



**TRANSCRIPT OF THE
OPEN CABINET MEETING**

THURSDAY, FEBRUARY 7, 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
Attorney General and Minister Responsible for Treaty
Negotiations
Minister of Children and Family Development
Minister of State for Early Childhood Development
Minister of Community, Aboriginal and Women's Services
Minister of State for Community Charter
Minister of State for Women's Equality
Minister of Competition, Science and Enterprise
Minister of State for Deregulation
Minister of Energy and Mines
Minister of Finance
Minister of Forests
Minister of Health Planning
Minister of Health Services
Minister of State for Mental Health
Minister of State for Intermediate, Long Term and Home
Care
Minister of Human Resources
Minister of Management Services
Minister of Provincial Revenue
Minister of Public Safety and Solicitor General
Minister of Skills Development and Labour
Minister of Sustainable Resource Management
Minister of Transportation
Minister of Water, Land and Air Protection

Hon. Gordon Campbell
Hon Greg Halsey-Brandt
Hon. Christy Clark
Hon. Shirley Bond
Hon. John van Dongen
Hon. Geoff Plant
Hob. Gordon Hogg
Hon. Linda Reid
Hon. George Abbott
Hon. Ted Nebbeling
Hon. Lynn Stephens
Hon. Rick Thorpe
Hon. Kevin Falcon
Hon. Richard Neufeld
Hon. Gary Collins
Hon. Michael de Jong
Hon. Sindi Hawkins
Hon. Colin Hansen
Hon. Gulzar S, Cheema
Hon. Katherine Whittred
Hon. Murray Coell
Hon. Sandy Santori
Hon. Bill Barisoff
Hon. Rich Coleman
Hon. Graham P. Bruce
Hon. Stan Hagen
Hon. Judith Reid
Hon. Joyce Murray

THURSDAY, FEBRUARY 7, 2002

The cabinet met at 9:04 a.m.

Opening Remarks

Hon. G. Campbell: Good morning. Welcome to yet another open cabinet meeting. Let me just point out that this is a very important time for all of us, obviously, in British Columbia. It's a very important time for the government. We will have a throne speech and the opening of a new legislative session next Tuesday. A week from Tuesday we'll have our first full budget, on February 19.

Last month, when you all outlined your three-year service plans aimed at restoring sound fiscal management in the province, we had an opportunity to share with people all over B.C. the direction we intend to take to try and restore the kind of foundation for prosperity that is going to be essential if we're going to have the kind of future British Columbians deserve.

[9:05]

I want everyone to recognize today - and I'm sure you will - that we are facing huge fiscal challenges in our province. Not only the major structural deficits that we inherited from the previous government, but obviously the events of September 11 have caused serious damage in our economic outlooks. The tourism industry has been hurt significantly. We continue to work on cross-border trade and transportation.

I had the opportunity to meet with a number of federal ministers in New York last week and pointed out that that was a top priority for us in British Columbia - for the flow of goods and services to move smoothly across that border. I also had a chance to meet with the president of the U.S. Chamber of Commerce. He was very supportive of the initiatives we've undertaken in the province. We intend to continue to work not just in the province of British Columbia but, I'm sure, in provinces along the 49th parallel to make sure that the flow of goods and services takes place for the benefit of populations on both sides of the border.

It is something that we continue to push. The ministers are continuing to push it. I know that the federal ministers - Minister Manley, Minister Martin, Minister Rock - and the Prime Minister all are continuing to push it with the federal jurisdiction. So I think we have to be vigilant and continuing in our efforts to try and make sure that border becomes open.

The tourism industry, particularly, has mentioned that the development of the Nexus project, which is a technology project, will help the flow of people back and forth across the border and is something that we have to push for. We have asked the federal governments on both sides of the border to allow us to preplan, pre-prepare and prelist the people who might take advantage of that process so that as soon as the equipment is ready we can implement it and push it ahead.

The challenges we face are the result of more than just the border crossing, but I think there are significant issues that have arisen as a result of the events of September 11. I can tell you, coming back from the World Economic Forum in New York, there isn't an economy in the world that isn't struggling with those events and trying to discover how they'll impact on their economies.

Today Gary is going to be providing a report to you which will outline where we stand today, what the situation is today, and I think it will be a sobering report, to say the least. But I think it's something that we all have to know and face up to, if we're going to actually meet the challenges that are ahead of us. I can tell you also that during my time at the World Economic Forum I did have an opportunity to meet with a number of investment bankers. I met with people in the energy field. I met with people who had significant contributions to make with regard to the delivery of health services, I think. All of them recognize the difficult time that we're facing in the province. They do recognize that we have a plan. I think it's a tribute to the Finance minister that he has done as much work as he has over the last months to keep people up to date. There are no surprises in what we're doing, but in fact there is encouragement for what we're doing. There is a general understanding that we're going to have to carry on. We have a plan, and our task now is to implement that plan as we go through the years ahead.

Unfortunately, our largest single trade challenge, which is not something that is in British Columbia's hands alone to deal with - the softwood lumber dispute - continues to lag our hopes for resolution. You'll recall that last fall Governor Racicot, who is a special envoy appointed by the president to try and move this to resolution, came to British Columbia. He said two things specifically to me. Firstly, this was not an issue of access; this was not an issue of markets. It was a policy-based issue. We took him at his word. Secondly, he felt that we could have this matter resolved with a strong proposal back across the table from the American government by the middle of December. That has not taken place. That was two months ago, and today we still await a concrete American response.

The Minister of Forests, Mike de Jong, took a strong stand with regard to this on Tuesday. I had a conversation yesterday with the Prime Minister with regard to softwood as well as some other matters. The Prime Minister is seized of this matter, as is the entire government. The Minister of Finance will be meeting with the Secretary of Commerce this weekend. The Prime Minister's Office has been in direct contact with the White House. The Prime Minister, at this point, expects to be talking with President Bush next week. This is clearly something that is undermining a long-term and stable trade relationship between Canada and the United States. We are going to continue to push for its resolution, and we are going to continue to push as one country with ten provinces who are working together for resolution.

[9:10]

I think you should be aware that the Americans are doing everything they can to divide the provinces. They are trying - at least the industry is trying - a divide-and-conquer strategy. That will not work. The federal government has been consistent - that it intends to speak for one Canada. It has been insistent that the provinces come together at the table and work together, so we can move forward to establish the open access to American markets that we deserve and that is rightfully ours.

We intend to do whatever we can to hold the Americans to their word. It's critical that we do that. It's critical not just to British Columbia but to the country. It's critical to thousands of working families in the forest industry. I just wanted you to know that today Mike is speaking to the Western Silvicultural Association, and that's why he's not at cabinet. He will be going to Ottawa this week and meeting with other provincial ministers, as well as Minister Pettigrew, to push for a more rapid resolution to this.

We know that as we move ahead, there are going to be some more difficult times, but I have confidence in our industry and in the proposals that we have put forward. I have confidence that they will strengthen our industry and that they put us on an even stronger footing, should we have to follow the litigative route with the United States.

It's also important to note that our economic prosperity in the province is dependent on providing people with excellent public services, and that's what we intend to do. We had a number of visitors yesterday from the student population of British Columbia. A number of people in advanced education are concerned about what's taking place. We in this government have committed to increasing access to post-secondary education. We're working to do that.

Today we're going to hear from the Minister of Advanced Education on the results of the work that's been done on Tech B.C. That's going to be a critical matter not just for the students of Surrey but for the community of Surrey, and she's going to be asking for some direction from us with regard to that.

We're also going to be discussing ways to improve public services in the administrative justice agencies that we have in the province. Geoff started the administrative justice review project last July. Today there are over 60 different administrative justice agencies in B.C., and they obviously have a huge impact on people's lives. Geoff is going to be giving us an update with regard to that. He will present the cabinet with a number of the changes which have been recommended and implemented so far.

We have a full agenda this morning, and it starts with the Minister of Finance - Gary.

For Information: Fiscal Update

Hon. G. Collins: Thank you, Premier. I want to give people today a sense of where the province and our fiscal situation is headed in the next three years.

On taking office and taking this position as Minister of Finance, my position - my philosophy - has been to try and put as much information as possible before the people of the province as early as we can so that they understand the challenges we face as a province and the challenges that they face as citizens of British Columbia. This is the third or fourth presentation I've made to open cabinet on the status of our fiscal situation and our economic situation. I hope to continue to do that in the months and years ahead as well, to keep people as informed as possible of the challenges that we face.

We've been saying it for some time, but it's quite clear that what we inherited here in British Columbia after a decade of NDP administration was a mess. It's only become clear to us even in

the last week or so just how significant the erosion of our economic base has been here in British Columbia and some of the challenges we face to get ourselves back to where British Columbia used to be, and where I think most British Columbians think we still are, and that is a very wealthy "have" province.

If you look at the first chart that I've got in your package there, you can see what's happened to British Columbia over the last decade relative to the rest of the country. This is the economic layout of what's happened in B.C. over the last decade. The figures they're using here are real GDP per person. What that means is that you take the size of the whole economy compared to the number of people who live here, and it's usually a pretty good indicator of the wealth of the province, our ability to provide good jobs to people and to pay for public services and to service our communities.

If you look at where we started in 1990, British Columbia was well above the national average and just slightly below Ontario. Alberta was obviously higher, given their oil and gas, and they remain there.

[9:15]

What has happened over the last decade has been a steady but constant erosion of British Columbia's ability to service the people of this province. Our economy has lagged behind every other jurisdiction in Canada for the latter part of the decade. Certainly, if you look at the figures, you can see that by the end of the decade, British Columbia was substantially below the national average for the size of our economy per the number of people that live in our province.

That's why - and we heard this prior to the election and over the last few years - people were starting to say they're working harder all the time but don't seem to be getting any further ahead. While all of this is economic figures and calculations, I think the people of British Columbia have a pretty good sense of what has been happening over the last decade. This just puts it into numbers and visually on a slide.

I have the distinct displeasure today of announcing that British Columbia in the year 1999-2000 became, by all indications at this point, a have-not province. It takes the federal government some time to crunch these numbers, and the latest numbers that our people in the Ministry of Finance have for us is that for the first time in the history of British Columbia, in the year 1999-2000, British Columbia became eligible for equalization payments from other provinces in the country.

That's not good news. What people have felt intuitively over the last decade has become a reality. We don't know for sure what the numbers are for 2000-01 or 2001-02, the fiscal year we're in right now. In that intervening period from 1999-2000 right through to the early part of this year, there was a fairly significant revenue spike for government as a result of energy resources.

The electricity crisis in California drove energy costs through the roof - electricity costs as well as natural gas - and that provided a windfall revenue for British Columbia that allowed us, I think, to paper over what you can see from this slide has been a longtime trend, a real erosion and decline in British Columbia's economy. Effective 1999-2000, all indications at this point are that British Columbia became a have-not province and may well have stayed that way or slightly above through the last number of years. We'll have to see those numbers as we go forward.

It just gives you a sense that what people were feeling over the last decade has become a reality. As our economy has underperformed the rest of the country significantly, it has eroded our ability to generate revenues to service what is a package of services to the public that's amongst the highest in the country.

We have by far the highest wage and benefits package for our public sector employees. We have some of the most expensive education systems and some of the most expensive health care delivery, and British Columbians have been accustomed to having a very high standard of service from their government.

As the economy has eroded over the last decade as a result of high taxes, an incredibly hostile business climate and a regulatory burden that has been really punishing to people wanting to invest and create jobs here in British Columbia, we've seen an erosion of that to the point where British Columbia in '99-2000 crossed that line and became a have-not province. Our job as government is to try and put it back in shape.

If you look at one of the key items that was driving that decline over the last decade, it was really a punitive taxation structure both for individual British Columbians from the bottom of the scale to the

top of the scale and for business investment here in B.C. We need that business investment in order to create jobs for people.

