



Quarterly Report

April to September 1997

Ministry of Finance and Corporate Relations



Ministry of Finance and Corporate Relations

Second Quarterly Report

on the Economy, Fiscal Situation and Crown Corporations

Fiscal Year 1997/98
Six Months
April – September 1997

**Honourable Andrew Petter
Minister of Finance and Corporate Relations**

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Message from the Honourable Andrew Petter

Minister of Finance and Corporate Relations

I am pleased to release the Second Quarterly Report for 1997/98.

Part One of the Quarterly Report reviews the current economic situation and outlook. Part Two provides details of the transactions of the Consolidated Revenue Fund for the six months ended September 30, 1997, compared to budget. Part Three provides information on the debt of the provincial government and its Crown corporations and agencies as of September 30, 1997. Part Four provides interim financial statements of provincial Crown corporations for the period ended nearest to September 30, 1997.

Quarterly Reports provide regular updates on the economy and government finances. This reflects our commitment to open government and public accountability.

A handwritten signature in black ink, appearing to read 'Andrew Petter'.

Andrew Petter
Minister

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HIGHLIGHTS

Economic

Economic conditions in British Columbia remained favourable overall in the July-September quarter. Employment strengthened significantly, while export growth continued.

Despite the slowdown in the forest product and construction sectors the economic environment remained positive during this period.

- Employment grew almost two per cent (26,000 jobs) in the July-September period with year-to-date employment levels also two per cent higher than a year ago.
- Business and consumer confidence rose in British Columbia according to the Conference Board of Canada.
- Retail spending picked up in July and August.
- Housing starts slowed in the quarter, but picked up in October.
- British Columbia's economy is expected to grow 2.2 per cent in 1997. Continued moderate economic growth is forecast for 1998. Strong economic conditions in North America should more than offset a slow-down in Asian economies.

Fiscal — 1997/98

Revenue totalled \$9.8 billion in first half of 1997/98. Higher-than-anticipated revenue from taxation and energy revenues offset lower-than-anticipated revenue from forests, federal contributions and other sources.

Expenditure of \$10.2 billion was \$125 million below budget. Fourteen of 16 ministries were under-budget at the half-way point this year, partly offset by higher-than-expected spending in the Ministry for Children and Families and Ministry of Labour.

- As expected, spending outpaced revenue during the first half of the year. The six-month shortfall was \$378 million, well below the planned level of \$531 million, and \$208 million lower than the same period last year.
- The second quarter results show that the budget is on track for the first half of the fiscal year. The government continues to monitor and manage finances closely, and will continue to make the necessary adjustments to meet its fiscal targets.

Debt

- By the end of September, total provincial net debt was \$29,962 million.
- Taxpayer-supported debt accounted for \$21,960 million of this total.
 - Direct debt totalled \$11,722 million, up \$648 million from March 31, 1997.
 - Other taxpayer-supported debt totalled \$10,238 million, up \$57 million, and includes borrowing for capital projects.

Crown Corporations

The unaudited operating results of Crown corporations and agencies for their most recent reporting period ending September 30 show:

- British Columbia Hydro and Power Authority reported net income of \$145, up \$88 million from the same period last year.
- The Insurance Corporation of British Columbia recorded a net loss of \$82 million, compared to a \$41-million loss last year.
- British Columbia Lottery Corporation reported net income of \$124 million, down eight per cent from last year.
- British Columbia Transit's net expenditure was \$216 million, up 4.2 per cent from last year.
- Because of heavy seasonal traffic volumes that occur over the summer peak period, British Columbia Ferry Corporation received more of its revenue in the first half of the year, resulting in net income of \$12 million. However, a significant full-year loss is projected as traffic volumes weaken over the second half.
- Net income for the British Columbia Railway Company totalled \$31 million, down slightly from the same period last year.

PART ONE — ECONOMIC REPORT

Overview

Economic conditions in British Columbia remained favourable in the July-September quarter¹. Employment strengthened significantly, while export growth continued during the first half of 1997. Tourism activity picked up in August after getting off to a slow start due to bad weather in the spring and early summer.

Balancing these favourable conditions, the forest products sector was beginning to show some signs of slowing down by late summer. There was also some deceleration in the construction sector. Overall, however, the economic environment remained positive during this quarter:

- inflation and interest rates in Canada were low;
- the Canadian dollar was considered to be undervalued, benefiting exporters;
- growth in the rest of North America remained strong; and
- government finances across Canada continued to improve.

In the summer, currency market upheavals occurred in a few of the smaller Asian economies. These upheavals began to spread and affect world financial markets in late October. The ultimate outcome of these events is still unclear, but they are likely to have some impact on economic growth in North America in 1998.

British Columbia Economic Developments

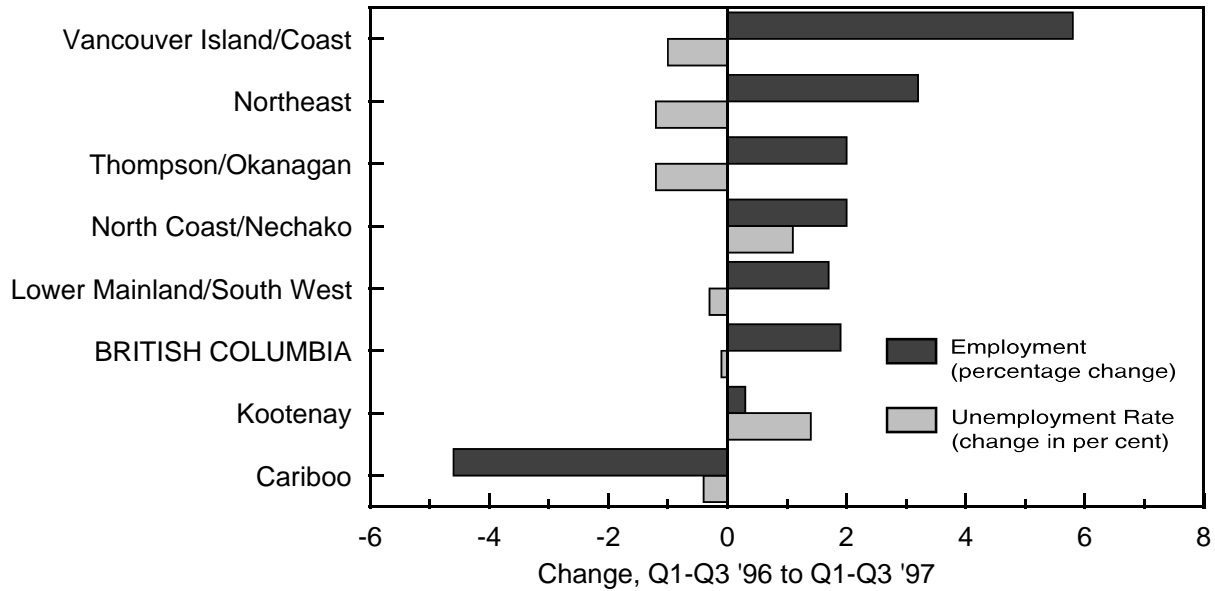
The Labour Market

Employment grew almost 2 per cent (26,000 jobs) in the July-September period, with year-to-date employment levels in the province also at 2 per cent higher than a year ago. Self-employment accounted for most of the job growth. The unemployment rate averaged 8.7 per cent from July to September, down slightly from 8.8 per cent in the April-June quarter, and rising again to 9.0 per cent in October.

In September, migration data for the second quarter were released showing continued strong net population inflows to British Columbia from foreign countries. Offsetting this were reduced flows from other Canadian provinces. This reflects the appearance of job opportunities in the rest of Canada after a long period when employment was stagnant.

¹ The *Economic Report* incorporates information and data available as of November 10, 1997.

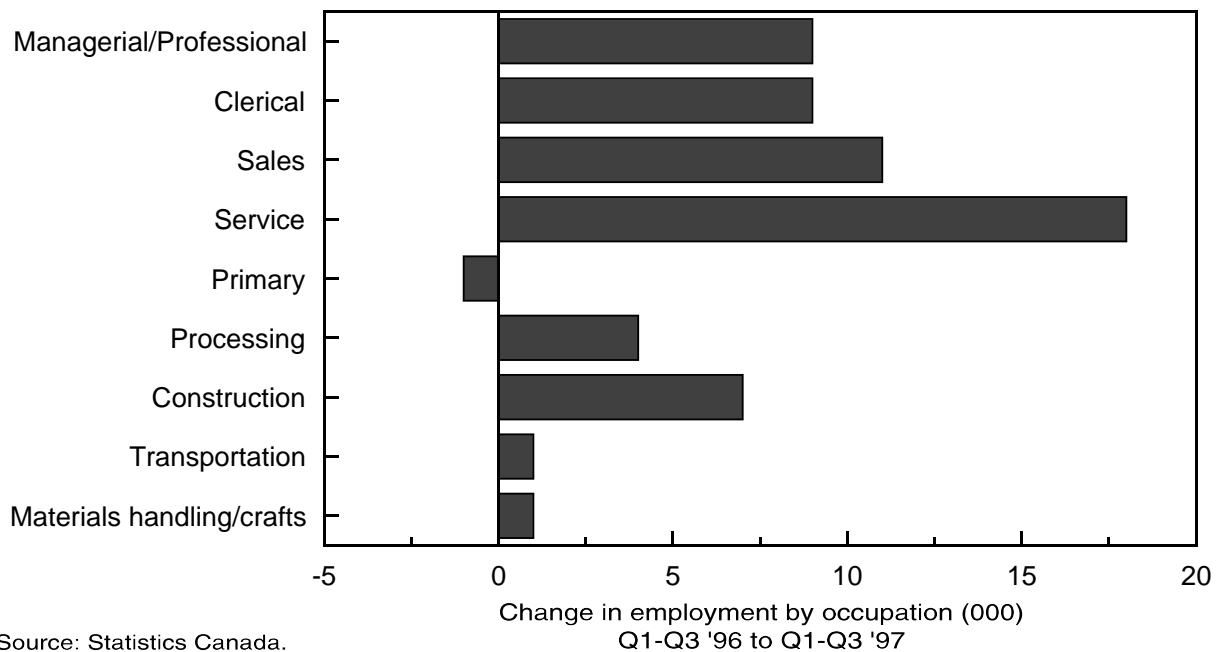
Regional Labour Markets



Source: Statistics Canada.

