

BUDGET 2002

THE RIGHT DECISIONS FOR CHALLENGING TIMES



SECOND QUARTER FISCAL UPDATE

2002-03 QUARTERLY BUDGET REPORT

2

NOVEMBER 20, 2002

Alberta
GOVERNMENT OF ALBERTA

UPDATING ALBERTANS

The Second Quarter Fiscal Update is comprised of two parts – the updated 2002-03 forecast and the actual results for the first six months of the fiscal year (April 1 to September 30, 2002).

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2002 - 03 FORECAST

Highlights

- ◆ The forecast of the economic cushion is \$199 million. This is \$525 million lower than estimated in the budget. Higher revenue has been more than offset by spending increases, primarily for disaster assistance.
- ◆ Revenue is \$639 million higher than budgeted, but down \$189 million from the first quarter. Higher corporate income tax and non-renewable resource revenue has been offset by lower investment income and federal transfers.
- ◆ Program spending is \$1,129 million higher than budgeted and there is a \$40 million net increase in capital assets affecting operations.
- ◆ The spending increase includes almost \$1 billion in disaster funding for drought relief, forest fire-fighting and flood assistance. In addition, as reported in the *First Quarter Fiscal Update*, \$165 million was provided for deferred capital projects, teachers' pensions, and the Community Initiatives Program.
- ◆ The contingency reserve for in-year non-disaster spending has been exhausted.

CONSOLIDATED FISCAL SUMMARY^a

(millions of dollars)

	2002-03			
	Budget	2nd Quarter Forecast	Change from Budget	Change from 1st Quarter
1 Revenue	19,855 ^b	20,494	639	(189)
2 Expense				
3 Program	18,453 ^b	19,582	1,129	90
4 Debt Servicing Costs	585	580	(5)	50
5 Total Expense	19,038	20,162	1,124	140
6 Net Revenue	817	332	(485)	(329)
7 Less: Net Increase in Capital Assets affecting Operations ^c	93	133	40	3
8 Economic Cushion	724	199	(525)	(332)
9 Planned Allocation of Economic Cushion				
10 Debt Repayment/Increase in Financial Assets	543	199	(344)	(323)
11 Contingency Reserve	181	-	(181)	(9)
12 Net Assets at March 31, 2003	10,357 ^d	10,013	(344)	(323)

^a Subject to the *Fiscal Responsibility Act*.

^b Budget numbers have been restated pursuant to the *Gaming and Liquor Amendment Act, 2002*, resulting in a reduction of \$118 million in both revenue and expense.

^c Converts capital to pay-as-you-go basis.

^d Budget numbers have been restated to reflect actual results for 2001-02. Net assets as at March 31, 2002 amounted to \$9.814 billion, excluding pension obligations. Pension obligations are forecast to increase in 2002-03 by \$62 million to \$4.833 billion.

Revenue

NON-RENEWABLE RESOURCE REVENUE

The non-renewable resource revenue forecast has been increased to \$5 billion, almost \$1.3 billion greater than the budget estimate. The increase reflects higher prices partly offset by a reduction in natural gas and crude oil production.

Natural gas prices are expected to average Cdn\$3.65 per thousand cubic feet for the fiscal year, 65¢ higher than budgeted. Although North American storage levels remain high and US economic conditions continue to be sluggish, the gas price has been buoyed by falling US and Canadian natural gas production, and high oil prices. The forecast assumes a moderate El Nino will result in a warmer than normal winter in North America. Natural gas royalties are now forecast at \$3.3 billion, up \$758 million from budget.

Oil prices are forecast to average US\$26.25 per barrel over the fiscal year, \$6.25 higher than budgeted. The increase is mainly due to declining crude oil inventories and oil supply concerns caused by Middle East tensions. Total oil royalties are forecast at \$1.1 billion, up \$526 million from the budget estimate.

Revenue from bonuses and sales of Crown leases is forecast at \$544 million, down \$65 million from the budget. The number of hectares sold and the bid prices are lower than anticipated.

INCOME TAX REVENUE

The forecast for income tax revenue has been increased to \$6.9 billion, \$639 million more than budgeted.

Corporate income tax revenue is forecast at \$2.3 billion, \$700 million higher than budget, as a result of strong cash receipts to date.