If you look at this slide, you can see that the top marginal income tax rate for somebody here in British Columbia in the year 2000, the year we started to slip below the rest of the country and become a have-not province, was 51.3 percent. In Alberta, it was 43.7 percent, eight full points, pretty much, of difference.

That makes people have different thoughts about being here, investing here and living here. I'll show you in a moment the exodus of people we've seen over the last number of years to the province next door, not to mention the number of people who left B.C. to go all the way to Ontario. I think that probably everybody in this room can think of a friend or relative who has had to do that over the last number of years.

You can also see on the corporate income tax rate that we were amongst the highest in the country, certainly higher than Alberta and Ontario. The corporate capital tax, which was something the NDP brought in right at the beginning of their mandate, sent a very negative message to investors about British Columbia, particularly the Asian investors who had come to look very fondly on British Columbia as a place to invest.

[9:20]

The concept of taxing your investment before it generated one dollar of profit or revenue or created one job is something that was extremely foreign to them and was a very significant red flag to people trying to come from other countries on the Asian Rim to invest in British Columbia.

I spoke a moment ago about the exodus of people from British Columbia, and I think when people feel intuitively that they're working harder and not getting any further ahead, they find a place where they can work hard and get ahead. That's exactly what's been happening for the last little while.

The diagram before you shows what's happened from 1998 to the third quarter of 2001 - really the present. You can see that British Columbia lost almost 50,000 citizens, who picked up from British Columbia and moved to Alberta. That's a net number. A few probably came, but the vast majority here turned around and left B.C. and went to Alberta, where they could get ahead more readily. About 8,000 people in that period of time picked up and moved all the way to Ontario. You can see some small inflows from some of the other small provinces but certainly a significant outflow from British Columbia to both Alberta and Ontario, where their investment climate, their job opportunities and the ability to raise a family and actually leave a little money in your jeans at the end of the month was far better.

I spoke a moment ago about investment. This is private sector investment. These are decisions made by literally thousands of small, medium and large businesses about where they want to put their dollars, where they think they can get the best return, where they can create jobs, where they can grow their businesses and where they can create opportunities for people.

If you look at this slide, it's really astounding to see how far British Columbia, on the far right corner there, fell below the national average, certainly compared to Alberta. Even in Newfoundland - or even in Prince Edward Island, for that matter - the rate of growth of private sector capital.... Here in B.C., private sector investment has been dramatically lower than everywhere else. That's a key indicator of what we saw before. This is what drives what we saw in that very first slide, when we saw British Columbia lagging behind the rest of the country in economic growth.

Economic growth isn't some figure; it's what gives people jobs. It's what gives people opportunities. It's what makes young people want to stay here or come here to build their future. We need to have better private sector investment if we're going to be able to get ourselves out of this have-not status back to where we used to be, which was a contributor to Canada and a province where people came for opportunities.

Throughout that period of time, every other province in the country was wrestling with their challenges. Some of them had far bigger challenges than British Columbia now faces. If you think of the resources that a province like Newfoundland or Prince Edward Island or Nova Scotia has relative to the opportunities and the resources and the talented people that British Columbia has.... Through that period of time, those provinces and every other province in the country were wrestling their debts down, balancing their budgets, paying down their debts, lowering their taxes, getting their regulatory systems in line, creating inviting business climates where people could come and

invest and create jobs and opportunities for the people. As they did that, as their economies grew and they were able to service their citizens, they found they had a little bit of money left over in the surplus and were actually able to pay down their debts as well.

You can see that every other province in the country over this period, the last little period in particular - 1998, 2001, 2002 - was able to reduce their debt-to-GDP ratio. They did that two ways. They did it by balancing their budgets and paying down debt. They also did it by growing their economy. It requires both of those things to happen if you're going to get your debt under control so you don't fob it off on future generations.

As a good B.C. analysis here, you can see the B.C. salmon swimming upstream, going in exactly the opposite direction. Everybody, I think, understands that that's not sustainable. That's how you become a have-not province. That's how you start to see an erosion in the level of services the government is able to provide to its citizens. For the same period, when every other province in the country was growing their economy and paying down their debt, British Columbia was headed in the opposite direction.

[9:25]

I spoke earlier about how the energy spike had sort of papered over what was a real, underlying long-term erosion in British Columbia's economy. This slide, while it looks pretty squiggly, starts to explain what's happened in some of the decisions the previous government, the NDP government, made in the last few years of its mandate. You can see the revenue - the solid, light-coloured line - ramping up pretty dramatically from '98-99 through to 2000-01, primarily due to energy revenues. In the last year particularly, 2000-01, you can see the windfall revenues there of about \$1.5 billion of revenue that government didn't expect. It just appeared because of the crisis down in California.

A prudent government, one that had the best long-term interests of the people of the province at heart rather than their electoral interests at heart, would have made different decisions. What they would have done was seen that the spending, which was moving along the dotted line at a rate that was at least reasonably sustainable at that point.... They could have taken that windfall, paid down some debt and kept their spending under control, knowing full well that the revenue spike was probably going to come down a little bit in the future - taken advantage of that lucky strike, so to speak, to start to pay down some of their debt or perhaps lower taxes or do some other things to make British Columbia more competitive.

Instead, what they did in 2000-01, as they headed into an election, was ramp up spending at a skyrocketing rate, something that was clearly unsustainable. Now you can see what happens when those energy revenues disappear. The revenue line heads downwards, the spending line heads upwards, and for this year, as I reported in the second quarterly report, British Columbia is on track for a deficit this year of \$3.4 billion, a fairly rapid change as a result of a dramatic ramp-up in spending by the previous government and a fairly dramatic erosion of those energy revenue streams as well.

You all have heard the previous government talk about how they left us with a balanced budget, and everything was happy here in B.C. I've already shown you, in some earlier slides, the erosion in our economic capacity to service our citizens. I want to remind everybody what the fiscal review panel said in July. They said that for this year, in 2001-02, prior to any erosion of those energy revenues, etc., and if you take out that one-time pension adjustment - which really didn't involve any cash; it was just an accounting change - we had a deficit of about \$300 million. It's not huge, but it's not balanced. There's no question of that.

The real challenge, though, is in the outer years, 2002-03, that the fiscal panel looked at. You'll recall they showed that there were unfunded cost pressures in 2002-03 of almost \$500 million - almost half a billion dollars - and there was no explanation in the budget as to how they were going to pay for that at all. In fact, the next year gets even worse, 2003-04, where there was \$907 million of unfunded pressure on the budget - pressure pushing up that they're likely to spend but no revenue to match it. That's almost a billion dollars in 2003-04. The fiscal review panel also made comment that the energy price forecasts in those outer years were considerably optimistic, and I think the panel's been proven correct, probably even sooner than they thought.

Let's talk a little bit about what's changed since June 5, when we took office. The Toronto-Dominion Bank gave a public report on October 1. They'd looked at September 11 and were beginning to see the first fallout from that. Certainly a slowing global and North American economy were starting to come to the forefront, and energy prices had already started to come down. They put together a forecast for British Columbia looking forward for this year, a GDP growth rate of 1.7 percent. That

has deteriorated since then. They forecast for 2002, 2.1 percent - that has deteriorated since then - and a forecast for 2003 of 3.5 percent growth and 2004 of 3.1 percent growth. They also forecast a deficit of \$3.3 billion this year. It's going to be about \$3.4 billion - so those numbers are pretty even - and a debt-to-GDP ratio, that's the salmon chart I talked about before, of 21.3 percent.

[9:30]

For next year, 2002-03, they forecast a deficit of almost \$4 billion - \$3.9 billion. Again, that's before all those energy revenues impacted and we began to see the depth of the decline in the U.S. and North American economy. They showed a debt-to-GDP ratio of 23.9 percent - again, that salmon swimming upstream. In 2003 they had a deficit along the same line of about \$3.8 billion and in 2004 a deficit figure of \$3.8 billion. You can see what happens to that salmon; it just keeps swimming further and further upstream, to the point where it's about 27.4 percent.

This is a report that was issued by the Toronto-Dominion Bank in October. Some of those energy numbers have deteriorated further, and certainly the North American economy has deteriorated further since then. The 27.4 number starts to get British Columbia into some trouble. You'll certainly be able to see that as that salmon swims upstream, other provinces look more and more attractive as places for people to invest.

Just to run through the litany of challenges that have happened since June 5 that we all face as a province, over a billion dollars in energy revenues disappeared from the budget this year relative to what the NDP forecast in March.

A global economic slowdown. I don't have to tell anybody about that; we've all experienced it. The softwood lumber dispute has become, I would say, more entrenched as opposed to less entrenched. I think that earlier, people were optimistic that we'd be able to come to some sort of an early settlement. That now looks unlikely. I'll comment further on that when I talk about our forecasts for the years ahead.

I have made a very conservative assumption on the resolution of the softwood lumber dispute in the years ahead. I know that Mike and the people in the Ministry of Forests are perhaps more optimistic and certainly very determined to get a solution as soon as possible, but I, at least, need to operate on the assumption that we won't see any resolution to the softwood lumber dispute anytime in the near future. If we do, then that's great. That's a bonus. But if we don't, then at least we're prepared for it.

September 11 - the impact on investor and consumer confidence. Tourism has been impacted by that in British Columbia, certainly. We also saw a \$300 million evaporation, I would say, of revenue streams from the Crown corporations, whether it was ICBC - our people finally getting in and seeing what was in ICBC relative to what we've been told by the previous government - whether it was Hydro revenues being impacted by some of those energy price declines, or whether it was some of the other Crown corporations. We saw about a \$300 million reduction in Crown corporations' contributions to government.

As well, that \$1.4 billion one-time pension accounting adjustment this year won't be there next year. It's not the kind of thing that repeats year after year. You make the correction once. As I said, there's no real cash involved. You make the correction once, and then it should be done. We don't anticipate, obviously, any of that \$1.4 billion windfall going forward in the years ahead.

There was also, upon taking office, some \$222 million in unfunded spending. You'll recall that in the July update, the minibudget that we brought forward, we put some more money back into the Ministry of Health to help pay for Pharmacare, which the NDP forecasted would grow at 2 percent. It's never grown at 2 percent. They hadn't allowed for that in the budget at all. We put some money back in there to return that rate to a more historical level.

There's also been some environmental cleanup issues. I know that the Attorney General is under pressure on the budget for the Air-India trial, amongst other things that we've all faced.

The hundreds of millions of dollars the previous government put into Skeena Cellulose.... It's pretty clear to us we won't be recouping much, if any, of that at all for the taxpayers of the province, so we've had to take some fairly significant write-downs on Skeena Cellulose.

You'll recall, when Nick Geer, the new chair of ICBC, was here, he spoke about a \$100 million write-down on a \$250 million project in Surrey that ICBC had embarked upon. That may have to go

further, but certainly at this point it's at least \$100 million. We'll see what the final numbers are from ICBC.

As many of you have discovered, as a government we have some pretty archaic computer and management systems which make it very difficult to try and restructure government and make some big changes in the short term. I understand some of our systems are still in COBOL and are over 20 years old. That's going to be a challenge for us as we try and grapple with some of the new changes we want to put into place.

Also, there are some very unsustainable and over-burdensome regulatory systems in forestry, land tenure, water rentals, etc., which need to be reformed and which are inhibitors of our ability to move forward and get our economy performing again.

[9:35]

Of course, everybody remembers a week and a half ago, when we went into the Legislature to fix some sweetheart labour deals in the public sector which were driving costs up dramatically and really hampering any ability to try and restructure the system and get better patient care and better student services down to patients and students. We were getting hung up in those agreements and side accords and special agreements that the previous Premier had put in place.

We went into the Legislature and fixed that. As we said at the time, the savings to government from that legislative change is probably in the neighbourhood of \$900 million by 2004-2005, and that's pressure and money that we can now put back into providing services instead of having an overly rigid structure.

