Province of British Columbia
OFFICE OF THE PREMIER

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The opportunity to address British Columbians living forty years from now is a unique one, indeed, and presents some unique challenges -- given the speed with which the world is changing as I compose this message.

By the time this capsule is opened and its message delivered to the people of the Sparwood area -- and, possibly, to all British Columbians -- I expect the fact that 1984 was, in many respects, a watershed for our Province will have become all the more apparent. Hindsight is so much sharper than foresight can ever be.

In 1984 we saw our Provincial Government coming to grips with a changing world where old assumptions had evaporated. It was a year where we could no longer assume the products from our resource industries -- forestry, mining, fishing -- would find the same eager buyers as had been the case in the past. The times called for innovation.

The times called for belt-tightening -- restraint was the order of the day -- on the part of all British Columbians. Although the adjustment process was at times difficult, we were aided immeasurably in our task by the understanding of the majority of our residents, and particularly our older residents who recalled how they themselves were called on to make sacrifices during the Great Depression of the 1930s.

I am confident British Columbians will remember that our public sector restraint program was based on the fact that, in many senses, the Government and the people of the day are the custodians of the Province's future. And I am very sure the policies of our day will be appreciated as having prevented the accumulation of a legacy of debt for British Columbians living in 2024.

I enclose with this message a copy of the Provincial Budget just delivered by our Government. It sets out in detail the difficulties and challenges that faced our Province in 1984. What's more, it details British Columbia's responses to those challenges.

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Parliament Buildings, Victoria, British Columbia V8V 4R3

By the time this message is read, it will be apparent that the policies of 1984 laid the foundation for economic recovery in British Columbia, something I am very proud of as an elected representative and individual British Columbian.

Though it may be a changing world, some things will remain the same. British Columbia remains the jewel of Canada, a place where men and women are proud to invite their friends and family from across the country and around the world to enjoy their hospitality and the magnificence of their home!

Bill Bennett

W.R. Bennett
Premier

Province of British Columbia

Budget 1984

Honourable Hugh Curtis
Minister of Finance

Province of British Columbia

Budget

Delivered in the Legislative Assembly
Monday, February 20, 1984

by the

Honourable Hugh Curtis
Minister of Finance

British Columbia Cataloguing in Publication Data

British Columbia.
Budget (1984). -- 1984-

Annual.
Additional title: Province of British Columbia budget.
Delivered in the Legislative Assembly by the Minister of Finance.
Continues: British Columbia. British Columbia budget (1983) ISSN 0823-2008
ISSN 0825-0650 = Province of British Columbia budget (1984)

1. Budget - British Columbia - Periodicals.
2. British Columbia - Appropriations and expenditures - Periodicals. I. British Columbia. Ministry of Finance. II. Title: Province of British Columbia budget.

HJ13.B732 354.7110072'252

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Introduction

Mr. Speaker, Honourable Members.

It is my pleasure to present today the provincial budget for the fiscal year ending March 31, 1985.

This budget follows by only seven and one-half months the presentation of that for the fiscal year 1983/84. The intervening period has been one of intense activity in carrying out last year's initiatives and preparing this year's goals and objectives.

During the preparation of this budget, I have held direct consultations with representatives from a wide range of organizations to obtain their views on economic and fiscal matters. I listened with interest to a great number of observations and suggestions. Obviously, the government could not accept all of the recommendations, but many of them have, I believe, helped to improve the budget. I want to extend my thanks to all participants.

In framing this budget for the coming year, I have attempted to address three major objectives.

First, the policy of reducing the size and scope of government will continue. This budget will complete the first and most difficult phase of the process and demonstrate the progress achieved in managing during a very difficult period. The measures proposed today will build a solid base for the elimination of the deficit and the retirement of the debt over the next several years.

Second, the government's commitment to the preservation of essential social services remains absolute. Important measures toward this goal will be introduced.

Third, the government will take steps in the coming year to capitalize on the benefits of restraint to build a more stable and secure economic future for this province.

Difficult choices have been necessary in the preparation of this budget, as with others preceding it, but I believe the result fairly and responsibly serves the interests of British Columbians.

Economic Policy Environment

After a strong start, the 1980s have proven to be a difficult and sobering period for British Columbia. While most of North America entered a period of serious economic stagnation in 1980, British Columbia continued to exhibit strong growth until mid-1981, as the effects of booming resource commodity markets continued to work their way through the provincial economy. Partly as a result of this previous strength, British Columbia suffered a much larger decline in economic activity and employment during the major downturn of 1982. Moreover, the recovery in the provincial economy, which began in early 1983, has been modest.

The past four years have represented, in many ways, a period of readjustment in the world economy and in the psychology of all of its participants. Unrealistic expectations have been lowered, obsolete plants have been eliminated, inflation has been reduced and cost control has been tightened. As we move into a new era, we find that industrial structures and trading patterns have permanently changed and nations throughout the world are moving quickly to reorient their economies.

I am fully aware of the difficulties this period of readjustment has caused for many British Columbians. In fact, the price exacted by the recession makes it doubly important that we learn well the lessons it has taught us.

- We must recognize the limits on our ability to manage our economy independently. Our close interdependence with other nations means that our industries, and therefore our jobs and incomes, depend on export sales. As a result, we cannot significantly affect the health of our economy by spending or consuming more ourselves.

- We must recognize the cyclical nature of British Columbia's economy. Long-term government spending commitments should not be based on short-term revenue trends.
- We must recognize the importance of our ability to compete in world markets. Erosion of our competitiveness through increased costs, including the cost of government services, will lead inevitably to a loss of jobs and economic security for our citizens.
- Finally, we must recognize the dynamic changes taking place in the world economy. Our industries and institutions must be made sufficiently flexible to adapt to, and take advantage of, the international environment.

Failure to heed these lessons will necessitate greater and more difficult adjustments in the future.

The new era in which we now find ourselves will be much tougher than the period of growth and prosperity enjoyed through much of the 1960s and 1970s. Economic growth, while somewhat more stable than in recent years, is likely to be slower than in the past. To be successful, we shall require a higher degree of responsibility and cooperation from all segments of society: individuals, government, business and labour.

- Individuals must moderate their demands for government services. We have to accept that increases in living standards can no longer be automatic. Governments can and will continue to provide essential services and protect those in need, but there are real limits to the range and volume of services which can be provided. As a society, we must earn our way in the world and can only consume goods and services to the extent that we are able to produce and sell our products.
- All governments must reduce their demands on the economy, whether through taxation or regulation. Fiscal balance should be pursued wherever possible through limiting expenditure rather than increasing taxes, and closer attention should be paid to the real impact of government activity, which often differs from that initially intended.
- Businesses must realize that government can not protect them from shifts in market conditions. Reduced government intervention in the economy should be accompanied by greater self-reliance.
- Employees must continue to be flexible, seeking wages and working conditions that reflect their shared interest in productive and competitive enterprises. Those who generate the wealth in our society should temper their expectations to suit the state of the economy. We can only maintain and increase our standard of living in British Columbia if we keep pace with very aggressive international competitors.

I am confident that British Columbia will rise to the challenges presented by this new economic reality and I am proud of the leadership this government has provided in this vital endeavour.

Two years ago, British Columbia was facing a major economic crisis, caused by a shift in the world economic environment. No longer could we increase wage levels and public expenditure, while expecting the world to go on buying our products. We had to recognize our place in a changing world economy and adapt to circumstances beyond our control. This government took major action in February 1982 through the Compensation Stabilization Program and the Restraint on Government Program to deal with the factors within our control. In May 1983, the people of British Columbia were asked to decide whether they favoured continuing this approach. They responded at that time with a clear answer in the affirmative — and they continue to strongly support our restraint policies today. The program of reducing the size of government and restraining compensation will therefore continue as the government carries out the decisive mandate given by the voters.

The government's economic policy, particularly as refined over the past two years, is designed to meet the basic problems facing this province.

1. To deal with the sharp cyclical downturn which resulted from international economic fluctuations, the government has pursued a policy of selective stimulation to help sustain employment and accelerate recovery. Within the limits of the taxpayers' financial capacity, the impact of the recession was cushioned by social program expenditures and accelerated spending on capital construction projects. As the recovery gains momentum through 1984, these expenditures can be reduced and the government's financial position strengthened.

2. To redress the erosion in our competitive position, steps have been taken to reduce the burden of government on the economy and to restrain increases in wage and salary costs. A thorough review is now being undertaken to determine the impact of taxation on our business sector. Efforts to improve competitiveness will be continued to ensure that the gains of the past two years are not lost.

3. To increase the resilience and flexibility of our industries in the years ahead, government policy must now focus on breaking down rigidities in our economy. Government programs and regulations affecting all industrial sectors will be reviewed to identify those which present barriers to innovation and higher productivity. Some programs intended to assist industry actually promote inefficiency and penalize efficiency. Given the economic pressures now facing us, this situation is simply not tolerable.

As we continue to develop and refine our approach to economic policy in British Columbia, it is important that we distinguish clearly the problems related to the fluctuations of the business cycle from those related to the underlying structure of our economy and to longer-term trends in the world economy. These difficulties often merge, with the result that policies appropriate to one type of problem are regularly recommended, and frequently adopted, to deal with other problems for which they are completely inappropriate. How many times, for example, is increased government spending proposed as a way to make the economy grow faster? This approach can be effective for accelerating a cyclical recovery and, indeed, was a key element of my last budget. But any suggestion that more government spending can raise the long-term growth rate of the economy should be recognized as misguided. We should be cautious when reviewing any government expenditure which is justified only by the statement that it will stimulate the economy. This probably means that it cannot be justified on its own merits when recognized as a demand on the taxpayer.

To further elaborate on this point, may I emphasize that, in the long term, raising public expenditure simply substitutes one type of activity for another. Yes, in some cases it may marginally increase total economic activity; but more often there will be a loss of efficiency resulting in a reduction in the size of the economy. We must accept that there is no magic formula for making an economy grow faster. The solution is at once very simple and very difficult: respond to the demands of the world marketplace and become more and more productive at doing what we do best. The same advice applies to individuals, businesses, regions and nations. Probably because of its simplicity, it is often forgotten or ignored.

Economic Outlook

I wish to briefly discuss the economic outlook for the coming year. The United States economy has now been recovering for about 15 months and has shown much more strength than was anticipated a year ago. There are recent signs that growth is abating from the high rates reported last summer, but the pace of expansion continues to indicate that this is a typical business cycle upturn. The early stage of the United States recovery has been led primarily by consumer spending and housing construction. In 1984, the expansion is likely to broaden, with business investment becoming a key source of growth. With continued growth in output and employment and relatively low inflation, 1984 promises to be a good year for the United States, and British Columbia can expect to reap some of the benefits.

Nevertheless, I would be negligent if I failed to point out three very serious threats facing the world economy in the years ahead. These are government deficits, trade imbalances and inflation.

First, government deficits at the federal level in both the United States and Canada are too large. The massive borrowing required to finance these deficits is conflicting with attempts to maintain a firm monetary policy in the continuing fight against inflation. The result is interest rates that are still too high. Federal fiscal policy in both countries should be brought into line, mainly through spending reductions, so that interest rates can be brought down further. At current levels, interest rates are limiting a recovery in capital investment. Moreover, by attracting foreign funds to North America, they have caused our currencies to be overvalued and our products to be less competitive in overseas markets.

Second, large trade imbalances could lead to disruptions in the development of world trade. The recovery from the 1981-82 international recession has, so far, been very slow in areas outside North America, and the resulting weakness in exports to those areas has caused a record trade deficit for the United States. While faster growth is forecast for 1984 in Japan and other market economies in Asia, continuing adjustment problems are expected to restrain growth rates in Western Europe. As a result, the United States trade deficit may increase further in 1984 and create pressure for corrective measures. If significant policies of protectionism are adopted in response to the temporary trade deficit, the future growth of world trade, on which British Columbia relies heavily, could be severely impaired.

Third, despite very positive progress against inflation in the past few years, the performance of prices remains a concern for the future. In the United States inflation fell from a peak of 13.5 per cent in 1980 to 3.2 per cent in 1983. An even more impressive reduction was accomplished in the United Kingdom, where inflation was lowered from 18.1 per cent in 1980 to 4.6 per cent in 1983. For Canada, the rate peaked at 12.5 per cent in 1981, before falling to 5.8 per cent in 1983, while in British Columbia inflation was reduced from 14.3 per cent in 1981 to 5.5 per cent in 1983.

Despite these impressive gains, which demonstrate that we need not accept rapid inflation as inevitable, there is no room for complacency. A severe economic downturn, the worst in 50 years, was required to bring down inflation to a level which is still high by the standards of the 1950s and 1960s. Some upward pressure on prices may be unavoidable as the current expansion progresses, but a significant resurgence in inflation would obviously be disastrous. In the current international financial environment, characterized by large government deficits, heavy debt burdens and nervous investors, higher inflation could cause another rise in interest rates and lead to a premature weakening of investment and consumer spending. If this occurs, we may be forced to undergo another painful recession without having fully recovered from the last one. I sincerely hope that economic policy-makers throughout the world will ensure that this does not happen. I know that we in British Columbia will do our part.

To repeat my earlier observation, the year 1983 was a difficult one for the British Columbia economy. As we emerged from the recession, the growth we experienced was uneven, both among sectors of the economy and over the course of the year. Consumers and businesses in the province remained cautious and concentrated on improving their financial positions. Nevertheless, I believe the pattern of growth in British Columbia merely reflects a delay between the recovery of certain industries, notably lumber production, which responded quickly to the United States upturn, and other industries which take somewhat longer to respond. Provided that we avoid major labour-management disruptions, the next phase of the recovery should soon be underway. Therefore, following the rapid growth of early 1983 and the moderate growth of late 1983, we can expect a more general expansion in 1984. Real growth in gross provincial product is estimated to have been 2.0 per cent for 1983 and is forecast at 3.0 per cent for 1984. Consistent with this outlook, increases are forecast for exports, retail sales and employment during this second year of recovery.

Fiscal Plan

As mentioned earlier, I undertook in the past few months to seek out the views of a number of organizations in the province to assist me in the preparation of this budget. In this consultative process, I met with representatives of the following groups:

The British Columbia Central Credit Union;
The Employers' Council of British Columbia;
The British Columbia Branch of the Canadian Federation of Independent Business;
The Council of Forest Industries of British Columbia;
The British Columbia Real Estate Association;
The British Columbia Federation of Labour;
The Mining Association of British Columbia;
The Institute of Chartered Accountants of British Columbia;
The Tourism Industry Association of British Columbia;
The British Columbia Federation of Agriculture;
The United Elders Association of British Columbia;
The British Columbia Council of the Housing and Urban Development Association of Canada;
The Law Society of British Columbia;
The British Columbia Road Builders Association;
The Union of British Columbia Municipalities;
The Education Coalition;
The British Columbia Chamber of Commerce;
The Association of British Columbia Professional Foresters.

I also received written representations from two groups with whom meetings could not be arranged: the British Columbia Motels, Resorts and Trailer Parks Association and the Canadian Manufacturers Association. I found this process to be most useful and intend to commence a new round of consultations on other policy issues within the next six months.

The budget I am presenting today should be viewed as part of a multi-year plan initiated by the budget of July 7, 1983. The measures to be introduced for 1984/85 will complete the first phase of the restraint program and begin the next phase, in which we shall reap additional benefits.

Important progress has already been achieved through restraint. Inflation has been brought down and a solid base laid for recovery. More progress will be evident in the coming months and years.

It should, nevertheless, be recognized that the province continues to face a severe fiscal imbalance — a deficit — which will take several years to correct. In discussing the deficit it is important that we make a clear distinction between two components:

- The cyclical part of the deficit is related to the impact of the recent recession on the government's revenue and expenditure. As the economy continues to recover, this part of the deficit will be eliminated gradually and an offsetting surplus will be created.

- The structural part of the deficit is the portion unrelated to the business cycle. It reflects a basic imbalance between the revenue base and the program structure of the government and can only be corrected by permanent increases in tax rates or reductions in program costs.

In July I presented a budget which started the process of eliminating the structural component, partly through modest tax increases, but mainly through measures to reduce the size and scope of government activity.

