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 121, 127, 130 and 131 of the *Budget and Fiscal Plan 2017/18–2019/20 September Update*.

Budget and Actual Results 2017/18

	In Millions				Variance	
	2017/18 Budget	2017/18 Updated Forecast	2017/18 Actual	2016/17 Actual	2017/18 Actual to Budget	2017/18 vs 2016/17
	$	$	$	$	$	$
Revenue	52,407	52,069	52,020	51,449	(387)	571
Expense	(51,861)	(51,818)	(51,719)	(48,722)	142	(2,997)
Surplus (deficit) before forecast allowance	546	251	301	2,727	(245)	(2,426)
Forecast allowance	(300)	(100)			300	
Surplus (deficit) for the year	**246**	**151**	**301**	**2,727**	**55**	**(2,426)**
Capital spending:						
Taxpayer–supported capital spending	4,956	4,197	3,908	3,659	(1,048)	249
Self–supported capital spending	2,701	2,614	2,729	2,725	28	4
Total capital spending	**7,657**	**6,811**	**6,637**	**6,384**	**(1,020)**	**253**
Provincial debt:						
Taxpayer–supported	44,853	43,680	43,607	41,499	(1,246)	2,108
Self–supported	21,624	21,484	21,312	24,338	(312)	(3,026)
Forecast Allowance	300	100			(300)	
Total provincial debt	**66,777**	**65,264**	**64,919**	**65,837**	**(1,858)**	**(918)**
Taxpayer–supported debt to GDP ratio	**16.2 %**	**15.6 %**	**15.6 %**	**15.9 %**	**(0.6)%**	**(0.3)%**

Summary Accounts Surplus (Deficit)

The province ended the year with a surplus of $301 million, which was $55 million higher than the surplus forecast in the *Budget and Fiscal Plan 2017/18–2019/20 September Update*. The 2017/18 surplus of $301 million was $2,426 million less than the surplus of $2,727 million in fiscal year 2016/17.

Revenue increased by $571 million over fiscal year 2016/17 and was slightly lower than budget by $387 million. The annual increase in revenue in the current year was mainly due to higher taxation revenue reflecting relatively strong economic growth during the year.

Expense increased by $2,997 million over fiscal year 2016/17 and was slightly lower than budget by $142 million. The annual increases in spending in the current year were mainly in the health, education, social services, and natural resources sectors in response to service delivery requirements and wildfire activities.

Financial Statement Discussion and Analysis Report

Capital Spending

Taxpayer–supported infrastructure spending on hospitals, schools, post–secondary facilities, transit, and roads totaled $3,908 million in 2017/18, $1,048 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 $2,729 million in 2017/18. Self–supported capital spending was $28 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 $2,108 million in 2017/18, which was mainly due to an increase of $3,508 million in debt related to the Port Mann Bridge, as this debt was reclassified from self–supported debt to taxpayer–supported debt on September 1, 2017 ($3,398 million as at March 31, 2017 and new borrowing of $110 million from April 1 to August 31, 2017). Self–supported provincial debt decreased by $3,026 million mainly due to a decrease of $3,398 million related to Transportation Investment Corporation debt being reclassified to taxpayer–supported debt on September 1, 2017. The decrease in total provincial debt of $918 million was $1,858 million less than the budgeted increase in total debt of $940 million. The key measure of taxpayer–supported debt to GDP ended the year at 15.6%, which is lower than the 16.2% forecasted in the budget.

Provincial government direct operating debt decreased by $3,488 million compared to 2016/17.

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

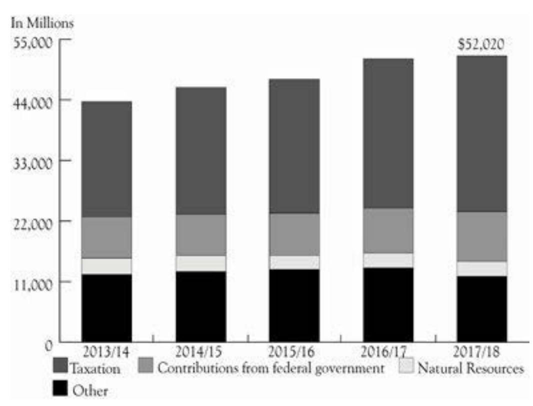
Revenue by source provides an outline of the primary sources of provincial revenue and how results change between those sources over time. Revenues are broken down into separate components of taxation, contributions from the federal government, natural resources and other sources, which include fees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

