

## Financial Statement Discussion and Analysis Report

### Highlights

The highlights section provides a summary of the key events affecting the financial statements based on information taken from the Summary Financial Statements and Provincial Debt Summary included in the Public Accounts. The budget figures are from pages 127, 133, 136 and 138 of the *Budget and Fiscal Plan 2019/20–2021/22*.

	In Millions				Variance	
	2019/20	2019/20	2019/20	2018/19	2019/20	2019/20
	Budget	Updated Forecast	Actual	Actual	Actual to Budget	vs 2018/19
	\$	\$	\$	\$	\$	\$
Revenue.....	59,047	59,326	58,660	57,128	(387)	1,532
Expense.....	(58,273)	(58,823)	(58,981)	(55,597)	(708)	(3,384)
<b>Surplus(deficit) before forecast allowance</b>	<b>774</b>	<b>503</b>	<b>(321)</b>	<b>1,531</b>	<b>(1,095)</b>	<b>(1,852)</b>
Forecast allowance.....	(500)	(300)			500	
<b>Surplus (deficit) for the year</b>	<b>274</b>	<b>203</b>	<b>(321)</b>	<b>1,531</b>	<b>(595)</b>	<b>(1,852)</b>
<b>Capital spending:</b>						
Taxpayer-supported capital spending....	6,340	5,248	4,772	4,452	(1,568)	320
Self-supported capital spending.....	4,274	4,301	4,294	4,106	20	188
<b>Total capital spending</b>	<b>10,614</b>	<b>9,549</b>	<b>9,066</b>	<b>8,558</b>	<b>(1,548)</b>	<b>508</b>
<b>Provincial debt:</b>						
Taxpayer-supported.....	46,384	44,569	46,229	42,681	(155)	3,548
Self-supported.....	25,664	25,769	25,932	23,281	268	2,651
<b>Total provincial debt</b>	<b>72,048</b>	<b>70,338</b>	<b>72,161</b>	<b>65,962</b>	<b>113</b>	<b>6,199</b>
Taxpayer-supported debt to GDP ratio	15.0 %	14.6 %	15.1 %	14.5 %	0.1 %	0.6 %

### Summary Accounts Surplus (Deficit)

The province ended the year with a deficit of \$321 million, which was \$595 million lower than the surplus forecast in the *Budget and Fiscal Plan 2019/20–2021/22*. The 2019/20 deficit of \$321 million was \$1,852 million less than the surplus of \$1,531 million in fiscal year 2018/19.

Revenue increased by \$1,532 million over fiscal year 2018/19 and was \$387 million lower than budget. The annual increase in revenue in the current year was mainly in the net earnings from self-supported Crown corporations and agencies, due to a lower net loss in the Insurance Corporation of British Columbia (ICBC) compared to the previous year, and increases in taxation revenue and contributions from the federal government. These increases were offset by a decrease in natural resource revenues.

Expense increased by \$3,384 million over fiscal year 2018/19 and was higher than budget by \$708 million. The increases in spending in the current year were mainly in the health, education, social services, and other sectors for service delivery requirements. Additional spending over budget was authorized through various statutory appropriations.

## Financial Statement Discussion and Analysis Report

### Capital Spending

Taxpayer-supported infrastructure spending on hospitals, schools, post-secondary facilities, transit, and roads totaled \$4,772 million in 2019/20, \$1,568 million lower than budget mainly due to project scheduling changes. This spending has been deferred to future years.

Self-supported infrastructure spending on electrical generation, transmission and distribution projects and other capital assets totaled \$4,294 million in 2019/20. Self-supported capital spending was \$20 million higher than budget.

### Provincial Debt

When calculating total provincial debt, the province adds to its financial statement debt, all debt guarantees and the debt directly incurred by self-supported Crown corporations, reduced by sinking fund assets. This balance is referred to as the total provincial debt.

Taxpayer-supported provincial debt increased by \$3,548 million in 2019/20 mainly due to the spending related to capital projects in the education sector and in BC Transportation Financing Authority (BCTFA). Self-supported provincial debt increased by \$2,651 million due to an increase in capital infrastructure related to power projects. The increase in total provincial debt of \$6,199 million was \$113 million more than the budgeted increase in total debt of \$6,086 million. The key measure of taxpayer-supported debt to GDP ended the year at 15.1%, which is slightly higher than the forecasted 15.0% in the budget.

## Financial Statement Discussion and Analysis Report

### Discussion and Analysis

The detailed analysis section provides an overview of significant trends relating to the Statement of Operations, Statement of Financial Position and Provincial Debt.

#### Revenue Analysis

Revenue analysis helps users understand the government's finances in terms of its revenue sources and allows them to evaluate the revenue producing capacity of the government.

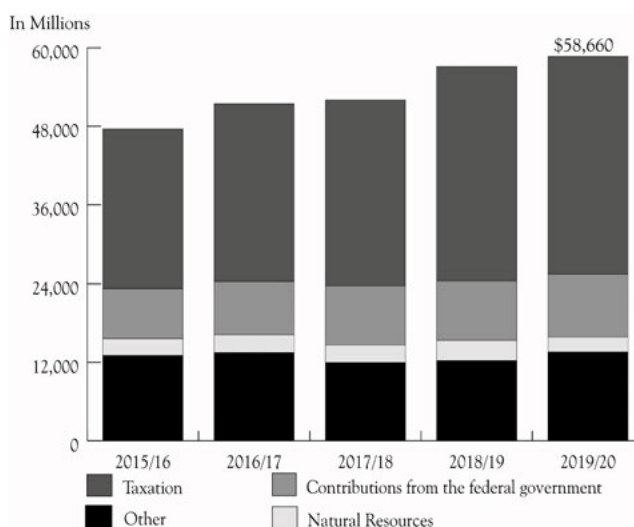
#### Revenue by Source

Revenue by source provides an outline of the primary sources of provincial revenue and how results change between those sources over time. Revenues are reported in separate components of taxation, contributions from the federal government, natural resources and other sources, which include fees and licenses, net earnings of self-supported Crown corporations and agencies, and investment income.

