

Summary: BUDGET AND FISCAL PLAN – 2004/05 TO 2006/07

(\$ millions)	Budget 2003 Basis		Budget 2004 Basis (Full GAAP)		
	2003/04 Updated Forecast	2003/04 Updated Forecast	Budget Estimate 2004/05	Plan 2005/06	Plan 2006/07
Revenue ¹	26,814	29,488	30,429	31,148	32,158
Expense ¹	(28,424)	(31,032)	(30,229)	(30,873)	(31,858)
Surplus/(deficit) before forecast allowance	(1,610)	(1,544)	200	275	300
Forecast allowance	(100)	(100)	(100)	- ²	- ²
Surplus/(deficit)	(1,710)	(1,644)	100	275	300
Capital spending:					
Total capital spending	2,319	2,810	2,934	2,933	2,888
Taxpayer-supported capital spending	1,283	1,774	1,943	1,777	1,627
Provincial Debt:					
Total debt	37,328	37,841	39,452	40,518	40,578
Total debt-to GDP ratio	26.5%	26.9%	26.8%	26.3%	25.1%
Taxpayer-supported debt	30,067	30,580	32,172	32,816	32,827
Taxpayer-supported debt-to-GDP ratio	21.4%	21.7%	21.9%	21.3%	20.3%

¹ Excludes \$260 million additional Health Accord funding announced January 30, 2004.

² To be determined.

Balanced, Transparent and Accountable

Budget 2004 delivers on government's legislated commitment to balance the budget beginning in 2004/05. The updated fiscal plan projects surpluses for 2004/05 and the following two fiscal years. A \$100 million surplus is forecast in 2004/05, followed by \$275 million and \$300 million surpluses in 2005/06 and 2006/07 respectively.

Over and above the \$100 million forecast surplus, the 2004/05 budget includes a \$240 million contingency reserve for unexpected spending requirements by government ministries. A further \$100 million forecast allowance is available to protect the bottom line from shortfalls in revenue and other spending areas.

The three-year fiscal plan conforms to the standards set by the accounting profession for senior

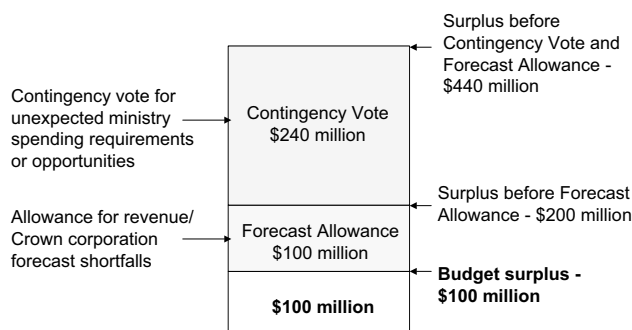
governments in Canada referred to as generally accepted accounting principles or "GAAP". The main change required to fully comply with GAAP in 2004/05 has been to integrate the financial forecasts of the schools, universities, colleges and health authorities (the SUCH sector) into government's revenue, spending and balance sheet projections.

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

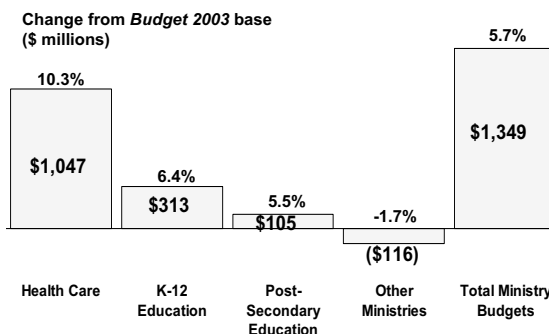
Affordable Plan, Focused on Services to People

Since *Budget 2003*, government has committed increased revenues and savings from other areas