In Millions

	2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Actual	2017/18 Actual
	$	$	$	$	$
Taxation	20,930	23,056	24,326	27,093	28,321
Contributions from federal government	7,514	7,279	7,647	8,167	9,055
Fees and licences	5,210	5,425	5,836	6,213	6,249
Miscellaneous	3,202	2,860	3,298	3,508	3,543
Net earnings of self–supported Crown corporations	2,701	3,371	2,710	2,525	1,056
Natural resources	2,955	2,937	2,571	2,711	2,695
Investment income	1,203	1,171	1,213	1,232	1,101
Total revenue	**43,715**	**46,099**	**47,601**	**51,449**	**52,020**

Provincial revenues increased by $571 million in 2017/18. The improvement in provincial revenue was primarily due to increases in taxation revenue of $1,228 million and contributions from the federal government of $888 million. Increases in these significant sources of revenue were offset by net earnings of self–supported Crown corporations, which were $1,469 million lower than in 2016/17. All other sources of revenue were $76 million lower than in 2016/17.

2013/14 to 2017/18



In 2017/18, tax revenue increased by $1,228 million (4.5%). Personal income tax revenue decreased by $781 million (8.0%) reflecting lower prior year tax assessments. Corporate income tax revenue increased by $1,162 million (38.7%) due to increased federal government installments and prior year settlements. Provincial sales tax increased by $517 million (7.8%) reflecting higher consumer expenditures and retail sales. Property transfer tax revenue increased by $115 million (5.7%) mainly due to the impacts of a continuing strong housing market during the year. The total of all other tax revenues increased by $215 million over the same period.

Financial Statement Discussion and Analysis Report

The net earnings of self–supported Crown corporations were $1,469 million lower than 2016/17 due to losses reported by the Insurance Corporation of British Columbia (ICBC) offset by increased earnings in other self–supported Crown corporations. Net earnings were also impacted by a $950 million adjustment to the regulatory assets reported by British Columbia Hydro and Power Authority (BC Hydro) in response to an audit recommendation on the 2016/17 Public Accounts.

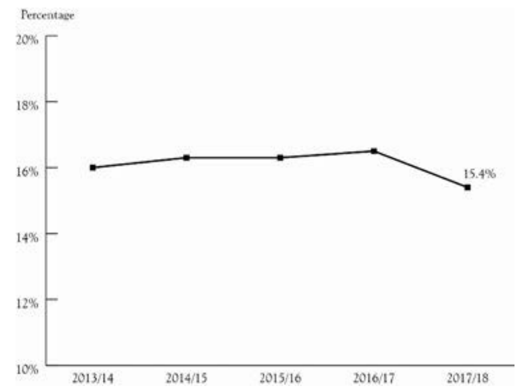
Contributions from the federal government were $888 million higher than contributions received in 2016/17. This increase was from contributions for program delivery and the result of the improved BC population share of Canada Health and Social Transfers.

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 decreased in 2017/18 ending the year at 15.4%.

2013/14 to 2017/18

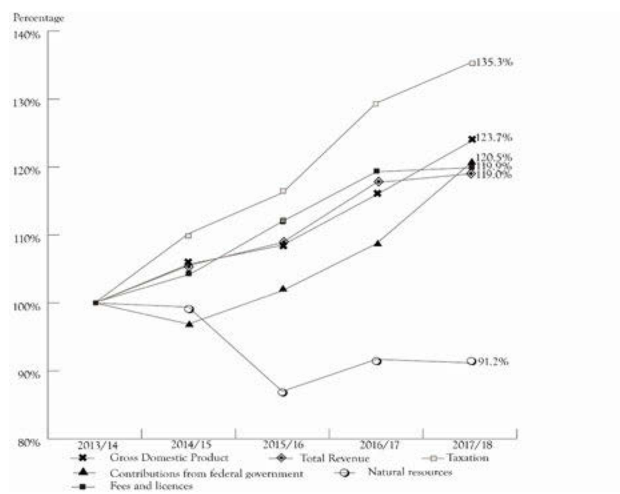


Percentage Change in Revenue

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 2013/14 total revenue has increased in relation to the increase in GDP. Taxation has continued to exceed the growth in GDP. Federal government contributions have increased over 2016/17 by 11.8%.

2013/14 to 2017/18



Financial Statement Discussion and Analysis Report

Natural Resource Revenue

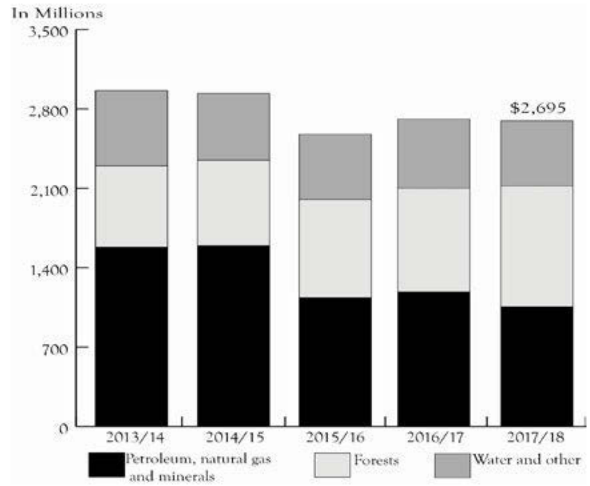
The chart of natural resource revenue by source explains past trends of natural resource revenue in total and by major category.