Employment opportunities within British Columbia have been strongest on Vancouver Island and weakest in the Cariboo region, which recorded a small increase in unemployment. The chart shows changes in regional employment and unemployment rates in British Columbia between 1996 and 1997. Job growth to date in 1997 has been greater in “white-collar” occupations (see chart).

Where the Job Gains Are



Source: Statistics Canada.

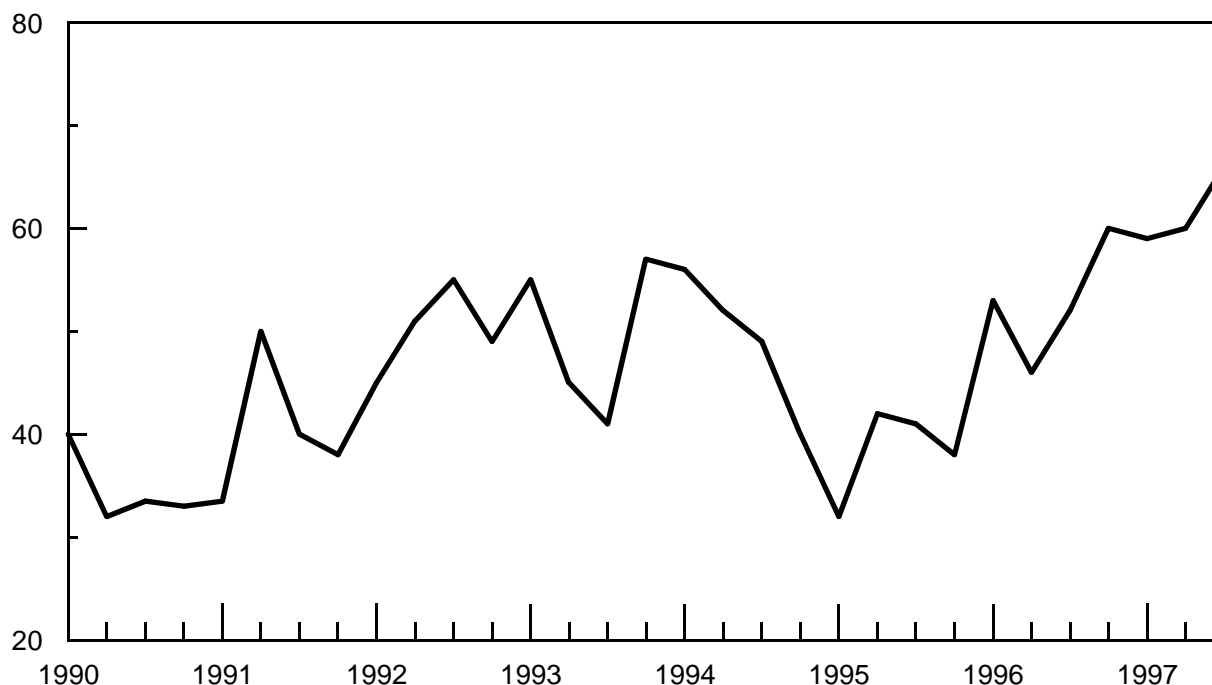
Collective agreements negotiated in the third quarter provided modest wage gains of under 1 per cent, down slightly from an average of 1.1 per cent in the first half of 1997. Public sector settlements continue to run below those in the private sector. Average weekly earnings rose 1.9 per cent during the first eight months of the year.

The Consumer Sector

Interest rates remain low and consumer confidence in British Columbia is improving. The Conference Board of Canada fall 1997 survey of consumer attitudes found that “in British Columbia, respondents indicated that this was a good time to make a major purchase and were satisfied with a recent improvement in their financial affairs”. (see chart)

B.C. Consumer Confidence Rising

Per cent saying it is a good time to make a major purchase



Source: Conference Board of Canada.

As a result of these developments, consumer spending on goods has picked up this year. Retail sales in July and August were fairly strong, rising 1.4 per cent above the second quarter level. To date in 1997, retail sales are up 4.9 per cent. Contributing to this year's gains are strong sales by food stores, gas stations and auto dealers. New car, truck and van sales were up 11.2 per cent during the first nine months of 1997 compared to a year ago. Clothing stores and merchants selling leisure/discretionary goods recorded below-average sales growth.

Seasonally adjusted housing starts were down 2 per cent from the second quarter while Multiple Listing Service home sales fell 3.1 per cent. The value of residential building permits fell in the third quarter, due partly to the strike by City of Vancouver employees, declining about 9 per cent in the year to date through September. Although the housing market was soft in the third quarter, starts rebounded sharply in October, bringing the year-to-date increase to 6.1 per cent.

Consumer spending on services has moderated from the 1996 increase of 6.1 per cent. Tourism activity appears to have grown more slowly to date in 1997 than a year ago, when the expansion of the Vancouver International Airport and the corresponding addition of many more flights greatly increased the number of visitors. As this growth has levelled off, so have most of the tourism indicators. In addition, the Japanese economy has been weak, resulting in declines in the number of visitors from that country.

Consumer prices continued to rise at less than one per cent in British Columbia, below the national inflation rate.

Business and Industrial Activity

Business activity grew more quickly during the first three quarters of 1997 than it did a year ago. The value of British Columbia exports was up 5.7 per cent to date through August and the value of manufacturing shipments was up 5.1 per cent through the same period. At the same time a year ago, exports were down 6.5 per cent.

The construction industry has been active in the province, although building permits data may indicate an emerging slowdown. Hotel construction has increased significantly, resulting from the high occupancy levels and the sharp increase in room rates seen in the last two years. Several hotel projects are planned or underway in the greater Vancouver and Victoria areas. Major residential projects continue in the Vancouver area, notably the Coal Harbour redevelopment. Rising office rents and falling vacancy rates have stimulated office construction. According to Royal LePage, Vancouver's office vacancy rate was 5 per cent in the third quarter, down over 2 percentage points from a year ago, and the lowest among major Canadian cities. In early November, the Vancouver International Airport Authority announced that it would spend \$112 million next year on its next phase of terminal improvements.

While business activity improved in many areas of the economy, the forest industry encountered difficulties in the July-September quarter, particularly on the north coast. Since April, lumber prices have fallen sharply. Factors include:

- a drop in U.S. housing starts and sales, which has affected primarily the Interior portion of the industry in the province; and
- a weak Japanese economy and an increase in the Japanese consumption tax on April 1, which affected prices received by Coastal mills, along with greater competition from countries such as Chile, New Zealand, Sweden, Finland and Russia.

In mid-July, a strike began at three Fletcher Challenge pulp and paper mills. In addition, the Skeena Cellulose pulp mill and related logging and saw milling operations were closed for most of the third quarter and the Alaska ferry service was temporarily suspended in August.

Combined with a downturn in fishing activity, these events had a major impact on the city of Prince Rupert and the surrounding area. Negotiations between the provincial government, labour and creditors to re-open the Skeena Cellulose mill continue.

Elsewhere in the forest industry, pulp and newsprint prices continued to strengthen in the third quarter, as inventories declined. In the mining industry, copper prices fell from \$1.05 U.S. per pound at the beginning of the third quarter to \$0.90 at the end of September.

Financial market conditions remained favourable for business activity during the third quarter. Short-term interest rates rose about one-half of a percentage point, but remained below 4 per cent and more than 2 percentage points less than comparable U.S. rates. Long-term interest rates on corporate bonds fell to 6.5 per cent at the end of the third quarter. The value of the Canadian dollar was essentially unchanged against other major currencies during the July-September period, although it has fallen since then in the wake of Asia's currency devaluations.

In other business developments:

- The Conference Board's fall 1997 survey of business confidence reported that sentiment toward investing in British Columbia moved up.
- Business bankruptcies declined 2.5 per cent during the first 9 months of the year.
- Difficulties in the forestry sector have affected the outlook for manufacturing production and orders, according to Statistics Canada's third quarter business conditions survey (forest products account for about half of B.C. manufacturing activity).

The Outlook

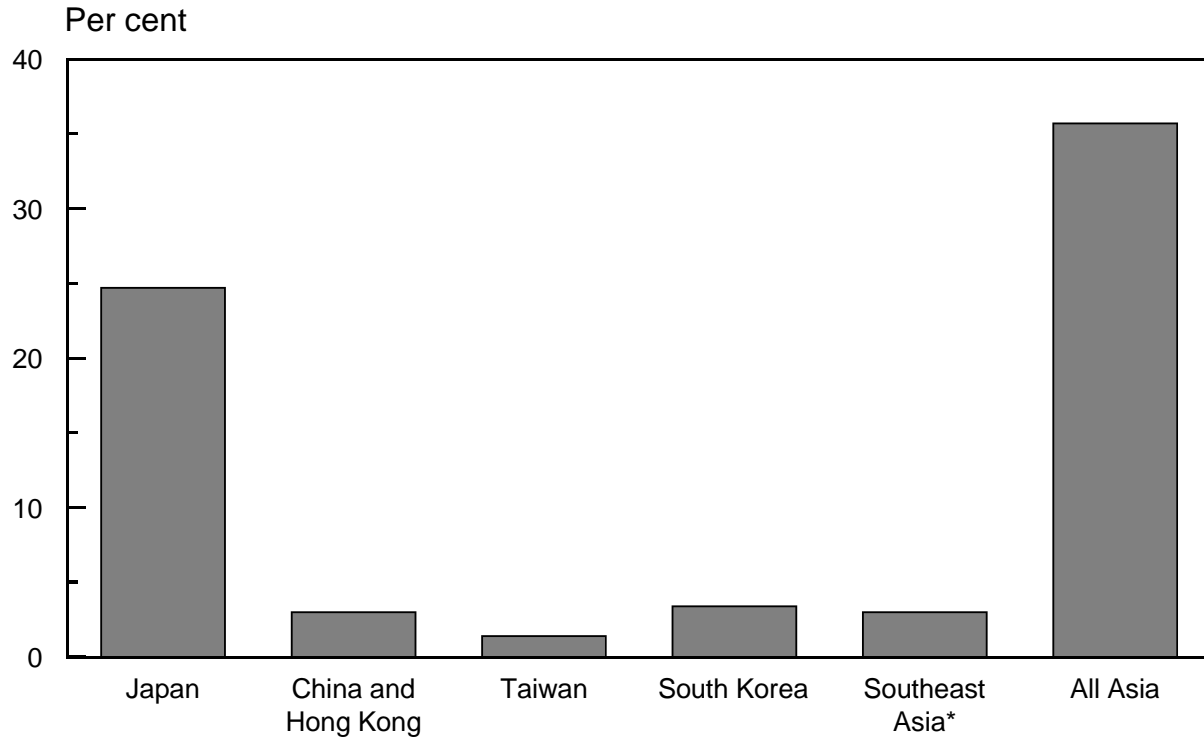
In September, the Ministry of Finance and Corporate Relations released its fall economic forecast update which projected growth of 2.2 per cent in 1997 and 2.5 per cent in 1998, unchanged from the March budget forecast. A strong North American economy should lead to continued growth in British Columbia in 1998.