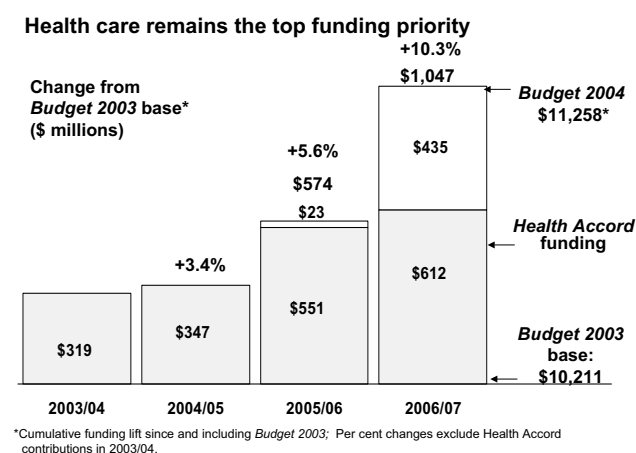
2004/05 budget includes provisions for unexpected events



Health and Education receive funding priority over next 3 years



to the priority areas of health care and education. Additional funding has been provided for services to children and vulnerable adults, and income assistance for people in need. By 2006/07, the health care budget will have increased by over 10 per cent since February 2003 to total \$11.3 billion. This increase includes new commitments to long term care and service expansion in *Budget 2004* as well as the Health Accord funding allocated after *Budget 2003*. Over the next three years, budgets for the K-12 and post secondary ministries will increase by over 6 per cent to total \$7.2 billion. Ministry programs other than health care and education show a small decline between 2003/04 and 2006/07.



Health Care Funding

Over the next three years, health care receives the largest funding increase among ministries, with additional federal revenues fully committed to health services. Starting in 2005/06, funding has been added to support continuing care and the new Abbotsford Regional Hospital and Cancer Centre. In 2006/07, government's priority allocation of available revenues has been to meet the growing demand for health care. Capital commitments to the health system include new equipment such as

Maintaining health care services for British Columbians (\$ millions)	2003/04	2004/05	2005/06	2006/07
Post Budget 2003 - Health Accord	319	347	551	612
<i>Budget 2004:</i>				
Priority budget allocation.....	-	-	-	331
Home and community care.....	-	-	17	73
Abbotsford Regional Hospital and Cancer Centre.....	-	-	6	31
Total changes¹.....	319	347	574	1,047

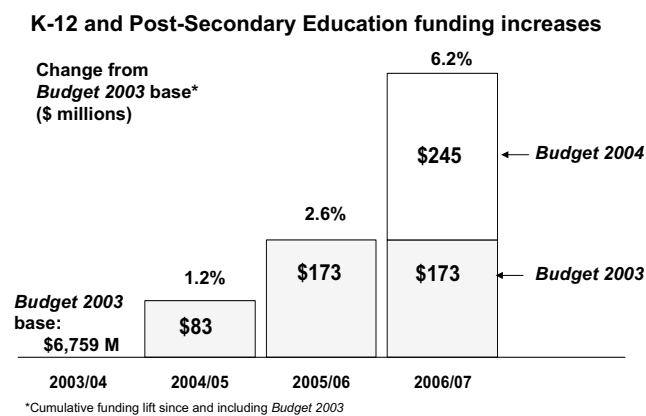
¹ Excludes additional Health Accord funding announced January 30, 2004.

beds, lifts, incubators, and ultrasound, CT and X-ray imaging equipment.

BC's estimated \$260 million share of the additional \$2 billion in federal health funding announced on January 30, 2004 is not included in *Budget 2004*. The new funds are expected to be committed to the health care budget in 2004/05 and 2005/06 once details of the transfer arrangements are known and the accounting treatment is confirmed.

Education

The government continues to develop a top-notch education system for students of all ages. Additional funds have been provided in *Budget 2004* to expand access to post secondary education, with seat growth rising to 2.6 per cent annually by 2005/06. Over the next three years, almost 12,000 seats will be added, and 25,000 new spaces will have been achieved at BC's universities and colleges by 2010. An expanded student loan program will ensure students in need have access to funding to pursue their education. In addition, completion grants and loan remissions are also under consideration.



New K-12 funding in 2006/07 will target greater student achievement as well as address additional seismic mitigation measures in the school system.