	In Millions				
	2015/16 Actual	2016/17 Actual	2017/18 Actual	2018/19 Actual	2019/20 Actual
	\$	\$	\$	\$	\$
Taxation.....	24,326	27,093	28,321	32,714	33,266
Contributions from federal government.....	7,647	8,167	9,055	9,052	9,535
Fees and licences.....	5,836	6,213	6,249	5,593	5,572
Miscellaneous.....	3,298	3,508	3,543	3,413	3,838
Net earnings of self-supported Crown corporations and agencies .....	2,710	2,525	1,056	2,005	2,918
Natural resources.....	2,571	2,711	2,695	3,108	2,268
Investment income.....	1,213	1,232	1,101	1,243	1,263
<b>Total revenue.....</b>	<b>47,601</b>	<b>51,449</b>	<b>52,020</b>	<b>57,128</b>	<b>58,660</b>

#### 2015/16 to 2019/20

Provincial revenues increased by \$1,532 million in 2019/20. The improvement in provincial revenue was primarily due to increases in net earnings of self-supported Crown corporations and agencies of \$913 million, taxation revenue of \$552 million, contributions from the federal government of \$483 million and other sources of revenue of \$424 million. Increases in these significant sources of revenue were offset by a decrease in natural resource revenue of \$840 million.



In 2019/20, tax revenue increased by \$552 million (1.7%). Personal income tax revenue decreased by \$707 million (6.2%) mainly reflecting lower prior year adjustments from weaker 2018 provincial income tax assessments and the impact of lower estimated economic growth in the 2020 calendar year. Corporate income tax revenue decreased by \$169 million (3.3%) due to lower prior year settlements. Property transfer tax revenue decreased by \$217 million (11.9%) due to lower housing sales. These decreases were offset by increases in employer health tax of \$1,433 million, reflecting the first full fiscal year results, and carbon tax revenue of \$217 million, due to an increase in the tax rate. All other tax revenues decreased by \$5 million over the same period.

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The net earnings of self-supported Crown corporations and agencies were \$913 million higher than 2018/19 due to a lower net loss in ICBC of \$376 million versus \$1,153 million in the previous year, an increase of \$182 million in BC Hydro earnings, and increases in other self-supported Crown corporations of \$23 million. These increases in earnings were offset by lower earnings in British Columbia Lottery Corporation of \$69 million.

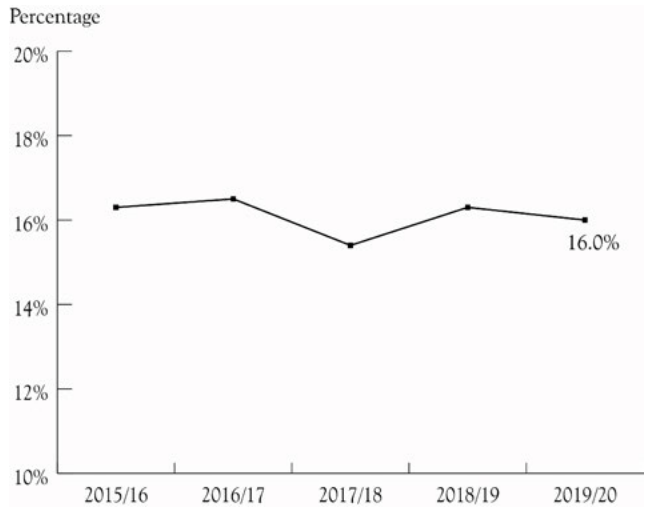
Natural resource revenues were \$840 million lower than 2018/19 as a result of lower forestry revenue of \$418 million, due to a decrease in sales, lumber prices, and the effects of trade and labour disputes. The decrease in natural gas royalties of \$81 million was due to a drop in prices, higher use of royalty incentives programs, and lower petroleum and natural gas lease rental revenue. Mining tax decreased due to a drop in metallurgical coal prices.

### Own-source Revenue to GDP

The ratio of own-source revenue to GDP represents the amount of revenue the provincial government is taking from the provincial economy in the form of taxation, natural resource revenue, earnings of self-supported Crown corporations and user fees and licences (own-source revenue is all revenue except for federal transfers).

Own-source revenue to GDP has remained stable over the past five years, ending the year at 16.0%.

2015/16 to 2019/20

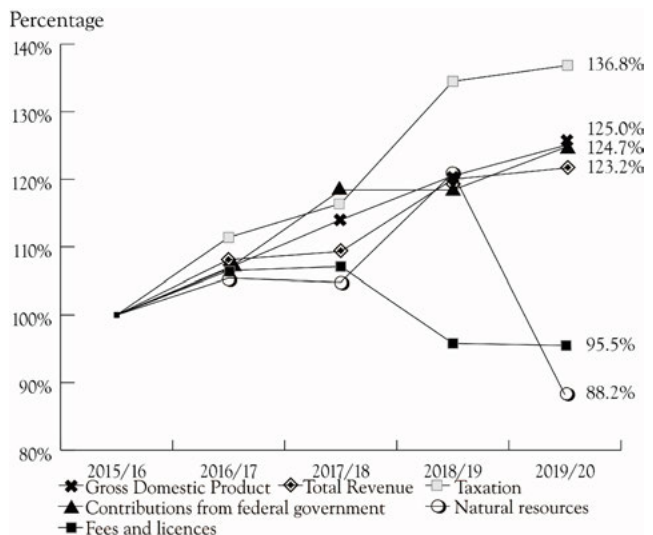


### Percentage Change in Revenue

Trend analysis of revenue provides users with information about significant changes in revenue over time and between sources. This enables users to evaluate past performance and assess potential implications for the future.

Over the five years since 2015/16, total revenue has increased in relation with the increase in GDP. Taxation revenue has continued to exceed the growth in GDP. Natural resource revenues decreased 27.0% from fiscal 2018/19 reflecting the volatility in global markets for commodities such as lumber, natural gas and metallurgical coal.

2015/16 to 2019/20



## Financial Statement Discussion and Analysis Report

### Natural Resource Revenue

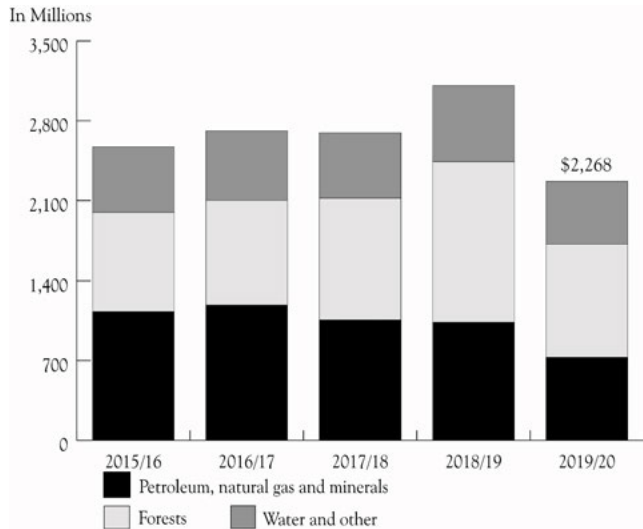
The chart of natural resource revenue by source explains past trends of natural resource revenue in total and by major category.