By eliminating less essential programs, transferring functions to the private sector and making government leaner and more efficient, we are avoiding the need for major tax increases which would threaten future economic development in British Columbia. The 1983 budget provided us with the tools needed for the difficult task of redefining the balance between the public and private sectors. Today's budget represents the consolidation of those gains and sets the stage for a period of stable and sustained growth for our province.

Notwithstanding the policy measures introduced last year, the lingering effects of the recession continued to affect the government's revenue and expenditure. In July, I forecast a deficit for the 1983/84 fiscal year of $1.603 billion. I am very happy to report to this House that revenue has grown somewhat more strongly than I had anticipated and that further savings have been made in expenditures. As a result, the deficit for 1983/84 is now forecast at $1.307 billion.

Even with this improvement, however, the direct debt of the government, excluding that incurred on behalf of Crown corporations, will reach an estimated $1.9 billion by March 31, 1984 and will rise further in the next year. The Premier and my colleagues in government are determined that this debt will not be left as a burden to be borne by future generations of British Columbians. Accordingly, I shall introduce legislation to establish a mechanism for repaying the debt over the next few years.

Under this new system, to be phased-in commencing in 1984/85, natural resource revenue will no longer be directly available to finance current expenditures. Since 1982/83, resource revenue has been credited to the Resource Revenue Stabilization Fund and then transferred to the general fund to meet operating expenditures. In future years, the primary charge on the Resource Revenue Stabilization Fund will be for the repayment of debt. In this way, revenue derived from our resource endowment will be used to build the financial strength of the provincial government in preparation for any future economic downturns.

The new fiscal year will be one of transition. Approximately 70 per cent of natural resource revenue will be credited to the Resource Revenue Stabilization Fund while the remainder will be credited to the general fund to help maintain social programs.

The first allocation from the Resource Revenue Stabilization Fund will provide for the retirement of the British Columbia Railway Company's historic debt. I should like to take a few minutes to recount the history of the British Columbia Railway and to describe the steps being taken to place the Railway in a sound financial position.

It is well known that the Railway incurred large losses during the 1970s and spent huge amounts on capital construction, principally on the Dease Lake Extension. These problems, which left a large debt load, have obscured the accomplishments of the Railway, both prior to the decade of the 1970s and from 1980 onwards.

From its inception in 1912 as the Pacific Great Eastern Railway, the British Columbia Railway has played a major role in the economic development of the province. Access to the forest and mineral resources of large parts of the interior would have been practically impossible without it. Although the Railway required financial assistance from the government on more than one occasion, it was largely able to pay its way, and did not receive the massive amounts of federal government financial assistance which were provided to the Canadian National and Canadian Pacific Railways.

By the end of 1960, in fact, the Railway showed less than $13 million outstanding in long-term debt and was successfully operating 1,200 kilometres of rail line. The Railway's financial difficulties began with the construction of the northern extensions in the 1960s and 1970s, which represented a continuation of the policy to provide access for the development of provincial resources. Unfortunately, rail construction in the North proved to be much more complex than expected, and rapid inflation caused construction costs to soar. By the end of 1971 the Railway's long term debt had risen to $211 million, and in the next five years it ballooned to $620 million. This debt was incurred to finance construction costs, mainly on the Dease Lake Extension which cost more than $200 million, and losses incurred in operating the railroad and paying interest. In fact, in the six years ending in 1976 the Railway's losses were $157 million. In the next three years losses were a further $153 million, mainly as a result of interest expense.

The decade of the 1970s was certainly a very difficult period for the Railway, as losses totalling $310 million were recorded. Long-term debt stood at $658 million at the end of 1979.

This government recognized the need to provide financial assistance to the Railway and in 1980 commenced paying debt servicing grants amounting to $70 million annually. The government has also recognized that the Railway should be compensated for operating uneconomic branch lines where government policy requires them to be operated for overriding social or economic reasons. Annual grants for the operation of the Fort Nelson Extension and for passenger services have been made under this government policy.

The government has also given the Railway the freedom to operate commercially and appointed a Board of Directors who are experienced and knowledgeable in the railroad industry. I am pleased to note that these policies are meeting with success. In spite of the economic difficulties experienced in the last three years, the Railway has been able to increase its operating profit from $3 million in 1981 to an expected $37 million in 1983.

To complete the task of rebuilding the finances of the Railway, the government has decided to completely eliminate the burden of the historic debt. At the end of 1983, this debt amounted to $610 million, slightly less than the balance seven years earlier. A payment of $470 million will be made from the Resource Revenue Stabilization Fund, to be added to the sinking funds for the Railway's historic debt. This will increase the sinking funds sufficiently to provide for all future interest and principal payments on the historic debt up to the year 2005 when the final payment is due. In the absence of this payment the government would have been required to continue the annual debt servicing grants for the next two decades. Those grants will no longer be required.

The removal of this debt burden from the Railway's accounts has been recommended by the Royal Commission on the British Columbia Railway and by the Auditor General. By this action, the government has completed the job of putting the Railway on a sound financial footing and ensuring that it is run on a commercial basis.

I wish to emphasize that this payment to the Railway will be used exclusively for the retirement of the historic debt. It will not be available to meet normal operating expenses or any costs, operating or capital, of the Tumbler Ridge Branch line.

The Railway is expected to carry the costs of the Tumbler Ridge Branch line, which was constructed to move northeast coal, without any subsidy from the government. The construction costs have been met by the Railway, largely through short-term borrowings which are to be replaced with long-term financial arrangements in the near future. The Railway will pay the annual costs of the long-term financing.

In 1984/85, the Railway will receive an estimated $16 million in freight surcharges on coal shipments to assist in paying for construction of the line. That is just the first payback on the investment. Any future extensions to the Railway will similarly be undertaken only where provision is made for recovering the investment over a reasonable period.

On behalf of the government, I would like to take this opportunity to commend the directors and the management of the British Columbia Railway Company for their success in improving the Railway's operating position. Prior to 1978, the Railway had experienced a series of operating losses. It has now experienced six consecutive years of operating profits. With the completion of the financial restructuring, the Railway will be able to proceed on a totally commercial basis and may soon begin paying dividends to its shareholders, the people of the province.

Let me now return to the subject of the Resource Revenue Stabilization Fund. Commencing in 1985/86, it is planned that all resource revenue will be allocated to the Fund to provide for the repayment of direct public debt as well as that guaranteed debt which is not commercially supportable. By starting now to make provision for repayment of the debt, I intend to make certain that British Columbia does not fall into the pattern of perpetual deficits and borrowing which has been the experience in other jurisdictions.

The expenditure budget for 1984/85 represents an important and exciting step in our multi-year plan.

For the first time in 31 years, the budget of the provincial government has been reduced from that of the previous year. Indeed, it has been almost 20 years since any government in Canada, federal or provincial, has actually reduced its budget from one year to the next. Growth in government spending, which many have considered irreversible, has been stopped and reversed in British Columbia. That difficult achievement is probably the clearest evidence to date of the success of our restraint program and associated policies.

In my pre-budget consultations, I was advised by some groups not to limit government spending, but to raise taxes in order to finance more expenditure. To repeat, this government was re-elected last year on the basis of a pledge to reduce government spending. That pledge is now being honoured.

Despite the policy of restraint, the government will continue to protect our core social programs. In particular, there is one major area of government for which expenditure will not be reduced. I am referring, of course, to health care, which remains the highest priority of the government and which will receive an increase of $51 million in the 1984/85 estimates. Later in my address I will outline measures to be taken to obtain more funding for this essential service.

The total expenditure of the government, excluding the extraordinary payment from the Resource Revenue Stabilization Fund, is estimated for 1984/85 at $7.920 billion. This represents a reduction of 6.2 per cent from the 1983/84 budget and 5.8 per cent from the revised forecast for the current year.

I point out that the current phase of the business cycle is the best time for government expenditure reductions. Temporary cyclical pressures on government are easing. At the same time, private sector activity is picking up and will absorb resources released by the reduction of public spending. Because of the delayed impact on the economy of fiscal policy changes, expenditure reductions now will alleviate upward pressure on wages and prices later in the current economic expansion.

The existing revenue base of the government is estimated to provide total revenue of $7.622 billion in 1984/85, 7.3 per cent more than the revised forecast for 1983/84. Later I shall be announcing a limited number of revenue measures which will have the net effect of increasing total revenue by $97 million to $7.719 billion.

After the allocation of $470 million of natural resource revenue for guaranteed debt retirement, a net amount of $7.249 billion will be available to finance normal operating expenditure. The deficit for 1984/85 is therefore estimated at $671 million, compared with the $1.307 billion currently estimated for 1983/84.

Although I am pleased to be able to show a reduction in the deficit, I must caution all British Columbians against complacency. The most difficult steps have been taken. The direction has been reversed. But the road ahead will not be smooth. A deficit of $671 million still represents almost $650 per household in this province. The interest payments alone for 1984/85 are equal to the combined budgets of seven ministries. We shall carry on until the deficit is erased, sufficient funds are provided to retire the debt incurred since 1982 and the government is financially prepared to withstand future economic slowdowns. This objective will not be easily attained but it is within our reach. Should we fail to achieve it, future British Columbians will pay a heavy price.

Let me say again, the outstanding direct debt for government purposes is forecast to reach $1.9 billion at March 31, 1984, and $2.6 billion at March 31, 1985. We are determined not to leave this as a legacy for the future.

Expenditure Policy Directions

The operating expenditure plan for 1984/85 reflects a reduction of 6.2 per cent in provincial government spending. With the exception of the Ministry of Health, budgets for 1984/85 provide less than in the previous year's estimates. While the specific percentage reductions vary among ministries, the principles do not. Staff reductions are continuing on schedule; office space is being reduced; motor vehicle fleets are shrinking; many programs are being scaled back or eliminated; privatization is being achieved where appropriate; ministries are becoming leaner and more efficient. All activities are under review and more productive ways of doing the necessary jobs are being found.

An essential element in this budget, as in the previous two, is the Compensation Stabilization Program. The revised guidelines and regulations proposed last summer were issued in final form in November, following discussions with those affected. It will be recalled that the principles of ability to pay and productivity are now the primary determinants of compensation levels in the public sector. I emphasize that, for the coming year, as for 1983/84, no compensation increases can be justified on the basis of ability to pay. This leaves increased productivity as the only way for employees to earn salary increases.

The recent settlements negotiated with the British Columbia Government Employees Union and with the Ferry and Marine Workers Union exemplify the application of the Compensation Stabilization Program. In accordance with the government's ability to pay, no increase was provided to BCGEU employees for the first year of the new agreement. Increases are payable in the second year but the cost will be offset by efficiency improvements and staff reductions being undertaken by the government within the terms of the agreement. As a result, the government's direct salary bill will be reduced by 8 per cent in 1984/85. Similarly, the British Columbia Ferry Corporation is now able to offset future wage increases negotiated with its employees through significant productivity measures, including revised work schedules, provided for in the new collective agreement.

In addition to seeking higher productivity within government, we have again been forced to re-evaluate services. I can tell the House that my colleagues and I derive no enjoyment from eliminating programs. Indeed, the primary objective of raising productivity is to prevent reductions in our most essential programs. Restraint would not be necessary if our resources were unlimited, but the reality of life in the 1980s is that financial resources are limited. Just as a family must make choices in spending its income, a government must decide among the almost infinite demands on the treasury, remembering always that public money comes from the hard-earned incomes of our citizens. In selecting the programs to be funded by the taxpayers, we shall always consider whether they represent services which British Columbians would wish to buy for themselves.

In preparing the expenditure plan for 1984/85, the government was determined to scrutinize every spending proposal to ascertain whether it represented an appropriate use of public money. Ministries have been pushed very hard to improve their productivity, an essential step if we are to do more with less. Administrative support groups and regional offices will continue to be scaled down, as we reduce the overhead costs of program delivery. New initiatives are underway to increase the effectiveness of central management functions for personnel, motor vehicles and government records. Regulatory processes are being streamlined and automated, both to reduce direct costs and to ease the burden of compliance on the private sector. I recognize that these efficiency initiatives require extra effort from our public employees and I am pleased to see them responding. Attitudes are an important ingredient in restraint and I believe that government employees, from deputy ministers through to junior staff, have accepted restraint and are to be commended for their efforts to make it work.

Another key element of the expenditure plan is the shifting of activities from the government to the private and non-profit sectors. Some commentators have suggested that this process does not save money, but I can provide assurance that there are indeed savings. Functions performed by government ministries create both direct costs in the ministries and indirect overhead costs elsewhere in government. In recognition of this, two major centrally-provided services, employee benefits and telecommunications, will be charged back to ministries in 1984/85 to provide a better indication of the full costs of delivering each program. When these and other indirect costs are fully accounted, it becomes clear that savings can often be made by shifting activity to the private sector. In these cases, privatization should be, and is being pursued.

Specific privatization initiatives for 1984/85 include: transfer of real estate, insurance and securities licensing functions to self-regulating industry bodies; transfer of travel agency regulation to the travel industry; transfer of laundry facilities from the Ministry of Health to private or non-profit operation; transfer of some forest management functions to private sector licensees; and turnover of most government-operated child care facilities to non-profit societies. In addition, a number of privatization initiatives started after my last budget will be completed in the coming year. Last July I called for privatization proposals to be brought to my attention by any interested parties. I have been most encouraged by the response and repeat that suggestion for this year.

Significant budget savings for this year will be realized through a broad range of measures affecting major expenditure programs. By directing the funding for these programs more effectively, we will be able to achieve our fiscal objectives while retaining the essential benefits of the programs.

Several amendments will be made to the GAIN program to preserve benefits for those most in need. My colleague, the Minister of Human Resources, will shortly announce a series of revisions to the rates and eligibility criteria for basic income assistance. By limiting payments made to certain types of clients, the government will reduce the chances of creating a permanent group of unemployed persons and of attracting potential recipients from outside the province. At the same time, the core program of assistance to those most in need will be maintained.

Under the Pharmacare program, steps will be taken to restrain costs by limiting dispensing fees paid to pharmacists. In addition, the annual deductible amount under the universal component of the program will be raised from $125 to $175. No change will be made in benefits for seniors, long-term care residents or eligible GAIN recipients.

My colleague, the Minister of Health, is now addressing ways in which payments under the Medical Services Plan may be limited. If we are to preserve our health care system in British Columbia, we must control the growth of this program. The open ended nature of the Medical Services Plan has allowed an escalation in the number of practitioners and their incomes beyond the ability of the taxpayers to pay. The fee schedule for physicians in British Columbia is the highest in Canada and last year was more than 25 per cent above the national average. In the past five years, payments from the Plan have more than doubled and are now $296 per capita, again the highest in Canada. Discussions are now taking place to develop revisions to the Medical Services Plan which will give the medical profession a positive role in preserving the provision of high quality medical care within limited resources.

In the Hospital Programs area, funding will be increased to provide for cost and volume increases, but pressure will also be placed on hospitals to become more efficient in service delivery.

I repeat that, despite these cost-saving measures, health care has been given a high priority in the expenditure plan and is the only major program area in which funding has been increased for 1984/85. At the same time, the federal government has limited its contribution to health care and is attempting to impose more conditions on the provinces. I shall have more to say about this later.

Steps will be taken in the coming year by my colleague, the Attorney General, to limit the expenditures of his ministry while protecting the core services of the justice system.

- The *Criminal Injury Compensation Act* will be amended to limit the government's financial exposure. Provision will, of course, be made to ensure that persons now receiving payments awarded under this Act will not be affected.

- Measures will be implemented to permit the Legal Services Society to set priorities for providing legal aid within a limited budget. Discussions with the Society are underway and a task force has been appointed to hold public hearings and make recommendations.

- The provincial government contribution for training of municipal police and firefighters will be reduced. Municipalities will be consulted to determine how best to accommodate this reduction.

- Functions performed by sheriffs will be carefully reviewed to identify those which can be performed at less cost by others.

- Finally, I observe that no provision is made in the budget for the implementation of the federal *Young Offenders Act*. The federal government has been approached to seek a delay in the proclamation of this Act, and a review of cost-sharing arrangements. It is our objective to provide for the orderly and effective implementation of this new legislation.

