

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 161, 167, 168 and 170 of the *Budget and Fiscal Plan 2021/22–2023/24*.

Budget and Actual Results 2021/22

	In Millions				Variance	
	2021/22 Budget	2021/22 Updated Forecast	2021/22 Actual	2020/21 Actual	2021/22 Actual to Budget	2021/22 vs 2020/21
	\$	\$	\$	\$	\$	\$
Revenue.....	58,929	70,220	72,392	62,156	13,463	10,236
Expense.....	(67,627)	(69,703)	(71,086)	(67,624)	(3,459)	(3,462)
Surplus (deficit) before forecast allowance	(8,698)	517	1,306	(5,468)	10,004	6,774
Forecast allowance.....	(1,000)	(1,000)			1,000	
Surplus (deficit) for the year.....	<u>(9,698)</u>	<u>(483)</u>	<u>1,306</u>	<u>(5,468)</u>	<u>11,004</u>	<u>6,774</u>
Capital spending:						
Taxpayer-supported capital spending....	8,479	7,157	6,002	5,428	(2,477)	574
Self-supported capital spending.....	4,976	3,828	3,652	3,475	(1,324)	177
Total capital spending.....	<u>13,455</u>	<u>10,985</u>	<u>9,654</u>	<u>8,903</u>	<u>(3,801)</u>	<u>751</u>
Provincial debt:						
Taxpayer-supported.....	71,642	61,731	62,341	59,750	(9,301)	2,591
Self-supported.....	30,238	28,814	28,325	27,350	(1,913)	975
Forecast allowance.....	1,000	1,000			(1,000)	
Total provincial debt.....	<u>102,880</u>	<u>91,545</u>	<u>90,666</u>	<u>87,100</u>	<u>(12,214)</u>	<u>3,566</u>
Taxpayer-supported debt to GDP ratio	22.8 %	17.8 %	17.9 %	20.2 %	(4.9)	(2.3)

Summary Accounts Surplus (Deficit)

The province ended the year with a surplus of \$1,306 million, which was an improvement of \$11,004 million over the deficit forecast in the *Budget and Fiscal Plan 2021/22–2023/24*. The 2021/22 surplus of \$1,306 million was a \$6,774 million improvement over the deficit of \$5,468 million in fiscal year 2020/21.

Revenue increased by \$10,236 million over fiscal year 2020/21 and was \$13,463 million higher than budget. The increase in revenue in the current year was mainly due to increases in taxation revenue, natural resources, and net earnings from self-supported Crown corporations and agencies.

Expense increased by \$3,462 million over fiscal year 2020/21 and was higher than budget by \$3,459 million. The increases in spending in the current year were mainly in the health, education, natural resources, and transportation sectors. Additional spending over budget was authorized through various statutory appropriations.

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Capital Spending

Taxpayer-supported infrastructure spending on hospitals, schools, post-secondary facilities, transit, and roads totalled \$6,002 million in 2021/22, \$2,477 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 totalled \$3,652 million in 2021/22. Self-supported capital spending was \$1,324 million lower 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 \$2,591 million in 2021/22 to support increased capital infrastructure in schools, hospitals and social housing. Self-supported provincial debt increased by \$975 million due to an increase in capital infrastructure related to power projects. The increase in total provincial debt of \$3,566 million was \$12,214 million less than the budgeted increase in total debt of \$15,780 million. The key measure of taxpayer-supported debt to GDP ended the year at 17.9%, which is lower than the forecasted 22.8% in the budget.

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COVID–19 Pandemic Spending and Related Measures

This section provides an overview of spending through the province's pandemic response and economic recovery programs during the current year. This spending was authorized by voted appropriations or statutory appropriations.

