



## TRANSCRIPT OF THE OPEN CABINET MEETING

WEDNESDAY, JULY 24, 2002

### Province of British Columbia

#### EXECUTIVE COUNCIL

Premier and President of the Executive Council  
Minister of State for Intergovernmental Relations  
Deputy Premier and Minister of Education  
Minister of Advanced Education  
Minister of Agriculture, Food and Fisheries  
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Minister of State for Community Charter  
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Hon. Stan Hagen  
Hon. Judith Reid  
Hon. Joyce Murray

## **WEDNESDAY, JULY 24, 2002**

The cabinet met at 9:02 a.m.

### **Opening Remarks**

**Hon. G. Campbell:** First on the agenda we'll be dealing with the liquor distribution branch core services review report. We'll have a fiscal update from Gary, and then we're going to have a report on improving business competitiveness from Rick.

It is very hot in this room today, so if anyone would like to take their jacket off they can feel free to do so. If you don't, then feel free to keep it on, because you're looking incredibly good in your jackets.

This is a relatively short open cabinet meeting, but there are some significant issues to deal with, and we're going to start with Rick.

### **For Decision: Liquor Distribution Branch Core Services Review**

**Hon. R. Thorpe:** Thank you, Premier, and good morning.

There has been speculation as to how our government will approach the business of selling beverage alcohol in the province in the future. Today, after careful and thoughtful consideration of the issue through the core services review of the liquor distribution branch, I will outline the strategic shifts of the LDB.

I am seeking cabinet's approval of these strategic shifts. On July 31 of last year, the Premier announced that government ministries, agencies, boards and commissions would go through a core services review. As with all core services reviews, we asked the central questions: is a program or activity needed? Does it serve a compelling public purpose? Is there another way the service can be delivered more effectively? These were the questions we posed in our review of the liquor distribution branch.

The fundamental question is: what role should government play in the retail, warehousing and distribution, and regulation of beverage alcohol in British Columbia? The answers to these questions are addressed in the strategic shifts of the liquor distribution branch that I am recommending today.

First, the LDB will move from a model which limits private sector participation in the beverage alcohol industry in British Columbia to a model which encourages private sector involvement in investments and job creation for British Columbians in communities throughout our province.

Secondly, the LDB will move from a limited focus on customer service to a focus on enhanced customer service in the retail network.

Thirdly, the LDB will move from a role as an operator and regulator of retail network to a role as a regulator.

**[9:05]**

Fourthly, the LDB will move from managing the warehouse operations to regulating the warehouse operations.

Fifthly, the LDB will reduce its regulatory burden to focus on strong enforcement of public policy issues, public safety issues and the revenue-collection aspect of their business.

I recognize that these strategic shifts represent fundamental change in the activities of the liquor distribution branch and the role of government in retailing, warehousing and distributing beverage alcohol in British Columbia. By focusing on public safety and revenue collection, both of these critical public policy issues will be enhanced.

We will engage in a very thoughtful and deliberate process to increase the private sector involvement in the retail, warehousing and distribution aspects of beverage

alcohol in British Columbia.

Let me outline these points in some detail. Today the liquor distribution branch operates 224 government liquor stores in British Columbia. It also operates two major warehouses for the storage of beverage alcohol and plays a major role in the distribution of beverage alcohol to government-owned liquor stores, privately owned liquor stores and licensed establishments. Over time we will move from a system of limited private sector involvement to one that strongly encourages private sector involvement, investment and job creation.

Government brings no special talents or purposes to retailing, warehousing or distributing beverage alcohol. As a result of our core services review, I believe there is no compelling public policy purpose for us to remain involved.

British Columbians know that for private sector businesses to succeed in a competitive climate, they must focus on the customer first. In a competitive climate a successful business will attract customers, and customers will return because of the positive experiences they have in that retail environment.

As we see an increase in the number of private sector stores, we believe the business climate will become much more competitive. This is good for consumers. Customers will have more choice. Businesses will have to put the customer first if they want to succeed and build their businesses.

While the LDB operates retail stores, they will continue to focus on customer service in order to be competitive. We will enhance and improve the service to our customers by providing greater access and choice of retail outlets throughout British Columbia. We will also streamline and focus regulations, remove red tape, enhance enforcement, and reduce corporate and management overhead expenses. By removing unnecessary red tape, we can focus our resources on the customers and the suppliers.

I have heard from a lot of people who say they've had a positive retail experience at government liquor stores, and I can assure our customers that the LDB and their staff will continue to ensure that our stores provide a positive retail experience.

As I noted earlier, the liquor distribution branch operates 224 government-owned liquor stores throughout British Columbia. The private sector operates 151 agency stores, 290 cold beer and wine stores and 98 manufacture stores, wineries, breweries and private agency stores for a total of 539.

Our government is committed to pursuing measured and thoughtful reforms to the retail network. Before any changes to the number of government-owned-and-operated liquor stores are made, a community-by-community analysis will take place. We want to ensure that every community with retail liquor store service will continue to have service and, where possible, provide customers with retail choices and competition.

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**[9:10]**

At the open cabinet meeting on March 15, 2002, government announced the expansion of the rural agency store program and the lifting of the moratorium on cold beer and wine stores, with the latter now permitted to sell spirits. The private sector will have the opportunity to fill community needs through these two programs.

As you can see from the slide on the screen, over time the private sector will increase its role through more retail stores throughout British Columbia. An example of increased private sector involvement is our recent changes to the rural agency store program. Since March 15 we have opened seven new rural agency stores, and we have 63 applications currently being processed.

As I noted earlier, the liquor distribution branch owns two warehouses for the storing of beverage alcohol products. There are also eight privately owned warehouses in British Columbia for beverage alcohol products. In addition to warehousing and delivery of products by the liquor distribution branch, there are alternative distribution methods presently in use in the province. The liquor distribution branch will provide the opportunity for increases in alternative distribution of beverage alcohol products in British Columbia in the future. Again, the shift is consistent with our government's belief that government should govern, not run businesses. Our government must focus its resources and investments on the vital public services of health care and education, not on the warehousing and distribution of beverage alcohol.

What I have discussed so far is an opportunity for the private sector to increase its role in retailing, warehousing and distribution of beverage alcohol products in the province and to create jobs for British Columbians. For the private sector, with these increased opportunities come increased responsibilities. Various individuals and organizations such as doctors, the police and Mothers Against Drunk Drivers all play a very important role in educating the public about the consumption of beverage alcohol.

Government has and will continue to have an important role ensuring that public safety

issues such as sales to minors, overconsumption and the sale of illegal alcohol are aggressively addressed. Regulations and enforcement will be strengthened. We will ensure that the penalties reflect the nature of the violation. Enforcement will be coordinated with the Solicitor General. Rest assured, even though the private sector will have increasing responsibilities for the retail, warehousing and distribution of beverage alcohol, government will play a very strong and important role in the area of enforcement.

The government will continue to have an important role in the collection of revenue and taxation of beverage alcohol sales. In the present fiscal year the liquor distribution branch is forecasted to contribute \$640 million to the provincial treasury. Over the next two fiscal years we are forecasted to contribute \$650 million per year. Rules will be in place to ensure that the private sector fully complies with the revenue and taxation requirements of their participation in the beverage alcohol industry. Just like the rules on public safety issues, penalties for non-compliance will be strong, swift and, where necessary, severe.

Mr. Premier, these represent the strategic shifts of the liquor distribution branch for which I am requesting cabinet's approval.

Before I end, I would like to talk a bit about the consultations that have taken place in this process, some of the public concerns that may arise from these changes and how we intend to ensure that British Columbians will have all the facts before them. I received a number of phone calls, letters and proposals about government's involvement in beverage alcohol business going forward.

**[9:15]**

First, let me say thanks to all those people and businesses who took the initiative to submit their thoughts to both myself and the liquor distribution branch. I've also met with a number of stakeholders who wanted input into the process.

