could result in requests for government to cover costs not eligible under existing risk management programs.
Ministry of Forests Direct Forest Fire Fighting $30 million	This provision is sufficient funding for a "moderate" fire year.	Wetter/dryer than normal weather, particularly in the Interior, will affect costs. The annual cost of fighting forest fires has varied from $19 million to $154 million.
Ministry of Transportation and Highways Highway Maintenance $405 million	Funding provided to meet all known contractual obligations. Assumes 35 cents per litre for diesel fuel rising by 10 cents per litre over the fiscal year (used by inland ferries). Assumes 72 cents per litre for gasoline rising by 20 cents per litre during construction season (used by light and heavy equipment).	Every 1 cent per litre increase in diesel fuel prices increases inland ferry operating costs by $25,000 per year. Every 1 cent per litre increase in gasoline prices increases equipment operating costs by $27,000 per year.
Contributions to BC Transit Operating Contributions $44 million	$4 million budget increase assumes planned service expansions (1.5% increase in service hours); additional corporate costs resulting from the establishment of the Greater Vancouver Transportation Authority ($0.44 million); and $1.5 million for one-time research and development of fuel cell test engines. Assumes number-one diesel fuel price of 44 cents per litre.	Every 1 cent per litre increase in fuel prices increases BC Transit operating costs by $150,000 per year.
Debt Servicing $1,009 million	Long-term and short-term borrowing rates for the fiscal year average 7.4% and 6.0%, respectively. As of March 2000, long-term rates are averaging 6.4%; short-term rates are averaging 5.4%.	1% change in interest rates results in $68 million change in direct operating debt interest expense; up to $90 million change when other taxpayer-supported debt is included.
Contingencies (All Ministries) and New Programs $125 million	Provision for uncertain or unforeseen issues arising over the year for which no other budget provision currently exists. Provision for start up of new programs under development.	Unforeseen pressures in ministry programs may exceed available appropriations.
Amortization of Unfunded Pension Liabilities ($130 million)	Any agreements resulting from negotiations on joint trusteeship will not take effect until after March 31, 2001. No pension plan amendments are anticipated in 2000/01. Actuarial evaluations to be completed in 2000/01 will not increase unfunded pension liabilities.	Joint trusteeship discussions which are underway would likely have a neutral or positive impact on the 2000/01 deficit if concluded in 2000/01. Plan amendments could result in increased/decreased expenses. Actuarial evaluations are expected to result in reductions in unfunded pension liabilities. A $100 million change in liabilities would change expenditure by $9 million.

- *One-time write-downs and other adjustments:*

  The 1999/00 revised expenditure forecast includes a number of extraordinary adjustments, such as the write-down of the government's loans and investments related to the Vancouver Trade and Convention Centre and the Kemess mine. Although the revised forecast incorporates all known and likely adjustments at the time of preparing the budget, further adjustments may occur as the accounts of the government are reviewed by the Auditor General. The 2000/01 expenditure budget does not assume or make allowance for extraordinary adjustments other than the amount provided in the contingencies vote.

- *Recoveries within ministry budgets:*

  A number of ministry budgets assume that a portion of expenditures will be recovered from other agencies. The 2000/01 expenditure budget assumes that budgeted recoveries will be fully realized. Should recoveries be lower than budgeted, this could result in additional net expenditures.

With respect to 1999/00, the summary accounts revised forecast includes a $100-million forecast allowance for unforeseen changes to the end of the fiscal year. With respect to 2000/01, the summary accounts budget forecast includes a $300-million forecast allowance for unforeseen developments during the year.

Crown Corporation Results — 2000/01

Crown corporations net losses will total $178 million

In aggregate, Crown corporations are projected to have a net loss of $178 million in 2000/01, compared to net income of $163 million in 1999/00 (see Table B4). The change from last year largely reflects the positive effect in 1999/00 of the government's forgiveness of $1.1 billion of British Columbia Ferry Corporation debt, partially offset by write-downs of the fast-ferries and British Columbia Railway Company investments.

These estimates are based on information provided by Crown corporations and agencies, and in some cases are subject to confirmation by their Boards of Directors as their annual financial plans are approved.

British Columbia Buildings Corporation — net income of $62 million will increase $23 million from the 1999/00 forecast. Increased gains from property sales and lower debt servicing costs are partially offset by lower operating revenue and higher operating costs. In 2000/01, the corporation will provide a $62-million dividend to the provincial government. Further details are shown in Table H8.

British Columbia Ferry Corporation — a projected net loss of $10 million will be $298 million lower than the previous year, mainly due to the effect of the one-time write-down of the fast-ferries in 1999/00, and reduced interest costs due to the government's forgiveness of $1.1 billion of debt. Operating revenue will increase 2.8 per cent mainly due to increased motor fuel tax received from the provincial government. Operating expenses will fall 8.8 per cent as reduced interest costs are partially offset by higher fuel, repair and maintenance costs. Further details are shown in Table H8.

TABLE B10
MAIN CROWN CORPORATION ASSUMPTIONS AND FORECAST RISKS

Crown Corporation	Key Assumptions	Risks and Sensitivities
British Columbia Buildings Corporation Net income: $62 million	Gains on disposal of properties at $26.2 million. $59 million in capital spending. This includes capital spending of approved client projects, and capital spending for recoverable commercial projects. Dividend to CRF of $62 million.	Value and timing of property sales depend on market. Capital spending dependent on timing of projects and approval limits for ministry clients. 1% change in interest rates affects interest expense by $1 to $2 million.
British Columbia Ferry Corporation Net loss: $10 million	Toll projections based on current traffic volume trends and the corporation's business initiatives. $72.3 million received from provincial dedicated motor fuel tax. Major capital expenditure limit at $117 million. Known expenditure pressures included. Lower amortization costs as a result of $240-million writedown of fast-ferries at the end of 1999/00. Assumes effect of $1.08 billion provincial debt forgiveness at the end of 1999/00.	1% change in volumes affects revenues by about $6 million. 1% change in fuel prices affects fuel costs by $0.5 million. 1999/00 fast ferry write-down assumes book value of $40 million per vessel. Further adjustments may be required depending on sale proceeds if fast ferries sold. Changes in interest rates do not have material effect on expenses due to low level of debt.
BC Transportation Financing Authority Net loss: $1 million	$203 million of dedicated provincial taxes received from provincial government. Major capital spending limit at $486 million. Known expenditure pressures included. Average borrowing rate assumed at 6.5%. Includes an estimate of the net cost of roads to be transferred to newly incorporated municipalities.	1% change in provincial fuel consumption volumes affects revenue by $2 million. Weather patterns can delay projects. Construction costs sensitive to inflation. 1% change in interest rates equals a $20-million change in interest costs. A higher than anticipated number of incorporations will impact the number of highways transferred and will increase costs.
Forest Renewal BC Net loss: $52 million	See forest revenue assumptions in Table B7. Expenditures occur as per published business plan. Known expenditure pressures included.	±5% in harvest volumes = ±$17 million. ±US $50/tonne in pulp prices = ±$24 million. ±US $25/1,000 bd ft in SPF 2×4 prices = ±$27 million. ±US $50/1,000 bd ft in hemlock prices = ±$3 million.
British Columbia Hydro and Power Authority Net income: $429 million	Forecast based on February 1, 2000 snowpack levels and projected weather patterns. Export revenue and short-term energy purchase costs based on estimated forward market prices. Assumes continuation of rate freeze. Assumes average short-term interest rates of Cdn. 6.4% and US 6.8%, and an average 69.9 cents US exchange rate. Capital spending at $450 million. Small withdrawal from rate stabilization account required at year-end to achieve target rate of return.	1% change in water inflows to reservoirs can impact net income by up to $20 million. 10% change in temperatures, as measured in degree days, equals $5 to $6 million change in residential revenues. Market prices for energy are volatile. 1% change in market price equals $11 million change in electricity trade revenue. 1% change in borrowing rates equals $30 million change in finance costs. 1-cent change in Cdn. $/US $ exchange rate affects financing costs by $5 million.
British Columbia Liquor Distribution Branch Net income: $620 million	Net sales increase of 1.9% based on current and expected consumption trends. Assumes known cost pressures. Capital spending of $26 million.	Price competition and economic conditions affect sales. Manufacturer price changes can be unpredictable. Weather patterns and timing of statutory holidays affects consumption. 1% change in sales volume affects net income by up to $6 million. Higher-than-assumed credit card use could increase collection costs.

TABLE B10 — *(Continued)*

MAIN CROWN CORPORATION ASSUMPTIONS AND FORECAST RISKS

Crown Corporation	Key Assumptions	Risks and Sensitivities
British Columbia Lottery Corporation Net income: $534 million	Sales projections based on current trends. Prize payout rates based on historical trends. Assumes opening of one destination casino in July 2000, and additional revenue from new operations started in mid-1999. Forecast assumes no changes to gaming policy (e.g. expanded gaming) beyond what has already been approved.	1% change in sales could affect net income by $7 million. Changes in disposable income, tourism, competitive markets in other jurisdictions, and volumes of jackpot rollovers also affect sales. These factors and resultant effects are difficult to forecast.
British Columbia Railway Company Net income: $40 million	Freight traffic volumes based on current and projected trends. Includes effect of announced plans for Tumbler Ridge clients, and full-year effect of operations commenced in 1999 (e.g. Finlay Navigation Partnership). No significant traffic/labour disruptions. Incorporates effect of $617-million writedown of rail assets in 1999. Fuel costs to stabilize at 1999 levels. Known pressures included. Capital spending at $125 million. Dividend to CRF at $10 million. No changes to forest activity from the Canada/U.S. Softwood Lumber Agreement, and there is no negative impact from further rationalization in the forest industry.	If fuel costs remain at current levels, costs could increase $5 to $10 million. Traffic revenue from lumber, pulp and other commodities could be affected by changes in commodity prices (e.g. lower lumber/pulp prices leading to reduced production in lumber/pulp mills). Depending on assumptions, this could affect net income by up to $10 million. Total traffic disruption could reduce net income by $4 million per week. 1% change in interest rates affects interest costs by $4 to $6 million.
Insurance Corporation of British Columbia Net income: $3 million	Premium revenue growth of 1.2%, largely reflecting increased vehicle volumes. No change in overall premium rates assumed in 2000. Claims incurred costs will decline 3% and include the effect of road safety and loss mitigation programs. 1999 results included a $238-million positive adjustment due to lower estimates of the costs of settling previous year claims. A smaller adjustment is expected in 2000.	Claims cost trends are closely tied to economic conditions. Fluctuations in claims costs may be as much as 10% from estimate, resulting in up to a $200-million change from forecast. 1% change in CPI affects claims costs by about $20 million. 1% change in GDP could affect claims costs by about 2% or $40 million. Adverse judgments on outstanding litigations, such as those relating to cost control, may affect the 2000 forecast.

BC Transportation Financing Authority — a projected net loss of $1 million reflects higher financing, amortization and grant costs, partially offset by a 0.25-cent/litre increase in dedicated provincial fuel tax transferred to the authority. Further details are shown in Table H8.

Forest Renewal BC — a projected net loss of $52 million is $5 million higher than 1999/00. Lower revenue resulting from lower expected harvesting activity is partially offset by reduced spending. Further details are shown in Table H8.

Hydro revenue remains strong due to export sales

British Columbia Hydro and Power Authority — projected net income of $429 million is $11 million higher than in 1999/00. Increased revenue, primarily due to higher electricity export sales, will be partially offset by higher costs for energy, operations, maintenance and debt interest. The forecast assumes a continuation of a rate freeze and that a small withdrawal will be required from the rate stabilization account in order for the authority to supplement its net income requirements in 2000/01.

Liquor Distribution Branch — projected net income of $620 million is up 0.8 per cent from 1999/00. A 1.8-per-cent increase in net sales will be partially offset by higher product and operating costs.

British Columbia Lottery Corporation — projected net income of $534 million is up $9 million from the 1999/00 forecast. Higher revenue from lottery sales will be partially offset by lower revenue from casino and bingo operations, and higher costs for prizes, equipment and facilities.

BC Rail to post $40 million profit after write-downs last year

British Columbia Railway Company — excluding the effects of the $617-million write-down of rail investments in 1999/00, projected net income of $40 million from operations is $5 million higher than the previous year. Increased revenue from various operations, including the Finlay Navigation Partnership (finalized in June 1999), will be partially offset by higher operations and debt interest costs.

ICBC results will remain positive

Insurance Corporation of British Columbia — projected net income of $3 million is $93 million lower than in 1999. Re-estimates of the cost of settling previous years' injury claims are not expected to result in the same level of significant savings as in 1999. This effect is partially offset by lower costs of current claims incurred and by higher premium revenue due to increased sales.

Crown Corporation Assumptions and Forecast Risks

Crown corporations assumptions are disclosed

The main assumptions supporting the forecasts are summarized in Table B10, together with a description of the material risks and sensitivities.

Other Forecast Assumptions and Risks

Crown corporations and agencies have provided information used to prepare the summary accounts forecasts for 1999/00 and 2000/01, as well as the statements of assumptions and risks.

With respect to 1999/00, the revised forecasts incorporate known and likely costs and adjustments arising from pending litigation or extra-ordinary items such as the write-down of assets in the British Columbia Railway Company and British Columbia Ferry Corporation. Further adjustments may occur as a result of litigation developments or reviews of the accounts of the Crown corporations and agencies by their auditors. The 1999/00 the summary accounts revised forecast includes a $100-million forecast allowance for unforeseen changes to the end of the fiscal year.

The 2000/01 budget forecasts do not assume or make allowance for extraordinary adjustments other than those noted in the assumptions provided by the Crown corporations and agencies. The 2000/01 summary accounts budget forecast includes a $300-million forecast allowance for unforeseen developments during the year.

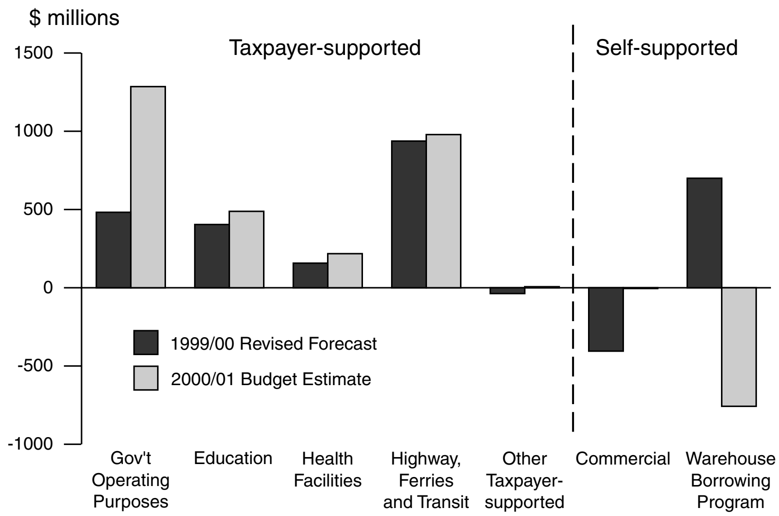
Provincial Net Debt[1] — 2000/01

Debt-to-GDP ratio remains low

Provincial net debt, which includes the debt of the government and all of its Crown corporations and agencies, is estimated to total $36.5 billion at March 31, 2001, or 30.7 per cent of provincial gross domestic product (GDP).

Taxpayer-supported net debt, which excludes the self-supported debt of commercial Crown corporations and the provincial warehouse borrowing program, will total $27.9 billion or 23.5 per cent of GDP by the end of 2000/01. Self-supported debt will total $8.6 billion.

Chart B4
Change in Total Provincial Net Debt



At 23.5% of GDP, taxpayer-supported debt is within the target range

Chart B4 shows the expected changes in total provincial net debt in 2000/01. In total, provincial debt will increase $2.2 billion in 2000/01. Taxpayer-supported net debt will increase $3.0 billion to finance the consolidated revenue fund shortfall and working capital requirements, and to finance various capital projects of the government and taxpayer-supported Crown corporations and agencies. This increase will be partially offset by a $0.8-billion reduction in self-supported debt, primarily reflecting a draw-down of previously borrowed funds held under the provincial warehouse borrowing program.

New borrowing of $4.9 billion will fund operations, capital projects and debt refinancing

Table B11 outlines the expected financing activities for the province during 2000/01. In total, new financing requirements for the provincial government and its Crown corporations and agencies are estimated at $4.9 billion in 2000/01. This consists of:

- $5.3 billion for the government and taxpayer-supported Crown corporations and agencies;
- $286 million for commercial Crown corporations and agencies;
- partially offset by a $758 million draw-down of previously borrowed funds held in the provincial warehouse program.

[1] Debt amounts are reported on a net debt basis, after deducting accumulated sinking funds set aside for debt repayment, and after accounting adjustments (e.g. unamortized discounts).

TABLE B11
PROVINCIAL FINANCING

	Net Debt[1] Outstanding at March 31, 1999	1999/00 Net Debt Change	Forecast Net Debt[1] Outstanding at March 31, 2000	2000/01 Transactions New Borrowing[2]	Retirement Provision[3]	Net Change	Forecast Net Debt[1] Outstanding at March 31, 2001
	($ millions)						
Taxpayer-supported debt							
Provincial government direct operating	12,190	482	12,672	3,159	1,873	1,286	13,958
Education facilities	4,597	404	5,001	593	105	488	5,489
Health facilities	1,282	157	1,439	261	43	218	1,657
Highways, ferries and public transit	3,641	937	4,578	1,234	255	979	5,557
Other debt[4]	1,251	(37)	1,214	97	91	6	1,220
Total taxpayer-supported debt	**22,961**	**1,943**	**24,904**	**5,344**	**2,367**	**2,977**	**27,881**
Self-supported debt							
Commercial Crown corporations and agencies	8,399	(405)	7,994	286	288	(2)	7,992
Warehouse borrowing program	658	700	1,358	(758)	—	(758)	600
Total self-supported debt	**9,057**	**295**	**9,352**	**(472)**	**288**	**(760)**	**8,592**
Total Provincial Debt	**32,018**	**2,238**	**34,256**	**4,872**	**2,655**	**2,217**	**36,473**

[1] Net 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. Figures for earlier years have been restated to conform with the presentation used in 2000/01.
[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] Includes 580440 British Columbia Ltd. (Vancouver Trade and Convention Centre), 577315 British Columbia Ltd. (Western Star Truck Co.), government services Crown corporations and agencies, other fiscal agency loans, student assistance loans, loan guarantees to agricultural producers and guarantees issued under economic development assistance programs and the former British Columbia home mortgage assistance and second mortgage programs. Includes loan guarantee provisions.

Borrowed funds will be used to finance retirement provisions of $2.7 billion, including debt maturities of $2.2 billion, and to partially finance capital expenditures of $3.1 billion and operating and working capital requirements of the consolidated revenue fund, Crown corporations and agencies. Some financial requirements (for example, certain commercial Crown corporation projects and portions of taxpayer-supported infrastructure projects) will be financed though internal sources such as net income of the British Columbia Hydro and Power Authority, and surplus cash balances at the end of 1999/00.

Further information on provincial financing activities is provided in the *Provincial Financing* topic box in this report. Details on the net debt outstanding for the government, Crown corporations and agencies are provided in Table H9, and summary debt indicators are provided in Table H10.

Capital spending

Capital spending funds education and health facilities, and transportation projects

Provincial debt includes borrowing for schools, hospitals, transportation, utilities and other capital infrastructure projects. Total capital spending for 2000/01, including self-supported Crown corporations, is estimated at $3.1 billion, up $403 million from the 1999/00 revised forecast.

During 2000/01, capital expenditure increases for government ministries, education, health and power generation projects will be partially offset by reduced spending for transportation projects (see Table B12).

TABLE B12

GOVERNMENT, CROWN CORPORATIONS AND AGENCIES — MAJOR CAPITAL EXPENDITURES

	Budget Estimate 1999/00	Revised Forecast 1999/00	**Budget Estimate 2000/01**	Increase (Decrease)[1]
	($ millions)			(per cent)
Taxpayer-supported:				
Capital plan				
Education[2]	468	500	**579**	15.8
Health	359	230	**309**	34.3
BC Transportation Financing Authority	489	480	**486**	1.3
British Columbia Ferry Corporation	139	130	**117**	(10.0)
Rapid Transit Project 2000 *(SkyTrain)*	410	420	**413**	(1.7)
Other[3]	87	61	**90**	47.5
Gross capital plan	1,952	1,821	**1,994**	9.5
Less: recoverable expenditures[4]				
Hospital districts	(27)	(23)	**(52)**	126.1
Greater Vancouver Transportation Authority *(TransLink)*	—	(44)	**(34)**	(22.7)
Net capital plan	1,925	1,754	**1,908**	8.8
Other taxpayer-supported				
Government operating (ministries)	189	157	**223**	42.0
Social housing	25	26	**20**	(23.1)
Other	184	21	**33**	57.1
Total net taxpayer-supported	**2,323**	**1,958**	**2,184**	11.5
Self-supported:				
British Columbia Hydro and Power Authority	406	401	**450**	12.2
British Columbia Railway Company	154	158	**125**	(20.9)
Other[5]	241	158	**319**	101.9
Total self-supported	**801**	**717**	**894**	24.7
Total capital expenditures	**3,124**	**2,675**	**3,078**	15.1

[1] Percentage change between the 1999/00 revised forecast and the 2000/01 budget estimate.
[2] Represents Ministry of Education, and Ministry of Advanced Education, Training and Technology.
[3] Represents British Columbia Buildings Corporation, British Columbia Transit, Ministry of Attorney General, Ministry for Children and Families and the seismic mitigation program.
[4] Expenditures by hospital districts on cost-shared projects, and capital spending on behalf of, and recovered from, other public sector agencies.
[5] Represents Columbia Power Corporation, Columbia Basin Trust joint ventures, 552513 British Columbia Ltd. (Skeena Cellulose Inc.), Insurance Corporation of British Columbia and the Liquor Distribution Branch.

Table B13 provides a list of projects that were completed in 1999/00, and projects that will be continued or started in 2000/01. The table represents only a partial list of the many projects occurring throughout the province in 2000/01.

TABLE B13
CAPITAL EXPENDITURE PROJECTS

Completed in 1999/00 (partial list)

Education facilities

— school construction in Kelowna, Langley, Alexis Creek, Armstrong and Campbell River.

Health facilities

— upgrade to Bulkley Lodge in Smithers;
— construction of Zion Park Manor in Surrey;
— construction of an addition and renovations to Royal Arch Masonic Home in Vancouver; and
— replacement of Taylor Manor in Vancouver.

Justice facilities

— construction of an addition to Ford Mountain Correctional Centre in Chilliwack.

Roads and transportation

— realignment of Highway 1 through Sumas-Vedder (Abbotsford);
— construction of Monte Creek Interchange on Highway 1 (Kamloops);
— construction of an interchange at the intersection of Highway 97 and Glenrosa in Westbank;
— reconstruction of Highway 97 from Honeymoon Creek to Bijoux Falls near McLeod Lake; and
— Vancouver Wharves terminal upgrade including the agri-products facility and new loop rail track.

Power generation

— completion of the Stave Falls power plant replacement project to meet growing demand in the Lower Mainland; and
— permanent upgrades to transmission line towers damaged by high snowpack pressure.

2000/01 capital projects (partial list)

Education facilities

— school construction in Burnaby, Victoria, Surrey, Chilliwack, Kelowna, Prince George, Richmond, Sooke, Cobble Hill and Kamloops; and
— post-secondary construction in Merritt, Prince George and Prince Rupert.

Health facilities

— construction of the replacement tower for Surrey Memorial Hospital;
— construction of the Royal Jubilee Hospital Diagnostic and Treatment Centre and Vancouver Island Cancer Clinic in Victoria;
— replacement of West Coast General Hospital in Port Alberni;
— fit-out of the Vancouver General Hospital tower, construction of a new Ambulatory Care building at Children and Women's Health Centre, and construction of the SUCCESS Care Home in Vancouver;
— replacement of the Kitimat Health Centre;
— 2nd floor redevelopment and construction of a Tertiary Psychiatric Facility at the Royal Inland Hospital in Kamloops;
— replacement of the Health Care Centre in Clearwater;
— replacement of the Keremeos Diagnostic and Treatment Centre; and
— replacement of Yucalta Lodge multi-level care facility in Campbell River.

Justice facilities

— construction of the North Fraser Pretrial Centre in Port Coquitlam.

TABLE B13 — *(Continued)*
CAPITAL EXPENDITURE PROJECTS

Roads and transportation

— construction of the guideway for the Millennium Line (Phase 1) of the *SkyTrain* extension;
— road improvement projects (e.g. rehabilitation, passing lanes and highway realignments) throughout the province;
— continued construction of the third fast ferry;
— construction of a new ferry to operate on Kootenay Lake (Balfour);
— rehabilitation of the Lions Gate Bridge;
— five-laning the Port Mann Bridge and associated improvements to the Cape Horn Interchange;
— twinning the John Hart Bridge over the Nechako River in Prince George;
— replacement of the Lytton Bridge on Highway 12;
— improvements to the Trans-Canada Highway between Cache Creek and the Rockies;
— improvements to Highway 37 between Deltaic Creek and Kiniskan Lake;
— purchase of additional and replacement buses in Victoria and other municipal systems;
— rail and tie replacement and roadbed improvements throughout the province;
— locomotive and rail car acquisitions; and
— a capacity upgrade at Canadian Stevedoring.

Power generation

— upgrade the Burrard generating station to improve air quality and extend its operating life;
— addition of a third transformer at the Selkirk substation;
— replace Mica Kootenay's telecommunications system with digital equipment to provide high-speed fault protection of the transmission grid;
— continued construction of a power generating facility at Keenleyside dam; and
— dam stabilization, switchyard construction and turbine upgrades at the Brilliant Dam.

BUDGET 2000 FORECAST ALLOWANCE

Introduction

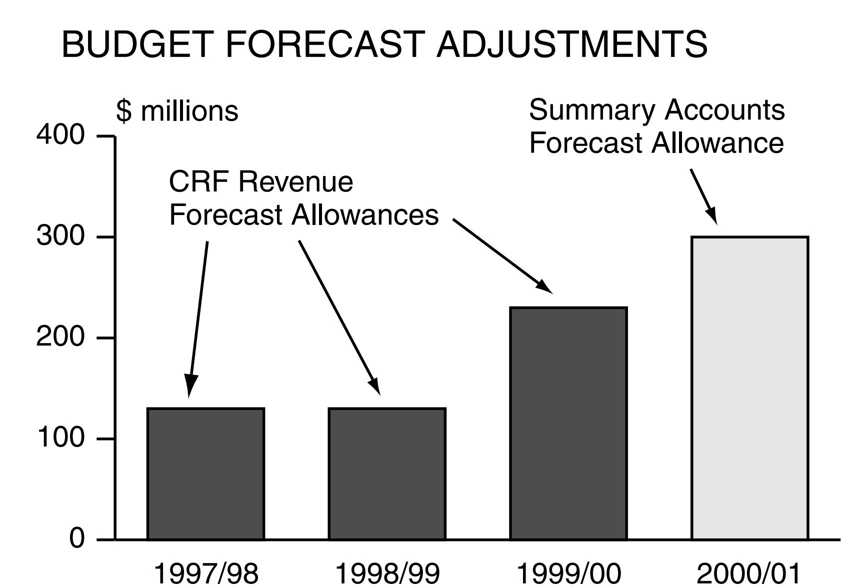
In the 1997 provincial budget, the government introduced the use of prudent revenue forecasting to recognize the uncertainties in predicting future economic developments, and the possibility that revenues could be lower than expected. By explicitly adopting a revenue estimate lower than the most likely forecast, the government increased the chance of meeting or exceeding the budget estimate.

In two of the past three years, the use of prudent revenue forecasts has reduced the amount by which revenues fell below target. For 1997/98, the revenue forecast was lowered by approximately $130 million by using a lower economic growth assumption than in the economic forecast. Without the reduction, final revenues, which were $1 million under budget, would have been $131 million below budget. In 1998/99, a revenue allowance of $130 million was subtracted from the revenue forecast. Final revenues were under budget by $135 million, but would have been $265 million below budget if the allowance had not been in place. For 1999/2000, a revenue allowance of $230 million was applied. Revenues are now estimated to be $1.0 billion over budget excluding the revenue allowance.

***Budget 2000* Forecast Allowance**

The adoption of the summary accounts basis for budgeting and reporting means that government's bottom line now includes the financial results of Crown corporations and agencies, as well as the results of the consolidated revenue fund (CRF). As a result, the summary accounts deficit is now the key budget management target. To reflect this change in focus, an overall forecast allowance is now placed immediately before the summary accounts bottom line. Use of the summary accounts forecast allowance replaces the previous practice that limited the allowance to CRF revenue alone. This allowance now applies to Crown corporation income shortfalls and CRF expenditure overruns as well.

In *Budget 2000,* the forecast allowance has been set at $300 million. The forecast allowance is higher than the $230 million set aside for the CRF revenue allowance last year, consistent with the increased variability of the bottom line when Crown corporations are added.



This allowance covers a wide range of possible circumstances, some of which may be offsetting, such as:

- — weaker/stronger forest harvest levels, due to changes in markets or unusual weather conditions;
- — below/above forecast economic growth;
- — lower/higher corporation or personal income tax revenue where actual assessments for 1999 (and previous years) turn out to be different from previous estimates;
- — total CRF expenditures exceeding/falling short of the overall budget;
- — lower/higher profits/losses in Crown corporations, frequently due to economic conditions or unusual weather conditions; or
- — other hard-to-predict changes such as year-end accounting adjustments.

Adjustment to *Budget 2000* Forecasts

The fiscal forecasts in *Budget 2000* are based on government policies as at March 15, 2000. The forecasts also incorporate the following:

- — the economic forecast described in Report A;
- — specific determinants of CRF revenue, such as timber harvest levels and sale of Crown land drilling rights, that are not specified in the economic forecast. These assumptions are detailed in Table B7;
- — cost drivers affecting CRF expenditures, such as income assistance caseloads, health care utilization and interest rates, that are detailed in Table B9; and
- — factors affecting the expected financial results of Crown corporations, such as accident claims (ICBC) and snowpack levels (BC Hydro), that are listed in Table B10.

The Contingencies and New Programs vote will continue as a key expenditure management component of the CRF. Its inclusion as part of the Estimates approved by the Legislature will continue to provide the government with flexibility to help manage unforeseen spending changes through the year. In addition, the assumptions set out in Table B9 show other areas where provisions for higher-than-expected spending can occur (for example, the Ministry of Education appropriations contain a $10-million buffer for unexpected enrollment growth and other pressures). Offsetting these reserves are areas where budget overruns can occur, such as higher-than-expected payments under the *Crown Proceeding Act*, or forest fire fighting costs. In total, the CRF spending estimate of $22.3 billion represents the most likely forecast.

Overall, the government considers the assumptions noted above to be within the range of reasonable expectations, and that in aggregate they result in the most likely forecast of the summary accounts deficit. As a result, the effect of the $300-million forecast allowance is to increase the deficit from the most likely forecast of $978 million to $1,278 million.

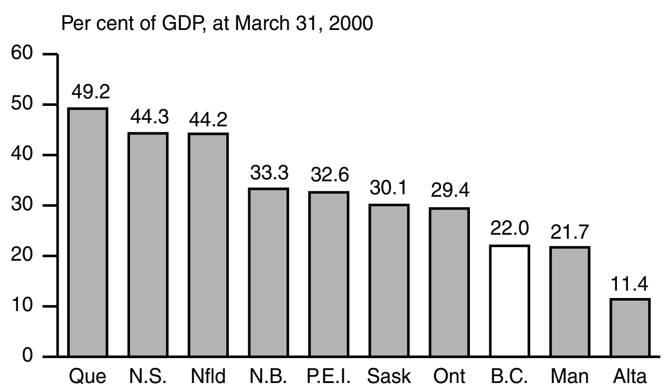
PROVINCIAL FINANCING

The provincial government and its Crown corporations and agencies borrow funds to finance operations and capital projects. Borrowing for operations is required when revenues fall short of expenditures and to meet other cash requirements, such as loans and investments. Borrowing for capital projects finances the building of schools, hospitals, roads and other infrastructure. These investments provide essential services to benefit current and future generations of British Columbians.

The province's debt is reported using two basic classifications — taxpayer-supported debt and self-supported debt. Taxpayer-supported debt includes the direct debt of government and the debt of Crown corporations and agencies that require an operating or debt service subsidy from the provincial government. Self-supported debt includes the debt of commercial Crown corporations and agencies, which fully fund their operations and debt from revenue generated through the sale of services at commercial rates, and debt of the warehouse borrowing program.

Taxpayer-supported debt is a measure often used by investors and credit rating agencies when assessing a province's investment quality. The ratio of a province's taxpayer-supported debt relative to its gross domestic product (GDP) highlights the ability of a province to manage its debt load. British Columbia's taxpayer-supported debt ratio is one of the lowest in Canada, and this translates into a strong credit rating and relatively low debt servicing costs. Chart 1 shows that, according to the Toronto-Dominion Bank, British Columbia has the third lowest taxpayer-supported debt-to-GDP ratio of all provinces.

Chart 1
Interprovincial Comparison of Taxpayer-Supported Debt



Source: Toronto-Dominion Bank estimates, March 2000

Borrowing Process

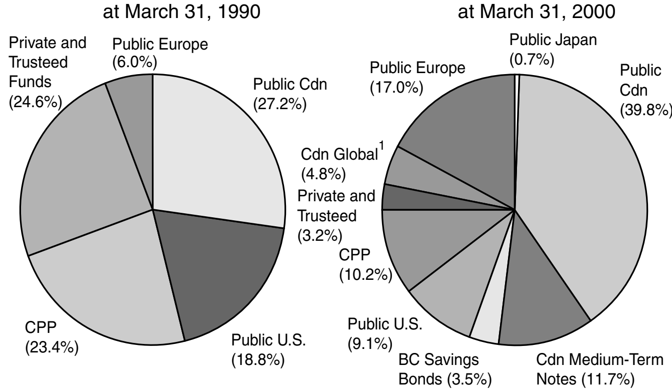
Almost all Crown corporation and agency borrowing is done through the fiscal agency borrowing program. Under this program, the provincial government borrows directly in financial markets and re-lends the funds to Crown corporations and agencies. Borrowing and financing costs remain the responsibility of the Crown corporation or agency. The primary advantage of the fiscal agency program is that it provides lower-cost financing to Crown corporations due to the province's strong credit rating and its ability to borrow at lower interest rates.