Certainly, we face some big challenges. People in British Columbia have told us repeatedly as a government and as an opposition that they want to have a health care system that they can count on, and that means highly trained, highly skilled professionals. We spoke during the nurses' dispute, earlier in our term, about the need to attract and retain highly skilled nurses, and we took action to provide them with wage increases to make sure that we didn't lose them. I think every indication we have from the Ministers of Health is that we're not losing them. We're actually doing fairly well in keeping and retaining our nurses.

We also have heard from people that they want to have the physicians in rural areas and highly skilled people out there to provide the service when they need it. There are many other health care professionals as well.

You'll see in the health care sector, for next year, that we're facing fiscal pressures - just from wage increases alone - of \$325 million or more, and we also have an arbitration out there with the physicians. In the Education system, we see \$79 million worth of pressure; Advanced Education, \$39 million worth of pressure. In the health care sector, I think people have to understand that if we are going to retain and attract those highly skilled professionals, we are going to have to pay for it. We simply cannot continue to assume that the money is going to come from nowhere to pay for those people.

I want to announce today that the government is going to link some of those wage pressures that we see with MSP premiums. There was certainly a discussion coming out of the Premiers conference in the last little while about some of the pressures that people are under, and effective April 1 of this year, single people paying MSP premiums will see their rates go from \$36, up \$18, to \$54 a month; couples will see their rates go from \$64 a month, up \$32, to \$96 a month; and, families will see their rates go from \$72, up \$36 a month, to \$108 a month. There will be 200,000 British Columbians who will actually pay less, because we are going to go in there and make adjustments at the low-income level to insulate people that can't afford it from these increases.

Just to put this in perspective: those are significant increases for MSP premiums. They will barely cover - and maybe not even cover - the wage increases for the people working in the health care sector for this year. We still need to hear from the arbitrator around the physicians, but this will fund the government's offer that's on the table. If we get a resolution that's significantly higher than that, I don't know where government is going to go to find the money to pay for it.

I just want to put that out there today so people understand the pressures that we're under as a government and the pressures we're under in order to attract and retain highly skilled people in our health care sector. That is going to cost money in British Columbia; it's going to cost people - the citizens of British Columbia - if we're going to continue to retain and attract those people.

It's not all bad news out there, though. I don't want to give people the impression that there's no good news, because there is some. In consumer spending, retail sales are up this year, which is encouraging. There's significant positive economic and fiscal news out there for individual British Columbians in the form of record-low interest rates, and as well, fairly significant tax relief, both federal and provincial.

Consumers - actually, right across North America, for that matter - have declined to participate in this economic slowdown. In fact, we're seeing retail sales.... I think December was surprisingly better than the retail sector expected, and so far we see no sign of decline in consumer confidence in their desire to get out there and invest in the economy and invest in their families and their communities.

[9:40]

Housing sales are up; housing starts are up in British Columbia. We have also seen - just anecdotally - evidence from here in Victoria and in Vancouver that the cruise ship industry is going to see a fairly significant upturn this year, which is some good news on the tourism side. Though I don't have it all confirmed, it looks as though the cruise ship industry is pulling some of their ships out of the areas that tourists would find perhaps less comfortable to go to right now - perhaps the Mediterranean and other places - and putting them on the Alaska route. I think they see a bigger demand there. That will help the tourism sector, which is under some pressure here in B.C.

Some other things that are good for British Columbia. Some good news is that this government, and you as ministers, have been exceptional at keeping your costs and budgets under control and coming in on budget. We now expect, for the first time ever, the Ministry of Health, the core ministry itself, to come in on or slightly under budget. I don't think that's ever happened in British Columbia before.

You'll recall at the beginning of the year that we had collectively, as ministers, about \$800 million of spending pressures in our ministries. Those were areas where we were likely to go over budget. We have managed that down to the point where I think every minister is likely to come in on or slightly under budget, with the exception of the health care authorities that are outside the core Ministry of Health. It looks like they still have some pressure. At this point it looks as though we'll be able to manage that within contingencies.

For the first time since I've been here, there will not be a special warrant or a supplemental estimate for the Ministry of Health. I think that's a huge, huge credit to the work that Colin and Sindi and the two ministers of state have embarked upon over the last little while to try to get that budget under control. I can tell you that there aren't many provinces in the country where that's happening. A good deal of credit goes to you, Colin, and the rest of you who've worked hard on that. I know people in the ministry worked very hard on that as well.

I know that the Attorney General has some statutory pressures, which I mentioned earlier, which will probably put him slightly over budget, but not by much. The rest of you are really close to the line or just under, so that's some really good news. That's the first time that's happened in a long time in B.C., and I certainly appreciate the work that all of you and your staff have put into doing that. I know you're getting tired of hearing from the Treasury Board people and you're tired of hearing from me, but it shows that you're working hard so that you don't have to hear from us.

There's also some great news. In our last open cabinet meeting we talked a great deal about some of the really positive news out of the energy sector. We were up in Fort St. John. Richard and the cabinet made a decision to put in place a royalty structure for coalbed methane, which will help to build that industry around British Columbia. As well, some of us went up and toured the Ladyfern find in the northeast sector, a huge natural gas find. While prices are low, the volume numbers are going up, and that's really positive as well. I think we have a real future there. Certainly government is looking at whether or not it makes sense environmentally to explore for oil and gas off the northeast coast of British Columbia and whether it can be done in an environmentally responsible and sustainable way. There's still a fair bit of work to be done on that.

Some of the things that we have done in response to try to stop that salmon from swimming upstream and get our fiscal house in order, which is what we were elected to do, and balance our budget by 2004-2005.... We announced the mini service plans, the summaries that you people have all put together, on January 17. The work that we've been doing for the last seven months ? grinding through the ministries, the core review and the budget preparation to put those service plans together - will reduce spending in government by about \$1.9 billion over three years to get us to 2004-2005 without one dollar of reduction in health care or education. In fact, health care will go

up this year with those new MSP premiums. They will be an investment, and the health care budget will go up accordingly. We went into the House and fixed those NDP side accords and special deals, which has allowed us to start to plan and restructure the system and also avoid future costs and put all the dollars into patient care and into students. A great deal more flexibility is there as well.

Mike de Jong, the Minister of Forests, and other ministers are starting to work on forestry reform to make sure we have a competitive, market-based industry that can get out there and continue to compete internationally, as we know it can.

[9:45]

Resource development. I spoke about oil and gas and the mining sector, as well. There are some things in place on the taxation front that will encourage exploration. We also have a really positive story to tell in the high-tech sector with our new competitive tax structure and many other things that Shirley is doing with research and development. I know that other ministers are involved, and the Premier is integrally involved in that as well, so there's some very positive things happening there.

We've also eliminated business subsidies, which helps to put a level playing field. I don't think you can underestimate the message that sends to investors. What it says to them is: "I can go to British Columbia; I can invest. I know what the rules are, and I can compete head-to-head with my competitors. The best investor, the smartest person, the best company, will win, and government won't come in and change the rules - fix it - and pick one company over another." It really is a sense of security for people looking to invest in a province when they understand that that's the way government works.

We introduced real balanced budget legislation, and we're moving toward generally accepted accounting principles by 2004-05. I can tell you the reaction to that amongst the rating agencies and the investors was extremely positive. They get really tired of trying to figure out how governments are hiding money. The fact that we are probably the most transparent government - and certainly will be by 2004-05 - is a real assurance to them that they're getting the straight goods. It's a real assurance to the people of the province, as well, that they're getting the straight goods, because for a long time that wasn't happening. We're trying to be as frank, open and up front with the people as we possibly can about their fiscal state.

The fiscal plan that I will be talking about in a few minutes that gets us to a balanced budget by 2004-05 is based on sustainable economic growth numbers - very conservative estimates. I think it's certainly doable. As well as being political leaders, I think we've stepped up to the plate to play a role ourselves and lead by example, as have all the caucus, with the 5 percent wage rollback. I think it says to British Columbians that we're willing to take some of the pain that we're all going to have to go through in the short term to get our fiscal house in order in a sustainable way.

As well, I know all of you are looking forward to the 20 percent pay reduction you get as ministers effective April 1, and then have to earn back over the next year - as you've done very well this year - to balance your budgets or manage your spending costs, and then as a government, as we all work together to do that as well. Those ministers of state have some key priorities that they're going to have to deliver upon in order to earn back some of their pay as

well. I know that that spousal accountability will kick in even more than the Treasury Board accountability, and all of you will be working doubly hard next year to make sure you don't have to be the first minister to go home and explain a 20 percent pay cut.

Let's talk about where we're headed for the rest of this year and into 2004-05. In the early part of December I met with our Economic Forecast Council, which is made up of 20 independent economists from across British Columbia and Canada, and they put forward numbers for this year and the next few years. This year they forecast economic growth at 0.9 percent, 0.9 percent again in 2002, 3.2 percent in 2003, followed by 3.4 percent in each of the following two years.

We went back to them in January to see if they had any changes. Things had been very volatile. I think they're all getting comfortable that things are settling down now, and they can give us a more predictable forecast. We went back and canvassed them again and asked them if they had any changes. The numbers we had just last month in January were 0.7 percent for this year, 0.7 percent for 2002, 3.0 percent in 2003, 3.3 percent in 2004 and 3.3 percent in 2005 - so slightly down from what they had forecast in December.

The forecast that I'm using in preparing our fiscal plan for 2004-05 is more conservative than that. The numbers I have in for this year are 0.7 percent - we're mostly through this year, so it's pretty easy to start to lock in a pretty close approximation of what that number will be; 0.6 percent for 2002; 2.8 percent for 2003; 3.1 percent for 2004; and 3.0 percent for 2005. That is the basis upon which we are planning our economic growth forecast that gets us to a balanced budget by 2004-05.

Here's where we stand now on the deficit forecast and how we get to zero in 2004-05. This year's budget deficit, as we stated in the quarterly report and prior to that, is a \$3.4 billion number. That's pretty much exactly what the TD Bank's number was.

[9:50]

Next year. Since October, obviously, energy revenues have come down even more. Other pressure in the economy has come down. Some other tax revenues have gone up, but the majority of them have gone down. We are looking, at this point, at a forecast deficit for next year of \$4.4 billion. That is a record deficit for British Columbia. It is not good. It is not acceptable. We have to work extremely hard to get that under control and make sure that we hit our target for 2004-05 to balance the budget.

If it's any reassurance, I want to give people a sense that they can.... In case you're interested, the largest deficit in the history of Alberta was introduced by Ralph Klein - \$3.4 billion. A couple of years later they were able to balance their budget and are now, as you saw, with their fish swimming in the opposite direction, in excellent fiscal shape. The largest deficit ever recorded in Canada, ever, in its history, is \$42 billion, introduced by Paul Martin in 1993. The federal government was able to balance its budget and start to pay down its debt and is now in a far better fiscal state than here in British Columbia.

While that number is daunting, people can see our plan, understand where we're going and know that we have a plan to do what every other province in this country has done, which is to grapple that big deficit to the ground in a sustainable way - not in an imaginary way, for one year, with a huge revenue gain in one year from energy resources, but in a sustainable way - get our spending under control, grow our economy at the same time and watch those two lines come together in a way that we can sustain for years and years ahead.

I want to also draw people's attention to that number, because it includes a \$750 million forecast allowance. That is a buffer. We certainly don't ever plan on spending that. It's there in case we see a big energy decline or some other tax revenue decline. Certainly, for this year the \$3.4 billion forecast includes a forecast allowance as well. We are hoping we don't have to spend all of it, despite the pressure that we've been under on the revenue side.