We have consulted with the Minister and the Ministry of Public Safety and Solicitor General on strengthening and coordinating regulations around public safety. We've also consulted with the federal government on their upcoming legislation related to excise tax changes. This morning my office contacted the B.C. Government and Service Employees Union to set up a meeting in the coming days on these strategic shifts.

The liquor distribution branch will be going through significant changes over the next few years. There will be questions among staff at the LDB as we go through these

changes. I would like to have the government, the employees, the union and the management of the liquor distribution branch sitting around the table working together through these issues and changes and building effective solutions for British Columbians and public servants who have worked on their behalf.

We are not going to rush the process of this transition. It will be measured. It will be thoughtful. We will be doing an ongoing review of the process to see where we need to try new ideas, fix mistakes that have arisen and make improvements to ensure that this transition goes as smoothly as possible.

I am recommending these strategic shifts for reform of the liquor distribution branch. These shifts will increase public safety, enhance revenue collection tools, create more private sector investment and jobs in communities throughout British Columbia, and increase customer service. Mr. Premier, I'm asking for cabinet's approval of these shifts.

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Thank you, Mr. Premier.

**Hon. G. Campbell:** Thanks, Rick. Any questions? Sindi.

**Hon. S. Hawkins:** Thanks, Rick. I remember living in Alberta, and we went through the same experience there. Did you look at some of the things that happened afterwards, and can you report on the success or perhaps any concerns that were raised through what they did in privatization there?

**Hon. R. Thorpe:** We are looking here at enhancing service to British Columbians. I want to be very clear that the solution we are bringing forward here is a British Columbia solution. We've had a dual system here in British Columbia. We are expanding that, but the real issue that we are addressing here is: should government need to be in retailing, warehousing and distribution? Our core services review says no.

With respect to questions that when Alberta went to around 1,000 retail outlets, there would be all kinds of social problems, the facts and the research say that has not happened. Again, I want to be very, very clear here, Sindi. This is a solution that has been developed for British Columbia, for the communities of British Columbia, for the consumers throughout British Columbia. We're going to work together with the staff at the liquor distribution branch, with the union at the liquor distribution branch and with the employees, so that we can deliver the most effective service to British Columbians.

**Hon. G. Campbell:** Kevin.

**Hon. K. Falcon:** Thank you, Premier.

I just want to say, Minister Thorpe, that I strongly support the direction you're moving in. It always amazes me that in the twenty-first century, we've got the state and state employees retailing beverage alcohol in this province. I think there are tremendous opportunities here, particularly in the job area.

But what I'd like to ask you about are the regulations, particularly the comments you made about public safety. I very much appreciate, as you can imagine, the reductions we're going to make in some of the regulatory burden, which I think is very positive. I'm also pleased to see that there is going to be a strong emphasis on public safety and revenue collection and on maintaining - I'm sure the Finance minister will be interested in that - the integrity of the revenue collection but also the emphasis on public safety. I'm just wondering if you can discuss that a little bit more, particularly the biggest concern I would have: making sure that we are extremely tough, as I hope we are now, on any sales to minors - which would be my big issue.

**[9:20]**

**Hon. R. Thorpe:** Sales to minors, the sale of illegal alcohol and the sales to those who have overconsumed will not be tolerated in British Columbia. I have been working very closely with the Solicitor General. We are going to have a very coordinated enforcement team and strategy in the province to ensure that those public safety issues are protected. I can assure you - and I'm sure the Solicitor General would comment on this - that people who break the law, serve minors, sell illegal alcohol or serve those in overconsumption situations are going to be dealt with very quickly and very severely. The rules and public safety will not be compromised - will not be.

**Hon. G. Campbell:** Thanks, Rick.

We have Christy, Greg and Mike.

**Hon. C. Clark:** Following up, I share a similar concern to Kevin's. I'm also concerned about the availability of alcohol to people who are under-age. Alcohol can destroy people. It destroys families. Those habits start early, so I think it's important that we enforce that.

Can you talk a little bit about the possibility of making alcohol available in your local



Safeway or IGA? Is that part of the agenda? Is that what you're talking about in this presentation?

**Hon. R. Thorpe:** No, it is not. We believe we are looking at this as the opportunity to serve all communities in British Columbia in a fair and equitable manner. We believe that in working with smaller private businesses throughout British Columbia, you know, we have to develop the rules and regulations around those who are going to be eligible to apply. Those have not been approved yet, but we believe that small business opportunities are going to create more jobs throughout the entire province, rather than dealing with big retailers.

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**Hon. G. Campbell:** Greg.

**Hon. G. Halsey-Brandt:** Rick, I was very pleased with your comments about the dual system. I have noticed it myself - whether it is, hopefully, the change of government or whatever took place. I think that certainly the calibre of service in the liquor stores has increased - at least, I have noticed it - over the past year, so I'm pleased about the dual system.

Just one comment and then a couple of questions. I have been to a couple of the stores in Alberta, and I found that the standard of service, stock and appearance was dramatically different between the stores. I would just hope that your staff has some guidelines - I know we don't want to overregulate or that sort of thing - certainly in terms of a standard of what sort of appearance they put out to the public.

My questions are around specialty wine stores - I know there has been a moratorium on those for probably close to a decade now - and if those fall under this category. Secondly, on timing, is there is any general idea on timing and when we're moving ahead? Finally, in terms of price competition, sometimes when I have the opportunity to go to the States, it is rather interesting to look at the various competitors out there. I wondered if that's a part of this core shift as well.

**Hon. R. Thorpe:** Let me address the first comment about your observations in Alberta with respect to the retail environment. As we move forward and as the private sector has increasing involvement in retailing products, it is actually going to be up to the customer to make the decisions on where they're going to shop. I believe that successful retailers understand that, and successful retailers create an exciting retail opportunity. I do not believe it is the government's role to be regulating the retailing

environment in private sector establishments. Our role is to make sure they're complying with our public safety and public policy issues of not selling to minors, not selling to those overconsuming and not selling illegal alcohol.

With respect to the timing, as I said, Greg, this is going to be a very thoughtful, very measured approach. We are not going to rush. We are not blowing a system up overnight like they did in Alberta. We are going to work with our employees and with the union to achieve our goals of increased private sector involvement in retailing, warehousing and distribution.

**[9:25]**

With respect to community by community, what we are going to do is an analysis community by community, and communities have my personal assurance that stores will not be closed down in communities without there being the opportunity for private retail opportunities. Our goal is to have competition in communities.

With respect to pricing, pricing is a factor of taxation. We have a high level of taxation here in British Columbia; in Alberta they have a flat tax. Beverage alcohol in the United States is taxed at a very, very low rate. We have a three-year fiscal commitment to the Finance minister to deliver \$640 million this year, \$650 million in year two and \$650 million in year three. Those funds, quite frankly, are needed for our vital public services of health care and education and our goal of balancing the budget - which we will achieve.

In the short term, I do not see tax reductions. It's a good longer-term goal, but it is certainly not the motivation for what we're going through here. The motivation here, again, is increasing private sector involvement, private sector investment and private sector job creation.

**Hon. G. Campbell:** Thanks, Greg.

Mike?

**Hon. M. de Jong:** So, Rick, if I pick up my newspaper tomorrow morning and I've got ten seconds to read the headlines - now that I'm getting newspapers again - and I see that the government's doing something about liquor, I think I probably.... Two issues interest me. It might be service, but probably before service it's price: how much am I going to pay for my case of beer or mickey of rum or whatever it is?

You dealt with part of that with Greg's question. My question is: what's our role? What's the state's role now in setting the price? For example, in a privatized beer and wine store, I'm told that by virtue of how the distribution system is set up, they can't charge below a certain minimum. Leaving aside the tax component, the actual price of the product is largely driven or entirely driven by the state, because they can't purchase directly from source or whatever. I don't pretend to be an expert. Do you contemplate that changing, or does that remain a feature of this?