Petroleum, natural gas and mineral revenues decreased by $131 million from 2016/17. These categories of natural resource revenue account for 39.2% of natural resource revenue compared to 43.8% in 2016/17.

Forestry revenue increased by $152 million in 2017/18. The proportion of natural resource revenue derived from forestry increased to 39.5% in 2017/18 from 33.7% in 2016/17.

Water and other resource revenues decreased by $37 million in the year. They comprise 21.3% of provincial natural resource revenue.

2013/14 to 2017/18

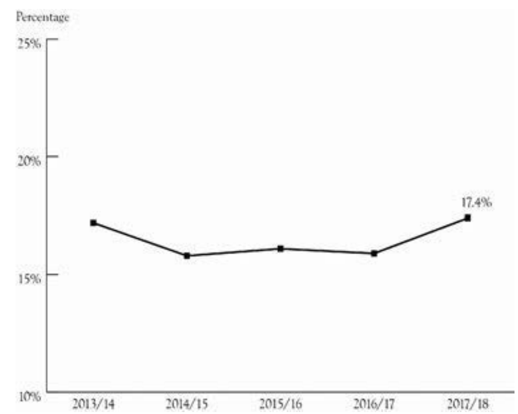


Government–to–Government Transfers to Total Revenue

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 by $888 million in 2017/18, due to contributions for program delivery and the annual adjustment to the province's population share of the Canada Health Transfer and the Canada Social Transfer.

2013/14 to 2017/18



Financial Statement Discussion and Analysis Report

Expense Analysis

The following analysis helps users 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

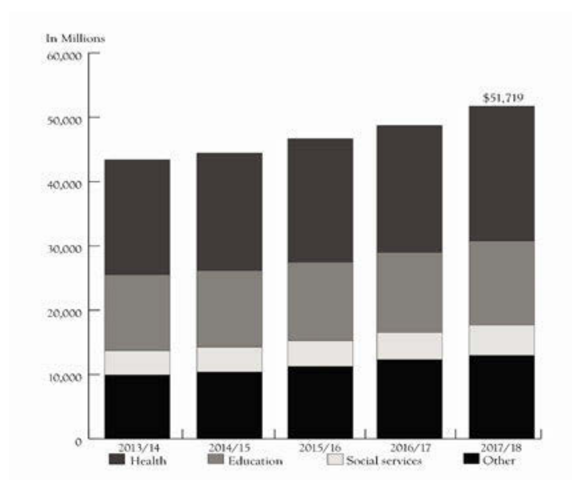
Expense by function provides a summary of the major areas of government spending, and changes in spending over time. Functions, which indicate the purpose of expenditures, are defined by Statistics Canada's Financial Management System of Government Statistics. The province uses the following functions: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

	In Millions				
	2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Actual	2017/18 Actual
	$	$	$	$	$
Health	17,862	18,370	19,203	19,689	20,927
Education	11,827	11,827	12,212	12,468	13,091
Social services	3,805	3,847	4,106	4,243	4,737
Natural resources and economic development	1,755	2,191	2,477	2,504	3,387
Interest	2,482	2,498	2,786	2,587	2,623
Other	1,184	1,288	1,264	2,260	1,553
Transportation	1,580	1,608	1,670	1,784	1,931
Protection of persons and property	1,520	1,451	1,572	1,655	1,930
General government	1,386	1,359	1,501	1,532	1,540
Total expense	**43,401**	**44,439**	**46,791**	**48,722**	**51,719**

Government program spending increased by $2,997 million in 2017/18.

The province increased spending on the health sector by $1,238 million (6.3%), the education sector by $623 million (5.0%), the social services sector by $494 million (11.6%), and the natural resource and economic development sector by $883 million (35.3%). This was offset by a decrease in the other sector of $707 million (31.3%). Spending in all of the remaining sectors increased by $466 million over 2016/17.