So 2002-03 includes three-quarters of a billion dollars in that \$4.4 billion as a buffer, a forecast allowance that we hope we don't spend. It also includes about \$230 million of one-time charges as we work through the spending adjustments - for severances, early retirements, building occupancy charges, as we get out of leases that government's currently occupying. Those numbers only occur.... They're one-time charges that year. There'll be smaller ones in the outer years as well, but by 2004-05 they're gone. Those are one-time charges. It's not built into the bed of the spending that launches it forward at a higher rate.

There's about a billion dollars in that \$4.4 billion number that either won't recur or that we won't have to spend, we hope. That just gives you a sense that that number is a conservative number. We are hopeful we don't get there, but that's what's in the budget.

The number for 2003-04 is \$1.8 billion. Then for 2005 it is balanced. This does not include any one-time numbers from asset sales. I know people have asked questions: "What if you sell something - an asset, part of a Crown corporation or something? Are you using those to balance your budget?" We are not. If those come in, that would be helpful, but that's not what we are relying upon to balance our budget by 2004-05.

There are obviously risks to any forecast, both up and down. I want to run through some of those so people understand the challenges that we still face or the opportunities that we may encounter.

If the North American recovery picks up more quickly than we're currently forecasting, that's all to the benefit. If the consumers, however, decide to get into this game and start to retrench, then every jurisdiction in North America is going to be impacted by that. That's a risk that we face as well. Consumer confidence, as I mentioned earlier, though, is still strong. The numbers still look

good. We're hopeful that this recession, this slowdown in North America, will have passed us by before the consumers start to feel too overly pinched by it.

One of the other indicators that we watch to see whether a turnaround is coming is capacity utilization. What that means is.... In the manufacturing sector, for example, they're always producing things; they have an inventory. As economies slow, those inventories tend to expand and grow. Companies tend to take action - downsize, lay people off, shut down their lines - until that surplus starts to evaporate and get used up.

[9:55]

Indications out of the United States are that we're very close to that point and that we may see in the near future, sort of midway through this year, a ramping up in capacity again as people start to gear up their products for demand again. That's something we're going to keep a close eye on.

In his opening comments the Premier spoke about border security and how that affects our trade with the United States. I think all the news since September 11 has actually been positive. The events of September 11 were terrible for that, and anybody trying to get back and forth across the border at that time will understand just what could happen if that becomes a big problem. I think the leadership shown by the Premier in encouraging people to focus on that at the national level as well as in the United States helped lead to the agreement that we saw signed recently, which I think will actually improve the ability to move goods and services across the border. But that's a risk that we have to be mindful of.

The forest sector is obviously under pressure with the softwood lumber dispute. As I mentioned earlier, I have put in place a pretty conservative estimate - certainly more conservative than what the Ministry of Forests believes to be the best-case or most likely scenario. I think I need to do that. I need to plan on it being a long-term problem. I know that the minister, the Premier and all the officials are working very hard to get a settlement there as soon as possible.

The tourism sector has received a bit of a hit. There's some positive news on some sectors of that. We're all hopeful that that rebounds sooner rather than later. If it doesn't, we have a challenge.

The fiscal stimulus - the tax reduction - is a significant amount of money put back into the communities, in people's pockets, for investors. That will have a positive impact.

The investment climate. Some of the work that Kevin Falcon, the Minister of State for Deregulation, is doing, and some of the work that all the other ministers are doing to try and create a better investment climate, will help as well.

We talked about the energy sectors and some of the growth that can happen there.

But there is more to do. We all have to buckle down and focus very hard on growing those economic possibilities, the opportunities to build revenue potential and start to build our economy. We have to have a focus on that. We have to do it in a sustainable way, in a way that doesn't harm our environment but allows our economies to grow in a way that is positive and that starts to get us out of that have-not status into the status we once had, which was as an economic leader in the country.

I know we've got a plan to brand and market British Columbia, to get out there and tell the great story of the things that we've already done, which are impressive when you start looking through the lists of things we've done in a short seven or eight months to get our economy positioned for growth. We need to continue to work on those spending targets and service plans. All we've done so far is to announce them and start to implement them. We have to continue to implement them. It's important that that happens if we're going to hit our target for 2004-2005. For the next 2½ years we have to work very, very hard to make sure we're able to implement the things that we've put in those plans.

We're also doing a review of all the government's Crown assets. The core review for the Crown corporations is underway. We also have to look for opportunities, through public-private partnerships, to build infrastructure in British Columbia to help get our economy going.

What we're facing, what we're hearing from the economists, is that our economy will begin to turn around in about mid-2002. Every indication across North America is that that's where we're headed. That hasn't changed. They've been saying that for a number of months. Indications are that that will happen.

Stronger economic growth is to begin in 2003 through 2006, as the tax cuts also add to the stimulus and the confidence of investors and individual British Columbians that they don't need to leave B.C. in order to keep some money in their pockets. We believe that we'll be able to retain our citizens, that some of our best and our brightest, our highly skilled workers, will stay here, help drive our economy and take the private sector investment to new heights in British Columbia.

We are also certainly going to see lower growth in 2002. Low commodity prices, the tax cuts, as I mentioned, and the low energy revenues will give us a deficit of \$4.4 billion for 2002-2003. But all indications are that it is going to be all up from there. The hard work that you're all doing and the pain that the citizens of British Columbia are facing in this very short term - if indications from every other province in the country are any indication - will serve us well. We have some short-term pain, but in the long run British Columbia is going to get back on track. We're going to grow this province. We're going to improve our economy. It's going to be a great place to invest, to come to live, to stay, to raise your family and create a future for yourself. There are some tough times ahead in the short term, but good days are around the corner if we just keep focused. Thank you very much.

Hon. G. Campbell: Thanks, Gary.

Questions? Rick.

[10:00]

Hon. R. Thorpe: Thank you, Mr. Premier. First of all, Gary, I'd like to thank you very much for keeping British Columbians actually informed on a very timely basis of the challenges we face and also for your very, very hard work on these issues.

I'm personally embarrassed that British Columbia is a have-not province. I was just wondering if you could tell British Columbians and tell us - you talked about it a little bit - what you believe are the key things that have caused us to become a have-not province.

Hon. G. Collins: I don't think it's a secret to anybody. I think there has been good public debate around some of the things that people have been saying were hurtful to our economy. Certainly, over the last five or six years in particular, there was a great deal of public debate about tax rates. Were tax cuts needed? Could we just whistle through the day and hope everything was going to be fine, still having the highest income tax rates in North America, or did we need to take some action to become competitive?

We certainly saw a really hostile climate for investment here in British Columbia. I mean, the relationship between the NDP government and investors was pretty horrific, actually, and we drove a lot of investors out of British Columbia. There was a high amount of distrust. We also saw a regulatory burden that was really proscriptive, that was very burdensome to people. Honest business people just trying to do business here in British Columbia saw a huge regulatory buildup over the last decade, and you know, it's not just business. I know this doesn't have as big an impact on the economy, but non-profits, charity groups, community groups saw a huge ramp-up in the regulatory burden and compliance costs in just trying to exist in British Columbia.

It was not just business that was complaining. It was everybody, even people in the public sector. You know, you'd hear from people in the education sector or the health care sector about the regulatory burden and the administrative burden that government put on them. It was right across our economy, which really dampened our efficiency. It certainly dampened our productivity and made it very difficult for B.C. to grow.

Those aren't secrets. We certainly were ringing the alarm bells for years about what was going on. The previous government didn't seem to think that was a problem. They thought we could just build a wall around British Columbia and continue to grow an economy. It certainly hasn't worked. It's an old expression, but the chickens have come home to roost. Now we've got to struggle to get ourselves out of this hole.

Hon. G. Campbell: Thanks. Any other comments? Greg and then Graham.

Hon. G. Halsey-Brandt: Thank you.

Gary, I was just particularly interested in two of your pages on the forecast, and I just wondered if you could make a comment on the interrelationship between the two.

One is the fiscal forecast 2002. It goes up to 2003-04, where there's a deficit of \$4.4 billion in 2002-2003, and it drops to \$1.8 billion. That, I take it, is the spending cuts we've introduced in the past little while and following that through. Then on the previous page, I think it was, it talks about the GDP for British Columbia going, in your forecast, from 0.6 percent in 2002 to 2.8 percent. That's quite a jump in GDP.

If we just did the cuts, we're not going to make it to a balanced budget. There has to be the economic growth part of it. It looks like about a four-times increase over the year that, in fact, is going to make that. Is it correct that those two things have to go together, and that otherwise, we're not going to get there in the four years?

Hon. G. Collins: That's pretty clear if you look at how other provinces have dealt with this and how, regardless of their political stripe, whether it's the NDP in Saskatchewan or the Tories in Alberta, you can get your fiscal house in order only if you make sure you're spending every dollar you collect in the most efficient way possible and in a way you can afford. You also have to grow the economy.

That's why the tax reduction and the regulatory reform are so important. We could sit here as a province and see virtually flat growth - you know, 0.6 percent or whatever - for the next five or six years, if we wanted to. We could cut and cut and cut. We could go back every year and cut more spending, cut more and more spending, and watch as things just deteriorated more and more - and still never balance our budget.

[10:05]

What you see is that you start to erode your standard of living as a province. You erode the services the people rely upon.

Our problem here in British Columbia over this last little while isn't that our taxes are too low - we've been chastised for bringing in tax reductions - it's that our economy is so weak. There are two things that have to happen here, two sides of the equation, if you're going to be able to balance the budget. One is that you're going to have to get your spending under control and you have to spend more wisely, but you also have to grow the economy.

There are a bunch of things that history and past experience in other places will tell you you have to do to grow your economy. You've got to get your taxes in line, and they have to be competitive. You have to make sure that people know that when they work hard, they can get ahead. You have to have a regulatory regime that protects the public interests but does so in an efficient way and isn't overly burdensome. And you've got to give people a sense that they have a good investment climate, that they have a chance - that if you come here to your province, state, country or whatever, you will be able to invest, you'll be able to get ahead, and you'll be able to build a future for yourself.

Those are all important things. If any one of them is missing, it won't work. You have to have spending reduction, and you have to have economic growth.

Hon. G. Campbell: Thank you.

I've got Graham, Sandy and Colin.

Hon. G. Bruce: Gary, just on your slide there, in respect to investment and the lagging in the 1990s, I guess we're talking about the full ten-year period. I think the little circle at the bottom there around B.C. was a 21.2 percent increase in investment during that period, where the average across the country was 46 percent.

Hon. G. Collins: That's right.

Hon. G. Bruce: When we look at British Columbia, are there specific sectors there? Obviously, this is a huge...that we've got to get turned around. But is this mining and forestry backing away from the province? Is there any one thing, or is it just all the morass that was...?

Hon. G. Collins: It's actually just about everywhere. Certainly, the mining and forestry sectors gave British Columbia a pass over the last little while, the last ten years or so. Normally what happens in the forest sector, as you know, is that it's a boom-and-bust cycle. It's a pretty significant amplitude of a business cycle in forestry. When the forest sector is doing well and they're making big profits,

they like to invest in capital again - new technologies, better environmental systems, more training for their employees. They try and build that in so that when things go down, they're more efficient and they can withstand it. The forest sector normally did that.

In this last cycle, in the early part of the nineties, when the forest sector was doing pretty well, because of a bunch of things the government had done.... The new Forest Practices Code, to quote the previous NDP Minister of Forests, added over a billion dollars of cost at no value. It actually added more than a billion dollars, but some of it had value. But certainly there was over a billion dollars of it that had no value.

That's a billion dollars that could have gone back into improving the training for workers, buying new equipment, computerization, all the neat things that they've been doing - research and development - that make your industry competitive. Instead, they didn't do it. They were busy pushing paper. As well, the message that was sent was: "Take your money elsewhere." So we saw big investment from companies in the rest of Canada - northern Alberta, Saskatchewan, Ontario, Quebec and down in the United States. What we need to do is make sure that we don't make that happen.