Forestry revenue decreased by \$418 million in 2019/20. The proportion of natural resource revenue derived from forestry decreased to 43.6% in 2019/20 from 45.2% in 2018/19.

Petroleum, natural gas and mineral revenues decreased by \$306 million from 2018/19. These categories of natural resource revenue account for 32.1% of natural resource revenue compared to 33.3% in 2018/19.

Water and other resource revenues decreased by \$116 million in the year. They comprise 24.3% of provincial natural resource revenue.

2015/16 to 2019/20

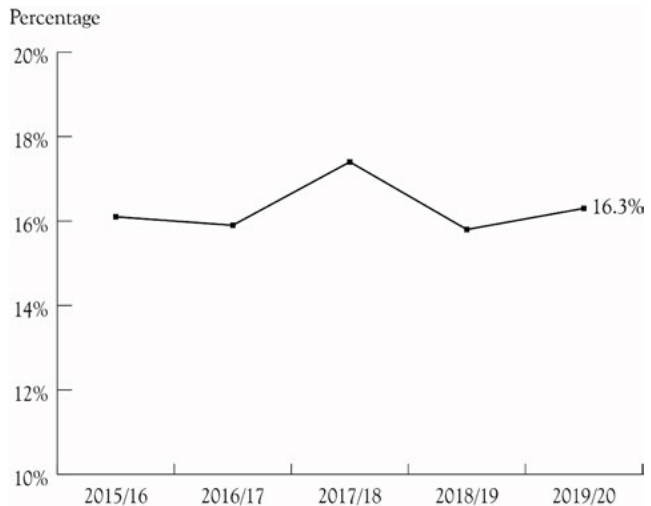


### Government-to-Government Transfers to Total Revenue

The ratio of government-to-government transfers to total revenue is an indicator of how dependent the province is on transfers from the federal government. An increasing trend shows more reliance and a decreasing trend shows less.

Federal transfers increased in 2019/20, resulting in a ratio increase to 16.3%, indicating that there has been a slight increase in dependence on federal transfers.

2015/16 to 2019/20



## Financial Statement Discussion and Analysis Report

### Expense Analysis

The following analysis helps users to understand the impact of the government's spending on the economy, the government's allocation and use of resources, and the cost of government programs.

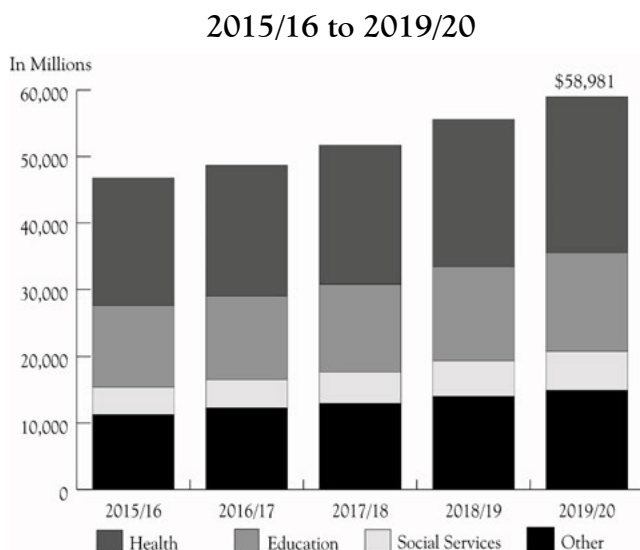
#### Expense by Function

Expense by function provides a summary of the major areas of government spending, and changes in spending over time. Functions, which indicate the purpose of expenditures, are defined by Statistics Canada's Financial Management System of Government Statistics. The province uses the following functions: health, education, social services, natural resources and economic development, interest, other, transportation, general government, and protection of persons and property. The health, education and social services functions account for approximately three quarters of the province's total operating costs.

	In Millions				
	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual	Actual	Actual	Actual	Actual
	\$	\$	\$	\$	\$
Health.....	19,203	19,689	20,927	22,151	23,449
Education.....	12,213	12,469	13,091	14,089	14,734
Social services.....	4,106	4,243	4,737	5,343	5,887
Natural resources and economic development.....	2,477	2,465	3,374	3,825	3,778
Interest.....	2,786	2,587	2,623	2,684	2,727
Other.....	1,264	2,260	1,553	1,810	2,501
Transportation.....	1,710	1,784	1,931	2,021	2,126
General government.....	1,501	1,532	1,540	1,670	1,653
Protection of persons and property.....	1,572	1,655	1,930	2,004	2,126
<b>Total expense.....</b>	<b>46,832</b>	<b>48,684</b>	<b>51,706</b>	<b>55,597</b>	<b>58,981</b>

Government spending on programs and services increased by \$3,384 million in 2019/20.

The province increased spending on the health sector by \$1,298 million (5.9%), the other sector by \$691 million (38.2%), the education sector by \$645 million (4.6%), the social services sector by \$544 million (10.2%), and spending in all of the remaining sectors increased by \$206 million over 2018/19.



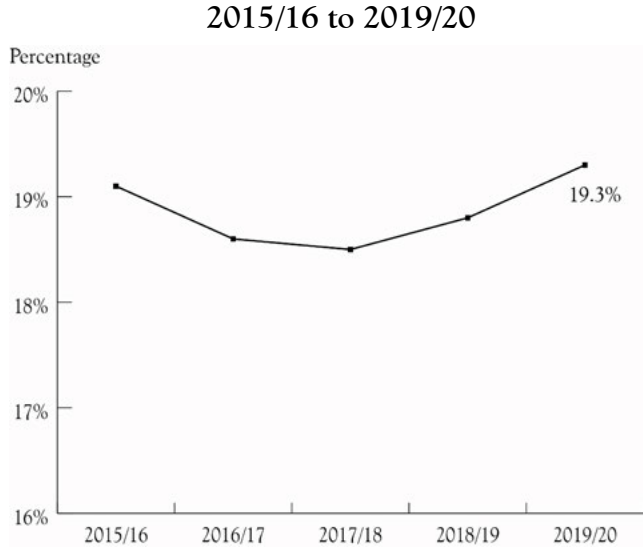
## Financial Statement Discussion and Analysis Report

In 2019/20, provincial operating expenses were \$58,981 million, a \$3,384 million (6.1%) increase from 2018/19. Program spending has increased by \$12,149 million (25.9%) since 2015/16. This is compared to increases in GDP of 25.0% over the same period.