**Hon. R. Thorpe:** The pricing aspect, as you have rightly identified, is a huge factor in the levels of taxation, and as I said, we do not contemplate those changing in the near future. Rural agency stores sell at liquor store prices. Cold beer and wine stores buy at a 10 percent discount, and many of them have a markup above the government store of about 10 percent. Obviously, they have the flexibility to establish their own pricing.

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**Hon. M. de Jong:** Can they sell at below liquor store price?

**Hon. R. Thorpe:** No, they cannot. At this point in time they have not. Interestingly enough, what we did see when we introduced, on April 2, spirits to cold beer and wine stores throughout the province of British Columbia was that a vast number - a significant number - are selling at the same prices as liquor board stores.

What we are striving for here, Mike, is increasing the number of retail opportunities throughout the province. Competition will create benefits to the consumer, but we are not into setting the prices in the private retail sector.

**Hon. G. Campbell:** I think - correct me if I'm wrong - we're trying to maintain the revenues. We're being up front about this. We're maintaining the revenues we're getting from this. That is a critical part of what we're trying to accomplish here. A huge chunk of our liquor costs are tax costs. We're not shying away from that. It's not what we're dealing with here today at all.

Any other questions? Okay, the recommendation is that we approve the strategic shifts and we allow the liquor distribution branch and Rick to proceed with that, and that is approved. Thank you very much.

**[9:30]**

The next item that we have was scheduled for earlier in July, but I thought it was worth

going through this again: the fiscal update. We obviously are going through a very tumultuous time in the markets with the dollar, particularly the Canadian dollar, losing ground over this week, so we're going to have a fiscal update from the Minister of Finance.

Gary.

### **For Information: Fiscal Update**

**Hon. G. Collins:** Great. Thank you, Premier.

This is an update of where we are and is part of our release of the public accounts which happened about a week ago. I didn't have an opportunity to brief members of cabinet in detail on the public accounts, and mostly what you saw was probably in the media. I did want to walk you through it and give you a sense of what the final outcome was of all the work that everybody did last year, where we head in the months ahead and what the next year is looking like at this point.

We're only partway into the fiscal year for this year, but so far the trends are positive. There's still a certain amount of volatility out there, and the Premier alluded to that in his comments just a moment ago.

I want to take you back now, if I can, to July 30 of last year - almost a year ago - when we brought forward our economic and fiscal update to the Legislature, a revised budget. The previous government had introduced a budget in March. We came in; we were elected at the end of May, sworn in the beginning of June and on July 30 brought in a revised update, given our plan for that fiscal year. Since then, I don't need to tell you, lots has happened. We saw a slowdown in the U.S. economy in particular and then in the North American economy. It started with a meltdown of the tech sector and the NASDAQ, which created a lack of confidence in the investment markets. That went into manufacturing, equipment sales, etc., and started to percolate through the rest of the markets as well.

The one area that has remained relatively strong in North America - particularly in British Columbia, where we have done very well - is consumer confidence. Retail sales, housing starts and housing sales stayed strong throughout virtually all of last year. They continue to be strong here in British Columbia. I believe the market in Victoria and the real estate market is one of the most buoyant in the province. There is lots of confidence out there amongst individual consumers. I know I hear from people as I travel around the province - and I hear from the MLAs, who represent every community

in British Columbia - that there is an awful lot of confidence out there, as well, in general around the economy.

There are some other things that have been challenging for British Columbia in this last year, not the least of which has been the softwood lumber dispute. It continues to go on. It has had an impact on the forest sector and forest-dependent communities, some of whom have been hit very hard by this. That is something that continues to be a problem for us and something that I know Mike and everybody are working very hard to try and get a solution to.

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As well, since then, we saw a fairly noticeable impact on the revenue streams which I talked about last fall. Energy prices fell. We expected them to fall, but we didn't expect them - nobody expected them - to fall as quickly as they did in North America or as far as they did. That had an impact on our revenue streams from the value of the Columbia downstream benefits, the sale of those assets.... The revenue from Hydro, oil and gas revenues, etc., were all off for government this year. That created a certain amount of pressure on us as well.

Events of September 11 had a big impact on economies around the globe, but particularly in the United States. Given that it is our largest market by far, that flowed across the border into British Columbia as well. We saw tourism take a hit; we saw investor confidence decline even further. Certainly, in the fall it looked like all the news was bad news for a while.

**[9:35]**

We saw, as we went through our core review - which continues - that certainly for core ministries and then the budget plans.... We developed three-year budget plans to get us to a balanced budget by 2004-05, as we committed to do during the election. We went through a fairly large restructuring of government, the planning of that. There were restructuring costs as we reduced the size of government both in personnel as well as in plants, equipment, office space, etc., and there were costs incurred in that. That process is actually somewhat ahead of schedule from what we expected when the plans were initially laid out. We accomplished more of that last year than was in the budget plan, so there are charges in the budget for last year that are higher than were originally expected for those adjustment costs, but they're really costs that we then don't incur this year. So the costs are the same; they're just moved forward a little bit.

The Crown corporations. There was a huge amount of cleanup to do after the last decade in the Crown corporations. We took a large write-down at ICBC of the Surrey centre project, an investment that ICBC made under the NDP that is going to cost about \$250 million but is worth substantially less. B.C. Rail took some write-downs on the value of its assets. As well, B.C. Hydro's revenues were not as high as forecast either. So the Crown corporations, in all, created some pressure on the budget - over half a billion dollars.

We've seen, however, some good news since the turn of the year, starting in January. The results were better than expected in that last quarter of our fiscal year from January 1 to March 31. At this point the trends continue to be positive.

On the budget we introduced on July 30, I just want to remind everybody, if I can, that health care, year over year from the previous year.... The budget was up by \$1.1 billion - new money into the health care system. That's a 13 percent increase. The education budget was up by almost \$400 million, a 6.1 percent increase.

We had a commitment during the election campaign to maintain the funding for health care and education. In fact, in that budget, year over year, there was a fairly large increase in both of those, and we continue to spend that, without question. As we'll find out a little later, health, even with that increase, had big pressures this year with the nurses settlement and the doctors settlement and came in slightly over budget. I'll speak to that in a few moments.

I want to walk you a little bit through what happened over the last year for the forecast. As you put together a budget, you look at what the forecasts are out there. We have an independent forecast council of 20 people who give us an estimate of what they think Canada's economy, the U.S. economy and, more importantly, British Columbia's economy are going to do in the year ahead. They came out with numbers in July that looked pretty positive for B.C. Numbers were over 3 percent growth for the year following. The forecasts were quite positive. You can see that around the end of July, the numbers for Canada and the U.S. for economic growth were up around the 3 percent range, which are pretty good numbers. Almost immediately in August you can see the numbers start to trend off, the consensus forecasts. If you put all the forecasters in the room and they had to agree on a number, that number started to drop. Certainly if you look at the forecasts as they started coming in post-September 11, both for Canada and for the United States, you can see a very fast drop-off in the economic forecasts for Canada, the United States and of course, by association, British Columbia.

Canada wasn't hit quite as hard. All along, people thought Canada would do a little

better than what the U.S. was going to do. All through the fall, right into February when we put together the budget for the year we're in now, the forecasts for GDP growth, economic growth, this year were pretty low. In fact, the consensus of the group of those 20 forecasters that I spoke about earlier, who give us advice here in B.C., was that B.C. would grow this year by 0.7 percent. Since then, we've seen the numbers come up, and you can see in the graph that the first quarter of this year came in stronger than most people thought. Economists are very good at telling you what happened, and so now that we saw the first quarter improve, they're now forecasting better growth for the rest of the year. That's positive. The lines are going in the right direction.

We will do a revised economic forecast with the first quarterly report, which we'll release on September 12 of this year. It will have some updated numbers for B.C. for this year. At this point we expect them to be higher. But I want to caution everybody. It is still extremely early in the year, and lots of things could happen. Just look back where we were last year in July, and look at the roller-coaster ride we've been on this year.