Borrowing Sources

Provincial borrowing has come from a variety of sources, including: public financial markets in Canada, the United States, Europe and Asia; the Canada Pension Plan Investment Fund; private institutional lenders; and provincial trusteed funds. Chart 2 shows that over the last 10 years, borrowing sources have shifted from private placements, such as the provincial trusteed funds and Canada Pension Plan (CPP), towards public markets, particularly in Canada (e.g. BC Savings Bonds and Canadian medium-term notes) and Europe.

Diversification of borrowing sources is a key factor in lowering financing costs and maintaining investor demand for British Columbia bonds and notes. A broad investor base is important given increased competition for funding.

Chart 2
Gross Debt Outstanding by Source



[1] A global debt security is offered simultaneously to investors in Canada, the U.S., Europe and Asia.

1999/00 Financing

The province raised 75 per cent of its 1999/00 financial requirements from domestic markets, including $394 million in BC Savings Bonds and $245 million from the Canada Pension Plan (see Chart 3). International sources provided 25 per cent of financial requirements, primarily through a Swiss franc issue and some smaller Euro medium-term note issues.

In anticipation of rising interest rates, the province lowered the floating rate debt exposure of the government direct operating and capital financing debt portfolios to 31 per cent from 35 per cent during 1999/00.

2000/01 Financing

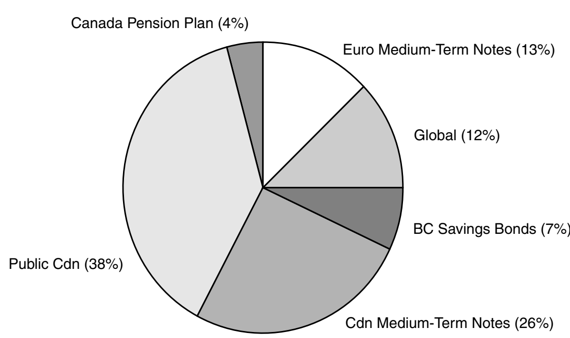
In 2000/01, net new financing requirements for the provincial government and its Crown corporations and agencies are estimated at $4.9 billion. Requirements totalling $5.6 billion for the government and its Crown corporations and agencies will be partially offset by a $758-million draw-down from funds previously borrowed through the warehouse borrowing program.

Borrowed funds will be used to refinance maturing debt and to partially finance capital and operating requirements of the government and its Crown corporations and agencies. The remainder of capital and operating requirements will be financed through internal sources of funds, such as surplus earnings of commercial Crown corporations, and surplus cash balances and borrowings at the end of 1999/00.

The 2000/01 financing requirements will be met through new borrowing in the domestic and international markets. The province's strategy will be to borrow in a variety of markets, in both fixed and floating rate form.

Chart 3
1999/00 Borrowing Activity

Total: $6.0 billion[1]



[1] Excludes draw-down of funds from the warehouse borrowing program.

PROVINCIAL CAPITAL ASSETS

Much has been written about the accumulation of provincial debt. However, what is often omitted is a recognition of the capital assets underlying much of this debt. This topic box discusses the value of provincial assets.

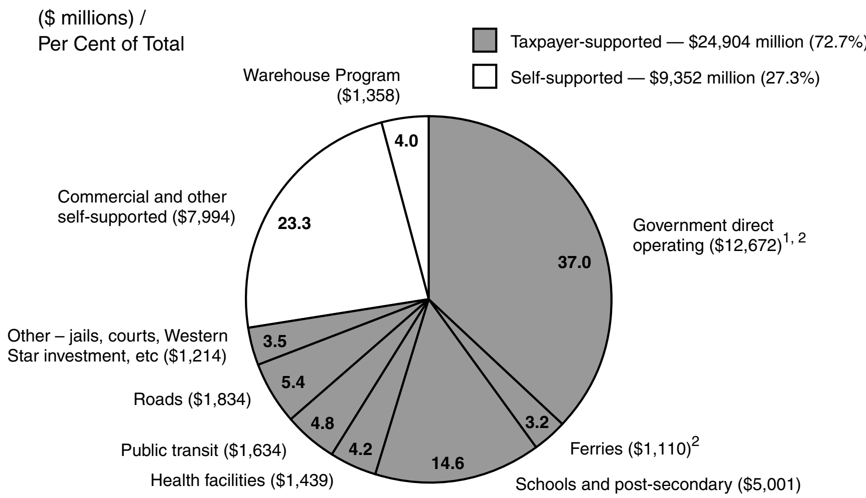
Capital Investments

The provincial government and its Crown corporations and agencies borrow funds to finance operations and capital projects. Borrowing for operations is required when revenues fall short of expenditures and to meet other cash requirements, such as loans and investments. Borrowing also finances the building of schools, hospitals, long-term care facilities, roads, dams and other forms of provincial infrastructure. These investments provide essential services today, and will also benefit generations of British Columbians in the future.

The need for capital infrastructure in British Columbia is substantial. Maintaining the existing asset base, replacing ageing infrastructure, and meeting the needs of a changing population all require capital spending. Infrastructure also supports economic activity in the province.

The following chart provides a breakdown of the various uses of accumulated net debt. Roughly $22 billion or almost 70 per cent of total provincial net debt (excluding the warehouse borrowing program) reflects investments in capital assets.

Provincial Estimated Net Debt at March 31, 2000



Total: $34,256 million

[1] Operating debt includes a portion of roads infrastructure debt incurred prior to 1994/95.
[2] Amount includes debt to finance operating deficits.

Asset Valuation

There are various ways to calculate the value of provincial assets, and each method yields a different conclusion. The table at the end of this topic box presents four conventional ways of assessing the value of assets: historical cost, net book value, replacement cost and net debt outstanding. Market valuations are difficult to establish as true market conditions usually do not apply to many Crown assets.

Historical cost — represents the actual amount of money spent to acquire provincial assets. This value is estimated to be $45 billion at March 31, 2000.

Net book value — this method presents the historical cost of assets, net of accumulated depreciation expenses. The net book value of assets is presented annually in the *Public Accounts*. A preliminary estimate for the net book value of provincial assets as of March 31, 2000 is $29 billion.

Replacement cost — while net book value provides an historical perspective of asset costs, the replacement cost method estimates how much it would cost today to acquire the same assets under current economic conditions. There is no one method for determining replacement cost values, and a number of techniques have been used to arrive at the estimates shown in the table (e.g. using insured values). Based on these estimates, it could cost $140 billion to replace existing provincial assets at today's typical construction costs.

Net debt outstanding — represents the amount of funds borrowed by the government and its Crown corporations and agencies, net of accounting adjustments and accumulated sinking funds set aside for debt repayment. At March 31, 2000, total provincial net debt is forecast to be $34 billion. The amounts presented in the table include debt incurred to finance operations as well as to acquire capital assets. As noted earlier, $22 billion of total provincial net debt reflects investments in capital assets.

Asset Valuation Methods Comparison

The information presented in this topic box is based on various assumptions. The table is intended to illustrate the different valuations that could result depending on the assumptions and valuation method used. Clearly, the value of assets is higher under the replacement cost method simply because the cost of replacing assets is much larger at today's prices, while replacement cost does not reflect the deterioration of ageing facilities.

The table shows that total provincial net debt outstanding, excluding operational debt and the warehouse borrowing program, is lower than the value of the assets. This is because much of the debt associated with older assets has been retired while the productive capability of the asset continues.

It should be recognized that the estimates used in the table are, by their nature, very approximate. Other valuation techniques and assumptions could have been used, such as using statistical data to remove the effect of inflation over the years, but these more sophisticated methods would have been impractical for the added precision achieved.

Conclusion

Even with more precise valuation methods, the analysis would show that:

1. A large part of provincial debt is backed up by physical assets of significant value.
2. $22 billion or almost 70 per cent of total provincial debt (excluding warehouse borrowing) has financed capital investments of the government and its Crown corporations and agencies. The remaining $12.3 billion consists of borrowing to fund annual public services, as well as $1.4 billion for funds borrowed in advance of future requirements through the warehouse borrowing program.
3. Whether historical cost, net book value or replacement cost methods are used, asset values exceed the amount of the underlying debt of $22 billion.
4. These assets continue to provide valuable services to the public.

Major Provincial Assets and Net Debt Summary[1]
Estimates as at March 31, 2000
Unaudited

	Provincial Assets			
	Historical Cost	***Net book Value***	***Replacement Cost***	***Provincial Net Debt Total***
	$ millions			
Schools — 1,777 public schools for the education of over 600,000 students	6,903	3,717	8,600	3,636
Universities/colleges — six universities, five university-colleges, 11 community colleges, and six institutes and agencies that provide specialized education and training for 143,000 full-time equivalent students	4,095	2,477	5,500	1,365
Health facilities — over 700 hospitals and health facilities including acute care, continuing care and mental health facilities	4,496	2,243	8,400	1,439
Office buildings — over 3,600 buildings with almost 2.5 million square metres of space in over 260 communities to supply the needs of government ministries and other publicly-funded organizations (including courts and correctional facilities)	1,500	941	2,100	610
Roads — 23,200 kilometres of paved highways, 18,200 kilometres of unpaved highways and 2,700 bridges	6,100	5,861	66,500	1,834
Public transit — rapid transit infrastructure in the Lower Mainland and bus systems in 50 other communities	2,068	1,642	2,000	1,634
Ferries — 43 ferries and 45 marine terminals to service coastal British Columbia	1,411	676	2,700	1,110[2]
Other — equipment and capital assets of ministries, and certain capital contributions to Crown corporations, agencies, commissions, etc.[3]	1,777	1,045	5,600	13,276[2,4]
Totals for taxpayer-supported entities	**28,350**	**18,602**	**101,400**	**24,904**
Power generation — 30 hydroelectric and three thermal generating facilities with a generating capacity of 11,045 megawatts to deliver electricity via more than 73,000 kilometres of transmission and distribution lines	14,310	9,388	35,000	7,085
Railways — 2,300 kilometres of mainline railway tracks, 127 locomotives, 9,500 freight cars, 19 tunnels and 191 bridges	1,820	1,165	2,300	623
Skeena Cellulose Inc.	181	154	1,100	284
Other — warehoused debt, other agencies	505	195	600	1,360
Totals for self-supported entities	**16,816**	**10,902**	**39,000**	**9,352**
Totals	**45,166**	**29,504**	**140,400**	**34,256**
Less: net debt related to operating deficits and warehouse borrowing	—	—	—	(12,253)
Totals	**45,166**	**29,504**	**140,400**	**22,003**

[1] Assets only include properties and capital infrastructure that the government has purchased or otherwise acquired. The province does have significantly more assets in terms of its Crown lands, forests and sub-surface rights, none of which are presented here.
[2] Amounts include net debt to finance operating deficits.
[3] Capital contributions mainly consist of grants for social housing and grants to the B.C. Pavilion Corporation.
[4] Includes a portion of roads infrastructure debt incurred prior to 1994/95, the amount for which cannot be practically estimated. After 1994/95, debt for road capital construction was incurred by the BC Transportation Financing Authority and is shown as the amount of current debt outstanding for roads.

FIVE-YEAR FISCAL PLANNING FRAMEWORK

Background

The slowdown in the economy in late 1997 and 1998 in the wake of the Asian downturn created a new reality which the government responded to with efforts to stimulate the economy. Recognizing the need to report on the impact current plans have on longer-term fiscal sustainability, the government set out a Five-Year Fiscal Planning Framework in *Budget '99*, within which revenues, expenditures and debt levels were to be managed.

The Budget Process Review ("Enns") Panel recommended the presentation of a three-year "strategic plan", to which the annual budget would be linked. The government is implementing this recommendation beginning in 2001/02. At the same time, the Panel recognized "the many technical difficulties associated with reporting on future commitments."[1] The government is including a five-year planning framework in *Budget 2000* in keeping with the spirit of the Panel's recommendations on the budget process.

The focus of the *Budget '99* plan was on maintaining provincial debt levels in a sustainable range relative to the size of the provincial economy. Since the ability to service debt is closely related to the size of the economy, the "taxpayer-supported debt-to-GDP ratio" is a widely accepted measure of fiscal health.

Accordingly, the *Budget 2000* plan maintains the focus on the key debt-to-GDP indicator, and retains the planning range of 22 to 27 per cent.

Recent Performance and Near-Term Outlook

The economy recovered in 1999, growing an estimated 1.4 per cent. Revenue growth exceeded the 1999/00 forecast by a considerable margin, owing to unexpected strength in forest product exports and energy prices, and a number of one-time revenue gains, including additional income tax payments from the federal government in respect of prior years.

Although a number of extraordinary items raised expenditures above planned levels and lowered the net income of some Crown corporations, the summary accounts deficit[2] was still lower than forecast. Combined with revised historical figures on the size of the provincial economy, the taxpayer-supported debt-to-GDP ratio of 21.8 per cent was lower than the forecast in *Budget '99* of 23.9 per cent.

Looking ahead, the outlook for the economy has improved from a year ago. Federal and provincial tax cuts introduced this year and in previous years will reduce revenues in the short run, although this effect will be partly reversed as their positive economic effects return some of the lost revenue over the longer run. In addition, the federal government injected additional funds in each of the last two years to support health care, and has indicated a willingness to do more in this area. Any additional transfers from the federal government would be more than offset by the effect of tax cuts on revenues and upward pressures on health care expenditures (current federal transfers equal only 14 per cent of British Columbia health, education and social services spending). As a result, there will be minimal near-term improvement in the overall fiscal picture.

Fiscal Policy Advice

As in previous years, the government has consulted widely, and received advice from many groups:

- The business community continues to recommend large business and personal tax cuts, financed in part by cuts to program spending.
- Business economists have recognized that, while tax cuts will have stimulative economic effects, these effects are unlikely to replace the bulk of the foregone revenue.[3]
- As a result, most business groups recognize that regardless of how the economy responds to tax cuts the summary accounts deficit cannot be eliminated in the short run at the same time as taxes are being cut.
- In contrast, other groups have argued that unmet health and education needs should be funded. These organizations feel that deficits resulting from tax cuts will undermine the fiscal foundation and public support for social programs.

The Enns Panel did not provide the government with advice on fiscal policy as its role was to make recommendations on the budget process.

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[1] Government of British Columbia. Budget Process Review Panel Final Report, *Credibility, Transparency & Accountability: Improving the B.C. Budget Process* (Victoria: Queen's Printer, 1999) p. 73.

[2] Last year's Five-Year Planning Framework covered the government's Consolidated Revenue Fund. As discussed extensively in Reports B and E, *Budget 2000* moves to the broader "summary accounts" basis of budgeting and reporting. This change has no impact on the level of taxpayer-supported debt or the debt-to-GDP ratio.

[3] For example, see WEFA Canada, *Good and Bad Arguments for Tax Cuts* (October 1999) and Stokes Economic Consulting and CCG Consulting Group, *The Economic Impact of Selected Tax Reductions* (paper prepared for the Institute of Chartered Accountants of British Columbia, January 2000).

Principles

Consistent with the fiscal planning framework in *Budget '99, Budget 2000* is based on the following principles:

- The framework must be based on reasonable assumptions, particularly in the early years when there is least room to make changes;
- The budget must be balanced within the five-year period;
- There should be continuous progress in each year of the plan;
- Health and education services to people must be protected; and
- Debt levels must remain affordable.

Components of the Five-Year Fiscal Planning Framework

1) Assumptions

The Fiscal Planning Framework is based on forecasts of revenues and expenditures that are based on reasonable assumptions.

To deal with the unavoidable margin of error associated with all projections, revenue and expenditure forecasts are presented as a series of "likely forecast ranges". The revenue and expenditure forecast ranges depend on the performance of the economy, and on future fiscal policy decisions.

A summary accounts deficit target has been set for each year, corresponding to likely revenue and expenditure forecasts. This government will manage toward these targets. Different economic performance than is expected would cause revenue and expenditure to move higher or lower. As a result, there is considerable uncertainty about any projection of the summary accounts balance, aside from any fiscal policy changes that might occur.

2) Tax Reductions

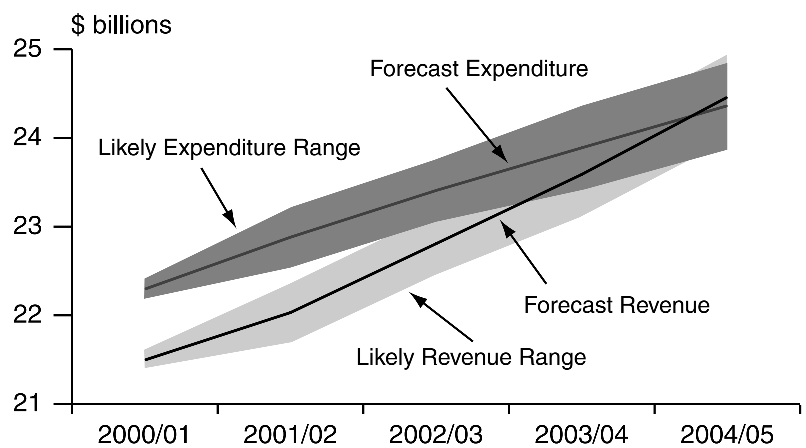
The five-year framework incorporates the impact of tax reductions (measures introduced in *Budget 2000* are detailed in Report C). In 2000/01, the annual revenue foregone from tax and revenue reductions since 1995 will total $1.1 billion. The annual revenue foregone rises to $1.3 billion in 2001/02 as measures in this year's budget are fully phased in.

3) Economic and Revenue Framework

Over the 2000-to-2004 period, British Columbia's economy is forecast to grow at an average annual rate of 2.6 per cent. This is in line with the Conference Board of Canada forecast of 2.7 per cent. Growth in nominal GDP, which is a rough proxy for growth in the provincial tax base, averages 3.9 per cent annually in the Ministry of Finance and Corporate Relations forecast, reflecting modest assumptions about growth in domestic inflation and prices of British Columbia exports and imports. The Conference Board's forecast is more optimistic, projecting 4.9 per cent growth in nominal GDP. (Details on the Ministry's five-year economic forecast can be found at: www.fin.gov.bc.ca).

Underlying revenue (revenue before policy factors such as tax cuts are incorporated) would be expected to grow 3.5 to 4 per cent annually over the five-year planning horizon (see Chart 1). When the two-year tax cuts in *Budget 2000* are incorporated, actual annual revenue growth is expected to be about half a per cent lower. Given the measures in the last two federal budgets, some enhancement of federal support for health care is considered likely.

Chart 1
REVENUE AND EXPENDITURE: PLANNING ASSUMPTIONS



Source: Ministry of Finance and Corporate Relations projections for consolidated revenue fund.

4) Expenditure Framework

The planning framework assumes that government expenditures will be managed to grow at an average annual rate of 2.2 per cent over the next four years (see Chart 1). This is the same rate that expenditure is expected to have grown over the five years from 1996/97 to 2000/01. Nevertheless, this rate of expenditure growth will present a considerable challenge, as health care needs continue to rise rapidly and collective agreements negotiated recently will absorb much of the available room for expenditure growth. Chart 1 shows likely revenue and expenditure ranges.

5) Capital Plan Framework

Capital plan expenditures of the provincial government's funded agencies will peak at about $2 billion in 2000/01. This reflects the completion of infrastructure projects started during the recent economic slowdown. Over the next four years, capital plan expenditures will decline to $1.2 billion as major projects such as the SkyTrain expansion are completed.

6) Crown Corporation Framework

Crown corporations and agencies collectively are expected to run a $100 million annual net loss after 2000/01.

7) Deficit/Surplus Framework

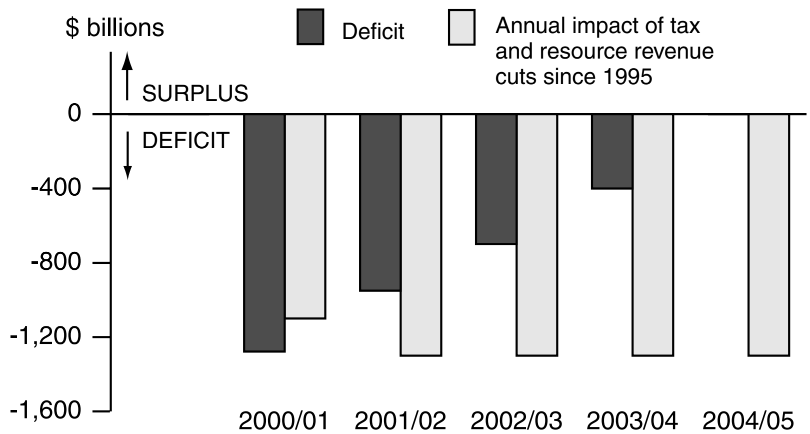
In 1999/00, the summary accounts deficit was lower than forecast. In 2000/01, the summary accounts deficit is forecast at $1.28 billion. (Note that these figures cover the operations of the provincial government and all Crown corporations and agencies, whereas the consolidated revenue fund target in the five-year planning framework in *Budget '99* covered direct provincial government operations only.)

With revenue growth averaging 3.3 per cent and expenditure growth of 2.2 per cent annually, the summary accounts deficit would be eliminated in 2004/05 (see Chart 2).

Faster revenue growth or smaller spending increases could advance this timetable for eliminating the summary accounts deficit. However, in the event of sustained revenue gains in excess of planned levels, the government's view is that tax cuts are a higher priority than advancing the timetable for deficit reduction.

As Chart 2 illustrates, tax and resource revenue cuts already in place are a major factor delaying the elimination of the summary accounts deficit.

Chart 2
SUMMARY ACCOUNTS BALANCE: PLANNING ASSUMPTIONS



Source: Ministry of Finance and Corporate Relations projections

8) Taxpayer-Supported Debt

Taxpayer-supported debt represents the accumulated summary accounts deficits of the provincial government, plus debts incurred to finance capital spending by Crown corporations and government-funded agencies.

The debt-to-GDP ratio in 1999/00 was 21.8 per cent, significantly below the 23.9 per cent forecast. Even accounting for Statistics Canada's upward revisions to historical GDP figures, the debt-to-GDP ratio was below the *Budget '99* forecast.

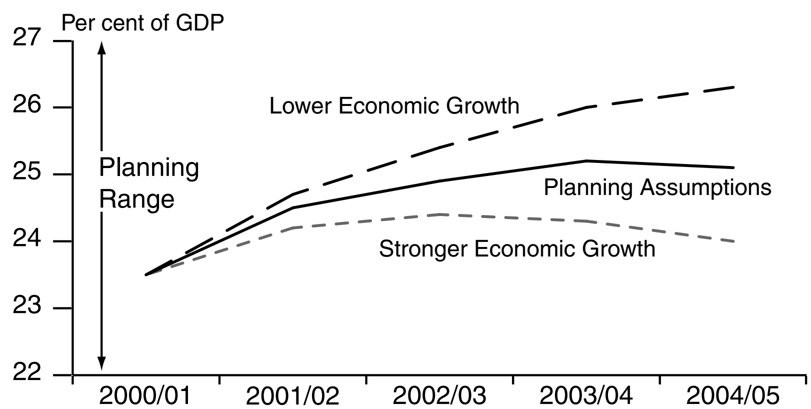
Taxpayer-supported debt as a per cent of GDP was the third lowest among provinces. Estimates by the Toronto-Dominion Bank show the average debt-to-GDP ratio in the other nine provinces at 29 per cent in 1999/00. With about 8 cents of each revenue dollar going to debt service, British Columbia's debt places a smaller burden on taxpayers here than in other provinces.

As stated in the 1999 fiscal planning framework, "The (taxpayer-supported debt-to-GDP) target range will be reviewed annually to ensure that the limits remain appropriate . . ." From 2000/01 through 2004/05, the debt-to-GDP ratio is projected to remain well within the 22 to 27 per cent range set in *Budget '99*.

Conclusion

The province's debt-to-GDP ratio is expected to remain in the 22 to 27 per cent range set in *Budget '99* (see Chart 3). However, it will be a considerable challenge for the government to eliminate the summary accounts deficit, given the ongoing expenditure pressures from the public in priority areas such as health and education, as well as demands for more tax cuts.

Chart 3
TAXPAYER-SUPPORTED DEBT: PLANNING ASSUMPTIONS



Source: Ministry of Finance and Corporate Relations projections

C1 SUMMARY OF REVENUE MEASURES

	Effective Date	Taxpayer Impacts 2000/01	2001/02
		($ millions)	
Income Tax Act			
• Two-year personal income tax cut announced and tax on income introduced	January 1, 2000	(181)	(310)
• British Columbia corporate income tax small business rate reduced from 5.5 per cent to 4.75 per cent	July 1, 2000	(11)	(22)
• Three per cent BC manufacturing and processing investment tax credit introduced	April 1, 2000	(20)	(30)
• Previously announced: Top marginal personal income tax rate to be reduced to 49.9 per cent	January 1, 2001	(12)	(48)
School Act			
• Average gross residential school taxes maintained at 1999 levels; rates will vary by school district	2000 tax year	*	*
• Non-residential school property tax rates unchanged from 1999	2000 tax year	*	*
Taxation (Rural Area) Act			
• Average gross residential taxes maintained at 1999 levels. Non-residential rural area property tax rates unchanged from 1999	2000 tax year	*	*
Social Service Tax Act			
• Definition of *fixture* clarified	April 1, 2000	2	2
Motor Fuel Tax Act			
• Tax on natural gas used in certain compressors phased out over two years	April 1, 2000	(5)	(9)
Other Revenue			
• Various fees and licences adjusted		*	*
Total		(227)	(417)
Revenue Dedicated to BC Transportation Financing Authority			
• Additional 0.25 cents per litre of the clear fuel tax transferred to BC Transportation Financing Authority. There is no change to the clear fuel tax rates paid by consumers	April 1, 2000	*	*

* denotes measures that have no or minimal taxpayer impacts.

Revenue Measures: Supplementary Information

INCOME TAX ACT

TWO-YEAR TAX CUT PLAN ANNOUNCED AND TAX ON INCOME SYSTEM INTRODUCED

Two-year personal income tax cut plan

Two-Year Tax Cut Plan and Introduction of Tax on Income

A key element of the budget is a two-year plan to cut provincial personal income taxes. This plan is based on two principles:

- all taxpayers should receive a provincial tax cut; and
- the tax cut should be focused primarily on lower and middle income individuals and families who are having the most difficulty making ends meet.

Province moves to tax on income

To ensure the province can design the cuts to meet the priorities of British Columbians, starting in the 2000 tax year British Columbia will move to a new method for calculating provincial income tax. Instead of the current method of calculating provincial tax as a percentage of federal income tax, British Columbia will apply its own tax rates directly to taxable income.

This will improve transparency by clearly showing how much of a taxpayer's income is subject to provincial tax. In addition, it will increase policy flexibility and allow the provincial income tax system to better reflect the economic and social priorities of British Columbians.

Legislation to support these changes will be introduced this session.

Constitutional Basis for Income Tax

Under the Constitution, income taxation is a shared taxation field between the federal and provincial governments. Both levels of government levy personal and corporate income taxes.

Current Income Tax System

The existing federal-provincial tax collection agreements require the provinces to forego most policy flexibility in return for federal administration of income tax. All provinces and territories except Quebec participate in the tax collection agreements for personal income taxes. The federal government has control over how income is defined for tax purposes, including allowable deductions from income. Provinces are limited to setting provincial tax as a per cent of federal tax, although they can add surtaxes, flat taxes and low income credits.

The benefits to the current system include:

- only one tax return needs to be filed each year;
- savings in tax collection and administration costs; and
- common definitions of income, allowable deductions and residency.

While recognizing the benefits of a national tax system, British Columbia and other provinces have argued for more than ten years that the current system is more restrictive than required to maintain a strong national tax system.

In 1997, the federal government accepted the advantages of allowing provinces to structure their provincial tax regimes to improve transparency and better reflect their own social and fiscal priorities and agreed to allow provinces to levy income tax directly on taxable income. Agreement was also reached to allow greater provincial flexibility under the tax collection agreements.

As a result, beginning with the 2000 tax year, provinces will be able to impose personal income tax directly on federally defined taxable income (commonly referred to as tax on income). Provinces will also be able to provide their own set of non-refundable tax credits (e.g. basic personal amount and spousal credits) subject to certain limitations.

In addition to maintaining the benefits of a national tax system, tax on income has the following advantages:

- greater provincial flexibility for provinces to pursue their own economic and social objectives;
- more transparency for taxpayers because provincial tax rates as a per cent of income are readily apparent; and
- simpler tax system by eliminating the need for potentially complex add-on measures such as flat taxes, surtaxes and low income reductions.

Tax on income is flexible, transparent and simple

Tax filers will continue to file a single federal-provincial income tax return, but with a different calculation of provincial tax than under the current system. This should require relatively little additional effort for most taxpayers.

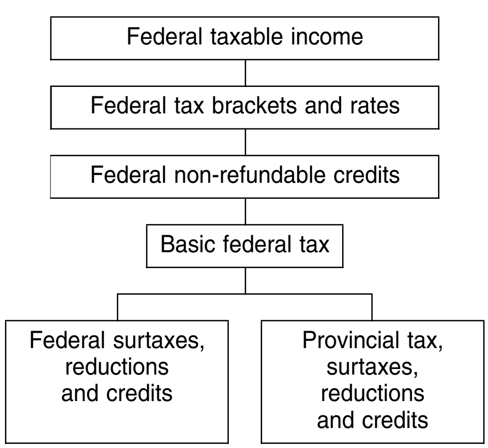
Because of the clear advantages of the new system, British Columbia is introducing tax on income for the 2000 tax year.

Tax Design Under Tax on Income

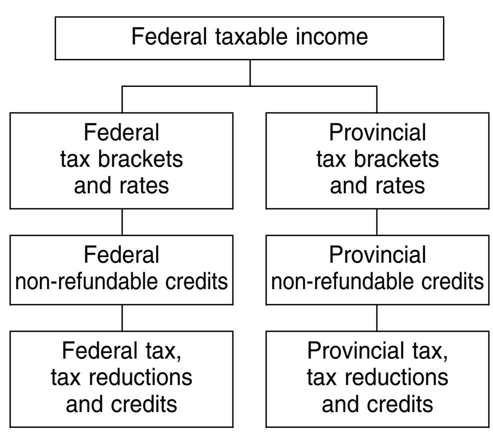
Under tax on income a province legislates its own schedule of tax brackets and tax rates and determines its own set of non-refundable credits, subject to certain limitations agreed to between the federal and provincial governments. Thus, the calculation of provincial personal income tax is virtually identical in concept to the federal calculation, but with different tax brackets, tax rates and non-refundable credits.

The following schematic shows the calculation of provincial and federal tax under the current tax system and under the tax on income system.

Current Tax on Tax System



Tax on Income System



Federal and Provincial calculations will now be similar

Two-Year Tax Reduction Plan

The government's objectives for the transition to tax on income are as follows:

Tax cut is focused on lower and middle income earners

- all taxpayers will receive a tax cut;
- the cuts will be targeted more to lower and middle income taxpayers (i.e. for those with incomes up to $65,000 the tax cut will be more than the reduction they would have received under the previous system); and
- the tax system will be indexed to ensure that taxpayers do not face an additional tax burden over time simply because of the effects of inflation (i.e. bracket creep).

In summary, these objectives will be achieved by:

- reducing the rate on the second tax bracket by one percentage point over two years;
- raising the income tax bracket thresholds this year and fully indexing them to inflation in 2001;
- increasing the basic non-refundable credit in two steps to $8,000 for the 2001 tax year; and

Income taxes cut in 2000/01 and 2001/02

- increasing most other non-refundable credits by at least the British Columbia inflation rate.

These changes will return $181 million to provincial taxpayers in 2000/01 and $310 million in 2001/02. Combined with the reduction in provincial revenue of $44 million due to federal changes to the tax base, the cuts will total $225 million in 2000/01 and $354 million in 2001/02. In addition, roughly 100,000 taxpayers will no longer pay provincial income tax due to the increase in the basic and spousal credits.

Provincial income tax eliminated for 100,000 taxpayers

Details of 2000 Tax Year Changes

Effective for the 2000 tax year provincial personal income tax will be calculated on the basis of tax on income using a three-bracket rate structure plus the current surtaxes. In moving to this new tax system, the province will make the following changes:

- the second tax bracket rate will be reduced by one-half percentage point;
- tax bracket thresholds will be increased to match the federal thresholds for 2000; and
- other non-refundable credits (e.g. age, disability etc.) will be set at the federal amounts for 2000.

These changes parallel the recently announced federal tax reductions.

In addition the province will target $50 million to lower and middle income earners by adding $300 over and above the federal increases to the basic personal and spousal credit amounts.

The following table shows British Columbia's tax rate structure for 2000.

TABLE C1
British Columbia Personal Income Tax Brackets and Rates — 2000 Tax Year

$0 to $30,004	8.4%
$30,004 to $60,009	12.4%
Over $60,009	14.4%
Surtaxes	
30% of tax in excess of $5,300	
15% of tax in excess of $8,660	

The increase in the tax bracket thresholds and the middle tax rate reduction will be made effective July 1, 2000 for purposes of withholding tax at source.

For technical reasons, during the transition to tax on income, provinces must set their non-refundable credit amounts equal to the federal amounts and must retain surtaxes for the 2000 tax year.

Basic and spousal credits increased by $300

The enhancement to the basic and spousal credits will be $300 for the 2000 tax year. For transitional reasons this will be accomplished by a separate non-refundable credit as a supplement to those credits for the 2000 tax year only. These supplements will be incorporated into the provincial basic personal, spouse and equivalent-to-spouse tax credits for 2001 and subsequent years.

Details of 2001 Tax Year Changes

Effective for the 2001 tax year the following changes will be implemented:

- the tax structure (tax brackets and most non-refundable credits) will be indexed by the provincial inflation rate;
- provincial surtaxes will be eliminated and incorporated into tax bracket thresholds and rates;
- the second tax bracket rate will be reduced by an additional one-half percentage point;
- the provincial basic personal credit will be increased to $8,000 from $7,531; and
- the spouse and equivalent-to-spouse tax credits will be increased to $6,850 from $6,440.

Table C2 shows the British Columbia tax structure that will be in effect for 2001.

New rate structure for 2001

TABLE C2
British Columbia Personal Income Tax Brackets and Rates — 2001 Tax Year

$0 to $30,335	8.4%
$30,335 to $60,670	11.9%
$60,670 to $70,000	16.7%
$70,000 to $85,000	18.7%
Over $85,000	19.7%

Assumes an inflation rate of 1.1 per cent.

The top bracket rate is set to meet the previously announced commitment to reduce the top marginal tax rate to 49.9 per cent.

Table C3 shows the values of the basic and spousal credits for 1999, 2000 and 2001.