Personal income tax revenue is expected to be \$4.6 billion, \$61 million lower than budgeted. This is based on preliminary federal assessments for the 2001 tax year.

TRANSFERS FROM GOVERNMENT OF CANADA

The forecast for transfers from the Government of Canada has been reduced to \$2 billion, \$140 million lower than budgeted.

The decrease is due to a \$252 million reduction in the Canada Health and Social Transfer, caused mainly by a prior year adjustment. Preliminary 2001 tax year assessment data indicate that Alberta's share of the national tax point transfer component of CHST has increased. This reduces Alberta's share of the cash transfer portion. This lower forecast is offset partially by higher transfers for agricultural and emergency flood assistance.

INVESTMENT INCOME

Total investment income was budgeted at \$1.2 billion. It is now forecast at negative \$184 million, almost \$1.4 billion below the budget estimate.

The decline in equity markets is expected to result in a \$765 million loss in Heritage Fund and other endowment funds. This represents \$506 million in write-downs of assets (where the value is considered to be permanently impaired) and net realized losses of \$259 million.

Other investment income (primarily from Alberta Municipal Financing Corporation, Agriculture Financial Services Corporation, and interest on debt retirement funds) is forecast at \$581 million. This is \$32 million higher than budgeted, primarily due to higher interest income on debt retirement funds.

OTHER REVENUE

Total revenue from all other sources is forecast at \$6.8 billion, \$240 million higher than budgeted. This is mainly due to higher revenue from:

- ◆ private crop reinsurance (\$108 million),
- ◆ freehold mineral rights tax (\$35 million),
- ◆ Alberta Treasury Branches (\$31 million),
- ◆ Alberta Dairy Control Board (\$23 million), and
- ◆ crop and hail insurance premiums (\$22 million).

REVENUE*(millions of dollars)*

	2002-03				Main Reason for Change from Budget
	Budget	2nd Quarter Forecast	Change from Budget	Change from 1st Quarter	
Income Taxes					
Personal income tax	4,708	4,647	(61)	70	Lower 2001 tax year assessments
Corporate income tax	1,550	2,250	700	386	Higher year-to-date cash receipts
	<u>6,258</u>	<u>6,897</u>	<u>639</u>	<u>456</u>	
Other Taxes					
School property tax	1,093	1,093	-	-	
Tobacco tax	633	633	-	-	
Fuel tax	594	590	(4)	(4)	Lower volume
Insurance corporations tax	139	139	-	-	
Freehold mineral rights tax	127	162	35	5	Higher oil and natural gas prices
Hotel room tax	50	55	5	-	Higher business and tourism hotel stays
	<u>2,636</u>	<u>2,672</u>	<u>36</u>	<u>1</u>	
Non-Renewable Resource Revenue					
Natural gas and by-products royalty	2,573	3,331	758	324	Higher natural gas price
Crude oil royalty	469	948	479	64	Higher oil price
Synthetic crude oil and bitumen royalty	78	125	47	(8)	Higher production and oil price
Coal royalty	12	15	3	1	Higher production on Crown land
Bonuses and sale of Crown leases	609	544	(65)	(15)	Lower bid prices and hectares sold
Rentals and fees	142	150	8	2	Higher number of oil sands hectares renewed
Royalty tax credit	(169)	(131)	38	3	Higher oil and natural gas prices
	<u>3,714</u>	<u>4,982</u>	<u>1,268</u>	<u>371</u>	
Transfers from Government of Canada					
Canada Health and Social Transfer	1,739	1,487	(252)	(246)	Prior-year adjustment
Medical equipment and primary care	14	14	-	-	
Labour market development	122	122	-	-	
Agriculture support programs	117	217	100	-	Higher farm disaster and income support
Other	176	188	12	1	Funding for flood costs
	<u>2,168</u>	<u>2,028</u>	<u>(140)</u>	<u>(245)</u>	
Net Income from Commercial Operations					
Alberta Gaming and Liquor Commission ^a					
Gaming and lottery revenue	1,107	1,107	-	-	
Liquor revenue	538	538	-	-	
Alberta Treasury Branches	117	148	31	31	Lower credit losses and loss provisions
Other	5	5	-	1	
	<u>1,767</u>	<u>1,798</u>	<u>31</u>	<u>32</u>	
Premiums, Fees and Licences					
Health care insurance premiums	869	869	-	-	
Motor vehicle licences	254	249	(5)	(6)	Lower commercial vehicle registrations
Crop and hail insurance premiums	88	110	22	-	Higher crop insurance participation
Timber rentals and fees	55	58	3	(32)	Higher volumes
Land titles	33	40	7	4	Higher level of real estate market activity
Other	262	268	6	2	Revised forecast
	<u>1,561</u>	<u>1,594</u>	<u>33</u>	<u>(32)</u>	
Investment Income					
Alberta Heritage Savings Trust Fund	573	(643)	(1,216)	(689)	Weak equity markets
Alberta Municipal Financing Corporation	331	339	8	(19)	Increased lending activity
Agriculture Financial Services Corporation	103	99	(4)	-	Lower lending activity
Debt retirement funds	75	105	30	-	Higher assets
Endowment Funds:					
Medical Research	38	(68)	(106)	(55)	Weak equity markets
Science and Engineering Research	13	(31)	(44)	(22)	Weak equity markets
Scholarship	11	(23)	(34)	(19)	Weak equity markets
Other	40	38	(2)	(1)	Revised forecast
	<u>1,184</u>	<u>(184)</u>	<u>(1,368)</u>	<u>(805)</u>	
Other					
Alberta Dairy Control Board	125	148	23	23	Higher milk production
Refunds of expenditure	78	188	110	2	Private crop reinsurance proceeds
Fines and penalties	59	60	1	1	Revised forecast
Miscellaneous	305	311	6	7	Revised forecast
	<u>567</u>	<u>707</u>	<u>140</u>	<u>33</u>	
Total Revenue	19,855	20,494	639	(189)	