2013/14 to 2017/18



Financial Statement Discussion and Analysis Report

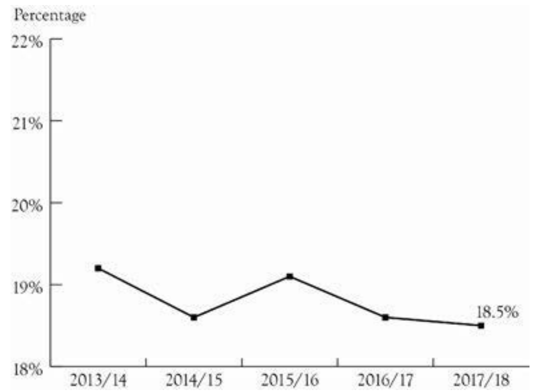
In 2017/18, provincial operating expenses were $51,719 million, a $2,997 million (6.2%) increase from 2016/17. Program spending has increased by $8,318 million (19.2%) since 2013/14. This is compared to increases in GDP of 23.7% over the same period.

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 decreased slightly from 18.6% to 18.5% in 2017/18, indicating that government spending decreased slightly in relation to the provincial economy.

2013/14 to 2017/18



Financial Statement Discussion and Analysis Report

Changes in Actual Results from 2016/17 to 2017/18

	In Millions		
	Revenue	Expense	Surplus
	$	$	$
2016/17 Surplus	**51,449**	**48,722**	**2,727**
Increase in taxation revenue	1,228		1,228
Increase in contributions from federal government	888		888
Decrease in earnings from self–supported Crown corporations	(1,469)		(1,469)
Decrease in other revenue	(76)		(76)
Increase in health spending		1,238	(1,238)
Increase in natural resources and economic development spending		883	(883)
Increase in educational spending		623	(623)
Increase in social services spending		494	(494)
Decrease in other sector spending		(707)	707
Increase in other expenses		466	(466)
Subtotal of changes in actual results	571	2,997	(2,426)
	52,020	51,719	
2017/18 Surplus			301
2016/17 Accumulated Surplus before Accumulated Other Comprehensive income			6,597
2017/18 Accumulated Surplus before Accumulated Other Comprehensive income			6,898
Accumulated other comprehensive income from self–supported Crown corporations and agencies			(152)
2017/18 Accumulated Surplus			**6,746**

The year over year increase in total revenue of $571 million, offset by the increase in total expense of $2,997 million, resulted in a surplus that was $2,426 million lower than 2016/17. Accumulated surplus increased from $6,409 million in 2016/17 to $6,746 million at the end of 2017/18.

Financial Statement Discussion and Analysis Report

Changes from 2017/18 Budget

	In Millions			
	Revenue	Expense	Forecast Allowance	Surplus
	$	$	$	$
Surplus per 2017/18 Budget	**52,407**	**51,861**	**(300)**	**246**
Increased contributions from federal government	683			683
Increased natural resources revenues	282			282
Decreased net earnings of self–supported Crown corporations	(1,903)			(1,903)
Increased other revenues	551			551
Increased natural resources and economic development spending		667		(667)
Increased health spending		180		(180)
Decreased other sector spending		(682)		682
Decreased education spending		(285)		285
Decreased other program spending		(22)		22
Forecast allowance			300	300
Subtotal of changes in actual results compared to budget	(387)	(142)	300	55
Actual Results	**52,020**	**51,719**	**0**	**301**

Revenue was $387 million (0.7%) lower than the budgeted amount of $52,407 million and expenses were $142 million (0.3%) lower than the budgeted amount of $51,861 million.

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	
	2017/18 Budget	2017/18 Actual	2016/17 Actual	2017/18 Budget to Actual	2017/18 vs 2016/17
	$	$	$	$	$
Financial assets	43,825	43,100	46,782	(725)	(3,682)
Less: liabilities	(86,744)	(84,969)	(84,551)	1,775	(418)
Net Liabilities	(42,919)	(41,869)	(37,769)	1,050	(4,100)
Less: non–financial assets	49,547	48,615	44,178	(932)	4,437
Accumulated surplus	**6,628**	**6,746**	**6,409**	**118**	**337**

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, 2018, the accumulated surplus was $6,746 million, $118 million higher than budget.

Financial assets were $3,682 million lower than 2016/17 as the result of decreases in cash, cash equivalents and temporary investments of $792 million, equity of self–supported Crown corporations and agencies of $1,383 million and loans for the purchase of assets, recoverable from agencies of $3,275 million. These decreases were offset by increases in accounts receivable of $446 million and $1,322 million in other financial assets.