It has become evident throughout North America that more teachers and higher salaries do not in themselves raise educational standards. Accordingly, school funding reductions planned for the next three years are consistent with an increase in the pupil-teacher ratio to the level which prevailed in 1976. At the same time my colleague, the Minister of Education, is taking important steps to improve the quality of education in our schools. In this connection, the $12.6 million saved in the school system during the teachers' strike last November will be applied to a variety of educational purposes in 1984/85.

Post-secondary educational institutions will also be required to reconsider their priorities. In the universities, costs can be reduced through increased efficiency and rationalization of programs, and early retirement incentives can be used to reduce faculties. I point out that, while the universities were asked to budget for a six per cent reduction in operating grants for 1984/85, after reviewing the actions needed to meet this target the government has scaled the reduction back to five per cent. Just as the government is avoiding major tax increases, I would expect the universities to use the extra funds to restrain the increases in tuition that have been announced.

For colleges, the government has decided to reduce operating grants by only 3.5 per cent. These institutions are closely oriented toward preparing students for the job market and I expect that they will be able to absorb students affected by any limitation on university admissions.

My colleague, the Minister of Education, will shortly provide details concerning a restructuring of student financial aid in British Columbia. Effective April 1, 1984, student aid will be provided primarily in the form of loans, rather than grants as in the past. This matches the federal government's approach to student financial assistance and will improve the balance between government and individual financing of post-secondary education. In 1982/83, students paid 12.5 per cent of the costs of university education and 10.0 per cent of college costs in British Columbia. Ontario universities, by comparison, cover 18 per cent of their costs through tuition fees. It is often argued that education provides public benefits and should therefore be publicly financed, but there are also significant benefits to the individual in the form of employment opportunities and higher income. Surely, a public subsidy of over 80 per cent is more than fair. Provision of loans to needy students will ensure access to all qualified persons, while requiring that the assistance is repaid from their future earnings.

My colleagues, the Minister of Education and the Minister of Universities, Science and Communications, will announce shortly a new provincial government scholarship program, based on academic achievement, to be developed in consultation with interested groups. In addition, to assist young people in supporting themselves during their education, the Ministry of Labour will fund a student employment program and a new student venture capital program in 1984/85. The latter will give students an opportunity to create their own jobs using loans guaranteed by the government.

Provincial assistance to municipalities is provided through the revenue sharing formula, under which the amount available for grants is based on revenue from major provincial taxes and resource charges. The amount for each fiscal year is determined primarily by the estimated revenue for that year, plus or minus an adjustment for the difference between estimated and actual revenue two years earlier. Because of the large revenue shortfall in 1982/83, there is a substantial negative adjustment in 1984/85. As a result, the total allocation to the revenue sharing fund will decline from $210 million in 1983/84 to $175 million in 1984/85.

Fortunately, the fund has an unspent balance, which arose during 1982/83 due to reduced municipal participation in conditional grant programs. As a result, the total available for distribution in 1984/85 will be $202 million, only marginally less than in 1983/84.

Municipal officials have expressed concern about fluctuations in revenue sharing because of the difficulties this presents for their own financial planning. From my own civic experience, I can understand and sympathize with these concerns. I point out, however, that these fluctuations reflect those in the revenue of the provincial government itself. When, as Minister of Municipal Affairs and Housing, I introduced the Revenue Sharing program in 1977, I emphasized that municipalities would share the same growth in revenue as the province. This has meant sharing the bad as well as the good. Consistent with this principle, the recent recession has now affected municipalities as it has the provincial government.

Nevertheless, because of the concerns expressed, I am prepared to consider the development of a stabilization mechanism for revenue sharing. Clearly, the municipalities will benefit from the stabilizing effect of the fund balance I mentioned earlier and, perhaps, a more formal approach could yield even greater benefits. My ministry will be reviewing this suggestion during the next few months, in consultation with the Ministry of Municipal Affairs and the Union of British Columbia Municipalities, with a view to developing specific proposals for 1985/86.

Despite the overall reduction in government operating expenditure, provision has been made for a number of economic development and public investment initiatives. In comparison with the enormous expenditures on social programs, these allocations are very small. However, the programs funded will provide important benefits to the people of the province through greater economic opportunity or environmental safety.

- The Ministry of Universities, Science and Communications has been allocated $4.7 million for the Discovery Enterprise Program, primarily to assist in raising equity for high technology ventures in the province. In addition, a portion of this funding may be made available to establish chairs at our universities for experts in high technology. Establishment of a core of expertise can be an important inducement for the location of technology-related enterprises.

- The accelerated dyking program begun last year will be continued with an allocation of $8.8 million for 1984/85. This program will yield increasing benefits through flood protection in future years. In this connection, I have also identified a requirement for a new system of insurance for flood damage. Obviously there are difficulties in providing private insurance, but the taxpayer cannot be expected to assume all of the risk on behalf of those in flood-prone areas. I invite the insurance industry to bring to the government innovative proposals for meeting this need.

- The Ministry of Lands, Parks and Housing will make available a total of $25 million for loans to municipalities under section 286 of the *Municipal Act*. This financing, which is used for servicing new residential land, should create construction activity and help to stabilize land prices.

- Financing will also be provided for road construction and reforestation in connection with small enterprise projects sponsored by the Ministry of Forests.

In speaking of economic development, I wish to emphasize the importance to British Columbia of Expo 86, both for the direct activity it will create and for the favourable attention it will draw to our province. Planning and development are proceeding rapidly and, with the recently-announced participation of the People's Republic of China, it is clear that we shall be hosting a major, world-class exposition. During the construction and operation of Expo 86 over the next three years, an estimated 60,000 person-years of employment will be generated for British Columbians. In addition, to ensure that Vancouver's transportation system is ready both to meet the demand for visitors and to be a showcase for the fair, work is proceeding rapidly on both the ALRT system and the Annacis Island Bridge toward completion dates in early 1986.

I wish to comment briefly on some administrative reforms being made in connection with capital borrowing. Under legislation passed last year, the government now has the option of borrowing funds and relending them to Crown corporations. Previously, all Crown corporations borrowed directly under provincial guarantee. With the new flexibility, the government can now obtain better terms by undertaking a larger borrowing for several corporations, rather than requiring each to borrow separately. Savings will also be made on the temporary borrowings required by regional hospital districts, school districts, universities and colleges in anticipation of long term financing. Under newly developed procedures, the provincial government will now be able to guarantee these loans in order to reduce the interest rate charged by financial institutions.

Health Care Funding

I spoke earlier about the high priority this government has given to the provision of health care services. Of all the programs in government, health care has been treated most generously in this period of restraint because it is our most essential service.

Many British Columbians are aware that the federal government has been making a political issue of health care services. Ottawa's approach to this matter has been, to put the most favourable light on it, mischievous. The *Canada Health Act* has been introduced into Parliament in an attempt to portray the federal government as the saviour of medicare and hospital care.

In order to provide some perspective on this issue, let me review briefly the history of health care funding in Canada. In 1949, British Columbia became the second province to implement a scheme of universal hospital insurance coverage. The federal government began a cost-sharing program in 1958 under the *Hospital Insurance and Diagnostic Services Act*, which provided roughly fifty per cent federal reimbursement for provincial costs under programs conforming to certain standards. In 1968, a similar program was started under the *Medical Care Act* to provide federal cost-sharing for provincially-operated medicare programs. British Columbia and Saskatchewan were the first provinces to participate in this plan.

These programs proved to be very popular with Canadians. Services were greatly expanded and, not surprisingly, costs increased rapidly. Having used taxpayers' money to induce provinces to spend more on medical and hospital programs, the federal government later decided that it could not afford to pay its share of the costs. In 1975, the federal government unilaterally placed a ceiling on the annual increases in its medicare contributions and gave notice of its intention to withdraw from participation in hospital insurance funding. In taking these actions, the federal government blamed the provinces for spending too much on health care programs. The irony of this in today's context will be readily apparent.

A year of difficult negotiations produced a new system for the provision of federal contributions for health care under EPF, the Established Programs Financing arrangements. Beginning in 1977, federal payments to provincial governments were determined under a complex formula based on population, gross national product and the value of a specified portion of the personal and corporation income tax fields. Since contributions were no longer related to actual provincial expenditure, federal exposure to escalating costs was eliminated. In exchange, provincial governments were to receive a stable and predictable source of funding and were permitted greater flexibility to improve the efficiency and cost-effectiveness of their health care systems. The incentive to structure programs to maximize federal cost-sharing was replaced by a new incentive to control costs and maximize the value received for the taxpayers' money. British Columbia and other provinces subsequently took steps to rationalize health care delivery systems to achieve these goals.

Five years later in 1982, when Established Programs Financing came up for renegotiation, the federal government again decided that its contributions were too large. Ottawa unilaterally changed the EPF formula to reduce its transfer payments and effectively shift part of its deficit to the provinces. To maintain health care services, provinces could either raise taxes or cut back other services.

Incredibly, the federal government decided, at the same time it was reducing funding, to begin a campaign to force provincial governments to spend more on health care. Extravagant claims have been, and continue to be made about so-called erosion of services. This campaign recently culminated with the introduction of the *Canada Health Act*, which would empower the federal government to withhold a portion of EPF contributions from provinces which impose or allow fees for health services or which fail to meet certain other standards.

To further confuse the issues surrounding health funding, the federal government claimed last fall that it was paying additional money to provinces for Established Programs Financing. The fact of the matter is that federal payments were increased only due to revised estimates of the amounts owing to the provinces under the existing formula. Part of the change is due to new estimates of gross national product and the remainder is due to a decline in personal income tax revenues of the provinces. For the federal government to portray this as increased funding is, at best, misleading.

While I can understand the political motivation behind the *Canada Health Act* initiative, I must say that it is extremely irresponsible of the federal government to limit its own financial commitment to health care and at the same time pressure the provinces to spend more. Our analysis shows that, since the introduction of EPF in 1977/78, the federal share of health costs in British Columbia has declined from 43 per cent to 39 per cent. An increase of $364 million is required to raise the federal contribution to a more appropriate level of 50 per cent.

It is my belief that the current federal proposals will actually damage rather than secure the health care system. Hospital co-insurance fees have been an integral element of British Columbia's health care funding for 30 years. Through these minimal charges, we obtain additional resources for hospitals as well as giving a necessary indication to the users that there is a real cost to hospital services. The fees are certainly not onerous and the government pays them on behalf of those in need. The result is that direct users of acute care hospitals contribute only 3 per cent of the total cost while the general taxpayer contributes 97 per cent.

For its own reasons, the Government of Canada seems to have concluded that even these minor charges represent erosion of health care, and has decided to penalize British Columbians to enforce this view. Beginning in 1984/85, Established Programs Financing payments to British Columbia could be reduced by an amount equivalent to the collections from charges for acute care, emergency care and day surgery. Based on current fee levels, this penalty would represent a loss of $40 million per year to this province.

British Columbians can not afford this disruption to our health care financing system. Loss of this revenue, combined with earlier reductions in federal funding, represents the real threat to health care in British Columbia. The ideal way to remove this threat would be for the federal government to drop its proposal and to raise its contributions for health care to an adequate level. Unfortunately, the current federal administration has decided to manipulate Canada's health care system for its own political purposes, hoping, I think in vain, that Canadians will blame the provinces for the consequences. I note that both opposition parties in Parliament have taken positions in favour of higher federal contributions.

To ensure the continued stability of health care services in Canada, we need cooperation, not confrontation. Accordingly, I am calling for a federal-provincial conference of finance and health ministers to address the real issues and abandon the rhetoric.

We believe that British Columbia's user charges neither impede access to health services nor place a burden on low income groups. Our preference would be to retain them. Nevertheless, to advance an agreement and in a spirit of cooperation, British Columbia is prepared to replace all acute care hospital user charges with a single charge based on family size, levied through the income tax system. The federal government would be expected to administer the charge under the tax collection agreement.

At the same time we would hope to obtain a resolution of the funding issue. The EPF arrangements are complex, and opinions may differ as to the correct interpretation of the numbers. It is, however, clear that the provinces bear the full exposure to rising costs. In British Columbia particularly, we must provide an ever-increasing range and level of services to a growing and aging population. The costs of these services have clearly increased more rapidly than federal contributions. That is the essential issue.

I sincerely hope that my suggestion for a conference will be accepted as an important step in protecting health services. A resolution of the user charge question and an increase in federal funding are both necessary for future stability. I have written to my federal counterpart today to inform him of our proposals and to request his cooperation.

In the interim, we must have an alternative source of revenue to compensate for the federal underfunding. To make up part of the shortfall, I am announcing a new Health Care Maintenance tax, in the form of an 8 per cent surcharge on provincial personal income tax. This tax will be phased-in at 4 per cent for the 1984 taxation year and will affect payroll deductions in July. It will raise an estimated $97 million in 1984/85 and $166 million in a full year. I repeat that this is a temporary measure, which will remain in place while we await an appropriate increase in federal contributions.

During this year, my colleague, the Minister of Health, and I will be pressing for a new health care funding arrangement which will serve the needs of Canadians in all regions. If we can achieve a satisfactory resolution, the new tax I have announced can be reversed. I recognize there presently appears to be little prospect of agreement from the current federal administration, but attitudes and circumstances can change quickly in public affairs. Most importantly we have logic on our side.

Revenue Policy

The ultimate benefit of the government's restraint program will be a healthy and sustainable economic recovery. A smaller, leaner and more productive public sector will be more restrained in its demands on the taxpayer, leaving more room for a vibrant private sector. This government is firmly committed to limiting the tax burden on individuals and businesses as the financial position of the province improves. We also plan amendments to make the tax system fairer, more balanced and more efficient.

This, however, is not the time for major tax changes and I have very few measures to announce. I have already described a temporary personal income surtax to be levied in connection with health care funding. In addition, I am announcing the following tax changes:

- Effective March 1, 1984, the Hotel Room Tax will be levied at a flat 7 per cent rate. I have been persuaded that a single rate would be easier for the hospitality industry to administer than the existing split tax rate of 6 per cent on accommodation priced at less than $50 per day and 8 per cent on accommodation priced at $50 or more per day.

- Effective midnight tonight, an additional comprehensive list of safety equipment, including infant car seats, portable fire extinguishers and emergency locator transmitters, will be exempted from the social service tax. I wish to encourage use of these items both for individual safety and as a cost-saving measure to the taxpayer through accident prevention.

The net effect of these two changes will be a reduction of $400,000 in provincial revenue for 1984/85. Including the new Health Care Maintenance surtax, the increase in provincial revenue will be $96.6 million in 1984/85.

I would like to comment briefly on property taxes for 1984. Significant changes to the property assessment and taxation system have been introduced in the past two years to stabilize tax burdens and simplify the tax calculations. The essential elements of market value assessments and local flexibility have been retained. I believe that we now have a better system than before and, indeed, one of the best systems anywhere in North America.

In preparing this budget, the government has recognized the impact of property taxes on individuals and businesses and has avoided loading additional costs onto the local taxpayer. Accordingly, school budgets and grant levels have been set to ensure there will be no increase in non-residential school taxes for shareable costs. Any increase in residential school taxes will reflect only local discretionary spending increases. For most municipalities, budgets are expected to show no increase in 1984, and, with few exceptions, municipal property taxes will increase very little. There will be a slight rise in rural property taxes due to the increase from 12 to 13 mills for 1984 which I announced last July. Nevertheless, property taxes remain below the cost of providing services in rural areas and no change is proposed in the rural tax rate for 1985. In summary, I can say that property taxes for 1984 will, for the vast majority, increase only marginally, if at all, from 1983.

Before leaving this subject I shall announce one minor property tax measure:

- The minimum property tax payable for 1985, after application of the basic home owner grant, will be raised from $150 to $175. The one dollar minimum for recipients of the additional home owner grant for seniors and the handicapped is not changed.

The main focus of revenue policy this year will be the analysis of our taxes on business. If we wish our economy to grow and develop in the future, providing employment and generating revenue for public services, we must ensure that we have a favourable environment. If we try to lower taxes for individuals by levying higher taxes on businesses, we will succeed only in making our industries uncompetitive and in discouraging new investment. The result will be lost jobs, lost income and lost opportunities. This is the road to economic decline.