	In Millions			Total Spend
	Vote 45 Pandemic and Recovery	Ministry Votes	Statutory Appropriation	
	\$	\$	\$	\$
Health and Safety				
Health Related COVID–19 Management.....	1,841	315		2,156
Total.....	1,841	315	0	2,156
Supports for Business and People				
Small and Medium Sized Business Recovery Grants Program.....	469			469
Tourism, Art and Other Sector Supports.....	163			163
Temporary Housing, Meals and Supports for Vulnerable Persons. Essential Services.....	7		142	149
Childcare Health and Safety Grants and K–12 Recovery Plan.....	142	11		153
BC Recovery Benefit.....	28	36		64
Non–Profit Recovery and Resiliency Fund.....	28	16	12	56
Increased Employment Incentive Tax Credit.....		30		30
COVID–19 Paid Sick Leave.....	7	26	8	41
	16			16
Total.....	860	119	162	1,141
Preparing for Recovery				
Recovery funding for BC Transit and Translink.....	201	3		204
Skills Training and Youth Employment Initiatives.....	66	121		187
Community Infrastructure and CleanBC Recovery Investments..	39	42		81
Total.....	306	166	0	472
Ministry Operations and Other Pandemic–Related Costs				
Ministry Operations and Other Pandemic–Related costs.....		9		9
Total Pandemic Response and Recovery Program Spending..	3,007	609	162	3,778

Financial Statement Discussion and Analysis Report

Discussion and Analysis

The discussion and 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.

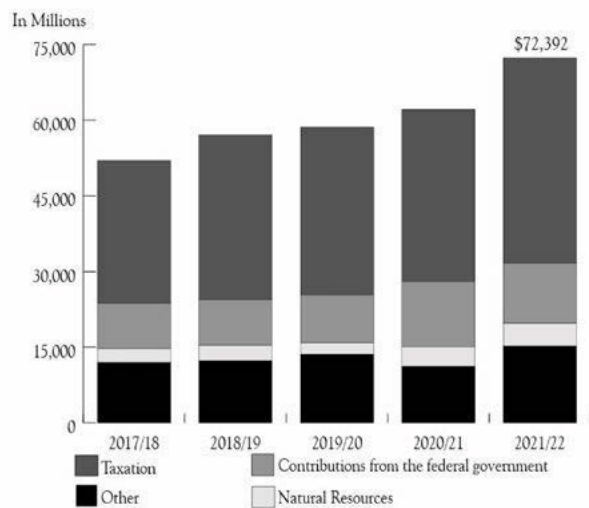
Revenue by Source

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 by separate components of taxation, contributions from the federal government, natural resources and other sources, which include fees and licences, contributions from self-supported Crown corporations, and investment income.

	In Millions				
	2017/18 Actual	2018/19 Actual	2019/20 Actual	2020/21 Actual	2021/22 Actual
	\$	\$	\$	\$	\$
Taxation.....	28,321	32,714	33,266	34,166	40,717
Contributions from federal government.....	9,055	9,052	9,535	12,894	11,980
Fees and licences.....	6,249	5,593	5,572	4,329	4,584
Miscellaneous.....	3,543	3,413	3,838	3,136	3,910
Net earnings of self-supported Crown corporations and agencies	1,056	2,005	2,918	3,964	5,424
Natural resources.....	2,695	3,108	2,268	2,403	4,471
Investment income.....	1,101	1,243	1,263	1,264	1,306
Total revenue.....	52,020	57,128	58,660	62,156	72,392

2017/18 to 2021/22

Provincial revenues increased by \$10,236 million in 2021/22. The improvement in provincial revenue was primarily due to increases in taxation revenue of \$6,551 million, natural resources revenue of \$2,068 million, net earnings of self-supported Crown corporations and agencies of \$1,460 million, and other revenues of \$1,071 million. Increases in these significant sources of revenue were offset by a decrease in contributions from the federal government of \$914 million.



In 2021/22, taxation revenue increased by \$6,551 million (19.2%). Personal income tax revenue increased by \$2,586 million (23.3%), reflecting a stronger income and tax base. Property transfer tax revenue increased by \$1,229 million (58.6%) due to the higher property values and number of housing sales. Provincial sales tax revenue increased \$1,037 million (13.5%). Other taxation revenues increased by \$1,699 million, mainly from increases in property and carbon taxes.

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The net earnings of self-supported Crown corporations and agencies were \$1,460 million higher than 2020/21 mainly from increased earnings of \$688 million in ICBC and \$791 million in British Columbia Lottery Corporation.