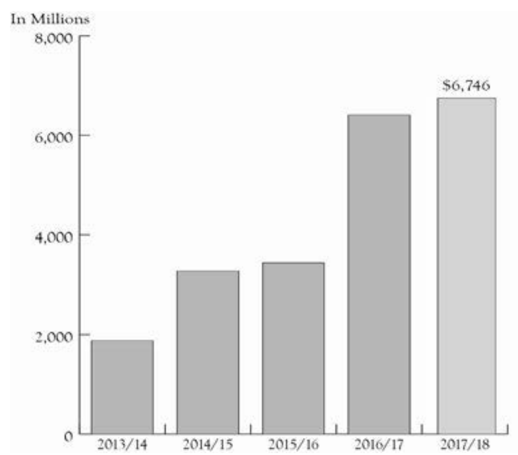
Liabilities increased by $418 million from 2016/17. Taxpayer–supported debt increased by $2,362 million while self–supported debt decreased by $3,080 million mainly due to the debt of Transportation Investment Corporation for the Port Mann Bridge being reclassified from self–supported debt to taxpayer–supported debt on September 1, 2017. Other liabilities, including accounts payable and deferred revenue, increased by $1,136 million from 2016/17.

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 $4,437 million over 2016/17. Of the increase, $3,018 million was a result of the reclassification of Transportation Investment Corporation from a government business enterprise to a taxpayer–supported Crown corporation and the remaining increase of $1,419 million was government's investment in current year infrastructure spending.

Accumulated Surplus

The accumulated surplus represents current and all prior years' operating results. In 2017/18, the province had an accumulated surplus of $6,746 million, $337 million higher than in 2016/17. The positive operating results of prior years and the current year provide the flexibility to sustain core public services.

2013/14 to 2017/18



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				
	2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Actual	2017/18 Actual
	$	$	$	$	$
Cash, cash equivalents, temporary investments and warehouse investments	2,801	3,675	3,892	4,232	3,440
Accounts receivable	3,449	3,489	3,761	4,166	4,612
Equity in self–supported Crown corporations and agencies	7,839	8,271	7,531	7,511	6,128
Loans for the purchase of assets, recoverable from agencies	19,255	20,624	22,041	23,809	20,534
Other financial assets	6,720	6,603	7,455	7,064	8,386
Total financial assets	**40,064**	**42,662**	**44,680**	**46,782**	**43,100**

In 2017/18, financial assets decreased by $3,682 million primarily due to an decrease in capital loans to Crown agencies. Recoverable capital loans decreased by $3,275 million as the province adjusted $3,600 million in loans for the purchase of assets, recoverable from agencies related to Transportation Investment Corporation. Equity in self–supported Crown corporations also decreased by $1,383 million, which related to the losses in earnings recorded by ICBC reducing our investment by $1,455 million and the $950 million adjustment to the regulatory assets reported by BC Hydro. This loss was offset by the $475 million reclassification of Transportation Investment Corporation from a government business enterprise to a taxpayer–supported Crown corporation and increases in investment from other government business enterprises of $547 million. All other financial assets increased by $976 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				
	2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Actual	2017/18 Actual
	$	$	$	$	$
Taxpayer–supported debt	41,761	42,693	44,119	42,390	44,752
Self–supported debt	19,041	20,465	21,892	23,699	20,619
Total financial statement debt	60,802	63,158	66,011	66,089	65,371
Accounts payable and other liabilities	8,298	8,312	8,486	8,937	9,670
Deferred revenue	9,661	9,771	9,743	9,525	9,928
Total liabilities	**78,761**	**81,241**	**84,240**	**84,551**	**84,969**

In 2017/18, total liabilities increased by $418 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 in 2017/18 by $2,362 million, while self–supported financial statement debt decreased by $3,080 million. The large swing in the debt values related to $3,508 million in debt of Port Mann Bridge being reclassified from self–supported to taxpayer–supported debt on September 1, 2017 ($3,398 million as at March 31, 2017 and new borrowing of $110 million from April 1 to August 31, 2017). 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 $403 million and accounts payable and other liabilities increased by $733 million.

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				
	2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Actual	2017/18 Actual
	$	$	$	$	$
Tangible capital assets	37,778	39,028	40,282	41,303	45,837
Other non–financial assets	2,800	2,834	2,724	2,875	2,778
Total non–financial assets	**40,578**	**41,862**	**43,006**	**44,178**	**48,615**