Significant adjustments have been made in the last year to restrain charges on business. For 1984, property tax relief has been provided through a new $10,000 actual value exemption for business and industrial properties and an increase in the exemption for machinery and equipment from $1,500 of assessed value to $50,000 of actual value. These exemptions have eliminated taxes on machinery and equipment for nearly 15,000 businesses and significantly reduced property taxes for many others. In addition, businesses have been assisted through the deferral of a scheduled increase in water rental charges and limitations on Workers' Compensation Board assessments.

Despite these measures, concerns have been expressed to me, both in my recent consultations and previously, that British Columbia's taxation of business is somewhat higher than in competing jurisdictions. To ascertain whether this is the case, I have commissioned a study of the tax burden on a variety of types of business in several jurisdictions. The analysis is complex and difficult because of differences in tax systems. Nevertheless, I expect to use the results of the study as the basis for a consultative process to be undertaken this summer.

In conjunction with these discussions, the government will conduct a thorough review of the impact of taxation on economic development. Consideration will be given to innovative tax measures for stimulating new investment by large and small businesses. The government hopes to develop a series of policy proposals for implementation beginning next year.

Conclusion

This budget I have presented today will strengthen the foundation for British Columbia's future.

In the coming year, we shall continue with the necessary task of reducing and rationalizing government in this province. This certainly does not mean restraint will be over, because the highly competitive era now emerging will require us to remain vigilant in controlling our costs. But the first and most difficult phase of our economic recovery program will be complete, the toughest decisions on government services will have been made, and the basis for a lean and efficient public sector will have been established.

The next fiscal year will also mark the beginning of the second phase of the economic program, which will sustain British Columbia through the recovery. During this phase we shall strengthen both government finances and the economy in British Columbia to prepare ourselves for whatever the future may bring. No one would wish to see another recession like that which we recently experienced, but if one comes we are going to be ready. The current period of recovery must be used as an opportunity to restore fiscal balance and give ourselves the capacity to absorb any future shocks. We must also bolster our economy by identifying and building on successful industries. The best way to ensure that we continue to enjoy one of the highest standards of living in the world is to develop a strong and vibrant business sector which can compete with the best. As our goal, we should accept no less.

The success achieved by this government since it received a new and larger mandate just nine months ago is a fundamental element of this budget. It is a success which the majority of British Columbians will acknowledge with satisfaction and from which they can take encouragement. To repeat, there are many circumstances, external and within the province which could interfere with our recovery. However, it is appropriate today to pause for a moment and note the improvement already evident —

- Less expensive government — surely unique on an international scale;
- Limited and modest changes in taxation;
- A new and more realistic approach to employee relations in the public sector;
- Emphasis on and maintenance of essential social services;
- A continued commitment to encouragement of individual initiative; and
- A mature recognition of our individual and collective responsibility for our future.

The course chosen by British Columbians last year has not been easy. Difficult choices have been required and sacrifices have been made. Nevertheless, our citizens continue to support these policies because they recognize that sacrifices must be made to generate future benefits. Neither I nor anyone else can guarantee that the time ahead will be smooth, but I can provide assurance that it will be better. Our economy is recovering and jobs are being created. Confidence is improving and British Columbians are quickly adapting themselves to a new economic environment.

As we become accustomed to this change we can find satisfaction in knowing that we have taken steps which others still have ahead of them. We have been the pioneers and can now watch others follow. I believe that one day we shall look back on this time as a period of shared adversity in which we forged a stronger future.

BUDGET TABLES

Table 1
Financial Plan

	Estimate 1983/84	Revised Forecast 1983/84	Estimate 1984/85
	($ millions)		
General and Special Funds:			
Revenue	6,843.8	7,103.0	7,249.0
Expenditure	8,446.8	8,410.0	7,920.0
Surplus (Deficit)	(1,603.0)	(1,307.0)	(671.0)
Resource Revenue Stabilization Fund:			
Revenue	525.6	635.6	470.0
Expenditure	525.6	635.6	470.0
Surplus (Deficit)	—	—	—
Consolidated Revenue Fund:			
Revenue	6,843.8	7,103.0	7,719.0
Expenditure	8,446.8	8,410.0	8,390.0
Surplus (Deficit)	(1,603.0)	(1,307.0)	(671.0)

Consolidated Revenue Fund revenue for 1983/84 is now forecast at $7,103 million, $259 million (3.8 per cent) above the budget estimate. Expenditure for 1983/84 is forecast at $8,410 million, $37 million below the budget estimate. Primarily as a result of the increase in revenue, the 1983/84 deficit is forecast to be $1,307 million, a decrease of $296 million from budget.

Consolidated Revenue Fund revenue for 1984/85 is estimated at $7,719 million, and expenditure is estimated at $8,390 million. Revenue growth resulting from economic recovery and the revenue measures announced in the budget, as well as expenditure restraint, are expected to result in a 1984/85 deficit of $671 million, a decline of almost 50 per cent from 1983/84.

In 1984/85 the resource revenue paid into the Resource Revenue Stabilization Fund will be limited to the amount required to meet the payment to the British Columbia Railway Company to provide for retirement of the historic debt incurred during the 1960s and 1970s. The balance of resource revenue will be paid directly into the General and Special Funds. In 1983/84 all resource revenue was paid into the Resource Revenue Stabilization Fund, and transferred to the General Fund to meet operating expenditure.

Table 2

Consolidated Revenue Fund
Operating Transactions and Net Equity

	Actual 1982/83	Revised Forecast 1983/84	Estimate 1984/85
		($ millions)	
Operating Transactions:			
Revenue	6,529.1	7,103.0	7,719.0
Expenditure	7,513.3	8,410.0	8,390.0
Surplus (Deficit)	(984.2)	(1,307.0)	(671.0)
Net Equity (Net Deficiency):			
Balance — Start of Year	1,520.3	536.1	(770.9)
Surplus (Deficit) for the Year	(984.2)	(1,307.0)	(671.0)
Balance — End of Year	536.1	(770.9)	(1,441.9)

In 1984/85, operating revenue is estimated to increase by 8.7 per cent to $7,719 million. This growth in revenue is due to revenue measures introduced in this budget which are expected to add $97 million to total revenue, to the full-year impact of the July 1983 budget measures and to continuing economic growth. Expenditure is estimated to decrease slightly from 1983/84 to $8,390 million. This decrease is the result of continued restraint by the government.

The deficit for 1984/85 is estimated at $671 million or approximately one-half of the 1983/84 level. By March 31, 1985 the excess of financial liabilities over financial assets, or net deficiency, is estimated to be $1,442 million.

Table 3

Consolidated Revenue Fund
Summary of Financial Transactions

	Actual 1982/83	Revised Forecast 1983/84	Estimate 1984/85
	($ millions)		
Financial Requirements			
Operating Transactions:			
Revenue	6,529.1	7,103.0	7,719.0
Expenditure	7,513.3	8,410.0	8,390.0
Surplus (Deficit)	(984.2)	(1,307.0)	(671.0)
Financing Transactions:			
Receipts	118.4	164.2	131.6
Disbursements	196.4	185.1	111.2
Net Receipts (Disbursements)	(78.0)	(20.9)	20.4
Net Receipts from (Disbursements for) Working Capital Transactions	(187.3)	86.4	(99.4)
Total Direct Financial Requirements	(1,249.5)	(1,241.5)	(750.0)
Financial Sources			
Direct Borrowing	700.0	1,347.9	1,305.0
Less: Funds reloaned to Crown corporations	—	(339.0)	(555.0)
	700.0	1,008.9	750.0
Decrease in Cash and Temporary Investments	549.5	232.6	—
Total Direct Financial Sources	1,249.5	1,241.5	750.0

The government's financial requirements are estimated to total $750 million for 1984/85. In addition to $671 million required to meet the deficit, $99 million will be required for working capital transactions. These requirements will be partially offset by an expected cash inflow of $20 million from financing transactions.

The government expects to borrow $1,305 million during 1984/85. Of this amount, $750 million is required for government purposes, while $555 million will be reloaned to Crown corporations in accordance with provisions of the *Provincial Treasury Financing Amendment Act,* 1983. This direct government borrowing on behalf of Crown corporations enables them to obtain funds at lower rates of interest than would otherwise be possible.

Crown corporations are also expected to borrow $1,325 million in 1984/85, to be guaranteed by the government.

Table 4

Consolidated Revenue Fund
Summary of Source and Application of Funds

	Actual 1982/83	Revised Forecast 1983/84	Estimate 1984/85
		($ millions)	
Source of Funds:			
Revenue	6,529.1	7,103.0	7,719.0
Direct Borrowing:			
For government purposes	700.0	1,008.9	750.0
On behalf of Crown corporations	—	339.0	555.0
	700.0	1,347.9	1,305.0
Financing Transaction Receipts:			
Mortgage principal repayments	23.7	40.2	27.5
Sales of property	28.2	27.0	27.7
Repayment of investments in and advances to Crown corporations	51.2	10.0	10.0
Repayment of other assets	15.3	87.0	66.4
	118.4	164.2	131.6
Decrease (increase) in Working Capital	362.2	319.0	(99.4)
Total Source of Funds	7,709.7	8,934.1	9,056.2
Application of Funds:			
Expenditure	7,513.3	8,410.0	8,390.0
Funds reloaned to Crown corporations	—	339.0	555.0
Financing Transaction Disbursements:			
Mortgages issued	89.9	46.2	50.1
Purchases of property	26.7	17.5	25.5
Investments in and advances to Crown corporations	25.1	20.3	—
Other investments	54.7	101.1	35.6
	196.4	185.1	111.2
Total Application of Funds	7,709.7	8,934.1	9,056.2
Change in Working Capital:			
Decrease (increase) in accounts receivable	(152.3)	(46.3)	(32.6)
Decrease (increase) in amounts due from Crown corporations	(2.6)	(36.3)	—
Decrease (increase) in prepaid program costs	(54.3)	16.5	7.0
Decrease (increase) in inventories	(7.3)	(9.1)	(5.0)
Increase (decrease) in accounts payable	2.1	158.7	(75.3)
Increase (decrease) in amounts due to Crown corporations	5.6	1.7	—
Increase (decrease) in deferred revenue	21.5	1.2	6.5
Decrease (increase) in working capital other than cash and temporary investments	(187.3)	86.4	(99.4)
Decrease in cash and temporary investments	549.5	232.6	—
Total decrease (increase) in Working Capital	362.2	319.0	(99.4)

This table provides details of the major flows of funds for 1984/85. Sources of funds are expected to total $9,056 million including revenue of $7,719 million, borrowing of $1,305 million, financing transaction receipts of $131 million, less an increase in working capital of $99 million.

These funds will be used to meet expenditure requirements of $8,390 million and financing transaction disbursements of $111 million. In addition, $555 million will be loaned to Crown corporations.

Table 5

Consolidated Revenue Fund
Revenue by Source

	Actual 1982/83	Revised Forecast 1983/84	Estimate 1984/85	Increase (Decrease) 1983/84–1984/85
	($ millions)			(per cent)
Taxation Revenue:				
Personal income	2,008.2	1,813.0	2,148.0	18.5
Corporation income	188.5	306.0	383.0	25.2
Social service	999.5	1,210.0	1,371.0	13.3
Fuel	389.0	412.0	442.0	7.3
Other	284.5	313.0	340.0	8.6
	3,869.7	4,054.0	4,684.0	15.5
Natural Resource Revenue:				
Petroleum and natural gas	228.8	286.0	273.0	(4.6)
Minerals	32.5	29.0	42.0	44.8
Forests	82.9	139.0	163.0	17.3
Water	187.4	172.0	189.0	9.9
Other	10.9	11.0	12.0	9.1
	542.5	637.0	679.0	6.6
Other Revenue:				
Sales and services	150.4	168.0	186.0	10.7
Licences and permits	146.1	161.0	170.0	5.6
Interest	91.3	75.0	70.0	(6.7)
Miscellaneous	105.6	71.0	69.0	(2.8)
	493.4	475.0	495.0	4.2
Contributions from Government Enterprises:				
Liquor Distribution Branch	337.9	347.0	370.0	6.6
Contributions from Federal Government:				
Established Programs Financing	652.4	935.0	871.0	(6.8)
Canada Assistance Plan	460.0	520.0	501.0	(3.7)
Other	103.2	121.0	119.0	(1.7)
	1,215.6	1,576.0	1,491.0	(5.4)
Non-Recurring Revenue	70.0	14.0	—	—
TOTAL REVENUE	6,529.1	7,103.0	7,719.0	8.7

Consolidated Revenue Fund revenue for 1984/85 is estimated to total $7,719 million, an increase of 8.7 per cent from 1983/84. The revenue estimate includes $97 million resulting from the measures announced in the budget.

Taxation revenue is estimated to increase by 15.5 per cent to $4,684 million. Personal income tax revenue is expected to increase by 18.5 per cent, including $97 million in revenue resulting from the health care maintenance tax. Corporation income tax revenue is estimated at $383 million, an increase of 25.2 per cent from

1983/84, but still well below the $580 million received in 1981/82. Social service tax revenue of $1,371 million shows an increase of 13.3 per cent over 1983/84, partially as a result of the full year revenue impact of the measures undertaken in the July 1983 budget and partially as a result of an expected increase in consumer expenditure and business investment.

Natural resource revenue is expected to increase by 6.6 per cent to $679 million in 1984/85. The sharp increase forecast for minerals is the result of royalty revenue expected from North East coal and a general recovery in the mining industry. Forest revenue is expected to increase by 17.3 per cent in 1984/85 as the forest industry continues to recover from the recent recession. These revenue increases will, however, be partially offset by an expected decline in petroleum and natural gas revenue.

Contributions from the federal government are expected to decline by 5.4 per cent to $1,491 million in 1984/85. Established Programs Financing contributions under the formula are expected to decrease by $64 million (6.8 per cent) from the 1983/84 level, as a result of the inclusion in 1983/84 revenue of $79 million in prior year adjustments. Contributions under the Canada Assistance Plan are expected to decline by $19 million (3.7 per cent).

Table 6

Consolidated Revenue Fund
Expenditure by Ministry

	Estimates 1983/84	Estimates 1984/85	Increase (Decrease) 1983/84–1984/85
	($000's)		(per cent)[1]
Legislation	7,963	7,616	(4.4)
Auditor General	3,594	3,488	(2.9)
Ombudsman	2,046	1,938	(5.3)
Premier's Office	742	698	(6.0)
Agriculture and Food	116,535	107,355	(7.9)
Attorney General	359,825	344,188	(4.3)
Consumer and Corporate Affairs	21,872	19,034	(13.0)
Education	1,416,934	1,355,885	(4.3)
Energy, Mines and Petroleum Resources	28,072	23,579	(16.0)
Environment	92,739	92,732	—
Finance	63,826	58,860	(7.8)
Forests	262,605	252,252	(3.9)
Health	2,488,388	2,539,084	2.0
Human Resources	1,307,262	1,281,424	(2.0)
Industry and Small Business Development	49,158	47,033	(4.3)
Intergovernmental Relations	2,734	2,435	(10.9)
Labour	63,620	57,912	(9.0)
Lands, Parks and Housing	100,107	84,759	(15.3)
Municipal Affairs	221,575	212,551	(4.1)
Provincial Secretary and Government Services	167,806	136,871	(18.4)
Tourism	8,206	7,873	(4.1)
Transportation and Highways	602,850	569,033	(5.6)
Universities, Science and Communications	357,741	340,300	(4.9)
Other Voted Appropriations			
Student Employment Programs	—	10,000	—
Transit Services	86,600	75,500	(12.8)
Interest on Public Debt	188,000	237,600	26.4
Contingencies	95,000	50,000	(47.4)
Payments to the British Columbia Railway Company	86,000	—	—
Employment Development Account	245,000	—	—
TOTAL — GENERAL AND SPECIAL FUNDS	8,446,800	7,920,000	(6.2)
Resource Revenue Stabilization Fund (Net)	—	470,000	—
TOTAL EXPENDITURE	8,446,800	8,390,000	(0.7)

[1] Percentage change calculated from unrounded numbers.

