

BACKGROUND

Economic Outlook

British Columbia's economy remains strong, supported by positive consumer and business confidence, high levels of residential and non-residential construction, and a low unemployment rate. Following estimated real gross domestic product growth (GDP) of 3.9 per cent in 2006, economic growth is forecast to be 3.1 per cent in 2007, 3.0 per cent in 2008 and an average of 3.1 per cent in years 2009 to 2011.

Revenue Outlook

Total government revenue is forecast at \$38.0 billion in 2006/07, \$37.4 billion in 2007/08, \$37.9 billion in 2008/09 and \$39.1 billion in 2009/10.

Significant one-time revenues totalling \$1.1 billion occurred in 2006/07, including the impacts of one-time prior years tax results, equalization revenues, and federal trust funds. These revenues do not continue through the three years of the fiscal plan.

Underlying revenues, which exclude the impact of one-time items in 2006/07 and *Budget 2007* tax reductions, are forecast to increase from \$37.0 billion in 2006/07 to \$37.8 billion in 2007/08, \$38.5 billion in 2008/9, and \$39.8 billion by 2009/10, an increase of 7.5 per cent over the three years.

Expense Outlook

Total government expense is forecast to increase by an average of 2.8 per cent annually over the next three years as funding is increased in most ministry budgets. Expenses are estimated at \$36.2 billion in 2007/08, \$36.7 billion in 2008/09, and \$37.9 billion in 2009/10.

Significant Budget Decisions

Significant expenditure and tax reduction measures incorporated in the three-year fiscal plan include:

- More than \$2 billion over four years to help British Columbians address their housing needs and the challenges of home affordability in a growing economy;
- Additional funding for health care and K-12 education totalling \$1.4 billion over three years, excluding funding for settlement costs under the negotiating framework. Including funding for negotiating framework costs results in total funding increases of \$3.3 billion;
- An additional \$468 million over four years for programs targeted towards children at risk or with special needs, adults with developmental disabilities, and individuals or families in need;
- \$178 million over four years for policing, justice and the corrections system to protect communities and citizens;
- \$189 million over four years to strengthen B.C. communities through investments in local infrastructure and transportation projects;
- \$315 million over four years to enhance post-secondary educational and training opportunities throughout the province, reconciliation of Aboriginal rights and title, and investments in the natural resource sectors;
- \$103 million for environmental leadership initiatives that protect the environment and support sustainable environmental management; and
- Additional tax reductions of \$303 million over four years to improve the competitiveness and fairness of the tax system.

Budget Surplus Outlook

The budget and fiscal plan continues government's legislated commitment to balanced provincial budgets. The budget includes planned surpluses of \$400 million in 2007/08, and \$150 million in both 2008/09 and 2009/10.

Investing in Infrastructure

A growing province requires investments in projects that benefit all British Columbians such as schools, hospitals, roads, and bridges. The budget and fiscal plan continues government's commitment to an infrastructure spending plan that is affordable.

The Province's taxpayer-supported capital spending is forecast at \$3.9 billion in 2007/08, \$3.3 billion in 2008/09, and \$2.9 billion in 2009/10. In addition, self-supported commercial Crown corporations forecast capital spending of \$1.3 billion, \$1.6 billion and \$1.7 billion over the same period. The majority of commercial Crown capital spending is for electrical generation, transmission and distribution projects. This results in total capital spending of \$5.2 billion in 2007/08, \$4.9 billion in 2008/09, and \$4.5 billion in 2009/10, for a total forecast of \$14.6 billion over the three-year fiscal plan.

Recognizing that higher than expected construction costs are an ongoing concern, and that several key health projects are still in the review phase, the government has increased its capital contingency to an average of 9.5 per cent of taxpayer-supported capital spending over the next three years. This contingency is in addition to the contingencies included in individual project budgets.

Debt Remains Affordable

Debt continues to represent a significant source of financing for provincial capital spending.

Taxpayer-supported debt is forecast at \$27.8 billion in 2007/08, \$28.7 billion in 2008/09, and \$29.2 billion in 2009/10, an average annual increase of 3.2 per cent. The self-supported commercial Crown corporation debt is forecast at \$8.3 billion, \$9 billion and \$9.8 billion over the same time period. Including the forecast allowance, total provincial debt is forecast at \$36.8 billion in 2007/08, \$38.7 billion in 2008/09, and \$40 billion in 2009/10.

To ensure the debt remains affordable for future generations of British Columbians, the government remains committed to ensure debt does not grow faster than the economy, based on a three-year moving average. Consistent with this commitment, the taxpayer-supported debt to GDP ratio — a key measure of debt affordability used by credit rating agencies — is forecast to decline from 14.8 per cent in 2007/08 to 14.6 per cent in 2008/09 and to 14.1 per cent in 2009/10.

Budget Remains Prudent

To help ensure surplus targets are met, the updated fiscal plan includes forecast allowances of \$750 million in 2007/08, \$1 billion in 2008/09, and \$1.05 billion in 2009/10. These allowances protect the fiscal plan from revenue risks such as changes in natural gas prices or federal transfers, and from spending pressures such as the cost of natural disasters or other unexpected demands. The higher forecast allowance also recognizes the interim nature of health authority funding and the need to accommodate some additional funding growth for 2008/09 and 2009/10.

For the Finance Minister's speech and more details on *Balanced Budget 2007*, visit www.gov.bc.ca/bcbudget online. Visit the Province's website at www.gov.bc.ca for online information and services.

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