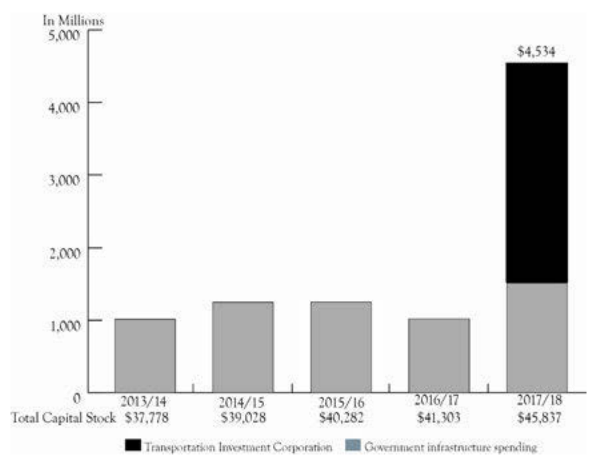
Management of non–financial assets has a direct impact on the level and quality of services a government is able to provide to its constituents. Non–financial assets typically represent resources that government can use in the future to provide services. At March 31, 2018, non–financial assets were $48,615 million which was $4,437 million higher than 2016/17 and $8,037 million higher since fiscal 2013/14. The majority of the increase over 2016/17 is attributable to the $3,018 million in tangible capital assets of Transportation Investment Corporation being reclassified from a government business enterprise to a taxpayer–supported Crown corporation. 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 $1,516 million in 2017/18, 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. They reduce future surpluses 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 $1,516 million in 2017/18 (net of Transportation Investment Corporation), and $9,075 million since the start of 2013/14. 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.

2013/14 to 2017/18



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Net Liabilities and Accumulated Surplus

	In Millions				
	2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Actual	2017/18 Actual
	$	$	$	$	$
Financial assets	40,064	42,662	44,680	46,782	43,100
Less: liabilities	(78,761)	(81,241)	(84,240)	(84,551)	(84,969)
Net liabilities	(38,697)	(38,579)	(39,560)	(37,769)	(41,869)
Less: non–financial assets	40,578	41,862	43,006	44,178	48,615
Accumulated surplus	**1,881**	**3,283**	**3,446**	**6,409**	**6,746**

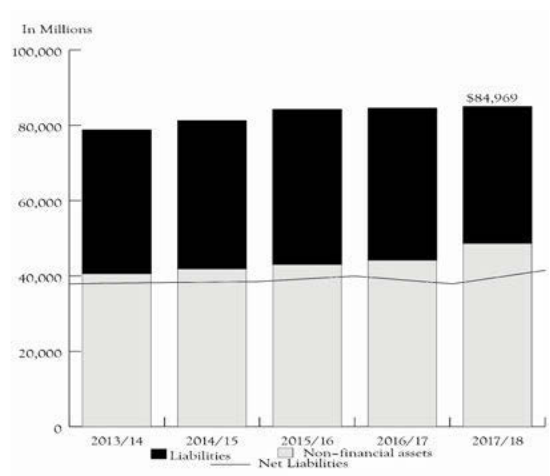
Net liabilities increased by $4,100 million in 2017/18 primarily due to the $3,600 million adjustment for the loans for the purchase of assets, recoverable from Transportation Investment Corporation. The liabilities include deferred revenue of $9,928 million which represents unearned revenues and restricted contributions that will be recognized as revenue in future periods.

The financial measure of net liabilities has remained stable while investments in infrastructure have increased resulting in an increase in accumulated surplus. The accumulated surplus of the province was $6,746 million at the end of 2017/18, 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 what proportion of liabilities are 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.

2013/14 to 2017/18



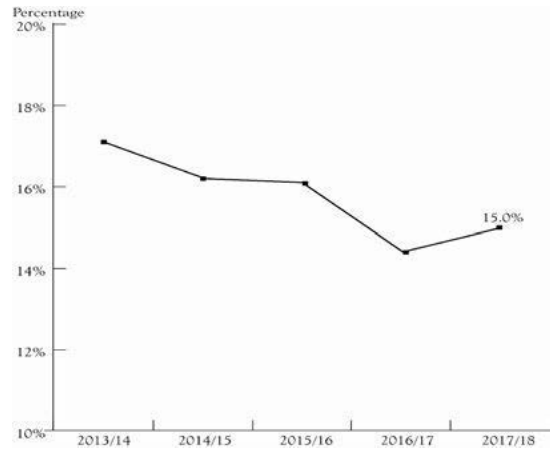
Financial Statement Discussion and Analysis Report

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 slight increase in net liabilities to GDP is the result of net liabilities increasing over and above the increase in economic growth as represented by GDP in 2017/18. Net liabilities include deferred revenue that will be recognized as revenue in future periods, and obligations to outside parties including accounts payable and debt.