^a Budget numbers have been restated pursuant to the *Gaming and Liquor Amendment Act, 2002*, resulting in a reduction of \$118 million in both revenue and expense.

Expense

Aboriginal Affairs and Northern Development spending has been increased by \$32 million over budget for a settlement agreement with the Piikani (Peigan) First Nation and the Government of Canada.

Agriculture, Food and Rural Development spending is forecast to increase by \$746 million over budget. This includes \$723 million in drought emergency assistance and insurance payments reported in the *First Quarter Fiscal Update*. In addition, Alberta Dairy Control Board milk distribution volumes are up \$23 million, fully offset by increased revenue. The Board has been divested as of August 1, 2002.

Finance spending is expected to be \$8 million higher than budget, but \$19 million less than the first quarter forecast, due to changes in the lending activity of the Alberta Municipal Financing Corporation. This expense is fully offset by increased revenue.

Gaming spending is up \$31 million from budget, as noted in the *First Quarter Fiscal Update*, due to introduction of the Community Initiatives Program.

Infrastructure spending is up \$10 million from budget. \$35 million in funding for school facilities and centennial projects deferred in October 2001 has been reinstated. \$30 million is in program spending and \$5 million is in Infrastructure's capital investment. This increased funding is partly offset by a lapse of \$20 million.

Learning spending is increasing by \$32 million over budget. As reported in the *First Quarter Fiscal Update*, a contribution of \$35 million is being made to the Teachers' Pension Plan as part of the commitment to cover one year of the teachers' share of the pre-1992 unfunded pension liability. This is partly offset by a \$1 million transfer from program expense to capital investment, and a \$2 million decrease in sales of learning resources which reduces both expense and revenue.

Municipal Affairs expense is \$18 million higher than budget to pay for disaster recovery assistance programs due to flooding and forest fires. This is partially offset by federal transfers under disaster cost-sharing agreements of \$9 million.

Sustainable Resource Development expense is \$229 million greater than budgeted due to increased forest fire-fighting costs.

Transportation's program spending is up \$16 million from budget, and capital investment is up \$69 million, to reinstate \$85 million in funding deferred in October 2001 for highway rehabilitation and construction projects and water management infrastructure.

Debt Servicing Costs are forecast at \$580 million, \$5 million less than budget.