General and Special Fund expenditure is estimated to total $7,920 million in 1984/85, a decline of $527 million (6.2 per cent) from the 1983/84 budget estimates. After inclusion of the debt retirement payment of $470 million to the British Columbia Railway Company, the estimated 1984/85 expenditure is $8,390 million, a decline of $57 million.

All ministries, with the exception of the Ministry of Health, show a decline in expenditure for 1984/85, when compared to the 1983/84 budget estimates. The Ministry of Health shows an expenditure increase of $51 million, reflecting the government's commitment to health services. Other expenditure increases include interest on the public debt, which is 26 per cent higher than the 1983/84 budget estimate.

Table 7

Consolidated Revenue Fund
Balance Sheet

As at March 31,	Actual 1983	Revised Forecast 1984	Estimate 1985
	($ millions)		
Assets:			
Cash and temporary investments	282.6	50.0	50.0
Accounts receivable	588.0	634.3	666.9
Amounts due from Crown corporations	99.7	136.0	136.0
Mortgages	250.3	256.3	278.9
Prepaid program costs	88.5	72.0	65.0
Inventories	45.4	54.5	59.5
Loans to Crown corporations	—	339.0	894.0
Investments in and advances to Crown corporations	247.2	257.5	247.5
Property under development	64.5	55.0	52.8
Other assets	325.7	339.8	309.0
Total	1,991.9	2,194.4	2,759.6
Liabilities:			
Accounts payable	461.1	619.8	544.5
Amounts due to Crown corporations	20.3	22.0	22.0
Deferred revenue	91.3	92.5	99.0
Direct debt			
For government purposes	883.1	1,892.0	2,642.0
On behalf of Crown corporations	—	339.0	894.0
	1,455.8	2,965.3	4,201.5
Net Equity (Net Deficiency)	536.1	(770.9)	(1,441.9)
Total	1,991.9	2,194.4	2,759.6
Contingencies and Commitments			
Guaranteed debt	11,426.8	13,050.0	13,600.0
Trust Funds Under Administration	8,025.0	9,000.0	10,600.0

At March 31, 1985, it is estimated that the financial assets of the government will total $2,760 million; financial liabilities are estimated at $4,202 million. As a result, the excess of financial liabilities over financial assets, or net deficiency, at March 31, 1985, is estimated at $1,442 million.

The sharp increase in financial liabilities during 1984/85 is the result of an expected increase in the government's direct debt. In 1984/85, the government is expected to borrow $750 million for its own purposes and an additional $555 million to be loaned to Crown corporations. The government borrowing on behalf of Crown corporations enables Crown corporations to obtain funds at lower rates of interest than would otherwise be possible.

Guaranteed debt is debt of Crown corporations and agencies, local governments, and other enterprises, which is guaranteed by the provincial government as to principal, premium and interest. Guaranteed debt is estimated to increase by 4.2 per cent to $13.6 billion by March 31, 1985.

Trust funds under administration do not form part of the Consolidated Revenue Fund. It is estimated that they will increase to $10.6 billion by March 31, 1985. Public sector pension funds and the reserve funds of the Workers' Compensation Board are the main components.

Table 8

Government and Crown Corporation Borrowing Requirements and Sources of Funds

	Actual 1982/83	Revised Forecast 1983/84	Estimate 1984/85
	($ millions)		
BORROWING REQUIREMENTS:			
Direct Borrowing — Government[1]	700.0	1,008.9	750.0
Crown Corporation Borrowing[2]			
Commercial:			
British Columbia Hydro and Power Authority	677.3	1,065.0	955.0
British Columbia Development Corporation	33.0	1.0	20.0
British Columbia Petroleum Corporation	30.0	40.0	—
British Columbia Place	(69.9)[3]	77.0	74.0
Economic Development:			
British Columbia Ferry Corporation	30.0	(15.0)[3]	75.0
British Columbia Housing and Employment Development Financing Authority	8.0	181.0	—
British Columbia Railway Company	152.1	162.0	—
British Columbia Transit	8.4	245.0	318.0
Expo 86 Corporation	—	52.0	100.0
Other	2.4	8.0	7.0
Social and Government Services:			
British Columbia Buildings Corporation	272.5	44.0	25.0
British Columbia Educational Institutions Capital Financing Authority	82.0	78.0	65.0
British Columbia Regional Hospital Districts Financing Authority	133.0	94.0	123.0
British Columbia School Districts Capital Financing Authority	148.6	129.0	118.0
British Columbia Systems Corporation	24.3	(3.0)[3]	—
Total Crown Corporation Borrowing	1,531.7	2,158.0	1,880.0
TOTAL BORROWING REQUIREMENTS	2,231.7	3,166.9	2,630.0
SOURCES OF FUNDS:			
Canada Pension Plan Investment Fund	378.3	370.0	365.0
Trusted Funds	152.6		
Private Issues	223.5	2,796.9	2,265.0
Public Issues	1,477.3		
TOTAL SOURCES OF FUNDS	2,231.7	3,166.9	2,630.0

[1] Excludes amounts borrowed in 1983/84 and 1984/85 by the Government and loaned to Crown corporations on identical terms. These amounts are included with Crown corporation borrowing.

[2] Includes borrowings in U.S. funds at the equivalent in Canadian dollars.

[3] Amounts in parentheses represent net reductions in debt.

Government and Crown corporation borrowing is expected to total $2.6 billion in 1984/85, down from a forecast $3.2 billion in 1983/84. The government is expected to borrow $750 million for its own purposes. Crown corporations are expected to require $1,880 million, of which $555 million is estimated to be borrowed by the government directly and reloaned to the Crown corporations, and the balance of $1,325 million is to be borrowed under government guarantee. British Columbia Hydro and Power Authority will require approximately one-half of all Crown corporation borrowing.

GLOSSARY OF TERMS[1]

Assets — are financial claims of the government upon outside parties and items held for resale. Specific assets include cash and temporary investments, accounts receivable, amounts due from Crown corporations, inventories, prepaid program costs, mortgages, loans to Crown corporations, investments in and advances to Crown corporations, property held for development and other assets. Fixed assets such as buildings, roads and bridges, furniture and most Crown land are reported at a nominal value of $1.

Cash and Temporary Investments — include investments and short-term interest-bearing deposits held to meet the day-to-day obligations of the government.

Consolidated Revenue Fund — consists of the General Fund and Special Funds. The General Fund comprises the main operating accounts of the government. Special Funds represent earmarked revenues and funds set aside from the General Fund for specific purposes.

Deferred Revenue — consists of amounts received prior to a year end that will be earned and recorded as revenue in future years.

Direct Debt — this liability consists of funds borrowed by the government to finance its operating requirements or to facilitate cash management, as well as funds borrowed on behalf of Crown corporations under the authority of the *Provincial Treasury Financing Amendment Act, 1983.*

Expenditure — consists of the obligations incurred by the government for goods, services and grants during the fiscal year. Under the modified accrual accounting policy of the government, expenditure is recorded when the expense is incurred rather than when a cash payment is made, with the exception of expenditure for certain employee benefits including sick leave and vacation which is recorded when paid.

Financing Transactions — are transactions which affect the composition of assets and liabilities but are not considered to be revenue or expenditure and therefore do not affect net equity. For example, the British Columbia Home Program provides interest-free mortgage loans to home owners. When a loan is issued, the cash balance of the government is reduced while mortgage assets are increased. When the home owner repays the mortgage principal, cash balances are increased and mortgage assets are decreased.

Guaranteed Debt — consists of borrowings by government enterprises, local governments or others, for which the principal, premium, if any, and interest payments are guaranteed by the government. Most capital expenditure by Crown corporations and public bodies (other than municipalities) is financed through debt issues guaranteed by the government. Funds borrowed directly by the government and reloaned to Crown corporations are not considered guaranteed debt.

Liabilities — are claims payable by the government to outside parties, including accounts payable for goods, services and grants, amounts due to Crown corporations, deferred revenue and direct debt.

Loans to Crown corporations — are assets of the government, being loans made with funds borrowed directly by the government for that purpose in accordance with the provisions of the *Provincial Treasury Financing Amendment Act, 1983.* The liability arising from direct government borrowing on behalf of Crown corporations is matched by the assets created when the funds are loaned to Crown corporations.

Net Equity (Net Deficiency) — net equity is the excess of financial assets over financial liabilities of the government at a specific date. A negative amount for net equity is referred to as net deficiency, and indicates that financial liabilities exceed financial assets. The surplus (deficit) for a particular accounting period causes a corresponding increase (decrease) in net equity.

Operating Transactions — include revenue and expenditure transactions of the government, reported in accordance with the modified accrual basis of accounting.

Other Assets — consist mainly of investments in long-term securities and loans and repayable advances made through various government programs.

Prepaid Program Costs — consist of payments disbursed prior to the year end for program costs that will be incurred and recorded as expenditure in future years.

Resource Revenue Stabilization Fund — is a Special Fund which receives revenue from natural resources. Prior to 1984/85, the Fund was intended to be used for revenue stabilization purposes. In 1984/85 and future years, revenue of the Fund will also be used for retirement of direct and guaranteed debt.

Revenue — consists of money earned by the government from taxation, resource levies, the sale of goods and services, fees and licences, fines and penalties, interest, liquor distribution profits and contributions arising from agreements with other governments. Under the modified accrual accounting policy of the government, revenue is reported when earned rather than when received, with the exception of taxes on income and federal contributions for Established Programs Financing which, except in cases of known adjustments, are reported when received because of the uncertainty involved in their estimation.

Surplus (deficit) — represents the excess of revenue over expenditure (expenditure over revenue) for a given period.

Trust Funds Under Administration — are funds held and administered by the government for third parties and not subject to appropriation by the Legislature. Included are trust deposits, superannuation and pension funds, sinking funds and miscellaneous trust funds.

Working Capital — consists of those assets and liabilities which are generally short-term in nature. Specifically, working capital is the sum of cash and temporary investments, amounts due from Crown corporations, prepaid program costs and inventories less the sum of accounts payable, amounts due to Crown corporations and deferred revenue.

Working Capital Transactions — are changes to the working capital items.

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[1] Further information regarding the terms used in the government's financial statements is available in the Public Accounts.

APPENDICES

A. Economic Outlook for British Columbia

Overview

British Columbia began to recover from the 1981-82 recession in early 1983, almost in tandem with the United States. Housing starts in the United States increased rapidly between October 1982 and January 1983, initiating an upsurge in lumber exports from British Columbia. Lumber prices rose quickly and peaked in early June and then weakened during the second half of 1983 as demand levelled off.

Similar strength was not experienced for other major export products. Pulp and paper production expanded but prices remained weak, and poor market conditions prevented significant price or production increases for most minerals. In particular, markets for copper, British Columbia's major metal export, showed unexpected weakness during 1983 due both to large inventories and to continued high production in developing countries despite falling prices.

There were positive developments in prices and wages in 1983. British Columbia ended 1983 with one of the lowest inflation rates in Canada, after experiencing the highest rate only two years earlier. Wage settlements also moderated substantially in 1983, declining from 7.2 per cent in the fourth quarter of 1982 to 3.4 per cent in the fourth quarter of 1983.

The External Environment

The United States has experienced a stronger recovery than the rest of the industrialized world, despite a large trade deficit caused by weak demand overseas and the relatively high value of the United States dollar. The recovery began in late 1982, gained strength through mid-1983 and moderated to a more sustainable growth rate toward year-end. Housing starts, an important indicator, rose 60 per cent to 1.7 million in 1983, a level not previously attained since 1979. Real gross national product in the United States grew 3.3 per cent in 1983 and is forecast to increase 4.5 per cent in 1984 and 3.3 per cent in 1985, providing a source of growing demand for British Columbia exports.

Japan should also provide export growth opportunities for British Columbia as its economy is forecast to grow at a rate of 3 to 4 per cent for the next two years. A possible appreciation of the yen against North American currencies could make Canadian goods less expensive in Japan and provide additional stimulus to British Columbia's exports.

The other major industrial economies (Britain, France, West Germany and Italy) are forecast to grow at rates of 1 to 2 per cent for the next two years. Difficult structural adjustments have reduced growth prospects and higher export demand generated by the strong United States recovery has not been enough to offset these fundamental problems.

British Columbia Outlook

Barring unforeseen and unfavourable developments in the world economy, British Columbia's recovery is expected to broaden and gain strength in 1984, as personal income, consumer spending, retail sales and investment are forecast to respond positively to further export growth. Real output is expected to increase 3.0 per cent in 1984 and 4.0 per cent in 1985, as shown in Table A1.

Capital investment is forecast to increase in 1984 for the first time since 1981, as corporate finances are strengthened and capacity utilization increases. Smaller companies are expected to play a larger role in capital investment than in the past. Housing starts are expected to increase from 22,630 units in 1983 to 25,000 units in 1984 and 27,000 units in 1985, due to increased employment, higher inmigration and a rise in personal income.

Retail sales are forecast to show real growth of 2.5 per cent in 1984 and 4.5 per cent in 1985, the first real increases since 1980. Consumer spending should strengthen due to large accumulations of savings and deferral of purchases in the past two years.

Inflation, as measured by the increase in the Consumer Price Index for Vancouver, fell from 14.3 per cent in 1981 to 10.5 per cent in 1982 and 5.5 per cent in 1983. As the recovery strengthens, further large declines are unlikely and inflation is expected to average 4.5 per cent in both 1984 and 1985.

Employment is forecast to grow through the next two years, but at a lower rate than economic activity due to productivity gains. Having fallen 5.2 per cent in 1982 and 0.6 per cent in 1983, employment is forecast to increase 2.0 per cent in 1984 and 3.2 per cent in 1985.

Table A1

British Columbia Economic Indicators

	1982	1983	1984[f]	1985[f]
	(percentage change)			
Real Gross Domestic Product	−7.0	2.0[p]	3.0	4.0
New Capital Investment	−15.5	−5.5[f]	7.2	13.5
Retail Sales	−1.9	2.9	7.1	9.2
Vancouver Consumer Price Index	10.5	5.5	4.5	4.5
Population 15 and Over	1.9	1.5	1.6	1.6
Labour Force	0.7	1.4	1.8	2.7
Employment	−5.2	−0.6	2.0	3.2
Other Forecasts of Real Gross Domestic Product				
Conference Board of Canada		1.7[f]	2.5	n/a
Royal Bank of Canada		3.3[f]	5.4	2.8
Bank of Nova Scotia		1.9[f]	4.9	n/a

[p] preliminary estimate
[f] forecast
n/a — not available

The output of primary industries, led by mineral fuels and forestry, is expected to grow at 5.6 per cent in 1984 and 3.8 per cent in 1985. Continued strength in housing starts in the United States and larger coal exports are expected to be important factors. Limited growth is forecast for metallic mineral output, as world consumption and prices remain weak.

The manufacturing sector, led by the wood, paper and allied products industries, is expected to show growth of 4.3 per cent in 1984 and 4.4 per cent in 1985. Greater consumer demand and business activity should also produce significant growth in secondary manufacturing, following declines in 1982 and 1983.

Among other sectors, construction is expected to expand due to increased business capital spending and a rise in British Columbia housing starts. Improvements are also forecast for utilities and for personal and business services.

Alternative Forecasts

The outlook in the preceding sections is the provincial government's assessment of the most probable course of events in 1984 and 1985. Unexpected developments could cause the actual outcome to be substantially different. Stronger than anticipated growth in the United States could further increase British Columbia's exports, generating greater increases in output, income and employment in the province. By contrast, excessive private sector and government credit demands in the United States could lead to higher interest rates and reduced economic growth. This would reduce United States demand for British Columbia exports, particularly lumber, and jeopardize the recovery in the province's economy.

B. Revenue Measures

Table B1

Summary of Revenue Measures

	Effective Date	1984/85 Revenue Effect
		($ millions)
Home Owner Grant Act		
Minimum real property taxes increased to $175 from $150 per year	Jan. 1, 1985	+.8
Hotel Room Tax Act		
Differential rates (6 per cent and 8 per cent) replaced by a single rate (7 per cent)	March 1, 1984	+.2
Income Tax Act		
Health Care Maintenance surtax applied to British Columbia income tax	Jan. 1, 1984	+97.0
Social Service Tax Act		
Exemptions provided for various safety-related items	Immediate	−.6
Net Revenue Increase		+97.4

SUPPLEMENTARY INFORMATION

Home Owner Grant Act

The *Home Owner Grant Act* provides for the payment of a $380 grant to reduce the total real property taxes of eligible homeowners. It also provides for a supplementary grant of $250 to eligible homeowners who are 65 years of age or over, or who are handicapped.