However, uncertainties in Asian economies may result in a modest adjustment to the September growth forecast. When the September forecast was released, the Asian currency upheaval seemed largely confined to a handful of smaller countries in the region. Some analysts now think that Asian growth will be half what was previously expected as the slowdown in the smaller Asian economies ultimately affects their larger trading partners, Japan and China. Even so, growth in the region would still be 3 to 4 per cent.

Nevertheless, these developments should be put in perspective. Asia accounts for over 35 per cent of British Columbia's foreign goods exports (see chart) and accounts for 20 to 25 per cent of the province's total trade (foreign *and* interprovincial goods *and* service exports). However, the bulk of British Columbia's trade is with the rest of Canada and the United States, where economic conditions remain buoyant.

B.C.'s Exports to Selected Asian Countries

(share of 1996 foreign merchandise exports)



* Includes Singapore, Indonesia, Malaysia, Philippines, Thailand, Vietnam, Australia and a few smaller nations.
Source: Statistics Canada, BC Stats.

Table 1 Current Economic Statistics¹

	Latest Period	Year-to-Date Average			Change
		1996	1997		
BRITISH COLUMBIA					
LABOUR MARKET					
Employment (s.a., thousands).....	Oct./97	1,840	1,800	1,837	+2.0%
Male (3-month moving averages).....	Oct./97	1,010	981	999	+1.9%
Female 3-month moving averages).....	Oct./97	839	814	838	+2.8%
Unemployment rate (s.a., per cent).....	Oct./97	9.0	8.8	8.6	-0.2
Male (3-month moving averages).....	Oct./97	9.1	9.0	8.8	-0.2
Female (3-month moving averages).....	Oct./97	8.4	8.6	8.4	-0.2
In-migration.....	Q2	12,968	15,432	12,310	-20.2%
Wages and salaries (s.a., \$ millions).....	June/97	4,439	4,202	4,397	+4.6%
Average weekly earnings.....	Aug./97	616	604	615	+1.9%
CONSUMER SECTOR					
Retail sales (s.a., \$ million).....	Aug./97	2,756	2,598	2,725	+4.9%
Car and truck sales (units).....	Sept./97	12,135	11,020	12,253	+11.2%
Housing starts (all areas, s.a., annual rate).....	Oct./97	33,500	27,590	29,270	+6.1%
Existing home sales (s.a.).....	Sept./97	5,322	5,630	5,907	+4.9%
Building permits (s.a., \$ thousands).....	Sept./97	496	514	468	-8.9%
British Columbia consumer price index (annual per cent change).....	Sept./97	0.9	0.9	0.9	0.0
INDUSTRIAL ACTIVITY					
Foreign merchandise exports (\$ million).....	Aug./97	2,047	2,103	2,224	+5.7%
Manufacturing shipments (s.a., \$ million).....	Aug./97	2,864	2,797	2,938	+5.1%
Lumber production (thousand cubic metres).....	Aug./97	2,278	2,730	2,716	-0.5%
Pulp and paper production (thousand tonnes).....	Sept./97	490	606	615	+1.5%
Coal production (thousand tonnes).....	July/97	2,324	2,070	2,258	+9.1%
Natural gas production (million cubic metres).....	July/97	1,883	1,850	1,870	+1.1%
Copper production (million kg).....	July/97	19.3	19.1	17.6	-7.9%
TOURISM					
Entries of U.S. and overseas residents (thousands)	Aug./97	1,147	633	665	+5.1%
B.C. Ferry passengers to/from Vancouver Island (thousands).....	Sept./97	1,039	1,054	1,028	-2.5%
COMMODITY PRICES Nov. 7, 1997					
Lumber (U.S.\$/thousand board feet).....	288 Oct./97	303	339	364	+7.4%
Pulp (U.S.\$/tonne).....	595 Oct./97	595	595	560	-5.9%
Newsprint (U.S.\$/tonne).....	570 Oct./97	570	680	552	-18.8%
Copper (U.S.\$/lb.).....	0.89 Oct./97	0.93	1.05	1.07	+1.9%
B.C. export commodity price index (Cdn.\$ Index: 1986=100) ²	Q2/97	148.6	143.5	147.8	+3.0%
FINANCIAL DATA					
Canadian dollar (U.S. cents).....	70.9 Oct./97	72.1	73.2	72.6	-0.60
Canadian prime rate (per cent).....	5.25 Oct./97	5.25	6.47	4.81	-1.66
Canadian treasury bills (per cent).....	3.57 Oct./97	3.33	4.58	3.03	-1.55
Treasury bill spread — Canada minus U.S. (per cent).....	-1.58 Oct./97	-1.63	-0.43	-2.02	-1.59

s.a. — seasonally adjusted.

¹ The cut-off date for data used in this table is November 10, 1997.² Q3 not available due to historical data revisions.

PART TWO — FISCAL REPORT

Overview

For the first half of 1997/98, revenue totalled \$9,774 million. This was \$29 million above budget as higher-than-anticipated revenue from social service, personal income and fuel taxes, petroleum, natural gas and water rental revenue offset lower-than-budgeted revenue from forests, federal contributions, other fees and licences, fines and other miscellaneous sources.

Expenditure of \$10,152 million was \$125 million below budget. Fourteen of 16 ministries are under-budget at the half-way point in the year, partly offset by higher-than-budgeted spending in the Ministry for Children and Families and Ministry of Labour.

Table 2 Consolidated Revenue Fund
Summary of Transactions
for the Six Months Ended September 30, 1997
(Unaudited)

	Budget 1997 ¹ (\$ millions)	Actual 1997 (\$ millions)	Actual 1996 ² (\$ millions)	Increase (Decrease) ³ (\$ millions)
Revenue	9,745.1	9,773.8	9,625.0	28.7
Expenditure.....	<u>10,276.3</u>	<u>10,151.7</u>	<u>10,210.7</u>	(124.6)
Six month deficit.....	<u>(531.2)</u>	(377.9)	(585.7)	<u>(153.3)</u>
Net receipts (disbursements) from financing/ working capital transactions ⁴		211.9	(97.1)	
Decrease (increase) in cash and short-term investments.....		<u>(481.9)</u>	<u>148.4</u>	
Net decrease (increase) in provincial government direct debt ⁵		<u>(647.9)</u>	<u>(534.4)</u>	

¹ Figures reflect the six-month allocation of the full-year budget, based on expected plans and seasonal patterns.

² Figures for 1996/97 have been restated to conform with the presentation used for 1997/98.

³ 1997/98 actual less 1997/98 budget.

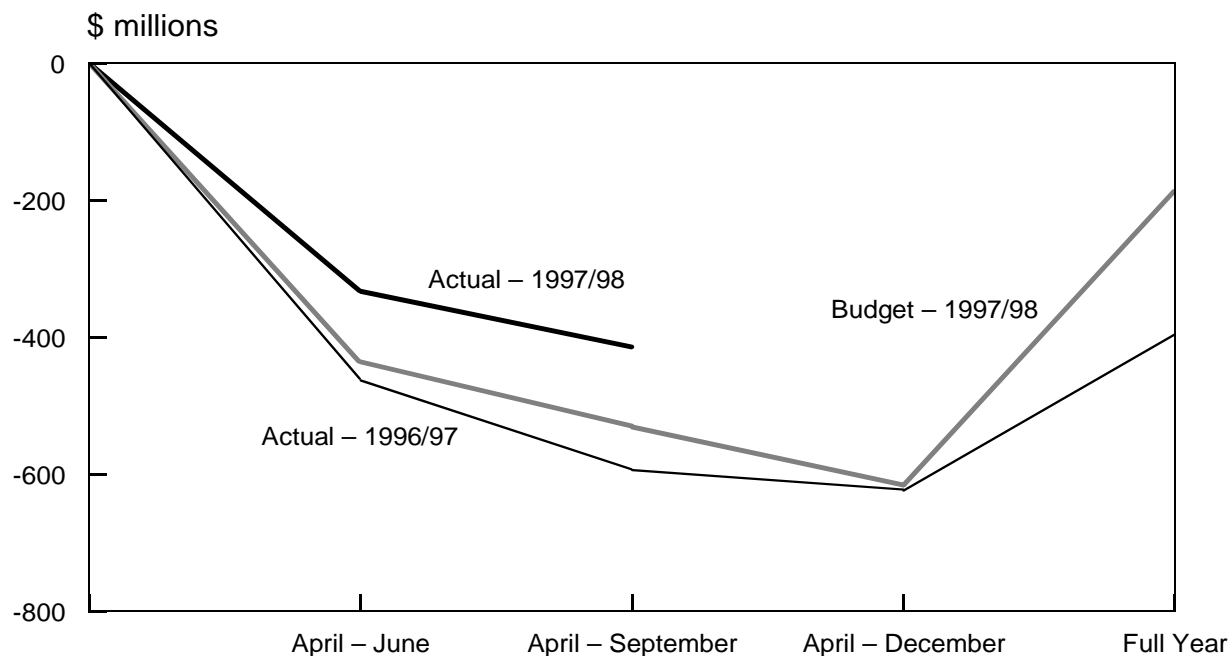
⁴ Financing and working capital transactions represent either a source or use of funds, such as the payment or collection of loans and accounts payable/receivable. They do not cause a change in the annual surplus (deficit) but only a change in the composition of the provincial government's assets and liabilities.