It's still very early in the year, and I want to caution people that while the trends are in the right direction, there is still a lot of volatility in the marketplace. Over the last few days the impact on stock markets throughout North America and around the world has been very negative. That may start to impact, as we've heard from economists and forecasters, consumer decisions. So far the consumers have been very strong throughout this slowdown in North America and globally. So we want to be cautious about that and just be aware that's a risk.

**[9:40]**

The Premier mentioned the impact on the Canadian dollar. We've lost almost 2 cents in the last three days or so on the Canadian dollar, and that's an indication of the volatility that's out there and the uncertainty that's still there in international markets. That has a benefit for British Columbia in the very short run, in the very short term - a low dollar. We're an exporting province. We have exports that go out of the province and mostly into the United States. As our dollar is lower, the value of our exports is more competitive in that marketplace, so in the very short term it is helpful.

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In the medium and long term, there are other things that start to become problematic around productivity, around investment, etc. People look for return on their investments. In the short term it's helpful. In the medium and long term it's something we have to keep an eye on and be a little worried about. As I said, we'll come back in September

with a revised update, when we know a little bit more and we have a few more months under our belt and a better sense of where the province is actually headed.

I want to show you where we ended this last fiscal year on March 31. We reported out the public accounts about a week or so ago. We were able to report that despite that roller-coaster ride we were all on last year and the concern we had, we actually did relatively well. It was a very volatile year, one of the most volatile we've had in a long time, with a lot of uncertainty. But because of some hard work by ministers to control their spending and keep it under control and within their budgets, as well as some fairly surprising revenue flows in the first quarter of this calendar year or the last quarter of the fiscal year from January to March 31, we actually did better than expected.

We had forecast a budget deficit of a billion dollars, just strictly calculating the spending. We also had a forecast allowance or a buffer of half a billion dollars, or \$500 million. The forecast deficit for last year was \$1.5 billion. We actually came in this year under budget slightly.

Our deficit was \$1.23 billion. Now, I want to caution everybody, as well, because we actually did end up using some of that buffer - that \$500 million forecast allowance. You always hope you don't have to spend it. You certainly don't plan on spending it, but you need it there as a buffer and a caution. We actually did use almost half of it. That's not a great thing. It's good to have the buffer there, but I would rather we didn't spend it. It's not planned spending. It's spending room we have in the event of volatile circumstances and just shows the prudence of having a forecast allowance and that we were able to come in under the budget target.

Those blue boxes at the bottom of this chart, I would just like to remind everybody.... Last year was somewhat unique in that we had gone in the years before to co-management or shared running of the pension plans the government was involved in. As a result of that, we get half of the benefits if there is a surplus in those pension plans. We also get half of the pain if there is a deficit or unfunded liability in the pension plans.

Last year there was an adjustment to the positive for British Columbia. It's an accounting adjustment. There is no real cash; it is an accounting adjustment. It was forecast to be \$1.34 billion last July. The number finally came in at the end of the year with the final adjustments at \$1.46 billion. That is an accounting adjustment.

If you take those numbers out, the deficit for last year was actually forecast to be \$2.8 billion, and it came in at \$2.7 billion, so it was somewhat better than expected. But that nice almost \$1.5 billion that's there as an accounting entry last year doesn't recur year



after year. It's gone; it was a one-time thing. That's why you see us going from a \$2.7 billion deficit this year to one more in the nature of \$4.4 billion.

Let me walk you through, if I can, some of the changes that occurred during the year, from July 30 to March 31, and what caused the numbers to come in where they did. As I mentioned earlier, the value of the downstream benefits that we sell, that electricity benefit we sell, declined as a result of lower-than-expected electricity prices. Oil and gas revenues were also off and much lower as a result of a far faster drop in the value of those commodities, to the tune of about \$629 million. It just shows you what a big component of our economy energy is and also how volatile a revenue source for government it is.

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When you look at that number moving up and down, you understand how Alberta got hit so hard this year and actually had to come in and redo spending midway through the year and make some tough decisions. They have a much larger dependency on energy resources and as a result are subject to far greater swings. That gives you an idea of the impact of that.

There is also a certain amount of that included in the next bar, which shows us down by \$576 million. Some of that is B.C. Hydro revenue, so again it is energy. If you combine them, it is a pretty large chunk of money that didn't appear for us after the budget was introduced.

### **[9:45]**

Amongst the Crown corporations, B.C. Rail took a write-down of about \$108 million and then, subsequent to the end of their fiscal year, another \$65 million. B.C. Hydro's payments to government were off by about \$117 million, and ICBC was down by \$258 million. The total of that is about \$576 million. That's a big hit to government's revenue stream.

We believe that we have now gone in and cleaned up most of those liabilities and hidden things that were left for us by the previous government. We don't look forward to seeing any of those kinds of surprises of that magnitude this year or in years ahead, but we're obviously watching very carefully and are always very nervous about where the Crowns are and what the risks are. Those two combined are almost \$1.2 billion in lost revenues to government. That's a big, big hit for the province to take.

I mentioned earlier about our workforce adjustment and, as we reduce the size of government, that it happened faster than expected. We're actually a little ahead of schedule on that. There was an additional charge of about \$224 million in this year that was budgeted - or in the year we're speaking about, which is last year - or that was supposed to happen in the fiscal year we're in right now. Those aren't necessarily costs that were higher. It's just that they're booked in a different time, a different fiscal year, but it does have an impact on the budget.

The wages. If you look at the next one, it's Health Services. Health Services was the only ministry that was over budget. Everybody else was on or under budget, including the allotments from contingencies. The only other exception was Skeena and the CSE, which I will talk about in a minute.

That's pretty remarkable when you consider the pressure that we were under last year with Health. I remember in other fiscal updates speaking about one of the first briefings I got as Minister of Finance, after the Ministry of Health had a \$800 million increase in its budget. They came in saying they needed another half a billion dollars this year or they were going to go over budget. That was before the nurses settlement. That was before the doctors arbitration.

When you think of all of the pressure that the Ministry of Health was under and the lack of data we had to even know where the money was being spent or how it was being spent, when you consider all of the work that Sindi and Colin and Gulzar and Katherine have done in the Ministry of Health, despite all of those pressures, to come in just \$202 million over budget, that's pretty remarkable.

It was a lot of hard work, and people of British Columbia put their shoulders to the wheel, as well, to make sure we started to get our health care costs under control here. We have done a lot of tough changes in order to start to get there. We're not there yet. We still have to keep working hard to make sure that we start to get health care under control.

I know that next year Colin is not looking for that to be \$202 million over budget; otherwise, he takes a pay cut. We're all going to work very hard with the communities and health authorities to help Colin to get there. I just wanted to....

Interjection.

**Hon. G. Collins:** Yeah. I just wanted to draw people's attention to that. While it is an overspending, when you look at what we were up against and how little data and

knowledge we had at that time of where the money was being spent, it is pretty remarkable to come in on that.

I also want to say that the core ministry, the direct Ministry of Health, as opposed to the health authorities actually came in under budget. I think that is the first time ever in the modern history of the world that a Ministry of Health has come in under budget. I want to congratulate the hard work that people have done and the work in the ministry to keep those costs under control.

Now over to Rick and Competition, Science and Enterprise. Most of Rick Thorpe's time last year was spent trying to solve another mess that was left behind for us. That was the Skeena Cellulose issue, which we have been working on for some time. This government made a commitment not to put one more dollar there, not one more taxpayer dollar behind the over \$300 million - I think it was - that we had already spent. Rick worked very hard to negotiate a successful sale of Skeena Cellulose to the private sector, so they can reinvest capital and long-term health of that community. I think that was very exciting to finally get that done.

Unfortunately, there is a \$170 million further write-down in doing that, and that appeared in Rick's file. Despite keeping his ministry nicely under budget, he did have to deal with the Skeena issue. I think everybody is happy that is done, but I wanted to highlight that for people so they could see where that happened from.