TABLE C3
British Columbia Non-refundable Credits

	1999	2000	2001
Basic personal amount	$6,794	$7,531*	$8,000
Spousal credits	$5,718	$6,440*	$6,850
All other non-refundable credits (age, disability, etc.)	Federal amounts	Federal amounts	2000 amounts indexed to BC CPI

* Includes $300 supplement.

Taxpayer Impacts

Table C4 shows that the lowest income taxpayers will receive the largest percentage reduction in tax.

TABLE C4
BC Personal Income Tax Reductions — 2000 and 2001 tax years — Single Taxpayer

Total Income	BC Tax Before Budget Measures	Tax Year 2000 Cuts	Tax Year 2001 Cuts	BC Tax After Budget Measures	Per cent Reduction in BC Tax
$8,300	$57	($25)	($57)	$0	−100%
$15,000	$544	($26)	($66)	$478	−12.1%
$25,000	$1,248	($27)	($67)	$1,181	−5.4%
$35,000	$2,178	($62)	($129)	$2,049	−5.9%
$45,000	$3,385	($107)	($221)	$3,164	−6.5%
$55,000	$4,395	($144)	($297)	$4,098	−6.8%
$60,000	$4,987	($165)	($342)	$4,645	−6.9%
$65,000	$5,445	($214)	($408)	$5,037	−7.5%

Single taxpayer claiming basic credits and average deductions.

The table does not show the tax cut for individuals with incomes above $65,000 in total income because the dollar amount of the reduction will vary depending on individual circumstances. For taxpayers with incomes above $65,000 the reduction, measured as a per cent of tax, will generally decline as income rises.

Table C5 shows the tax reductions for families, which will generally be larger than for single taxpayers because of the enhancements to the spouse and equivalent-to-spouse credits. The larger credits will be of particular benefit to single parent families with low and middle incomes.

TABLE C5
BC Personal Income Tax Reductions — 2000 and 2001 tax years — Single Income Family

Total Income	BC Tax Before Budget Measures	Tax Year 2000 Cuts	Tax Year 2001 Cuts	BC Tax After Budget Measures	Per cent Reduction in BC Tax
$15,000	$69	($51)	($69)	$0	−100.0%
$25,000	$773	($52)	($126)	$647	−16.2%
$30,000	$1,126	($52)	($126)	$1,000	−11.2%
$35,000	$1,662	($86)	($188)	$1,474	−11.3%
$45,000	$2,752	($127)	($271)	$2,481	−9.9%
$55,000	$3,949	($170)	($362)	$3,587	−9.2%
$60,000	$4,470	($189)	($401)	$4,069	−9.0%
$65,000	$5,071	($220)	($455)	$4,616	−9.0%

Single income family claiming basic credits and average deductions.

SMALL BUSINESS CORPORATE INCOME TAX RATE REDUCED

Effective July 1, 2000, the small business income tax rate for Canadian-controlled private corporations will be reduced to 4.75 per cent from 5.5 per cent. Since 1998, the corporate income tax rate has been reduced by 47 per cent for 40,000 small businesses in British Columbia. With this latest reduction, British Columbia's small business tax rate will be the lowest in Canada.

Small business tax rate the lowest in Canada

BRITISH COLUMBIA MANUFACTURING AND PROCESSING INVESTMENT TAX CREDIT

Effective April 1, 2000, to encourage investment in new plant and equipment, a 3 per cent, non-refundable investment tax credit will be available to eligible corporations for purchases of certain machinery, equipment and buildings for use in manufacturing and processing.

Corporations may use the tax credit to reduce their current year British Columbia corporate tax liability. Unused tax credits may be carried back 3 taxation years or forward 10 taxation years, and may be carried back prior to the April 1, 2000 start date of the program.

Investment tax credit to enhance competitiveness and encourage investment

The tax credit is equal to 3 per cent of the total capital cost, including any British Columbia provincial sales tax paid, of eligible purchases made after March 31, 2000.

Eligible purchases

The investment tax credit is earned by purchasing qualifying property to be used in British Columbia in manufacturing or processing goods for sale or lease. The property must be new and unused (i.e. must not have been used or acquired for use or lease, for any purpose prior to acquisition by the taxpayer).

To be eligible, purchases must be machinery, equipment or buildings that are "qualified property" as described in federal *Income Tax Regulation 4600* for purposes of the definition of "qualified property" in section 127(9) of the *Income Tax Act (Canada).* Qualified property must be used primarily for the purpose of manufacturing or processing goods for sale or lease, and does not include property used for storing, shipping, selling or leasing of finished goods, purchasing raw materials, administration, purchase and resale operations, data processing and providing employee facilities.

Manufacturing and processing

"Manufacturing" and "processing" will be defined with reference to section 127(11) of the *Income Tax Act (Canada).* Federal *Interpretation Bulletin IT-145R* may be referred to for additional information on the interpretation of "manufacturing" and "processing" under the federal legislation.

"Manufacturing" is generally defined as the creation of something or the shaping, stamping or forming of an object out of something, while "processing" is generally defined as the preparation, handling or other activity designed to effect physical or chemical change in an article or substance other than by natural growth.

Certain activities are specifically excluded from the definition of "manufacturing and processing" for purposes of the investment tax credit. These include farming, fishing, logging, construction, oil and gas extraction, processing to the crude oil stage, field processing, mineral extraction and processing mineral ore to the prime metal stage.

SCHOOL ACT

SCHOOL TAX RATES SET

Average provincial residential property taxes remain at 1994 level

A separate *residential* tax rate is set for each school district. For the 2000 taxation year, average residential school taxes, before application of the home owner grant, will be maintained at 1999 levels. This will be accomplished by adjusting residential school property tax rates to reflect changes in average assessed values. This rate-setting policy has been in effect since 1994. There will be a small revenue increase due to the addition of new residential properties to the tax base.

Individual school district residential tax rates for the 2000 tax year will be set in April, once authenticated assessment roll data are available to calculate the precise rates according to the provincial residential school tax rate formula.

Even though the average residential tax is maintained at the 1994 level, individual tax bills may change. Some homeowners will experience an increase in their school taxes, while others will have offsetting reductions. The variation in individual tax bills will occur because changes in the assessed value of any individual property are likely to differ from changes in average provincial and school district assessed values.

For each of the eight *non-residential* property classes, a single, province-wide rate is set. Non-residential school tax rates will remain unchanged from 1999 levels. In total, non-residential school tax revenues will increase by 2.1 per cent due to new construction.

Provincial business property tax rates unchanged

TAXATION (RURAL AREA) ACT

PROVINCIAL RURAL AREA TAX RATES

For the 2000 taxation year, the average *residential* rural area property taxes will be maintained at the 1999 level, continuing the policy in place since 1994. A small increase in the residential tax rate will be offset by a reduction in average assessed values. The precise residential tax rate will be set in April, when authenticated assessment roll data are available. There will be a small revenue increase due to the addition of new residential properties to the tax base.

Some rural area residential property owners will experience an increase in their rural area property taxes, while others will have offsetting tax reductions. Homeowners whose property values have increased by more than the provincial average will see an increase, while other homeowners will see no change or a reduction.

The tax rates for the eight *non-residential* property classes will remain unchanged for 2000. Tax revenues will decrease by about 1.0 per cent, with revenues from new construction not fully offsetting the effect of a decline in average non-residential property values.

SOCIAL SERVICE TAX ACT

DEFINITION OF *FIXTURE* CLARIFIED

Definition of fixture clarified and simplified

Under the *Social Service Tax Act* and administrative policy, the application of tax to machinery and equipment used in a manufacturing or production process, or in delivering a service, has depended upon whether the item qualifies as tangible personal property, a *fixture,* or an improvement to real property.

Tax applies to sales and leases of tangible personal property and to charges for taxable services (installation, repair and maintenance services) provided to such property. *Fixtures* are also subject to tax when purchased or leased. However, taxable services provided to *fixtures* are specifically exempt from tax. Items that qualify as improvements to real property upon installation are subject to tax when purchased before installation, but are not subject to tax when sold with the real property. Taxable services provided to improvements to real property are not subject to tax.

The determination of what types of equipment qualify as a *fixture* has always been problematic.

The Act defined a *fixture* as machinery, equipment, or apparatus installed in or attached to real property and used directly in a manufacturing or production process, or used in the provision of a service.

However, certain types of machinery and equipment that become attached to realty (but which qualify as *fixtures* at common law) have been excluded from the definition of *fixture*. This has created uncertainty between what constitutes a *fixture* at common law and what constitutes a *fixture* under the Act.

To clarify and simplify the application of tax to machinery and equipment, the following amendments are made effective April 1, 2000:

- The definition of *fixture* is amended to establish that a *fixture* means machinery, equipment or apparatus that is a *fixture* at common law and that is used directly in a manufacturing or production process or in the delivery of a service.
- The definition of *tangible personal property* is amended to establish that *fixtures,* other than prescribed *fixtures,* are *tangible personal property.* As such, *fixtures* are subject to tax on the purchase or lease price.
- The regulations are amended to maintain the historical exclusion of certain types of machinery and equipment from the definition of *fixtures*. This includes machinery, equipment and apparatus that:
  - — is attached to real property in a substantial way, and that enhances the use of a building as a building (previously excluded under the statutory definition of a *fixture*), or
  - — is substantially attached to realty, or rests on its own weight, but is of such a size that it must be constructed on site, and cannot be moved without complete dismantling of the equipment or without substantial damage to, or dismantling of, the building.

By excluding such equipment from the definition of *tangible personal property,* it retains its tax status as improvements to real property.

The exemption for taxable services provided to *fixtures* is also amended to exclude from the exemption travelling cranes and hoists that are attached to, or rest upon, tracks or rails that are themselves attached to a building.

MOTOR FUEL TAX ACT

Compressor fuel tax change to increase recovery from gas wells

Commencing April 1, 2000, the tax on natural gas used in compressors to remove raw gas from wells, transport it to processing plants and within plants through to the marketable gas stage will be phased out over two years. The reduction in compressor operating costs is intended to encourage gas producers to increase compression to extract more gas from wells prior to closure, resulting in more efficient use of this provincial resource. Over time, royalties paid on the additional gas extracted will offset the revenue lost as a result of the exemption.

The tax will be phased out for compressors located at well heads to extract the gas, compressors used to transport the gas from well head to processing plants and compressors within processing plants to compress gas through to the marketable gas stage.

The phase-out of tax is as follows:

- effective April 1, 2000, the tax rate will be reduced from 1.9 cents to 1.1 cents per 810.32 litres;
- effective April 1, 2001, the tax rate will be reduced to 0.55 cents per 810.32 litres; and
- effective April 1, 2002, the tax will be eliminated.

Natural gas used in compressors within plants to compress marketable gas will continue to be taxed at 1.1 cents per 810.32 litres. Natural gas used in compressors to transport marketable gas to market or storage will continue to be taxed at 1.9 cents per 810.32 litres.

OTHER REVENUE

FEES AND LICENCES

A number of changes to fees and licences will be introduced during the 2000/01 fiscal year. These changes help to cover the government's cost of providing new or existing services. During 2000/01, the government will:

Fee and licence increases total less than $500,000

- introduce the second phase of the restructuring of Royal BC Museum fees that was approved in 1999 (effective March 2000);
- increase the fee for challenging the certificate of qualification examination taken by non-certified labourers to obtain their journeyman certificate (effective April 2000);
- increase selected *Society Act* fees (effective April 2000); and,
- increase waste management permit fees for operating beehive burners as part of a tax-shift initiative to discourage the continued burning of wood residues. Forest companies that invest in value-added uses for wood residue will receive a partial refund of their fees. (See the Topic Box on environmental initiatives later in this Report.)

Other fee and licence changes will be introduced during the year as ministries continue to examine their fees and services to ensure that users pay a fair share of the direct costs of providing services.

REVENUE DEDICATED TO THE BC TRANSPORTATION FINANCING AUTHORITY

Effective April 1, 2000, the portion of clear fuel tax dedicated to the BC Transportation Financing Authority is increased to 3.25 cents per litre from 3 cents per litre. The additional 0.25 cents per litre is expected to generate approximately $14 million annually to help finance major transportation projects throughout the province. There is no change to the clear fuel tax rates paid by consumers.

Additional 0.25¢/litre dedicated to BC TFA

C2 SUMMARY OF ADMINISTRATIVE MEASURES

	Effective Date
Social Service Tax Act	
• List of items that can be purchased exempt from tax by *bona fide* farmers expanded	April 1, 2000
• List of items that can be purchased exempt from tax by *bona fide* aquaculturists expanded	April 1, 2000
• Exemption provided for software used to develop new software for resale	April 1, 2000
• Exemption provided for configuring software	April 1, 2000
• Drill pipes and drill collars used in the oil and gas industry eligible for 1/36th formula	April 1, 2000
• Exemption provided for fastening components used with exempt polystyrene forming blocks	April 1, 2000
• Exemption for *dies* clarified to exclude saws and knives	April 1, 2000
• Exemption for *catalysts* and *direct agents* clarified to exclude substances added to tailings ponds	April 1, 2000
• Taxation of inter-jurisdictional carriers using agents clarified	April 1, 2000
• Taxation of goods brought into the province by non-residents for permanent use clarified	April 1, 2000
• Exemption for magazines, newspapers and periodicals clarified	April 1, 2000
• Taxation of multijurisdictional vehicles clarified	April 1, 2000
• Registration and tax collection requirements for out-of-province sellers expanded	April 1, 2000
• Taxation of bundled purchases simplified and clarified	April 1, 2000
• Taxation of goods used in providing a service clarified	April 1, 2000
Motor Fuel Tax Act	
• Exemption for natural gas used in compressors to inject acid gas into depleted wells provided	April 1, 2000
• Administration and enforcement provisions enhanced	April 1, 2000
Tobacco Tax Act	
• Administration and enforcement provisions enhanced	April 1, 2000
Property Transfer Tax Act	
• Anti-avoidance rule added for interests in property	March 28, 2000
International Financial Business (Tax Refund) Act	
• Tax rate used to calculate refunds clarified	April 1, 2000

C2 SUMMARY OF ADMINISTRATIVE MEASURES — *Continued*

	Effective Date
Income Tax Act	
• Expenditure base for the Film and Television Tax Credit clarified	April 1, 2000
• Recapture of Scientific Research and Experimental Development Tax Credit authorized when qualifying property sold or converted to commercial use	April 1, 2000
• Collection of information by Ministry of Energy and Mines for administration of Mining Exploration Tax Credit authorized	April 1, 2000
• Qualifying expenditures for Mining Exploration Tax Credit clarified	April 1, 2000
Corporation Capital Tax Act	
• Rules governing taxation of foreign bank branches in British Columbia introduced	April 1, 2000
• Deduction of investments in partnerships in the computation of the investment allowance clarified	April 1, 2000
• Duplicate deduction for corporations that commence or cease to have a permanent establishment in British Columbia during the year removed	April 1, 2000
• Canadian land owned by non-resident corporations deemed to constitute a permanent establishment	April 1, 2000
Consumption Taxation Statutes	
• Effectiveness of bonding provisions enhanced *(Tobacco Tax Act* and *Motor Fuel Tax Act)*	April 1, 2000
• Remittance requirements for tax collected in error tightened *(Social Service Tax Act, Hotel Room Tax Act, Motor Fuel Tax Act* and *Tobacco Tax Act)*	April 1, 2000
• Minor infractions removed from court prosecution provisions *(Social Service Tax Act, Hotel Room Tax Act, Motor Fuel Tax Act* and *Tobacco Tax Act)*	April 1, 2000
• Standard sections established for serving enforcement notices *(Social Service Tax Act, Hotel Room Tax Act, Motor Fuel Tax Act* and *Tobacco Tax Act)*	April 1, 2000
• Authority provided to the Commissioner or Director to issue formal demands for information *(Social Service Tax Act, Hotel Room Tax Act, Motor Fuel Tax Act* and *Tobacco Tax Act)*	Royal Assent
Multiple Acts	
• References to "Revenue Canada" replaced with "Canada Customs and Revenue Agency"	November 1, 1999
• Authority provided to prescribe interest calculations *(Social Service Tax Act, Hotel Room Tax Act, Tobacco Tax Act, Motor Fuel Tax Act, Insurance Premium Tax Act, Logging Tax Act, Corporation Capital Tax Act,* and *Taxation (Rural Area) Act)*	April 1, 2000

Administrative Measures: Supplementary Information

SOCIAL SERVICE TAX ACT

LIST OF ITEMS THAT CAN BE PURCHASED EXEMPT FROM TAX BY *BONA FIDE* FARMERS EXPANDED

Effective April 1, 2000, the following are added to the list of items that can be purchased exempt from the provincial sales tax by *bona fide* farmers for farm purposes:

- veterinary supplies;
- natural gas heaters for greenhouses; and
- silo and silage covers.

LIST OF ITEMS THAT CAN BE PURCHASED EXEMPT FROM TAX BY *BONA FIDE* AQUACULTURISTS EXPANDED

Effective April 1, 2000, the following items are added to the list of supplies that can be purchased exempt from provincial sales tax by *bona fide* aquaculturists:

- shackles and thimbles used for joining ropes, cable and chains in mooring systems; and
- dip nets and dip net bags.

EXEMPTION PROVIDED FOR SOFTWARE USED TO DEVELOP NEW SOFTWARE FOR RESALE

Under the *Social Service Tax Act,* tax does not apply to custom software developed for a specific customer or to purchases of software "source code". The existing exemptions for custom software and source code were provided to encourage the development of the software industry in British Columbia, and to enhance business competitiveness through computerization. In recent years, however, development of custom software through the writing of new source code has become increasingly rare. Instead, the industry has moved toward developing new software by incorporating existing pre-written licensed software into new software products. For example, a developer of a new program today would likely purchase a licence for the right to incorporate an existing "spell checker" into a new program rather than write the source code to develop a new "spell checker".

Effective April 1, 2000, an exemption is provided for purchases of software to be incorporated into other software for retail sale where, under the licence agreement governing the use of the software, it can only be incorporated into other software. The amendment will modernize the exemption and remove a potential disincentive to the expansion of the software industry in British Columbia.

EXEMPTION PROVIDED FOR CONFIGURING SOFTWARE

The *Social Service Tax Act* imposes tax on purchases of packaged or pre-written software and on charges to install, modify and configure such software. An exemption is provided for purchases of custom software and for software modified through source code changes where the cost of the modifications is greater than the cost of the software. Services to exempt software are also exempt from the tax.

In recent years, the industry has moved away from development of custom software and source code modifications to the development of enterprise resource planning software (i.e., generic software packages that can be used by many different businesses but that can be adapted to meet the specific needs of each business). Because such software is not custom software, and the installation and configuration do not involve changes to the source code, the cost of the software and of its implementation are subject to tax.

Implementing, configuring and modifying such software to meet a particular business's needs generally costs considerably more than the software itself. In many cases, it requires the expertise of consultants specializing in the installation of that particular type of software. Once installed, the software is similar to custom software because it is adapted to the unique needs of a specific customer.

In recognition of this trend, to encourage further expansion of the software industry, and to facilitate business competitiveness through cost reductions of new software systems, effective April 1, 2000, an exemption is provided for services provided to configure, modify or implement software where the cost of those services exceeds the cost of the software. The software itself, which is generic packaged software, remains subject to tax.

DRILL PIPES AND DRILL COLLARS USED IN THE OIL AND GAS INDUSTRY ELIGIBLE FOR THE 1/36TH FORMULA

Since 1985, specified oil and gas drilling equipment, including drilling rigs, fracturing trucks and seismic equipment, has been subject to tax on 1/36th of its value for each month the equipment is in the province. The 1/36th formula is designed to encourage exploration in the province and recognizes the fact that such equipment is regularly moved in and out of the province depending on the drilling season.

Effective April 1, 2000, the 1/36th formula is extended to apply to drill pipes and drill collars to reduce industry's compliance burden associated with tracking this equipment, for tax purposes, separately from other equipment eligible for the 1/36th formula.

EXEMPTION PROVIDED FOR FASTENING COMPONENTS USED WITH EXEMPT POLYSTYRENE FORMING BLOCKS

Polystyrene forming blocks used in the construction of buildings are exempt from the provincial sales tax as energy conservation material. Polystyrene forming blocks initially serve as forms for concrete, but remain permanently attached to the concrete and serve as the completed building's primary insulation material. Fastening devices, such as corner brackets and ties, are used to hold the polystyrene forming blocks in place during the pouring and setting of the concrete walls. These fastening devices are currently only exempt if purchased as a package together with the forming blocks.

Effective April 1, 2000, fastening devices designed specifically for use with exempt forming blocks are exempt from tax even if purchased separately from the blocks.

EXEMPTION FOR *DIES* CLARIFIED TO EXCLUDE SAWS AND KNIVES

An exemption is provided under the *Social Service Tax Act* for *dies* that are purchased by a business for use or consumption in the manufacture or production of tangible personal property. *Dies* are defined as a solid or hollow form used for shaping or marking goods in a process by cutting, stamping, pressing, or extruding, but do not include die or tap sets used to cut threads. Contrary to the ordinary meaning of the term, a recent court decision ruled that "knives and saws" qualified as *dies*.

Effective April 1, 2000, the exemption is clarified to specifically exclude saws and knives.

EXEMPTION FOR *CATALYSTS* AND *DIRECT AGENTS* CLARIFIED TO EXCLUDE SUBSTANCES ADDED TO TAILINGS PONDS

Catalysts and *direct agents* used in chemical reactions to transform or manufacture a product for sale or lease are exempt from tax. To qualify as a *catalyst* or *direct agent,* the substance must come into contact with, or be temporarily incorporated into, the material transformed or manufactured into a product. A *catalyst* remains unchanged at the end of a reaction while a direct agent is consumed in the reaction to the point of destruction, dissipation or uselessness.

A recent court ruling broadened the exemption beyond its original intent and created potential inequities between mining operations based solely on the type of process used.

Effective April 1, 2000, the *Social Service Tax Act* is amended to restore its original intent and remove the potential inequity by clarifying that the exemption does not apply to:

- substances added to tailings or settling ponds at the end of the manufacturing process; or
- substances which have contact with the material being transformed where the contact is inconsequential to the transformation or manufacture of the product.

TAXATION OF INTERJURISDICTIONAL CARRIERS USING AGENTS CLARIFIED

The *Social Service Tax Act* imposes tax on conveyances used interjurisdictionally (i.e., railcars, vessels, aircraft, trucks and buses) based on the ratio of use of the conveyance in the province to total use in all jurisdictions. Persons who reside, normally reside, or carry on business in the province are subject to tax on goods they bring into the province for their own use, for the use of another at their own expense, or for use by an agent of that person. However, the provision imposing tax on persons who do not reside or carry on business in the province does not refer to goods brought into the province at their expense by an agent. It is therefore possible for businesses outside of the province to use agents to avoid the tax and obtain a competitive advantage over British Columbia based businesses.

Effective April 1, 2000, the *Social Service Tax Act* is amended to clarify that tax applies whether the conveyance is used in the province by an owner, a lessee, or an agent of the owner or lessee.

TAXATION OF GOODS BROUGHT INTO THE PROVINCE BY NON-RESIDENTS FOR PERMANENT USE CLARIFIED

The *Social Service Tax Act* imposes tax on goods purchased in the province or brought into the province for use. Currently, persons who do not reside, ordinarily reside or carry on business in the province are required to pay tax on goods they bring into the province for use if they:

- own or lease under a lease for a term of 12 months, real property, a moorage site, or a recreational vehicle parking site in the province; or
- acquire the right to moor a boat or park a recreational vehicle at one or more sites in the province and that right continues for a period of at least 12 consecutive months.

This provision is intended to ensure that non-residents who maintain seasonal or recreational property or property rights in the province and who benefit from provincial amenities contribute to the cost of those amenities. It also provides a level playing field for British Columbia businesses. However, the legislation is currently subject to interpretations which reduce its effectiveness.

Effective April 1, 2000, the legislation is amended to clarify that tax is payable on goods brought into the province for use by non-residents where the non-residents own or lease, for at least 12 months within an 18-month period, realty, moorage or parking rights within the province. The amendment also establishes that the 12 months within the 18-month period do not have to be consecutive.

EXEMPTION FOR MAGAZINES, NEWSPAPERS AND PERIODICALS CLARIFIED

The *Social Service Tax Act* exempts newspapers, magazines and periodicals from the provincial sales tax. The intent is to exempt only those publications that have a technical, educational, literary, or cultural content, not to exempt material that is essentially advertising or promotional in nature.

To clearly exclude advertising and promotional materials, catalogues, brochures and programs from the exemption, effective April 1, 2000:

- the definitions of exempt publications are transferred from the regulations to the statute;
- the definitions are amended to clarify content; and
- an amendment is made to clarify that where one publication is sold or distributed with another, each publication must be considered separately to determine eligibility for exemption.

TAXATION OF MULTIJURISDICTIONAL VEHICLES CLARIFIED

In 1995, at the request of the trucking industry, the province introduced substantial amendments to the *Social Service Tax Act* to accommodate British Columbia's membership in the International Registration Plan (IRP). IRP is a multijurisdictional licencing agreement that establishes a single uniform system for administering and collecting tax from interjurisdictional carriers. The benefit of membership in IRP is that it reduces administration and compliance costs for government and interjurisdictional truckers.

Interjurisdictional carriers pay a reduced annual tax that was introduced to replace the sales tax previously paid on vehicles, repairs to vehicles and trailers used with those vehicles. The annual tax was designed to be revenue neutral for the province and industry.

Effective April 1, 2000, the Act is amended to reinforce the original intent of the program by clarifying that:

- the reduced annual tax is imposed on the market value of vehicles that are gifted or purchased at low prices under lease buy-outs;

- pick-up trucks and service vehicles are not eligible for the reduced annual tax even if operated interjurisdictionally; and
- the exemption for trailers applies only to trailers used with multijurisdictional vehicles that are eligible for the annual tax.

These amendments are consistent with the intent of the legislation and with the terms of the international agreement.

REGISTRATION AND TAX COLLECTION REQUIREMENTS FOR OUT OF PROVINCE SELLERS EXPANDED

Under the *Social Service Tax Act,* British Columbia businesses that regularly make taxable sales are required to register as vendors and collect and remit the tax on taxable sales. Businesses located outside of the province but with a legal presence in the province are also required to register and collect the tax on sales to British Columbians. However, out of province businesses that do not have a physical presence in the province, such as many catalogue sellers or telemarketing firms, may not be required to register and collect the tax. As a result, they have a competitive advantage over British Columbia businesses.

In light of the rapid growth in catalogue, telemarketing, and internet sales generally, and the likelihood that sales from outside the province will increase in the future, amendments are introduced to level playing field for British Columbia based businesses.

Effective April 1, 2000 the Act is amended to expressly impose registration and tax collection obligations on out of province sellers who, in the ordinary course of business:

- solicit sales in British Columbia through advertising or other means;
- accept purchase orders originating in British Columbia;
- sell tangible personal property to persons in the province; and
- cause the property to be delivered into the province.

TAXATION OF BUNDLED PURCHASES CLARIFIED AND SIMPLIFIED

Sellers frequently sell packages that include both taxable and non-taxable goods for a single price (bundled purchases). For example, taxable software programs may be sold in a package with related exempt instruction manuals or training sessions.

Under the historical interpretation of the *Social Service Tax Act,* if the taxable and non-taxable goods are not separately itemised on the sales invoice, tax must be collected on the full sale price of the package. An administrative concession was provided for packages sold for less than $100. Under this concession, if the value of the taxable goods was less than 50% of the total value of the package, tax did not apply to the package. If the value of the taxable goods was greater than 50% of the package, tax applied to the full purchase price.

The lack of explicit provisions addressing the tax applicable to bundled purchases has created tax uncertainty for both the government and the public. To address this uncertainty, effective April 1, 2000, the application of tax to bundled purchases is simplified and clarified as follows:

- The definition of purchase price is amended to explicitly state that where the value of taxable goods or services included in a package is more than 10 per cent of the total value of a package, tax applies to the total purchase price of the package; and

- Subject to prescribed conditions, an explicit exemption is provided for packages where the value of the taxable goods or services included in the package is 10 per cent or less of the total value of the package.

Where taxable and non-taxable goods or services are sold together as a single package, and the sales invoice indicates the price of the taxable and non-taxable goods or services separately, tax continues to apply only to the charge for the taxable goods or services.

TAXATION OF GOODS USED IN PROVIDING A SERVICE CLARIFIED

Businesses that acquire goods for their own use to deliver a service are the users of such items and are required to pay tax unless the item is specifically exempt or clearly sold or leased to customers.

Effective April 1, 2000, the *Social Service Tax Act* is amended to clarify this longstanding application of tax.

MOTOR FUEL TAX ACT

EXEMPTION FOR NATURAL GAS USED IN COMPRESSORS TO INJECT ACID GAS INTO DEPLETED WELLS PROVIDED

Effective April 1, 2000, an exemption is provided for natural gas used in compressors to inject acid gas into depleted wells. The injection of acid gas into depleted wells provides significant environmental benefits by eliminating the venting of sulphur dioxide and carbon dioxide into the atmosphere.

ADMINISTRATION AND ENFORCEMENT PROVISIONS ENHANCED

Effective April 1, 2000, a number of statutory amendments are made to strengthen administration and enforcement and ensure the equitable application of the tax. These amendments include:

- *Road Checks of Fuel Tanks:* The Act currently authorizes peace officers to conduct warrantless inspections of fuel tanks for improper use of coloured fuel. The Act is amended to clarify that warrantless searches may only be made where it is impractical to obtain a warrant.
- *Interest on Penalty Amount:* Where a person fails to collect tax, the Act imposes a penalty equal to the tax that should have been collected. This provision is amended to clarify that the penalty includes interest on that amount, payable from the date the tax should have been collected.
- *Suspension of Collector's Appointment:* An immediate 30-day suspension period is established during which a collector who has failed to comply with the Act may be prohibited from selling fuel in the province. The new provision enables the province to immediately suspend a fuel collector for infractions to prevent permit holders from continuing illegal activities.
- *Marine Diesel and Marine Bunker Distinction:* The definitions of marine diesel fuel and marine bunker fuel are amended to clarify that any fuel sold as marine diesel is taxable at the marine diesel tax rate, regardless of viscosity.

TOBACCO TAX ACT

ADMINISTRATION AND ENFORCEMENT PROVISIONS ENHANCED

Tobacco smuggling and non-compliance with the *Tobacco Tax Act* continue to be a problem, in part because of low federal and provincial tobacco taxes in central and eastern Canada.

Effective April 1, 2000, the following amendments are made to enhance the effectiveness of tobacco tax administration:

- *Interest in Penalty Amount:* Where a person fails to collect tax, the Act imposes a penalty equal to the tax that should have been collected. This provision is amended to clarify that the penalty includes interest on that amount.
- *Possession of Unmarked Tobacco:* A provision is established under which possession of more than 1,000 grams of unmarked tobacco is, in the absence of evidence to the contrary, legal evidence of unlawful possession or possession for an unlawful purpose. This provision parallels an existing provision for marked tobacco.
- *Destruction of Seized Tobacco:* Authority is provided for the Director of the Tobacco Tax Act to authorize police to destroy seized tobacco where storage of the tobacco is impractical. If the owner of the tobacco is not subsequently charged for an offence under the Act, a judge may order the province to compensate the owner for the loss of the tobacco.
- *Retention of Seized Tobacco:* The Act currently requires that a court order be obtained to retain seized tobacco for more than three months if charges have not been laid against the person from whom the tobacco was seized. The three month requirement is replaced with a one year requirement.
- *Appeal Provisions:* The Act is amended to provide retailers with the right to appeal to the minister a disallowance of a refund claim for a security paid to a wholesaler in error.

PROPERTY TRANSFER TAX ACT

ANTI-AVOIDANCE RULE ADDED FOR INTERESTS IN PROPERTY

Property transfer tax is imposed on the fair market value of land on the date application is made to register a transfer in a Land Title Office. Certain interests registered against the title to a property, including interests that are not subject to the tax (such as lease agreements for less than 30 years), may reduce the fair market value of the property. This provides a tax planning opportunity to artificially reduce the fair market value of a property for tax purposes.

Effective March 28, 2000, an anti-avoidance rule is provided to require the fair market value of property to be determined without reference to any interest in the land already held by the transferee or by an individual or corporation related to the transferee. Exceptions are provided where tax has been paid on the fair market value of that interest or where the interest was registered before the *Property Transfer Tax Act* was introduced in 1987.

INTERNATIONAL FINANCIAL BUSINESS (TAX REFUND) ACT

TAX RATE USED TO CALCULATE REFUNDS CLARIFIED

The *International Financial Business (Tax Refund) Act* provides for refunds of provincial income taxes to eligible corporations on certain international financial transactions. British Columbia currently levies corporate income taxes at two rates:

a basic rate of 16.5 per cent and a lower small business rate. Although some corporations that are eligible for refunds under the statute pay income tax at the small business rate, refunds are calculated at the higher basic rate.

Effective April 1, 2000, refunds paid under the *International Financial Business (Tax Refund) Act* will be calculated at the actual rate used in determining tax payable under the British Columbia *Income Tax Act.*

INCOME TAX ACT

EXPENDITURE BASE FOR THE FILM AND TELEVISION TAX CREDIT CLARIFIED

The Film and Television Tax Credit was introduced in 1998 as an incentive to film production in the province. Although the provincial credit is similar to the federal film tax credit under the *Income Tax Act (Canada)* there are certain differences. One important difference is the calculation of the expenditure base for the tax credit when there is more than one equity interest in the production.

Effective April 1, 2000, the legislation is amended to clarify that the "cost of production" for purposes of the provincial tax credit is the total of all expenditures paid by the production corporation.

RECAPTURE OF SCIENTIFIC RESEARCH AND EXPERIMENTAL DEVELOPMENT TAX CREDIT AUTHORIZED WHEN QUALIFYING PROPERTY SOLD OR CONVERTED TO COMMERCIAL USE

The British Columbia Scientific Research and Experimental Development Tax Credit is modeled on the federal tax credit program. Consistent with recent amendments to the *Income Tax Act (Canada),* the provincial legislation is amended effective April 1, 2000 to ensure that the tax credit is recaptured if qualifying property is disposed of to an arm's length party or converted to a commercial use.

COLLECTION OF INFORMATION BY MINISTRY OF ENERGY AND MINES FOR ADMINISTRATION OF MINING EXPLORATION TAX CREDIT AUTHORIZED

The Mining Exploration Tax Credit was introduced in 1998 to provide an incentive for grassroots mineral exploration in the province. The Ministry of Energy and Mines is responsible for the provincial regulation of mining exploration activities in the province.