### Expense to GDP

The ratio of expense to GDP represents the amount of government spending in relation to the overall provincial economy.

Government spending as a percentage of GDP increased slightly from 18.8% to 19.3% in 2019/20, indicating that government spending continues to remain stable in relation to the provincial economy.



## Financial Statement Discussion and Analysis Report

### Changes in Actual Results from 2018/19 to 2019/20

	In Millions		Surplus/ (Deficit)
	Revenue	Expense	
	\$	\$	\$
<b>2018/19 Surplus</b> .....	<b>57,128</b>	<b>55,597</b>	<b>1,531</b>
Increase in net earnings of self-supported Crown corporations and agencies.....	913		913
Decrease in natural resources revenue.....	(840)		(840)
Increase in contributions from the federal government.....	483		483
Increase in taxation revenue.....	552		552
Increase in other revenues.....	424		424
Increase in health spending.....		1,298	(1,298)
Increase in other sector spending.....		691	(691)
Increase in education spending.....		645	(645)
Increase in social services spending.....		544	(544)
Increase in other program spending.....		206	(206)
Subtotal of changes in actual results.....	<u>1,532</u>	<u>3,384</u>	<u>(1,852)</u>
	<u><b>58,660</b></u>	<u><b>58,981</b></u>	
<b>2019/20 (Deficit)</b> .....			<u>(321)</u>
<b>2018/19 Accumulated Surplus before Accumulated Other Comprehensive income</b> .....			<u>8,427</u>
<b>2019/20 Accumulated Surplus before Accumulated Other Comprehensive income</b> .....			8,106
Accumulated other comprehensive income (loss) from self-supported Crown corporations and agencies.....			<u>(224)</u>
<b>2019/20 Accumulated Surplus</b> .....			<u><b>7,882</b></u>

The year over year increase in total revenue of \$1,532 million, offset by the increase in total expense of \$3,384 million, resulted in a deficit that was \$1,852 million lower than 2018/19 surplus. Accumulated surplus, including accumulated other comprehensive income, decreased from \$8,458 million in 2018/19 to \$7,882 million at the end of 2019/20.



## Financial Statement Discussion and Analysis Report

### Changes from 2019/20 Budget

	In Millions			
	Revenue	Expense	Forecast Allowance	Surplus/ (Deficit)
	\$	\$	\$	\$
Surplus per 2019/20 Budget.....	59,047	58,273	(500)	274
Decreased taxation revenue.....	(466)			(466)
Increased miscellaneous revenue.....	463			463
Decreased net earnings of self-supported Crown corporations and agencies.....	(393)			(393)
Decreased natural resources revenue.....	(355)			(355)
Increased other revenues.....	364			364
Increased natural resources and economic development spending.....		508		(508)
Increased health spending.....		466		(466)
Increased protection of persons and property spending...		420		(420)
Decreased general government spending.....		(406)		406
Decreased other program spending.....		(280)		280
Forecast allowance.....			500	500
Subtotal of changes in actual results compared to budget.....	(387)	708	500	(595)
<b>Actual Results.....</b>	<b>58,660</b>	<b>58,981</b>	<b>0</b>	<b>(321)</b>

Revenue was \$387 million (0.7%) lower than the budgeted amount of \$59,047 million and expenses were \$708 million (1.2%) higher than the budgeted amount of \$58,273 million. Additional spending over budget was authorized through various statutory appropriations.

### Net Liabilities and Accumulated Surplus

In accordance with Canadian generally accepted accounting principles, the government's Consolidated Statement of Financial Position is presented on a net liabilities basis. Net liabilities represent net future cash outflows resulting from past transactions and events. An analysis of net liabilities and accumulated surplus helps users to assess the government's overall financial position and the future revenue required to pay for past transactions and events.

	In Millions			Variance	
	2019/20 Budget	2019/20 Actual	2018/19 Actual	2019/20 Budget to Actual	2019/20 vs 2018/19
	\$	\$	\$	\$	\$
Financial assets.....	48,523	48,238	44,584	(285)	3,654
Less: liabilities.....	(94,805)	(93,589)	(86,904)	1,216	(6,685)
Net Liabilities.....	(46,282)	(45,351)	(42,320)	931	(3,031)
Less: non-financial assets.....	54,589	53,233	50,778	(1,356)	2,455
<b>Accumulated surplus.....</b>	<b>8,307</b>	<b>7,882</b>	<b>8,458</b>	<b>(425)</b>	<b>(576)</b>

## Financial Statement Discussion and Analysis Report

The accumulated surplus represents the sum of the current and prior years' operating results, and accumulated changes in other comprehensive income. At March 31, 2020, the accumulated surplus was \$7,882 million, \$425 million lower than budget.

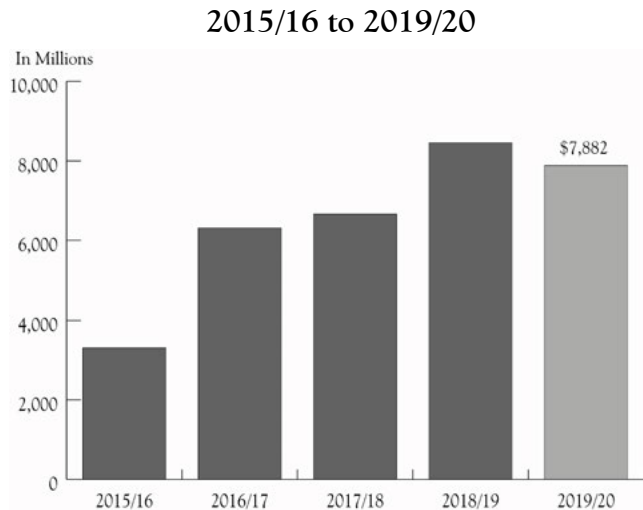
Financial assets were \$3,654 million higher than 2018/19 as the result of increases in loans for the purchase of assets, recoverable from agencies of \$2,221 million, cash, cash equivalents and temporary investments of \$956 million, equity in self-supported Crown corporations and agencies of \$783 million, and loans, advances and mortgages receivable of \$557 million. These increases were offset by decreases in due from other governments of \$341 million and \$522 million in other financial assets.

Liabilities increased by \$6,685 million from 2018/19. This increase was the result of an increase of \$3,460 million in taxpayer-supported debt due to infrastructure spending on hospitals, schools, post-secondary facilities, transit, and roads, an increase in self-supported debt of \$2,192 million due to investment in government power projects and an increase of \$1,033 million in other liabilities, including accounts payable and deferred revenue.