**[9:50]**

On the positive side there were some good things that did happen in the last year, particularly in the last quarter. We had dramatically increased revenues from personal income tax and corporate income tax. Every year the federal government actually collects these taxes for us. They have a formula that calculates how much comes to British Columbia, and then they do adjustments as the years go by until they finalize the number. We had some adjustments that brought our number up for last year, from prior years - \$808 million. That is a big hit. It's in a positive direction. That adds to our base, so it's the kind of thing that starts to help us in the years ahead as well.

The \$485 million is ministries coming in on or under budget. That's people working very hard day in and day out to manage the costs in their ministries, staff working very hard to not be wasteful and to make proper decisions and plan very carefully. We've also worked very hard with some of the ministries - Attorney General; Solicitor General; Health, as I mentioned, among others - to try and make sure they were able to come in on or under budget. That went very well this year. When you fold in contingencies,

everybody, with the exception of the Ministry of Health, came in on or under budget this year. I think that's pretty incredible when you consider the volatility we experienced and the amount of cleanup we had to do from the previous government. I just wanted to thank people for working hard on that. It just shows that if you do work hard, there is a benefit there to the people who are paying the bills.

If you can just sort of set aside in your minds for a moment the July 30 numbers for last year, I want to talk about how the numbers changed from where we were in our third quarterly update. We do update the budget and the forecasts as we go along, and I've done that here. In February this year, when I tabled the budget.... At the same time we released the third-quarter update for where we were three quarters of the way through the fiscal year last year. As I mentioned, if you can remember back to that slide I showed you earlier, with the downturn in the economy in February, the forecast for economic growth was still pretty low. We hadn't yet got the data in for that January-to-March time line, and things weren't looking as positive as they subsequently ended up looking. As a result, in the fall last year I had to reset the budget deficit target from \$1.5 billion to \$1.98 billion. That was the number we were looking at and expected to hit roughly when we saw the public accounts come in this year, at the time we put the budget together.

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As I mentioned, there were some positive changes on the spending side and the revenue side that changed that. Instead of the \$1.98 billion budget deficit, we actually came in at \$1.23 billion. Since the quarterly the numbers improved quite dramatically, and I just want to talk to you about some of the things that happened and why that occurred. Higher CRF revenue, consolidated revenue fund - that's just the revenue government gets. The revenue there was higher than what we anticipated in the third quarterly report in February by about \$272 million. Again, that is a result of a variety of revenue streams. Lower spending - \$363 million. People came in under budget from what they were forecasting at that time. The Crown corporations improved slightly, despite that big drop we saw earlier. Relative to what we were expecting in February, they came in slightly better - about \$26 million. The total change in that number was \$661 million from February. Again, it shows some of the volatility of the numbers as you move through and why it is important to have a forecast allowance and give yourself a bit of a cushion.

Some of the other things we've done as a government. I was speaking earlier today about how we've tried to become more professional, more prudent, more accountable in the way we run the government, making sure that we watch for things and manage

them on an ongoing basis. You can't do that without good reporting. It is hard to be accountable to the public if you are not being accountable to them and showing them where you are. In previous years, you will recall, public accounts sometimes came in well into the year, in the fall. Nobody really knew when they were going to come in. By the time you actually put them before the public, you were well into the next year, and it was pretty hard for people to tell where you were at and to separate the year you were in presently from the previous year. We've tried to move that up as far as we can.

The public accounts were released on July 11. It's the earliest they've ever been released in the province. There is only one province who got theirs out earlier than ours, and that was Alberta. They have a much smaller government entity, less complex, but we are still after them, and we're going to try and overtake them in the years ahead. We think it is important to have timely reporting of our data so that the people know what we've done and what we're doing.

**[9:55]**

As well, you'll know that we made a commitment during the election campaign to become compliant with generally accepted accounting principles by our budget in '04-05. We have passed the legislation to do that, and we're working hard to get there.

In the documents we published with the public accounts, we actually showed what the deficit would look like if we were already keeping our books according to GAAP. We would have actually been slightly better off than the numbers show without going to GAAP. We're working towards that. It's a big, complicated accounting process that we're working our way through determining what's going to be in, what's going to be out and how we're going to do that, but we'll be the first province in the country to be compliant with generally accepted accounting principles when we do that in 2004-05.

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There are some other reports that we put up exactly the same day as the public accounts. There's a debt statistics report, so people can look at the debt, where it's held, what we do with it, how much we pay to borrow. There's the financial and economic review, which was up on the website as well right away for people to be able to see where the province is headed.

All of our annual reports for Crown corporations and ministries, with the exception of some that we are winding down, were up and on the website the same day as well. You'll recall that in the past - those of you who were in opposition - sometimes the

annual reports the previous government would table would be two or three years old. Well, ours were out on July 11 this year. They're on the website for people. We're also saving money; we're not printing up huge boxes of them. If somebody wants a copy and doesn't have access to the website, they can call our offices. We'll print one off, put a staple in it and send it out, and they can see what the numbers are. We're trying to save a bit of money there as well.

Those are all ahead of normal, and I think they are a key component to being fiscally accountable, as the Premier has said, to the public, to the voters, to the taxpayers. It's important that they have the information they need to be able to see that.

Where do we go from here? I want to give you a bit of a glimpse at where we are now as far as the economic forecast goes. In the year 2000 the GDP growth was 3.9 percent. There were a lot of energy revenues in that, trading revenues which helped our GDP. Last year the final number for economic growth was 0.9 percent. This year when we brought in the budget in February, the forecast council, that independent body of 20 people.... That's the purple graph there in 2002. Their forecast for growth in British Columbia was 0.7 percent for this year. My forecast that I put in the budget was slightly lower than that - 0.6 percent - and it was mainly because I took a more conservative view of what the impact of softwood lumber might be on the province and whether or not we would get an agreement. So it's somewhat lower.

Since then, if you look at the group of those 20 forecasters that report to us on that council, of those that have issued updates, if you take an average of their forecasts, it's now 1.3 percent. If you take a forecast consensus of all the major banks that issue forecasts, the number is 1.7 percent. The trends are upwards. That's positive, but again it's still early. The numbers for the out years - you can see what the independent forecasters were putting and what our numbers were. Our numbers are somewhat more conservative than what the independent forecasters are saying will happen to British Columbia in the years ahead.

Now, I want to show you the next chart, because I think you've all seen this one before. You're going to see this again and again until we balance the budget in '04-05, because this is the target and the trajectory - where the spending line is going and where the revenue line is going. We've got to keep watching these to make sure we get those two lines closer and closer together to the point that we balance that budget in 2004-05.

Let me give you a bit of an update on what we were forecasting earlier on. If you look on the left-hand side of that chart, there's that green arrow, which is a \$3.4 billion deficit forecast for last year. That was the number that we were expecting for last year based

on the forecasts that we had at that time. As a result of the public accounts coming out and us closing the books on last year - the numbers being better than we expected, both spending a little lower and revenue a bit higher - we have moved those lines together a little bit to the tune now where we have a \$2.7 billion actual deficit for last year.

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The \$4.4 billion number. As the economy improves, we hope that number will be able to come closer together as long as we maintain the spending, because there are two parts to closing that gap. One is keeping your spending under control, and the other is growing the economy. The Premier has made it very clear that this year our goal and our efforts as a government have to be targeted at doing both of those, but most importantly growing the economy, because that starts to move that revenue line up.

**[10:00]**

Now, if you look at where the revenue line is, or the lowest point of that revenue curve for 2002-03, that's the year we're in right now. That's based on the 0.6 percent growth rate that I put in the budget in February. As I said, at this early stage in the fiscal year the economists are suggesting that that number for economic growth will be higher, and that will help to raise that blue line a little bit and start to close the gap, we hope. We won't have a revised number until September, when we have a few more months under our belts and have a chance to canvass our forecast council again.

Then, if you look at the next years, you start to see the revenue line go back to more traditional growth rates. That's again based on numbers I put into the budget that are more conservative than the independent forecast council was suggesting. If you can think in your minds back to the chart you just saw, where you looked at the out years, and the graphs for the projection of where revenue was going to go or where the GDP was going to go, if you plug those numbers in, that's what helps to determine the curve, the shape of that blue line going forward.