⁵ Includes direct debt incurred for government operating purposes and does not include debt incurred by or on behalf of Crown corporations and agencies.

Compared to the first six months of 1996/97, revenue increased 1.5 per cent as higher revenue from taxation, natural resources and other sources offset a decline in federal transfers. Expenditures are below the same period last year. Together, these trends reflect continued progress towards the government's financial management plan target.

During the first six months of 1997/98, spending from the consolidated revenue fund exceeded revenues resulting in a shortfall of \$378 million. As shown in the chart below, this shortfall was \$153 million less than the expected level of \$531 million and \$208 million lower than in the same period last year. It is normal for the government's fiscal balance to improve significantly in the last quarter of the fiscal year. This is because a larger portion of the government's revenue is received in this latter part of the year. In contrast, the government's spending is relatively stable over the full year.

Year-to-Date Fiscal Balance by Quarter Fiscal years 1996/97 and 1997/98



The provincial government financed the six-month shortfall and increased its cash balances by using net receipts from financing and working capital transactions and increasing direct debt. Government direct debt increased \$648 million in the first six months of 1997/98. This compares to a \$534-million increase in the same period last year (see Table 2). Government direct debt borrowing requirements tend to be higher in the first six months of the fiscal year, due to settlements of year-end liabilities of the previous year, as well as timing delays in the collection of certain revenue sources (e.g. dividends from Crown corporations). Details on the borrowing of the government and its Crown corporations and agencies are shown in Part Three — Borrowing Report.

Revenue

For the first six months of 1997/98, total revenue of \$9,774 million was \$29 million or 0.3 per cent above budget mainly due to higher revenue from taxation and petroleum and natural gas, partially offset by lower revenue from forests and other sources. Revenue was 1.5 per cent higher than in 1996/97 as increases in revenue from taxation, natural resources and other sources offset a decline in federal transfers. Last year at this time, revenue was \$352 million or 3.5 per cent below budget.

- Taxation revenue of \$6,624 million was \$84 million above budget and 3.0 per cent higher than in the first six months of 1996/97. Personal income tax revenue was \$20 million above budget and 3.3 per cent higher than last year due to growth in personal incomes which offset the effect of tax reductions introduced in 1996/97. These include the BC Family Bonus and one-point reduction in the personal income tax base rate, effective July 1, 1996, and a further one-point reduction in the base rate for 1997. Corporation income tax was slightly above budget and unchanged from last year due to reduced federal instalment payments resulting from the corporate profits decline in 1996.
- Revenue from social service tax was \$63 million above budget and 6.5 per cent higher than last year due to strengthening retail sales during the first half of the year. Higher consumption volumes caused motor fuel tax revenue to be \$12 million above budget, but 4.0 per cent lower than last year due to an additional one cent of tax that was transferred to the BC Transportation Financing Authority beginning April 1, 1997. Tobacco tax revenue was \$6 million below budget and 4.0 per cent lower than the previous year mainly due to a decline in volumes taxed during the second quarter. A weakening in housing re-sales in the Lower Mainland resulted in property transfer tax revenue being down \$6 million from budget, but up 1.9 per cent from the same period last year. Corporation capital tax revenue was \$10 million below budget but 10.0 per cent higher than last year due to higher instalment payments and lower refunds. Other tax revenue was \$8 million above budget due to higher revenue from hotel room and insurance premium taxes.
- Natural resource revenue of \$945 million was slightly below budget but 2.2 per cent higher than in the same period in 1996/97. Petroleum and natural gas revenue was \$53 million above budget and 43 per cent higher than last year due to the effect of higher-than-expected prices on natural gas royalties, higher sales of Crown land drilling rights, and higher volumes of petroleum production. Minerals revenue was \$2 million below budget and 21 per cent lower than the previous year due to lower-than-expected assessments for the current and previous years.

Forests revenue was \$70 million below budget and 13 per cent lower than last year. Most of the decline from budget was due to reduced timber sales revenue resulting from lower-than-expected harvest volumes and lower billed stumpage rates. Compared to the first six months of last year, overall harvest volumes for major licensees were down almost 13 per cent. Factors contributing to the decline include the recent weakening of lumber prices and lower export demand; wet weather earlier in the year; large inventories; low chip prices; the Skeena Cellulose mill closure; and the pulp strike. Revenue from the small business forest enterprise program was up 13 per cent from budget and 4.6 per cent higher than last year due to an increase in volumes harvested. Forests revenue does not include \$157 million of stumpage revenue under the forest renewal plan received by Forest Renewal BC (see Table 15).

Table 3 Revenue by Source
for the Six Months Ended September 30, 1997
(Unaudited)

	Budget 1997 (\$ millions)	Actual 1997 (\$ millions)	Actual 1996 ¹ (\$ millions)	Increase (Decrease) ² (\$ millions)
Taxation:				
Personal income.....	2,624.8	2,644.8	2,559.5	20.0
Corporation income.....	573.7	575.5	575.6	1.8
Social service.....	1,608.7	1,671.9	1,570.0	63.2
Fuel.....	328.6	340.1	354.3	11.5
Tobacco.....	251.5	245.1	255.2	(6.4)
Property.....	644.2	644.2	633.5	—
Property transfer.....	179.5	173.9	170.6	(5.6)
Corporation capital.....	216.8	206.9	188.1	(9.9)
Other.....	125.8	134.2	135.2	8.4
Less commissions on collection of public funds.....	(13.9)	(12.7)	(12.6)	1.2
Natural resources:	6,539.7	6,623.9	6,429.4	84.2
Petroleum and natural gas:				
Natural gas royalties.....	51.0	57.3	40.3	6.3
Permits and fees.....	85.3	129.4	81.3	44.1
Petroleum royalties.....	37.7	40.6	37.6	2.9
	<u>174.0</u>	<u>227.3</u>	<u>159.2</u>	<u>53.3</u>
Minerals.....	24.0	21.9	27.7	(2.1)
Forests:				
Timber sales.....	481.8	402.6	463.6	(79.2)
Small Business Forest Enterprise Program.....	96.9	109.3	104.5	12.4
Logging tax.....	10.3	4.5	28.7	(5.8)
Other forests revenue.....	4.6	7.4	4.2	2.8
	<u>593.6</u>	<u>523.8</u>	<u>601.0</u>	<u>(69.8)</u>
Water rentals.....	146.8	163.2	126.0	16.4
Wildlife Act.....	10.1	9.4	11.7	(0.7)
Less commissions on collection of public funds.....	(1.0)	(0.7)	(0.6)	0.3
	<u>155.9</u>	<u>171.9</u>	<u>137.1</u>	<u>16.0</u>
Other revenue:	947.5	944.9	925.0	(2.6)
Medical Services Plan premiums.....	435.7	442.6	433.0	6.9
Motor vehicle licences and permits.....	165.0	170.3	175.0	5.3
Other fees and licences.....	208.6	195.1	186.3	(13.5)
Investment earnings.....	56.4	52.5	50.2	(3.9)
Fines and penalties.....	57.0	45.7	39.8	(11.3)
Miscellaneous.....	74.1	52.2	39.5	(21.9)
Less commissions on collection of public funds.....	(41.2)	(37.0)	(22.6)	4.2
	<u>955.6</u>	<u>921.4</u>	<u>901.2</u>	<u>(34.2)</u>

¹ Figures for 1996/97 have been restated to conform with the presentation used for 1997/98.

² 1997/98 actual less 1997/98 budget.

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Table 3 Revenue by Source — Continued
for the Six Months Ended September 30, 1997
(Unaudited)

	Budget 1997 (\$ millions)	Actual 1997 (\$ millions)	Actual 1996 ¹ (\$ millions)	Increase (Decrease) ² (\$ millions)
Contributions from government enterprises:				
Liquor Distribution Branch income	305.7	314.7	300.2	9.0
British Columbia Lottery Corporation.....	134.3	120.3	131.1	(14.0)
Other	2.8	2.8	—	—
	<u>442.8</u>	<u>437.8</u>	<u>431.3</u>	<u>(5.0)</u>
Contributions from the Federal government:				
Canada health and social transfer.....	790.0	784.7	912.1	(5.3)
Other	69.5	61.1	26.0	(8.4)
	<u>859.5</u>	<u>845.8</u>	<u>938.1</u>	<u>(13.7)</u>
TOTAL REVENUE	<u>9,745.1</u>	<u>9,773.8</u>	<u>9,625.0</u>	<u>28.7</u>

¹ Figures for 1996/97 have been restated to conform with the presentation used for 1997/98.

² 1997/98 actual less 1997/98 budget.

- Other revenue totalled \$921 million, down \$34 million from budget but up 2.2 per cent from last year. The decline from budget was due to lower revenue from other fees and licences, fines and other miscellaneous sources, partially offset by higher revenue from Medical Service Plan premiums and motor vehicle licences and permits.
- Contributions from government enterprises of \$438 million were \$5 million below budget but up 1.5 per cent from last year. Net income of the Liquor Distribution Branch was \$9 million above budget because of higher sales volumes. Net income of the British Columbia Lottery Corporation was down \$14 million from budget and 8.2 per cent lower than last year due to lower ticket sales in response to smaller jackpots in the first quarter.
- Federal government contributions of \$846 million were \$14 million below budget and \$92 million or 9.8 per cent lower than in the same period last year. Revenue from the Canada Health and Social Transfer was slightly below budget but \$127 million lower than last year due to the continuation of federal transfer cuts and an increase in the amount of the tax-point component of the transfer entitlement. Other federal contributions were \$8 million below budget due to slower-than-expected federal recoveries under various cost-shared programs.

Expenditure

Spending for the first six months of the fiscal year was \$125 million below budget at \$10,152 million. This is 0.6 per cent lower than comparable spending for the same period last year, indicating solid progress toward the government's financial management plan.