I know the previous government talked about how well they were doing in high-tech. It's true that we saw good growth rates in high-tech investment in B.C., but it was about half what it was everywhere else. So, yeah, it was positive, but it wasn't nearly as good as it should have been, given the great universities we have, the research and development that goes on here in British Columbia, the startup companies that we have here. We should have had far greater investment in the high-tech sector. But we didn't, because of our punitive tax structure and the hostile investment climate.

Hon. G. Bruce: Just further to that, on that same slide, we've got Alberta showing.... I think that's about 120 percent, or probably 119 percent, average increase of investment. Having that open cabinet meeting that we did up north in Fort St. John and the talk about how much went to Alberta.... Have we ever been able to really quantify how much of that spike that Alberta received was at the expense of British Columbia?

Hon. G. Collins: That's pretty hard to quantify. It's hard to quantify each investment decision. When people come and invest in your province and open something up, they generally have a press conference and put out a press release and try and get somebody to come and open the facility or something. When they come and look and examine and then go away, they generally don't tell you about it. So it's really hard to know who came and looked and decided to go elsewhere.

Certainly, what we heard from people who managed investments for people, who drew up those numbers and worked on business plans, was that there were a lot of people that crunched the numbers for B.C. and would have liked to come here because of all the natural advantages we have, but just couldn't make it as a business case and went elsewhere.

I think probably a fair bit of that capital investment that went to Alberta could have come to British Columbia if we had been competitive and if we'd had an environment that welcomed it.

[10:10]

Hon. G. Campbell: Just on that, we did have a lot of trouble in our major resource industries. We lost mill investments from major British Columbia companies to Alberta, and they were very clear that they were going because that's where their cost base was reasonable. We've lost substantial market share in our trade into the United States as a result of the previous softwood lumber agreement. We should all understand that other provinces gained significantly, Sweden gained significantly and Russia is now gaining significantly because of the limited trade access that B.C. products had to the United States. We were starting to sell quota instead of lumber. All of those things had a major impact.

The other thing is that I don't think there are many people out there who think that the way to encourage activity is to tax it. We taxed new productive machinery. We taxed machinery and equipment. That was a huge disincentive. In fact, you'd hear from people time and again, "You're taxing me from becoming more competitive; you're taxing me away, taxing away the jobs in British Columbia" - just from that tax on machinery and equipment.

The tax on investment. There was a huge shift in private sector investment coming to British Columbia as a result of the 1992 decision to impose that corporate capital tax. The previous government tried to erode that over time. They sent a very clear message to people that if you

wanted to invest in B.C., we were going to tax you. I think that those things build up over time. We've got to recognize that if you want activity to take place, you don't tax it. If I want you to lose a lot of weight, I'm not going to tax you for every pound you lose. I'm going to encourage you to go out and exercise and eat healthily and all those sorts of things.

That's what we have to do in the economy in British Columbia. We've got to encourage people to invest here. I think that's what the new tax regime is doing.

I just want to say one other thing. When we look at these numbers and the impacts, it's not rocket science to figure out that if the cost of government is going up at two and three times the rate of economic growth, you're digging yourself a big debt pit.

Just to put it in context, you just heard today that it's estimated our economic growth over the last year is going to be 0.7 percent. The growth in health care costs is 13 percent. Now, that's not sustainable. It doesn't matter what political party or what province you're from. It's not sustainable. We have to come to grips with that.

I do want to just comment that I think the updates that Gary has given at the open cabinet meetings.... You know, it's not a pretty picture, as he said, but we're not going to be able to deal with it if we don't lay the facts out for people. I think this is another step in doing that.

We face a big problem next year. To go back to Greg's comment, our job is to get the economy moving and to encourage economic activity, whether it's coalbed methane, increasing tourism or moving forward in the technology industries.

A little-known story in British Columbia is that we have a biotechnology cluster starting to build here around our universities, our educational institutes, our research and development activities and our health care facilities that is becoming recognized. It seems to be recognized everywhere except for British Columbia.

We have an alternative energy cluster of activity - including venture capital, research and development, and major investments coming forward from B.C. Hydro - that is recognized. It seems to me that it's recognized just about everywhere except for British Columbia.

We have to raise people's awareness of some of those opportunities. We have to tell young people that there are huge opportunities here in communication technologies and research and development. All of those things are great opportunities for us, and those opportunities actually can be applied to our resource industries.

I can recall going to a mill in Smithers. That mill had increased its productivity by 21 percent because it applied two technology programs that were developed in British Columbia - one in Fort St. John and one in Salmon Arm - to that mill. They increased the productivity of the mill by 21 percent.

Those are the kinds of stories we have to get out so that we start to build the kind of economy that people can count on. As we do that, we'll encourage more investment in the province, and that will create more jobs and more sustainability. If we can keep our costs under control in the government, we'll be able to meet our goal, which is to balance that budget by 2004-05.

Sandy and then Colin.

Hon. S. Santori: Just a quick question. In terms of real dollars, what does 1 percent in GDP represent in terms of real-dollars revenue to the province?

[10:15]

Hon. G. Collins: It's a hard number to quantify exactly, but my understanding is that for every 1 percent of GDP it's about \$250 million to \$500 million in revenue. It depends from what sector it comes. Some sectors are more revenue-generating than others.

Hon. S. Santori: Thank you.

Hon. G. Campbell: Colin.

Hon. C. Hansen: Thank you. I just wanted to comment briefly on the increased premiums for the Medical Services Plan that Gary commented on earlier. I just want to assure cabinet that our first priority in the ministry is to get costs under control and to make sure we get the best value for every

single health dollar being spent and that those dollars are being directed at meeting the needs of patients and individuals in the province.

Additional revenue sources was not the first thing that was looked at. A lot has been done to date, as Gary commented on. Specifically, we have made great strides in driving down administration costs in health care in British Columbia and making sure that those dollars get redirected into patient care. The one big challenge that I think all of the health authorities are facing in this coming year, and the year after in particular, is the increase in wage costs. Of all of the cost pressures we're facing, that is the single biggest item.

Clearly, we have to make sure that we are able to retain and recruit the number of nurses we need to serve the province. There are other health professions that are in scarce supply. We have to make sure we're competitive throughout North America and especially with other jurisdictions in Canada.

So this initiative around the increase in MSP premiums will allow us to fund those wage increases, most of which take effect on April 1. As we have done that, we have tried to minimize the impact on low-income British Columbians, as we have done with all of the changes - the changes in Pharmacare, the changes in supplemental benefits.... We have gone to great lengths to make sure that those with lower incomes are impacted the least. That will be the same as well with this change. As Gary mentioned, 200,000 British Columbians will actually see their MSP premiums reduced as a result of the fairness measures that are being brought in.

I also want to stress that this is not the panacea to our health care funding problems. This measure is not going to take all of the pressure off. It's going to take some of the pressure off. We still need to face some fundamental restructuring in the way health care services are delivered in British Columbia. It's not just about saving money. It's also about ensuring that we get better quality of care in British Columbia. Clearly, as you see from news stories from around British Columbia, whether it's downtown Vancouver or whether it's small communities up north, we are not delivering the quality of care that British Columbians expect.

Some of the restructuring that we will see take place over the next couple of months will be addressing the funding pressures that will still exist but also ensuring that we can deliver quality health care services to any British Columbian in this province. There is still a lot of work to be done, but this MSP premium measure is certainly going to allow us to fund some of those wage increases and retain the health care professionals that we need. Thank you.

Hon. G. Campbell: Let me say that certainly the MSP premium is not something that any of us wanted to do or that we welcome doing. But you do hear from British Columbians that they want to have the service, and effectively you end up with a choice in terms of that. That is, you can increase MSP premiums, or you can watch as more services are reduced. So we face that choice, and we have to.

It's pretty incredible when you think about it, though. Our health care costs today in the province of British Columbia are greater than all the revenues we get from personal income tax in the province, all the revenues we get from MSP premiums, all the revenues we get from federal transfer payments and all the revenues we get from tobacco tax combined. That's how much it costs us to provide the service we have today.

Hopefully, the restructuring that is taking place.... I should tell you that all the enthusiasm I'm getting back with regard to the regional restructuring that took place in November or December from the board chairs and the CEOs is very encouraging. They think there are going to be ways they can develop significantly better services to patients in a significantly more rapid manner than they have in the past. I think that's very encouraging news. I think the actions that have been taken by the ministry to reduce the administrative burden so that we're focusing as many dollars as we can on patient care in the province are the correct steps.

[10:20]

You know, when you think about it, we're all prepared to pay for services on an everyday basis - \$150 for a ding in our windshield or whatever. I think this is a measure that helps contribute to the costs of the most important single component of the health care system: the people who work in it - the nurses, the caregivers, the doctors, etc. While it's a difficult decision to make, I think it's a decision that, at the end of the day, will provide better services for patients.

Any further comments? John van Dongen.

Hon. J. van Dongen: Just a quick question, Gary. It looks like we're going to hit \$40 billion in debt before we balance the budget. I wondered if you could just comment on interest costs and how they're trending upwards globally for the whole government, including Crowns.

Hon. G. Collins: Sure. That's a very good question. It's a big part of why I, and the Premier as well, have worked so hard in the last while and prior to the election to keep the rating agencies and the people who sell British Columbia's debt informed of what it is that we're doing.

The Premier and I went to New York two and a bit years ago, well over a year before the election, and met with the rating agencies, bond traders and investment banks and explained to them what our plan was. We laid out for them what the challenge was, and they weren't unfamiliar with the challenge. They watch what we do very, very carefully. We went and saw them about a year and a half before the election. We went back again about five or six months before the election, as our fiscal plan was getting more detailed, and presented it to them as well, trying to keep them informed and also trying to build some credibility.

I have to tell you that the first couple of times they were pretty skeptical. There had been a steady stream of Finance ministers from B.C. who had gone there and told them something, and they never saw it happen. Part of this was also building a sense of credibility. That's part of what you have to convey when you tell them something - that you are going to implement it and you are going to hit that target at the end.

I went back again in July, prior to introducing the economic and fiscal update to the House. At that point we also informed them, prior to swearing in, what our income tax reductions were going to be, roughly, in a general sense. "Dramatic" meant roughly this dramatic. We introduced that and made that public. Then, at the end of July, we had our fiscal update where we brought in the competitiveness tax reduction on the business side. We also gave them a general sense of where that was going and how that fit in our plan so that they're not getting surprises. They know what's coming. They have a sense of what's coming. Then, when the final numbers come out, they can fit it in to what we've given them for a general idea.

I went back again early this week to meet with the rating agencies in Toronto and New York to explain to them the challenges we're facing. They see this coming. They've had a steady trapeze of ministers of finance from across the country and around the world who come in and explain to them what their provinces and states are doing. They know the economic impact the slowdown in the U.S. has on people - that in the short term, I think, every province in the country is having to readjust its numbers, through nothing that they can be responsible for.

We've laid this out for them. We also have briefed them on the spending reductions, the January 17 unveiling of our service plans. They were briefed on that as well. They've been able to see what we've done. When the Premier and I went there before the election, we had our 90-day agenda, and we laid it out for them. I think, like most people, they probably said: "Yeah, yeah, we've heard that kind of stuff from governments before." When we went back in July, we'd already implemented about half of it. When we went back this time, that 90-day agenda was three or four months ago. It's done. As well, there's a whole scheme of things, many of which I ran through here today, that we've already accomplished.

Now, when we go and present it to them and say, "Here's the plan. It's based on conservative forecasts. All the risks we can identify are contained in that. We believe it will get us to 2004-2005 and balance the budget the way we said we would. In the interim, this year we've got a big hit, but every province in the country has a big hit. We can get through that," the response.... They don't tell you how they feel about that. They listen and ask questions.