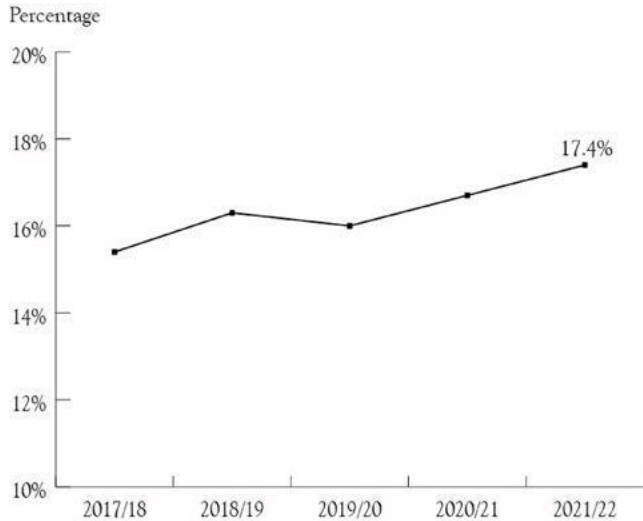
Natural resource revenues were \$2,068 million higher than 2020/21, mainly from increased forestry revenue due to increased stumpage rates and increased natural gas royalties and mineral revenues due to higher prices.

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 17.4%.

2017/18 to 2021/22

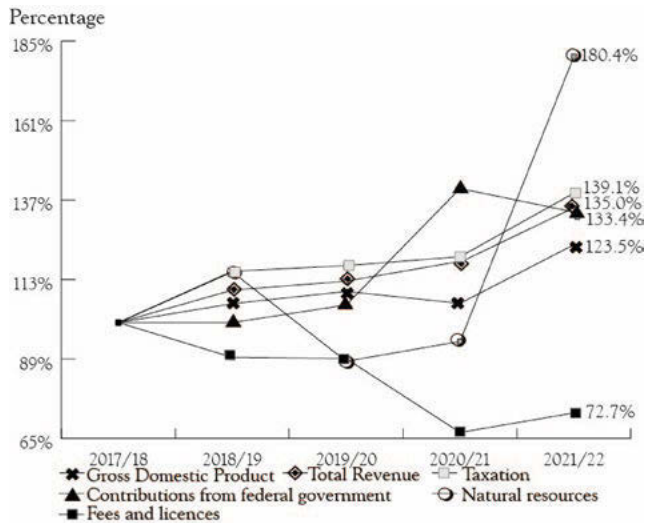


Percentage Change in Revenue

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 2017/18, total revenue has increased in relation with the increase in GDP. Taxation revenue has continued to exceed the growth in GDP, and natural resource revenue has increased over prior years. Contributions from the federal government decreased in the year due to reduced COVID-19 support payments.

2017/18 to 2021/22



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Natural Resource Revenue

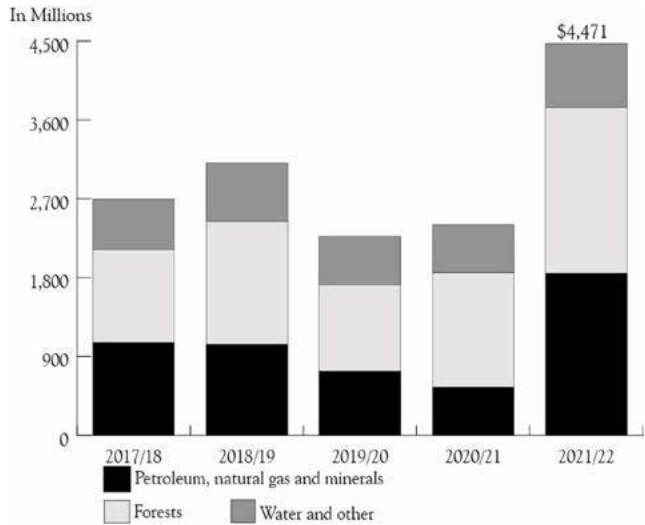
The chart of natural resource revenue by source explains past trends of natural resource revenue in total and by major category.