Enhancing education opportunities (\$ millions)	2004/05	2005/06	2006/07
<i>Budget 2003 :</i>			
K-12 – student achievement.....	83	143	143
Post secondary - increased access.....	-	30	30
<i>Budget 2004 :</i>			
K-12 – student achievement.....	-	-	155
K-12 – seismic mitigation	-	-	15
Post secondary - increased access.....	-	-	75
Total changes	83	173	418

¹ An additional \$50 million is available for major capital seismic projects.

Promoting Economic Growth and Resource Development

British Columbia is building a strong, vibrant and competitive economy that has:

- the lowest personal income tax rates in Canada for the bottom two income tax brackets;
- the second lowest top marginal income tax rate in Canada;
- one of the lowest small business corporate income tax rates;
- no corporation capital tax for general corporations; and
- a regulatory burden on track to be cut 30 per cent by June 2004, having already been reduced by nearly 90,000 regulations since June 2001.

Promoting economic growth and resource development

(\$ millions)	2004/05	2005/06	2006/07
<i>Budget 2004</i>			
Scientific Research tax credit.....	35	60	105
International Financial Business tax credits...	4	5	5
Ports competitiveness.....	6	6	6
Natural gas development	7	3	2
Off-shore oil and gas.....	6	6	5
BC Timber Sales program	1	73	103
Other expanded harvesting.....	4	4	4
Total changes	63	157	230

Budget 2004 also provides funds to expand the BC Timber Sales program and increase the amount of auctioned timber, develop the energy sector, extend the Scientific Research and Experimental Development Tax Credit, expand the international financial business program and to support the competitiveness of BC ports.

Budget 2004 includes \$1.9 billion of capital spending on schools, health care facilities, roads and other projects to support both enhanced public services and economic growth in BC. The Vancouver Convention Centre Expansion Project leverages federal and private sector funding to create a facility that will generate significant returns to the economy. Transportation capital spending includes

Capital spending to support economic development

(\$ millions)	2003/04	2004/05	2005/06	2006/07
Vancouver Convention Centre.....	53	70	106	132
Transportation Financing Authority	399	500	494	420
Total.....	452	570	600	552

components of the Transportation Investment Plan that also spur economic development. These include the *Sea-to-Sky* highway upgrade, investment in oil and gas roads, the Kicking Horse Canyon, Northern and Heartlands Roads, and the Vancouver Gateway.

2010 Olympic and Paralympic Winter Games

On July 2, 2003, Vancouver was chosen as the host city for the 2010 Olympic and Paralympic Winter Games. *Budget 2004* includes accelerated funding to support construction and management of the games, including:

- \$51 million in 2003/04 to fund Olympic venues;
- \$55 million in 2003/04 towards an endowment supporting the ongoing operation of those venues; and
- an additional \$111 million from 2004/05 to 2006/07 to fund Olympic venues.

Spending authority for \$72 million to begin building games venues will be provided by a *Supplementary Estimate* in 2003/04. All these expenditures are within the previously announced \$600 million envelope for the Games.

Communities and Safety

Budget 2004 supports government's objectives for safe and supportive communities. Since last year's budget, funding for employment assistance and for protecting vulnerable children and families has been increased. Increases are also provided for policing, and the cost of the missing persons investigation in Port Coquitlam. In addition, the Home Owner Grant phase-out threshold has been increased to \$585,000 from \$525,000.

Supporting communities

(\$ millions)	2004/05	2005/06	2006/07
<i>Budget 2004 :</i>			
Employment assistance.....	80	80	80
Services to children and families.....	122	116	130
Early learning and childcare.....	10	20	41
Policing.....	13	13	13
Missing persons investigation.....	18	15	13
Total changes	243	244	277

Crown corporations restructured

Subsequent to core services and energy policy reviews, government policy now encourages private sector investment in the energy and auto insurance sectors, and provides independently regulated rates

for ICBC and BC Hydro. In addition, consumers have increased choice in auto insurance and have retained the low-cost benefits of BC's hydro generation system.

In the fiscal plan, BC Hydro's net income forecast reflects the interim rate increase approved by the BC Utilities Commission in January 2004.