Non-financial assets typically represent resources, such as tangible capital assets, that the government can use in the future to provide services. Non-financial assets increased by \$2,455 million over 2018/19 representing government's investment in current year infrastructure spending.

### Accumulated Surplus

The accumulated surplus represents current and all prior years' operating results. In 2019/20, the province had an accumulated surplus of \$7,882 million, \$576 million lower than in 2018/19. The positive operating results of prior years, although offset by the current year loss, continue to provide the flexibility to sustain core public services.



## Financial Statement Discussion and Analysis Report

### Components of Net Liabilities

#### Financial Assets

Trend analysis of financial assets provides users with information regarding the amount of resources available to the government that can be converted to cash to meet obligations or fund operations.

	In Millions				
	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual	Actual	Actual	Actual	Actual
	\$	\$	\$	\$	\$
Cash, cash equivalents, temporary investments.....	3,892	4,232	3,440	3,029	3,985
Equity in self-supported Crown corporations and agencies.....	7,514	7,494	6,111	5,732	6,515
Loans, advances and mortgages receivable.....	2,060	2,214	2,389	2,444	3,001
Loans for the purchase of assets, recoverable from agencies.....	22,041	23,809	20,534	22,547	24,768
Other financial assets.....	9,156	9,016	10,609	10,832	9,969
<b>Total financial assets.....</b>	<b>44,663</b>	<b>46,765</b>	<b>43,083</b>	<b>44,584</b>	<b>48,238</b>

In 2019/20, financial assets increased by \$3,654 million primarily due to an increase in recoverable capital loans of \$2,221 million due to investments in power projects and an increase in equity in self-supported Crown corporations and agencies of \$783 million related to the investment in power projects offset by the losses in ICBC. The remaining financial assets increased by \$650 million.

#### Liabilities

Trend analysis of liabilities provides users with information to understand and assess the demands on financial assets and the revenue raising capacity of government.

	In Millions				
	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual	Actual	Actual	Actual	Actual
	\$	\$	\$	\$	\$
Taxpayer-supported debt.....	44,119	42,390	44,752	43,209	46,669
Self-supported debt.....	21,892	23,699	20,619	22,655	24,847
<b>Total financial statement debt.....</b>	<b>66,011</b>	<b>66,089</b>	<b>65,371</b>	<b>65,864</b>	<b>71,516</b>
Accounts payable and other liabilities.....	8,618	9,031	9,751	10,573	11,497
Deferred revenue.....	9,792	9,574	9,977	10,467	10,576
<b>Total liabilities.....</b>	<b>84,421</b>	<b>84,694</b>	<b>85,099</b>	<b>86,904</b>	<b>93,589</b>

In 2019/20, total liabilities increased by \$6,685 million. Liabilities are obligations that must be settled at a future date by the transfer or use of assets. Taxpayer-supported financial statement debt increased by \$3,460 million and self-supported financial statement debt increased by \$2,192 million. Information relating to the government's debt management can be found in more detail in the analysis of the total provincial debt on page 25. Deferred revenue increased by \$109 million and accounts payable and other liabilities increased by \$924 million. Deferred revenue represents unearned revenues and restricted contributions that will be recognized as revenue in future periods.

## Financial Statement Discussion and Analysis Report

### Non-financial Assets

Trend analysis of non-financial assets provides users with information to assess the management of a government's infrastructure and long-term non-financial assets.

	In Millions				
	2015/16 Actual	2016/17 Actual	2017/18 Actual	2018/19 Actual	2019/20 Actual
	\$	\$	\$	\$	\$
Tangible capital assets.....	40,282	41,303	45,837	47,830	50,025
Other non-financial assets.....	2,786	2,937	2,840	2,948	3,208
<b>Total non-financial assets.....</b>	<b>43,068</b>	<b>44,240</b>	<b>48,677</b>	<b>50,778</b>	<b>53,233</b>

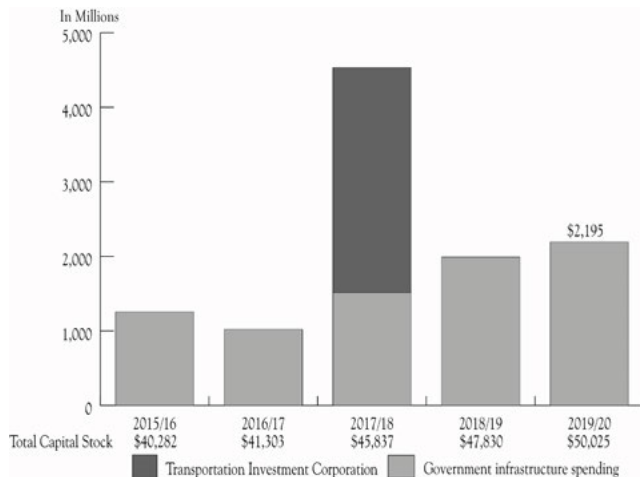
Management of non-financial assets has a direct impact on the level and quality of services a government is able to provide to the public. Non-financial assets typically represent resources that government can use in the future to provide services. At March 31, 2020, non-financial assets were \$53,233 million which was \$2,455 million higher than 2018/19 and \$10,165 million higher than fiscal 2015/16. The majority of the province's non-financial assets represent capital expenditures for tangible capital assets net of amortization. The government has increased its investment in infrastructure spending by \$2,195 million, to ensure service potential is available to deliver programs and services in future periods. Capital expenditures are not included on the Consolidated Statement of Operations and have no effect on the current surplus or deficit. They reduce future surpluses or deficits in the form of amortization expense as the service potential of assets is used to deliver programs and services.

### Change in Capital Stock

This measure shows the impact of net changes to the government's stock of physical capital. Positive amounts demonstrate an investment in infrastructure to replace existing capital and provide service potential in future periods.

The net annual investment in capital was \$2,195 million in 2019/20, and \$10,997 million since the start of fiscal 2015/16 (including the Transportation Investment Corporation, which was fully consolidated in fiscal 2017/18). Total capital stock has also increased steadily over that period, which indicates that capital infrastructure is available to continue providing programs and services in future periods.