Petroleum, natural gas and mineral revenues increased by \$1,298 million from 2020/21. These categories of natural resource revenue account for 41.3% of natural resource revenue compared to 22.9% in 2020/21.

Forestry revenue increased by \$589 million in 2021/22. The proportion of natural resource revenue derived from forestry decreased to 42.4% in 2021/22 from 54.3% in 2020/21.

Water and other resource revenues increased by \$181 million in the year. They comprise 16.3% of provincial natural resource revenue.

2017/18 to 2021/22

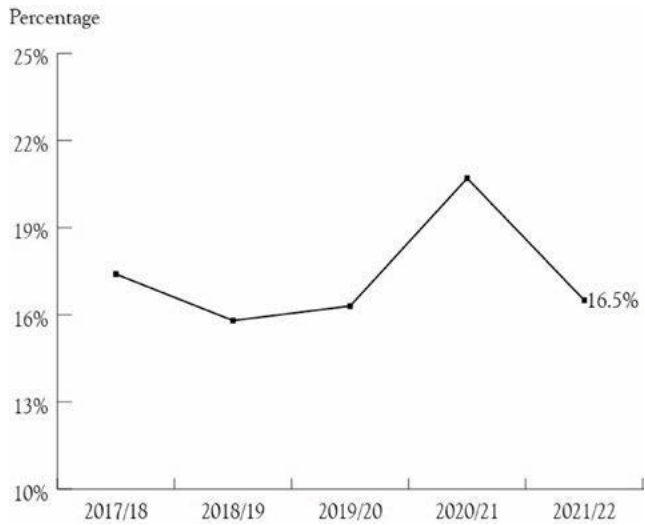


Government-to-Government Transfers to Total Revenue

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 reliance.

Federal transfers decreased in 2021/22, resulting in a ratio decrease to 16.5%, primarily from reduced COVID-19 support payments.

2017/18 to 2021/22



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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

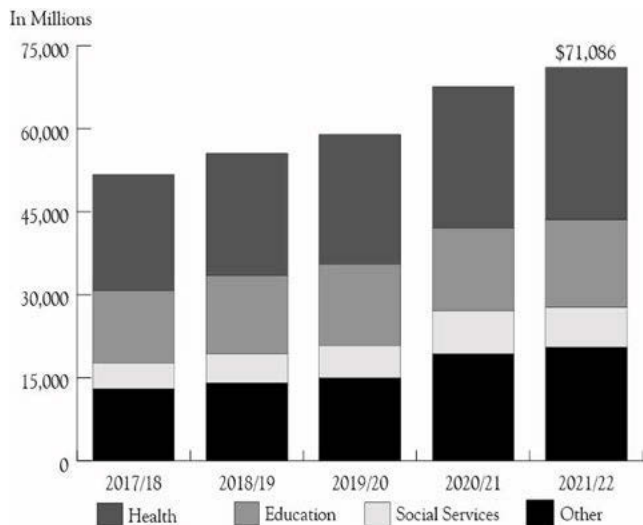
Expense by function provides a summary of the major areas of government spending, and changes in spending over time. Functions, which indicate the purpose of expenditures, are defined by Statistics Canada's Financial Management System of Government Statistics. The province uses the following functions: 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				
	2017/18	2018/19	2019/20	2020/21	2021/22
	Actual	Actual	Actual	Actual	Actual
	\$	\$	\$	\$	\$
Health.....	20,927	22,151	23,449	25,605	27,584
Education.....	13,092	14,089	14,735	14,943	15,795
Social services.....	4,737	5,343	5,887	7,789	7,268
Other.....	1,553	1,810	2,501	2,841	3,058
Natural resources and economic development.....	3,374	3,825	3,778	4,191	5,213
Interest.....	2,623	2,684	2,727	2,722	2,742
Transportation.....	1,931	2,021	2,126	3,360	4,453
Protection of persons and property.....	1,930	2,004	2,126	2,258	2,937
General government.....	1,540	1,670	1,653	3,915	2,036
Total expense.....	51,707	55,597	58,982	67,624	71,086

2017/18 to 2021/22

Government spending on programs and services increased by \$3,462 million in 2021/22.