Effective January 1, 1985 the minimum amount of tax payable, after the deduction of the homeowner grant, will be increased from $150 to $175 for those not receiving a supplementary homeowner grant. The minimum for senior citizens and others eligible for the supplementary grant will remain at $1.

Hotel Room Tax Act

Effective March 1, 1984, the Hotel Room tax will be applied at a flat 7 per cent rate. Formerly a two-rate system was used; 6 per cent on accommodation priced at less than $50 per day and 8 per cent on accommodation priced at $50 or more per day. The price of accommodation below which no tax is applied remains at $10 per day.

The new rate will ease administrative problems for the industry and will place British Columbia's tax rate on accommodation equal to the general sales tax rate. The delay in implementation of the rate change will allow the industry to adjust to the new rate.

Income Tax Act — Health Care Maintenance Surtax

Provincial personal income taxes, other than in Quebec, are established as a percentage of basic federal tax. The current British Columbia rate is 44 per cent and is the second lowest in Canada. The highest rate is 60 per cent; the lowest rate is 43.5 per cent.

As a temporary measure to help offset federal underfunding of health costs in British Columbia, a Health Care Maintenance surtax is being introduced. It will be removed when federal health care underfunding is corrected. For calendar year 1984, the Health Care Maintenance surtax is 4 per cent of British Columbia tax otherwise payable. Under the Canada-British Columbia Tax Collection Agreement, tax deduction tables used by employers in calculating income tax deductions can only be changed on January 1 and July 1. Accordingly, tax deductions at source will increase effective July 1, 1984. The increase will be 8 per cent of the current British Columbia portion of the deduction for income tax.

For 1985 and subsequent years the new surtax will remain at 8 per cent of British Columbia income tax otherwise payable.

For most taxpayers (those whose British Columbia income tax is $3,500 or less), the introduction of the Health Care Maintenance surtax will effectively raise the British Columbia rate to 47.52 per cent of basic federal tax. This new rate remains the second lowest provincial tax rate.

There is no change to the existing British Columbia 10 per cent surtax from taxpayers whose British Columbia income tax exceeds $3,500. The Health Care Maintenance surtax will apply to both basic tax and the existing surtax.

Table B2 shows the effect of the Health Care Maintenance surtax on five different types of family units at various gross income levels.

Social Service Tax Act

Effective budget night, a number of safety-related items are exempted from social service tax. These items are being exempted to encourage their use both for individual safety and as a cost-saving measure to all taxpayers through accident prevention. The new exempt items are:

Children's safety car seats;

Bicycle and motorcycle helmets;

Specified emergency equipment for use on highways
- triangle emblems
- reflectors
- fluorescent tape
- reflective strips for barriers;

Lifejackets, floater coats;

Marine survival suits;

Lifesaving throw rings/lifesaving cushions;

Ministry of Transport-approved emergency lifesaving rafts;

Man overboard buoys and flags;

Portable fire extinguishers and refills;

Bicycle lights and reflectors;

Emergency locator transmitters; and

Oxygen for medical purposes. This exemption will also include any charge to the oxygen user or customer for the rental or purchase of the container of the oxygen or any associated dispensing equipment.

Table B2

Effect of the Health Care Maintenance Surtax on 1984 Tax Payable[1]

A. Single Taxpayer (Under 65 Years) — No Dependents

Gross Income	Federal Income Tax[2]	+	Current B.C. Tax	−	Child Tax Credit[2]	+	Health Care Maintenance Surtax[3]	=	Tax Payable
$	$		$		$		$		$
6,700	—		—		—		—		—
7,000	40		40		—		2		82
10,000	530		320		—		12		862
15,000	1,420		710		—		28		2,158
20,000	2,355		1,125		—		45		3,525
25,000	3,410		1,590		—		64		5,064
30,000	4,615		2,115		—		84		6,814
40,000	7,245		3,220		—		129		10,594

B. Single Taxpayer (65 Years and Older)

Gross Income*	Federal Income Tax[2]	+	Current B.C. Tax	−	Child Tax Credit[2]	+	Health Care Maintenance Surtax[3]	=	Tax Payable
$	$		$		$		$		$
9,400	—		—		—		—		—
10,000	85		85		—		3		173
15,000	965		510		—		20		1,495
20,000	1,915		930		—		37		2,882
25,000	2,920		1,375		—		55		4,350
30,000	4,080		1,880		—		75		6,035
40,000	6,655		2,985		—		119		9,759

* Assumes minimum pension income of $1,000.

C. Single Taxpayer — One Dependent Child Under 18 Years*

Gross Income	Federal Income Tax[2]	+	Current B.C. Tax	−	Child Tax Credit[2]	+	Health Care Maintenance Surtax[3]	=	Tax Payable
$	$		$		$		$		$
12,000	—		—		(367)		—		(367)
13,000	150		150		(367)		6		(61)
15,000	475		300		(367)		12		420
20,000	1,360		685		(367)		27		1,705
25,000	2,320		1,110		(367)		44		3,107
30,000	3,385		1,580		(332)		63		4,696
40,000	5,840		2,655		—		106		8,601

* Assumes $2,000 claimed for child care expenses.

[1] Other than as noted in example B, all examples assume only employment income and applicable family allowance benefits. Examples A, C, D, and E assume personal deductions, the employment expense deduction, Canada Pension Plan payments, Unemployment Insurance Premiums, and child care expenses as noted. Example B assumes no deductions other than personal and pension decuctions.

[2] Federal Income Tax and the Child Tax Credit are as of February 14, 1984.

[3] This column reflects the 1984 rate of 4 per cent (8 per cent for the period July 1, 1984 to December 31, 1984). The rate for 1985 will be 8 per cent.

Table B2

Effect of the Health Care Maintenance Surtax on 1984 Tax Payable[1] (*Continued*)

D. Married Taxpayer With a Dependent Spouse and Two Dependent Children Under 18 Years*

Gross Income	Federal Income Tax[2]	+	Current B.C. Tax	−	Child Tax Credit[2]	+	Health Care Maintenance Surtax[3]	=	Tax Payable
$	$		$		$		$		$
12,000	—		—		(734)		—		(734)
13,000	110		225		(734)		9		(390)
15,000	445		370		(734)		15		96
20,000	1,340		765		(734)		31		1,402
25,000	2,310		1,190		(734)		48		2,814
30,000	3,405		1,670		(582)		67		4,560
40,000	5,900		2,760		(82)		110		8,688

* Assumes no claim for child care expenses.

E. Married Taxpayers — Both Spouses Employed — With Two Dependent Children Under 18 Years*

Gross** Family Income	Federal Income Tax[2]	+	Current B.C. Tax	−	Child Tax Credit[2]	+	Health Care Maintenance Surtax[3]	=	Tax Payable
$	$		$		$		$		$
16,000	—		—		(734)		—		(734)
17,000	—		160		(734)		6		(568)
20,000	280		270		(734)		11		(173)
25,000	1,095		655		(734)		26		1,042
30,000	1,960		1,040		(734)		42		2,308
40,000	3,785		1,840		(343)		74		5,356

* Assumes $4,000 claimed for child care expenses.
** Assumes each spouse earns 50 per cent.

[1] Other than as noted in example B, all examples assume only employment income and applicable family allowance benefits. Examples A, C, D, and E assume personal deductions, the employment expense deduction, Canada Pension Plan payments, Unemployment Insurance Premiums, and child care expenses as noted. Example B assumes no deductions other than personal and pension decuctions.

[2] Federal Income Tax and the Child Tax Credit are as of February 14, 1984.

[3] This column reflects the 1984 rate of 4 per cent (8 per cent for the period July 1, 1984 to December 31, 1984). The rate for 1985 will be 8 per cent.

C. Federal-Provincial Health Care Funding

The Government of British Columbia has stated its firm commitment to maintenance of a high quality health care system. Despite the current period of budgetary restraint, this essential government service continues to receive the highest priority.

At the same time, however, federal funding reductions and provisions contained in the proposed *Canada Health Act* are threatening the financial viability of health care services.

To resolve these issues British Columbia has proposed a cooperative federal-provincial effort to address the discrepancy between federal health care funding and rising provincial costs. A federal-provincial conference of finance and health ministers would provide a constructive beginning to the process of achieving a viable and fair system of financing health care in Canada.

Health Care Cost Pressures

The major causes of the rapid escalation in British Columbia's health care expenditures have been: increases in the fees and salaries paid to health practitioners and employees; rising costs for laboratory services and new health technology; increased utilization of services by individuals; the provision of new extended health care services and the expansion of Pharmacare in recent years; the gradual aging of the population; and the comparatively large number of medical practitioners in the province.

The effect of these cost pressures is demonstrated by the fact that, while gross national product has increased by 154 per cent between 1975 and 1984, the cost of providing health services in British Columbia has grown by 282 per cent — almost twice as quickly. As a result, health care has risen from 24 per cent of the provincial budget in 1975/76 to 37 per cent in 1984/85. Clearly, a situation where the cost of health care commands an ever greater share of government revenue can not continue indefinitely.

Demand for services is also outstripping growth in the population. While British Columbia's population grew by only 15 per cent between 1975 and 1982, utilization of non-specialist doctors' services increased by 28 per cent, and utilization of specialists' services rose by 51 per cent. These cost pressures are expected to intensify as public demand for health services continues to rise.

The increasing proportion of elderly in the population will also add to the strain on health budgets. At present, 35 to 40 per cent of the Ministry of Health budget is for services provided to senior citizens, even though this group makes up only 11.3 per cent of British Columbia's total population. The proportion of seniors in British Columbia, already 13 per cent higher than for Canada as a whole, will increase markedly over the next 15 years. The number of seniors over 80 years of age, who are particularly heavy users of the health care system, is expected to increase by 68 per cent in the same period.

Federal Underfunding: The Basic Problem

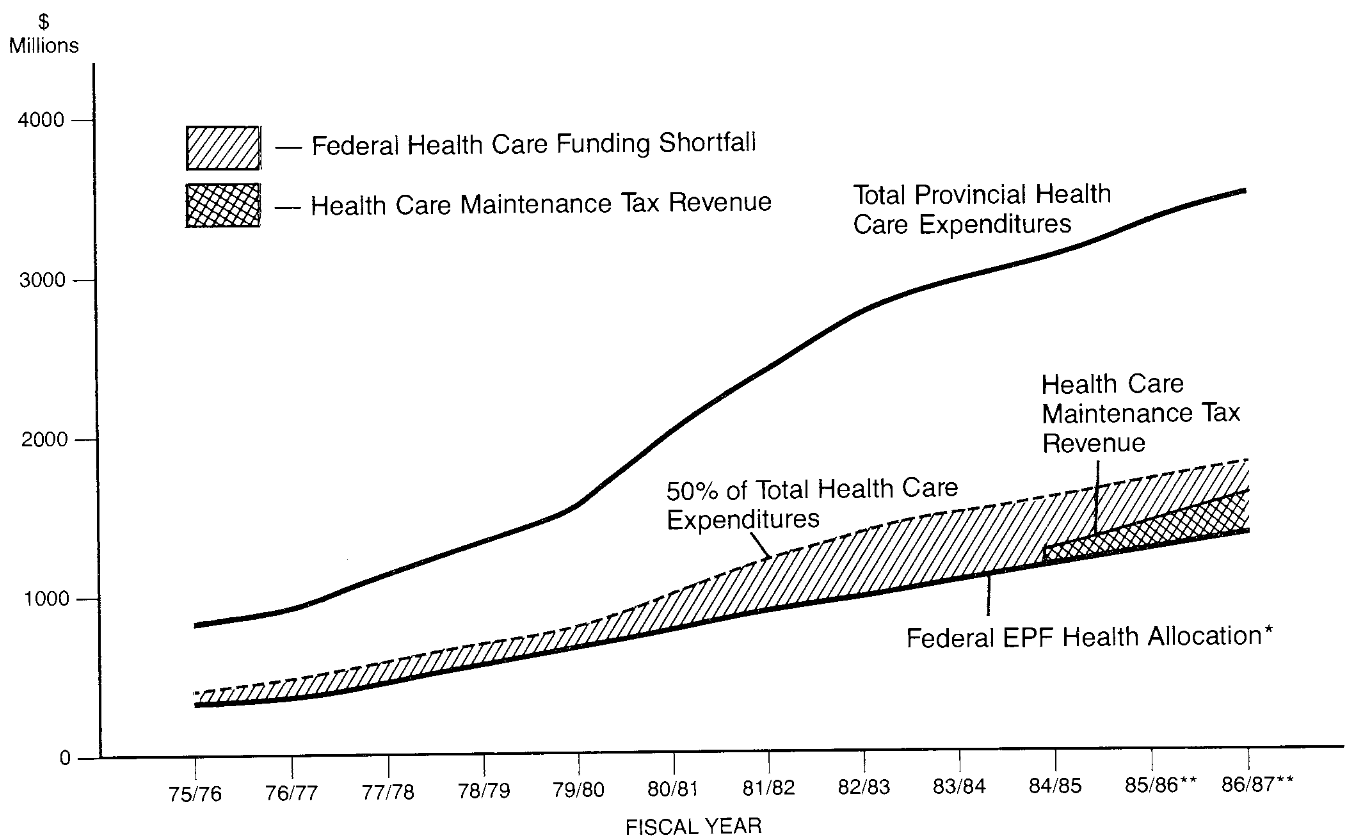
Despite federal promises to preserve the health care system, the fact is that federal contributions to health care have not kept pace with rising provincial costs. The Established Programs Financing formula, which determines the federal contribution, has proved inadequate to the task of producing a fair and equal sharing of this cost between the two levels of government.

The federal government has worsened this situation over the past two years by taking unilateral measures designed to reduce its cash transfer to the provinces. These actions alone will reduce health care funding for British Columbia by an estimated $385 million over the period 1982/83 to 1986/87.

The graph below portrays the growth in health costs in British Columbia and the lagging federal contribution. The resultant shortfall (the difference between the federal health allocation and 50 per cent of the cost of health care) has expanded particularly sharply since 1980, and in 1984/85 stands at $364 million.

The provincial government plans to raise this issue at the proposed federal-provincial conference and will seek a federal commitment to increase its contribution. In the interim, as a partial measure to fill the funding gap, a new Health Care Maintenance tax has been introduced. The tax will raise $97 million in 1984/85 and $166 million in a full year. When federal funding is increased to a more appropriate level, the tax will be removed.

FEDERAL HEALTH CARE UNDERFUNDING



*Includes both the federal cash contribution and the value of tax points transferred to the provinces in 1977. The only funding actually received by the provinces, though, is the cash transfer.

**Forecast.

User Fees in British Columbia: Useful and Fair

A long-standing and integral feature of British Columbia's health care system is a set of modest charges paid by the users of acute care and extended care health services. These charges provide some incentive for individuals to economize on their use of health services and a reminder that a real cost is associated with their provision. Acute care hospital user charges will raise an estimated $40 million in 1984/85. Although this amount covers only 1.3 per cent of total health expenditures, a significant tax would be required to replace it.

It has been suggested that user charges impede access to the health care system and place a burden on low income groups. It should be emphasized, however, that British Columbia's health user charges have been designed to avoid these problems. The government pays the charges on behalf of social assistance recipients and other procedures have been designed to ensure that no one is ever denied access to hospital services, including emergency services.

Despite public familiarity with and acceptance of these charges for some 30 years in British Columbia, the federal government has introduced in Parliament a Bill which could penalize the provincial government for levying them. Provisions of the proposed *Canada Health Act* would reduce the federal health contribution by the amount of revenue raised through these charges.

If British Columbia complies with the federal proposal and eliminates its hospital user charges, the cost of providing health services will force the provincial government to replace the lost revenue. Indeed, overall health costs could escalate if removal of the fees encourages additional use of health care services.