Effective April 1, 2000, the *Income Tax Act* is amended to streamline administration by allowing the Ministry of Energy and Mines to collect and share with the Ministry of Finance and Corporation Relations information pertinent to the administration of the Mining Exploration Tax Credit.

QUALIFYING EXPENDITURES FOR MINING EXPLORATION TAX CREDIT CLARIFIED

Certain provisions in the current Mining Exploration Tax Credit legislation have resulted in uncertainty for taxpayers. Effective April 1, 2000, the legislation is amended to clarify that expenditures eligible for the tax credit must:

- be in respect of goods or services provided in British Columbia;
- be reasonable in the circumstances;
- not be claimed by any other taxpayer; and
- not be for personal expenses.

CORPORATION CAPITAL TAX ACT

RULES GOVERNING TAXATION OF FOREIGN BANK BRANCHES IN BRITISH COLUMBIA INTRODUCED

On June 28, 1999, the federal *Bank Act* was amended to permit foreign banks to establish specialized, commercially focused branches in Canada. In view of the differing international standards for capital adequacy requirements and the potential difficulties associated with ascertaining the taxable capital of foreign financial institutions, the *Corporation Capital Tax Act* is amended effective April 1, 2000 to address the taxation of foreign bank branches. Amendments will ensure that foreign bank branches established in British Columbia are taxed on an equitable basis with domestic banks and Canadian subsidiaries of foreign banks currently operating in the province.

DEDUCTION OF INVESTMENTS IN PARTNERSHIPS IN THE COMPUTATION OF THE INVESTMENT ALLOWANCE CLARIFIED

In the calculation of the investment allowance under the *Corporation Capital Tax Act,* if a corporation has an interest in a partnership, the investment amount may be deducted and the corporation's share of partnership assets must be added. Partnership assets must be measured only at the taxation year-end of the partnership that falls within the corporation's taxation year. In certain circumstances a corporation will have a tax year that does not include a taxation year-end of the partnership. Currently, when this occurs, neither the corporation's share of partnership assets nor the investment amount in the partnership are included in the calculation.

In order to correct this unintended result, the legislation is amended effective April 1, 2000 to ensure that the partnership investment is only deducted if the corporation's share of partnership assets is included.

DUPLICATE DEDUCTION FOR CORPORATIONS THAT COMMENCE OR CEASE TO HAVE A PERMANENT ESTABLISHMENT IN BRITISH COLUMBIA DURING THE YEAR REMOVED

Effective April 1, 2000, the *Corporation Capital Tax Act* is amended to limit the tax reduction available to corporations that commence or cease to have a permanent establishment in the province during a taxation year. If a corporation has a permanent establishment outside of the province, a reduction is already available in respect of paid up capital attributable to that permanent establishment. Therefore, the tax reduction for corporations that commence or cease to have a permanent establishment in British Columbia will be limited to corporations that do not have permanent establishments outside of the province.

CANADIAN LAND OWNED BY NON-RESIDENT CORPORATIONS DEEMED TO CONSTITUTE A PERMANENT ESTABLISHMENT

Effective April 1, 2000, the *Corporation Capital Tax Act* is amended to clarify that land owned by a non-resident corporation constitutes a permanent establishment for purposes of British Columbia capital tax.

CONSUMPTION TAXATION STATUTES

EFFECTIVENESS OF BONDING PROVISIONS ENHANCED

Effective April 1, 2000, two amendments are made to enhance the effectiveness of bonding provisions under the *Tobacco Tax Act* and *Motor Fuel Tax Act*. Both of the Acts are amended to allow forfeiture of a bond for failure to pay a security, and to clarify that the bond may be applied to the tax or security amount due under the Act, as well as to the interest payable on that amount. The *Tobacco Tax Act* is also amended to allow the director to request a bond from a tobacco wholesaler or retailer in response to changing circumstances, such as increases in sales volumes, or non-compliance with the legislation.

REMITTANCE REQUIREMENTS FOR TAX COLLECTED IN ERROR TIGHTENED

On occasion, sellers inadvertently collect tax from customers on items that are not taxable. When this occurs, the purchaser may apply to the province for a refund of the tax paid in error. However, under the existing wording of the *Social Service Tax Act, Hotel Room Tax Act, Tobacco Tax Act,* and *Motor Fuel Tax Act,* there are no explicit provisions to require tax collected in error to be remitted to the province. This leaves the province in a position of refunding tax that it has not received.

Effective April 1, 2000, the Acts are amended to clarify that all amounts collected as tax must be remitted to the province, even if they have been collected in error. The person who paid the tax in error is eligible to apply for a refund of the tax paid.

MINOR INFRACTIONS REMOVED FROM COURT PROSECUTION PROVISIONS

Effective April 1, 2000, only serious infractions involving wilful action on the part of a taxpayer will be subject to court prosecution. This will enhance the effectiveness of court prosecutions and provide clearer guidance to the courts with respect to the severity of infractions.

The Acts to be amended include the *Social Service Tax Act, Hotel Room Tax Act, Motor Fuel Tax Act* and *Tobacco Tax Act.*

STANDARD SECTIONS ESTABLISHED FOR SERVING ENFORCEMENT NOTICES

Existing provisions under the *Social Service Tax Act, Hotel Room Tax Act, Motor Fuel Tax Act* and *Tobacco Tax Act* require the province, before taking proceedings for the recovery of taxes, to give notice to a taxpayer or collector of the intention to enforce payment. The wording of this provision under each Act varies, resulting in confusion for taxpayers.

Effective April 1, 2000, standard provisions are established for serving a notice of the province's intention to enforce payment of taxes owing.

AUTHORITY PROVIDED TO THE COMMISSIONER OR DIRECTOR TO ISSUE FORMAL DEMANDS FOR INFORMATION

Effective on Royal Assent, the *Social Service Tax Act, Hotel Room Tax Act, Motor Fuel Tax Act* and *Tobacco Tax Act* are amended to authorize demands for information relating to tax liabilities under the legislation and the disposition of assets that are subject to the statutory collection proceedings.

MULTIPLE ACTS

REFERENCES TO "REVENUE CANADA" REPLACED WITH "CANADA CUSTOMS AND REVENUE AGENCY"

On November 1, 1999, the new Canada Customs and Revenue Agency assumed the role, formerly performed by Revenue Canada, of collecting provincial revenue on behalf of the province under the *Income Tax Act.* In order to recognize this change, all references to "Revenue Canada" in provincial legislation and regulations are changed to "Canada Customs and Revenue Agency" effective November 1, 1999.

AUTHORITY PROVIDED TO PRESCRIBE INTEREST CALCULATIONS

Effective April 1, 2000, authority is provided to prescribe by regulation the manner in which interest on refunds and outstanding tax liabilities is to be calculated under the *Social Service Tax Act, Hotel Room Tax Act, Tobacco Tax Act, Motor Fuel Tax Act, Insurance Premium Tax Act, Logging Tax Act, Corporation Capital Tax Act,* and *Taxation (Rural Area) Act.*

The amendments provide clear legislative authority for the current practice of compounding interest on outstanding tax liabilities and refunds.

ENVIRONMENTAL INITIATIVES

PART 1
Tax Shift — Update and Status Report

Background:

In the 1999 provincial Budget government announced it would initiate discussions with British Columbians about how to make the provincial tax system better reflect provincial environmental values. One component of that discussion was to examine the concept of *tax shift,* a market-based tool to encourage environmentally desirable behaviour and discourage behaviour which is harmful to the environment.

At its simplest, tax shift means shifting taxes away from productive activities, such as employment and investment, and towards those that waste natural resources or cause pollution. Fundamental to the concept of tax shift is that it should be:

- revenue neutral to government (i.e., all revenue raised as part of a tax shift should be fully offset by an equivalent reduction in other provincial taxes or fees, or by providing new incentives to encourage environmentally friendly behaviour); and
- the offsetting revenue reduction must be clear and transparent to the public.

Consultation:

In keeping with the commitment to initiate a discussion of the concept, government commissioned and released an independent discussion paper by three leading academics in the field of environmental economics. The paper, *Environmental Tax Shift: A Discussion Paper for British Columbians,* explains the principles of environmental tax-shifting, describes the opportunities and challenges of applying the concept, reviews examples from other jurisdictions, provides examples of possible tax shift scenarios for British Columbia, and outlines how other government policies could be made to complement tax shifting.

The Discussion Paper is available on the Ministry of Finance and Corporate Relations website at www.fin.bc.ca or can be obtained by calling Enquiry BC at 1-800-663-7867 (660-2421 in Vancouver). Interested British Columbians are invited to offer feedback through the website or by writing to the Minister of Finance and Corporate Relations, the Honourable Paul Ramsey, or the Minister of Environment, Lands and Parks, the Honourable Joan Sawicki.

In addition to releasing the discussion paper, government has encouraged discussion on the topic by helping to offset the cost of guest speakers and meeting room rentals for various groups to hold tax shift forums for business, youth, labour, environmental, academic and community groups. To date, five forums have been held and twelve more are scheduled throughout the province over the coming months.

Reaction to the concept of tax shift has generally been supportive in principle, but cautious regarding its potential application in specific situations. British Columbians want more details before supporting specific initiatives. Issues raised regarding the concept generally relate to the following themes:

- uncertainty regarding the revenue neutrality of tax shifts;
- questions regarding who will pay and who will benefit;
- the need for consultation;
- possible adjustment and ongoing costs for business and consumers;
- potential impacts on low-income families and individuals;
- potential impacts on business competitiveness; and,
- technical issues related to the measurement of environmental costs, benefits and the success of tax shift initiatives.

Government is cognizant of these issues and is committed to moving prudently and in consultation with stakeholders. To that end, government has identified one pilot project in consultation with stakeholders to be introduced this year. The pilot will be carefully designed and monitored to allow a thorough evaluation of its efficacy. Government will also consult with stakeholders about two other tax shift scenarios over the next few months.

Tax Shift Pilot Project — Beehive Burners

The tax shift pilot project is designed to address environmental problems associated with beehive burners and unmodified silo burners by promoting investment in technologies to use wood residue in other ways.

Burning wood residue in beehive burners or unmodified silo burners contributes to serious air quality and human health problems, and is wasteful of a potentially valuable resource. Current commercial applications of wood residue include electricity generation and the manufacture of medium density fibreboard and wood pellets. Other uses such as bio-oils, barkboard, ethanol and adhesives from lignin are in various stages of development.

In order to help resolve this serious environmental and health problem, and to promote more environmentally friendly value-added uses of wood residue, government will:

- provide an incentive to mills currently disposing of wood residue in beehive or unmodified silo burners to invest in value-added uses of wood residue that are less harmful to the environment. The incentive will be provided through a refund of a portion of emission fees paid by firms that invest in the development, demonstration or commercialization of emerging technologies or new uses of wood residue.
- raise the revenue to fund the incentive by increasing particulate emission fees paid by firms burning wood residue in such burners.

Stakeholder Consultations:

Fish Farms

In October 1999, government announced a new salmon aquaculture policy to ensure a viable and environmentally sustainable salmon aquaculture industry in BC. As part of a new regulatory and management framework, government committed (among other things) to:

- introduce a new waste management regime based on strictly enforced environmental standards; and
- encourage investment in closed-containment systems and other environmental technology and practices.

The policy established a two-year period during which government will work with industry, communities and First Nations to resolve outstanding resource-use conflicts and bring industry into compliance with more environmentally sustainable management practices.

In order to minimize the aquaculture industry's impact on the marine environment and wild fish stocks, and to encourage investment in new closed-containment farming systems and other green technology and practices, government will work with stakeholders to determine the most effective approaches to incorporating the concept of tax shift into the new regulatory and management framework.

One possible initiative is to raise environmental research and development funds through levies based on production levels. A research and development fund would respond to the Environmental Assessment Office's 1997 Salmon Aquaculture Review that identified a lack of incentives to develop and adopt new environmental technologies as a significant concern. Over the next 12 months government will discuss this initiative and tax shift options with industry.

Motor Vehicle *Feebate*

As elsewhere, motor vehicles in British Columbia contribute to air quality problems and greenhouse gas emissions. Air quality problems pose certain health risks, such as respiratory disease, in several areas of the province and greenhouse gases contribute to global warming and climate change.

One tax shift idea identified in the Discussion Paper as an option to help reduce the environmental impact of motor vehicles is the concept of a *feebate* — a fee on purchases of high fuel consumption cars and trucks offset by rebates on purchases of fuel efficient vehicles.

Over the coming months government will enter into discussions with stakeholders to identify and test the feasibility, potential effectiveness and economic and business impacts of various options, including the *feebate,* to reduce motor vehicle emissions and greenhouses gases in British Columbia. The discussions will be undertaken within the context of Canada's international commitment to reduce greenhouse gases and with a full appreciation of existing taxes and fees on motor vehicles, including the luxury tax, joint government-industry environmental programs related to automobiles (e.g., the Scrap-It program), existing environmental incentives for alternative fuel vehicles and regional transportation needs.

Next Steps:

Government will continue to look for opportunities to use the concept of tax shifting to help meet British Columbians' environmental objectives. All proposed and future pilot projects will be carefully monitored and reviewed to evaluate their success in achieving the intended objectives.

PART 2
Tax Policy for Alternative Motor Fuels (AMFs) in BC

Introduction:

A new alternative motor fuel tax policy will provide certainty for industry and consumers and help make the provincial tax system better reflect provincial environmental values by providing meaningful and ongoing tax preferences for environmentally friendly alternative fuels.

Background:

Propane and natural gas used in motor vehicles have been exempt from provincial motor fuel tax since 1982. In 1992 the exemption was extended to include 85 per cent blends of ethanol and methanol. The tax preference for AMFs is to help them become established in the marketplace as alternatives to gasoline and diesel fuel because of their potential environmental benefits.

A review in 1997 determined that propane, with 1,100 fueling stations supplying about 50,000 vehicles throughout the province, had become sufficiently established to no longer warrant a complete fuel tax exemption. As a result, a preferential tax rate (the 7 per cent provincial sales tax) was imposed on purchases of automotive propane in the 1998 Budget. On an energy equivalent basis, the tax on propane remains significantly lower than the tax on gasoline and diesel fuel. For example, the provincial tax on propane at current prices is about 3.7 cents/litre compared to the provincial tax of 11 cents/litre for gasoline and 11.5 cents/litre for diesel fuel.

Policy Rationale:

Consumers and stakeholders have expressed concern in recent years that the lack of a transparent provincial policy regarding the future taxation of AMFs has resulted in uncertainty for both consumers and stakeholders. This uncertainty, in turn, reduces the willingness of alternative fuel producers to invest in infrastructure and consumers to purchase factory manufactured alternative motor fuel vehicles, or convert existing vehicles to operate on alternative fuels.

In response to these concerns the Province is introducing a long-term, transparent policy for the application of tax to AMFs. The policy will reduce uncertainty for industry and consumers, provide a significant and ongoing tax preference for environmentally friendly alternative fuels, and encourage consumers to purchase vehicles that operate on these fuels.

Key Policy Considerations:

In designing a long-term approach to taxing AMFs, the key objectives are:

- to achieve government environmental objectives by providing incentives to promote the development of cleaner fuel supply infrastructure and encourage motorists to purchase vehicles which operate on these fuels;
- to apply tax rates to AMFs, on an energy equivalent basis, based on their environmental benefits;
- to provide long-term certainty regarding AMF taxation for industry and consumers;
- to allow market and technological forces to determine which AMFs are ultimately successful in the marketplace; and
- to maintain a viable and stable motor fuel tax base over the long term to help raise revenue for essential government programs.

Policy Design:

Fuels that qualify as AMFs will remain exempt from tax until they capture a predetermined market share. Thereafter, tax rates will be phased-in based on market share growth and the fuels' inherent environmental benefits. To ensure an ongoing incentive for cleaner AMFs, the maximum tax will be lower than the tax on gasoline on an energy equivalent basis.

AMFs will be grouped into two categories, with separate tax schedules based on their environmental benefits. Fuels that reduce vehicle emissions by less than 40 per cent, such as natural gas and propane, will bear a maximum tax that is lower than gasoline on an energy equivalent basis, but higher than other alternative fuels, such as electricity and fuel cells, that reduce emissions by more than 40 per cent. Thus, the most environmentally beneficial fuels will receive a larger permanent tax preference to encourage their use.

The ultimate environmental benefits of this policy, and the extent to which alternative fuels ultimately replace gasoline, will depend on a number of factors. These include the growth in the availability of AMF vehicles, consumer vehicle purchasing behaviour, the development of convenient alternative fuel supply infrastructure and possible environmental improvements in traditional gasoline.

Next Steps:

The government will complete ongoing stakeholder consultations over the next few months to finalize the criteria for evaluating the environmental benefits of alternative fuels and the tax rate phase-in schedules. Once these consultations are concluded the AMF policy will be implemented by regulation.

Report D: TAX EXPENDITURES

Introduction

A tax expenditure is defined as the reduction in tax revenues that results when government programs or benefits are delivered through the tax system rather than reported as budgetary expenditures. Tax expenditures are usually made by offering special tax rates, exemptions, or tax credits to program beneficiaries. Governments introduce tax expenditures primarily to achieve social policy objectives, such as transfers to lower income families or to promote economic development and job creation.

Some government programs and benefits are delivered through the tax system

The major reason for reporting tax expenditures is to improve government accountability by providing a more complete picture of government spending. This report outlines major tax expenditures for the 1999/00 tax year. It does not include tax expenditures introduced or expanded in *Budget 2000.* These are described in Report C.

The Role of Tax Expenditure Programs

The main reason governments use the tax system to deliver programs is to reduce their own administration costs and to reduce compliance costs for recipients. In certain situations, the tax system allows intended beneficiaries to be readily identified from information that is already collected. In these cases, setting up a separate expenditure program would result in costly overlap and duplication of effort. An example is the provincial sales tax credit, which is delivered through the income tax system. If this were a direct provincial expenditure program, a provincial agency or office would have to be established to duplicate much of the work already done by the Canadian Customs and Revenue Agency. In addition, it would require individuals to undergo a separate, time-consuming application process in order to qualify for the benefit.

There are, however, several potential drawbacks to tax expenditure programs. First, their overall cost often receives less public scrutiny than is the case for spending programs because annual budget approvals are not typically required. Second, tax expenditure programs may confer the greatest benefits to those who pay the most taxes, which means that the major beneficiaries are often high-income earners. Sales tax exemptions, for example, often provide a greater absolute benefit to those with higher incomes because they have more to spend on consumer products. This can run counter to the objective of incorporating progressiveness into the tax system. Finally, costs are often more difficult to control under a tax expenditure program because the benefits tend to be more open ended and enforcement is often more difficult than for spending programs.

Tax expenditures are reported to allow greater public scrutiny

Tax Expenditure Reporting

Three criteria were used to choose those features of the tax system that should be reported as tax expenditures. First, the emphasis is on tax reductions, exemptions and refunds that are close equivalents to spending programs. Under this approach, the focus is on items that would not be out of place on a list of spending programs. By implication, the list does not include tax measures designed to meet broad tax policy objectives such as improving fairness in the tax system, or measures designed to

Tax expenditures are close equivalents to direct government spending simplify the administration of the tax. The list also does not include items that are generally excluded from a particular tax base. An example is the non-taxation of most services under provincial sales taxes, which are primarily designed to apply to purchases of goods. Finally, tax remission orders are not included, because they are not equivalent to an expenditure program, but are granted on a case-by-case basis.

Second, revenues raised under provincial government authority that are turned over to agencies outside of government are not reported as tax expenditures in this report. This includes, for example, horse racing tax revenues transferred to the Racing Commission, hotel room tax revenues transferred to Tourism BC, and fuel tax revenues transferred to the BC Transportation Financing Authority.

Third, smaller items of less than $2 million are not included. Where practical, smaller items have been presented together as an aggregate figure. For example, sales tax exemptions for farmers, fishers and aquaculturists are reported on a combined basis.

British Columbia Tax Expenditure Programs

The tables at the end of this report show 1999/00 tax expenditure estimates.

There were two additions to tax expenditures in *Budget '99*. A new incentive for research and development was announced with the details to be developed in consultation with industry. As a result, a new tax credit for Scientific Research and Experimental Development was introduced effective September 1, 1999. Also, the Corporation Capital Tax holiday was extended from two to four years for expenditures made after March 31, 1999.

Tax expenditures are categorized by program objective

For presentation purposes, British Columbia tax expenditures have been broken into three broad categories.

- *Social and Income Transfer Programs (Table D1):* These include tax expenditures that are offered as part of government's mix of health, education, housing, income transfer and family related programs. Examples include the BC Family Bonus, the home owner grant, the sales tax exemption for children's clothing and the income tax credit for medical expenses.
- *Economic Development and Business Assistance Programs (Table D2):* This category includes tax preferences for farmers and small businesses and measures to encourage new investments.
- *Environmental Protection Programs (Table D3):* There are relatively few tax expenditures in this category because environmental protection is now generally based on the principle of "polluter pay," such as the tire tax or motor fuel tax. However, environmental tax expenditures include, for example, a sales tax exemption for bicycles and a fuel tax exemption for certain alternative fuels.

Each category has its own table of tax expenditure estimates. Within each table, the list of tax expenditures delivered through the income tax system has been separated into two sub-categories.

- *Provincial Measures:* This includes all major tax expenditures that are under provincial policy control.

- *Federal Measures:* British Columbia shares the cost of some federal income tax expenditure programs because, under the tax collection agreement between British Columbia and the federal government, the province has agreed to give up policy control of the income tax base in the interest of reducing administration and compliance costs and maintaining a consistent income tax system across the country.

Some of Canada's tax expenditures become provincial tax expenditures

This means the province has no direct control over income tax preferences delivered through changes to the income tax base or in the calculation of basic federal tax. As a result, federal measures to provide tax relief for certain groups such as very low-income individuals and students will automatically reduce provincial income tax revenues.

Starting in 2001, British Columbia will move to a "tax on income" approach to calculating provincial income tax. This will provide the province with control over certain personal income tax credits. As a result, some of the federal tax credit measures shown in the following tables will be shown as provincial measures in future tax expenditure reports.

The personal income tax expenditures that have been included in the following tables cover a range of policy objectives, including support for charitable activities, health care and education. Meanwhile, most corporation income tax expenditures are intended to achieve economic development objectives.

The cost of individual tax expenditures cannot be added together to reach a total tax expenditure figure for two reasons. First, in some cases the programs interact with one another so that eliminating one program could increase or decrease the cost of another. Second, eliminating certain tax expenditure programs could change the choices taxpayers make, which in turn would affect the cost estimates.

TABLE D1 — SOCIAL AND INCOME TRANSFER PROGRAMS TAX EXPENDITURE		1999/00 Estimated Cost
		($ millions)
PROVINCIAL SALES TAX		
Exemptions for the following items:		
• Food (basic groceries, snack foods, candies, soft drinks and restaurant meals)		716
• Residential fuels (electricity, natural gas, fuel oil, etc.)		110
• Prescription and non-prescription drugs, vitamins and certain other health care products and appliances		62
• Children's clothing and footwear		21
• Clothing patterns, fabrics and notions		6
• Specified school supplies[1]		40
• Books, magazines and newspapers		53
• Basic telephone and cable service		52
• "1-800" and equivalent telephone services		7
• Exempt safety equipment		8
• Labour to repair major household appliances, clothing and footwear		6
• Miscellaneous consumer exemptions (e.g. used clothing under $100)		3
PERSONAL INCOME TAX		
Provincial Measures		
BC Family Bonus[2]		103
Sales tax credit		42
Political contributions tax credit		2
Federal Measures[3]		
Deduction and inclusion of alimony and child support payments		17
Charitable donations tax credit		105
Tax credits for tuition and education[4]		74
Tax credits for disabilities and medical expenses		47
Pension income tax credit		27
Credit for persons older than 65 years		107
Exemption from capital gains up to $500,000 for small businesses and family farms		74
Deduction for residents of northern and isolated areas		10
Non-taxation of employer-paid insurance premiums for group private health and welfare plans		123
Registered Retirement Savings Plans:[5]		
exemption for — contributions	641	
— investment earnings	331	
taxation of — withdrawals	(225)	
Total		747
Registered Pension Plans:[5]		
exemption for — contributions	359	
— investment earnings	574	
taxation of — withdrawals	(435)	
Total		498

TABLE D1 — SOCIAL AND INCOME TRANSFER PROGRAMS — *Continued*

TAX EXPENDITURE	1999/00 Estimated Cost
	($ millions)
CORPORATION INCOME TAX[6]	
Charitable donations deduction	6
SCHOOL AND RURAL AREA PROPERTY TAXATION[7]	
Home owner grant	490
Exemption for places of worship	9
Municipal discretionary exemptions	15
PROPERTY TRANSFER TAX	
Exemption for first-time home buyers	30
Exemptions for the following items:	
• Property transfers between related individuals	25
• Property transfers to municipalities, regional districts, hospital districts, library boards, school boards, water districts and educational institutions	4
• Property transfers to charities registered under the *Income Tax Act* (Canada)	2

[1] Adjusted from last year to include eligible educational institutions.

[2] The above estimate of $103 million represents the tax expenditure portion of the program's cost. The tax expenditure portion represents family bonus payments that effectively reduce the recipient's personal income tax. The remaining cost of the program, including recoveries and administration costs, of $184 million for 1999/00, is presented in the BC Family Bonus Vote because it represents payments to families which exceed their provincial income tax liabilities.

[3] The estimates show provincial revenue losses only. They are based on estimates of projected federal losses contained in *Government of Canada: Tax Expenditures, 1999*. British Columbia personal income tax expenditures for the federal measures are estimated by applying British Columbia's share of basic federal tax to the federal estimates for the relevant period and then applying the relevant provincial tax rates. (Prior to 1997 federal tax expenditure reports did not include projections; previous estimates of provincial revenue losses were based on historical federal estimates.) Certain tax expenditure items have been excluded where no data were available or the amounts were immaterial.

[4] The estimate includes the total provincial revenue losses from the federal tuition fee credit, education credit, student loan interest credit, and the carry-forward and transfer of tuition fee and education credits.

[5] Registered retirement savings plans and registered pension plans are treated in the same way as in the federal tax expenditure report. The tax expenditure associated with these schemes is presented as the amount of tax that would otherwise be paid in the year of deferral, were the deferral not available. However, this type of estimate overstates the true costs of these preferences because taxes are eventually paid, including tax on investment earnings. An estimate that does not overstate these costs would, however, be difficult to develop and would require some largely speculative assumptions.

[6] The deduction offered for corporate charitable donations is a federal measure, but the estimate shows only the provincial revenue loss. This is calculated from the federal revenue loss by applying British Columbia's share of corporate taxable income and the relevant tax rates to the federal estimate.

[7] The property tax estimates are for the 1999 calendar year, and include only school and rural area property taxes levied by the province.

TABLE D2 — ECONOMIC DEVELOPMENT AND BUSINESS ASSISTANCE PROGRAMS TAX EXPENDITURE	1999/00 Estimated Cost
	($ millions)
PROVINCIAL SALES TAX	
Commissions paid to retailers and hotel operators[1]	24
Exemptions for the following items:	
• Livestock for human consumption and agricultural feed, seed and fertilizer	36
• Exempt purchases by farmers, fishers and aquaculturists	22
FUEL TAX	
Tax exemption for international flights carrying cargo	5
Tax exemption for family farm trucks (on road)	2
Tax reduction for compressor fuel used to transmit natural gas from wellhead to processing plant	6
PERSONAL INCOME TAX	
Venture capital tax credit	6
Employee venture capital tax credit	8
CORPORATION INCOME TAX	
Provincial Measures	
Film and video tax credit	15
Production services tax credit	15
International financial business tax refund[2]	2
Two-year corporate income tax holiday for small business	3
Scientific Research and Development Tax Credit[3]	10
Mining Exploration Tax Credit	3
Federal Measures[4]	
Earned depletion	1
CORPORATION CAPITAL TAX	
Exemption for family farm and cooperative corporations	3
Two-year tax holiday for eligible British Columbia investment[5]	23
SCHOOL AND RURAL AREA PROPERTY TAXATION[6]	
School tax assessment reduction on current values for farm land and vacant or residential land in the ALR, and various exemptions for farm buildings and residences	17
Assessment of farm land at farm use values[7]	84
Assessment exemption of $10,000 for industrial and business properties	7
Overnight tourist accommodation assessment relief	3
OTHER TAXES	
Oil and gas royalty holiday	3

[1] Any registered vendor who collects provincial consumption taxes is eligible for a small commission to help offset the vendor's collection costs.
[2] Includes employee income tax refunds.
[3] The Scientific Research and Development tax credit was introduced effective September 1, 1999. The figure reflects the estimate for the partial year.
[4] The provincial revenue loss estimates for federal measures are based on estimates of the federal losses contained in *Government of Canada: Tax Expenditures, 1999.* Certain tax expenditure items have been excluded where no data were available.
[5] The tax holiday was extended from two to four years for qualifying expenditures made after March 31, 1999. The tax expenditure associated with the extension will not occur until 2001/02.
[6] Estimates are for the 1999 calendar year and include only school and rural area property taxes levied by the province. In previous years the Managed Forest Land (MFL) property class was included as a preference to the Unmanaged Forest Land class. Following the Memorandum of Understanding signed with the Private Forest Landowners Association in 1999, MFL is considered the standard for private forest lands and is not included as a tax expenditure.
[7] Currently, the values of farm land and residential land in the Agricultural Land Reserve are reduced by 50 per cent for school tax purposes. The $84 million estimate assumes that farmland would be assessed at 100 per cent of market value.

TABLE D3 — ENVIRONMENTAL PROTECTION PROGRAMS TAX EXPENDITURE	1999/00 Estimated Cost
	($ millions)
PROVINCIAL SALES TAX	
Exemptions for the following items:	
• Bicycles	6
• Specified energy conservation equipment	10
FUEL TAX	
Tax exemption for alternative fuels	17
SCHOOL AND RURAL AREA PROPERTY TAXATION[1]	
Exemption for property used for pollution abatement[2]	8

[1] Estimates are for the 1999 calendar year and include only school and rural area property taxes levied by the province.
[2] The property tax exemption for most land and improvements used in pollution abatement equipment was removed for 1997, but existing properties which were exempt in 1996 remain exempt under grandparenting provisions.

Report E: IMPROVING BUDGET TRANSPARENCY AND ACCOUNTABILITY: IMPLEMENTATION OF THE BUDGET PROCESS REVIEW PANEL RECOMMENDATIONS

Background

The Budget Transparency and Accountability Act implements the Enns Report recommendations

A year ago, the Auditor General made a number of recommendations to improve British Columbia's budgeting and Estimates process.

One of those recommendations was that the government seek expert advice on legislation to reform the governance of the budget and Estimates process. In response, the Minister of Finance and Corporate Relations established the Budget Process Review Panel in April 1999, chaired by Doug Enns, FCA. The panel's mandate was to review "input to the budget process, scope of the budget and information provided in the budget plan and actual results."

The panel's September 27, 1999 report (Enns Report) to government and the Legislature made 26 recommendations, ranging from creating new legislative committees to requiring three-year plans from government agencies. A copy of the panel's full report is available at http://www.reviewpanel.gov.bc.ca/index1.html

This report outlines the government's response to the panel's recommendations and changes being made to improve budget transparency and accountability, many of which are contained in the *Budget Transparency and Accountability Act* introduced with *Budget 2000.*

General Response

Enns Report recommendations have been accepted in principle

Upon release of the Enns Report, the government announced that it accepted in principle the panel recommendations. The detailed discussion below indicates how and when the recommendations are being implemented.

The Enns Report recommended improvements in five key areas:

- A more transparent process through independent pre-budget consultations; budget day well in advance of the fiscal year end; improved Estimates debate; and reduced reliance on Special Warrants, all of which are being addressed.
- Reliable and credible budget forecasts through full disclosure of material assumptions and policy decisions, including disclosure of any optimism or pessimism in the budget forecasts; the assignment of accountability for completeness of that disclosure to the Secretary to Treasury Board; and continuation of the Economic Forecast Council, all of which are being implemented.
- Improved accountability for results through a formal framework of plans outlining goals and targets and subsequent reports of performance, at both the government and ministry/agency level, which is being put into place.

Financial reporting expanded to include government bodies . . .

- Improved accounting through a number of changes, most of which have been accepted and are being implemented. The most significant is the move to the Summary Accounts basis, which includes Crown corporations and agencies for purposes of budgeting and reporting the deficit or surplus. The Public Accounts have included these bodies since 1981. The Estimates will now be on the same basis.

. . . but not the SUCH sector, at this time

This recommendation has been accepted except that the government has decided not to include certain public bodies like school districts, universities, colleges and health authorities (the "SUCH" sector) at this time, out of concerns for governance implications. Further review of this issue will be undertaken in co-operation with the affected organizations.

- Better presentation of information through comparability of various documents; consistency of planning and reporting information; revised forecasts in Quarterly reports; and plain language, all of which are being addressed.

In summary, while there have been some departures in specific details from the Enns Report recommendations, in spirit all of the elements of the report are being or have been implemented.

Detailed Response

The following is a detailed response to each of the 26 recommendations.

A More Transparent Process

Enhanced transparency is a key government objective

A transparent process is one that the public can understand and to which the public can contribute. The Enns report indicated that transparency was a key principle adopted by the panel, and government has also made enhanced transparency one of its main objectives.

Transparency will be improved through changes such as implementation of effective, public and all-party pre-budget consultations. However, that is not enough. To fully implement these changes will require the Legislature to undertake fundamental reform. Government is fully prepared to make significant changes as part of a cooperative multi-party effort of the Legislative Assembly.

1. Pre-Budget Consultation Document

PANEL RECOMMENDATION:

Legislation should require that a pre-budget consultation document be released by the government by October 31st of each year as the basis for pre-budget consultations, including updated economic and fiscal forecasts and key issues that need to be addressed in the budget. The panel recommended that this be implemented in October 2000, with consideration given to a delayed implementation in the fall of 1999 for the 2000/01 budget.

GOVERNMENT RESPONSE:

Pre-budget consultation requirement is being set in legislation, as recommended

First pre-budget consultation paper released in 1999

- The government fully accepts this recommendation.
- The government agrees that broad pre-budget consultation is fundamental to the transparency of budget planning. While the Minister of Finance and Corporate Relations has engaged in extensive consultation each year, the government accepts the recommendation for a more public and structured process.
- As recommended, the Honourable Paul Ramsey, Minister of Finance and Corporate Relations released *Budget 2000: Choices and Challenges* on November 30, 1999 to encourage public discussion. See "The *Budget 2000* Consultation Process" Topic Box in this Budget Report for the results of that consultation.
- Also as recommended, the *Budget Transparency and Accountability Act* (section 2) requires the minister to issue a budget consultation paper containing those elements outlined in the recommendation.