### 2015/16 to 2019/20



## Financial Statement Discussion and Analysis Report

### Net Liabilities and Accumulated Surplus

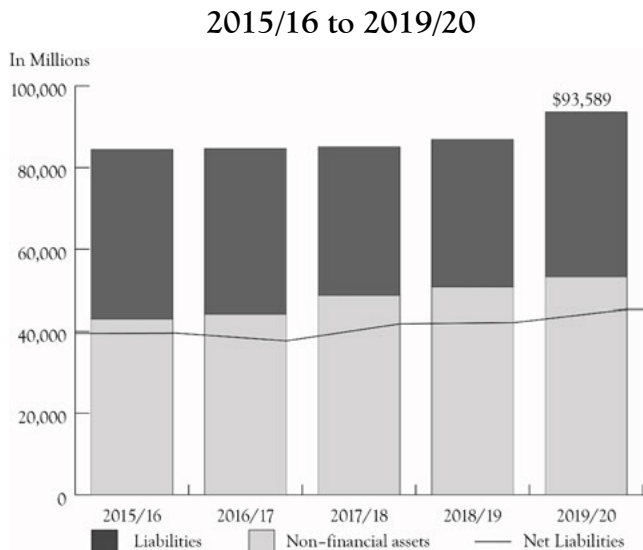
	In Millions				
	2015/16 Actual	2016/17 Actual	2017/18 Actual	2018/19 Actual	2019/20 Actual
	\$	\$	\$	\$	\$
Financial assets.....	44,663	46,765	43,083	44,584	48,238
Less: liabilities.....	(84,421)	(84,694)	(85,099)	(86,904)	(93,589)
<b>Net liabilities.....</b>	<b>(39,758)</b>	<b>(37,929)</b>	<b>(42,016)</b>	<b>(42,320)</b>	<b>(45,351)</b>
Less: non-financial assets.....	43,068	44,240	48,677	50,778	53,233
<b>Accumulated surplus.....</b>	<b>3,310</b>	<b>6,311</b>	<b>6,661</b>	<b>8,458</b>	<b>7,882</b>

Net liabilities increased by \$3,031 million in 2019/20. Liabilities include deferred revenue of \$10,576 million, which represents unearned revenues and restricted contributions that will be recognized as revenue in future periods.

The financial measure of net liabilities has increased slightly more than the increase in investments in infrastructure, resulting in a decrease in accumulated surplus from 2018/19. The accumulated surplus of the province was \$7,882 million at the end of 2019/20, indicating that the cumulative result of all past annual surpluses and deficits is positive, or that the province remains in a positive net financial position.

### Non-financial Assets as a Portion of Liabilities

The chart provides an indication of the proportion of liabilities used to fund capital infrastructure as opposed to funding working capital requirements including accounts payable and other operating liabilities, as well as revenue deferred to future periods. Over the past five years, non-financial assets have increased while the measure of net liabilities has remained stable.



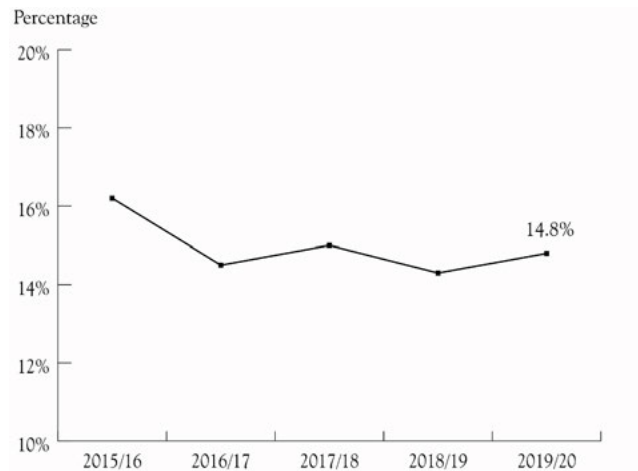
## Financial Statement Discussion and Analysis Report

### Net Liabilities to GDP

The net liabilities to GDP ratio provides an indication of the province's ability to maintain existing programs and meet existing creditor requirements without increasing the debt burden on the economy as a whole.

The stable net liabilities to GDP is the result of net liabilities remaining in sync with the increase in economic growth as represented by GDP in 2019/20. Net liabilities include deferred revenue that will be recognized as revenue in future periods, and obligations to outside parties including accounts payable and debt.

### 2015/16 to 2019/20

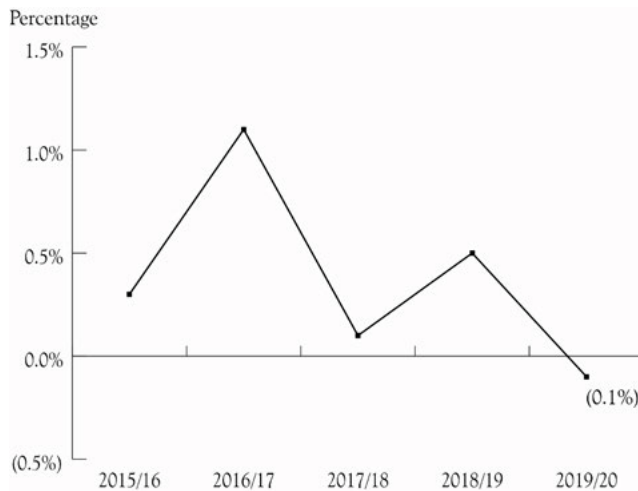


### Surplus (Deficit) to GDP

The surplus (deficit) to GDP ratio is an indicator of sustainability that compares the province's financial results to the overall results of the economy.

Results in the negative range of the chart indicate that government must take a greater share of GDP to support existing operations, reduce the debt burden, or invest in infrastructure.

### 2015/16 to 2019/20



## Financial Statement Discussion and Analysis Report

### Total Provincial Debt

Total provincial debt is calculated differently than financial statement debt. Analysis of total provincial debt helps users to assess the extent of long-term liabilities and the government's ability to meet future debt obligations.

	In Millions				
	2015/16 Actual	2016/17 Actual	2017/18 Actual	2018/19 Actual	2019/20 Actual
	\$	\$	\$	\$	\$
Gross debt.....	66,011	66,089	65,371	65,864	71,516
Less: sinking fund assets.....	(1,580)	(1,087)	(1,348)	(752)	(692)
Third party guarantees and non-guaranteed debt.....	820	835	896	850	1,337
<b>Total provincial debt.....</b>	<b>65,251</b>	<b>65,837</b>	<b>64,919</b>	<b>65,962</b>	<b>72,161</b>

When reporting to rating agencies, the province adds to its financial statement debt, all debt guarantees and the debt directly incurred by self-supported Crown corporations, reduced by sinking fund assets. This balance is referred to as the total provincial debt.

Total provincial debt is \$645 million higher than the amounts reported in the province's financial statements after deducting sinking funds held to pay down the debt, and including guaranteed debt and the debt of self-supported Crown corporations.