EXPENSE*(millions of dollars)*

	2002-03			
	Budget	2nd Quarter Forecast	Change from Budget	Change from 1st Quarter
Program				
Legislative Assembly	59	59	-	-
Aboriginal Affairs and Northern Development	30	62	32	32
Agriculture, Food and Rural Development	671	1,417	746	23
Children's Services	675	675	-	1
Community Development	580	580	-	-
Economic Development	51	51	-	-
Energy	165	169	4	-
Environment	110	110	-	-
Executive Council	15	15	-	-
Finance	442	450	8	(19)
Gaming ^a	98	129	31	-
Government Services ^b	65	70	5	5
Health and Wellness	6,837	6,837	-	-
Human Resources and Employment	1,059	1,059	-	-
Infrastructure ^b	815	825	10	(25)
Innovation and Science	192	189	(3)	(3)
International and Intergovernmental Relations	6	6	-	-
Justice	236	237	1	1
Learning	4,664	4,696	32	1
Municipal Affairs	132	150	18	1
Revenue	158	158	-	-
Seniors	283	283	-	-
Solicitor General	268	268	-	-
Sustainable Resource Development	191	420	229	90
Transportation	651	667	16	(17)
Total Program Expense	18,453	19,582	1,129	90
Debt Servicing Costs	585	580	(5)	50
Total Expense	19,038	20,162	1,124	140

^a Budget numbers have been restated pursuant to the *Gaming and Liquor Amendment Act, 2002*, resulting in a reduction of \$118 million in both revenue and expense.

^b Budget numbers have been restated to reflect government organization changes.

Net Change in Capital Assets

The net change in capital assets affecting operations is forecast to be \$133 million, \$40 million higher than the budget estimate.

Capital investment is forecast to be \$38 million higher than budget. Capital investment is up \$69 million in **Transportation** and \$5 million in **Infrastructure**, in both cases to reinstate funding deferred in 2001-02.

Partly offsetting this is a decrease of \$33 million in **Innovation and Science's** capital investment for SuperNet, as the project's funding schedule has changed. Several other ministries have reallocated funding between program and capital requirements.

Capital amortization is \$2 million less than budgeted.

NET CHANGE IN CAPITAL ASSETS

(millions of dollars)

	2002-03			
	Budget	2nd Quarter Forecast	Change from Budget	Change from 1st Quarter
Capital Investment	433	471	38	1
Less: Capital Amortization	340	338	(2)	(2)
Net Increase in Capital Assets affecting Operations	93	133	40	3

CAPITAL INVESTMENT AND AMORTIZATION

(millions of dollars)

	2002-03 Capital Investment				2002-03 Capital Amortization			
	Budget	2nd Quarter Forecast	Change from Budget	Change from 1st Quarter	Budget	2nd Quarter Forecast	Change from Budget	Change from 1st Quarter
Legislative Assembly	-	-	-	-	-	-	-	-
Aboriginal Affairs and Northern Development	-	-	-	-	-	-	-	-
Agriculture, Food and Rural Development	5	5	-	-	6	6	-	-
Children's Services	-	1	1	-	1	1	-	-
Community Development	2	2	-	-	10	10	-	-
Economic Development	-	-	-	-	-	-	-	-
Energy	12	13	1	-	8	8	-	-
Environment	-	-	-	-	16	16	-	-
Executive Council	-	-	-	-	-	-	-	-
Finance	3	4	1	1	1	1	-	-
Gaming	-	-	-	-	-	-	-	-
Government Services	8	2	(6)	(6)	6	5	(1)	(1)
Health and Wellness	2	2	-	-	3	3	-	-
Human Resources and Employment	3	2	(1)	-	3	3	-	-
Infrastructure	13	18	5	5	54	54	-	-
Innovation and Science	128	95	(33)	(33)	9	9	-	-
International and Intergovernmental Relations	-	-	-	-	-	-	-	-
Justice	2	2	-	-	1	1	-	-
Learning	4	5	1	(3)	3	3	-	-
Municipal Affairs	1	1	-	-	1	1	-	-
Revenue	4	4	-	-	3	2	(1)	(1)
Seniors	-	-	-	-	24	24	-	-
Solicitor General	-	-	-	-	-	-	-	-
Sustainable Resource Development	3	3	-	-	7	7	-	-
Transportation	243	312	69	37	184	184	-	-
Total Capital Investment/Amortization	433	471	38	1	340	338	(2)	(2)

Allocation of Economic Cushion

The economic cushion has declined to \$199 million and the contingency reserve for non-emergency in-year initiatives has been exhausted.