IMPLEMENTATION SCHEDULE:

- As recommended, a document was produced in November 1999, for the 2000/01 budget, and a consultation paper will now be released by October 31st in future years.

2. Pre-budget Consultation by Select Standing Committee

PANEL RECOMMENDATION:

A select standing committee of the Legislature should be established with a legislated mandate to undertake budget consultation on the basis of the pre-budget consultation document, with results reported to the minister by December 31st, beginning in the fall of 2000.

GOVERNMENT RESPONSE:

Budget 2001 will have full pre-budget consultation, as recommended

- The government agrees that broad pre-budget consultation is fundamental to the transparency of budget planning. While the Minister of Finance and Corporate Relations has engaged in extensive consultation each year, the government accepts the recommendation for a more public and structured process.
- For 2000/01, the *Budget 2000: Choices and Challenges* document provided the basis for the Minister of Finance and Corporate Relations' pre-budget consultation.
- As recommended, the *Budget Transparency and Accountability Act* (section 3) requires the referral of the pre-budget consultation paper to an appropriate select standing committee, which is able to meet whether or not the Legislative Assembly is in session. The committee must publish its report by December 31st.

IMPLEMENTATION SCHEDULE:

- As recommended, the process will commence in the fall of 2000.

3. Budget Timing

PANEL RECOMMENDATION:

Legislation should require the annual budget to be introduced by the third Tuesday in March each year, unless that is during an election campaign or less than 30 days after a new government is sworn in, in which case the budget must be introduced as soon as practicable, beginning with *Budget 2000.*

GOVERNMENT RESPONSE:

The budget deadline will ensure the budget debate is complete by March 31

- The government agrees with the principle of the recommendation, that the annual budget should be introduced with sufficient time prior to the end of the fiscal year for it to be given due consideration.
- To implement this principle, rather than using the specific deadline proposed by the Enns report, the government has decided to link the deadline to the six days required under British Columbia Standing Orders time required for the budget debate, during which the budget will be given considerable scrutiny.
- The panel recommendation suggests exceptions to the deadline to deal with circumstances that would affect the contents of the budget. In the spirit of those exceptions, the government is proposing that the minister may delay the budget if a general election is underway or recently completed, if a new Premier has taken office after February 15th, or if a federal budget has been presented after February 15th that materially changes the fiscal forecast for British Columbia.

- The *Budget Transparency and Accountability Act* (section 6) sets out these provisions.

Implementation Schedule:

- Due to the fact the Premier was not sworn-in until late February, *Budget 2000* was not introduced in time to complete the Budget Debate prior to the fiscal year end, but the Throne Speech and budget dates were announced by the Premier shortly after taking office. The timing of *Budget 2000* is consistent with the legislation and therefore the change has now been implemented.

4. Estimates Debate through Sectoral Legislative Committees

The full Legislature will be asked to reform the Estimates Debate process

Panel Recommendation:

Sectoral legislative committees should be created in accordance with the 1996 recommendations of the Public Accounts Committee, and the sectoral committees should conduct the Estimates Debate and review plans and annual reports of Ministries and public bodies, beginning with *Budget 2000*.

Government Response:

- The government supports legislative reform and an increased role for committees in the Estimates Debate.
- However, the specifics of legislative reform are an issue for the entire Legislature.
- As announced in the Speech from the Throne, the government will ask the Legislature to develop the details of a reformed Estimates Debate process.

Implementation Schedule:

- To be developed as part of the process of developing the reformed Estimates Debate process.

5. Special Warrant Requirements

Panel Recommendation:

To increase the use of Supplementary Estimates and discourage the use of Special Warrants, legislation should require a public report to be released whenever a Special Warrant is approved. The report should state when the issue arose, what options were considered and why the Special Warrant was chosen. If a Special Warrant request exceeds 2 per cent of total voted appropriations, the report must also include revised fiscal forecasts.

If Special Warrants are used, disclosure reports will be released

Government Response:

- The government accepts the recommendation and will move to the use of Supplementary Estimates instead of Special Warrants whenever practical.
- In addition, the government will go beyond the panel's recommendation on disclosure related to Special Warrants by requiring revised forecasts to be released whenever Special Warrants are approved, not just when they exceed 2 per cent of total voted appropriations.
- The *Budget Transparency and Accountability Act* implements the recommendation by setting out the requirement for revised fiscal forecasts in section 11 and by consequentially amending section 24 of the *Financial Administration Act* to require the disclosure report recommended by the panel.

Implementation Schedule:

- As recommended, this is being implemented immediately. Special Warrants were required in February due to the recent swearing in of the new Premier but the disclosure being required in the legislation was made. The disclosure was in the form of a report released when the Special Warrants were approved and revised forecasts contained in the *Third Quarterly Report* released shortly thereafter.

Reliable and Credible Budget Forecasts

Unless budget forecasts are reliable and credible, the budget process will not be effective as a vehicle for setting government direction and policy or as a mechanism for holding government accountable for its performance.

Government agrees reliable and credible forecasts are crucial to an effective budget process

Government accepts the need to put strong measures in place to enhance budget reliability and credibility. As the detailed responses below indicate, government has accepted the panel's advice about continuing the Economic Forecast Council and ensuring full disclosure of assumptions and policy decisions.

6. Economic Forecast Council

Panel Recommendation:

The Economic Forecast Council should continue to be used as a mechanism to disclose how the budget economic forecast compares to various private sector forecasts developed at the same time.

Government Response:

The Economic Forecast Council continues, as recommended

- An annual conference of independent economic experts has been in place and has provided advice since 1997. Last year, the government enacted legislation making the Council a legislative requirement. The minister must report on the Council's advice when the budget is introduced (See Topic Box in Report A), as has been the practice for the past three years. These provisions have been carried over from section 11.2 of the *Financial Administration Act* to section 4 of the *Budget Transparency and Accountability Act.*

Implementation Schedule:

- Already in place.

7. & 9. Disclosure of Assumptions

Panel Recommendation:

7. Legislation should require that budget documents disclose all material assumptions and policy decisions underlying the economic, revenue and expenditure forecasts, at least to the level of detail in the 1999/00 budget.

9. Legislation should require that budget documents disclose whether any factors have been included to make fiscal forecasts different from what the government believes is the most likely result, and the amount by which the forecasts have been adjusted.

Material budget assumptions will continue to be disclosed

Optimism or prudence will be disclosed in the forecast

GOVERNMENT RESPONSE:

- The government agrees that disclosure of assumptions and optimism or prudence in the forecasts is critical to transparency and hence to accountability through debate.
- *Budget 1999* already disclosed key revenue and expenditure assumptions.
- The *Budget Transparency and Accountability Act* (section 7) formalises the government's current practice of disclosing all material assumptions and policy decisions underlying the economic and fiscal forecasts for the budget year.
- In addition, the Act requires the minister to include a statement that discloses adjustments from the most likely result (i.e. any factors that have been included reflecting either optimism or prudence) and to include the amount of those adjustments in the *Supply Act* to ensure it is debated in the Legislature.

IMPLEMENTATION SCHEDULE:

- Fully implemented in *Budget 2000.*

8. Confirmation of Forecast Assumptions and Adjustments

PANEL RECOMMENDATION:

Legislation should require the Secretary to Treasury Board to attest that there has been complete disclosure of the material assumptions underlying the forecasts and adjustments to them.

The Secretary to Treasury Board will attest to the completeness of disclosure

GOVERNMENT RESPONSE:

- The government agrees that transparency requires disclosure of all material assumptions and that a mandatory attestation to that effect by the Secretary to Treasury Board is important to ensuring ongoing disclosure.
- The *Budget Transparency and Accountability Act* (section 7) requires that budget documents presented to the Legislature include a statement signed by the Secretary to Treasury Board that the material assumption disclosure requirements have been met.

IMPLEMENTATION SCHEDULE:

- These disclosure requirements will be implemented beginning with *Budget 2000.*

Improved Accountability for Results

Government continues to pursue accountability for results

The panel made a number of recommendations related to increasing accountability for program results. These recommendations reflect the global trend in government accountability from financial accountability to a broader focus on responsible stewardship over the use of public resources.

The government supports this trend and has taken some initial steps. The Auditor General and government deputy ministers issued a joint plan in this regard in 1995 but, while work has continued since then, not as much progress has been made as had originally been planned.

The government appreciates the panel's recommendations and believes that, with renewed government commitment, the changes being implemented as a result of the panel's recommendations will result in a significant step forward in this important area.

10. Government Strategic Plan and Annual Report

PANEL RECOMMENDATION:

Legislation should require that the government publish a high-level, long-term strategic plan with annual updates, prior to or at the same time as the budget, as the basis for accountability for results for the provincial public sector; and publish an annual report of performance against the plan, beginning with *Budget 2001*.

GOVERNMENT RESPONSE:

Government will produce an annual strategic plan and corresponding annual report

- Government accepts the recommendation.
- The *Budget Transparency and Accountability Act* (section 12) requires the government to make public a strategic plan that sets out government priorities, identifies specific objectives and expected results, and a fiscal forecast for the government reporting entity for the upcoming three fiscal years. The minister must make the plan public on or before budget day.
- The *Budget Transparency and Accountability Act* (section 15) requires the government to publish an annual report, comparing actual results to the strategic plan when the Public Accounts are issued.

IMPLEMENTATION SCHEDULE:

- This recommendation will be implemented beginning with the first strategic plan at the time of *Budget 2001*.
- The first annual report comparing actual results to the plan will be issued in August 2002.

11. Ministry/Agency Performance Plans and Annual Reports

PANEL RECOMMENDATION:

Ministries and public bodies in the government reporting entity should be required to publish annual three-year plans that focus on accountability for results and annual reports that indicate the actual results for the year compared to the year's plan, to be phased-in over five years.

GOVERNMENT RESPONSE:

Ministries and agencies will produce annual performance plans and corresponding annual reports

- Government accepts the recommendation.
- The *Budget Transparency and Accountability Act* (sections 13 and 16) requires ministries and Crown corporations to publicly issue annual three-year performance plans, that include goals, objectives, performance measures and major capital project plans, and annual reports that compare actual results with the expected results identified in the performance plans.

IMPLEMENTATION SCHEDULE:

- Beginning in 2000/01, all ministries and many government agencies are being required to produce one-year performance plans in accordance with established guidelines.
- Over the next three to five years, the requirements will be made increasingly stringent so that all ministry and government organizations will submit three-year performance plans in compliance with the legislation.

12. Standard Key Performance Indicators

PANEL RECOMMENDATION:

The government should encourage and participate in interjurisdictional efforts to develop standard key performance indicators for the province as a whole and for specific program areas, and to establish benchmarks for such performance indicators.

GOVERNMENT RESPONSE:

Government is pursuing performance benchmarking

- The Ministry of Finance and Corporate Relations is committed to best practices and is working with ministry Executive Financial Officers in a benchmarking initiative across government. Benchmarking is the process of comparing an organization's practices and procedures to peer organizations and determining what processes need to be changed to incorporate "best-in-class" solutions. Currently the benchmarking project includes core financial and administrative functions.
- The exploratory nature of this work is not suited to a mandatory legislative requirement, as the Enns Report noted.

IMPLEMENTATION SCHEDULE:

- Project is underway.

13. Summary of Performance Plan Information as Part of Budget Documents

PANEL RECOMMENDATION:

Legislation should require that, over a five-year period, the government phase in summary business information (mission, vision, strategic direction, key goals and expected results for the coming year) into the Estimates or budget documents for major programs delivered by ministries and non-commercial Crown corporations.

GOVERNMENT RESPONSE:

Information will be provided in individual performance plans rather than in budget documents

- The government agrees in principle that this information should be made available.
- However, this kind of information will already be included in the performance plans and annual reports that are being implemented.
- Therefore, government does not intend to include a specific requirement based on this recommendation at this time.

IMPLEMENTATION SCHEDULE:

- Not to be implemented.

14. & 15. Increase Managerial Flexibility and Use Performance Management Techniques

PANEL RECOMMENDATION:

14. As accountability for results is phased-in and shown to be effective, the government should reduce input controls such as staffing limits, transfers among expenditure categories, contract approval thresholds and travel approvals. The government should publish a plan to reduce input controls with the 2001/02 budget.

15. The government should consider increasing the use of performance management techniques for the management of programs and activities throughout the province, but the panel is not recommending a specific time frame, approach, or programs or activities to which performance management should apply.

GOVERNMENT RESPONSE:

- Government agrees with the spirit of these recommendations and will give them careful consideration as the benefits of increased accountability for results begin to be realized.
- The *Budget Transparency and Accountability Act* takes an initial step in this direction by removing the requirement for an Order-in-Council (OIC) for employing more direct government staff in a year than the number presented in the Estimates. However the Act extends the information requirements on staffing levels to all taxpayer-supported Crown corporations.

A plan to increase managerial flexibility and performance will be presented next year, as recommended

Removal of OIC requirement for additional government staff; more information on overall staffing levels

IMPLEMENTATION SCHEDULE:

- To be brought forward for consideration in 2001.

Improved Accounting

As the panel's report indicates, "Accounting is a complex technical area but it is vital that the financial information that the government provides . . . fairly represent(s) the substance of the Province's financial affairs and that people trust the information. Like budget forecasts, financial information must be reliable and credible to be useful in holding the government accountable."

Public trust in reported financial information is crucial for accountability

Government is in full agreement with the need to ensure reported financial information is trusted. In fact, British Columbia has been in the lead among Canadian governments in implementing accounting policy changes, such as moving to a full accrual basis of accounting including capitalization of assets.

As discussed below, all of the panel's recommendations are being implemented, albeit with some adjustments to the details. The one exception is that there are no plans at this time to include school districts, colleges, universities and health authorities (the SUCH sector) in the government reporting entity.

16. Apply Generally Accepted Accounting Principles

PANEL RECOMMENDATION:

Legislation require that financial information provided by the government be prepared in accordance with Generally Accepted Accounting Principles, with any material variance from the accounting profession's written guidance explicitly disclosed. The legislation would continue to require that the government's accounting policy be established by Treasury Board. To be implemented for 2000/01.

GOVERNMENT RESPONSE:

- The government accepts this recommendation in principle.
- The *Budget Transparency and Accountability Act* (sections 5 and 9) require the Estimates and Public Accounts to be prepared in accordance with government's accounting policies, include a summary of those policies, and disclose any material variance from generally accepted accounting principles for senior governments.

- In addition the Auditor General will continue having a responsibility to comment on the appropriateness of government's accounting policies.
- Section 23 confirms Treasury Board authority to set accounting policy, consistent with the recommendation.

IMPLEMENTATION SCHEDULE:

- As recommended, this is being implemented in *Budget 2000.*

17. Reconciliation of Surplus/Deficit to Debt

PANEL RECOMMENDATION:

Legislation should require the summary financial statements to include a statement that reconciles the surplus or deficit with the change in debt, beginning with *Budget 2000.*

GOVERNMENT RESPONSE:

The Estimates will explain how the deficit and debt are related

- The government accepts this recommendation, which was implemented beginning with the *1999/00 Estimates.*
- The *Budget Transparency and Accountability Act* (section 5) requires that the Estimates include a reconciliation of the surplus or deficit to the annual change in taxpayer-supported debt.
- While the legislation only requires this statement in the Estimates, the Public Accounts will include a similar reconciliation, as has been the government's past practice.
- This reconciliation may be found in *Budget 2000* on page 6 of the *2000/01 Estimates.*

IMPLEMENTATION SCHEDULE:

- The recommended reconciliation was introduced in 1999/00 and continues to be included in *Budget 2000.*

18. Enhanced Auditor General Role in Accounting Policy

PANEL RECOMMENDATION:

Legislation require that the annual report of the Auditor General include an assessment of whether financial information provided by the government is prepared in accordance with the most appropriate basis of accounting for the purpose of fair presentation and disclosure of the economic and financial substance of provincial public sector activities.

GOVERNMENT RESPONSE:

The Auditor General will continue to review accounting policies for appropriateness

- The government accepts this recommendation as a way of ensuring that the presentation of financial information in British Columbia is as meaningful and accurate as possible.
- The *Budget Transparency and Accountability Act* makes a consequential amendment to the *Auditor General Act* to change the annual audit report requirement for the Auditor General to the summary accounts.

IMPLEMENTATION SCHEDULE:

- Implemented through the *Budget Transparency and Accountability Act.*

19. Summary Reporting Entity

Panel Recommendation:

Legislation should require that the reporting and budgeting entity must be the Expanded Summary Entity, which includes the Consolidated Revenue Fund (CRF), Crown corporations and other agencies, and those SUCH sector public bodies that meet the Generally Accepted Accounting Principles criteria for inclusion in the entity. The budgeting entity should be expanded to be the same as the entity currently used in the Public Accounts (i.e. the Summary Entity) for the 2000/01 budget. Beginning with the 2001/02 budget, the budgeting and reporting entities should be expanded together to phase-in inclusion of the SUCH sector, consistent with Generally Accepted Accounting Principles, over several years.

Government Response:

Financial reporting will cover government, Crown corporations and similar public bodies

- This is one of the most important areas addressed by the panel.
- The government accepts several important principles implicit in this recommendation, including the principle that the Estimates and Public Accounts should cover the same set of public bodies and that both should cover a comprehensive set of public bodies comprising the provincial public sector.
- Government has committed to report on the Summary Accounts basis, and has made progress in this direction. The Public Accounts have been presented on this basis since 1981. Since September 1999 the Financial and Economic Review and Quarterly Reports have also been presented using the Summary Reporting Entity. The Budget Reports have presented the budget on this basis in a summarized version since 1995. For 2000/01, the Estimates, Budget Reports, Quarterly Reports and the Financial and Economic Review will all report on this basis, in accordance with the recommendation.

School districts, colleges, universities, and health authorities will not be covered at this time

- However, including school districts, universities, colleges, or health authorities in the reporting entity also requires that they be included in the budget process. Government does not intend to include them in the budget process at this time, since it is not convinced that the benefits of their inclusion would justify the implications for their independent governance structure (see Topic Box later in this Report). This matter needs to be reviewed with the affected organizations.
- It should also be noted that (i) almost all of the debt of the SUCH sector is already included in the summary entity's debt, (ii) the revenues, expenses, assets and liabilities of the SUCH sector are included each year in schedules to the Public Accounts, and (iii) the effect of the inclusion of the SUCH sector in the summary statements would likely be a small improvement to the Summary Entity bottom line.

Implementation Schedule:

- As recommended, all financial statements will be prepared on a Summary Accounts basis beginning with *Budget 2000*, however government has no plans to further expand the reporting entity at this time.

20. Accounting Policies, Including Consolidation of Crowns

PANEL RECOMMENDATION:

Legislation should require the Estimates and budget information to be prepared in accordance with the province's accounting policies, including policies on consolidation, beginning with *Budget 2000.*

Revenues and expenses will be shown for each major Crown corporation

GOVERNMENT RESPONSE:

- The Estimates have been, and will continue to be, consistent with government accounting policy. The government therefore accepts this recommendation which is included in the *Budget Transparency and Accountability Act* (section 5).

IMPLEMENTATION SCHEDULE:

- Consolidation of Crown corporations and agencies presents a significant challenge as the Estimates are changed to the Summary Accounts basis. This consolidation change is being phased in. For *Budget 2000,* government will budget and report on CRF revenues and expenses, and separately on the net income of Crown corporations.

21. Change of Focus from the Consolidated Revenue Fund

PANEL RECOMMENDATION:

Legislation should ensure that, beginning in 2000/01, significant fiscal indicators are reported on the basis of the government reporting entity and no longer reported on the CRF basis. However, for comparability in reporting against previous budgets, the CRF indicators may also be used for the next two years.

Surplus and deficit no longer refer to direct government (CRF)

GOVERNMENT RESPONSE:

- The government accepts this recommendation as necessary to ensure that the focus of financial reporting is clearly shifted from the CRF basis to the more comprehensive Summary Accounts basis.
- The *Budget Transparency and Accountability Act* (section 19) specifically prohibits use of the terms "surplus" or "deficit" solely in respect of the CRF.

IMPLEMENTATION SCHEDULE:

- As recommended, this is being implemented through legislation beginning with *Budget 2000.*

22. Revenue and Expenditure on both Gross and Net Basis

PANEL RECOMMENDATION:

Legislation should allow specific revenue and expenditure items to be reported net of offsetting costs and income, but the aggregate amounts of revenue and expenditure should be reported on both a gross basis (without netting associated costs or income) and on a net basis, beginning with the *Budget 2000.*

The total (gross) amount of revenue and expenditure will now be disclosed

GOVERNMENT RESPONSE:

- The government accepts this recommendation as important disclosure of the overall magnitude of the provincial public sector.
- The *Budget Transparency and Accountability Act* (section 5) implements this recommendation. The Public Accounts will also include a similar schedule although it is not specifically referred to in the Act.

IMPLEMENTATION SCHEDULE:

- As recommended, this is being implemented with *Budget 2000,* in Schedule J of the *2000/01 Estimates.*

Better Presentation of Information

In addition to making the information associated with the budget process more reliable and credible, the panel has made a number of recommendations about the presentation of the information to make it more accessible. That will improve the understanding of what government is doing and why, thereby enhancing transparency and government's accountability for results.

Documents must be understandable by the reader to achieve transparency and accountability

Government has accepted the panel's recommendations in this area, with some minor adjustments in the specific details. For example, although British Columbia has had a plain language policy for public documents for some time, this policy is reaffirmed in this legislation.

23. Comparable and Understandable Reports

PANEL RECOMMENDATION:

Legislation should require that ministry and government body plans and annual reports be comparable over time within the same organization and across similar organizations; that Quarterly Reports provide revised fiscal forecasts; and that all budget process documents be in plain language and include summaries.

GOVERNMENT RESPONSE:

- The government accepts this recommendation as a useful way of improving transparency and accountability.
- The government has had a plain language policy in place for several years for legislative drafting and government publications and it strives to make financial reports comparable where possible.
- Government has issued guidelines for preparation of performance plans for 2000/01, to promote consistent presentation.
- The *Budget Transparency and Accountability Act* (section 19) implements this recommendation by requiring government to present information in a form that is as precise and as readily understandable as practical. It also makes comparability part of the law governing all documents that the Act requires to be made public.

Information will be precise, in plain language and comparable over time and across similar organizations

IMPLEMENTATION SCHEDULE:

- As recommended, this recommendation is being implemented immediately, beginning with *Budget 2000.*

24. Legislated Release Dates for Reports

PANEL RECOMMENDATION:

Legislation should set specific dates by which various documents are required to be made public (see Table E1). In addition, there should be a legislated requirement for public bodies to provide information to the Ministry of Finance and Corporate Relations.

GOVERNMENT RESPONSE:

- The government accepts this recommendation in principle as an important element of improved accountability.
- The following table shows the release deadlines recommended by the panel and the section of the *Budget Transparency and Accountability Act* that implements the recommendation.

Information will be more timely, with effective deadlines

- Crown corporations and agencies have been supportive of government's steps to implement the Enns recommendations. They have provided extensive information regarding their financial situation and outlook to support presentations of the Quarterly Reports on a Summary Accounts basis, as well as for preparation of *Budget 2000*.
- The *Budget Transparency and Accountability Act* (section 20) requires government organizations to provide the information required to fully implement the Act.

Table E1

Report	Recommended Date	Legislated Date
Quarterly Reports	by 60 days after end of quarter.	Implemented, except for 75 days for first Quarterly Report (section 10 (3)).
Public Accounts	by August 31st following fiscal year end.	Implemented (section 9(3)).
Government Annual Report	by August 31st following fiscal year end.	Implemented (section 15).
Annual Reports of Ministries and Public Bodies	by 90 days after the public body's fiscal year end	Implemented, except that four months is allowed for government organizations with year-ends different from government (section 16 (2) and (3)).
Performance Plans of Ministries and Public Bodies	if separate from the previous year's annual report, by 30 days after the start of the fiscal year.	Implemented (section 13).

Implementation Schedule:

- As recommended, the deadlines are being put into place immediately.

25. Capital Project Budgeting and Disclosure

Panel Recommendation:

Proposed reforms to capital budgeting should be implemented by legislation in accordance with the principles proposed by the Auditor General, including closer integration with the process of developing operating budgets; and more disclosure of proposed capital projects, including amounts, objectives, business cases and performance targets for individual major projects. Budget documents should provide disclosure about ongoing projects and the amount approved for new projects but need not provide details of new projects not yet announced. Disclosure for those projects should be made when they are announced.

Government Response:

- The government accepts this recommendation as an important mechanism for improving transparency and accountability.

- The *Budget Transparency and Accountability Act* (sections 8, 13 and 14) implement the disclosure aspects of this recommendation.
- The recommendation also requires some internal changes to the budget development process that will be addressed but do not require legislation.

Information about all major projects will be required

IMPLEMENTATION SCHEDULE:

- This recommendation is beginning to be implemented in the current fiscal year and will be fully implemented by 2001/02, as recommended.

26. Annual Implementation Report Card

PANEL RECOMMENDATION:

Legislation should require the government and the Auditor General to both report annually to the Legislature on the implementation of this report beginning in 2000 and continuing until implementation is complete, and legislation should also require a scheduled independent review of the budget process in eight to ten years.

GOVERNMENT RESPONSE:

- The government accepts this recommendation.
- The *Budget Transparency and Accountability Act* (section 21) implement this recommendation, allowing either party to stop reporting on a particular recommendation when it has been implemented or government has made a firm decision not to implement the recommendation.

Progress implementing the Enns report will be reported annually

IMPLEMENTATION SCHEDULE:

- The first reports will be required by September 30, 2000 as recommended and the independent review must be set up by April 30, 2009 and complete by September 30, 2009, consistent with the panel's recommendation.

Legislation Issues

PANEL RECOMMENDATION:

Although not a formal recommendation, the Enns Report comments on the need to ensure that the legislation recommended in the report does not have the unintended consequence of generating litigation to block legitimate government policy initiatives on the basis of a perceived defect in process, such as a missed deadline for presentation of the Estimates. The report indicates that it supports the concept of consequences for failure to comply, such as being required to publicly report the reasons for that failure, and legislative provisions that limit legal actions based on defects in the legislated process.

GOVERNMENT RESPONSE:

- The government has accepted the panel's advice and the *Budget Transparency and Accountability Act* (sections 17 and 22) implements these suggestions.

The Act will not permit legal action blocking implementation of government policies

Conclusion

The Final Report of the Budget Process Review Panel has provided government with considerable valuable advice on how to improve the budget process. As indicated, government has implemented or is implementing virtually all of the panel's recommendations, at least in principle. In some cases adjustments have been made to specific parameters, which is to be expected when such a comprehensive and interrelated set of initiatives are implemented. The small number of these adjustments is a credit to the work of the panel.

These changes significantly improve transparency and government accountability

The work required to fully implement these changes cannot be done overnight. Many of the elements are being fully implemented in *Budget 2000* but some of the initiatives, such as those related to improved accountability for results, will take several years and changes to corporate culture as well as to legislation and procedures. One of the most significant changes required is reform of the Legislature, in which the government is inviting the participation of the full Legislative Assembly. As a result, timing of implementation for at least that initiative is not solely in the government's hands. Also, this is a process of continuous improvement that must continue to evolve beyond the specific measures discussed here.

The government is confident that the changes being made now will lead to a significant improvement in transparency and government accountability that will benefit the people of British Columbia.

CONSOLIDATED REVENUE FUND AND THE SUMMARY ACCOUNTS

Historical Context for the Consolidated Revenue Fund

Government spending is authorized by appropriations approved by the Legislature. The constitutional basis for appropriations can be traced to the 1688 British *Bill of Rights* which established the principle of Parliament's control over taxes. From this concept of revenue control evolved the parliamentary right to approve public expenditures. The British *Consolidated Fund Act* of 1787 introduced the concept of a Consolidated Revenue Fund into which public moneys were paid.

In Canada, federal and provincial Consolidated Revenue Funds were established under the *Constitution Act, 1867.* References to the Consolidated Revenue Fund are also found in the British Columbia *Constitution Act* and *Financial Administration Act.*

The provincial *Financial Administration Act* (FAA) requires all revenues of the government to be paid into the Consolidated Revenue Fund. Revenues of the government generally exclude revenues earned by Crown corporations, however, dividends paid by Crown corporations are included in Consolidated Revenue Fund revenue.

The FAA also states that money must not be paid out of the Consolidated Revenue Fund without the authority of an appropriation.

The Estimates have traditionally been constructed to discharge the constitutional obligations to disclose government revenues being paid into and government expenses being paid out of the Consolidated Revenue Fund.

Revenues have not been debated by the Legislature. However, in keeping with the principle of parliamentary right to approve expenditures, Consolidated Revenue Fund budgeted expenditures are debated and voted upon by the Legislature. Passage of a *Supply Act* provides final legislative authority for the government to make payments from the Consolidated Revenue Fund for the purposes and in the amounts set out in the Estimates.

Summary Accounts

The role of government has expanded significantly in recent years and government now delivers many services through entities that are not part of the Consolidated Revenue Fund. Consequently, the Consolidated Revenue Fund no longer represents the full scope of government activity.

Therefore, commencing with the 2000/01 fiscal year, the Estimates are being prepared on the Summary Accounts basis. The Summary Accounts combines the Consolidated Revenue Fund with the operating results of Crown corporations and agencies. The Summary Accounts *Estimates* will accomplish two objectives. First, it will disclose the budgeted bottom line for the more broadly defined government reporting entity; and second, it will continue to disclose Consolidated Revenue Fund expenses for the purposes of Legislative approval and *Supply Act* and FAA requirements.

Definition of the Summary Accounts Entity

The Public Sector Accounting Board (PSAB) is authorized by the Canadian Institute of Chartered Accountants to issue recommendations and guidelines with respect to accounting matters in the public sector.

PSAB recommends that provincial government reporting entities include 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.

The government's Summary Accounts includes the Consolidated Revenue Fund plus Crown corporations, but does not, at this time, include the schools, universities, colleges and health authorities (SUCH sector). The SUCH sector is excluded because organizations within the section are governed by independent representatives who are accountable for the operations of those organizations. Further consultation with the SUCH sector regarding the governance implications of including the sector in the government's Summary Accounts will be required.

Provincial grants to the SUCH sector fund most or all of the shortfall between SUCH sector external revenues and sector operating costs. The net profit/loss in the SUCH sector is therefore effectively captured in Consolidated Revenue Fund expenses. Consequently, inclusion of the SUCH sector in the Summary Accounts would have minimal impact on the Summary Accounts bottom line. For the previous three years, inclusion of the SUCH sector would have slightly reduced the Summary Accounts deficit.

In addition, much of the SUCH sector's capital spending is reflected in the government's Consolidated Capital Plan and is therefore included in taxpayer-supported debt in the Consolidated Revenue Fund and Summary Accounts.

In the Auditor General's opinion, adoption of the PSAB recommendation would result in the inclusion of the SUCH sector in the Summary Accounts. The Auditor General has qualified his opinion on the government's Summary Accounts financial statements as a result of the exclusion of the SUCH sector.

Consolidation

For reasons of transparency and simplicity the Estimates discloses the Summary Accounts deficit by adding the net income/loss of Crown corporations and agencies to the Consolidated Revenue Fund operating result.

The Estimates also distinguishes between self-supporting Crown corporations and agencies (those that operate independently of government funding) and taxpayer-supported Crowns and agencies (those that are in some way dependent upon government funding).

The Estimates disclosure provides readers with a clear understanding of the three major components of the Summary Accounts (Consolidated Revenue Fund; taxpayer-supported Crowns/agencies; and self-supported Crowns/agencies) and each component's contribution to the Summary Accounts bottom line.

PSAB recommends full consolidation for Crown corporations and agencies that are, in full or in part, financially dependent upon the government (such as British Columbia Transit and the British Columbia Ferry Corporation). Full consolidation would result in the intermingling of Consolidated Revenue Fund revenues and expenses with those of the taxpayer-supported Crown corporations and agencies. For example, ferry and transit fares and ferry cafeteria sales would be included with income tax and resource revenues in the government budget. Similarly, the cost of operating ferries and buses would be included with direct government expenses.

Full consolidation would be less transparent in that it would blur the distinction between the Consolidated Revenue Fund, for which government has direct day-to-day responsibility, and Crown corporations and agencies, which are the direct responsibility of independent representatives.

The Estimates consolidation method and full consolidation produce the same surplus/deficit.

Public Accounts

The Public Accounts has, for a number of years, included a Summary Accounts financial statement that fully consolidates taxpayer-supported Crown corporations and agencies.

THE *BUDGET 2000* CONSULTATION PROCESS

Introduction

The Minister of Finance and Corporate Relations has traditionally undertaken a pre-budget consultation process. In the past, this process has included meetings with key stakeholders representing business, labour, communities, youth, environmental groups and others.

In 1997, then Minister of Finance Andrew Petter added another element to the process by initiating an economic forecasting conference with British Columbia's and Canada's leading private sector economic forecasters. The conference provided government with advice on the expected level of economic growth for the coming year. In 1999, legislation was passed to make the Council a formal part of the minister's budget planning process.

In September 1999, the budget process review panel, chaired by Doug Enns, recommended greater public involvement in the budget consultation process. While a number of options to increase public involvement were currently under consideration for the 2000 legislative session, Finance Minister Paul Ramsey chose to open up the process immediately with a discussion paper called *Budget 2000 — Choices and Challenges*.

The public was able to provide feedback on the *Choices and Challenges* discussion paper in a number of ways:

- A 1-800 line, where comments were taken by phone;
- A questionnaire included with the discussion paper, mailed or faxed to the ministry;
- A Web site, with a questionnaire sent to the ministry by electronic mail.

The ministry received about 300 responses by mail (69), fax (158), e-mail (51), and telephone (1-800 line). An additional 45 verbal and written submissions on the budget were also presented to the Minister.

The Minister also visited a number of communities as part of the pre-budget consultation process, including Trail, Dawson Creek, Nelson, Revelstoke, Campbell River, New Westminster, Kamloops, Prince Rupert, Nanaimo, Castlegar, Penticton and Prince George. The Minister met with local chambers of commerce and distributed copies of the discussion paper during these regional stops. Consultations took place from December 1999 to February 2000.