Although retention of user charges without the penalty is the preferred course, the provincial government has announced its willingness to eliminate them and to replace the foregone revenue with a levy administered through the income tax system. British Columbia offers this conciliatory gesture as a positive initiative to facilitate the negotiation of a cooperative and equitable federal-provincial sharing arrangement to serve the future health care needs of all Canadians.

D. Government and Crown Corporation Financing

Introduction

The provincial government and its Crown corporations and agencies have undertaken a significant amount of borrowing in recent years to finance both government operations and capital projects of provincial and local government entities. Total direct and guaranteed debt of the government has increased from $10.1 billion at March 31, 1982 to $12.3 billion at March 31, 1983 and to a forecast $14.9 billion at March 31, 1984. The rate of increase in debt is expected to decline significantly in 1984/85 due to the reduced deficit and lower requirements for some major Crown corporations.

Borrowing Process

Borrowing to date has usually been undertaken in two basic forms: direct debt to finance government operations has been issued in the name of the province; and guaranteed debt has been issued by Crown corporations and agencies, primarily to finance capital projects. For the latter, the payment of principal, premium and interest is guaranteed by the government, but the debt is incurred in the name of the borrowing entities. Interest and sinking fund payments are the direct responsibility of the entities, although in certain cases the government provides grants to cover all or part of debt service requirements.

An alternate borrowing procedure for Crown corporations became available with the enactment of the *Provincial Treasury Financing Amendment Act* 1983, which allows the government to borrow funds directly and reloan the proceeds to the corporations. This method facilitates the consolidation of relatively small financial requirements of individual Crown corporations into larger debt instruments which can be issued on more favourable terms. Although only a small portion of borrowing has been undertaken by this method, it will be more significant in future years.

Borrowing Purposes

Debt issued for government purposes has increased significantly over the last three years, as the world economic recession severely affected provincial finances. For thirty years prior to the recent recession, the government had been able to finance all expenditures from operating revenues and accumulated surpluses, except in 1975/76 when a $261 million borrowing was required. The 1981-82 recession severely curtailed growth in government revenue and, despite a comprehensive restraint program, increased expenditures were necessary for employment initiatives and income support programs. The result was a series of operating deficits which depleted government cash reserves. As the recession continued through the 1982/83 fiscal year, it became necessary for the government to borrow $700 million in order to maintain services. Further borrowing during the early years of recovery will raise the net outstanding direct debt, excluding borrowing on behalf of Crown corporations, to an estimated $2,642 million by the end of the 1984/85 fiscal year.

Borrowings by Crown corporations and agencies have also increased in recent years, primarily to finance major capital construction projects. As shown in Table D1, almost two-thirds of this debt is commercially-supported; that is, the commercial operations of the corporations yield a sufficient financial return to meet debt service requirements. Accordingly, no provincial contributions are required in respect of this debt.

Approximately 12 per cent of outstanding Crown corporation debt has been incurred for economic development purposes. The projects financed by this debt may not generate a sufficient financial return to service the debt, but are expected to yield significant economic benefits to British Columbia.

Table D1

Financing Plan, 1984/85

	Forecast Net Debt Outstanding at March 31, 1984[1]	1984/85 Transactions: New Borrowing[2]	1984/85 Transactions: Less Repayment Provision[3]	Net Debt Outstanding at March 31, 1985
	($ millions)			
PURPOSES:				
Government	1,892	750	—	2,642
Crown Corporations				
Commercial	8,566	1,049	260	9,355
Economic Development	1,585	500	490	1,595
Social and Government Services	2,916	331	70	3,177
Total	14,959	2,630	820	16,769
Less: Amounts held by General and Special Funds	107	—	—	107
TOTAL	14,852	2,630	820	16,662
SOURCES:				
Canada Pension Plan Investment Fund	3,805	365	—	4,170
Trusted Funds	4,501	2,265 (Trusted Funds, Treasury Bills, Private Issues, Public Issues)	105	14,648 (Trusted Funds, Treasury Bills, Private Issues, Public Issues)
Treasury Bills	780		—	
Private Issues	1,343		75	
Public Issues	5,959		20	
Total	16,388	2,630	200	18,818
Less: Sinking Funds	1,536	—	(620)	2,156
TOTAL	14,852	2,630	820	16,662

[1] Estimated. Funds borrowed by the government and loaned to Crown corporations are shown as Crown corporation debt. Excludes accrued interest.

[2] Gross new long-term borrowing plus net change in short-term debt.

[3] Sinking fund contributions, sinking fund interest earnings and net maturities of long-term debt (after deduction of sinking fund balances for maturing issues).

The remaining 22 per cent of Crown corporation debt is for social capital and government services projects. Construction of schools, hospitals, educational institutions and government facilities is financed through borrowings, with the cost amortized over a period of 20 or more years. Debt service requirements are met through provincial grants or rental payments and, for schools and hospitals, partly from local levies.

Sources of Funds

Funds borrowed by the government and its Crown corporations and agencies have been derived, to date, almost equally from internal and external sources. Internal funds are from the Canada Pension Plan Investment Fund and provincial Trusteed Funds, while external sources consist of private institutional lenders and public financial markets.

The net contributions of British Columbia residents to the Canada Pension Plan may, under the *Canada Pension Plan Act*, be borrowed by the government or its Crown corporations. This source has funded virtually all of the province's social capital debt. Provincial Trusteed Funds comprise provincial public sector pension funds, sinking funds established by provincial Crown corporations, the reserve funds of the Workers' Compensation Board and other Trusteed Accounts. Until recently these funds were loaned primarily to Crown corporations to meet their long-term financial requirements. In 1980, however, the decision was made to balance the investment of available provincial government pension and sinking funds in both short-term and long-term securities.

Most of the externally-provided funds have been in the form of long-term instruments, sold through private placements or issued in the Canadian, United States and Eurodollar markets. These sources have provided funds for both direct and guaranteed debt, the latter principally for the British Columbia Hydro and Power Authority.

A smaller portion of external funds has been obtained through short-term debt instruments. Treasury Bills of 91-day terms, first auctioned in late 1982, have been used exclusively for government purposes, while short-term promissory notes have been used to raise funds for the British Columbia Railway Company.

The government carefully chooses a variety of debt instruments, depending upon financial market conditions and to meet the objective of minimizing costs subject to portfolio balance. The terms of the instruments are also mixed, to conform to debt repayment schedules and to ensure that risks associated with interest rate fluctuations are limited as far as possible.

Conclusion

Borrowing requirements are forecast to decline in 1984/85 from the peak reached in 1983/84, and to moderate further in subsequent years. While funds will be needed to finance the completion of such projects as Expo 86 and ALRT, this should be offset by reduced deficits attributable to expenditure restraint and economic recovery. In addition, with the completion of several major generating and transmission projects, British Columbia Hydro's requirements will be reduced for several years.

E. Resource Revenue Stabilization Fund

General History

In 1981 the provincial government identified the need for a more effective tool for assuring a long-term structural balance between government revenue and expenditure. A strong cyclical increase in resource revenue had caused the Revenue Surplus Account to accumulate a significant balance in the late 1970s. While a portion of the balance was retained for future use, substantial funding was made available for social programs and economic development initiatives. Unfortunately, the extent of the resource revenue deterioration in the early 1980s was not generally recognized. The result was an inadequate carry-forward of funds to be applied toward stabilization of expenditures during periods of significant revenue weakness.

The creation of the Resource Revenue Stabilization Fund was announced in the 1982 budget, and was authorized by the *Resource Revenue Stabilization Fund Act.* The Act formalized the stabilizing practices started with the Revenue Surplus Account and explicitly distinguished resource revenue from general operating revenue, by channeling all resource revenue into the Stabilization Fund. The basic objective of the Fund was to accumulate resource revenue in periods of strong economic growth and draw down funds during periods of economic and financial weakness. The expenditure of Fund balances during economic downturns was seen as a countercyclical measure to assist in maintaining employment and economic activity, as well as providing funding stability for essential government programs. The separation of volatile resource revenues from general operating revenue was also intended to ensure that long-term expenditure commitments were not made on the basis of temporary resource revenue flows. The Fund was distinct from a heritage fund in that there was to be no long-term accumulation of funds. Receipts and disbursements were to be matched over the economic cycle.

Use of the Fund to Date

As a result of economic circumstances, the Fund has not been able to meet its original objectives. Since the Fund's inception, the province has experienced the worst economic recession in fifty years. Total provincial revenue fell by 5.4 per cent in 1982/83 and has shown only modest recovery in 1983/84. Natural resource revenue reached a low of $542.6 million in 1982/83 compared to the 1979/80 peak of $1,329.9 million. Weak revenue performance required the use of all resource revenue for general fund purposes to avoid further tax increases or program reductions. Even with the monies from the Stabilization Fund the government has had to resort to significant borrowing.

Changes to the Fund for 1984/85

Beginning in 1984/85, and for the current economic recovery period, the purpose of the Resource Revenue Stabilization Fund will be modified. Legislation introduced with the budget will authorize payments from the Fund for the retirement of both direct and guaranteed debt. Direct debt is that issued in the name of the government whereas guaranteed debt is issued by Crown agencies, with the payment of principal, premium and interest guaranteed by the government. The Fund will be used for the repayment of direct debt and of guaranteed debt which is not commercially supported. In this way, revenue from the province's resource endowment will be used to reduce current and future debt service commitments and strengthen the financial position of the provincial government in order that essential services can be maintained during future downturns.

The new legislation will also expand the revenue base of the Fund to include all proceeds from the province's natural resource endowment. In addition to existing sources, the Fund may now receive a portion of the net income of Crown corporations in the natural resource and economic development fields.

The 1984/85 fiscal year is to be a transitional period. While approximately 70 per cent of projected natural resource revenue will be used for debt repayment, an estimated $207.6 million will flow directly into the general fund to help offset the lingering effects of the past recession. Beyond 1984/85, and for the balance of the economic recovery period, it is intended that all resource revenue flow into the Fund for debt repayment. Once sufficient provision has been made for provincial debt, it is expected that the monies accruing to the Fund will be used for the original objective of offsetting the impact of economic downturns on the general fund.

The $470 million payment from the Fund in 1984/85 is to provide for retirement of the historic debt incurred by the British Columbia Railway Company during the 1960s and 1970s. The payment to the Railway will raise the balances in the Company's sinking funds to a level sufficient to cover all future interest and principal payments on the Railway's historic debt. This will significantly reduce the Railway's debt burden, which was largely incurred to finance rail line construction, operating losses and interest charges.

Table E1
Resource Revenue Stabilization Fund Financial Summary

	1982/83 Actual	1983/84 Revised Forecast	1984/85 Estimates
	($ millions)		
Revenue:			
Petroleum and Natural Gas	228.8	286.0	273.0
Water Rentals	187.4	172.0	189.0
Forests	82.9	139.0	163.0
Minerals	32.5	29.0	42.0
Wildlife Act	9.6	9.6	10.6
Total Resource Revenue[1]	541.2	635.6	677.6
Less: direct allocation to General Fund	—	—	207.6
Fund Revenue	541.2	635.6	470.0
Expenditure:			
Transfer to General Fund	541.2	635.6	—
Debt Retirement Provision	—	—	470.0
Total	541.2	635.6	470.0

[1] Excludes Habitat Conservation Fund revenue of $1.4 million in all years.

F. Interim Financial Statements

Interim financial statements, covering the nine-month period from April 1, 1983, to December 31, 1983, have been prepared by the Comptroller General in accordance with section 8 (4) of the *Financial Administration Act*. The interim financial statements are summarized below.

For the nine months ended December 31, 1983, the deficit on a combined funds basis (Consolidated Revenue Fund) was $707.4 million. This comprised a deficit of $714.3 million for the General Fund and a surplus of $6.9 million for Special Funds.

Revenue for the nine months on a combined funds basis was $5,442.6 million, an increase of $487.6 million, or 9.8 per cent, from 1982/83. The major changes from the corresponding period of the previous year were:

- an increase of $235.0 million, or 7.6 per cent, in taxation revenue, mainly as a result of an increase of $139.1 million in social service tax revenue.

- an increase of $76.3 million in natural resource revenue, of which $38.0 million occurred in forests revenue, and $65.5 million in petroleum and natural gas. Water rental revenue declined by $17.8 million.

- an increase of $188.1 million in revenue from the federal government under shared-cost and unconditional grant programs, of which $121.0 million occurred in Established Programs Financing contributions, mainly reflecting adjustments for prior years, and $49.7 million resulted from an increase in Canada Assistance Plan contributions.

Expenditure for the nine months on a combined funds basis was $6,150.0 million, an increase of $456.5 million, or 8.0 per cent, from 1983/84. The major changes from the corresponding period of the prior year were as follows:

- health ministry expenditure was $116.5 million higher, an increase of 6.8 per cent.

- human resources ministry expenditure, principally for income assistance, increased by $215.2 million, or 26.9 per cent.

- education ministry spending increased by $29.5 million, or 2.8 per cent.

- highways ministry expenditure rose by $31.9 million, an increase of 7.6 per cent.

The interim financial statements report actual revenue and expenditure and do not include a revised forecast for the 1983/84 fiscal year. The revised forecast for the full year, which is included in the summary on Table 2, reflects the effect of significant transactions in the final three months of the fiscal year. The largest of these transactions concern negative adjustments to personal and corporation income tax revenue, reflecting overpayments to the provincial government by the federal government for 1982 and 1983. Spending on highways, health and interest on the public debt is also expected to be higher in the fourth quarter of the fiscal year. These transactions will cause a major increase in the deficit to be reported for the full fiscal year, as compared to the results for the first nine months.

G. Economic and Financial Tables

Table G1
General Economic Indicators

	Unit or Base Period	1980	1981	1982	1983
Demographics:					
Population	June 1	2,666,100	2,744,200	2,790,100	2,823,900
Public school enrollment	September 30	509,805	503,371	500,336	497,312
Labour force	thousands	1,301	1,361	1,370	1,389
Employment	thousands	1,213	1,270	1,204	1,197
Unemployment rate	per cent	6.8	6.7	12.1	13.8
Main Economic Indicators:					
Provincial gross domestic product	$ millions	37,024	42,895	43,624[1]	46,945[1]
Provincial gross domestic product (constant 1971 dollars)	$ millions	16,648	16,981[1]	15,792[1]	16,108[1]
Capital investment (new and repair)	$ millions	12,182	14,881	12,866	12,459[1]
Retail sales	$ millions	10,572	12,000	11,766	12,104
Automobile sales	$ millions	850	967	677	760[1]
Housing starts	dwelling units	37,546	41,585	19,807	22,630
Value of building permits	$ millions	2,951	3,556	2,161	2,184[1]
Incomes:					
Personal income	$ millions	30,145	35,218	38,534	39,000[1]
Wages and salaries	$ millions	19,085	21,780	22,846	23,500[1]
Average weekly earnings	$	364	407	445	427[2]
Prices:					
Consumer price index, Vancouver	1981 = 100	87.5	100.0	110.5	116.6
Canadian industrial selling price index, manufacturing	1971 = 100	247.2	272.2	288.7	301.7[1]
Financial Indicators:					
Business incorporations	total	21,380	23,368	11,432	13,787
Business bankruptcies	total	482	501	1,042	1,279
Cheques cashed	$ billions	383	519	488	525[1]
Shares traded (Vancouver Stock Exchange)	$ millions	4,420	3,859	1,559	3,963
Sector Indicators:					
Value of manufacturing shipments	$ millions	15,896	16,812	15,445	16,900[1]
Timber scaled	thousand cubic metres	74,654	61,818	56,230	72,870[1]
Gross value of mineral production	$ millions	3,077	3,009	2,797	2,860
Petroleum and natural gas production	$ millions	828	885	913	897[1]
Power generation (net)	million kilowatt hours	43,416	51,008	47,920	48,000[1]
Farm cash receipts	$ millions	750	877	945	870[1]

[1] Estimated.
[2] Not comparable with 1982 and preceding years.