In the *First Quarter Fiscal Update*, \$165 million was allocated from the contingency reserve for in-year initiatives. This consisted of \$100 million for deferred capital projects, \$35 million for teachers' pensions and \$31 million for the Community Initiatives Program, offset by a \$1 million net lapse in other spending.

Based on the lower second quarter revenue forecast, no further allocations from the contingency reserve are allowed. Pursuant to section 4(4) of the *Fiscal Responsibility Act*, the first quarter allocations do not have to be reduced.

Total emergency and disaster assistance is now forecast at \$970 million, consisting of:

- ◆ \$723 million in drought relief for farmers,
- ◆ \$229 million in forest fire-fighting costs, and
- ◆ \$18 million in disaster recovery assistance programs for floods and forest fires.

Section 4(2) of the *Fiscal Responsibility Act* provides that emergency and disaster expenses are deducted from the economic cushion prior to calculating the allocation of the cushion.

There is also a \$34 million net increase from budget in dedicated revenue and expense items. Section 4(3) of the *Fiscal Responsibility Act* provides that these surplus neutral changes are not deductions from the contingency reserve. These changes consist of:

- ◆ \$23 million increase for the Alberta Dairy Control Board,
- ◆ \$8 million increase for the Alberta Municipal Financing Corporation,
- ◆ \$5 million increase for the Alberta Energy and Utilities Board,
- ◆ \$5 million reduction for the Alberta Research Council's contract research activities, and
- ◆ \$3 million net increase in other areas.

ALLOCATION OF ECONOMIC CUSHION

(millions of dollars)

	Budget ^a	Forecast Changes	Revised Forecast	Cushion Allocation		2nd Quarter Forecast
				1st Quarter	2nd Quarter	
Revenue	19,855	639	20,494	-	-	20,494
Expense						
Program	18,453	1,000	19,453	129	-	19,582
Debt Servicing Costs	585	(5)	580	-	-	580
Net Change in Capital Assets affecting Operations	93	4	97	36	-	133
Total Expense and Net Change in Capital Assets	19,131	999	20,130	165	-	20,295
Economic Cushion	724	(360)	364	(165)	-	199
Allocation of Economic Cushion						
Debt Repayment/Increase in Financial Assets	543	(270)	273	-	-	199^b
Contingency Reserve	181	(90)	91	(165)	-	-

^a Budget numbers have been restated pursuant to the *Gaming and Liquor Amendment Act, 2002*, resulting in a reduction of \$118 million in both revenue and expense.

^b The *Fiscal Responsibility Act* does not require prior allocations from the contingency reserve to be reduced. As a result, the allocation for debt repayment/increase in financial assets is \$199 million.

Net Assets and Accumulated Debt

NET ASSETS

The province's net assets (excluding pension liabilities) are forecast to increase by \$199 million in 2002-03 to \$10 billion. Total financial assets are forecast at \$23.6 billion. Total liabilities are forecast at \$13.6 billion. In addition, there are pension obligations of \$4.8 billion that are scheduled for elimination under a separate 1993 legislated plan.

\$1.634 billion of accumulated debt will mature in 2002-03 and will be repaid from the cash set aside. This will reduce outstanding accumulated debt to \$6.782 billion and cash set aside for future debt repayment to \$1.521 billion, leaving the net amount at \$5.261 billion.

ACCUMULATED DEBT

At March 31, 2002, the province had \$8.416 billion of outstanding accumulated debt and had set aside \$3.155 billion for future debt repayment. Accumulated debt less cash set aside for future debt repayment equalled \$5.261 billion.