***Choices and Challenges* questionnaire results to February 18, 2000**

Overall, responses to the *Choices and Challenges* survey supported protection or improvement of services in the areas of health care, education, and social services. Respondents supported increased spending in these areas and clearly value the services they receive. However, about one-half of the multiple choice and written respondents also advocated faster reduction or elimination of the deficit, along with cuts in corporate and personal income taxes.

Deficit Reduction

Respondents were evenly split between wanting to maintain the deficit and reducing the deficit faster. The remaining 10 per cent thought the deficit should be reduced more slowly.

Results (multiple choice)

	Reduce deficit faster	Reduce deficit slower	Maintain current deficit
	% of total	% of total	% of total
Plan to reduce deficit by 2003/04 (135)*	44	10	46

* *Note: Not every respondent answered or provided comment on every question. Percentages have been rounded. Numbers in brackets indicate number of responses to each question.*

Program Spending

Respondents were in favour of maintaining or increasing spending in health, education, social services, natural resources and justice. In the written comments on program spending, many respondents said they believe there is some waste in how government dollars are spent, and they would like government to keep a closer eye on administrative spending in the public service.

A large number of respondents advocated increased spending in health care to: shorten waitlists; spend health dollars more effectively and efficiently; invest in preventative health care measures; direct more dollars to patient care and less to administration; and provide more money for long-term care beds.

Reflecting public concern for the welfare of children and families, over 100 written respondents advocated an increase in spending for child care, while a smaller number advocated more spending for other social services, including early intervention programs for families at risk. There was also strong support for improvements in K-12 education and services for youth.

An overwhelming majority of respondents wanted spending on health care facilities, educational institutions and public buildings either increased or maintained at current levels. Significantly, while over 50 per cent of respondents to this question wanted capital spending on transportation to be maintained or increased, almost half wanted a decrease in spending in this area.

Written responses largely focused on concerns about spending on fast ferries. Some respondents suggested that the fast ferries should be sold, while others suggested the "user pay" principle for those that use ferries.

Results (multiple choice)

Spending Area	Increase	Reduce	Maintain
	% of total	% of total	% of total
PROGRAM SPENDING			
Health (150)	64	7	29
Education (142)	52	10	38
Social services (151)	54	20	26
Natural resources (138)	18	21	61
Justice (135)	20	13	67
Transportation (134)	11	45	44
CAPITAL SPENDING			
Health facilities (79)	46	14	40
Education facilities (78)	23	24	53
Public buildings (78)	16	32	52
Transportation (75)	15	45	40

Rate and Tuition Freezes

Respondents were divided between wanting to keep freezes on tuition and car insurance rates and eliminating them. Over one-half wanted to eliminate tuition and ICBC rates freezes, and almost 60 per cent of respondents to this question wanted to eliminate the BC Hydro rate freezes.

Written responses also strongly advocated an end to all the freezes, and a number of respondents advocated the privatization of ICBC and BC Hydro.

Results (multiple choice)

Fee	Eliminate	Extend
	% of total	% of total
Tuition fees (77)	56	44
ICBC premiums (79)	57	43
BC Hydro (77)	60	40

Economic Development

Respondents were evenly divided whether they agreed or disagreed with corporate tax cuts, targeted tax cuts, or across-the-board tax cuts. There was no clear division in the area of corporate tax cuts. Half wanted further cuts across-the-board to corporations, half do not. Similarly, half wanted targeted cuts such as film tax credits, while half did not.

Results (multiple choice)

Tax Policies	Agree	Disagree
	% of total	% of total
No further corporate tax cuts (76)	45	55
Targeted tax cuts (75)	51	49
Across-the-board corporate tax cuts (77)	49	51

Tax Rates

Two-thirds of respondents wanted personal income taxes to be reduced, while respondents were split more evenly on reducing or maintaining the sales tax.

Several written responses advocated elimination of the corporation capital tax, while a small number said corporate tax rates should stay where they are or be increased. Opinions on the provincial sales tax (PST) were more varied — some wanted the tax eliminated or harmonized with the federal goods and services tax (GST), while others wanted the PST rate increased or decreased.

Suggestions for new tax measures included: tax credits on new investment; an increase in fuel taxes to get people out of their cars; a green tax shift; and a move to tax on income.

Results (multiple choice)

Tax Rates	Increase	Reduce	Maintain
	% of total	% of total	% of total
Personal income tax (61)	6	66	28
Provincial Sales tax (57)	5	44	51
Corporate income tax (63)	40	33	27
Corporation capital tax (60)	37	38	25
Fuel tax (62)	16	34	50
User fees (72)	39	24	37

Other verbal and written submissions

Most business and professional organizations consulted said that the province's taxes were hindering investment, economic development and job creation. They believed that it was important to reduce both personal and corporate taxes, and that the investment and tax climates in Alberta and Washington State were important standards of comparison because of the increasing mobility of capital and labour.

Businesses that depend on investment and being able to attract and retain highly-skilled workers tended to favour personal income tax cuts for higher income earners. Other businesses (especially in retailing and construction) advocated tax cuts for low and middle-income earners to increase consumer confidence and disposable income. Capital intensive industries, such as logging, mining and manufacturing, strongly supported a PST exemption for machinery and equipment, and elimination of the corporation capital tax.

Single industry associations proposed a wide variety of measures targeted specifically to their industry (e.g. tax credits), whereas tax professionals and business organizations with a broad membership base opposed sector-specific corporate tax breaks and stimulus, favouring instead across-the-board cuts to tax rates.

Besides numerous technical and administrative concerns raised by specific groups, six recommendations were heard repeatedly from a variety of business groups:

- The province needs a credible long-term plan to slow the growth of, and ultimately reduce, the provincial debt;
- Reducing personal and corporate income tax rates would help the provincial economy;
- The province should reduce the corporation capital tax, or at a minimum, harmonize it with the federal large corporation tax;
- The province should reduce or eliminate PST on business purchases of machinery and equipment;
- The province should consider placing limits on the ability of municipal governments to apportion the local property tax burden and set their own tax rates on different property classes (business, residential, etc.); and
- The province should reconsider harmonizing PST with the federal GST.

Groups that represented social concerns did not support tax cuts at the expense of program spending. They were concerned that a harmful inter provincial "race to the bottom" is developing for the lowest tax rates and level of public services.

As of March 3, 2000, verbal and/or written submissions have been received from the following:

- Advanced Education Council of B.C.
- Air Transport Association
- Alliance of Manufacturers and Exporters
- Association of Book Publishers of British Columbia
- B.C. and Yukon Hotels Association
- B.C. Agriculture Council
- B.C. Automobile Association
- B.C. Automobile Dealers Association
- B.C. Chamber of Commerce
- B.C. Federation of Labour
- B.C. Lodgings Association
- B.C. Teachers' Federation
- B.C. Technologies Industry Association
- B.C. Truck Loggers' Association
- B.C. Trucking Association
- B.C. Wine Institute
- Business Council of B.C.
- Canadian Bankers Association
- Canadian Centre for Policy Alternatives
- Canadian Federation of Independent Business
- Canadian Home Builders Association of B.C.
- Canadian Life and Health Insurance Association Inc.
- Canadian Property Tax Association
- Canadian Taxpayers Federation, B.C. Division
- Certified General Accountants Association
- Coal Association of B.C.
- Commodity Tax Group
- Council of Forest Industries
- Council of Tourism Associations
- Craft Brewers Association of B.C.
- Economic Development Association of B.C.
- Greater Victoria Chamber of Commerce
- Insurance Bureau of Canada
- Joint Taxation Committee of the Institute of Chartered Accountants of B.C. and the Canadian Bar Association
- Mining Association of B.C.
- New Media B.C.
- Private Forest Landowners Association
- Prospectors and Developers Association of Canada
- Retail Council of Canada
- Retail Merchants' Association of B.C.
- Social Policy and Research Council of B.C.
- Tax Executives Institute
- Urban Development Institute
- Vancouver Airport Authority
- Vancouver Board of Trade
- Western Brewers Association

Conclusion

The results of the various budget consultation processes reveal a common theme. British Columbians want government to reduce the deficit and debt, while also cutting taxes, but not at the expense of health care, education and social services. However, these areas make up over 80 per cent of ministry spending, and funding would need to be reduced significantly in other areas in order to balance the budget, and cut taxes at the same time.

The challenge for government is to balance these priorities in a way that best meets the needs of British Columbians.

Report F: ECONOMIC GROWTH IN BRITISH COLUMBIA: A MODERN, BALANCED APPROACH

"Our focus will be on today's families and their changing needs; in health, in education, in the environment, and in the new economy".

– Premier Ujjal Dosanjh
Statement at the Cabinet Swearing-in Ceremony
February 29, 2000

The economy is changing rapidly

Vast economic changes occurring within the province today mirror those occurring in the global economy. To stay competitive in this worldwide market, the British Columbia economy must adapt to these global forces. These changes affect some individuals and some regions of the province more than others. Government has an important role in helping people, business and regions make the transition to a modern economy.

The British Columbia Government's Goals

Government has an important role

The government's goals are:

1. A modern, balanced and sustainable approach to economic growth that meets the hopes and values of today's families.
2. An economy operating at its full potential with rising incomes and living standards.
3. Ensuring that all British Columbians benefit so that individuals, industries, communities and regions attain economic prosperity.

Achieving these goals requires a balanced approach where one set of interests or one measure of economic activity does not have priority over another.

Government's specific goals are to:

- Provide education and training to maintain the well-educated, well-trained work force British Columbia needs in a changing, modern economy;
- Cut taxes to ensure British Columbia achieves its economic potential;
- Consolidate and build on our competitive strengths including high-quality services such as education and health care, a clean environment and a high quality of life;
- Ensure a balanced and efficient regulatory environment;
- Provide communities with the tools they need to build on their local and regional opportunities; and
- Ensure a sound fiscal framework with a transparent and accountable budget process.

A Well-Educated, Well-Trained Work Force

Investing in education from Kindergarten to Jobs

British Columbia's economy depends on a well-educated, well-trained work force. Education is one of the best investments the provincial government can make.

Budget 2000 enables British Columbians to access the skills and knowledge they need to succeed in the new economy, building on previous investments. The budget creates more post-secondary spaces and keeps those spaces affordable.

— The government has extended the tuition fee freeze to ensure continued accessibility to post-secondary education in British Columbia. This is the fifth year that tuition fees will be frozen.

— *Budget 2000* provides funding for 5,025 new student spaces in the public post-secondary system.

Funding new affordable post-secondary spaces

— With the lapse of federal funding for Royal Roads University on March 31, 2000, the provincial government has pledged funds to continue operating this advanced education facility. *Budget 2000* also includes additional funding for the Technical University of British Columbia.

— Our universities are vital incubators for innovative technologies. *Budget 2000* carries through in the third year of the six-year British Columbia Knowledge Development Fund, which invests in capital infrastructure for research at British Columbia's post-secondary institutions, teaching hospitals and non-profit agencies. The government will make a further investment of $117 million in this fund in 2002/03.

A solid educational foundation is fundamental to the life-long learning needed to succeed in a changing economic environment. In the Kindergarten to Grade 12 system, *Budget 2000*:

Reducing the number of portables and class sizes

— Provides funds to reduce further the number of school portables.

— Advances the government's investment in British Columbia's future with an increase in per pupil funding and additional funding for 325 new teachers to further reduce Kindergarten to Grade 3 class sizes.

— Provides more access to the tools of a modern economy by connecting every public school in British Columbia to the Internet through the Provincial Learning Network.

In addition, *Budget 2000* takes a first step towards a publicly-funded child care system by supporting quality before- and after-school care in British Columbia's school system. In addition to creating a better environment and foundation for children, this will help working parents balance the demands of family and work.

Supporting the transition from welfare to work

Another aspect of the government's balanced approach to helping British Columbians deal with the changing economy lies in supporting people's transition to work. This budget builds on employment programs already in place.

To support the transition from welfare to work, the provincial government's BC Benefits program helps people with four major programs: Family Bonus, Healthy Kids, Youth Works, and Welfare to Work.

The government has helped British Columbians increase their attachment to work and removed structural barriers to employment. Since 1991, the unemployment rate has fallen from above 10 per cent to a 19-year low of 7 per cent in February 2000.

Also, since the introduction of BC Benefits in 1996, the number of income assistance cases has declined nearly 25 per cent. Programs for people on income assistance will continue to be refocused so that people are assisted in making the transition to employment.

If people are to succeed in the transition from welfare to work, adequate shelter is essential. In *Budget 2000,* the government of British Columbia continues its commitment to affordable housing. 2000/01 is the second year of the two-year initiative to construct 2,400 additional affordable housing units through the BC Housing Management Commission.

However, the government recognizes the difficulties faced by those unable to work and the need for an increase in minimum income levels. Accordingly, this year's budget provides an increase in income assistance rates for all recipients, effective July 2000.

Tax Cuts to Fuel Economic Growth

Reducing taxes to build a new economy

Tax cuts are an important feature of the government's balanced approach to economic growth in British Columbia. In order to assist in the transition to a new economy and boost the province's economic potential, the government has reduced taxes for all British Columbians, but has focused the cuts on low- and middle-income earners. Combined with reductions in the province's top marginal income tax rate and business taxes, these changes increase the capacity of the economy to generate jobs, higher incomes and profits.

Leaving more money in the hands of consumers . . .

Budget 2000 continues to move towards a more competitive personal income tax structure, while recognizing the need to maintain quality public services. *Budget 2000* includes a two-year plan that will reduce personal income taxes by $310 million by 2001/02.

The personal income tax structure in British Columbia will be indexed to inflation, to protect tax payers from bracket creep. This will maintain the benefit of the tax reductions in *Budget 2000* and previous budgets.

These changes will benefit all tax payers in the province, but particularly low- and middle-income earners.

. . . and small business

Budget 2000 further reduces the small business corporate income tax rate to 4.75 per cent effective July 1, 2000, the lowest rate in the country.

Introducing an investment tax credit on new manufacturing and processing assets

To further encourage job creation through investment in plant and equipment, *Budget 2000* introduces an investment tax credit for the purchase of new manufacturing and processing assets.

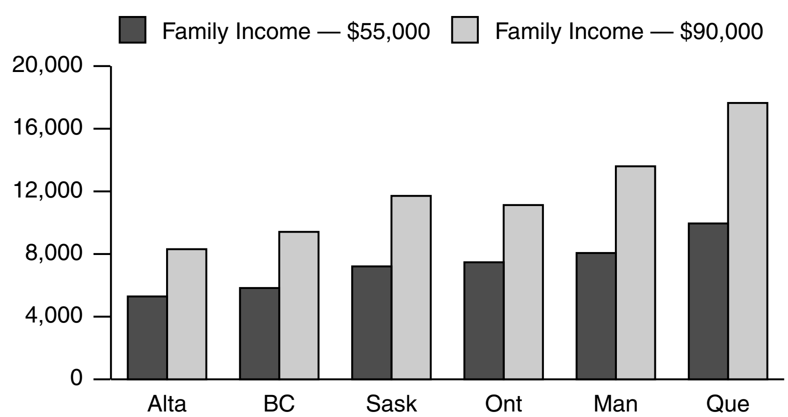
Increases in the corporation capital tax threshold announced earlier will mean that by 2001, fully 90 per cent of businesses will be exempt from the corporation capital tax.

Since 1995, changes made to British Columbia's taxes have already put money back into the hands of low- and middle-income earners, and upper-income earners who benefited from reductions in the top marginal tax rate. These changes will result in savings to British Columbians that will total $800 million by 2001/02. Since 1995, changes made to business taxes will have resulted in total savings of $500 million by 2001/02.

Chart F1

Interprovincial Tax Comparisons

Total 2000 income, sales, property and payroll taxes



Source: Ministry of Finance and provincial budgets

An Economic Reality: Constant Change and Evolution

British Columbia's economy, like other industrial economies, is continually evolving and changing. Statistics portray relative aggregate stability, with figures such as employment, unemployment and gross domestic product showing modest annual fluctuations. However, tremendous changes are continuously taking place. For example:

- One in five workers separate from their employer every year, although the level of total employment typically fluctuates only 2 to 3 per cent.
- Firms are created and go out of business at a rapid rate — there are over 20,000 incorporations in British Columbia alone every year. Statistics Canada estimates that 20 to 25 per cent of new businesses in British Columbia fail in their first year (the same as in Ontario, Quebec and Alberta, but less than in the other provinces). Only about one in five new firms remains in business for ten years.
- Entire classes of businesses can appear and disappear in less than a generation.
  - The horse and buggy disappeared with the mass production of the automobile in the early 1900s.
  - The slide rule gave way to the calculator in the 1970s.
  - The corner video store was unheard of until the 1980s.
  - There were few local Internet service providers ("ISPs") in 1995, but most cities and towns now have several.
  - In the future, video rental and CD stores may be replaced by companies providing movies and music over the Internet, while mobile phone service may outstrip the traditional landline.

It is common to hear that the pace of social and economic change is accelerating. Today, the Internet and the communications revolution are fundamentally changing the way people work and live. Is this change faster or deeper than those brought about by the Industrial Revolution, the invention of the wheel or the airplane, or the discovery of electricity?

Only time will tell whether today's developments prove revolutionary. However, a lesson of history is that great technological leaps often create economic dislocation, social upheaval and turmoil even though they also bring great economic prosperity and opportunity. People and institutions often adapt slowly to these changes — human skills and knowledge are made obsolete and our institutions naturally reflect the economic and social realities of the recent past.

So, economic change is a certainty. The provincial government's objective is to help people successfully make the transition to the new economy.

Consolidating British Columbia's competitive position

British Columbia's envied quality of life gives British Columbia investors and workers a strong competitive position over the long run. Investments the government is making in health and education, and in preserving British Columbia's clean and healthy environment consolidate that strong position.

With better health care

A healthy, educated, and productive work force is a key to British Columbia's success in the modern economy. In addition to the education investments mentioned above, *Budget 2000* includes funding for new continuing and acute care beds. This budget also includes funding for up to 600 new nurses. As well, the *BC Health Innovation Forum* will bring together health care providers, administrators and other experts to ensure that needed health care services are delivered efficiently, with the primary focus on patient care.

Encouraging innovation and marketing British Columbia's expertise

A strong competitive position encourages innovation and new opportunities because they have the right conditions to grow. Bright ideas and new companies appear to be flourishing:

— Between 1990 and 1998, high-tech employment in British Columbia grew at an annual rate of 7.2 per cent, faster than all industries combined.

— Knowledge-based products and services account for over 46,000 jobs in British Columbia, up from 32,700 in 1994.

— There are almost 7,000 high-tech establishments in British Columbia, up from 4,700 in 1994.

— High-tech companies are expanding beyond the Lower Mainland. One in three British Columbia high-tech companies is located outside Greater Vancouver.

To further encourage innovation in areas such as film and high-tech, the government will establish a BC High Tech Commission to market our high-tech advantage around the world.

The B.C. Film and Television Industry: A Successful Partnership

British Columbia is a prime location choice for filmmakers for a number of reasons. The province offers excellent and varied production locations, a well-trained and technically sophisticated labour force, and an expanding infrastructure including the government-owned Bridge Studios in Burnaby, a technologically advanced special effects studio, as well as privately run studios such as Lions' Gate Film Studios. Last year, the provincial government introduced two tax credit programs offering filmmakers refundable corporate income tax credits.

British Columbia's talented and skilled film industry workers have helped the industry grow at a rapid rate during the past ten years. In 1999, the value of British Columbia's film and television production industry increased 32 per cent from 1998. A total of $1.1 billion was spent on 198 productions in the province in 1999, up from $188 million and 50 productions in 1990.

Government and industry have worked together in other ways to improve competitiveness in British Columbia.

Improving competitiveness by . . .

— In May 1998, the provincial government announced the Oil and Gas Initiative, an agreement with the Canadian Association of Petroleum Producers. The initiative included streamlining the regulatory environment facing the oil and gas industry, improving local infrastructure and improving the competitiveness of the royalty system. The initiative established the Oil and Gas Commission, a single-window approach for all oil and gas licensing and permitting.

. . . streamlining the regulatory environment

— The Oil and Gas Initiative in 1999 contributed to sustained growth and investment in the oil and gas industry. Strong sales of oil and gas rights in northeastern British Columbia is evidence of the success of the initiative. Sales of Crown land drilling rights soared in 1999/00. During the first 10 months of 1999, 522 wells were drilled, close to 1998's record levels.

— Building on the first phase of the Oil and Gas Initiative, the second phase was introduced late in 1999. A substantive road rehabilitation and maintenance program was introduced. This program is designed to provide better road access and to lengthen the drilling season. The second phase of the Oil and Gas Initiative also provides for further regulatory reform.

— To reduce forest industry costs, stumpage rate reductions were implemented in 1998, saving the forest industry an average of $200 million per year.

. . . without reducing environmental standards

— *The Forest Practices Code (FPC)* was established in 1995 to ensure sound forest practices backed by tough enforcement. Changes to simplify the FPC and cut red tape were announced in 1998 and 1999. Further changes were made effective March 1, 2000 to streamline the administration process for roads, without reducing environmental standards. Most of the road-related amendments stemmed from the Cost Driver Initiative, which aimed to reduce government and industry costs, and improve efficiency.

. . . helping British Columbia's companies compete in a greener economy

— To help British Columbia forest companies compete in a greener global economy, the Ministry of Forests is developing a province-wide environmental management system as a first step towards environmental certification.

— The government is also re-investing in the forest resource and forest workers. Since its inception in 1994, Forest Renewal BC has invested more than $1.6 billion to restore damaged watersheds, nurture second growth forests to add to British Columbia's potential future timber harvest, train and upgrade skills of the work force, and create jobs through community diversification.

The government is responding to changing environmental values

The government is also responding to society's changing environmental values. Economic and environmental sustainability must be a centrepiece of the government's approach so that we do not deplete our physical resources or degrade the environment. British Columbia is also well situated to build on its head start in environmental technologies.

— Ecotourism is one of the fastest-growing areas of the tourism industry. To maintain and enhance British Columbia's "Supernatural" reputation, *Budget 2000* funds an EcoTourism strategy. This will support tourism opportunity studies, to assist park and backcountry gateway community development and to develop best-practices guidelines for the ecotourism industry.

— British Columbia will soon achieve the government's goal to preserve 12 per cent of the province's land base for parks and protected areas. A new *Parks and Protected Areas Act* will enshrine in law the protection of the province's 550 parks, 141 ecological reserves and 12 special protection areas.

With funding to develop new environmental technologies

— *Budget 2000* establishes the *Green Economy Development Fund* to support the development of new environmental technologies. The province's specific experience in this field of growing importance gives British Columbia a strategic niche in the modern economy.

— The government issued the *Environmental Tax Shift* discussion paper in November 1999 and is seeking comment. Environmental tax shifting is one tool to help reform the tax system to better reflect society's environmental values. At least one pilot project will be introduced this year. (See Topic Box on Environmental Initiatives in Report C.)

Reducing greenhouse gas emissions

— The government has also taken steps to reduce greenhouse gas emissions through the Green Economy Initiative which promotes clean technologies through the Public Buildings Energy Retrofit Initiative and the Clean Energy initiatives. Additional information on British Columbia's green building industry is available on the Internet at www.ei.gov.bc.ca/greenbuildings.

A Climate for Success

The government is working to create a climate for success

As discussed above, the government has taken action to promote competitiveness and economic growth by putting tax cuts in place that will total $1.3 billion by 2001/02. In doing so, the government has recognized the need for a balanced approach that preserves key government services and ensures fiscal sustainability.

Settling land claims improves jurisdictional certainty

The government is also working to improve the investment climate by settling land claims. This contributes to the province's economic well-being by achieving certainty with respect to land and resource use through the negotiation of treaties and other agreements with First Nations and Canada. The provincial government believes that greater jurisdictional certainty will improve the investment climate. All British Columbians benefit as communities throughout the province experience business development and job creation. Through negotiated agreements, First Nations also acquire the means to build healthier and more self-reliant communities where they are able to maintain their culture and values, and thrive in today's society and economy.

Government initiatives benefit the regions

A number of government initiatives, while designed to benefit all British Columbians, have had particularly positive effects on individual regions. These include:

— Ecocertification and the *Forest Practices Code:* initiatives that strengthen the competitiveness of the forest sector by assuring buyers that British Columbia products meet stringent environmental standards.

— Ecotourism promotion: initiatives help in the development of this growing tourist market.

— The Oil and Gas Initiative particularly benefits the northeast.

— "Buy BC" promotion: the government's participation in developing a brand and promoting and marketing produce aids the province's agriculture intensive regions.

— The Columbia Basin Initiative: re-investing proceeds of the Columbia River Treaty stimulates economic activity in the region.

Co-operation vs Confrontation

> "We all share Mr. Dosanjh's commitment to cooperation. CFIB and the small business community as a whole want an opportunity to work constructively and positively with him."
>
> — Suromitra Sanatani, B.C. & Yukon Vice President for the Canadian Federation of Independent Business
> *Vancouver Sun,* March 6, 2000.

British Columbia can and must do much better. For this to happen, the climate for private sector investment needs to improve. Here, government policy plays an important role, as does the attitude of the private sector.

The provincial government is committed to work with business, labour and other groups in a co-operative, non-confrontational manner to achieve higher living standards for British Columbians.

Political parties, civic organizations, research institutes and interest groups also play an important role in presenting policy alternatives, representing different points of view, and fostering debate. Recognizing that their views and opinions may be strongly held, British Columbia's image in Canada and abroad would benefit from a less confrontational style of public debate.

Government is providing the tools to communities to pursue opportunities

Government's role in the transition to a new economy includes providing tools to communities facing a changing economic base. The pre-budget submission by the Economic Development Association of British Columbia to the Minister of Finance and Corporate Relations noted that ". . . most 'top-down' provincial strategies tend to be a poor fit for most communities." In other words, Victoria does not have all the answers. Instead, the provincial government's approach is to provide the tools to communities facing a changing economic base, and let them decide what direction to take.

After several years of budget restraint, *Budget 2000* boosts funding for ministries involved in economic development.

- The Economic Development Association of British Columbia noted the importance of the Community Enterprise Program as a support for communities establishing economic development strategies. *Budget 2000* maintains the funding for the second year of this program.
- *Budget 2000* also includes new funding for tourism initiatives that remove policy and regulatory barriers constraining tourism development.
- *Budget 2000* includes new funding to assist regional film offices to support film and television production in all regions of the province.

Potential investors in British Columbia need to have full and complete information on government finances. As well, the public should have all the information it needs to assess whether the government is doing a good job.

Ensuring openness and accountability management of tax dollars

The government has presented a five-year fiscal planning framework (see Topic Box Five-Year Fiscal Planning Framework in Report B). This long-term planning framework combined with the full disclosure required by the new *Budget Transparency and Accountability Act* (see Report E — Implementing the Budget Process Review Panel Recommendations), provides a complete picture of the province's financial position.

Another important task in creating a better investment climate is to ensure that the government itself is competently and professionally managed and that tax dollars are used wisely and prudently.

Improving efficiency in delivering programs

The provincial government is working to improve efficiency in delivering government programs and efficiency in government operations. The Streamlining Initiative is part of the government's commitment to review unnecessary red tape and paper work, while protecting critical environmental and workplace standards. It is also an example of government and business working together for the benefit of British Columbians. These activities are outlined in the quarterly reports available on the Web site (www.streamline.gov.bc.ca). The Streamlining Topic Box provides more detail.

The Streamlining Initiative has resulted in faster and better service. For example, a change to the *Taxation (Rural Area) Act* eliminated the requirement for farmers to reapply for a payment extension each year, saving rural property owners and the ministry time and money that is better used elsewhere.

Other initiatives to improve program delivery include:

— BC Business Connects: includes single-business-number pilot projects, one-stop business registration, consolidating forms across government, a municipal best practices guide and regional delivery of business information.

— Payment Timeliness Review: an initiative to improve timeliness of payments to government suppliers.

— Consumption Tax Administration: a modernization of systems used to manage the collection of revenue for the province.

— Electronic Service Delivery: increasing electronic service delivery by government and facilitating electronic commerce in the private sector.

— Environmental Assessment Project: applying lessons learned from environmental assessment processes in other jurisdictions.

On a broader scale, the requirement in the new *Budget Transparency and Accountability Act* that ministries have three-year business plans will promote better allocation of resources.

LINX BC: Business and Government Working Together

The government has worked directly with business to raise the profile of the province with investors. The LINX BC program is a successful example of targeted, co-operative marketing. The provincial government, five British Columbia communities and Telus entered a co-operative campaign to attract call centres. British Columbia boasts a large pool of skilled, multi-lingual workers and a sophisticated telecommunication network, features that are attractive to this growing industry. As a result, several significant leads were established, and three call centres have announced their intention to locate in British Columbia, including a new 600-job call centre currently being developed in Kamloops by Convergys Corporation. This means more investment and jobs for British Columbians.

Making sound investments in public infrastructure

Sound investment in public infrastructure — getting the largest long-term benefit from every dollar and every project is a top priority.

Public infrastructure can improve British Columbia's attractiveness as a place to work and live. The government is committed to providing public infrastructure that provides long-term economic benefits to the people of the province. Investments such as the SkyTrain extension not only make economic sense, but also provide environmental benefits by reducing greenhouse gas emissions and improving the quality of life.

Conclusion

The government's three goals can be reached

The provincial government's goals are:

- A modern, balanced and sustainable approach to economic growth that meets the hopes and values of today's families.
- An economy operating at its full potential with rising incomes and living standards.
- Ensuring that all British Columbians benefit so that individuals, industries, communities and regions attain economic prosperity.

To achieve these objectives, *Budget 2000* invests in education and training, and cuts taxes in a balanced manner to assist in the transition to a new economy and boost the province's economic potential.

Budget 2000 lays the foundation to achieve these goals.

In addition, *Budget 2000* consolidates and builds on British Columbia's competitive advantages including a clean, healthy environment and quality of life, and high-quality education and health care systems.

Budget 2000 encourages our modern resource sector and high-tech industries to respond to the demands of international markets by promoting sustainable forestry and green technology, and increases funding to government ministries involved in economic development.

In addition, sound investments in public infrastructure are being made, reforms to provincial budgeting and management practices are legislated, and reductions in red tape are occurring.

All these government initiatives, when combined with the efforts of individuals and businesses, are paying off in creating a climate for success.

STREAMLINING INITIATIVE

Background

The Streamlining Initiative is part of the government commitment to review government regulations to reduce unnecessary red tape and paperwork, while protecting critical environmental and workplace standards.

The initiative began with the appointment in May 1998 of a Business Task Force with a mandate to reduce the cost of doing business in British Columbia and to cut red tape.

Chaired by the Minister of Finance and Corporate Relations, the 16-member task force included representatives from business, labour and government.

The task force approach was to invite streamlining suggestions from the business community, initiate or endorse major streamlining projects, and promote a new "streamlined" legislative process for "housekeeping" legislation. The new process expedites legislation that is not controversial, has few policy implications and either reduces the cost of doing business or increases government efficiency.

To continue and expand its mandate, the task force recommended that an ongoing Business Task Force on Regulatory Impact be appointed and regulatory impact statements for major new regulation be prepared and published. Regulatory Impact Statements are intended to demonstrate that these policy decisions are based on information on their objectives, alternatives, implications including, but not limited to business, and consultation with interested parties.

In September 1999, the first Business Task Force on Regulatory Impact was appointed and chaired by the Honourable Paul Ramsey, Minister of Finance and Corporate Relations. There are 18 members representing local and provincial government, business, labour, and government.

The new task force is continuing to invite streamlining suggestions from the community and will monitor ongoing projects. It will also provide advice on which new regulatory proposal will require the publication of a Regulatory Impact Statement, and will provide advice on the review of existing regulatory frameworks.

Progress to Date

Both task forces' activities and accomplishments are outlined in quarterly reports and are available on the Streamlining Web site (www.streamline.gov.bc.ca).

Highlights include:

Voice for the Business Community

The task force provides a new organized way for the business community and others to suggest ways to reduce red tape and the cost of regulation, and for the government to consult with business.

The initial task force assigned a high priority to 130 of over 500 suggestions it received. Half were implemented and another 40 per cent are underway.

The new task force is considering the outstanding proposals from last year, as well as about 100 new proposals it has received. Proposals that are still current and within the task force mandate will be pursued. Details of streamlining proposals and their status are available on the Streamlining Web site.

Major Policy Impact: Regulatory Impact Statement Requirements

The government adopted the task force recommendations by enacting the *Regulatory Impact Statement Act*. Under the Act, policies and procedures were established to set out when a regulatory impact statement must be published for new major regulation. The policies apply broadly to legislation, regulations and administrative policy and, to all government ministries and to all with the authority to make or recommend regulatory policy decisions. This includes entities like the Workers Compensation Board, the Insurance Corporation of British Columbia and self-regulatory organizations. Regulatory Impact Statements have been made public for six bills introduced by the government in the Spring 1999 legislative session, including the *Unclaimed Property Act*, which was a streamlining project.

To help put the new Regulatory Impact Statement requirements into practice, over 200 policy analysts throughout government participated in training sessions, and have been offered cost-benefit analysis workshops.

Streamlining Projects

The Business Task Force initiated or endorsed over 30 major streamlining efforts, including:

- the liquor policy review, which revised and updated the province's liquor laws with input from affected business sectors;

- the Oil and Gas Initiative, which created a one-window regulatory agency, established revenue sharing with local governments and revised royalty rates;
- the forest action plan, a two-part strategy developed to stabilize and modernize British Columbia's forest sector and help industry, communities and workers move to a more diversified and sustainable future while maintaining strong environmental standards;
- the high-tech employment standards strategy, which modified employment standards to meet the unique needs of the growing high-tech sector; and one-stop business registration, which is now possible in 47 communities around the province.

During the spring 1998 and 1999 sessions of the Legislature, the government passed the following bills related to streamlining:

- Bill 44 — *Regulatory Streamlining Miscellaneous Statutes Amendment Act, 1998*
- Bill 57 — *Range Amendment Act, 1999*
- Bill 61 — *Consumer Protection Amendment Act, 1999*
- Bill 63 — *Wildlife Amendment Act, 1999*
- Bill 64 — *Securities Amendments Act, 1999*
- Bill 66 — *Attorney General Statutes Amendment Act, 1999*
- Bill 68 — *Forest Amendment Act, 1999*
- Bill 69 — *Education Statutes Amendment Act, 1999*
- Bill 71 — *Finance and Corporate Relations Statutes Amendment Act, 1999*
- Bill 72 — *Water Amendment Act, 1999*
- Bill 74 — *Miscellaneous Statutes Amendment Act (No. 2), 1999*
- Bill 75 — *Residential Tenancy Amendment Act, 1999*
- Bill 76 — *Health Statements Amendment Act, 1999*
- Bill 80 — *Liquor Statutes Amendment Act, 1999*
- Bill 81 — *Regulatory Impact Statement Act*
- Bill 85 — *Company Act*
- Bill 91 — *Unclaimed Property Act*
- Bill 93 — *Land Title Amendment Act, 1999*

These bills are available on the Legislative Assembly Web site (www.legis.gov.bc.ca).