The faster the economy improves, the more the economy improves and the more we keep our spending under control, the sooner we'll be able to balance that budget and start making decisions about what we want to do in the future. We'll have a better update for you in September on what that number is and where we're at. As well, we're starting now to embark upon the planning cycle for next year's budget. I know you're all excited about that. I heard Rick's cheer down at the other end of the table.

That's always a tough process. You all have three-year service plans for your ministries moving forward. We expect people to stick within those plans, to continue to work those plans. We have to develop the next year on the end of this rolling three-year plan. You'll be working on that. The government caucus committees will be working on that. Also, we need to finalize and fine-tune the numbers for next year. That's what we'll be doing in the months ahead.

There will also be the prebudget consultation process. Every year by law in British Columbia, we go out and consult the public on what they think should be in the budget - if the government is heading in the right direction, the wrong direction, should go in a different direction or stay the course. We expect to present the report to the Select Standing Committee on Finance and Government Services on or about the same day we release the quarterly report in September. That committee will start its consultations in the fall and are due to report out by November 15 as we start that planning cycle for next year's budget.

To sum up, last year was a very volatile year with lots of ups and downs, lots of revenue hits, lots of spending pressures. At the time we said that we have to control the things we can control, and that's the spending side. I think we did an excellent job of that and getting better value for the money that people are putting into government. We worked hard to manage up against those things we can't control: outside impacts of softwood lumber, revenue changes and GDP changes, economic changes in the United States and our trading partners. Those are things that are beyond our control. But we have to work hard to make sure that we set the environment for an economic recovery in British Columbia, long-term economic growth, and manage those things that we can, which are the costs.

That's where we're at. That's what last year was like. That's where we're headed for the year and the years ahead. If we can continue to post results like that, we should stay right on track.

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**Hon. G. Campbell:** Thanks, Gary. I've got questions from Sandy and John.

Before we start.... I think that one of the biggest challenges we face when we deal with the day-to-day issues that we go through is, frankly, to maintain the discipline of "far out" as opposed to "short up."

The public says to us consistently that they want us to think long term. They just want



short-term results. That's very difficult to balance those two things off.

The hallmark of the world we live in is volatility. We are living in an incredibly volatile world. If the last year teaches us anything, it's how volatile the world is. When you look, for example, at the revenues that government got just a couple of years ago from energy, and you think back a couple of years ago to what we were hearing from the greenhouse sector in agriculture in British Columbia and how energy was going to kill them, and you think about how much money was supposedly going to continue to roll in, it was like winning the lottery two years in a row and thinking: "Well, gee, the lottery's going to keep showing up in our hands every single year." It just didn't happen. It wasn't going to happen. But it's very difficult to believe that it won't continue to happen.

I think that one of the critical things.... I just want to highlight this because it's difficult, I think, for everybody. It's hard to believe that we are just 115 days into our three-year service plans. If you think of that.... In your first year you're still 250 days away from the end of the first year's service plan.

**[10:05]**

One of the challenges that I think we all face cumulatively as a government, but also individually, is to remember that we haven't even delivered on our first-year service plans yet. I recognize why that happens. We have people that tell us our three-year service plans are going to be delivered in 30 days, and all of the impacts are going to be there in 30 days and all the positives and all the negatives are sort of mixed together. In fact, I think often we hear about the negatives and none of the positives, but that's neither here nor there.

What I want to say to you is that you are now more than a quarter through your first-year service plan. In October I would like each of the ministers to be sure you know exactly where you stand in your first-year service plan. Are you on target, or are you off target? Are you ahead of schedule, or are you behind schedule? Our goal is to get ahead of schedule. Our goal is to try and create some flex in government so we can meet some of the challenges and take advantage of some of the opportunities that are there. We can't do that until we're ahead.

We are not going to be thinking all the good news is going to keep on going, because we know that all the good news isn't going to keep on going. In fact, our experience is that there's going to be more bad news than good news, and I think we have to remember that as we go through the discipline of meeting the challenges that our service plan presents.

I want you just to think back. It was only one year ago today that we actually had our first throne speech. You've gone through a lot - we've all gone through a lot - but I think the issue here is to make sure we keep focused on those plans that you worked so hard on last year, which we put out in January and finalized in February. Really, we didn't even start executing those until April. By October 1 you should have looked at your plan with your ministry staff and be able to report back to cabinet on how you're doing, what the challenges you face are, what the exceptions are to your plan and how we can either improve on it or deal with just the facts that are in front of us.

I just wanted to talk briefly about the dollar. The Canadian dollar is obviously having a little bit of trauma itself today. There is a tendency for us to think - I think Gary mentioned this - in terms of short term and to say: "Well, that's good for us because we're trading, and we'll send the dollars out." Unfortunately, what happens - we're seeing this in softwood - is that our productivity is good in some parts of the industry and way down in other parts of the industry. In fact, we import more than we export. We have to remember that in lots of ways in terms of people's lives.

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We have to be constantly trying to improve our competitiveness. We have to constantly try to improve our productivity. I think that's an area where British Columbians are up to that challenge. We just have to make sure we create the framework that allows them to meet that challenge. I know we're all trying to do that.

We have 250 days left in this year. We're balancing the budget in February 2004. There's going to be a lot of work to do that, and I want to just highlight this weakness that we have. The forest industry in British Columbia is in tough shape. Don't be surprised by the quarterly numbers you see. The quarterly numbers are very deceptive. In fact, the quarterly numbers are driven by some of the issues we've had to face in the United States, which make them look like they're better than they are. The full costs of the softwood haven't been imposed. Certainly, people are feeling them in their lives, but you're not seeing them in terms of the financial returns yet.

Softwood is camouflaging a lot of the positive things that are happening in our economy, but the fact of the matter is that our economy doesn't work if the forest industry doesn't work. Our economy doesn't work if we don't have investment there and we don't have people with long-term stable jobs there.

The resource industries are still critical to us as we move forward, and I want us to remember that as we develop our plans for the years out. Our plans for the years out,

Gary has laid out - and I think this is important - are going to be conservative projections. Our costs.... We're not going to take in benefits until we've actually got the benefits, because if we do, we'll kid ourselves. We'll be like the last government, who thought they were going to get a billion dollars a year in from sales of energy to California every single year as a dividend to government. That didn't happen, and it creates all sorts of problems.

**[10:10]**

I want to just say one last thing. Gary did mention this. This doesn't happen because we're saying it should happen. It actually happens because we have literally hundreds and thousands of people in the public service who are trying to help us make it happen. We shouldn't underestimate the effort that's been put in by the public servants in British Columbia to try and meet the objectives we've set. They're big objectives, and I think when you look at the challenges we faced, we should recognize that it's the people working with us and on behalf of the public that have actually delivered the good news so far and the discipline we required and have been, I think, exceptional both in the time and in the effort they've put in. I want to take my hat off to them as well as to you for the work you've done.

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The results are encouraging, but we're not even close to being finished yet, so I hope that gives everyone a little bit of energy to move forward. We can outperform, I think, a lot of the rest of the country, but it's going to take a lot of work to do that. We shouldn't think we've got to the finish line yet, because the gun's just gone off. We have 250 days left in this year to meet our first-year service plans, and we're going to hold that discipline up for all of us in the cabinet to make sure we do just that.

I've got Sandy and then John.

**Hon. S. Santori:** Thank you, Premier.

Gary, with respect to the economic forecasts through 2003 to 2005, what assumptions were used with respect to the softwood lumber issue?

**Hon. G. Collins:** I guess if you look at that slide you had in front of you with the three-year plan for the economic forecast, we have our independent forecast council. Let me start there. They make a variety of assumptions, because there are 20 people that are giving us advice. They will each have their own interpretation on what the result might

be, on whether there's going to be an agreement or not and what the agreement might entail. Is there a tariff? How big is the tariff? Is there an export tax? How big is the export tax? All of those are things they take into consideration, and they come out with a consensus.