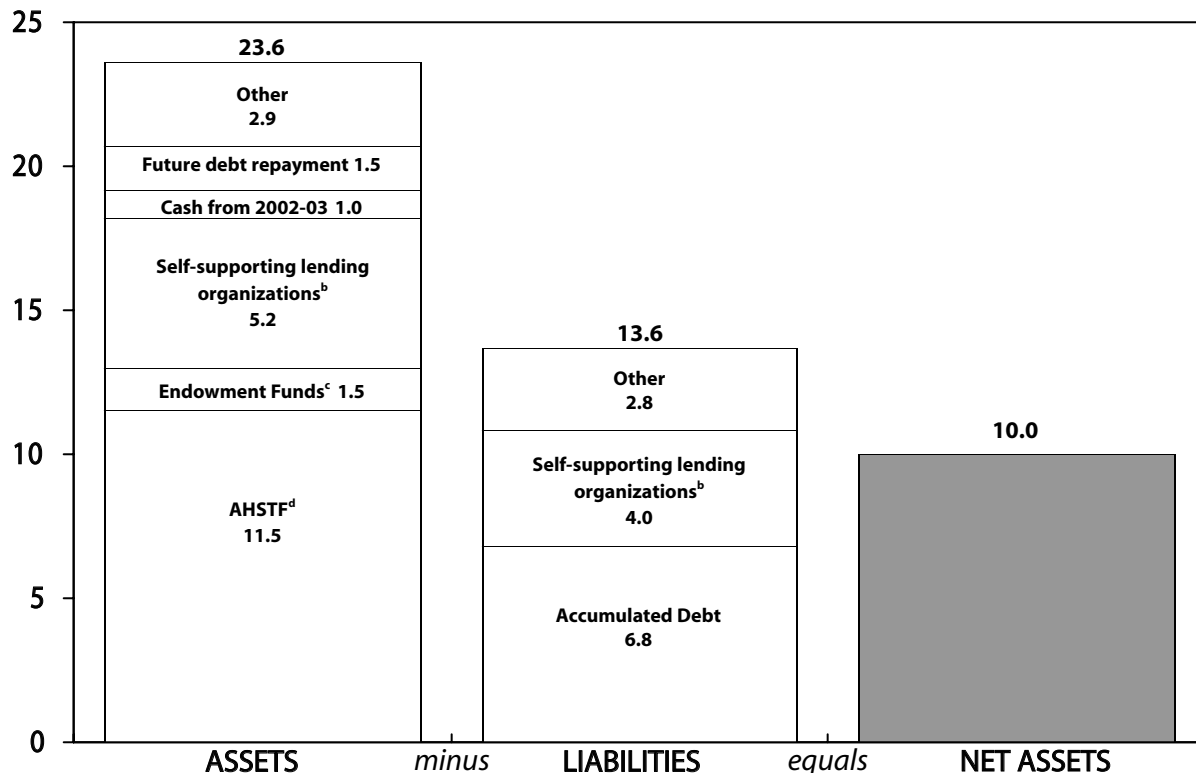
CASH AVAILABLE FROM 2002-03 OPERATIONS

As part of the implementation plan of accepted Financial Management Commission recommendations, the government is currently reviewing how the cash available from 2002-03 operations will be used.

FORECAST OF ASSETS, LIABILITIES AND NET ASSETS^a

AT MARCH 31, 2003

(billions of dollars)



^a Excludes pension obligations of \$4.833 billion which are scheduled for elimination under a separate 1993 legislated plan.

^b Alberta Municipal Financing Corporation and Agriculture Financial Services Corporation.

^c Alberta Heritage Foundation for Medical Research Endowment Fund, Alberta Heritage Scholarship Fund and Alberta Heritage Science and Engineering Research Endowment Fund.

^d Alberta Heritage Savings Trust Fund. Total assets of \$11.612 billion less \$100 million of internal holdings of provincial corporation and General Revenue Fund debt.

CASH AVAILABLE FROM 2002-03 OPERATIONS*(millions of dollars)*

	2002-03			
	Budget	2nd Quarter Forecast	Change from Budget	Change from 1st Quarter
Allocation for Debt Repayment and Increase in Financial Assets	543	199	(344)	(323)
Natural Gas Royalty Cash Adjustments	(184)	124	308	(34)
Other Cash Adjustments	(104)	(202)	(98)	43
	255	121	210	9
Less: Retained Income of Funds and Agencies				
Alberta Heritage Savings Trust Fund	-	(643)	(643)	(643)
Agriculture Financial Services Corporation	8	(161)	(169)	-
Endowment Funds:				
Science and Engineering Research	2	(42)	(44)	(22)
Foundation for Medical Research	(34)	(140)	(106)	(55)
Scholarship	(8)	(41)	(33)	(17)
Alberta Treasury Branches	117	148	31	31
Other	(8)	(5)	3	1
Total Retained Income	77	(884)	(961)	(705)
Cash available from 2002-03 operations	178	1,005	827	391