As of September 30, 1997, 14 of the 16 ministries were below budget.

- Ministry of Attorney General expenditure of \$442 million was on budget as higher-than-expected payments for flood damage compensation were offset by slower-than-expected expenditures in other programs.
- Ministry for Children and Families expenditure of \$658 million was \$8 million above budget mainly because of higher-than-planned expenditures for residential programs for children and youth, and for handicapped and disabled adults residential services. Ministry spending was down 2.0 per cent from last year because of administrative efficiencies resulting from an amalgamation of services in this new ministry.
- Ministry of Education, Skills and Training expenditure of \$2,950 million was \$13 million below budget due to reduced spending for administration, skills development and educational institutions and organizations. Ministry spending was \$43 million or 1.5 per cent higher than in the same period last year, reflecting the government's commitment to education. Public school operating contributions increased \$26 million or 1.4 per cent from last year due to higher enrolments, while expenditures for educational institutions and organizations were unchanged.
- Ministry of Employment and Investment expenditure of \$62 million was \$8 million below budget because of slower-than-planned program expenditures. Spending was 20 per cent higher than last year because of additional expenditures for the Kemess mine development.
- Ministry of Environment, Lands and Parks expenditure was \$12 million or 10.4 per cent lower than last year due to reduced spending for park acquisitions and savings resulting from management and administrative efficiencies.
- Ministry of Forests expenditure of \$232 million was \$29 million below budget and \$89 million lower than last year because of lower-than-expected spending for forest fire suppression and a major restructuring of field and headquarters operations.
- Expenditure of the Ministry of Health of \$3,649 million was \$7 million below budget. Lower-than-budgeted spending for acute and continuing care services, debt servicing contributions and for the Pharmacare program was partially offset by higher-than-expected utilization for the Medical Services Plan and adult mental health services. Ministry spending rose \$152 million or 4.3 per cent from last year mainly due to increased expenditures for acute and continuing care, Pharmacare and the Medical Services Plan. Contributions to BC Transit were slightly lower than last year due to a change in the schedule of payments.
- Ministry of Human Resources expenditure of \$818 million was 1.7 per cent lower than budget and \$48 million or 5.5 per cent lower than last year mainly due to lower expenditures for income assistance. Caseloads in the first six months of 1997/98 were down 9.4 per cent from the same period last year due to the success of caseload reduction initiatives which included the new BC Benefits program, early intervention programs and a change in eligibility rules.
- Expenditure of the Ministry of Municipal Affairs and Housing of \$179 million was 14 per cent lower than budget and down \$42 million or 19 per cent from last year. In the first six months of 1997/98, grants to local governments for infrastructure projects, including those approved under the Canada-British Columbia infrastructure works program, were slower than planned and lower than last year.

Table 4 Expenditure by Ministry¹
for the Six Months Ended September 30, 1997
(Unaudited)

	Budget 1997 (\$ millions)	Actual 1997 (\$ millions)	Actual 1996 (\$ millions)	Increase ² (Decrease) (\$ millions)
Legislation	14.6	15.2	13.7	0.6
Auditor General	3.5	3.6	3.8	0.1
Office of the Child, Youth and Family Advocate	0.5	0.5	0.4	—
Conflict of Interest Commissioner	0.1	0.1	0.1	—
Elections B.C.	3.4	2.2	15.5	(1.2)
Information and Privacy Commissioner	1.2	1.2	1.1	—
Ombudsman	2.3	2.1	2.2	(0.2)
Office of the Premier	1.1	1.1	1.3	—
Aboriginal Affairs	13.4	12.0	14.7	(1.4)
Agriculture, Fisheries and Food	30.1	27.2	27.2	(2.9)
Attorney General	442.8	441.5	436.8	(1.3)
Children and Families	649.8	658.1	671.6	8.3
Education, Skills and Training				
Public school operating contributions	1,861.0	1,861.0	1,835.5	—
Educational institutions and organizations	540.6	536.8	536.8	(3.8)
Other	561.1	551.8	534.3	(9.3)
Total	2,962.7	2,949.6	2,906.6	(13.1)
Employment and Investment	70.3	62.1	51.7	(8.2)
Environment, Lands and Parks	102.1	100.0	111.6	(2.1)
Finance and Corporate Relations	52.5	51.7	55.8	(0.8)
Forests	260.7	231.6	320.5	(29.1)
Health				
Acute and continuing care	1,967.0	1,946.5	1,857.4	(20.5)
Contribution to BC Transit	120.7	122.7	139.7	2.0
Other	1,568.4	1,579.9	1,500.2	11.5
Total	3,656.1	3,649.1	3,497.3	(7.0)
Human Resources	832.0	818.0	865.8	(14.0)
Labour	17.1	21.3	23.9	4.2
Municipal Affairs and Housing	207.5	179.0	220.8	(28.5)
Small Business, Tourism and Culture	55.5	49.5	67.1	(6.0)
Transportation and Highways	264.2	252.0	337.4	(12.2)
Women's Equality	20.4	19.3	15.3	(1.1)
Other Appropriations:				
Management of Public Funds and Debt	459.1	450.8	484.1	(8.3)
Contingencies and New Programs	—	—	—	—
BC Benefits	149.9	149.9	52.2	—
Corporate Accounting System	5.2	3.6	3.8	(1.6)

¹ Figures for 1996/97 have been restated to conform with the presentation used for 1997/98.

² 1997/98 actual less 1997/98 budget.

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Table 4 Expenditure by Ministry¹ — *Continued*
for the Six Months Ended September 30, 1997
(Unaudited)

	Budget 1997 (\$ millions)	Actual 1997 (\$ millions)	Actual 1996 (\$ millions)	Increase ² (Decrease) (\$ millions)
Environmental Assessment and Land Use Coordination.....	6.8	6.8	3.9	—
Environmental Boards and Forest Appeals Commission.....	0.8	0.4	0.5	(0.4)
Forest Practices Board.....	2.4	2.2	1.3	(0.2)
Office of the Police Complaints Commissioner.....	—	—	—	—
Public Sector Employers' Council.....	0.8	0.8	0.8	—
Public Service Employee Relations Commission.....	4.3	4.1	7.7	(0.2)
Office of the Transition Commissioner for Child and Youth Services.....	—	—	0.8	—
Insurance and Risk Management.....	1.1	3.1	5.4	2.0
Amortization of Change in Unfunded Pension Liability.....	(18.0)	(18.0)	(12.0)	—
TOTAL EXPENDITURE.....	10,276.3	10,151.7	10,210.7	(124.6)

¹ Figures for 1996/97 have been restated to conform with the presentation used for 1997/98.

² 1997/98 actual less 1997/98 budget.

- Ministry of Small Business, Tourism and Culture spending was \$6 million below budget because of slower-than-expected spending for tourism and cultural programs. Expenditures were 26 per cent lower than last year mainly because of ministry budget reductions which included a transfer of tourism development and marketing to the new Tourism BC agency, reduced sport, culture, heritage and community grants and restructuring of other ministry functions.
- Ministry of Transportation and Highways spending of \$252 million was \$12 million lower than budget because of slower-than-expected highways expenditures. Spending was \$85 million or 25 per cent lower than last year due to the transfer of motor vehicle branch responsibilities to the Insurance Corporation of British Columbia in late 1996/97, and lower spending for highway rehabilitation and secondary highways assistance.
- Management of public funds and debt spending of \$451 million was \$8 million below budget and \$33 million lower than last year because of lower interest rates (see Part Three-Borrowing Report for more information).
- BC Benefits spending of \$150 million was on budget and \$98 million higher than the same period last year as the BC Family Bonus program did not commence until July 1, 1996.

Fiscal Outlook

Results for the first six months of the fiscal year indicate that the government's fiscal performance has remained on track with the budget. As noted earlier, revenue for the first six months was \$29 million above budget, mainly due to higher-than-anticipated revenue from taxes and other sources. Spending for the first half of the fiscal year was \$125 million below budget, indicating continued strong commitment to the government's financial management plan targets.

Because British Columbia's economic performance in 1997 appears generally consistent with the Ministry of Finance and Corporate Relations' forecast, and because overall year-to-date revenues are generally in line with expectations, the 1997/98 revenue outlook remains unchanged. Recent developments in Asia, including declines in the Japanese housing market, have contributed to the weakness in British Columbia exports, and in particular, to forestry revenue. The government is continuing to closely monitor this area. Strength in other revenue sources is expected to offset any shortfall in forest revenue during the current fiscal year.

As in other years, challenges are present in a number of spending areas, including utilization pressures in the Ministries of Health, Children and Families and Attorney General. The government is committed to protecting health care, education and social services while meeting its fiscal goals. Treasury Board and ministries are continuing to monitor and manage these challenges to ensure that the overall 1997/98 budget operating target is achieved.

PART THREE — BORROWING REPORT

Overview

- At September 30, 1997, provincial net debt totalled \$29,962 million. Taxpayer-supported debt accounts for \$21,960 million of this total, while the remainder is self-supporting. This level of borrowing is consistent with the government's financial management plan. These amounts may change when audited results for 1996/97 become available.
- During the six months ended September 30, 1997, total government, Crown corporation and agency net debt increased \$755 million. The increase in total net debt is mainly due to increases in government direct debt, and in the debt of commercial and economic development Crown corporations. These increases were partially offset by reductions in the debt of social and government service Crown corporations, and debt held under the warehouse borrowing program. During the same period last year, total debt declined \$866 million, largely due to the drawdown of funds in the government's warehouse borrowing program and the defeasance of some outstanding debt.
- Taxpayer-supported debt, which excludes the self-supporting debt of the British Columbia Hydro and Power Authority, British Columbia Railway Company and the warehouse borrowing program, increased \$705 million in the first six months of 1997/98. The increase includes a \$648-million increase in direct debt and a \$57-million increase in other taxpayer-supported debt, which includes borrowing for capital projects, partially offset by a \$67-million decrease in the debt of government service Crown corporations and other fiscal agency loans. During the first six months of last year, taxpayer-supported debt decreased \$155 million.