When I look at that, we have a model in the Ministry of Finance that does the same thing. We look at what we think energy prices might be, electricity prices, the value of gas, what the value of oil is going to be, the price of a barrel of oil. We look at a whole range of things - housing starts, all those sorts of indicators - and we make assumptions. We look at where they've been, where they're going, what we think, putting it all together. You start putting some pins in the map a little bit.

As that data goes into the model, it comes up with a number. It comes out at the end. It's a bit of a science, but it's a bit of an art as well. We'd actually disclose in our budget what the assumptions are: "This budget is built...." And it will say right in the budget documents. It's on the Web. People can look at it, or they can get a copy of it. It actually says: "We think the price of natural gas will be this on average during the year. If it goes up by this much or down by this much, here's how much that impacts government's revenue." We do the same thing for all the other items that are there - the price of lumber, the price of pulp. All that sort of stuff goes in there.

Those are all of the factors that go into determining what we think the revenue forecast is going to be. It's based on general ideas on what the various sectors are likely to do, what the investment intentions are. All of those things go in, and as I said, it's sometimes more of an art than a science.

**Hon. G. Campbell:** John.

**Hon. J. van Dongen:** Gary, in reporting on the 2001-02 fiscal year, you've reported on the \$170 million write-off on Skeena. Can we expect that's a final figure, or can we expect further write-downs in the fiscal year that we're currently in?

**Hon. G. Collins:** It's done; it's finished. The deal is done. The write-offs are done. The costs to government are done. We're not owning it again...

**Hon. R. Thorpe:** Ever.

**Hon. G. Collins:** ...ever, Rick says.

If the community and workers up there can't come to some agreement with the owner

on how they're going to make it operate in a profitable way, that's very unfortunate for that community, but government doesn't have the money from the rest of the province to keep putting hundreds of millions of dollars into that facility.

The costs are there. We don't anticipate any change to that. These books are closed now, and as far as we know, there are no other costs that are looming there for us. We've taken into consideration all of those things.

**Hon. G. Campbell:** What was the total cost of the sale?

**Hon. G. Collins:** Rick says that about \$425 million of taxpayer money went into the mill over those years that the government was involved in it. It's not as though we built a whole new mill; it's the same old mill. It's several years older, but you would certainly question whether or not it was a good investment.

**Hon. G. Campbell:** I think we could say today that there are an awful lot of people up there that wish they'd started where we are today back in 1997. It was very difficult to see that in '97, but there are a lot of people that wish that had started before.

Mike.

[10:15]

**Hon. M. de Jong:** Gary, you've already begun to look ahead to the budgeting process for next year and in particular the public consultation process that is now required. To make that a more meaningful exercise.... I've been thinking about this, because a lot of people spend a lot of time preparing submissions and coming before the panel. There will be groups and individuals who say the government is headed in the wrong direction, and they have the right to make that submission and make that argument. I wonder if it would be helpful to make clear the government's preferred direction - you've laid it out here, and I have seen or heard nothing to indicate that we are philosophically inclined to change in realizing our objective to bring those two lines together in 2004 - that within the ambit of that philosophical approach there are still some decisions that government can make. Perhaps people might want to focus on that aspect of the budgeting process, without saying to people.... They can come and say whatever they want, but given what I think our predisposition is, those are inclined to be extremely helpful submissions.

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**Hon. G. Collins** I agree. I want to frame the debate. I mean, I present a report, a

discussion paper, to the Finance committee every year for their consideration. It sort of frames the discussion which people have. Although they're able to come and say or write in and do whatever they want, it sort of frames the discussion and the advice we're looking for from the people of the province.

We will have a revised economic forecast included in that - certainly it will be out at the same time - so people will have a sense of where we're headed. More importantly, as I said earlier, there are really two things we do now with our new three-year planning process when we go through the budget cycle. It used to be that governments just planned what they were going to spend next year. They hadn't done any real preplanning on that. You started from what we did last year, let's add something, and where do we add whatever's left. That was the extent of how far down the road governments looked.

We're looking further. We're looking three years down the road, and you know, three years down the road it's pretty fuzzy towards the end obviously. The data aren't as accurate, and lots of things can happen. But you do start to have a trajectory, and you are setting sort of guidelines and long-term plans for government so you know where you're actually going. This year when we put out that discussion paper, given that we're going to balance the budget in '04-05, we're now adding the fiscal year '05-06 onto the end of that three-year planning, that three-year plan that will roll along every year and will always have three years in it.

It is likely, although we haven't done the numbers yet, that because we've actually made structural changes to the way government works and to our costs - unlike the last couple of balanced budgets the NDP had, which were the result of big energy price hikes, predominantly based on what was happening in California, which sort of pushed them above the deficit line - we actually expect to see a surplus and surpluses in the years ahead or at least balanced budgets in the years ahead.

We are planning that third year, the new third year that goes on the end, in very general terms. That's why I think we'll be asking people: "What are your priorities?" Now that we've worked like crazy for the last three years to take the tough decisions, four million people had their shoulders at the wheel trying to make those tough decisions, now we get to see some of the benefit of that. What do we want to do? There are really three things. You either pay down debt, you lower taxes in some areas you think are important, or you put more money into government expenditures. Those are the three options. You can do combinations thereof. That's what I think we need to hear from the public on: where do they think the priorities of government should be?

There's another component to planning the budget, and it'll be part of the document as well, in that we're fine-tuning what we're doing next year. You've got your plans - and I think in 99.9 percent of the cases you're going to want to stick with the plans, because they're part of a larger whole - but there's fine tuning. Ministers may say: "You know, we've been doing this, and now that we're a year into it, I think we could actually spend that money better over here in my ministry. We're going to stop doing this and start doing this, or we're going to do less of this and more of this."

Those are the type of changes that are happening in the very short term for next year. It's very fine tuning. The public will certainly have opinions on that, without question. We'll certainly hear from the people we normally hear from. You'll hear from the public sector unions, business groups, but you'll also hear from the average British Columbian as well.

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I think the place where guidance is most valuable to government right now is starting to get our heads and our minds thinking about what you do in those out years, the priorities of British Columbians - what do they want this province to look like three, four, five, ten years down the road? - and start to set some priorities. Those are the things that we need to hear from people about.

**Hon. G. Campbell:** Thanks, Gary.

I should just say that in terms of the small business round tables I went through in the spring, Mike, it's fair to say, in terms of the small business community, that we've made some steps. But there's lots we have to do before they feel like they're kind of unfettered to pursue their goals. One of the most encouraging things actually came out of some of the later ones when they pointed out that, in fact, a lot of what we've done is going to encourage them to hire young people. I think that's very positive in terms of the overall province and the overall economy. We've got a lot of work to do in that area. One of the things is to try and tap into that. What are the things we need to do to help them to continue to grow and build across the province?

Okay. Thanks, Gary.

The next presentation is from Rick on improving competitiveness. Rick?

## For Information: Improving Business Competitiveness One-Year Report

**Hon. R. Thorpe:** Thank you, Premier.

When the Ministry of Competition, Science and Enterprise was created on June 5 last year, we were given specific tasks to improve the competitiveness in British Columbia. We made a new-era commitment to eliminate all subsidies to business. When government picks winners and losers by providing businesses with subsidies, we are not improving competitiveness in British Columbia.

In our New Era document we also committed to eliminating interprovincial trade barriers in Canada. British Columbia believes in fair and open trade so our entrepreneurs and businesses can compete and win. As British Columbia is a free trader with the world, we must stand for free trade within Canada.

In the Premier's letter to the ministers, my ministry was also tasked with another item to improve the competitiveness of British Columbia: reviewing the fees and licences charged by government. Our government believes in a very competitive tax policy. Our government also believes that reducing the cost of doing business in British Columbia is a must. We must remove the excessive costs imposed by government. Our ministry has been working on these commitments.