2013/14 to 2017/18

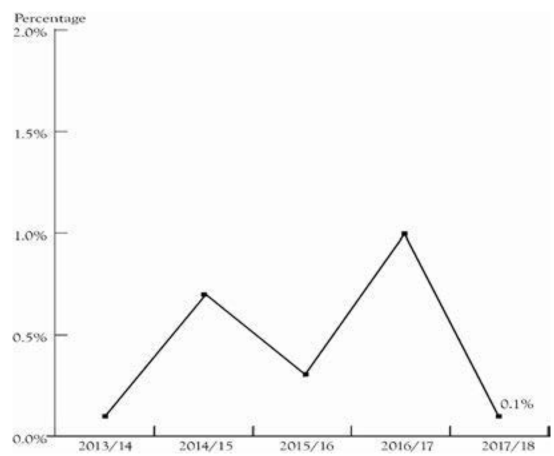


Surplus (Deficit) to GDP

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 positive range of the chart indicate that the economy is growing faster than net government spending.

2013/14 to 2017/18



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				
	2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Actual	2017/18 Actual
	$	$	$	$	$
Gross debt	60,802	63,158	66,011	66,089	65,371
Less: sinking fund assets	(835)	(977)	(1,580)	(1,087)	(1,348)
Third party guarantees and non–guaranteed debt	726	739	820	835	896
Total provincial debt	**60,693**	**62,920**	**65,251**	**65,837**	**64,919**

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 $452 million lower 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. Overall, total provincial debt decreased by $918 million in 2017/18 because the amount government borrowed to fund capital projects was offset by the reduction in government direct operating debt.

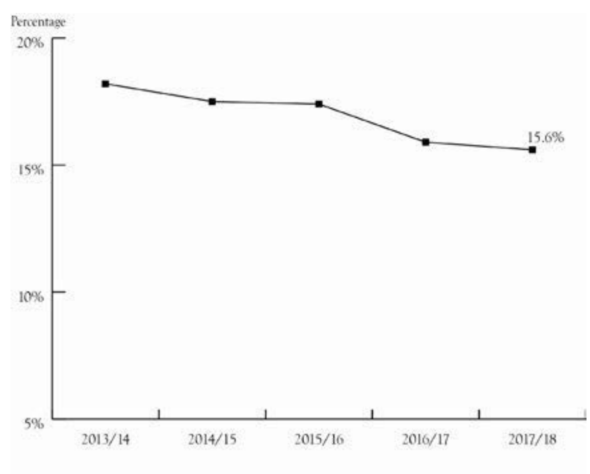
The largest decrease in the debt of self–supported Crown agencies was due to a decrease of $3,398 million in debt related to Transportation Investment Corporation which was reclassified to taxpayer–supported debt on September 1, 2017. Provincial government direct operating debt decreased by $3,488 million compared to 2016/17. The offsets to the decrease in taxpayer–supported debt after the $3,508 million reclassification of the debt relating to the Port Mann Bridge, were BC Transportation Financing Authority $414 million; health sector $351 million; education sector $779 million; and other increases in taxpayer–supported debt of $544 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. An increasing ratio means that debt is growing faster than the growth of the economy as measured by GDP.

At the end of 2017/18 taxpayer–supported debt to GDP was 15.6% which was a decrease from the budgeted level of 16.2% and lower than the results for the past four years.

2013/14 to 2017/18



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 2017/18, Moody's Investors Service Inc. gave the province an Aaa credit rating (2017: Aaa); Standard and Poor's gave the province an AAA credit rating (2017: AAA); and Dominion Bond Rating Service gave the province an AA(high) credit rating (2017: AA (high)).

Credit Ratings March 31, 2018

	Rating Agency[1]		
Jurisdiction	Moody's Investors Service Inc.	Standard and Poor's	Dominion Bond Rating Service
British Columbia	Aaa	AAA	AA (high)
Alberta	Aa1	A+	AA
Saskatchewan	Aaa	AA	AA
Manitoba	Aa2	A+	A(high)
Ontario	Aa2	A+	AA(low)
Quebec	Aa2	AA–	A(high)
New Brunswick	Aa2	A+	A(high)
Nova Scotia	Aa2	A+	A(high)
Prince Edward Island	Aa2	A	A(low)
Newfoundland and Labrador	Aa3	A	A(low)
Canada	Aaa	AAA	AAA

[1]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.

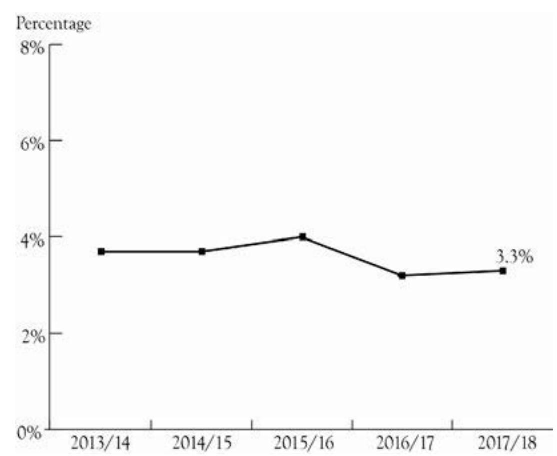
A more comprehensive overview of provincial debt, including key debt indicators is located on pages 129–142.