Provincial Government Direct Debt

- Provincial government direct debt increased \$648 million as new borrowing of \$1,379 million was partially offset by sinking fund contributions, sinking fund earnings and debt maturities totalling \$731 million. The increase in net debt was larger than the six-month deficit due to preborrowing of some cash requirements for the remainder of the fiscal year. This resulted in an increase in cash and temporary investment balances as of September 30, 1997.
- New borrowing consisted of a \$1,430-million increase in long-term debt (swapped into floating rate debt) and a \$51-million decrease in short-term debt. At September 30, 1997, provincial government direct debt totalled \$11,722 million.

Crown Corporation and Agency Net Debt

Crown corporation and agency debt increased \$207 million as new borrowing of \$754 million was partially offset by retirement provisions totalling \$547 million. New borrowing consisted of a \$1,078 million increase in long-term debt, partially offset by a \$324-million reduction in short-term debt outstanding. Last year at this time, Crown corporation and agency net debt decreased \$606 million, largely due to the defeasance of the outstanding debt of the Greater Vancouver Sewerage and Drainage and Water Districts. Borrowing requirements of these agencies are now met through the Municipal Finance Authority of British Columbia.

At September 30, 1997, Crown corporation and agency net debt totalled \$17,808 million. Changes in the first six months include:

- *Commercial Crown corporations* — up \$149 million, including a \$45-million increase in British Columbia Hydro's debt and a \$104-million increase in the debt of British Columbia Railway Company. New borrowing consisted of a \$350-million increase in long-term debt and a \$96-million increase in short-term debt. Retirement provisions totalled \$296 million. At September 30, 1997, commercial Crown corporation net debt totalled \$7,978 million.
- *Economic development Crown corporations* — up \$125 million mainly due to new long-term borrowing by the BC Transportation Financing Authority to retire some short-term debt and to finance new capital projects, and increased short-term borrowing by the BC Housing Management Commission to meet temporary cash requirements. At September 30, 1997, economic development Crown corporation net debt totalled \$3,303 million.
- *Social and government services Crown corporations* — down \$61 million mainly due to a reduction in short-term debt outstanding for the certificate of approval program and for the British Columbia Buildings Corporation, partially offset by new borrowing by the school and hospital districts capital financing authorities. At September 30, 1997, social and government services Crown corporation net debt totalled \$6,378 million.

Warehouse Borrowing Program

- The balance of \$100 million in the warehouse borrowing program was drawn down to partially meet the government's direct debt requirements during the first six months of 1997/98.

Table 5 Change in Provincial Net Debt and Total Net Debt Outstanding, 1997/98¹

Six Months Ended September 30 (Unaudited)	1997			1996	
	New Borrowing ²	Retirement Provision ³	Net Change (\$ millions)	Total Net Debt Outstanding	Net Change
Provincial Government Direct	<u>1,379.3</u>	<u>731.4</u>	<u>647.9</u>	<u>11,722.0</u>	<u>534.4</u>
Crown Corporations and Agencies:					
Commercial					
British Columbia Hydro and Power Authority.....	295.4	250.6	44.8	7,470.8	84.3
British Columbia Railway Company.....	150.3	45.7	104.6	507.6	(0.3)
	<u>445.7</u>	<u>296.3</u>	<u>149.4</u>	<u>7,978.4</u>	<u>84.0</u>
Economic Development:					
British Columbia Ferry Corporation.....	19.6	21.0	(1.4)	631.9	33.8
British Columbia Transit.....	22.6	22.1	0.5	1,556.1	23.4
BC Transportation Financing Authority.....	98.8	(1.8)	100.6	1,044.5	118.0
Other ⁴	25.3	0.4	24.9	70.6	(1.4)
	<u>166.3</u>	<u>41.7</u>	<u>124.6</u>	<u>3,303.1</u>	<u>173.8</u>
Social and Government Services					
British Columbia Assessment Authority.....	(6.2)	—	(6.2)	—	(7.0)
British Columbia Buildings Corporation.....	(34.1)	8.3	(42.4)	704.8	(13.6)
British Columbia Educational Institutions Capital Financing Authority.....	53.5	58.3	(4.8)	1,346.6	(90.2)
British Columbia Regional Hospital Districts Financing Authority.....	78.8	73.9	4.9	1,376.4	(288.5)
British Columbia School Districts Capital Financing Authority.....	136.8	61.6	75.2	2,867.7	(494.6)
Capital Project Certificate of Approval Program.....	(86.4)	—	(86.4)	63.7	353.4
British Columbia Systems Corporation.....	0.2	1.1	(0.9)	18.4	(1.6)
	<u>142.6</u>	<u>203.2</u>	<u>(60.6)</u>	<u>6,377.6</u>	<u>(542.1)</u>
Total Crown Corporations	<u>754.6</u>	<u>541.2</u>	<u>213.4</u>	<u>17,659.1</u>	<u>(284.3)</u>

¹ Net debt includes provincial government direct debt, fiscal agency loans and other debt that has been guaranteed by the provincial government.

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

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

⁴ Includes the British Columbia Housing Management Commission, Pacific Racing Association, Victoria Line Ltd. and the Columbia Power Corporation.

⁵ Includes local governments, universities and colleges.

⁶ Includes debt of the British Columbia Lottery Corporation, Liquor Distribution Branch, British Columbia Railway Company, Pacific National Exhibition, the Provincial Rental Housing Corporation, BC Transportation Financing Authority, British Columbia Ferry Corporation, and the Okanagan Valley Tree Fruit Authority that is not guaranteed by the provincial government.

⁷ Excludes debt of commercial Crown corporations and agencies, funds held under the province's warehouse borrowing program and non-guaranteed debt of the British Columbia Lottery Corporation, Liquor Distribution Branch and British Columbia Railway Company.

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Table 5 Change in Provincial Net Debt and Total Net Debt Outstanding, 1997/98¹ — *Continued*

Six Months Ended September 30 (Unaudited)	1997			1996	
	New Borrowing ²	Retirement Provision ³	Net Change (\$ millions)	Total Net Debt Outstanding	Net Change
Other Fiscal Agency Loans⁵	<u>(0.2)</u>	<u>6.3</u>	<u>(6.5)</u>	<u>148.9</u>	<u>(321.3)</u>
Total Crown Corporations and Agencies	<u>754.4</u>	<u>547.5</u>	<u>206.9</u>	<u>17,808.0</u>	<u>(605.6)</u>
Warehouse Borrowing Program	<u>—</u>	<u>100.0</u>	<u>(100.0)</u>	<u>—</u>	<u>(795.2)</u>
Less amounts held as investments/cash for relending by the Consolidated Revenue Fund and Crown corporations.....	<u>—</u>	<u>—</u>	<u>—</u>	<u>0.8</u>	<u>—</u>
Government, Crown Corporations and Agencies	<u>2,133.7</u>	<u>1,378.9</u>	<u>754.8</u>	<u>29,529.2</u>	<u>(866.4)</u>
Other Guarantees.....	<u>—</u>	<u>—</u>	<u>—</u>	<u>227.4</u>	<u>—</u>
Total Direct and Guaranteed Debt	<u>2,133.7</u>	<u>1,378.9</u>	<u>754.8</u>	<u>29,756.6</u>	<u>(866.4)</u>
Non-Guaranteed Debt ⁶	<u>—</u>	<u>—</u>	<u>—</u>	<u>204.9</u>	<u>—</u>
Total Provincial Debt	<u>2,133.7</u>	<u>1,378.9</u>	<u>754.8</u>	<u>29,961.5</u>	<u>(866.4)</u>
Taxpayer-Supported Net Debt⁷	<u>1,688.0</u>	<u>982.6</u>	<u>705.4</u>	<u>21,959.6</u>	<u>(155.2)</u>

¹ Net debt includes provincial government direct debt, fiscal agency loans and other debt that has been guaranteed by the provincial government.

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

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

⁴ Includes the British Columbia Housing Management Commission, Pacific Racing Association, Victoria Line Ltd. and the Columbia Power Corporation.

⁵ Includes local governments, universities and colleges.

⁶ Includes debt of the British Columbia Lottery Corporation, Liquor Distribution Branch, British Columbia Railway Company, Pacific National Exhibition, the Provincial Rental Housing Corporation, BC Transportation Financing Authority, British Columbia Ferry Corporation, and the Okanagan Valley Tree Fruit Authority that is not guaranteed by the provincial government.

⁷ Excludes debt of commercial Crown corporations and agencies, funds held under the province's warehouse borrowing program and non-guaranteed debt of the British Columbia Lottery Corporation, Liquor Distribution Branch and British Columbia Railway Company.

PART FOUR – CROWN CORPORATIONS

The unaudited operating results of Crown corporations and agencies for their most recent reporting period are presented in this section.

As expected, due to heavy seasonal traffic volume that typically occurs in the summer peak period, British Columbia Ferry Corporation reported net income of \$12 million for the six months ended September 30, 1997. Historically, the corporation carries about 61 per cent of its passenger load volumes in the first half of the fiscal year, meaning that more of the corporation's revenue is received in the first six months. Operating revenues rose 5.8 per cent compared to last year, despite a 1.4-per-cent decline in passenger and vehicle traffic volumes. Operating expenses increased 3.4 per cent, including a 39-per-cent increase in repair and maintenance expenses due to ship refits. The introduction of a new interactive voice response reservation system resulted in most of the 36-per-cent increase in professional and computer services. Amortization expense increased 11 per cent because of new capital assets brought into service this year, including the opening of the Duke Point terminal in June, and the startup of the Skeena Queen vessel in May. Interest costs dropped 5 per cent because of lower interest rates. As traffic volumes decline in the winter period, the corporation expects to record losses in the second half, resulting in an overall loss for the full year.

British Columbia Hydro and Power Authority reported net income of \$145 million for the six months ended September 30, 1997, up \$88 million from the same period last year. Domestic revenues rose \$3 million due to customer growth and gains on the sale of various properties, partially offset by the effects of warmer weather this year and the strike at Fletcher Challenge which commenced July 14, 1997. Electricity trade revenue increased \$40 million due to higher prices than in the previous year. Energy costs rose 9 per cent due to higher energy purchases and increased use of the Burrard thermal generating station. Last year, high reservoir levels and water inflows, as well as the drawdown of the Williston reservoir, resulted in greater use of low-cost hydro generation. Operations, maintenance and administration expenses were \$23 million lower than last year. This was due to significant expenditures related to the sinkholes discovered at the W.A.C. Bennett dam in the previous year, lower pension costs and earlier spending in 1996/97. Finance charges fell 15 per cent mainly due to lower short-term interest rates and lower debt outstanding.