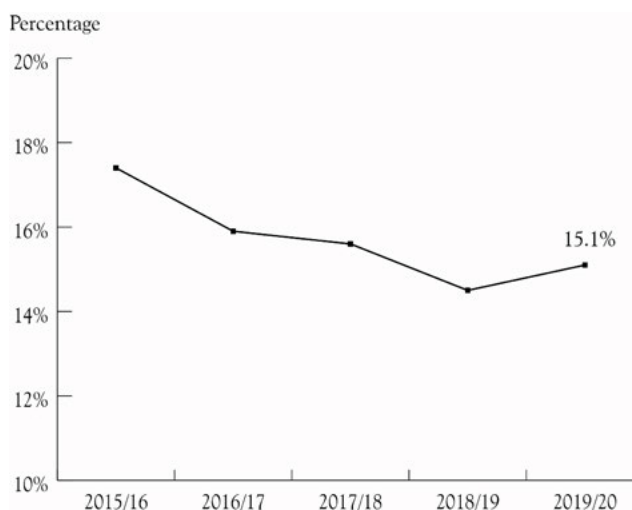
Total provincial debt increased by \$6,199 million in 2019/20 to fund capital projects. The debt of self-supported Crown corporations and agencies increased for investments in power projects and the implementation of international accounting standards for leases. Taxpayer-supported debt increased for the education sector by \$1,171 million, BC Transportation Financing Authority by \$900 million, the health sector by \$539 million, and other taxpayer-supported corporations and agencies by \$938 million.

### Taxpayer-supported debt to GDP

The ratio of taxpayer-supported debt to GDP is a key measure used by financial analysts and investors to assess a province's ability to repay debt and is a key measure monitored by the bond rating agencies. A decreasing ratio means that debt is growing slower than the growth of the economy as measured by GDP.

At the end of 2019/20, taxpayer-supported debt to GDP was 15.1%, which was slightly higher than the budgeted 15.0%, and increased from the prior year following the steady decline from fiscal 2015/16 to fiscal 2018/19. This was a result of government maintaining sufficient liquidity for the early months of fiscal 2020/21.

### 2015/16 to 2019/20



## Financial Statement Discussion and Analysis Report

### Strong Credit Rating

Reflecting the province's fiscal performance, British Columbia has maintained a strong and stable credit rating with all three credit rating agencies. In 2019/20, Moody's Investors Service Inc. gave the province an Aaa credit rating (2019: Aaa); Standard and Poor's gave the province an AAA credit rating (2019: AAA); and Dominion Bond Rating Service gave the province an AA(high) credit rating (2019: AA(high)).

### Credit Ratings March 31, 2020

Jurisdiction	Rating Agency <sup>1</sup>		
	Moody's Investors Service Inc.	Standard and Poor's	Dominion Bond Rating Service
British Columbia	Aaa	AAA	AA(high)
Alberta	Aa2	A+	AA (low)
Saskatchewan	Aaa	AA	AA (low)
Manitoba	Aa2	A+	A(high)
Ontario	Aa3	A+	AA(low)
Quebec	Aa2	AA-	AA(low)
New Brunswick	Aa2	A+	A(high)
Nova Scotia	Aa2	AA-	A(high)
Prince Edward Island	Aa2	A	A
Newfoundland	A1	A	A(low)
Canada	Aaa	AAA	AAA

<sup>1</sup>The rating agencies assign letter ratings to borrowers. The major categories, in descending order of credit quality, are: AAA/Aaa; AA/Aa; A; BBB/Baa; BB/Ba; and B. The "1", "2", "3", "high", "low", "-", and "+" modifiers show relative standing within the major categories. For example, AA+ exceeds AA.

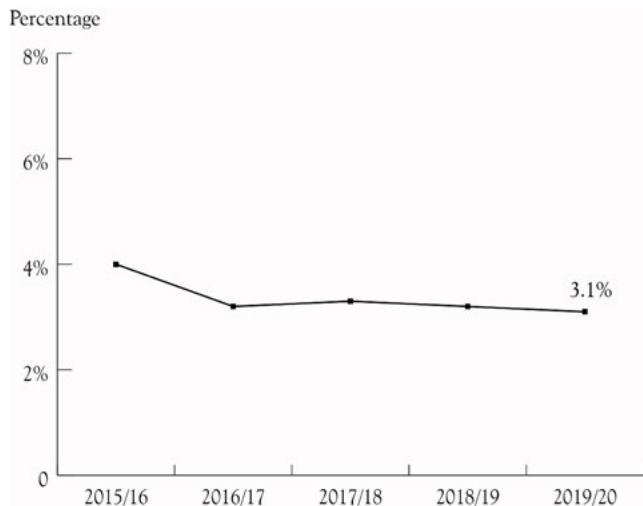
A more comprehensive overview of provincial debt, including key debt indicators is located on pages 131–144.

### Public Debt Charges to Revenue (the Interest Bite)

The public debt charges to revenue indicator is often referred to as the "interest bite". This provides users with the percentage of the province's revenue used to pay interest on debt. The ratio is sensitive to the cost of debt arising from either increasing interest rates or increasing debt, as well as decreases in revenue.

If an increasing proportion of provincial revenue is required to pay interest on provincial debt, less money is available to provide core public services. The interest bite has remained stable over the last five years. In 2019/20, the province spent 3.1 cents of each revenue dollar on interest on the provincial debt.

### 2015/16 to 2019/20





## Financial Statement Discussion and Analysis Report

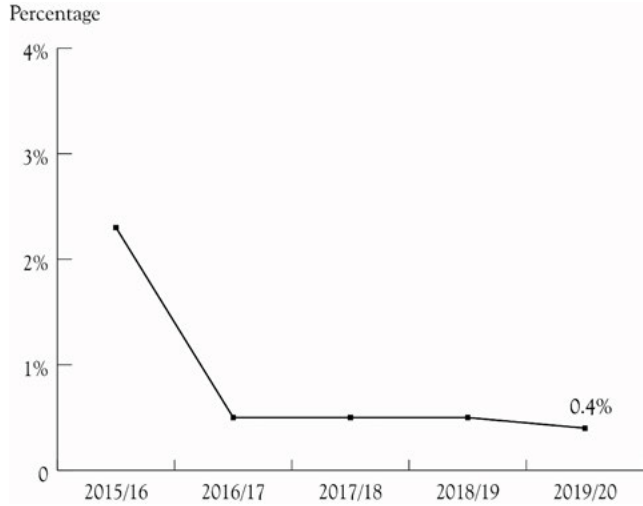
### Non-Hedged Foreign Currency Debt to Total Provincial Debt

The ratio of non-hedged foreign currency debt to total provincial debt shows the degree of vulnerability of a government's public debt position to swings in exchange rates.