ACCUMULATED DEBT*(millions of dollars)*

	2002-03			
	Budget	2nd Quarter Forecast	Change from Budget	Change from 1st Quarter
Accumulated Debt at the Start of the Year ^a	8,416	8,416	-	-
Less: Accumulated Debt Repayment in 2002-03	1,566	1,634	68	(56)
Accumulated Debt at March 31, 2003	6,850	6,782	(68)	56
Cash Set Aside for Debt Repayment at Start of Year ^a	3,155	3,155	-	-
Cash Used to Pay for Accumulated Maturities in 2002-03	1,566	1,634	68	(56)
Cash Set Aside for Debt Repayment at End of Year	1,589	1,521	(68)	56
Accumulated Debt Less: Cash Set Aside at March 31, 2003 ^b	5,261	5,261	-	-

^a Accumulated debt and cash set aside in the budget have been restated to reflect the March 31, 2002 actuals.^b Does not include any allocation from 2002-03 cash available. Potential 2002-03 allocation is currently under review.**NET FINANCING REQUIREMENTS***(millions of dollars)*

	2002-03			
	Budget	2nd Quarter Forecast	Change from Budget	Change from 1st Quarter
Requirements:				
General Revenue Fund term debt maturities and redemptions	1,560	1,555	(5)	32
School construction loan repayment	90	90	-	-
Provincial corporations' term borrowing requirements	165	185	20	12
Adjustments	(84)	(11)	73	(88)
Gross financing requirements	1,731	1,819	88	(44)
Term debt borrowing to date	-	-	-	-
Cash applied to accumulated debt repayment	(1,566)	(1,634)	(68)	56
Net Remaining Financing Requirements	165	185	20	12

FISCAL YEAR ASSUMPTIONS

	Sensitivities (\$ million) ^a				Assumptions	
	Annual Change	Revenue	Spending	Net Change	Budget	2nd Quarter Forecast
Oil Price (WTI US\$/bb)	-\$1.00	-108	-	-108	20.00	26.25
Natural Gas Price (Cdn\$/mcf)	-10¢	-137	-	-137	3.00	3.65
Exchange Rate (US¢/Cdn\$)	+1¢	-132	-36	-96	64.30	64.30
Interest Rates	-1%	-65	-27	-38		
3-month Canada Treasury Bills					2.65	3.00
10-year Canada Bonds					5.70	5.35

^a Sensitivities are based on current assumptions of prices and rates and show the effect for a full 12 month period. Sensitivities can vary significantly at different price and rate levels. The interest rate sensitivity does not include the potential effect of realized capital gains or losses.

ACTUAL RESULTS

FOR THE FIRST SIX MONTHS OF 2002-03

METHOD OF CONSOLIDATION

This financial summary is prepared on the same basis as used in *Budget 2002*.

The results of all government departments, funds and agencies, except those designated as commercial enterprises, are consolidated on a line-by-line basis.

Revenue and expense transactions between consolidated entities have been eliminated.

The accounts of Crown-controlled corporations and provincial agencies designated as commercial enterprises are consolidated on an equity basis, the equity being computed in accordance with generally accepted accounting principles.

BASIS OF FINANCIAL REPORTING

The consolidated fiscal summary reports revenue (including proceeds from sale of capital assets), expense (including amortization of capital assets), and net revenue. Consistent with the policy that capital assets are not included in the province's financial assets, losses on disposal and write-downs of capital assets do not affect revenue, expense or net revenue for the period. The intermediate result of operations (net revenue) is then adjusted for the difference between capital investment and capital asset amortization. The final result is the consolidated net results of operations subject to the *Fiscal Responsibility Act*.

Expense includes the province's annual cash payments towards the unfunded pension obligations. Expense excludes the annual change in the unfunded pension obligations, which is a non-cash expense that does not affect borrowing requirements.