[10:25]

I think we have a fair bit of credibility. They're really looking for the British Columbia economy's ability to service its five-, ten- and 30-year bonds. That's what they do: they rate our credit rating. They're not just looking at one year; they're looking at trend lines. They're looking at your commitment to fix those trends. They're looking at your political will. They're looking at what you've accomplished and your credibility as well.

We've got a tough story to sell for next year, but we also have a very positive story moving forward. We have a great deal of credibility, as well, when we go and deliver that story.

Hon. G. Campbell: Thanks, Gary.

The next item on the agenda is the decision with regard to Tech B.C. Shirley will take us through that.

For Decision: Tech B.C. Report

Hon. S. Bond: Thank you, Premier.

One of the most challenging issues that my ministry has been faced with over the last number of months has been, certainly, the discussion and work that we have done on the future of the Technical University of British Columbia, commonly known as Tech B.C. As I'm sure I don't need to remind you, the university was created to address a need for specialized high-tech education in the province. Certainly the goal and the vision were to foster the growth of technology, to look at innovation and the issues around research and industry.

The Premier has referred to our commitment a number of times today and to the excellence in this province in terms of research and development. It is outstanding. Recently, I'm sure, you've seen the awards that were granted to universities in British Columbia. It's a very exciting prospect.

As government, we are absolutely committed to the improvement of high-tech training and research and development. Those are goals that we continue to have as government, but as we began to look at the Tech B.C. situation, it became very clear to us that we needed to have a really good look at what has occurred in the past, what was going to happen in the future and, most importantly, focus on the certainty for students that currently attend that institution.

Having said that, we also felt it was important to look at the issue of fiscal responsibility. With that thought in mind, we spent an incredible amount of time working not only with the staff but certainly the president of Tech B.C., Dr. Jean Watters. I want to make it very clear that we have worked very hard with Tech B.C. I have appreciated the work that their staff and certainly the president have done to make every effort to evaluate all the business plans and all the initiatives that were presented to government as possible solutions to the challenges that we faced.

Additionally, I want to point out and thank the Surrey caucus for working very hard with me and reminding me on a virtually daily basis how important it was to think about what happened for students in Surrey. There were other MLAs, as well, who took an incredible interest in this. Most importantly, I think, the Finance minister kept reminding me that the most important thing was to focus on students.

Despite the fiscal challenges that we faced in this project, he continued to remind me: "You work on the educational programming side of this. You focus on what's best for students, and with that, hopefully, we'll find a fiscal solution to this challenge as well." I very much appreciated the work that Gary and his staff did with me. They really kept us focused on what was most important, and that's what's best for students.

I basically want to remind you about the vision that this university was created with. As I've said, while we certainly support the vision of high-tech education, the reality is that Tech B.C., as a stand-alone institution, has consistently fallen short of the projected targets that not only government but that particular institution had as well.

As I looked back, it was interesting to discover that over the last number of years, there had, in fact, been revised business plans on a regular basis - approximately seven of them. In each of those cases, not only were the revenue projections increased, enrolment targets were decreased at the same time. So my concern was that as we looked back in time, in fact, the targets that were set - the original vision and mandate - had not been met.

[10:30]

Why is change required? I am going to make a recommendation to you today about what I think is the best solution at this point in time. As I've pointed out, operating and capital costs for Tech B.C. have certainly exceeded the original budget. Student enrolment numbers have consistently fallen short of the targets that were put in place.

One that's probably even more interesting is the fact that the original vision and mandate for this institution was that ultimately private sector partnerships would generate a significant portion of the operating expenses to actually run the institution. In fact, those have not materialized, and there are few, if any, private sector dollars.

Let me give you a visual in terms of what happened, in fact - what the vision was and what is happening today. The operating budget, in terms of the vision - and that was after revisions over time.... For 2001-02 the targets were that the operating budget at this point in time should be \$18 million. I should point out that the current actual operating expenses are \$23.6 million. More troubling is that if you look at the number of full-time-equivalent students, it was anticipated that in order to carry the operating expenses, 1,440 students would actually be in attendance at this institution. Today we have 378 undergraduate students. There is a small graduate component at the institution as well.

If you look at other revenues, the vision was that one-third of faculty salaries would be paid by industry at this particular point in the development of the institution. As you'll see, there is actually minimal revenue from private sector activities. In fact, when I looked back at the economic mandate for the institution it was originally believed that almost 50 percent of the operating and expenses around the institution would be generated from the private sector. That simply has not occurred.

I want to be very clear about what Tech B.C. offers, because it's important to make sure we separate some of those arguments. We've never suggested that Tech B.C. does not offer quality programs for students. As a matter of fact, the type of programs are innovative, they are certainly beneficial to students, and so the educational component is an important part of what we considered as we looked to what we should do with the challenges that we were faced with.

Having said that, we believe that it's important to look at the programming aspects of Tech B.C., but that we need to be able to, most importantly from my perspective, create a degree of certainty for the students of that institution and assure not only the students of this province but the taxpayers of British Columbia that this project would be sustainable and certainly would be affordable for our system.

So we've spent the last six months trying to find a workable solution to the challenges that we faced, and as I've said, we worked very hard with Tech B.C. As a matter of fact, since September we've officially received probably three - two very significant business plan proposals, one in October and one in December.... We had those analyzed. We worked very hard to look.... We have included an external look as well as our internal staff. The Treasury Board and Finance ministries have looked over the fiscal plans that were provided. Unfortunately, we have been unable to come to the conclusion that the plans that have been provided, in terms of the current way that services are delivered at Tech B.C., would be a solution for us, and certainly would not provide the certainty that we require for students.

While we continued to work on the Tech B.C. proposals, we also invited other proposals from institutions within the province. We asked them: how can we best meet the needs of students in this particular situation? We did create a process, and in walking you through the steps, I want to make sure you understand that it was thorough, and it certainly was based on a set of very specific criteria.

Initially we evaluated Tech B.C.'s revised business plan. Secondly, in December 2001 we asked public post-secondary institutions to develop proposals for the possibility of what we might do to help the students there. I want to point out that five proposals were received from public institutions, and we also received two proposals from private institutions.

All of the proposals were assessed against a particular set of criteria. Obviously the first and most important to us was: what would happen with the students who are currently in the program? Also, how could we look at the curriculum that had been developed? That's an important process, and we certainly wanted to maintain as much of that as possible.

[10:35]

I want to compliment the institutions for the work that they did. One of the things that was really exciting for me was the sense of real commitment on the part of other institutions in the province to focus on what was important for students. All of the proposals had merit and certainly had taken quite different approaches to how we might solve this challenge. At the end of the day, the one that I'm going to recommend to you today is the one that we believe brings the most security for students, the opportunity for them to continue a high-quality education, and also provides certainty for government and for taxpayers.

The proposal that we are recommending to you today is a proposal that comes from Simon Fraser University. I believe that it is the most feasible, and certainly the reason that I bring it to you today

is that I think it has captured the educational concerns that we had for these students.

The Simon Fraser proposal. I want to give you just the general sense of what Simon Fraser is prepared to do. Students who are currently enrolled in the Tech B.C. programs will be able to complete their education - certainly finish their current year. Simon Fraser University will continue to operate the facility in its current location, and they will operate it as a satellite campus of Simon Fraser University. It means that a major university in British Columbia will have a presence in Surrey. It will continue to offer Tech B.C. programs, and eventually, they will take the programs that have been developed by Tech B.C.... It was very important to me that we looked at the intellectual property and how we can maximize what's been done at Tech B.C. So Simon Fraser will continue to offer those programs but will eventually begin to integrate those into the type of courses that they are going to offer at the satellite campus in Surrey.

The existing Tech B.C. students. I was also concerned about the fact that they had made a choice and invested a great deal of time in choosing to attend Tech B.C. Existing students at the Tech B.C. facility will be offered the possibility of earning a degree from Simon Fraser University, and the new students that will enrol there will be Simon Fraser University students. We have committed to working with Simon Fraser to work very closely with all of the students that are currently enrolled in the programs as they work to make decisions about their future. I can honestly tell you that Simon Fraser's presence in Surrey and their commitment to maintaining the quality and integrity of the programming will, I think, be an absolutely wonderful option for those students.

I also want to point out that this has been a concern, I know, for the city and the community in Surrey. I'm confident that the fact that Simon Fraser University is prepared to work with us at the Surrey location as a satellite campus should be received as very positive news, and I'm hoping that will be the case. Simon Fraser University has also been incredibly successful at operating a satellite campus, and I'm confident that this will be another opportunity for them to do that.

I want to focus today most particularly on the educational components and what the benefits are for students, because that is really what drove our planning and our thinking. We wanted to find the very best solution that we could that would meet the needs of students in particular but also be fiscally responsible. Sustainability was absolutely an issue.

I want to just briefly and at a very high level give you a little bit of the comparison of the two final proposals. We compared the final Tech B.C. proposal and the SFU proposal, and while there were many similarities, I should tell you that the Tech B.C. proposal, at the end of the day, was more costly than the SFU proposal by more than \$22 million over three years. Our ability to maintain a site in Surrey, assist the students and also add to student numbers in Surrey.... We're also able to save.... The cost difference between the two proposals was \$22 million.

[10:40]

On paper some of the aspects of the Tech B.C. proposal and the business plan may look better. One of the things you will note from the information that you have.... You may be looking at the FTE numbers and thinking: "You know, there are a lot more students." The concern we have is that that particular plan is based on an assumption that over the next number of months.... The Tech B.C. proposal suggests that they need to find over 700 students by September and an additional 700 students each year thereafter to actually be able to stay within the suggested plan that they have. From everything we've done in terms of looking back and looking ahead and trying to ensure the certainty for students that are currently there, we felt, to be candid, that it was just too great a risk. To be able to find 700 students a year.... The historical record is that this simply has not happened.

I do want to point out that in SFU's proposal, while they intend to work with the 400 students that are currently involved in the program, they also intend to grow the program, but within reasonable numbers for the facility that is there at the moment. The intent in SFU's proposal is to work with the 400 students and grow it by approximately 200 each year. For me, one of the critical factors was that government funding will be based on incremental growth. To me, that's absolutely essential. We will pay as it grows. I think that's critical to the success of the proposal.

In the Tech B.C. proposal, yes, they made a significant reduction in the amount of money requested from government, but it was based on the assumption of an increase of 700 students. Should that not occur, government would still have to pay the same amount of money. There wasn't an incremental growth factor built into the plan.

From our perspective, there was simply too much risk and too many uncertainties. Simon Fraser University is well established and highly respected. We are confident that it will deliver on the proposal that it has brought to the table.

I know that this has been a long period of uncertainty for students and their families and Surrey residents. I know that a great number of people have had to wait for a decision. I do believe that we needed to take the time very carefully and, to be fair, to work very hard with Tech B.C. at trying to find a solution to the problem. While it's taken a long period of time, I believe that with the thought and the very critical analysis that was done with the Finance ministry and also Treasury Board, we are presenting to you today a proposal that would bring certainty, a wonderful opportunity for students currently in the program and also future opportunities for students in the Surrey area.

Premier, I bring the recommendation to you today that Simon Fraser University create a satellite campus to manage the Tech B.C. students that are currently enrolled and look for future growth opportunities as well.

Hon. G. Campbell: Questions? Gulzar, Stan, Kevin.

Hon. G. Cheema: Mr. Premier, you can tell from my smile that I'm certainly very pleased to see this Tech B.C. issue resolved.

I would like to first express my deep appreciation to the Minister of Advanced Education and the Minister of Finance. You have done the best under the present circumstances. You have kept the students at the focus of your deliberations.

This has been tough for us in Surrey, but I think you have made the best decision. I think this is good news for Surrey, good news for Delta. SFU is coming to Surrey. They'll be bringing with them a place of excellence and also a great reputation. I think students will gain. I want to say thank you. That was the best decision.