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 2017/18, the province spent 3.3 cents of each revenue dollar on interest on the provincial taxpayer–supported debt.

2013/14 to 2017/18



Financial Statement Discussion and Analysis Report

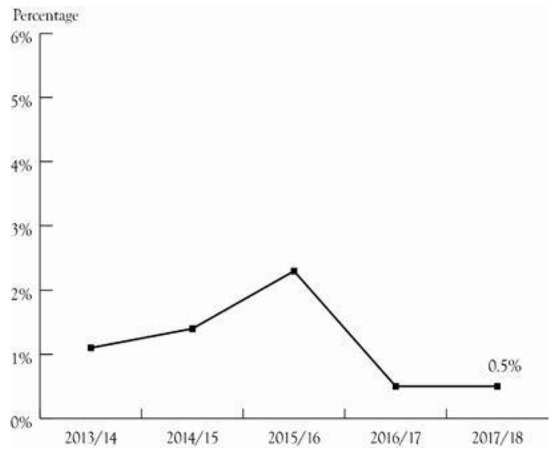
Non–Hedged Foreign Currency Debt to Total Provincial Debt

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 2017/18, the province had the equivalent of CAD$293 million in natural hedges.

2013/14 to 2017/18



Financial Statement Discussion and Analysis Report

Economic Highlights

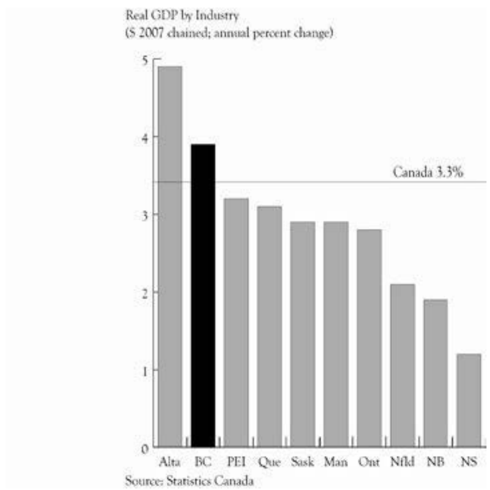
British Columbia's economy grew by an estimated 3.9% in the 2017 calendar year, the second highest rate among the provinces, according to preliminary GDP by industry data from Statistics Canada. The estimated 3.9% growth for British Columbia in 2017 is higher than the government's *Budget 2018* estimate of 3.4%.

Real Gross Domestic Product in Calendar Year 2017

Growth was observed across most major industries in 2017 with notable gains in real estate and rental and leasing (up 3.2%), manufacturing (up 4.5%) and construction (up 9.9%). While total construction expanded, the details were mixed, with engineering construction seeing a significant increase (up 48.7%) and non–residential building construction declining (down 7.3%).

Retail sales, an indicator of consumer spending, increased by 9.3% in 2017. Also, the value of international merchandise exports from BC increased by 12.7% in 2017, as goods exports to both the United States and the rest of the world increased.

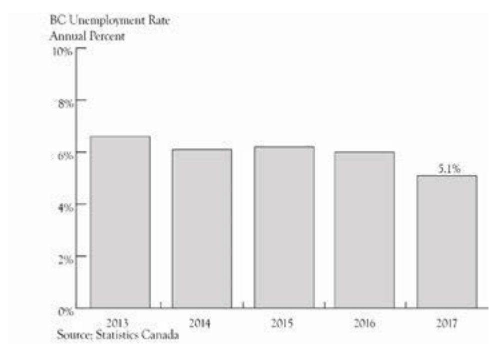
Provincial Comparison



Unemployment Rate in Calendar Year 2017

British Columbia's annual unemployment rate was 5.1% in 2017, a decrease from 6.0% observed in 2016. The unemployment rate in BC in 2017 was lower than the national unemployment rate of 6.3%. The average level of employment in BC increased by 3.7% in 2017, following a 3.2% increase in 2016.

2013 to 2017



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 $200[1]
Natural gas prices (Cdn$/gigajoule)	25 cents	$30 to $50[2]
US exchange rate (US cents/Cdn$)	1 cent	($25) to ($50)
Interest rate	1 percentage point	($82)
Debt	$500 million	($14) to ($16)

[1]Sensitivity relates to stumpage revenue only.
[2]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 66 of the Notes to the Consolidated Summary Financial Statements.