British Columbia Lottery Corporation reported net income of \$124 million for the first six months of the fiscal year, down 8 per cent from last year. Lottery ticket sales revenue rose slightly and included a \$53-million increase in Club Keno sales, due to an expanded network of retailers, partially offset by a \$45-million decline in Lotto 6/49 and BC/49 sales, due to fewer jackpot rollovers. Direct costs rose 2.8 per cent while other expenses increased 27 per cent due to higher amortization and operating expenses associated with the Club Keno retail network and expanded gaming for slot machines and electronic bingo. Revenue from expanded gaming is not expected until late in the next quarter.

Net income of the British Columbia Railway Company for the nine months ended September 30, 1997 totalled \$31 million, down 1.3 per cent from the same period last year. Operating revenue increased 2 per cent due to improved freight revenues from domestic woodchip and coal traffic. Operating expenses rose 1 per cent due to higher traffic levels, partly offset by the effect of severance costs paid in 1996 and fewer employees in 1997. Interest expense increased 20 per cent due to an increase in debt outstanding.

British Columbia Transit's net expenditure for the first six months of the fiscal year was \$216 million, up 4.2 per cent from the same period last year. Revenue increased 4.6 per cent due to a 2.1-per-cent increase in ridership and the effect of a fare increase in Victoria starting July 1, 1997. Expenditures increased 4.4 per cent due to a 3.7-per-cent increase in service hours, higher maintenance costs resulting from a backlog caused by the severe weather in early 1997, increased engine/transmission overhauls, lower warranty recoveries from manufacturers and higher property tax assessments.

The Insurance Corporation of British Columbia recorded a net loss of \$82 million for the nine months ended September 30, 1997, an increase of \$40 million from the same period last year. Premium revenue increased only slightly, while claims expenses increased 3.5 per cent, mainly due to the 7.3 per cent increase in the number of claims reported. Spending for road and traffic safety programs rose 31 per cent due to increased commitment to the Six Point Plan traffic safety programs. The majority of the 1997 expenses for additional Road and Traffic Safety programs, including the Six Point Program, will occur over the remainder of the year. Revenue from investment income increased \$32 million or 12 per cent from the same period last year due to capital gains from investments. Results for the first nine months of 1997 include the transfer of certain motor vehicle licensing responsibilities from the provincial government.

Table 6 British Columbia Buildings Corporation
Income Statement
for the Six Months Ended September 30, 1997
(Unaudited)

	Estimated 1997 (\$000)	1996 ¹ (\$000)	Increase (Decrease) (Per cent)
Gross revenues	211,685	205,558	3.0
Expenses:			
Operations, maintenance and administration	61,944	60,820	1.8
Lease costs	71,252	67,572	5.4
Client requested projects	9,016	8,229	9.6
Depreciation and amortization	23,577	23,687	(0.5)
Interest, net	30,374	29,931	1.5
	<u>196,163</u>	<u>190,239</u>	3.1
Income before gain on disposals	15,522	15,319	1.3
Gain on disposals	4,424	34	—
Net Income	<u>19,946</u>	<u>15,353</u>	29.9

¹ Certain figures for 1996 have been restated to conform to the presentation used for 1997.

Table 7 British Columbia Ferry Corporation
Income Statement
for the Six Months Ended September 30, 1997
(Unaudited)

	Estimated 1997 (\$000)	1996 ¹ (\$000)	Increase (Decrease) (Per cent)
Operating revenues:			
Tolls.....	180,566	168,602	7.1
Catering and other income.....	40,926	40,407	1.3
Federal coastal ferry contract.....	10,965	10,781	1.7
	<u>232,457</u>	<u>219,790</u>	5.8
Operating expenses:			
Salaries, wages and benefits.....	114,075	113,804	0.2
Fuel.....	20,868	21,729	(4.0)
Cost of food and goods sold.....	15,114	14,719	2.7
Repair and maintenance.....	10,970	7,922	38.5
Materials and supplies.....	8,996	8,814	2.1
Interest, net.....	15,815	16,647	(5.0)
Professional and computer.....	11,788	8,669	36.0
Insurance, taxes, utilities.....	4,469	4,440	0.7
Amortization.....	20,423	18,437	10.8
	<u>222,518</u>	<u>215,181</u>	3.4
Income (loss) from operations.....	9,939	4,609	115.6
Provincial operating grant ²	2,350	2,350	—
Net income (loss) ³	<u>12,289</u>	<u>6,959</u>	76.6

¹ Figures for 1996 have been restated to conform to the presentation for 1997.

² As at September 30, 1997, the corporation received \$3.5 million of its annual subsidy from the provincial government. Of this total, \$2.4 million has been allocated to the first six months of the year.

³ Historically, British Columbia Ferry Corporation carries about 61 per cent of its passenger load volumes during the April 1 to September 30 period. The chart below shows that because of heavy seasonal traffic volumes that occur over the summer peak period, the corporation typically receives more of its revenue in the first half of the year, resulting in a small surplus by the end of September. However, as traffic volumes decline over the winter period, significant losses typically occur in the second half of the fiscal year. Consistent with quarterly results in previous years, British Columbia Ferry Corporation expects that losses will occur in the remaining quarters of 1997/98, resulting in an overall loss for the full year.

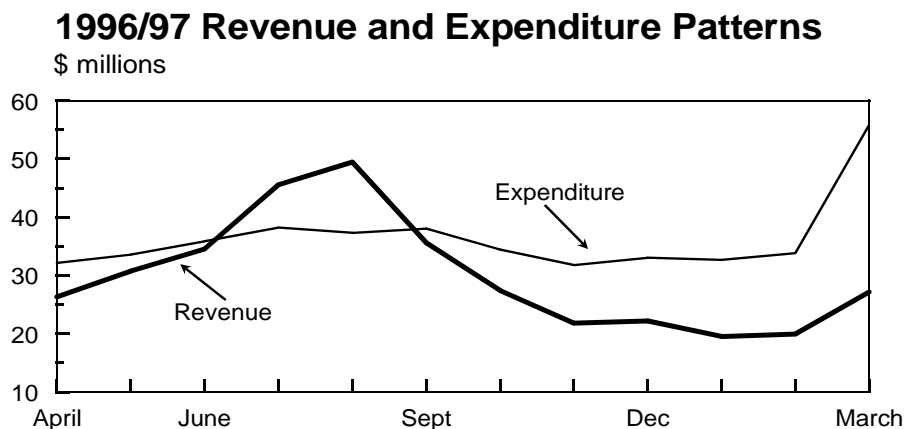


Table 8 British Columbia Hydro and Power Authority
Income Statement
for the Six Months Ended September 30, 1997
(Unaudited)

	Estimated 1997 (\$ millions)	1996 ¹ (\$ millions)	Increase (Decrease) (Per cent)
Revenues:			
Residential.....	339	338	0.3
Light industrial and commercial.....	396	386	2.6
Large industrial.....	221	232	(4.7)
Other energy sales and miscellaneous.....	45	42	7.1
Total domestic.....	1,001	998	0.3
Electricity trade ²	123	83	48.2
	<u>1,124</u>	<u>1,081</u>	4.0
Expenses:			
Energy costs.....	265	243	9.1
Operations, maintenance and administration.....	172	195	(11.8)
Taxes.....	92	85	8.2
Depreciation.....	159	158	0.6
	<u>688</u>	<u>681</u>	1.0
Income before finance charges.....	436	400	9.0
Finance charges.....	(291)	(343)	(15.2)
Net income.....	<u>145</u>	<u>57</u>	—

¹ Certain figures for 1996 have been restated to conform to the presentation used for 1997.

² Electricity trade includes short-term contract and interruptible sales of surplus energy to customers outside the province.

Table 9 British Columbia Lottery Corporation
Income Statement
for the Six Months Ended September 27, 1997
(Unaudited)

	Estimated 1997 (\$000)	1996 ¹ (\$000)	Increase (Decrease) (Per cent)
Lottery sales.....	419,685	415,547	1.0
Direct costs:			
Prizes.....	224,894	217,647	3.3
Retailer commissions.....	26,115	26,369	(1.0)
Direct supplies.....	7,322	7,382	(0.8)
	<u>258,331</u>	<u>251,398</u>	2.8
Sales less direct costs.....	<u>161,354</u>	<u>164,149</u>	(1.7)
Expenses:			
Operating.....	25,405	21,880	16.1
Amortization.....	5,469	2,662	105.4
Goods and services tax.....	6,754	5,179	30.4
	<u>37,628</u>	<u>29,721</u>	26.6
Net income.....	<u>123,726</u>	<u>134,428</u>	(8.0)
Allocation of net income:			
Province of British Columbia ²	120,296	131,091	(8.2)
Government of Canada.....	3,430	3,337	2.8
	<u>123,726</u>	<u>134,428</u>	(8.0)

¹ Certain figures have been restated to conform to the presentation used for 1997.

² Net income allocated to the province of British Columbia is also included as part of revenue in Table 3.

Table 10 British Columbia Pavilion Corporation
Income Statement
for the Six Months Ended September 30, 1997
(Unaudited)

	Estimated 1997 (\$000)	1996 (\$000)	Increase (Decrease) (Per cent)
Revenue from operations.....	12,781	12,058	6.0
Direct event costs.....	6,360	6,155	3.3
Gross margin.....	6,421	5,903	8.8
Facility costs:			
Administration.....	825	899	(8.2)
Operations and fees.....	2,706	2,204	22.8
Staffing costs.....	3,386	3,335	1.5
Business development.....	468	424	10.4
Depreciation.....	2,093	2,111	(0.9)
	9,478	8,973	5.6
Net operating income (loss).....	(3,057)	(3,070)	(0.4)
Province of British Columbia subsidy ¹	964	959	0.5
Net income (loss).....	(2,093)	(2,111)	(0.9)

¹ The corporation receives an annual subsidy from the provincial government to compensate for its operating losses excluding depreciation.