Conclusion

The Streamlining Initiative aims to:

- promote better (smarter) regulatory policy;
- promote more balanced, efficient and effective regulatory administration; and
- minimize regulatory impacts and burdens, including managing and reducing the cumulative impact of regulation.

A priority has been and will continue to be to promote more accountable regulatory policy decisions. The regulatory impact statement legislation and policy are important steps in that direction.

Equally important are wise enforcement and a critical examination of existing regulatory frameworks and their cumulative impact. As in other jurisdictions, these kinds of reforms require fundamental changes to existing priorities, and that is the long term objective of the Streamlining Initiative.

Report G: FISCAL CAPACITY AND PROVINCIAL BUDGETS

What is Fiscal Capacity?

Provinces in Canada have differing potential to generate revenues because of variations in personal incomes, industrial structure, natural resource wealth, etc. This differing potential is a key determinant of a province's fiscal options: the level of government programs and services it is able to provide, and the level of taxation needed to provide a given range of programs. This capability to generate revenues is often referred to as *fiscal capacity.*

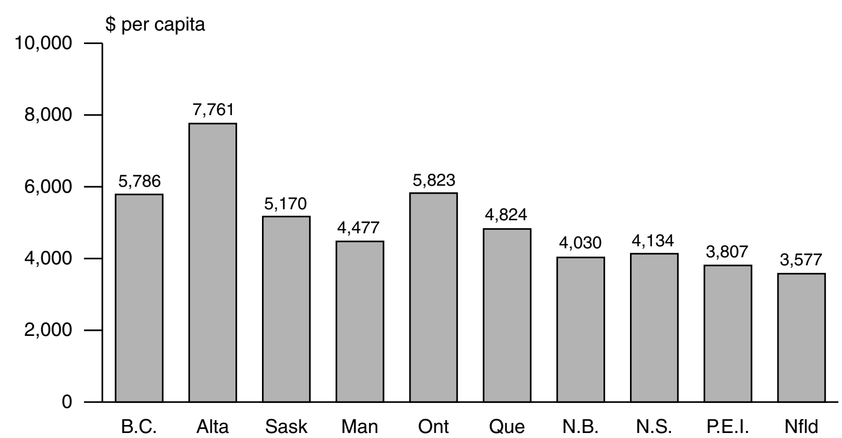
Fiscal capacity measures a province's potential to generate revenues

The usual method[1] of estimating fiscal capacity begins with the calculation of a national average tax rate for each of the over 30 tax bases[2] used by provinces to obtain revenue. These rates are then applied to the corresponding tax bases of each individual province to calculate the total hypothetical revenue that would be generated. A province's fiscal capacity is this revenue measured on a per capita basis.

Provinces have large differences in fiscal capacity

Identical tax rates would generate over twice as much revenue per capita in Alberta than in Newfoundland

Chart G1
Fiscal Capacity Among Provinces*
"Own-source" fiscal capacity (before federal transfers)



* Fiscal capacity calculated at national average tax rates as measured in the Equalization program.
An average over the 1995/96 to 1999/00 period is used.
Source: Finance Canada official estimates

[1] The method described is that used by the federal government to calculate Equalization entitlements for provinces. The Equalization program is based on fiscal capacity and compensates provinces if their capacity falls below a given standard.
[2] A tax base denotes that object on which a tax rate is applied. For example, personal income, retail sales, or natural gas production.

Differences in Fiscal Capacity Across Provinces

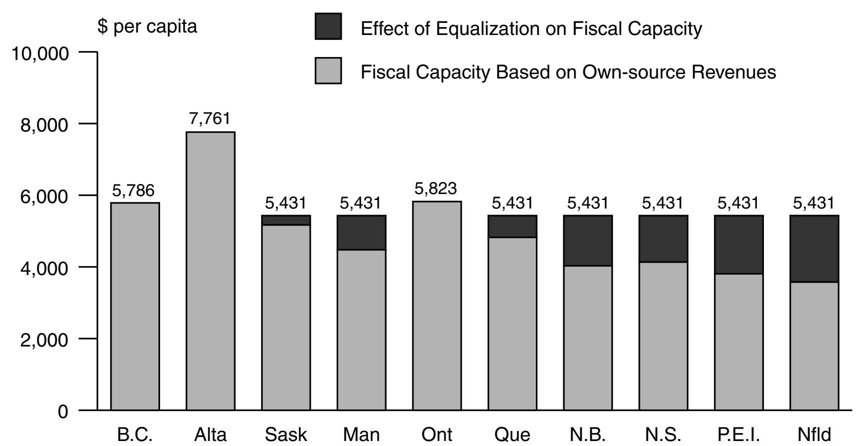
Chart G1 illustrates the considerable differences in fiscal capacity which exist across the provinces[3]. It reveals that applying identical tax rates would generate over twice as much revenue in Alberta as in Newfoundland because the tax bases in these two provinces are very different.

British Columbia's fiscal capacity is about one-third less than Alberta's

British Columbia and Ontario have the next highest fiscal capacities, at around $5,800 per person, although these are about one-third less than Alberta's fiscal capacity.

Chart G2
Fiscal Capacity with Equalization

Equalization increases the fiscal capacity of seven provinces to a level close to British Columbia and Ontario



* Fiscal capacity calculated at national average tax rates as measured in the Equalization program.
An average over the 1995/96 to 1999/00 period is used.
Source: Finance Canada official estimates

Federal Equalization payments do much to mitigate provincial variances in revenue-raising ability (Chart G2). Equalization increases the fiscal capacities of "have-not" provinces[4] to $5,431 per capita, close to the fiscal capacities of British Columbia and Ontario.

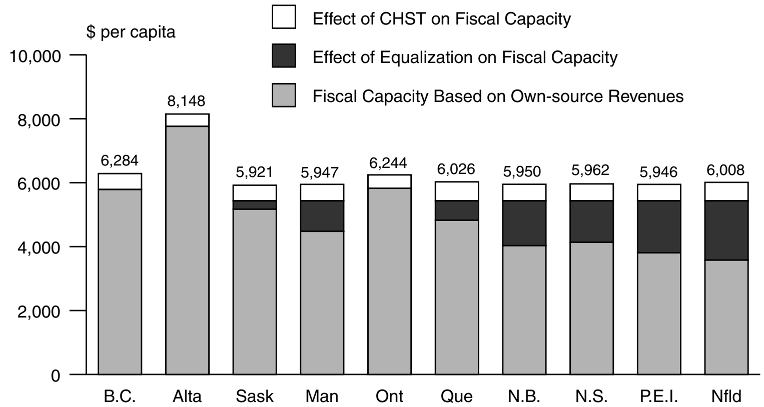
Canada Health and Social Transfers (CHST) from the federal government have been designed to provide additional compensation for fiscal capacity disparities. Chart G3 shows how these transfers further narrow fiscal capacity disparities among provinces.

[3] The chart illustrates fiscal capacity with respect to each province's own revenue resources (i.e. without federal transfer payments). To avoid possible anomalies in a single-year snapshot of provincial fiscal capacities, a five-year average (1995/96 to 1999/00) is used throughout this Report.
[4] Saskatchewan, Manitoba, Quebec, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland.

Federal CHST funding further eases fiscal capacity disparities

Chart G3

Fiscal Capacity with Equalization and CHST*



* Fiscal capacity calculated at national average tax rates as measured in the Equalization program.
An average over the 1995/96 to 1999/00 period is used.
Source: Finance Canada official estimates

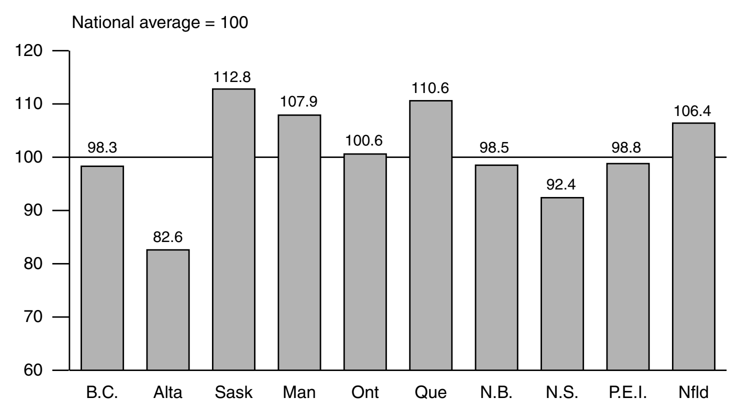
Provincial Tax Effort

Tax effort: the degree to which fiscal capacity is utilized

Tax effort measures the amount of tax revenue actually generated in a province as a proportion of revenue that would be generated if national average tax rates were imposed. Tax effort, in other words, represents the degree to which a province's fiscal capacity is utilized.

Chart G4

Differences in Provincial Tax Effort



Note: Measures average over the period 1995/96 to 1999/00.
Source: Finance Canada official estimates

A tax effort of greater than 100 per cent means a province's effort is higher than the national average; conversely, a tax effort of less than 100 per cent signifies an effort lower than the national average.

Provinces with a high fiscal capacity — Alberta is the only province with a fiscal capacity markedly above the Canadian average — are able to offer lower tax rates because far less effort is needed to produce a given amount of revenue.

British Columbia's tax effort is slightly below the national average

Chart G4 shows that British Columbia and Ontario have fiscal capacities slightly above the national average. British Columbia's tax effort is slightly below the national average at 98.3 per cent, while Ontario's is slightly above at 100.6 per cent.

One might expect that provinces with lower fiscal capacity would utilize a greater tax effort as an offset to weaker revenue raising ability, but this is not invariably the case. While four of the seven Equalization recipient provinces do have tax efforts above the national average, the three Maritime provinces are an exception to this pattern. Despite having relatively low own-source fiscal capacities, New Brunswick, Prince Edward Island and Nova Scotia have below average tax efforts. The Equalization program may transfer sufficient revenue to these latter provinces to enable each to provide a desired level of programs and services at tax rates close to the Canadian average.

Fiscal capacity is not, of course, the only determinant of tax effort. A province with a relatively high tax effort may have a preference for more comprehensive programming, or may be coping with higher cost pressures, for example, higher health care costs brought about by a higher proportion of seniors in the population. Disparities in tax effort might also reflect different preferences with respect to overall tax burden.

Implications of Fiscal Capacity Disparities

The importance of regional fiscal disparities is growing as the economy changes

Concerns about fiscal disparities are most prominently expressed in relation to Canada's least well-off provinces. Sometimes the concerns are voiced in the broad context of national equity; at other times there is a narrower focus, such as reducing the potential for fiscally-induced migration — migration by individuals between provinces in search of better public services and/or lower taxes.

A focus on the national setting for addressing fiscal disparities is important, but it can obscure appreciation of the regional setting — a setting which has been growing in relative importance with changing trade patterns and a more regional focus for competitiveness.

The B.C.-Alberta fiscal capacity gap reflects Alberta's strong oil and natural gas revenues

In this context, the large gap in fiscal capacity between British Columbia and Alberta, its closest neighbouring province, is of particular interest. Among provinces, Alberta is the strongest beneficiary of the provinces' constitutional right to the revenues from non-renewable natural resources. As Chart G5 shows, Alberta greatly benefits from these revenues, especially those from oil and natural gas.

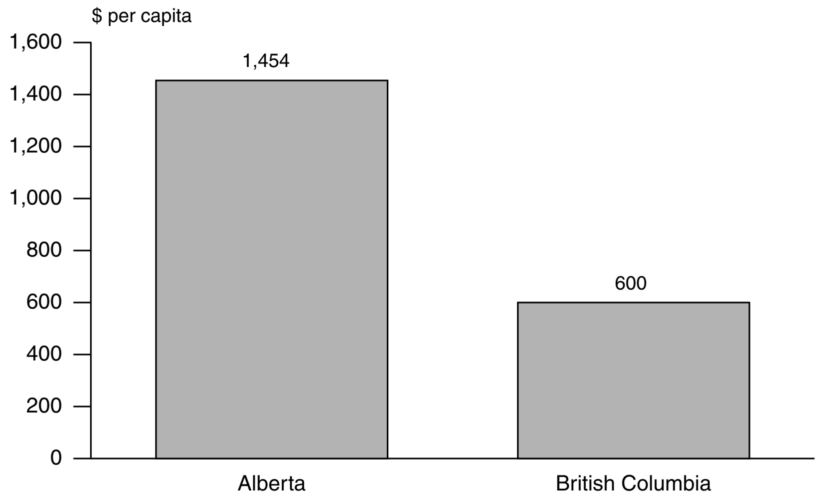
If British Columbia had Alberta's fiscal capacity, its revenues would be about $7.8 billion higher

Overall, British Columbia's own-source fiscal capacity is almost $2,000 per capita — or 25 per cent — lower than Alberta's. The CHST reduces this difference slightly, but post-transfer fiscal capacity is still 23 per cent lower in British Columbia than Alberta. If British Columbia had Alberta's fiscal capacity, revenues in the province would be about $7.8 billion higher per year[5]. This would greatly broaden the range of opportunities for fiscal policy options in British Columbia. Conversely, reducing British Columbia's tax effort so that it approximated that of Alberta would produce a severe contraction in the scope and quality of British Columbia's public services.

[5] Assuming national average tax rates for comparison purposes.

Chart G5

Importance of Natural Resources Revenues, 1999/00 (estimated)



Source: Alberta and British Columbia, *Budget 2000*

A similar situation presents itself to Alberta's other neighbours, Saskatchewan and Manitoba.

Conclusion

For any given level of public services, British Columbia can't set tax rates as low as Alberta's

The foregoing is not intended to justify removing all fiscal disparities between provinces — an option which would be prohibitively costly for the federal government. Rather, the purpose is to increase appreciation of the major constraints imposed by a province's fiscal capacity in the budgeting process. For a given level of government services, it is not possible for British Columbia and other provinces to set overall taxation rates as low as those in Alberta. This gives Alberta a sizeable competitive advantage over its provincial neighbours in that tax rates can influence the ability to attract and retain firms and people.

While British Columbia may have an above-standard fiscal capacity on a national basis, this is of limited benefit in a regional setting with an increasing imperative to address tax competitiveness. From a Western Canada perspective, British Columbia is little better able to provide "reasonably comparable public services at reasonably comparable levels of taxation" — to cite the overall goal of the Equalization program — than those provinces receiving Equalization.

TABLE H1
GENERAL ECONOMIC INDICATORS

	Unit or Base Period	1996	1997	1998	1999
Population and Labour Force:					
Population (July 1)	thousands	3,882	3,960	3,998	4,023
Net In-migration	number	67,120	44,631	7,355	22,540[e]
Interprovincial	number	17,798	1,980	(20,984)	(11,721)[e]
International	number	49,322	42,651	28,339	34,261[e]
Labour force	thousands	1,995	2,040	2,051	2,079
Labour force participation rate*	per cent	65.7	65.6	64.9	65.1
Male	per cent	72.9	72.2	71.2	71.2
Female	per cent	58.6	59.1	58.8	59.2
Employment	thousands	1,821	1,869	1,870	1,906
Male	thousands	999	1,013	1,001	1,019
Female	thousands	822	856	869	887
Full-time	thousands	1,453	1,479	1,467	1,495
Part-time	thousands	368	390	404	412
Unemployment rate	per cent	8.7	8.4	8.8	8.3
Male	per cent	8.8	8.7	9.8	9.0
Female	per cent	8.5	8.0	7.7	7.5
Main Economic Indicators:					
Provincial gross domestic product	$ millions	108,034	111,126	110,948	114,480[e]
Capital investment (new)	$ millions	18,775	21,807	20,055	20,335
Retail sales	$ millions	32,071	33,736	33,045	33,653
New motor vehicle sales	units	143,696	164,426	147,497	157,215
Housing starts	dwelling units	27,641	29,351	19,931	16,309
Building permits	$ millions	6,053	5,544	4,740	4,696
Exports	$ millions	25,765	26,761	26,045	28,694
Incomes:					
Personal income	$ millions	91,626	94,085	95,575	97,091[e]
Labour income	$ millions	58,406	60,505	60,904	62,250
Average weekly earnings	$	607	611	618	625
Prices:					
Consumer price index, B.C. (urban)	1992=100	108.9	109.7	110.0	111.2
Consumer price index, Vancouver	1992=100	109.2	109.8	110.4	111.4
Consumer price index, Victoria	1992=100	108.7	109.7	110.0	111.1
Industrial product price index, Canada	1992=100	118.6	119.5	119.4	121.6
B.C. export commodity price index ($Cdn.)	1992=100	138.2	140.8	131.0	141.1

e: estimates.
* Per cent of the working-age population in the labour force.

TABLE H1

GENERAL ECONOMIC INDICATORS — *Continued*

	Unit or Base Period	1996	1997	1998	1999
Financial Indicators:					
Business incorporations	number	22,848	22,958	20,759	21,009
Business bankruptcies	number	948	895	1,031	1,110[e]
Bloomberg B.C. Stock Index, annual close	Dec. 30, 1994 =100	n.a.	n.a.	107.4	121.9
Personal savings deposits at chartered banks	$ millions	42,724	41,846	40,557	41,505[e]
Personal loans outstanding at chartered banks	$ millions	12,535	13,741	13,296	14,403[e]
Sector Indicators:					
Manufacturing shipments	$ millions	34,096	34,583	33,890	37,008
Timber scaled	thousand cubic metres	75,213	68,628	64,967	75,997
Lumber production	thousand cubic metres	32,671	31,562	30,237	31,832
Pulp and paper production	thousand tonnes	7,287	7,096	7,076	7,985
Gross value of mineral production	$ millions	3,087	3,132	3,026	2,593[e]
Petroleum and natural gas production	$ millions	1,258	1,571	1,527	1,889[e]
Electric power generation (net)	million kilowatt hours	71,747	66,693	66,763	67,539
Farm cash receipts	$ millions	1,710	1,756	1,813	1,948
Foreign visitors	thousands	6,907	7,323	7,845	8,269
Regional Data:					
Housing Starts					
Vancouver	units	15,453	15,950	11,878	8,677
Victoria		1,142	1,311	964	1,340
Abbotsford		865	871	536	566
Chilliwack		396	621	356	201
Courtenay		517	488	277	157
Kamloops		555	543	380	294
Kelowna		1,406	1,741	851	880
Nanaimo		887	821	479	461
Prince George		441	402	273	166
Campbell River		419	336	132	67
Vernon		400	346	333	335
Duncan		383	242	175	92
Penticton		272	223	265	154

Labour Markets	Employment (persons) 1998	Employment (persons) 1999	Unemployment Rate (%) 1998	Unemployment Rate (%) 1999
Greater Vancouver	979,600	1,005,400	8.1	7.8
Greater Victoria	146,600	154,200	8.7	6.7
Vancouver Island/Coast	315,700	329,100	9.6	8.0
Mainland/Southwest	1,113,400	1,140,100	8.1	7.8
Thompson-Okanagan	208,200	207,100	8.2	9.7
Kootenay	70,600	69,500	11.8	9.0
Cariboo	83,300	82,900	14.5	11.6
North Coast and Nechako	47,400	46,700	9.5	8.8
Northeast	31,700	30,800	4.0	8.9

e: estimates.

Sources: Statistics Canada, Bank of Canada, Government of British Columbia, other federal and provincial agencies and industry associations.

TABLE H2
INTERPROVINCIAL COMPARISONS OF TAX RATES
(Rates known as of March 17, 2000)[1]

Tax	**British Columbia**[2]	Alberta	Saskat-chewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	Prince Edward Island	New-foundland
Personal Income tax										
Provincial personal income tax (per cent of family income)[3]	5.3	5.2	7.3	6.4	4.2	8.1	6.5	6.2	6.3	7.0
Corporation income tax (per cent of taxable income)[4]										
General Rate	16.5	15.5	17	17	15.5	8.9	17	16	16	14
Small Business Rate	4.75	6	8	7	7.0	8.9	6	5	7.5	5
Corporation capital tax[5]										
Non-financial	.3	*Nil*	.6	.3/.5	.3	.64	.3	.25	*Nil*	*Nil*
Financial	1.0/3.0	0.7/1.0	0.7/3.25	3.0	.6/.99	1.28	3.0	3.0	3.0	4.0
Health care premiums[6]										
Individual/family	36/72	34/68	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*
Payroll Tax[7] (per cent)	*Nil*	*Nil*	*Nil*	2.15	1.95	4.26	*Nil*	*Nil*	*Nil*	2.0
Insurance premium tax (per cent)[8]	2-4	2-3	2-3	2-3	2-3.5	2-3	2-3	3-4	3.5	4
Fuel tax (cents per litre)										
Gasoline[9]	11.0	9.0	15.0	11.5	14.7	19.2	10.7	13.5	13.0	16.5
Diesel	11.5	9.0	15.0	10.9	14.3	20.2	13.7	15.4	13.5	16.5
Sales tax (per cent)										
General rate	7	*Nil*	6	7	8	7.5	8	8	10	8
Liquor	10	*Nil*	7	7	12	7.5	8	8	37.5	8
Meals	*Nil*	*Nil*	*Nil*	7	8	7.5	8	8	10	8
Accommodation	8	5	6	7	5	7.5	8	8	10	8
Tobacco tax (dollars per carton of 200 cigarettes)[10]	22.00	14.00	20.00	18.82	7.35	8.60	10.80	11.49	13.20	25.96

[1] Rates shown are those known as of March 17, 2000, and that are in effect for 2000.
[2] British Columbia tax rates are shown as announced in the 2000 Budget.
[3] Calculated for a two income family of four with one spouse earning $35,000 and the other earning $20,000, both with employment income and claiming basic personal credits and typical major deductions. Unlike previous year's tax rate comparisons, nominal rates are not shown due to the transitions to the tax-on-income system.
[4] Alberta, Saskatchewan, Ontario, Prince Edward Island and Newfoundland have lower rates for manufacturing and processing. Quebec's general corporate income tax rate applies to all business income.
[5] The British Columbia non-financial rate applies to corporations with paid-up capital in excess of $2.5 million; Ontario has lower rates for corporations with less than $2.3 million in taxable capital; Manitoba has a $5 million exemption level and the higher rate applies to paid-up capital in excess of $10 million; Saskatchewan has a $10 million deduction. Large Saskatchewan resource corporations are assessed a surcharge on the value of Saskatchewan resource sales. Ontario and Quebec have an additional surcharge or compensation tax on financial institutions. A compensation tax may also apply in Quebec.
[6] British Columbia has a two person rate of $64. British Columbia and Alberta offer premium assistance in the form of lower rates or an exemption from premiums for lower income individuals and families.
[7] Provinces with payroll taxes provide payroll tax relief for small businesses.
[8] The lower rate applies to premiums for life, sickness and accident insurance; the higher rate applies to premiums for property insurance. The rate on automobile insurance is 4 per cent in British Columbia and Saskatchewan, and 3 per cent in Ontario. Sales tax applies to insurance premiums, except those related to individual life and health, in Ontario (8 per cent), Quebec (9 per cent) and Newfoundland (12 per cent). The sales tax is reduced to 5 per cent for automobile insurance in Quebec and Ontario.
[9] Tax rate is for regular fuel used on highways. The British Columbia rate includes 3.25 cents per litre dedicated to the Transportation Financing Authority and 1.25 cents dedicated to the BC Ferry Corporation. The rates do not include regional taxes. The Quebec rate includes estimated sales tax.
[10] Includes estimated provincial sales tax where applicable.

TABLE H3

COMPARISON OF PROVINCIAL AND FEDERAL TAXES BY PROVINCE — 2000

Tax	British Columbia	Alberta	Saskat-chewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	Prince Edward Island	New-foundland
	($)									
Two Income Family of Four — $90,000										
1. Provincial Income Tax	6,234	6,000	8,308	8,027	4,888	10,327	7,617	7,300	7,427	8,136
Net Child Benefits	0	0	0	—	—	0	0	0	—	—
2. Property Tax — Gross	1,638	1,352	2,347	2,581	2,801	2,078	1,205	1,564	1,486	1,110
— Net	1,168	1,352	2,347	2,331	2,801	2,078	1,205	1,564	1,486	1,110
3. Sales Tax	984	6	832	1,136	1,461	1,577	1,652	1,665	1,541	1,631
4. Fuel Tax	165	135	225	173	221	288	161	203	195	248
5. Provincial Direct Taxes	8,551	7,493	11,712	11,667	9,371	14,270	10,635	10,732	10,649	11,125
6. Health Care Premiums/Payroll Tax	864	816	—	1,935	1,755	3,375	—	—	—	1,350
7. Total Provincial Tax	9,415	8,309	11,712	13,602	11,126	17,645	10,635	10,732	10,649	12,475
8. Federal Income Tax	12,695	12,695	12,695	12,695	12,695	12,695	12,695	12,695	12,695	12,695
9. Net Federal GST	1,476	1,584	1,445	1,443	1,543	1,347	1,446	1,457	1,410	1,427
10. Total Tax	23,586	22,588	25,852	27,740	25,364	31,687	24,776	24,884	24,754	26,597
Two Income Family of Four — $55,000										
1. Provincial Income Tax	2,901	2,882	4,007	3,506	2,296	4,437	3,578	3,428	3,488	3,835
Net Child Benefits	0	101	0	—	—	(157)	0	0	—	—
2. Property Tax — Gross	1,638	1,352	2,347	2,581	2,801	2,078	1,205	1,564	1,486	1,110
— Net	1,168	1,352	2,347	2,331	2,801	2,078	1,205	1,564	1,486	1,110
3. Sales Tax	731	5	632	872	1,083	1,243	1,252	1,258	1,166	1,241
4. Fuel Tax	165	135	225	173	221	288	161	203	195	248
5. Provincial Direct Taxes	4,965	4,475	7,211	6,882	6,401	7,889	6,196	6,453	6,335	6,434
6. Health Care Premiums/Payroll Tax	864	816	—	1,183	1,073	2,063	—	—	—	825
7. Total Provincial Tax	5,829	5,291	7,211	8,065	7,474	9,952	6,196	6,453	6,335	7,259
8. Federal Income Tax	5,963	5,963	5,963	5,963	5,963	5,963	5,963	5,963	5,963	5,963
9. Net Federal GST	1,097	1,172	1,098	1,108	1,143	1,063	1,095	1,101	1,067	1,086
10. Total Tax	12,889	12,426	14,272	15,136	14,580	16,978	13,254	13,517	13,365	14,308
Two Income Family of Four — $30,000										
1. Provincial Income Tax	1,034	802	1,154	687	91	(727)	1,314	1,259	1,281	1,383
Net Child Benefits	(766)	(741)	0	—	—	(237)	(52)	0	—	—
2. Property Tax — Gross	1,638	1,352	2,347	2,581	2,801	2,078	1,205	1,564	1,486	1,110
— Net	1,168	1,352	2,347	2,331	2,801	2,078	1,205	1,564	1,486	1,110
3. Sales Tax	486	3	457	615	756	936	883	888	823	997
4. Fuel Tax	165	135	225	173	221	288	161	203	195	248
5. Provincial Direct Taxes	2,087	1,551	4,183	3,806	3,869	2,338	3,563	3,914	3,785	3,738
6. Health Care Premiums/Payroll Tax	691	816	—	645	585	1,125	—	—	—	450
7. Total Provincial Tax	2,778	2,367	4,183	4,451	4,454	3,463	3,563	3,914	3,785	4,188
8. Federal Income Tax	2,190	2,190	2,190	2,190	2,190	2,190	2,190	2,190	2,190	2,190
9. Net Federal GST	275	431	436	420	440	442	411	416	390	391
10. Total Tax	5,243	4,988	6,809	7,061	7,084	6,095	6,164	6,520	6,365	6,769
Unattached Individual — $25,000										
1. Provincial Income Tax	1,235	1,239	1,715	1,381	837	2,051	1,528	1,464	1,490	1,659
2. Property Tax	—	—	—	—	—	—	—	—	—	—
3. Sales Tax	390	3	340	495	606	660	674	677	694	668
4. Fuel Tax	110	90	150	115	147	192	107	135	130	165
5. Provincial Direct Taxes	1,735	1,332	2,205	1,991	1,590	2,903	2,309	2,276	2,314	2,492
6. Health Care Premiums/Payroll Tax	432	408	—	538	488	938	—	—	—	375
7. Total Provincial Tax	2,167	1,740	2,205	2,529	2,078	3,841	2,309	2,276	2,314	2,867
8. Federal Income Tax	2,547	2,547	2,547	2,547	2,547	2,547	2,547	2,547	2,547	2,547
9. Net Federal GST	285	325	289	299	316	264	287	290	268	281
10. Total Tax	4,999	4,612	5,041	5,375	4,941	6,652	5,143	5,113	5,129	5,695

TABLE H3

COMPARISON OF PROVINCIAL AND FEDERAL TAXES BY PROVINCE — 2000 — *Continued*

Tax	British Columbia	Alberta	Saskat-chewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	Prince Edward Island	New-foundland
	($)									
Unattached Individual — $80,000										
1. Provincial Income Tax	8,010	6,950	10,067	9,378	6,610	12,330	8,975	8,601	9,105	10,038
2. Property Tax — Gross	1,638	1,352	2,347	2,581	2,801	2,078	1,205	1,564	1,486	1,110
— Net	1,168	1,352	2,347	2,331	2,801	2,078	1,205	1,564	1,486	1,110
3. Sales Tax	884	7	733	1,065	1,366	1,350	1,485	1,503	1,519	1,434
4. Fuel Tax	165	135	225	173	221	288	161	203	195	248
5. Provincial Direct Taxes	10,227	8,444	13,372	12,947	10,998	16,046	11,826	11,871	12,305	12,830
6. Health Care Premiums/Payroll Tax	432	408	—	1,720	1,560	3,000	—	—	—	1,200
7. Total Provincial Tax	10,659	8,852	13,372	14,667	12,558	19,046	11,826	11,871	12,305	14,030
8. Federal Income Tax	15,305	15,305	15,305	15,305	15,305	15,305	15,305	15,305	15,305	15,305
9. Net Federal GST	1,331	1,469	1,275	1,294	1,395	1,159	1,299	1,315	1,249	1,255
10. Total Tax	27,295	25,626	29,952	31,266	29,258	35,510	28,430	28,491	28,859	30,590
Senior Couple with Equal Pension Incomes — $30,000										
1. Provincial Income Tax	495	92	828	(58)	(427)	457	661	633	644	688
2. Property Tax — Gross	1,638	1,352	2,347	2,581	2,801	2,078	1,205	1,564	1,486	1,110
— Net	893	1,352	2,347	2,331	2,801	2,078	1,205	1,564	1,486	1,110
3. Sales Tax	608	7	510	718	865	1,128	1,141	1,127	1,004	1,144
4. Fuel Tax	110	90	150	115	147	192	107	135	130	165
5. Provincial Direct Taxes	2,106	1,541	3,835	3,106	3,386	3,855	3,114	3,459	3,264	3,107
6. Health Care Premiums/Payroll Tax	768	816	—	—	—	—	—	—	—	—
7. Total Provincial Tax	2,874	2,357	3,835	3,106	3,386	3,855	3,114	3,459	3,264	3,107
8. Federal Income Tax	1,101	1,101	1,101	1,101	1,101	1,101	1,101	1,101	1,101	1,101
9. Net Federal GST	803	864	775	800	787	781	806	794	767	809
10. Total Tax	4,778	4,322	5,711	5,007	5,274	5,737	5,021	5,354	5,132	5,017

Personal Income Tax

- Income tax is based on basic personal credits, applicable provincial credits, and typical major deductions at each income level. Quebec residents pay federal income tax less an abatement of 16.5 per cent of basic federal tax. This abatement has been used to reduce Quebec provincial tax rather than federal tax, for comparative purposes. The two income family of four with $55,000 annual income is assumed to have one spouse earning $35,000 and the other $20,000, the family with $90,000 income is assumed to have one spouse earning $50,000 and the other $40,000, the family with $30,000 is assumed to have each spouse earning $15,000 and each senior is assumed to receive $15,000. All representative families are assumed to have employment income except the senior couple. Contributions to the Quebec Health Services Fund are included in Quebec personal income tax. Provincial income tax is calculated based on the assumption that all provinces except Quebec parallel the federal tax reductions for 2000.

Net Child Benefits

- Net child benefits are provincial measures affecting payments to families with children. Provincial child benefit measures are available in British Columbia (BC Family Bonus), Alberta (Family Employment Credit), Saskatchewan (Child Benefit), Quebec (Integrated Child Allowance), New Brunswick (Child Tax Benefit) and Nova Scotia (Child Benefit). In addition, the Alberta government has chosen to vary the amount of the basic federal child tax benefit that their residents receive (shown as a net amount).

Property Tax

- Property tax estimates prepared by the Canadian Mortgage and Housing Corporation (CMHC) have been used. The estimates are from a 1998 CMHC report of property tax estimates for a "starter home" in major Canadian cities. These estimates are based on a comprehensive review of property taxes that prospective buyers are likely to pay in major cities in each province. Property tax estimates for 1999 are not available from CMHC. In the tables, each family is assumed to own a dwelling with property taxes assessed at the amount provided by the CMHC report (except the single individual with $25,000 annual income who is assumed to rent accommodation). Net property taxes are estimated as taxes owing after credits provided through the property tax system are subtracted.

Sales and Fuel Tax Estimates

- Includes sales tax on meals, liquor and accommodation. Estimates are based on expenditure patterns from the 1996 Survey of Family Expenditures. In estimating individual and family taxable consumption, disposable income is reduced by 20 per cent to reflect housing (mortgage and property taxes or rent) costs. The senior couple is assumed to own their home and have no mortgage costs. For each province, disposable income is further reduced by estimated federal income taxes, estimated provincial income taxes and health care premiums if applicable. In addition, the single individual with $80,000 annual income and the family with $90,000 annual income are assumed to have savings equal to 5 per cent of their disposable income. For each family, disposable income is distributed among expenditures using the consumption pattern of a typical family with the relevant characteristics as estimated by the family expenditure survey. The provincial sales tax and the federal goods and services tax (GST) components of these expenditures are then calculated. GST estimates have been reduced by the GST credit, where applicable.
- Fuel tax is based on annual consumption: 1,000 litres of unleaded fuel for the single individual at $25,000, the family at $30,000 and the senior couple; others are assumed to consume 1,500 litres.