You said that the concept of Tech B.C. would remain intact. The Surrey presence is going to be there. In my view, it's a win-win. I would like to say thank you again and support your recommendation.

Hon. S. Bond: Thanks, Gulzar.

If I might, Premier, I just wanted to comment on the Tech B.C. component of it. We are going to work very hard to look at the integrity of the programs that have been created there. They are wonderful. The other thing that I know Simon Fraser will look at is increasing their on-line component, as well, as part of the thinking there. That's absolutely one of the visions also of my ministry and certainly of government. We're going to work very hard to retain what's great about Tech B.C. I'm confident that SFU, knowing that our prime considerations are students and quality, will focus on those. I think there's real hope and optimism for that to continue.

[10:45]

Hon. G. Campbell: Stan.

Hon. S. Hagen: Premier, I want to thank the minister for the work and the innovation she has brought to this challenge. It is a big challenge from a number of perspectives, and I want to wholeheartedly support her recommendation. I don't have to remind you, Premier, that Simon Fraser University is the number one university in the country.

Hon. G. Campbell: Thank you very much, Dr. Hagen. [Laughter.]

Hon. S. Hagen: They're not only number one; they're very innovative. I have no doubt they will bring success to Surrey by having this campus under their jurisdiction. I think you've done just a first-rate job, and the fact that you've kept your focus on students is very, very important.

Certainly, the Finance minister deserves a lot of thanks here, too, for having his focus on students, because it's so easy to get hooked up with the dollars. I think this will be a very, very good news announcement for the citizens of Surrey and for the prospective students who will be attending there. Thank you very, very much.

Hon. G. Campbell: Thanks, Stan.

Kevin, Joyce and Rick.

Hon. K. Falcon: Thank you, Premier.

As another member from Surrey, I really want to thank you, Shirley, for the work you've done. I know this hasn't been an easy process. I also want to mention that this isn't just a big issue for Surrey. It's really the Fraser Valley.

One of the frustrations in the Fraser Valley - and I've got colleagues here around the table who will echo this - is that over the years, our students have had to go and travel to UBC, SFU or BCIT. They have done a lot of travelling outside of the Fraser Valley to receive their education.

The critical issue for us throughout this whole process has been maintaining the educational spaces in the Fraser Valley - in this case, in Surrey - so that our students wouldn't once again have to be trekking off significant distances outside of the community to try and achieve their education.

I am very, very pleased at the decision you and the Finance minister have made together. I think it signals a clear commitment to students and parents in the Fraser Valley that education and continuing this education is an important priority for the government.

I'm also very pleased with two other things. One is that you mentioned an effort will be made to retain most of the programs, I understand, that Tech B.C. was offering, many of which were, I think, very innovative. That is very encouraging to see. The other is the presence of SFU. I don't say this just as a former graduate, but I want to echo what Stan Hagen mentioned. That is, not only is SFU an innovative and very dynamic university, but they also have real experience running satellite campuses. Their downtown campus is a yardstick and a real benchmark for other universities in terms of how well they've done in operating that particular campus.

I think the operation of a satellite campus of SFU is very, very exciting - really positive news. On behalf of the entire Surrey caucus, I know, and the members from Delta, Langley, Abbotsford and all the rest, I really want to thank you for the work you've done. We really appreciate it.

Hon. G. Campbell: Joyce.

Hon. J. Murray: I guess there are quite a few SFU graduates in the room.

Hon. S. Bond: That had nothing to do with this. I want you to know that. [Laughter.]

Hon. J. Murray: Well, having graduated from a satellite program at SFU....

Hon. S. Bond: Great! You'd better get in there.

Okay. I'm sorry, Joyce. Go ahead.

Hon. J. Murray: I agree that SFU does a great job with their satellite programs, and I experienced that myself directly. I fully support your recommendation. It really is a win-win.

I was curious about one thing. When you were analyzing Tech B.C., did you run across a rationale for why the decision-makers decided there was something revolutionary they were trying to do that they couldn't do within an existing institution because of the constraints a large institution sometimes places on invention? If so, was it felt there were some elements that needed to be in a brand-new and separate institution? If there were any, was that addressed in how we move forward with bringing this in as a satellite of an existing institution?

[10:50]

Hon. S. Bond: Certainly, the vision for Tech B.C. was to be very unique. It is a niche university in some ways. To be honest with you, part of the challenge, I think, for Tech B.C. was a management issue. It was the complexity of taking a program and then a building and a site and really muddying it up by management issues and directions that perhaps were based on interests other than what's great for students. I think that was the problem, in all honesty, and there was uncertainty created for that institution from day one.

I respect that. I know that the challenges that have faced Tech B.C. have not been all made by them. Really, the programming they've done is quite exceptional. It's been external things. It's been the management. It's been the vision. When a problem arose, instead of finding a way to fix it, it was: "Let's just change the numbers or downgrade the enrolment numbers." That's not what happened. The staff and faculty have done the best they could within an environment that was very uncertain.

What we've tried to do is to take what's good and work with an institution that has a fabulous track record and say: "Let's try to keep the concept and the integrity of what happened at Tech B.C. alive, but let's get rid of the problems around facilities, dollars and all of those things, and focus on what's good for students." Your point is a good one. We're going to try to concentrate on the vision around the educational model and try to keep that alive in many ways.

Hon. G. Campbell: Rick.

Hon. R. Thorpe: Thank you, Premier. I am not a graduate of Simon Fraser University.

I applaud the ability to focus on our students and give them innovative and quality opportunities to build the future of British Columbia, which you have focused on in your decision. One of the things I understand Tech B.C. has been able to do is to attract a faculty of world-class educators. I'm just wondering what your plan is to make sure every effort is being made so that those instructors, those faculty members, have the opportunity to stay in British Columbia, to stay at Simon Fraser or UBC or UNBC or Okanagan University College - wherever - so that we can retain that asset that's going to help our students and build the economy for the future.

Hon. S. Bond: The faculty is certainly a concern for us, because, as you've suggested, many have come to British Columbia from around the world, I believe - certainly from around North America. What Simon Fraser has said to us - and I want to be very clear - is that they will make every best effort to accommodate as many of the faculty as possible. I'm confident that they will do their best to do that. I know they will be needing a number of the faculty.

In addition to that, I know we are going to work with other institutions, just as you've suggested, to try, as we need them, to maintain and retain many of them in the province. There will be a concentrated effort to work with other institutions. Simon Fraser has certainly said they will make every best effort to accommodate as many of those outstanding faculty members as they can.

Hon. G. Campbell: Gordie.

Hon. G. Hogg: Even as a UBC graduate, I'm able to look at this and be kind of excited by the possibilities that it brings to Surrey and to Surrey-White Rock.

As the mayor of White Rock through the late eighties and early nineties I sat on a committee trying to bring a four-year degree-granting university to the Surrey area and was excited with the potential that seemed to exist with Tech B.C. Seeing some of the issues and problems evidenced through that - this lack of stability that existed there - I am now becoming quite excited that we actually are able to achieve what that committee of the chamber of commerce, the MLAs of the day and the mayors of the communities were looking at back in those days.

Kevin has made reference to the issue of the Fraser Valley. Clearly, that was one of the more important issues to come out of that whole review that we had done through the early nineties. Listening to Shirley's comments, I think all of the conditions we were setting out and all of the concerns that were being expressed in that review are being addressed by having Simon Fraser - a degree-granting institution that has stability and credibility throughout the country and, indeed, internationally.... That really addresses those needs and, I think, satisfies what we as citizens of Surrey and White Rock, and indeed, the Fraser Valley, were looking at. I'm excited by that part of it.

[10:55]

I'm sure we'll look at the satellite part of it and see how we can change "satellite" to have more meaning and value as it grows. Clearly, we believe that there are some unique opportunities, as well, for the full range of degree-granting facilities, the research capabilities, a number of things that obviously there has to be a critical mass to support. But certainly this is a great step forward in terms of doing that.

We have Kwantlen University College and the Fraser Valley university college presenting things. I know that there were some discussions that happened with Kwantlen along the way as well. I wonder if you could talk a little bit about the interaction that has taken place there and the fact that the Fraser Valley is now extremely well represented in terms of post-secondary facilities, and the relationship that may have evolved as a result of the discussions that took place through the course of the past number of months with Kwantlen in particular - how that will now allow the people of the Fraser Valley to have a wider and more effective range of post-secondary services available to them.

Hon. S. Bond: I do want to comment. I didn't name all of the proposals or the institutions, because over the next number of days I do want to spend some time talking to them about their proposals. Gordie is exactly right. Kwantlen was one of the institutions that came forward with a plan that was also very exciting and held a great degree of merit as well. They did an excellent job. Actually, you're right. The Fraser Valley is very well served in not only that institution but in the coming of SFU to that area.

I will be chatting with Kwantlen and thanking them for the excellent job they did as well. As I said earlier, I was excited by our institutions, their willingness to step up to the plate and say: "Students come first. How can we help you? How can we make sure that students are well served by what happens in your decision-making?" I do appreciate Kwantlen's work and will be speaking soon about that, but obviously couldn't do that before today - so a great job by everyone. It was a tough decision, but I think this one brings the most stability and certainty to the process.

Hon. G. Campbell: John.

Hon. J. van Dongen: Shirley, I support the proposal. I just have one question. There's \$10.5 million of one-time transition costs included in the proposal. I just wonder if you could give us a few details on that.

Hon. S. Bond: I'd be happy to. I want to point out that that is absolutely the worst case, in essence. I intend to bring that down as much as possible. For example, because we're unable at this point to be certain about the number of faculty and staff that will be, you know, involved in the transition - so, obviously, severance costs.... But I also want you to know that I built in assistance to students as well. I want to make sure that their needs are well served. I am particularly interested in making sure that SFU is going to work with me to try to literally individually work with the graduate students. So I built in costs for, perhaps, student transition and assistance. Additionally, I built in a contingency. I have a great teacher in the Finance minister about: we don't any surprises at the end of the day. So it does also represent contingency.

It is very, very conservative in the sense that we wanted to cover everything we could possibly think of. We describe it as worst-case, and I expect to see it much smaller than that.

Hon. J. van Dongen: Okay. Thanks.

Hon. G. Campbell: Thank you very much. We have a recommendation that we establish a new SFU Surrey campus to accommodate the current Tech B.C. students.

Some Hon. Members: Aye.

Hon. G. Campbell: It's been approved. Thank you very much.

The next item on the agenda is the administrative justice review update by Geoff.

Administrative Justice Project Review

Hon. G. Plant: Thanks, Premier.

I'm here today to present really the first stage results of the administrative justice project, which, as the Premier indicated earlier, was a project that we started last July as part of a commitment on the part of government to ensure that our justice system is as accessible, efficient, fair and affordable as it needs to be.

[11:00]

The challenge for all of us is to remind ourselves, I guess, that when we say justice system, people usually think courts, but in fact, British Columbia has more than 60 different agencies that deliver justice outside the court system. They're usually called administrative tribunals or administrative justice agencies. The decision-making they engage in is often described as quasi-judicial.

The majority of them are independent of government. They offer an arm's-length review or an appeal process for decisions made by public officials. In effect, they sit in oversight of the many, many thousands of decisions made by statutory decision-makers like ministers or district forest managers or human resources caseworkers across the province every day. They have grown up as agencies across our system of government one at a time over decades to the point where they now constitute a significant part of our justice system.

For the first time in the history of British Columbia - at least, so far as I know - we have begun to undertake a systemwide examination of how these agencies work and to ask some important questions about them.

The traditional rationale for creating an administrative tribunal as an alternative to a court includes a range of considerations. What I'm doing today is a very high-level overview of this report of the work to date, not to try to state exhaustively the entire corpus of administrative law and practice.