Table G2

Comparative Provincial Tax Rates, February 20, 1984

Tax	British Columbia	Alberta	Saskat-chewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	Prince Edward Island	New-foundland
Personal income (per cent of basic federal tax)	44[1]	43.5[1]	51[1]	54[1]	48[1]	([2])	58.0	56.5	52.5	60
Corporation income (per cent of taxable income)										
General rate	16	11	14	16	15[3]	5.5	14	15	10	16
Small business rate	8	5	10	10	*Nil*[3]	3	9	10	10	12
Corporation capital (per cent of taxable paid-up capital)										
Non-financial corporations	0.2	*Nil*	0.3[4]	0.2	0.3	0.45	*Nil*	*Nil*	*Nil*	*Nil*
Trust companies	0.6	*Nil*	0.8	0.6	0.6	0.9	*Nil*	*Nil*	*Nil*	1.5
Banks	2.0	*Nil*	0.8	2.0	0.8	0.9	*Nil*	*Nil*	*Nil*	1.5
Insurance premiums (per cent)[5]	2	2	3	3	3	3	3	3	2	3
Medical Services premiums ($ per month)	16 single 30 couple 34 family	14 single 28 family	*Nil*	*Nil*	28 single 57 family	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*
Gasoline										
Per cent of retail price	20	*Nil*	*Nil*	N/A	20	30	20	20	22	22
Cents per litre	7.61	*Nil*	*Nil*	7.5	8.0	11.9	8.1	8.8	10.0	9.9
Diesel fuel										
Per cent of retail price	([6])	*Nil*	*Nil*	N/A	27	30	23	21	29	26
Cents per litre	8.05	*Nil*	*Nil*	8.6	9.0	10.8	9.2	8.7	12.7	11.6
Retail sales										
General rate (per cent)	7	*Nil*	5	6	7	9[7]	10	10	10	12
Liquor (per cent)	7	*Nil*	10	12	12	9[7]	10	10	37.5[8]	12
Meals (per cent)	7[9]	*Nil*	*Nil*	6	7	10	10	10	10	12
Accommodation (per cent)	7[10]	*Nil*	*Nil*	6	5	*Nil*	10	10	10	12
Tobacco (cents per package of 25 cigarettes)[11]	50	37	52	52.5	64.8	56.5	74	35	37.5	119.5

[1] British Columbia has a 10 per cent surtax on provincial tax in excess of $3,500, plus an additional 8 per cent surtax (effective July 1, 1984) applied to the sum of provincial tax and the 10 per cent surtax (if applicable). Saskatchewan has a 12 per cent surtax on provincial tax in excess of $4,000. Manitoba has a 20 per cent surtax on provincial tax in excess of $2,675. Ontario has a 5 per cent surtax on provincial tax in excess of $110.80.

[2] Quebec levies its own personal income tax which has an approximate range of 50 to 60 per cent of federal tax.

[3] In Ontario, a 14 per cent corporation income tax rate applies to taxable income derived from manufacturing and processing, mining, logging, farming and fishing operations. Small businesses are exempt from taxation until January 1, 1985.

[4] All insurance companies in Saskatchewan are exempt from corporation capital tax.

[5] Tax is payable by insurer. Saskatchewan, Ontario, Quebec, New Brunswick and Nova Scotia tax life, sickness and accident insurance premiums at two per cent and all other premiums at three per cent. In Newfoundland, an additional 12 per cent tax on premiums is payable by the insured. Most provinces levy an additional tax of one per cent or less on fire insurance premiums to fund the office of the provincial fire commissioner.

[6] In British Columbia, the tax rate on diesel fuel is equal to the tax rate on gasoline plus 0.44 cents.

[7] A 1 per cent increase in Quebec retail sales tax from 8 per cent to 9 per cent is temporarily in effect.

[8] In Prince Edward Island, liquor is taxed under the *Health Tax Act* at 25 per cent and under the *Retail Sales Act* at 10 per cent, resulting in a compound tax rate of 37.5 per cent.

[9] Applies to individual meals (including non-alcoholic beverages) served on the premises, priced at $7 or more. Meals less than $7 per person are exempt.

[10] As of March 1, 1984, the split rate of 8 per cent for rooms costing $50 or more and 6 per cent otherwise, will no longer be in effect and a 7 per cent tax rate will be applied in respect of all rooms.

[11] In British Columbia, the tax on cigarettes is indexed to the retail price. In Ontario, Quebec, New Brunswick and Newfoundland tax rates of 45, 50, 50 and 76.1 per cent respectively are applied to a determined retail price. Other provinces tax cigarettes by an amount which cannot be adjusted without legislative amendment. In Prince Edward Island, Newfoundland and Ontario tobacco products are also subject to retail sales tax.

Table G3

Consolidated Revenue Fund
Revenue by Source[1]

	Actual 1980/81	Actual 1981/82	Actual 1982/83	Revised Forecast 1983/84	Estimate 1984/85	Annual Rate of Growth 1980/81 to 1984/85
Taxation Revenue:	($ millions)					(per cent)
Personal income	1,369.2	1,848.2	2,008.2	1,813.0	2,148.0	11.9
Corporation income	456.6	580.0	188.5	306.0	383.0	(4.3)
Social service	758.0	1,129.5	999.5	1,210.0	1,371.0	16.0
Fuel	231.5	371.4	389.0	412.0	442.0	17.5
Tobacco	74.7	102.9	109.1	137.0	156.0	20.2
Corporation capital	52.7	89.8	83.8	85.0	87.0	13.4
Property	26.0	43.4	40.7	38.0	41.0	12.1
Insurance premium	17.5	20.2	21.1	22.0	23.0	7.1
Hotel room	15.5	23.7	22.6	23.0	25.0	12.7
Horse racing	6.0	7.6	7.2	8.0	8.0	7.5
Succession and gift	0.9	—	—	—	—	—
Total, taxation revenue	3,008.6	4,216.7	3,869.7	4,054.0	4,684.0	11.7
Natural Resource Revenue:						
Petroleum and natural gas:						
B.C. Petroleum Corporation	208.3	219.9	96.0	125.0	116.0	(13.6)
Permits and fees	156.5	69.8	49.3	67.0	61.0	(21.0)
Royalties	50.9	67.2	83.5	94.0	96.0	17.2
Minerals	119.6	62.4	32.5	29.0	42.0	(23.0)
	535.3	419.3	261.3	315.0	315.0	(12.4)
Forests:						
Logging tax	45.6	12.3	2.1	1.0	2.0	(54.2)
Timber sales	233.5	78.4	64.7	113.0	140.0	(12.0)
Other forests revenue	21.2	16.0	16.1	25.0	21.0	(0.2)
	300.3	106.7	82.9	139.0	163.0	(14.2)
Water resources	20.2	65.0	187.4	172.0	189.0	74.9
Wildlife Act	6.2	6.6	10.9	11.0	12.0	17.9
Total, natural resource revenue	862.0	597.6	542.5	637.0	679.0	(5.8)
Other Revenue:						
Sales and services	125.8	178.4	150.4	168.0	186.0	10.3
Licences and permits:						
Motor-vehicle licences and permits	81.5	103.5	102.1	114.0	118.0	9.7
Other	36.0	41.8	44.0	47.0	52.0	9.6
	117.5	145.3	146.1	161.0	170.0	9.7
Fines and penalties	14.7	19.0	15.3	18.0	19.0	6.6
Interest from investments	225.7	211.5	91.3	75.0	70.0	(25.4)
Miscellaneous	76.6	78.7	90.3	53.0	50.0	(10.1)
Total, other revenue	560.3	632.9	493.4	475.0	495.0	(3.1)

[1] Certain comparative figures for prior years have been reclassified to conform with the 1984/85 presentation.

Table G3

Consolidated Revenue Fund
Revenue by Source—*Continued*

	Actual 1980/81	Actual 1981/82	Actual 1982/83	Revised Forecast 1983/84	Estimate 1984/85	Annual Rate of Growth 1980/81 to 1984/85
	($ millions)					(per cent)
Contributions from Government Enterprises:						
Liquor Distribution Branch	274.6	315.8	337.9	347.0	370.0	7.7
B.C. Buildings Corporation	17.0	8.0	—	—	—	—
B.C. Systems Corporation	1.5	2.7	—	—	—	—
Total, contributions from government enterprises	293.1	326.5	337.9	347.0	370.0	6.0
Contributions from Federal Government:						
Established Programs Financing	638.4	643.9	652.4	935.0	871.0	8.1
Canada Assistance Plan	312.8	320.1	460.0	520.0	501.0	12.5
Other	125.3	118.3	103.2	121.0	119.0	(1.3)
Total, contributions from federal government	1,076.5	1,082.3	1,215.6	1,576.0	1,491.0	8.5
Non-Recurring Revenue	2.2	47.4	70.0	14.0	—	—
TOTAL REVENUE	5,802.7	6,903.4	6,529.1	7,103.0	7,719.0	7.4

Table G4

Consolidated Revenue Fund
Expenditure by Function[1]

	Actual 1980/81	Actual 1981/82	Actual 1982/83	Revised Forecast 1983/84	Estimate 1984/85	Increase (Decrease) 1983/84–1984/85
	($ millions)					(per cent)
Health and social services	2,503.7	2,898.7	3,426.7	3,908.0	3,882.5	(0.7)
Education	1,317.9	1,550.0	1,668.6	1,737.4	1,659.5	(4.5)
Transportation and communications	639.4	729.9	593.6	889.0	554.0	(37.7)
Natural resources and industry	362.9	487.6	455.2	487.1	487.8	0.1
Protection of persons and property	286.2	318.7	343.5	393.5	379.2	(3.6)
Aid to local government	297.0	361.3	307.2	308.8	290.3	(6.0)
Debt servicing	19.3	16.9	28.3	149.3	237.6	59.1
General government	255.5	303.3	350.3	161.3	157.9	(2.1)
Trade and industrial development	77.4	86.3	57.5	81.1	78.9	(2.7)
Housing	117.8	113.5	120.5	83.1	60.5	(27.2)
Recreational and cultural services	77.6	76.2	57.3	58.5	55.6	(5.0)
Other[2]	104.8	145.1	104.6	152.9	546.2	257.2
TOTAL EXPENDITURE[3]	6,059.5	7,087.5	7,513.3	8,410.0	8,390.0	(0.2)

[1] Expenditures in 1980/1981 through 1982/83 are not strictly comparable to 1983/84 and 1984/85 because of the allocation of employee benefit and telecommunication costs among functions. Previously these costs were included in General Government.
[2] Includes $470 million payment in 1984/85 to provide for retirement of the British Columbia Railway Company historic debt.
[3] The annual rate of expenditure growth from 1980/81 to 1984/85 is 8.5 per cent.

Table G5

Direct Debt Outstanding at December 31, 1983[1]

Maturity	Date of Issue	Rate	Series	Amount Outstanding
		(per cent)		($ millions)
DEBT ISSUED FOR GOVERNMENT PURPOSES				
Treasury Bills				
January to March, 1984	October to December, 1983	9.21 to 9.86		780.0[2]
Bonds				
May 1, 1988	May 1, 1978	9.125	BD[3]	130.9
March 31, 1988	March 31, 1983	11.375	PRA	26.1
August 23, 1988	August 23, 1983	11.50	PRB	100.0
October 20, 1993	October 20, 1983	12.00	PRC	150.0
December 9, 1998	December 9, 1983	12.00	BCEC-1	125.0
December 16, 1985	December 16, 1983	10.25	PRD	200.0
				732.0
Total for Government Purposes				1,512.0
DEBT ISSUED ON BEHALF OF CROWN CORPORATIONS				
Bonds				
November 10, 2003	November 10, 1983	11.65	BCCP-1	10.0
December 1, 1998	December 1, 1983	11.125	BCJC-1	50.0
Total on Behalf of Crown Corporations				60.0
TOTAL DIRECT DEBT				1,572.0

[1] Excludes accrued interest.
[2] Reported at face value.
[3] The bonds are repayable in five annual installments due May 1 of each year to 1988. The province has the option to redeem the bonds on any date prior to maturity, in whole or in part.

Table G6

Direct and Guaranteed Debt, 1971 to 1983[1]

At March 31,	Direct and Guaranteed Debt	Sinking Funds	Net Direct and Guaranteed Debt	Debt as Percentage of Gross Provincial Product[2]
	($ millions)			(per cent)
1971	2,776.9	271.9	2,505.0	27.4
1972	3,045.9	305.4	2,740.5	26.6
1973	3,295.7	345.5	2,950.2	25.0
1974	3,647.1	391.8	3,255.3	22.1
1975	4,249.8	447.3	3,802.5	22.0
1976	5,082.8	514.4	4,568.4	23.9
1977	6,285.3	539.5	5,745.8	25.2
1978	7,175.1	625.5	6,549.6	25.8
1979	7,831.6	759.0	7,072.6	25.1
1980[3]	8,979.4	926.6	8,052.8	24.7
1981[3]	9,531.2	1,034.7	8,496.5	22.9
1982[3]	11,327.2	1,200.8	10,126.4	23.6
1983[3]	13,599.9	1,290.0	12,309.9	28.2

[1] As reported in the Public Accounts.

[2] Gross provincial product for previous calendar year.

[3] Debt figures shown for 1980 to 1983 are net of amounts held as investments by the General and Special Purpose Funds. For the years 1980 to 1983, accrued interest on the guaranteed debt is included and U.S. dollar debt is translated at the prevailing rate of exchange on March 31. For other years, U.S. dollar debt is translated at the rate of U.S. $1 = Cdn. $1, except for British Columbia Hydro and Power Authority debt which, for 1978 and 1979, was translated at the exchange rate prevailing on the date the debt was incurred.

Table G7

Debt Guaranteed by the Provincial Government at December 31, 1983[1]

	Gross Debt Outstanding	Less Sinking Funds	Net Debt Outstanding
	($ millions)		
Commercial:			
Hydro and Power Authority Act	8,463.8	684.2	7,779.6
Development Corporation Act			
Debentures	82.7[2]	—	82.7
Notes	58.0	—	58.0
Petroleum Corporation Act	30.0	—	30.0
British Columbia Place Act			
Debentures	30.0	—	30.0
Notes	27.0	—	27.0
Economic Development:			
Agricultural Credit Act	3.6	—	3.6
British Columbia Cellulose Company Act	8.7	—	8.7
British Columbia Railway Finance Act			
Bonds and Debentures	757.6	147.2	610.4
Notes	341.3	—	341.3
British Columbia Transit Act			
Debentures	77.0[3]	0.4	76.6
Notes	136.0	—	136.0
Leases	36.6	—	36.6
Expo 86 Corporation Act			
Notes	34.2	—	34.2
Farm Product Industry Act	4.0	—	4.0
Ferry Corporation Act			
Debentures	43.3	—	43.3
Financial Administration Act, Sec. 56 — *Re:* W.L.C. Developments Ltd.			
Debentures	7.8	—	7.8
Notes	0.3	—	0.3
Greater Vancouver Sewerage and Drainage District Act (some serials)	16.5	16.5	—
Housing and Employment Development Financing Act			
Bonds and Debentures	187.4	—	187.4
Ministry of Transportation and Highways Act — Re: British Columbia Steamship Company (1975) Ltd.	4.1	—	4.1
Social and Government Services:			
British Columbia Buildings Corporation Act			
Debentures	510.6	20.2	490.4
Notes	123.0	—	123.0
Educational Institution Capital Finance Act	381.0	19.9	361.1
Hospital District Finance Act	885.0	179.5	705.5
Municipal Act, Part 25 (some serials)	24.3	8.0	16.3
Municipalities Assistance Act	8.9	—	8.9
School District Capital Finance Act	1,476.7	428.1	1,048.6
System Act			
Debentures	50.7	0.9	49.8
Total	13,810.1	1,504.9	12,305.2
Less: Held by General and Special Purpose Funds	124.6	18.0	106.6
TOTAL GUARANTEED DEBT	13,685.5	1,486.9	12,198.6

[1] Unconditionally guaranteed as to principal, premium if any, and interest by the Province. Debt payable in United States funds of $3.9 billion is included, recorded in Canadian dollars at the December 31, 1983 rate of exchange. Accrued interest is not included. Some of the amounts shown are preliminary.

[2] Excludes $181.7 million borrowed from the Housing and Employment Development Financing Authority.

[3] Excludes $60 million borrowed by the Province and loaned to British Columbia Transit on identical terms.

Printed in Canada
Queen's Printer for British Columbia
Victoria, 1984 ©