Table 11 **British Columbia Railway Company¹**
 Consolidated Income Statement
 for the Nine Months Ended September 30, 1997
 (Unaudited)

	Estimated 1997 (\$000)	1996 ² (\$000)	Increase (Decrease) (Per cent)
Operating revenue.....	323,041	316,629	2.0
Expenses:			
Operations.....	90,437	87,553	3.3
Equipment maintenance.....	61,933	60,843	1.8
Road maintenance.....	33,381	32,911	1.4
Depreciation.....	46,926	44,939	4.4
Administration and general.....	30,345	34,081	(11.0)
	263,022	260,327	1.0
Operating income.....	60,019	56,302	6.6
Interest expense.....	(24,023)	(20,049)	19.8
Capital and income taxes.....	(5,440)	(5,290)	2.8
Net income.....	30,556	30,963	(1.3)

¹ This statement shows the consolidated results of the British Columbia Railway Company, BCR Properties Ltd., BC Rail Ltd., Westel Telecommunications Ltd., Vancouver Wharves Ltd., BCR Leasing (US) Inc. and BCR Ventures Inc.

² 1996 figures have been restated to conform to the presentation used for 1997.

Table 12 British Columbia Securities Commission
Statement of Operations and Surplus
for the Six Months Ended September 30, 1997
(Unaudited)

	Estimated 1997 (\$000)	1996 ¹ (\$000)	Increase (Decrease) (Per cent)
Revenue:			
Fees	11,655	9,641	20.9
Administrative penalties	45	30	50.0
Interest income	312	254	22.8
	<u>12,012</u>	<u>9,925</u>	21.0
Expenditures:			
Salaries and benefits	4,580	3,968	15.4
Contract services	532	437	21.7
Building occupancy	296	294	0.7
General	319	311	2.6
Securities Fraud Office pilot project contribution	500	500	—
Depreciation	300	298	0.7
Systems operating and communication	135	185	(27.0)
Travel	126	75	68.0
Information systems development	299	64	—
	<u>7,087</u>	<u>6,132</u>	15.6
Net income	<u>4,925</u>	<u>3,793</u>	29.8

¹ 1996 figures have been restated to conform to the presentation used for 1997.

Table 13 British Columbia Transit
Revenue and Expenditure Statement
for the Six Months Ended September 30, 1997
(Unaudited)

	Estimated 1997 (\$000)	1996 ¹ (\$000)	Increase (Decrease) (Per cent)
Revenue	<u>100,422</u>	<u>95,970</u>	4.6
Expenditures:			
Operations	134,637	128,865	4.5
Maintenance	47,696	41,720	14.3
Administration	25,863	24,818	4.2
Interest	83,862	83,802	0.1
Depreciation and amortization	18,648	18,501	0.8
Property leases and taxes	5,436	5,231	3.9
Total expenditure	<u>316,142</u>	<u>302,937</u>	4.4
Net expenditure	<u>215,720</u>	<u>206,967</u>	4.2
Recoveries:			
Contribution from the Province of British Columbia ²	143,601	139,130	3.2
Contributions from participating municipalities	70,250	65,682	7.0
Other ³	1,869	2,155	(13.3)
	<u>215,720</u>	<u>206,967</u>	4.2

¹ 1996 figures have been restated to conform to the presentation used for 1997.

² The corporation receives a subsidy for operating and capital costs from the provincial government.

³ Other is the portion of net expenditure which relates to depreciation for contributed assets.

Table 14 BC Transportation Financing Authority¹
 Consolidated Statement of Income
 for the Six Months Ended September 30, 1997
 (Unaudited)

	Estimated 1997 (\$000)	1996 (\$000)	Increase (Decrease) (Per cent)
Revenue:			
Dedicated revenue ²	60,998	32,094	90.1
Other ³	1,204	609	97.7
	<u>62,202</u>	<u>32,703</u>	90.2
Expenditures:⁴			
Operations and administration ⁵	10,152	10,420	(2.6)
Grants programs ⁶	1,167	534	—
Amortization	8,933	2,045	—
Interest ⁷	12,958	4,732	—
	<u>33,210</u>	<u>17,731</u>	87.3
Net Income	<u>28,992</u>	<u>14,972</u>	93.6

¹ Includes results of Highway Constructors Ltd., a wholly-owned subsidiary.

² Dedicated revenue includes two cents per litre in 1997 (one cent in 1996) of motor fuel tax, and a provincial social service sales tax on car rentals.

³ Includes investment revenue recorded net of related interest expense.

⁴ During the first six months of 1997/98, the authority undertook \$110 million of transportation/infrastructure projects. These capital expenditures are accounted for in the authority's balance sheet. Completed infrastructure is amortized on a straight-line basis over its estimated useful life, generally 30 years.

⁵ Includes \$8.3 million in 1997 (1996 — \$8.3 million) paid to the Ministry of Transportation and Highways for general operating expenses not specifically related to individual capital projects.

⁶ Includes grants paid under the air transport assistance program, the cycling network program, the alternative transportation program and the newly incorporated municipalities road program.

⁷ Interest on borrowing used to finance construction work in progress is capitalized. Upon project completion, interest capitalization ceases, and related interest costs are expensed.

Table 15 **Forest Renewal BC**
Statement of Income
for the Six Months Ended September 30, 1997
(Unaudited)

	Estimated 1997 (\$000)	1996 (\$000)	Increase (Decrease) (Per cent)
Revenue:			
Statutory revenue ^{1,2}	157,127	137,216	14.5
Investment income	18,743	18,277	2.5
	<u>175,870</u>	<u>155,493</u>	13.1
Cost of Services:			
Project expenditures ³	179,394	141,525	26.8
Salaries, wages and benefits	5,607	3,444	62.8
Professional services	1,711	1,222	40.0
General administration	3,078	2,644	16.4
Board fees and expenses	122	113	8.0
	<u>189,912</u>	<u>148,948</u>	27.5
Net income (loss)	<u>(14,042)</u>	<u>6,545</u>	—

¹ Consists of increases in stumpage and royalties resulting from changes in rates introduced under the provincial government's Forest Renewal Plan on May 1, 1994.

² Statutory revenue is net of the annual recovery by the provincial government of \$50 million for expenditures relating to the administration of the Forest Practices Code, as provided for under the *BC Forest Renewal Act*.

³ Results for 1997 and 1996 reflect differences in timing of project expenditures between the two years. 1996 six-month results include a number of one-time project expenditures. A larger portion of 1997 expenditures will occur in the second half of the year.

Table 16 Insurance Corporation of British Columbia
Income Statement
for the Nine Months Ended September 30, 1997
(Unaudited)

	Estimated 1997 (\$000)	1996 ¹ (\$000)	Increase (Decrease) (Per cent)
Insurance (Motor Vehicle) Act			
Revenue:			
Net premiums earned	1,720,937	1,714,952	0.3
Claims:			
Claims incurred	1,654,332	1,605,340	3.1
Claims operations expense	157,664	146,192	7.8
	1,811,996	1,751,532	3.5
Expenses:			
Administration ²	59,781	60,943	(1.9)
Road and traffic safety programs	15,905	12,150	30.9
Grants and funding	3,731	3,158	18.1
Brokers' compensation	119,204	118,939	0.2
Premium tax	68,837	68,484	0.5
Software development	13,504	—	—
	280,962	263,674	6.6
Total claims and expenses	2,092,958	2,015,206	3.9
Underwriting loss	(372,021)	(300,254)	23.9
Investment income	290,515	258,821	12.2
Income (loss)	(81,506)	(41,433)	96.7

¹ 1996 figures have been restated to conform to the presentation used for 1997.

² Administration expenses include licensing operations.

Table 17 **Liquor Distribution Branch**
Income Statement
for the 26 Weeks Ended September 27, 1997
(Unaudited)

	Estimated 1997 (\$000)	1996 (\$000)	Increase (Decrease) (Per cent)
Sales:			
Provincial liquor sales.....	826,402	798,979	3.4
Less: Discounts and commissions.....	(22,757)	(22,093)	3.0
Net sales.....	803,645	776,886	3.4
Cost of sales.....	(409,004)	(395,389)	3.4
Gross profit.....	394,641	381,497	3.4
Operating expenses.....	(81,743)	(82,077)	(0.4)
Net operating income.....	312,898	299,420	4.5
Other income.....	1,823	808	—
Net income ¹	314,721	300,228	4.8

¹ Net income of the Liquor Distribution Branch is also included as part of revenue in Table 3.

Table 18 Okanagan Valley Tree Fruit Authority
Statement of Income and Retained Earnings
for the Six Months Ended September 30, 1997
(Unaudited)

	Estimated 1997 (\$000)	1996 (\$000)	Increase (Decrease) (Per cent)
Revenue:			
Provincial contribution.....	2,000	1,440	38.9
Investment and miscellaneous income.....	138	212	(34.9)
	<u>2,138</u>	<u>1,652</u>	29.4
Expenditures:			
Orchard renovation program.....	2,632	1,920	37.1
Transition production adjustment program.....	4	1,094	(99.6)
Operating and other programs.....	233	657	(64.5)
	<u>2,869</u>	<u>3,671</u>	(21.8)
Surplus (deficit) for the period.....	(731)	(2,019)	(63.8)
Retained earnings, beginning of period.....	1,483	4,266	—
Retained earnings, end of period.....	<u>752</u>	<u>2,247</u>	—

Table 19 Provincial Capital Commission
Statement of Revenue, Expenditure and Surplus
for the Six Months Ended September 30, 1997
(Unaudited)

	Estimated 1997 (\$000)	1996 (\$000)	Increase (Decrease) (Per cent)
Revenue:			
Rent and other	1,489	1,388	7.3
Interest	83	125	(33.6)
	<u>1,572</u>	<u>1,513</u>	3.9
Expenditure:			
Operating	1,021	947	7.8
Surplus for the period	551	566	(2.7)
Unappropriated surplus, beginning of period	3,396	3,124	—
Unappropriated surplus, end of period	<u>3,947</u>	<u>3,690</u>	—

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