Revenue and expense are recorded using the accrual basis of accounting. Cash received for goods or services which have not been provided by period end is recorded as unearned revenue. Debt servicing costs include interest payable, amortization of discount on debt issues, and amortization of unrealized exchange gains and losses on unhedged foreign currency debt.

Comparative 2001-02 figures have been restated where necessary to conform to 2002-03 presentation.

CONSOLIDATED FISCAL SUMMARY^a

for the six months ended September 30, 2002 (unaudited)

(millions of dollars)

	First Six Months		Change
	2002-03	2001-02	
Revenue			
Income Taxes	3,352	2,732	620
Other Taxes	1,319	1,119	200
Non-Renewable Resource Revenue	2,726	4,097	(1,371)
Transfers from Government of Canada	1,132	1,323	(191)
Premiums, Fees and Licences	1,018	729	289
Net Income from Commercial Operations	915	870	45
Investment (Loss) Income	(476)	165	(641)
Other	427	211	216
Total Revenue	10,413	11,246	(833)
Expense			
Program	10,088	9,950	138
Debt Servicing Costs	304	416	(112)
Total Expense	10,392	10,366	26
Net Revenue	21	880	(859)
Net Increase (Decrease) in Capital Assets affecting Operations ^b	9	172	(163)
Net Results of Operations	12	708	(696)

^a Subject to the *Fiscal Responsibility Act*. Includes the province's annual cash payments towards the unfunded pension liability, which will be eliminated over a longer term under a separate legislated plan. Does not include the annual change in the unfunded pension obligations, which is a non-cash expense that does not affect borrowing requirements.

^b Converts capital expense to a pay-as-you-go basis for the purposes of the consolidated net results of operations.

EXPENSE

for the six months ended September 30, 2002 (unaudited)

(millions of dollars)

	First Six Months		Change
	2002-03	2001-02	
Program			
Legislative Assembly	24	24	-
Aboriginal Affairs and Northern Development	21	23	(2)
Agriculture, Food and Rural Development	1,154	675	479
Children's Services	316	329	(13)
Community Development	289	289	-
Economic Development	22	24	(2)
Energy	80	66	14
Environment	49	58	(9)
Executive Council	7	7	-
Finance	225	227	(2)
Gaming	47	62	(15)
Government Services	29	27	2
Health and Wellness	3,286	2,999	287
Human Resources and Employment	511	484	27
Infrastructure	503	1,267	(764)
Innovation and Science	67	72	(5)
International and Intergovernmental Relations	3	3	-
Justice	128	101	27
Learning	2,290	2,189	101
Municipal Affairs	102	85	17
Revenue	67	53	14
Seniors	136	143	(7)
Solicitor General	129	124	5
Sustainable Resource Development	321	199	122
Transportation	282	420	(138)
Total Program Expense	10,088	9,950	138
Debt Servicing Costs	304	416	(112)
Total Expense	10,392	10,366	26

NET INCREASE (DECREASE) IN CAPITAL ASSETS AFFECTING OPERATIONS

for the six months ended September 30, 2002 (unaudited)

(millions of dollars)

	First Six Months		Change
	2002-03	2001-02	
Capital Investment			
Legislative Assembly	-	-	-
Aboriginal Affairs and Northern Development	-	-	-
Agriculture, Food and Rural Development	1	1	-
Children's Services	-	-	-
Community Development	-	-	-
Economic Development	-	-	-
Energy	11	5	6
Environment	-	-	-
Executive Council	-	-	-
Finance	2	2	-
Gaming	-	-	-
Government Services	-	-	-
Health and Wellness	1	1	-
Human Resources and Employment	1	-	1
Infrastructure	12	12	-
Innovation and Science	3	2	1
International and Intergovernmental Relations	-	-	-
Justice	-	-	-
Learning	1	1	-
Municipal Affairs	-	-	-
Revenue	1	1	-
Seniors	-	-	-
Solicitor General	-	-	-
Sustainable Resource Development	3	-	3
Transportation	130	270	(140)
	166	295	(129)
Less: Capital Amortization	157	123	34
Net Increase (Decrease) in Capital Assets affecting Operations	9	172	(163)

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