Health Care Premiums/Payroll Tax

- Health care premiums are levied in British Columbia and Alberta only. Approximately 50 per cent of British Columbia premiums are paid by employers on behalf of their employees with the remainder paid by individuals, either by employees or by residents who are not employed. Payroll taxes, in the four provinces that levy them, are paid by the employer. The cost to employers of payroll taxes and health care premiums paid on behalf of employees is generally reflected in reduced wages.

Effective Tax Rates

- British Columbia taxes have been calculated using rates in effect for 2000. Taxes for other provinces were calculated using rates that were announced prior to March 17, 2000, and come into effect during 2000.

TABLE H4

SUMMARY OF OPERATING RESULTS, CAPITAL EXPENDITURES AND NET DEBT

	Actual 1996/97	Actual 1997/98	Actual 1998/99	Revised Forecast 1999/00	Budget Estimate 2000/01
	($ millions)				
Operating Results					
Consolidated Revenue Fund surplus (deficit)	(337)	(151)	(466)	(1,208)	(800)
Net surplus (deficit) of taxpayer-supported Crown corporations and agencies	(363)	(345)	(724)	453	(306)
Net contribution of self-supported Crown corporations and agencies	(53)	66	94	(290)	128
Forecast allowance	—	—	—	(100)	(300)
Summary surplus (deficit)	(753)	(430)	(1,096)	(1,145)	(1,278)
Capital Expenditures					
Taxpayer-supported					
Capital plan					
Education	450	373	504	500	579
Health	194	115	169	230	309
Transportation	596	419	781	1,053	1,043
Other	35	30	24	38	63
Gross capital plan	1,275	937	1,478	1,821	1,994
Less: recoverable expenditures[1]	(28)	(17)	(89)	(67)	(86)
Net capital plan	1,247	920	1,389	1,754	1,908
Other taxpayer-supported					
Government operating (ministries)	150	147	195	157	223
Other	40	49	83	47	53
Total taxpayer-supported	1,437	1,116	1,667	1,958	2,184
Commercial Crown corporations and agencies	647	511	607	717	894
Total capital expenditures	2,084	1,627	2,274	2,675	3,078
Net Debt at Year-End:[2]					
Provincial government direct					
Operating purposes[3]	11,030	11,488	12,219	13,773	15,059
Capital financing purposes	5,661	5,769	6,999	7,907	8,952
Total provincial government direct	16,691	17,257	19,218	21,680	24,011
Taxpayer-supported Crown corporations and agencies[3]	4,461	4,721	3,743	3,224	3,870
Total taxpayer-supported debt	21,152	21,978	22,961	24,904	27,881
Commercial Crown corporations and agencies	7,995	7,992	8,399	7,994	7,992
Warehouse borrowing program	100	212	658	1,358	600
Total provincial debt	29,247	30,182	32,018	34,256	36,473

[1] Expenditures by hospital districts on cost-shared projects, and capital spending on behalf of, and recovered from, other public sector agencies.
[2] Net of sinking funds and unamortized discount balances.
[3] Effective March 31, 2000, fiscal agency debt of the British Columbia Ferry Corporation and of 580440 British Columbia Ltd. (Vancouver Trade and Convention Centre) is included as part of provincial government direct debt.

TABLE H5
SUMMARY ACCOUNTS OPERATING RESULTS — FIVE-YEAR DETAILS

	Actual 1996/97	Actual 1997/98	Actual 1998/99	Revised Forecast 1999/00	Budget Estimate 2000/01
	($ millions)				
Consolidated Revenue Fund (CRF):					
Revenue[1]	20,125.6	20,215.9	20,306.1	21,385.0	21,500.0
Expenditure[1]	(20,462.7)	(20,366.8)	(20,771.7)	(22,593.0)	(22,300.0)
CRF Balance	(337.1)	(150.9)	(465.6)	(1,208.0)	(800.0)
Crown corporations and agencies:					
Taxpayer-supported:					
British Columbia Buildings Corporation	39.4	39.3	48.1	39.0	62.0
British Columbia Ferry Corporation	(76.5)	(59.0)	(114.3)	(308.0)	(10.0)
BC Transportation Financing Authority	25.3	51.6	(23.6)	3.0	(1.0)
Forest Renewal BC	105.4	(87.7)	(264.6)	(47.0)	(52.0)
Other[2]	(21.4)	40.4	9.0	(17.0)	(16.0)
	72.2	(15.4)	(345.4)	(330.0)	(17.0)
Less: contributions paid to CRF[3]	(10.0)	(20.0)	(14.0)	(71.0)	(62.0)
accounting adjustments[4]	(425.1)	(310.0)	(364.7)	854.0	(227.0)
Total taxpayer-supported	(362.9)	(345.4)	(724.1)	453.0	(306.0)
Self-supported:					
British Columbia Hydro and Power Authority	339.0	407.8	395.4	418.0	429.0
Liquor Distribution Branch	587.1	606.0	615.9	615.0	620.0
British Columbia Lottery Corporation	272.9	290.3	456.0	525.0	534.0
British Columbia Railway Company	36.3	40.2	24.1	(582.0)	40.0
Insurance Corporation of British Columbia	(134.9)	14.0	73.5	96.0	3.0
Other[5]	(8.0)	(25.0)	(23.3)	(7.0)	42.0
	1,092.4	1,333.3	1,541.6	1,065.0	1,668.0
Less: contributions paid to CRF[6]	(1,138.1)	(1,259.7)	(1,347.9)	(1,380.0)	(1,386.0)
accounting adjustments[7]	(7.0)	(7.4)	(99.5)	25.0	(154.0)
Total self-supported	(52.7)	66.2	94.2	(290.0)	128.0
Total Crown corporations and agencies	(415.6)	(279.2)	(629.9)	163.0	(178.0)
Forecast allowance	—	—	—	(100.0)	(300.0)
Total summary accounts deficit	(752.7)	(430.1)	(1,095.5)	(1,145.0)	(1,278.0)

[1] Revenue and expenditure for 1996/97 and 1997/98 have been restated to reflect a change in accounting policy with respect to earnings of sinking funds held for government direct operating debt. The effect of this restatement reduces revenue and expenditure by $81.6 million in 1996/97, and $69.0 million in 1997/98. Revenue amounts exclude dedicated revenue collected on behalf of, and transferred to, Crown corporations, agencies and other entities. Further details on transferred revenue is provided in Table H6.
[2] Includes earnings/(losses) of British Columbia Transit, British Columbia Securities Commission, Okanagan Valley Tree Fruit Authority, Tourism British Columbia and other taxpayer-supported Crown corporations and agencies.
[3] Reflects dividends from the British Columbia Buildings Corporation that are included in CRF revenue.
[4] Primarily includes adjustments to record the amortization of the cost of highways transferred to the BC Transportation Financing Authority. The 1999/00 adjustment includes forgiveness of $1.08 billion of debt owed to the provincial government by the British Columbia Ferry Corporation.
[5] Includes earnings/(losses) of the Columbia Power Corporation and 552513 BC Ltd. (Skeena Cellulose Inc.) and other commercial Crown corporations.
[6] Includes dividends from commercial Crown corporations that are included in CRF revenue.
[7] Includes the adjustment to the British Columbia Hydro and Power Authority rate stabilization account, and transfers of British Columbia Lottery Corporation revenue to charities and local governments by the British Columbia Gaming Commission.

TABLE H6

REVENUE BY SOURCE[1]

CONSOLIDATED REVENUE FUND

	Actual 1996/97	Actual 1997/98	Actual 1998/99	Budget Estimate 1999/00[2]	Revised Forecast 1999/00	Budget Estimate 2000/01	Annual Rate of Growth 1996/97 to 2000/01
	($ millions)						(per cent)
Taxation Revenue:							
Personal income	5,289.8	5,362.0	5,423.0	5,374.0	5,754.0	5,513.0	1.0
Corporation income	1,347.3	1,137.7	1,097.7	847.0	939.0	915.0	(9.2)
Social service	3,076.3	3,243.2	3,209.2	3,190.0	3,325.0	3,446.0	2.9
Fuel	688.1	641.6	653.5	436.0	456.0	437.0	(10.7)
Tobacco	487.9	485.9	505.1	478.0	468.0	468.0	(1.0)
Property — residential (school purpose)	493.1	502.1	511.3	512.0	503.0	514.0	1.0
Property — business (school purpose)	701.8	734.4	763.7	768.0	760.0	779.0	2.6
Property — rural area	62.3	62.0	61.0	65.0	67.0	67.0	1.8
Property transfer	313.3	310.3	222.6	216.0	240.0	250.0	(5.5)
Corporation capital	402.9	406.2	455.2	418.0	441.0	438.0	2.1
Insurance premium[3]	168.6	176.0	195.2	198.0	195.0	198.0	4.1
Hotel room[4]	87.6	74.3	79.5	73.0	83.0	87.0	(0.2)
Horse racing	5.1	4.4	3.8	4.0	3.0	3.0	(12.4)
Less: commissions on collection of public funds	(24.9)	(24.1)	(23.8)	(24.0)	(24.0)	(24.0)	(0.9)
Less: allowances for doubtful accounts	(5.4)	(12.8)	(23.3)	(9.0)	(15.0)	(15.0)	29.1
Total taxation revenue	13,093.8	13,103.2	13,133.7	12,546.0	13,195.0	13,076.0	—
Natural Resource Revenue:							
Petroleum and natural gas:							
Natural gas royalties	173.4	155.6	190.7	205.0	332.0	335.0	17.9
Permits and fees	205.8	214.0	109.3	120.0	237.0	217.0	1.3
Petroleum royalties	74.3	76.9	62.2	68.0	89.0	88.0	4.3
Sub-total	453.5	446.5	362.2	393.0	658.0	640.0	9.0
Minerals	47.2	51.8	43.9	29.0	46.0	33.0	(8.6)
Forests:							
Timber sales	1,019.3	968.2	815.0	803.0	992.0	967.0	(1.3)
Small business forest enterprise program	323.1	317.9	209.2	220.0	229.0	232.0	(7.9)
Logging tax	40.4	13.5	13.3	13.0	20.0	45.0	2.7
Other forests revenue	25.1	64.7	55.3	37.0	57.0	58.0	23.3
Sub-total	1,407.9	1,364.3	1,092.8	1,073.0	1,298.0	1,302.0	(1.9)
Water resources	264.1	321.9	322.3	376.0	400.0	398.0	10.8
Wildlife Act	13.8	14.4	14.4	14.0	15.0	14.0	0.4
Sub-total	277.9	336.3	336.7	390.0	415.0	412.0	10.3
Less: commissions on collection of public funds	(1.0)	(1.1)	(1.1)	(1.0)	(1.0)	(1.0)	—
Less: allowances for doubtful accounts	—	(0.6)	(5.0)	(4.0)	(4.0)	(8.0)	—
Total natural resource revenue	2,185.5	2,197.2	1,829.5	1,880.0	2,412.0	2,378.0	2.1

TABLE H6

REVENUE BY SOURCE[1] — *Continued*

CONSOLIDATED REVENUE FUND

	Actual 1996/97	Actual 1997/98	Actual 1998/99	Budget Estimate 1999/00[2]	Revised Forecast 1999/00	Budget Estimate 2000/01	Annual Rate of Growth 1996/97 to 2000/01
	($ millions)						(per cent)
Other Revenue:							
Medical Services Plan premiums	853.3	881.8	876.0	896.0	880.0	891.0	1.1
Motor vehicle licences and permits	321.9	316.3	328.6	334.0	334.0	341.0	1.5
Ministry of Attorney General fees	95.5	95.4	105.8	104.0	96.0	102.0	1.7
Real estate earnings of the Crown Land special account	36.8	34.8	44.3	69.7	62.0	80.0	21.4
Coquihalla highway tolls	38.0	38.8	38.9	40.0	40.0	41.0	1.9
Registries Agency fees	35.8	36.7	36.0	36.8	36.0	37.0	0.8
Vital Statistics Agency fees	9.4	9.9	10.1	10.0	10.0	10.0	1.6
Ministry of Health fees	20.3	23.6	23.3	23.0	22.0	22.0	2.0
Provincial Treasury Operations and Insurance and Risk Management special accounts	21.4	26.2	26.5	28.0	29.0	22.0	0.7
Safety inspection fees	16.1	17.2	15.9	16.0	15.0	16.0	(0.2)
Waste management fees	15.7	13.2	12.5	13.0	12.0	12.0	(6.5)
Public gaming licences and permits	16.8	17.8	6.0	1.0	—	—	—
Fire Services Act[3]	11.0	11.5	—	—	—	—	—
Property tax collection fees	6.4	6.2	6.6	7.0	7.0	7.0	2.3
Financial Institutions Commission	6.5	5.9	2.2	2.0	2.0	1.0	(37.4)
Other fees and licences	34.8	56.5	35.9	57.5	30.0	34.0	(0.6)
	1,539.7	1,591.8	1,568.6	1,638.0	1,575.0	1,616.0	1.2
Less: commissions on collection of public funds	(41.9)	(72.5)	(51.3)	(24.0)	(14.0)	(5.0)	(41.2)
Less: allowances for doubtful accounts	(16.5)	(19.2)	(33.5)	(33.0)	(5.0)	(16.0)	(0.8)
Sub-total	1,481.3	1,500.1	1,483.8	1,581.0	1,556.0	1,595.0	1.9
Investment earnings	50.4	47.6	51.0	48.0	54.0	55.0	2.2
Miscellaneous							
Fines and penalties	76.9	100.9	112.0	112.0	103.0	103.0	7.6
Maintenance of children[5]	12.6	16.8	10.0	—	—	—	—
Insurance claims receipts	22.0	22.2	13.6	13.0	12.0	13.0	(12.3)
Other miscellaneous	106.2	91.6	101.6	94.0	68.0	92.0	(3.5)
	268.1	279.1	288.2	267.0	237.0	263.0	(0.5)
Less: commissions on collection of public funds	(3.0)	(3.7)	(3.6)	(3.0)	(3.0)	(9.0)	31.6
Less: allowances for doubtful accounts	(3.1)	(0.2)	(0.1)	(1.0)	(4.0)	(18.0)	55.2
Sub-total	262.0	275.2	284.5	263.0	230.0	236.0	(2.6)
Asset dispositions[6]	—	24.0	63.1	84.0	52.0	50.0	—
Total other revenue	1,743.3	1,799.3	1,831.4	1,928.0	1,838.0	1,881.0	1.9

TABLE H6

REVENUE BY SOURCE[1] — *Continued*

CONSOLIDATED REVENUE FUND

	Actual 1996/97	Actual 1997/98	Actual 1998/99	Budget Estimate 1999/00[2]	Revised Forecast 1999/00	Budget Estimate 2000/01	Annual Rate of Growth 1996/97 to 2000/01
	($ millions)						(per cent)
Contributions from Government Enterprises:							
Taxpayer-supported Crown corporations and agencies:							
British Columbia Buildings Corporation	10.0	20.0	2.0	246.0	71.0	62.0	57.8
Self-supported Crown corporations and agencies:							
Liquor Distribution Branch	587.8	609.3	615.6	620.0	615.0	620.0	1.3
British Columbia Hydro and Power Authority	279.3	369.0	322.9	348.0	345.0	355.0	6.2
British Columbia Lottery Corporation	266.2	281.4	369.4	424.0	413.0	398.0	10.6
Other[7]	4.8	—	52.0	41.0	7.0	13.0	28.3
Sub-total	1,138.1	1,259.7	1,359.9	1,433.0	1,380.0	1,386.0	5.0
Total contributions from government enterprises	1,148.1	1,279.7	1,361.9	1,679.0	1,451.0	1,448.0	6.0
Contributions from the Federal Government:							
Canada health and social transfer	1,775.0	1,637.0	1,968.0	2,208.0	2,327.0	2,549.0	9.5
Education (public schools)	71.7	74.5	75.5	72.0	73.8	73.8	0.7
National Training Act	11.1	7.7	7.1	—	—	—	—
Employability assistance for persons with disabilities	29.4	26.7	34.6	27.0	27.0	27.0	(2.1)
Young Offenders Act	8.1	8.1	1.7	1.0	1.7	1.7	(32.3)
Other payments	59.6	82.5	62.7	44.0	59.5	65.5	2.4
Total contributions from the federal government	1,954.9	1,836.5	2,149.6	2,352.0	2,489.0	2,717.0	8.6
Total Revenue	20,125.6	20,215.9	20,306.1	20,385.0[2]	21,385.0	21,500.0	1.7

TABLE H6

REVENUE BY SOURCE[1] — *Continued*

CONSOLIDATED REVENUE FUND

	Actual 1996/97	Actual 1997/98	Actual 1998/99	Budget Estimate 1999/00[2]	Revised Forecast 1999/00	Budget Estimate 2000/01	Annual Rate of Growth 1996/97 to 2000/01
	($ millions)						(per cent)
DEDICATED REVENUE COLLECTED ON BEHALF OF, AND TRANSFERRED TO CROWN CORPORATIONS AND AGENCIES, AND OTHER ENTITIES							
British Columbia Transit[8]	81.8	87.2	95.0	8.5	8.0	8.2	(43.7)
Greater Vancouver Transportation Authority *(TransLink)*[9]	—	—	—	185.0	183.0	187.0	—
BC Transportation Financing Authority[10]	62.5	118.6	124.0	170.0	176.0	202.8	34.2
British Columbia Ferry Corporation[11]	—	—	—	64.0	65.0	72.3	—
Tobacco Tax Amendment Act[12]	—	0.4	1.6	1.6	1.6	1.6	—
Rural Area Property Taxes[13]	135.2	147.1	150.3	155.0	155.0	156.0	3.6
Tourism British Columbia[4,14]	—	19.9	19.0	19.0	19.5	20.0	—
Oil and Gas Commission[15]	—	—	5.3	13.4	13.6	13.6	—
Forest Renewal BC[16]	485.3	482.8	174.0	114.0	268.0	251.4	(15.2)
Total dedicated revenue	764.8	856.0	569.2	730.5	889.7	912.9	4.5

[1] Unless otherwise indicated, figures for prior years have been restated to be consistent with the presentation used in 2000/01. Consolidated revenue fund revenue amounts exclude dedicated revenue collected on behalf of, and transferred to, Crown corporations and agencies, and other entities.

[2] The 1999/00 budget estimate included a revenue allowance of $230 million, which was deducted from revenue. In order to be consistent with the presentation used for the 2000/01 budget estimate, this allowance has been shown as a forecast allowance for the summary accounts deficit (see Tables B1 and B4).

[3] Beginning in 1998/99, *Fire Services Act* revenue is included in insurance premium tax revenue.

[4] Beginning in 1997/98, a portion of hotel room tax is dedicated to Tourism British Columbia.

[5] Beginning in 1999/00, maintenance of children revenue is recorded as a recovery to the Ministry of Children and Families' expenditure vote.

[6] Includes revenue realized through dispositions of assets resulting from reviews of government properties, agencies and other assets to identify those assets surplus to government's needs.

[7] Includes British Columbia Railway Company, British Columbia Systems Corporation, British Columbia Assets and Land Corporation (WLC Developments Ltd.) and other Crown corporations and agencies.

[8] For 1998/99 and prior years, figures include motor fuel tax collected in the Vancouver and Victoria regional transit areas. Effective April 1, 1999, figures include motor fuel tax collected in the Victoria regional transit area only (2.5 cents/litre on clear and motive fuel), as a result of the creation of the Greater Vancouver Transportation Authority *(TransLink)*.

[9] Effective April 1, 1999, includes 8 cents/litre on clear and motive fuel (4 cents/litre of which was previously collected on behalf of British Columbia Transit) and social service tax on parking in the Vancouver transit area.

[10] Includes motor fuel tax and social service tax on short-term rentals of passenger vehicles. The 1999/00 figure is based on a transfer of 3 cents/litre on clear fuel (up from 2 cents/litre effective June 1, 1999). The 2000/01 figure assumes an increase to 3.25 cents/litre effective April 1, 2000.

[11] Includes 1 cent/litre of motor fuel tax for the period April 1, 1999 to September 30, 1999, and 1.25 cents/litre effective October 1, 1999.

[12] Includes tobacco tax collected on behalf of the Cowichan Tribes in respect of the Cowichan Tribes Agreement.

[13] Includes local taxes collected on behalf of local governments in rural areas.

[14] Includes 1.65 percentage points of the 8 per cent provincial hotel room tax.

[15] Includes fees collected under the *Petroleum and Natural Gas Act* and the *Pipeline Act,* and a levy assessed under the *Oil and Gas Commission Levy Regulation.*

[16] Includes incremental stumpage and royalty revenue resulting from changes to rates introduced under the provincial government's Forest Renewal Plan on and after May 1, 1994.

TABLE H7

EXPENDITURE BY FUNCTION[1]
CONSOLIDATED REVENUE FUND

	Actual 1996/97	Actual 1997/98	Actual 1998/99	Revised Forecast 1999/00	Budget Estimate 2000/01	Annual Rate of Growth 1996/97 to 2000/01
	($ millions)					(per cent)
Health	7,061.7	7,248.9	7,582.5	8,160.8	8,502.5	4.8
Social services	3,019.9	3,101.8	3,035.2	2,999.2	3,109.9	0.7
Education	5,757.8	5,774.2	5,901.5	6,119.8	6,370.8	2.6
Protection of persons and property	1,116.1	1,039.9	1,066.3	1,105.3	1,060.2	(1.3)
Transportation	861.6	788.3	778.6	1,711.7[2]	635.5	(7.3)
Natural resources and economic development	1,043.5	856.4	947.3	1,028.0[3]	911.0	(3.3)
Other	494.2	478.7	372.2	322.4	442.8[4]	(2.7)
General government	240.6	245.0	250.0	305.8	258.3	1.8
Debt servicing	867.3	833.6	838.1	840.0	1,009.0	3.9
Total Expenditure	20,462.7	20,366.8	20,771.7	22,593.0	22,300.0	2.2

[1] Expenditure by function is presented on a basis to more closely follow the presentation used by Statistics Canada. Unless otherwise indicated, figures for previous years have been restated to be consistent with the presentation used for 2000/01.
[2] Includes forgiveness of $1.08 billion debt owed to the government by British Columbia Ferry Corporation.
[3] Includes a one-time writedown of $70 million for the Vancouver Trade and Convention Centre project and $41.4 million writedown of the government's investment in the Kemess mine.
[4] The Contingencies and New Programs vote is assigned to "Other" in the 2000/01 budget estimate, but is allocated to functions according to specific expenditures in prior years.

TABLE H8
PROJECTED INCOME STATEMENTS OF SELECTED CROWN CORPORATIONS

British Columbia Buildings Corporation	Revised Forecast 1999/00	Budget Estimate 2000/01[1]	Increase (Decrease)
	$ thousands	$ thousands	(per cent)
Gross revenue	443,925	438,612	(1.2)
Expenses:			
Operations, maintenance and administration	119,511	121,948	2.0
Lease costs	128,600	130,761	1.7
Projects, amortization and other costs	109,603	108,171	(1.3)
Interest, net	63,112	42,362	(32.9)
	420,826	403,242	(4.2)
Income before gain on disposals	23,099	35,370	53.1
Gain on disposals	15,550	26,233	68.7
Net income	38,649	61,603	59.4

[1] The 2000/01 budget estimate is subject to confirmation by the board of directors.

British Columbia Ferry Corporation	Revised Forecast 1999/00	Budget Estimate 2000/01[1]	Increase (Decrease)
	$ thousands	$ thousands	(per cent)
Revenue:			
Tolls	297,244	301,000	1.3
Dedicated motor fuel tax[2]	63,980	72,300	13.0
Catering and other income	86,585	87,100	0.6
	447,809	460,400	2.8
Expenses:			
Salaries, wages and benefits	241,317	242,500	0.5
Fuel, repair and maintenance, cost of goods sold	93,749	102,600	9.4
Professional, computer and other expenses	69,663	64,700	(7.1)
Net financing expense[3]	53,800	2,017	(96.3)
Amortization	57,198	58,666	2.6
	515,727	470,483	(8.8)
Operating loss before extraordinary item	(67,918)	(10,083)	(85.2)
Provision for write-down of fast ferries	(240,000)	—	(100.0)
Net loss	(307,918)	(10,083)	(96.7)

[1] The 2000/01 budget estimate is subject to confirmation by the board of directors.
[2] This revenue includes 1 cent/litre of motor fuel tax for the period April 1, 1999 to September 30, 1999, and 1.25 cents/litre of motor fuel tax effective October 1, 1999.
[3] The reduction in financing expense for 2000/01 reflects the forgiveness of $1.08 billion in debt owed to the provincial government at the end of 1999/00.

TABLE H8 — *(Continued)*

PROJECTED INCOME STATEMENTS OF SELECTED CROWN CORPORATIONS

BC Transportation Financing Authority	Revised Forecast 1999/00	Budget Estimate 2000/01[1]	Increase (Decrease)
	$ thousands		(per cent)
Revenue:			
Dedicated revenue[2]	169,667	202,750	19.5
Capital contributions (amortization)[3]	197,335	195,751	(0.8)
Other	3,500	3,735	6.7
	370,502	402,236	8.6
Expenditures:[4]			
Operations, administration, grants and other	45,653	44,468	(2.6)
Amortization[3]	239,165	251,973	5.4
Interest[5]	82,573	106,703	29.2
	367,391	403,144	9.7
Net income (loss)[6]	3,111	(908)	—

[1] The 2000/01 budget estimate is subject to confirmation by the board of directors.
[2] Dedicated revenue includes 3.25 cents/litre of motor fuel tax (increased from 3 cents/litre effective April 1, 2000) and a provincial sales tax on short-term car rentals.
[3] Effective March 31, 1999, the provincial government transferred highway infrastructure assets to the Authority. Asset values are recorded on the Authority's balance sheet as a deferred capital contribution. This contribution is amortized as income of the Authority with an offsetting adjustment to amortization expense.
[4] Capital expenditures are accounted for in the Authority's balance sheet. Completed infrastructure is amortized on a straight-line basis over its estimated useful life.
[5] Interest on borrowing used to finance construction work in progress is capitalized. Upon completion, interest capitalization ceases, and related interest costs are expensed.
[6] The net loss for 2000/01 reflects an estimated $2.2 million net cost of roads to be transferred to newly incorporated municipalities.

Forest Renewal BC	Revised Forecast 1999/00	Budget Estimate 2000/01[1]	Increase (Decrease)
	$ thousands		(per cent)
Revenue:			
Statutory forest revenue[2]	267,996	251,408	(6.2)
Investment income	21,923	15,353	(30.0)
	289,919	266,761	(8.0)
Expenditures:			
Program expenditures	318,910	301,622	(5.4)
Administration[3]	18,007	17,086	(5.1)
	336,917	318,708	(5.4)
Net loss	(46,998)	(51,947)	10.5

[1] The 2000/01 budget estimate is subject to confirmation by the board of directors.
[2] Consists of stumpage and royalties resulting from changes introduced under the Forest Renewal Plan. Statutory revenue is net of the annual recovery by the provincial government of up to $50 million for expenditures incurred by the province relating to the administration of the *Forest Practices Code,* as provided for under the *BC Forest Renewal Act.*
[3] Includes the administration costs of two wholly-owned subsidiaries — New Forest Opportunities and Jobs and Timber Accord Advocate.

TABLE H9

PROVINCIAL NET DEBT SUMMARY[1]

As at March 31,	Actual 1997	Actual 1998	Actual 1999	Revised Forecast 2000	Budget Estimate 2001
	($ millions unless otherwise indicated)				
Taxpayer-supported debt:					
Provincial government direct:					
Operating purposes	11,030	11,488	12,190	12,672	13,958
British Columbia Ferry Corporation	—	—	—	1,080[2]	1,080
580440 British Columbia Ltd. (Vancouver Trade and Convention Centre)	—	—	29	21	21
	11,030	11,488	12,219	13,773	15,059
Capital financing purposes					
Schools	2,835	2,990	3,261	3,636	4,025
Post-secondary institutions	1,395	1,362	1,336	1,365	1,464
Health facilities	1,431	1,417	1,282	1,439	1,657
Public transit	—	—	987	976	972
SkyTrain extension	—	—	133	491	834
	5,661	5,769	6,999	7,907	8,952
Total provincial government direct	**16,691**	**17,257**	**19,218**	**21,680**	**24,011**
Economic development Crown corporations and agencies:					
BC Transportation Financing Authority	921	1,089	1,433	1,834	2,351
British Columbia Ferry Corporation	685	795	973	30[2]	166
British Columbia Transit	1,538	1,579	59	66	82
Rapid Transit Project 2000 Ltd.	—	—	56	101	72
577315 British Columbia Ltd. (Western Star Truck Co.)	—	—	—	63	67
Other[3]	8	8	7	8	8
	3,152	**3,471**	**2,528**	**2,102**	**2,746**
Government services Crown corporations and agencies and other fiscal agency loans:					
British Columbia Assessment Authority	6	5	4	5	5
British Columbia Buildings Corporation	736	735	715	610	594
British Columbia Systems Corporation	19	—	—	—	—
Homeowner Protection Office	—	—	8	34	73
Social housing[4]	152	175	183	211	213
Universities and colleges — fiscal agency loans	154	144	137	131	129
Local governments	11	10	10	9	12
	1,078	**1,069**	**1,057**	**1,000**	**1,026**
Other debt[5]	**231**	**181**	**158**	**122**	**98**
Total taxpayer-supported debt	**21,152**	**21,978**	**22,961**	**24,904**	**27,881**

TABLE H9

PROVINCIAL NET DEBT SUMMARY[1] — *Continued*

As at March 31,	Actual 1997	Actual 1998	Actual 1999	Revised Forecast 2000	Budget Estimate 2001
	($ millions unless otherwise indicated)				
Self-supported debt:					
Commercial Crown corporations and agencies:					
British Columbia Hydro and Power Authority	7,477	7,234	7,474	6,991	6,903
British Columbia Railway Company	412	503	607	623	639
552513 British Columbia Ltd. (Skeena Cellulose Inc.)[6]	—	157	221	284	321
Columbia Basin Power Company	96	95	94	94	96
Columbia Power Corporation	3	—	—	—	31
Other[7]	7	3	3	2	2
	7,995	**7,992**	**8,399**	**7,994**	**7,992**
Warehouse borrowing program	**100**	**212**	**658**	**1,358**	**600**
Total self-supported debt	**8,095**	**8,204**	**9,057**	**9,352**	**8,592**
Total provincial debt	**29,247**	**30,182**	**32,018**	**34,256**	**36,473**
Total provincial debt as a per cent of GDP	27.1%	27.2%	28.9%	29.9%	30.7%
Taxpayer-supported debt as a per cent of GDP	19.6%	19.8%	20.7%	21.8%	23.5%

[1] Net 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. Figures for earlier years have been restated to conform with the presentation used in 2000/01.
[2] Effective March 31, 2000, the provincial government assumed responsibility for the British Columbia Ferry Corporation's fiscal agency loans.
[3] Includes the Pacific Racing Association and Victoria Line Ltd.
[4] Includes the British Columbia Housing Management Commission and the Provincial Rental Housing Corporation.
[5] Includes student assistance loans, loan guarantees to agricultural producers, guarantees issued under economic development assistance programs and the former British Columbia home mortgage assistance and second mortgage programs, and non-guaranteed debt of the Pacific National Exhibition, Okanagan Valley Tree Fruit Authority and Tourism British Columbia. Includes loan guarantee provisions.
[6] Although the debt of 552513 British Columbia Ltd. (Skeena Cellulose Inc.) is considered to be self-supported, future profitability is uncertain due to the volatility of world pulp prices and their potential impact on Skeena Cellulose Inc. As the province is not the sole shareholder of Skeena Cellulose Inc., a portion of this debt may be attributable to the minority shareholder.
[7] Includes debt of the British Columbia Lottery Corporation and the Liquor Distribution Branch.

TABLE H10
KEY DEBT INDICATORS

	For fiscal year ending March 31 1997	1998	1999	Revised Forecast 2000	Budget Estimate 2001
Debt to revenue (per cent)					
Total provincial	97.8	98.7	102.3	104.0	109.0
Taxpayer-supported	91.3	93.4	98.6	102.6	114.3
Debt per capita ($)[1]					
Total provincial	7,534	7,622	8,008	8,515	8,964
Taxpayer-supported	5,449	5,550	5,743	6,190	6,852
Debt to GDP (per cent)[2]					
Total provincial	27.1	27.2	28.9	29.9	30.7
Taxpayer-supported	19.6	19.8	20.7	21.8	23.5
Interest bite (cents per dollar of revenue)[3]					
Total provincial	8.0	7.6	7.8	7.6	8.4
Taxpayer-supported	7.3	7.0	7.4	7.4	8.3
Interest costs ($ millions)					
Total provincial	2,386	2,319	2,449	2,505	2,812
Taxpayer-supported	1,692	1,656	1,720	1,787	2,024
Interest rate (per cent)[4]					
Taxpayer-supported	8.2	7.7	7.6	7.5	7.7
Background Information:					
Revenue ($ millions)					
Total provincial[5]	29,919	30,593	31,302	32,923	33,472
Taxpayer-supported[6]	23,174	23,525	23,297	24,282	24,399
Total debt ($ millions)					
Total provincial	29,247	30,182	32,018	34,256	36,473
Taxpayer-supported[7]	21,152	21,978	22,961	24,904	27,881
Provincial GDP ($ millions)[8]	108,034	111,126	110,948	114,480	118,820
Population (thousands at July 1)[9]	3,882	3,960	3,998	4,023	4,069

[1] The ratio of debt to population (e.g. 2001 debt divided by population at July 1, 2000).
[2] The ratio of debt outstanding at fiscal year end to provincial nominal gross domestic product (GDP) for the calendar year ending in the fiscal year (e.g. 2001 debt divided by 2000 GDP).
[3] The ratio of interest costs (less sinking fund interest) to revenue. Figures include capitalized interest expense in order to provide a more comparable measure to outstanding debt.
[4] Weighted average of all outstanding debt issues.
[5] Includes revenue of the consolidated revenue fund plus revenue of all Crown corporations and agencies.
[6] Excludes revenue of commercial Crown corporations and agencies.
[7] Excludes debt of commercial Crown corporations and agencies and funds held under the province's warehouse borrowing program.
[8] GDP for the year ending in the fiscal year (e.g. GDP for 2000 is used for the fiscal year ending March 31, 2001).
[9] Population at July 1st within the fiscal year (e.g. population at July 1, 2000 is used for the fiscal year ending March 31, 2001).