The BC Rail Investment Partnership enables CN Rail to assume responsibility for BC Rail's freight operations, while providing funds for reinvestment in Northern and First Nations communities. There is no impact on government's bottom-line from this initiative, as the net income from the transaction will be offset in the same fiscal year by commitments to the Northern Development Initiative, the BC Rail First Nations Benefits Trust, *Legacies Now* and other priority areas. BC Rail's \$479 million debt will also be paid down. These transactions are expected to occur in the 2003/04 fiscal year, but could be delayed until 2004/05 depending on the timing of the federal Competition Bureau review.

2003/04 Updated Forecast

For the 2003/04 fiscal year, the deficit is forecast to be \$1.71 billion (excluding the SUCH sector), after including a \$100 million forecast allowance. This is \$590 million lower than budget. The \$434 million additional costs for forest fires, floods and BSE, and an \$824 million loss of equalization revenues were offset by improvements in taxation, energy, Crown corporation and other revenues. In addition, lower debt interest costs and ministry savings have allowed \$138 million to be committed to key priorities including accelerated funding for the 2010 Olympics.

When the SUCH sector is included, the 2003/04 deficit is forecast to be \$1.64 billion.

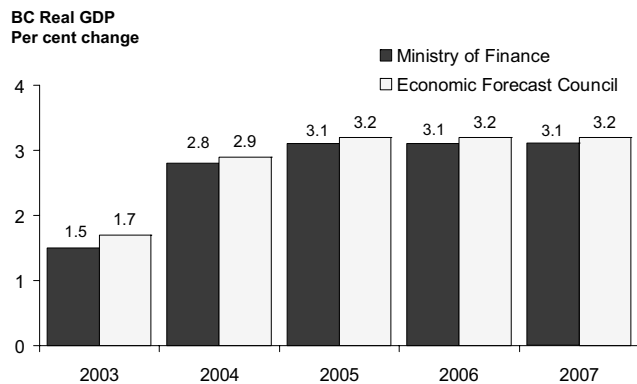
Priorities funded from ministry and debt service cost savings (\$ millions)	2003/04
2010 Olympics accelerated funding.....	72
Post-secondary education facilities.....	14
Grants for <i>Legacies Now</i> , literacy and other initiatives	22
Health care waitlists, SARS and research.....	30
Total	138

Economic growth expected to pick up

The Ministry of Finance is expecting economic growth of 2.8 per cent for 2004 and 3.1 per cent in 2005 and 2006. The independent Economic Forecast Council consensus is for slightly higher growth.

Revenue growth of 3.2 per cent is forecast in 2004/05, led by increasing taxation revenues. In 2005/06 and 2006/07, revenue is forecast to grow an average 2.8 per cent per year. Now that a balanced budget is forecast, future economic growth provides the basis for expanded service levels, lower tax rates and/or debt repayment.

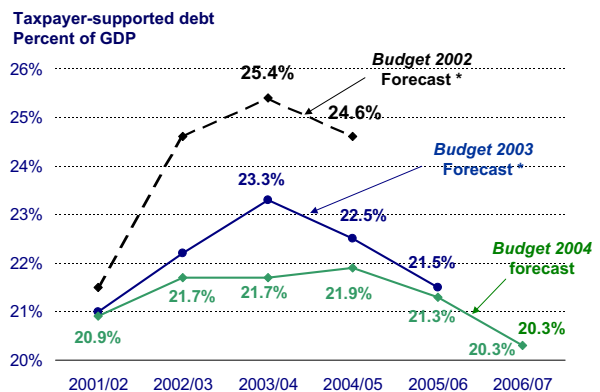
British Columbia economic expansion to continue



Debt growth curtailed

Government debt at the end of 2003/04 is forecast to total \$37.8 billion, \$3.6 billion less than budget. This results from a lower than expected deficit, lower debt at the start of the year, reduced capital spending, and the defeasance of BC Rail's debt. Compared to *Budget 2003*, lower debt interest costs in 2004/05 and future years result from reduced borrowing requirements. The taxpayer-supported debt-to-GDP ratio is forecast to show an improving trend as planned surpluses reduce future borrowing requirements.

Debt burden declines



* Restated to include the SUCH sector