Administrative agencies can take the place of courts where they can provide processes that are less formal and less expensive. Also, administrative tribunals can develop expertise in areas that may be more difficult for courts to achieve. The Labour Relations Board spends all its time dealing with the complex challenges of labour relations, and the Labour Relations Board members become expert in that area. They can serve the public interest well so long as they are meeting all of the tests that I think all public agencies should meet.

The agencies that we're talking about include, as I've said, the Labour Relations Board, the Human Rights Commission, the residential tenancy arbitrators and the Workers Compensation Board. Those are some of the high-profile agencies, but there are a host of them. There's the disaster financial assistance appeal board, the Travel Assurance Board, and the list goes on.

What the administrative justice project is about, primarily or fundamentally, is to respond to the need to look at this system as a system for the first time and, obviously, to ask questions about delays, costs, fairness and increasing complexities. Those are all questions that always need to be asked of the work that government does, particularly when we're looking at agencies that have been in existence for a while.

The project came into being initially with an inspiration that it was necessary to look at the administrative justice system as a whole from a number of perspectives. It also became immediately apparent that the administrative justice project would serve as a useful tool for conducting a core services review of the agencies that we're looking at. The project became the mechanism for undertaking the core services review of these 67 different agencies.

As the project facilitated the review, we were asking some important questions around public interest, affordability, effectiveness, efficiency and accountability. Those are the kinds of questions that we've been asking across government and will continue to ask as the core services review project works its way into Crown corporations over the next weeks and months.

When the core review part of the project is complete - and part of what I'm doing today is reporting on the state of completion of that - the project will continue. It will continue by asking some key questions about our system of administrative justice. It will ask whether these agencies meet the needs of the people that they serve, whether their processes are open and transparent, whether their mandates are modern and relevant, and whether the legislative or policy framework ensures that their mandates are carried out effectively.

[11:05]

There's a big attempt here to engage the tribunal community, the public service and lawyers who are interested in this area of practice across the province in a consideration of these questions. There's a project team that includes experts from the administrative justice community, and so far what we've done is release some background papers - and there is a background paper, for example, on Human Rights Tribunal and Commission issues. Those background papers are available on the administrative justice project website. I encourage you and members of the public to read them and tell you that we welcome comments, ideas and recommendations. There is a timetable - a project schedule - that rolls out over the next few months which will ensure that we have both an informal and a formal opportunity for public input, but eventually this will all come back in the form of recommendations to government on how to improve our system of administrative justice in British Columbia.

That's the big picture. What I can report to you today is that phase 1 of the core services review is now complete for 37 of the 67 agencies. What we're doing today is releasing to the public a detailed report on the outcome of the review. It will identify the agencies that we've looked at, the findings that the review has made - some of which have been approved by cabinet; others are here today for your review and approval - and it will set out the changes that we propose and that I say need to be made to improve accountability to maintain public access and ensure that we have fair decision-making. I think the material will also tell you a little bit about the next steps. The material I'm talking about is in your cabinet binders. I'm not going to go through in detail the changes as

they affect the majority of the agencies that we're talking about, although I'd be happy to answer questions.

It is important to point out what's not the subject of decision today: the Human Rights Commission, Tribunal and the Advisory Council. They are subject to a separate consultative process that's rolling its way out. We're not here to make decisions about a number of other agencies which are subject to other processes, like the Workers Compensation Board.

We are talking about changing some agencies; we're talking about reconfiguring them, reconstructing them. In some cases, when we looked at the work of the tribunal, we realized that something which had been established 20 years ago was not doing much. In the case of the Commercial Appeals Commission, for example, it certainly satisfied important public policy needs when it was first established. The challenge is that it's not being used very often - in fact, very seldom indeed. For the very, very small number of hearings and cases that come before it and the even smaller number of appeals actually allowed by it, our view was that the court system could pick up that very small bit of business without the need to have a separate, freestanding Commercial Appeals Commission. That is just an example of one of the 37 agencies that are the subject of the report being released today.

I do, however, want to spend a few minutes on one particular area, which I think is a good-news story. All of this, I think, is good news in terms of improving affordable and effective access to justice in British Columbia. One area that I know will be of interest to you is the agencies that exist to provide oversight for the work of the Ministry of Children and Family Development. There are a number of those agencies, and they include the Children's Commission; the coroner's office; the ombudsman; the child, youth and family advocate; and, in addition, there are probably some professional bodies that govern or provide oversight for the work of social workers and others.

[11:10]

What we did in the project was commission a study of the Children's Commission. We retained the services of a lawyer named Jane Morley to undertake this review. Specifically, we asked Jane Morley to review the responsibilities of all the agencies involved in oversight of government services to children and youth, to look for potential overlap and duplication among those agencies in terms of what they do. We asked her to do some comparative analysis, to look across Canada and elsewhere to see what other jurisdictions do, to ensure we provide the right mechanisms for protecting children at risk. We also asked her to provide her views on what constituted the core services and programs of the Children's Commission and to recommend ways to address overlap and duplication.

Jane Morley's report, which is, I think, some 55 pages in its entirety, is going to be posted on the administrative justice project website today. I invite people to read it, because I cannot do justice to the subtlety and complexity of the issues and the strength of her analysis in this brief summary.

Broadly speaking, her conclusion is that there are too many public resources going towards the funding, monitoring and oversight mechanisms that exist to look at what the Ministry of Children and Family Development does. The challenge is to keep children at the centre of the agenda and to ensure that the Ministry of Children and Family Development is, first and foremost, accountable for the work that they do. Surrounding the ministry, though, there are these other agencies, and they're identified in the picture of the current system that is there before you.

You see we have, as I said already, the ombudsman. There's the public guardian and trustee, who has responsibility for financial matters for children who may be in care or control of the state. There's the functions of the child, youth and family advocate, the Children's Commission and also the coroner's office. I think - and this is a view that Jane Morley held and that I accept - that this current system has too much duplication, and the duplication does not serve children. It does not serve the interests of children, and it does not serve the public interest. It doesn't make sense to have five different agencies providing overlapping oversight of the Ministry of Children and Family Development programs. In particular, the overlap between the Children's Commission and the child, youth and family advocate functions is, I think, unnecessary.

What Ms. Morley has done is recommend that some of the functions that are currently done by those two agencies be integrated and that the agencies themselves be consolidated into a new children's officer. This is the new system that I think is on the next slide. What we do as we reconfigure the system is create a new children's officer who will report to my ministry to ensure that the interests of children are protected while we also ensure that other functions will continue to be carried on by other agencies. In fact, in the proposed new system, some of those functions will

be changed, expanded or enlarged. For example, the coroner's office already has the responsibility for investigating unexpected or unexplained deaths in British Columbia. In accepting Jane Morley's report, the view is that we can expand some of the responsibilities of the coroner's office to ensure that the coroner has the opportunity not just to investigate deaths on a one-off basis but also to examine systemic issues and even to do some of the good work that is being done here and in other jurisdictions in terms of multidisciplinary teams that can investigate the deaths of children, particularly children in care.

[11:15]

This new system, generally speaking, means that overlap will be gone and that accountabilities will be clear. It means that Minister Hogg and his ministry can focus their resources on the front-line delivery of services rather than responding to repetitive or multiple oversight agencies.

The fundamental goal here over time is to ensure that public confidence in the ability of the Ministry of Children and Family Development to do their job is upheld and restored. Frankly, I think we have to remind ourselves that in our tradition of parliamentary government, the best way we do that is by ensuring that it is the minister himself who is directly accountable for the success or the failure of the work for which he is responsible.

But we will have oversight. We will have oversight; we will have advocacy functions; we will have complaints processes. We will have all of the systems that are in place now, but instead of having them overlap into multiple agencies, we will reconfigure the responsibilities to ensure that that overlap is eliminated and that people can focus their energy on the things that they need to do.

The goal of this new system is to strengthen the existing complaints resolution process inside the ministry to ensure that complaints about service by the ministry will be dealt with by the ministry quickly and directly at the local level. The ombudsman will now become the sole external review agency. The children's officer will, broadly speaking, help make sure that government does its job better than ever. The children's officer will have the responsibility to advocate on behalf of children and to make sure that their voices are heard in the decisions that affect their lives.

The critical part of this is to recognize that in terms of the core functions that affect and protect children, there is no change. The tasks that are necessary to protect and represent the interests of children will all still be done, but the structure and the approach that we will use to accomplish this is going to be different.

The children's officer will be appointed by cabinet and be accountable to the Legislature through the Attorney General. My view is that that provides the necessary degree of independence for the functions that officer will have, recognizing that the three other agencies that have responsibility here - the ombudsman, the coroner, the public guardian and trustee - are all themselves independent from the work of line ministries. I think this system will do the things that we need to do to protect children and will do them more efficiently and ensure that through that efficiency, we will have the resources necessary to provide the front-line services.

This requires legislation. We can accept the broad outlines of what's being proposed here today, but in order to give effect to it, there will be legislation. Members of the Legislature will obviously have an opportunity to scrutinize the actual legislation when it's introduced and to debate its details. I look forward to that. I'm sure Minister Hogg does too.

We are already working on establishing a transition team to get us from where we are today to where we need to be and to make sure that that transition is orderly. I think this is an example of core review doing what it does best - that is, making sure we focus the resources of government where they're most needed to provide the services that we need to provide and do so in a way that's efficient and affordable.

That is my report, Premier.

Hon. G. Campbell: Thanks, Geoff.

Questions? Gordie.

Hon. G. Hogg: I just wanted to emphasize that, also, this is very consistent with the strategic shifts that the ministry has taken as we move towards more openness and more involvement with communities and the awareness and understanding of communities. Part of that openness will be reflected through the accountability that exists within the ministry. The duplication which Geoff

referred to has had a fairly significant impact at the service delivery level, at the line social worker level, in terms of their ability to carry out and focus their primary responsibilities on the delivery of services to children and to families.

[11:20]

That impact, as Geoff pointed out, has come as a result of in many cases five agencies and in some cases 11 external agencies looking at and commenting on the work that the staff is doing. A lot of their time in those critical cases is being generated and focused on responding to central agencies rather than being able to focus on and respond to the needs of children and families.

This focuses these issues without losing any of the accountabilities that are inherent in them, without losing any of the arm's-length review, without losing any of the external reviews that will take place. All of those accountabilities, all of those checks and balances, are still there, but they're now focused and much more meaningful, I think, in terms of the delivery of that.

I think that it allows for the ministry to focus much more effectively and efficiently on service delivery to the people of this province, which is where it should be rather than being generated in bureaucratic responses to a lot of issues that exist out there and are being brought to bear upon the ministry and upon the staff by so many central agencies. I think it's a very positive move that will reflect itself in more effective and more efficient service as well.

Hon. G. Campbell: Any other questions?

I think that you'll find that this is one of those things that will have a big impact on the delivery of services, not just the children's officer and how we deliver services in Children and Family Development, but also throughout the government, I think. Very often governments establish things for all the right reasons, and then they forget to check whether they're doing them.

What I think the Attorney General has taken on is the task of looking at all these administrative justice processes and seeing if they're serving the needs of the people who are supposed to be able to access them, seeing if they're serving public needs that we have established for ourselves over a long period of time, and asking some fundamental questions about those delivery mechanisms. It is going to be important as we go through it.

There will be a number of choices that will have to be made, but I think in this case this is really a choice of substance over form. The form started to overlap. The form started to duplicate - again, not for any bad reason but because people cared about what was taking place. Hopefully we can come up with a focused kind of reform that allows the people that are at work in Children and Family Development, on the front lines, to understand that this is not about a "gotcha" scenario. This is about: how do we make sure we take care of kids? How do we all learn from the experiences we've had in the past? I think that the independence of the officer in the Ministry of Attorney General is a critical component of that.

With those comments, we accept the status report and look forward to moving forward on it. Any further comments?

The meeting is adjourned. Thank you very much.

The cabinet adjourned at 11:23 a.m.

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