Now I'll update you on the actions on these key objectives: the elimination of subsidies, the elimination of interprovincial trade barriers, and a review of fees and licences. At the open cabinet meeting of August 15 last year, approval was given for the seven principles which should govern our review of government programs for business subsidies. Based on our principles, we reviewed all government programs for potential subsidies.

At the January 16 open cabinet meeting of this year, we presented our first review and our recommendations for the elimination of programs that were deemed to be subsidies to business. Twenty-two subsidies were eliminated. Today I would like to report that the following business subsidy has been eliminated as well. This is from my ministry. It's the market assessment of research and technology.

In total, we've eliminated 23 programs totalling \$33 million in direct funding per year. That does not take into account the writing-off of loans, the making of loans, and, as we heard earlier, the excessive business subsidy of Skeena Cellulose.

At the January 16 open cabinet meeting, our ministry committed to reviewing funding to



industry organizations through our business subsidy lens. Our review found, based on our principles, that this funding did not constitute a subsidy to business.

Our final review was to examine venture capital credits, tax credits, insofar as the issue of fairness among these programs is concerned. As you are aware, the existing situation at the time of our review with respect to labour-sponsored funds did constitute a business subsidy.

We subsequently passed legislation enabling competition in the labour-sponsored funds sector. Our request for a proposal for competition in this sector ended last Friday. Our ministry is now reviewing the proposals that we received. We were very, very pleased with the level of interest in investing and wanting to do business in British Columbia, and we expect to make an announcement in this area in early September.

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Our ministry has also established a process whereby all new programs established by government must be run through the business subsidy lens. If the program violates one of our business subsidy principles, the program will not be recommended for approval. Mr. Premier, I am pleased to say that our new-era commitment to eliminate government subsidies to businesses that give some companies an unfair advantage over their competitors has been completed.

In looking at the elimination of interprovincial trade barriers, in our new-era plan we committed to being a Canadian leader in reducing barriers to interprovincial trade. In the past, the former government of British Columbia was one of the main obstacles in reducing barriers to interprovincial trade. Our government made a new-era commitment to remove these barriers to increase opportunities for our businesses to compete and succeed. British Columbia believes in competition because we know that British Columbians can compete successfully anywhere in the world.

Last summer the Premier wrote the Prime Minister and all other Premiers notifying them of British Columbia's intention to be fully compliant with the agreement on internal trade by March 31 of this year. In eight short months, through the efforts of very focused public service staff, we were able to be in full compliance with our new-era commitment. However, there still is work to do across the country. As you can see from the slide, only British Columbia and Alberta are fully in compliance with the agreement on internal trade. Our ministry is working with Alberta to find ways to improve the competitiveness

of our businesses within each other's provinces. Our ministry is also leading on the federal level to continue to push for the elimination of trade barriers in other provinces so that our businesses here in British Columbia can compete fairly and openly across Canada. British Columbia is and will remain committed to free and open trade across Canada and around the world.

Looking at our review of fees and licences, in June of 2001 the Premier tasked our ministry with a review of all government fees and licences. Over the past year my ministry staff have worked with all of the government ministries to review fees and licences. The seven criteria for the review were and are simplicity, competitiveness, public interest and government role, efficiency and effectiveness, appropriate amount and rate, legal consideration and the business case.

Tied into our deregulation initiative, fees and licences that are very similar in nature are being consolidated wherever possible into one fee, thereby reducing the paperwork and administration costs. We also examined our fees in comparison to other jurisdictions to ensure that costs charged to British Columbians are competitive. To date, our ministry has reviewed 2,854 fees and licences across government. As a result of the review, 955 fees and licences will be eliminated - a 33 percent reduction. This results in annualized savings of over \$18 million when fully implemented. In addition, there are 1,000 fees and licences currently under our review. We expect there will be even more fees and licences eliminated. The result in British Columbia is that businesses will receive reduced costs, a more competitive business climate and the opportunity to create more jobs.

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Our ministry has also developed a policy process whereby all new proposed fees or licences must satisfy the seven criteria established in the review before the fee or licence will be approved. Our government is committed to streamlining fees and licences and making it easier and more cost-effective to do business in British Columbia.

**[10:30]**

In the Solicitor General's area, we found in our fee review.... The Solicitor General actually found in the combined fee review that there were a number of fees charged to entrepreneurs and businesses in the horse-racing industry. Some of these people were paying up to 50 different fees. Many of these fees cost only a dollar or two each; however, it cost approximately \$20 to process each fee. That was simply ridiculous. It

was wasted time for business and increased their costs unnecessarily.

Mr. Premier, making British Columbia more competitive is critical to economic growth and private sector job creation.

The other very important commitment we have made is the cutting of red tape by one-third in three years. There are 403,733 regulatory requirements imposed on British Columbians. This amounts to a hidden tax of some \$5 billion to \$6 billion a year on our residents and our businesses. By cutting red tape and reducing regulation, we'll reduce the cost of doing business and make British Columbia a better place to do business while protecting public health, safety and the environment.

Our regulatory targets going forward for the current year are a reduction of 12 percent, or 44,448 regulations; the following year, a target of 60,560; and in the final year of our three-year program, a reduction of 24,225.

Our new-era commitment is a bold commitment, and it is a commitment our government is aggressively pursuing. My colleague the Minister of State for Deregulation will be releasing his second quarterly report later this week.

Mr. Premier, I believe the actions our government has taken through these programs are improving business competitiveness in British Columbia. We are committed to cutting red tape by one-third, reducing fees and licences, being a free trader and ending subsidies to business. These four approaches combined are making British Columbia more competitive, open for business, with the result being a stronger economy and the creation of private sector jobs.

In closing, I would like to take this opportunity to thank the staff in my ministry and the staff across government who have worked tirelessly in pursuing our new-era commitments to British Columbia. Mr. Premier, that concludes my presentation.

**Hon. G. Campbell:** Thanks, Rick.

Any questions? Okay. We're making progress, and thank you for that.

I just wanted to do one last brief thing. Next week there will be the annual Premiers' conference. I intend to focus on health care. The federal government continues to be part of the problem with health care as opposed to part of the solution.

We'll have the Premiers' Council on Canadian Health Awareness up and running

following that. I think it's a very important initiative the Premiers have taken - where all of the provinces share in making sure that Canadians understand the facts about health care, what's taking place, what the costs we're confronted with are and what the opportunities we're confronted with are. We are at work currently with, basically, a provincial network that will allow us to manage some of the costs we face in health care more effectively. It's still off, but I think there is a willingness to do that, particularly with regard to drug testing and drug efficacy across the country. There's no place where that is not a substantial and significant problem.

We'll also be talking about trade. Softwood lumber is clearly an enormous issue for British Columbia and for Canada. Agriculture protectionism in the United States is also a major issue for our prairie colleagues across the country, and we will be focusing on that and how the federal government must respond to the American challenges to open and free access for our products across the borders.

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I'm hopeful that coming out of the conference will be a common statement from the Premiers on health care so that we continue the progress we've made over the last year. I do think there has been progress made in terms of building public literacy with regard to this. The challenge I think we face is that there are a number of reports out on health care, as you know. I have heard some of Mr. Romanow's musings with regard to health care. It's interesting that when he was a Premier, health care was not sustainable in the current form, but now that he's working on behalf of the federal government, he seems to be thinking it is. Obviously, he's not looking at the costs. I think the challenge we face is to remind both Mr. Romanow and the federal government that there is one taxpayer out there. The dollars that the federal government takes, the dollars that the provincial government or local governments or regional governments take, are all coming out of the same taxpayers' pockets.

There is, I think, substantial evidence that Canadians expect the federal government to be a contributor to the health care solutions so that we can create the sustainability and dependability that people require in the health care system. The Premiers have been united on that. They're going to continue to pursue that as we go through this next conference. I think it's important to us in British Columbia and to the people we serve, so I wanted to give you a quick update with regard to that. I'll be there, I think, next week, and then I'll be able to come back and report out on that.

The meeting is now adjourned. Thank you.

The cabinet adjourned at 10:35 a.m.

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