Non-hedged foreign currency debt directly offset by instruments in the same foreign currency are considered "natural hedges". These amounts are excluded from the ratio.

In 2019/20, the province had the equivalent of CAD\$322 million in natural hedges.

### 2015/16 to 2019/20



## Financial Statement Discussion and Analysis Report

### Economic Highlights

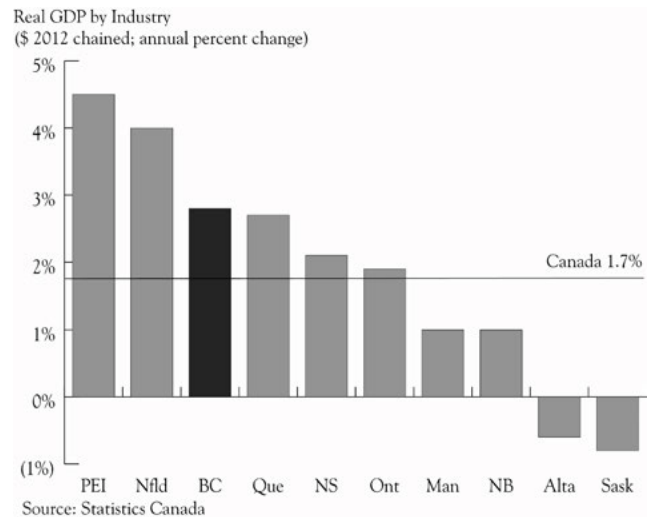
British Columbia's economy grew by an estimated 2.8% in the 2019 calendar year, the third highest rate among the provinces, according to preliminary GDP by industry data from Statistics Canada. The estimated 2.8% growth for British Columbia in 2019 is higher than the government's *Budget 2020* estimate of 1.8%.

### Real Gross Domestic Product in Calendar Year 2019

Growth was led by goods-producing industries (up 3.0%), with a mix of gains and losses across sectors in 2019. A notable increase was observed in construction (up 10.2%), as large gains in the subsectors of engineering construction (up 28.4%) and by non-residential building construction (up 20.5%) offset by a slight decline in residential construction (down 1.3%). There were slight increases in mining, quarrying, and oil and gas extraction (up 0.7%) and utilities (up 0.7%). Meanwhile, declines were observed in agriculture, forestry, fishing and hunting (down 3.6%) and manufacturing (down 1.4%).

Service-producing industries, which account for just over three-quarters of BC's GDP, grew by 2.7% in 2019. Growth was broad-based across sectors. Professional, scientific and technical services (up 4.6%) and health care and social assistance (up 3.9%) were strong drivers of growth. Real estate and rental and leasing (up 3.3%) and finance and insurance (up 3.5%) also contributed significantly to overall economic growth.

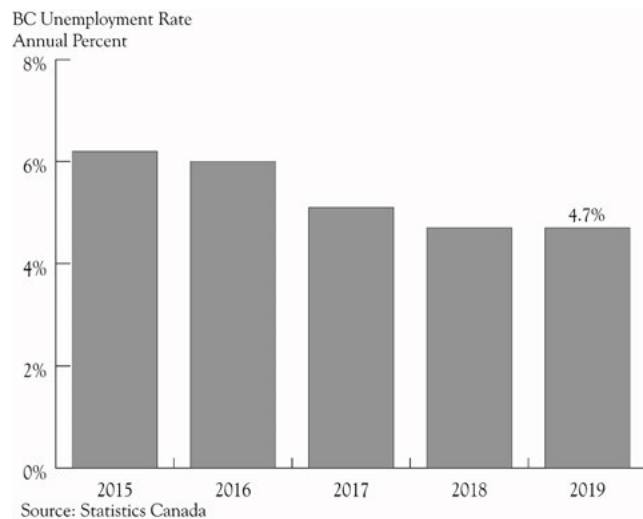
### Provincial Comparison



### Unemployment Rate

British Columbia's annual unemployment rate was 4.7% in 2019, unchanged from 2018. The unemployment rate in BC in 2019 was lower than the national unemployment rate of 5.7%. The average level of employment in BC increased by 2.6% in 2019, following a 1.1% increase in 2018.

### 2015 to 2019



## Financial Statement Discussion and Analysis Report

### Risks and Uncertainties

The government's main exposure to risks and uncertainties arises from variables, which the government does not directly control. These include:

- assumptions underlying revenue and Crown corporation forecasts such as economic factors, commodity prices and weather conditions;
- the outcome of litigation, arbitration, and negotiations with third parties;
- potential changes to federal transfer allocations, cost-sharing agreements with the federal government and impacts on the provincial income tax bases arising from federal tax policy and budget changes;
- utilization rates for government services such as health care, children and family services, and income assistance;
- exposure to interest rate fluctuations, foreign exchange rates and credit risk; and
- changes in Canadian generally accepted accounting principles.

The following are the approximate effect of changes in some of the key variables on the surplus:

Key Fiscal Sensitivities		
Variable	Increase Of	Annual Fiscal Impact (\$ millions)
Nominal GDP	1%	\$150 to \$250
Lumber prices (US\$/thousand board feet)	\$50	\$150 to \$175 <sup>1</sup>
Natural gas prices (Cdn\$/gigajoule)	25 cents	\$10 to \$40 <sup>2</sup>
US exchange rate (US cents/Cdn\$)	1 cent	(\$25) to (\$50)
Interest rates	1 percentage point	(\$93)
Debt	\$500 million	(\$16) to (\$17)

<sup>1</sup>Sensitivity relates to stumpage revenue only.

<sup>2</sup>Sensitivities can vary significantly, especially at lower prices.

Although the government is unable to directly control these variables, strategies have been implemented to mitigate these risks and uncertainties. The development of taxation, financial and corporate regulatory policy to reinforce British Columbia's position as an attractive place to invest and create jobs will help offset the increase in competition for investment as a result of globalization of economic and financial markets. As in previous years, the government applied a forecast allowance in the budget to account for risks to revenue, expenditure, Crown corporations', school districts', universities', colleges', institutes', and health organizations' (SUCH sector) forecasts. The use of forecast allowances recognizes the uncertainties in predicting future economic developments.

Risk management in relation to debt is discussed in Note 20 on page 67 of the Notes to the Consolidated Summary Financial Statements.

The government declared a state of emergency in March 2020 in response to the COVID-19 (Novel Coronavirus) global pandemic (see Note 40). The impact of the pandemic on the government's financial position was not significant for the 2019/20 fiscal year; however, subsequent events are expected to have an impact on future financial statements.