The province increased spending on the health sector by \$1,979 million (7.7%), the transportation sector by \$1,093 million (32.5%), the natural resources sector by \$1,022 million (24.4%) and the education sector by \$852 million (5.7%). Spending in all of the remaining sectors decreased by \$1,484 million over 2020/21, mainly due to the BC Recovery Benefit offered in 2020/21. Expenses of the year included \$3,778 million in pandemic response and recovery program costs as detailed on page 13.



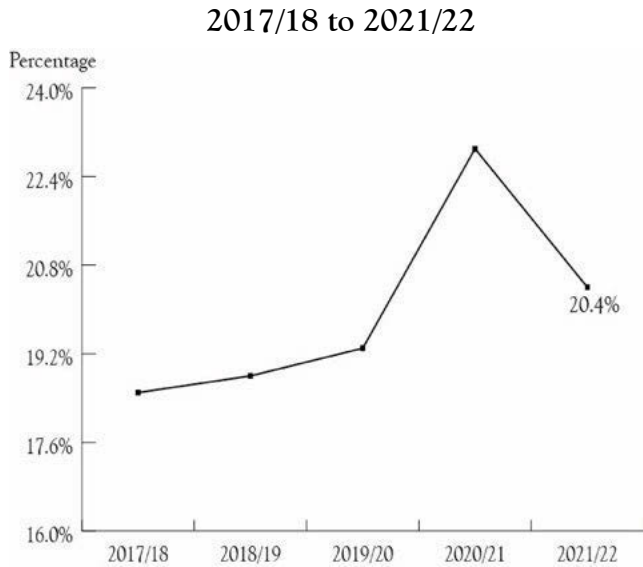
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In 2021/22, provincial operating expenses were \$71,086 million, a \$3,462 million (5.1%) increase from 2020/21. Program spending has increased by \$19,379 million (37.5%) since 2017/18. This is compared to increases in GDP of 24.4% over the same period.

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 from 22.9% to 20.4% in 2021/22, reflecting a return to more typical spending after the significant increased government spending on pandemic response and recovery programs in 2020/21.



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Changes in Actual Results from 2020/21 to 2021/22

	In Millions		Surplus (Deficit)
	Revenue	Expense	
	\$	\$	\$
2020/21 (Deficit).....	62,156	67,624	(5,468)
Increase in taxation revenue.....	6,551		6,551
Increase in natural resources revenue.....	2,068		2,068
Increase in net earnings of self-supported Crown corporations and agencies.....	1,460		1,460
Increase in other revenues.....	1,071		1,071
Decrease in contributions from the federal government.....	(914)		(914)
Increase in health spending.....		1,979	(1,979)
Increase in transportation spending.....		1,093	(1,093)
Increase in natural resources spending.....		1,022	(1,022)
Increase in education spending.....		852	(852)
Decrease in other program spending.....		(1,484)	1,484
Subtotal of changes in actual results.....	10,236	3,462	6,774
	<u>72,392</u>	<u>71,086</u>	
2021/22 Surplus.....			1,306
2020/21 Accumulated Surplus before Accumulated Other Comprehensive income.....			2,453
2021/22 Accumulated Surplus before Accumulated Other Comprehensive income.....			3,759
Accumulated other comprehensive income (loss) from self-supported Crown corporations and agencies.....			396
2021/22 Accumulated Surplus.....			<u>4,155</u>

The year over year increase in total revenue of \$10,236 million, offset by the increase in total expense of \$3,462 million, resulted in a surplus that was \$6,774 million higher than the 2020/21 deficit. Accumulated surplus, including accumulated other comprehensive income, increased from \$3,136 million in 2020/21 to \$4,155 million at the end of 2021/22.

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Changes from 2021/22 Budget

	In Millions			
	Revenue	Expense	Forecast Allowance	Surplus (Deficit)
	\$	\$	\$	\$
(Deficit) per 2021/22 Budget	58,929	67,627	(1,000)	(9,698)
Increased taxation revenue.....	6,935			6,935
Increased net earnings of self-supported Crown corporations and agencies.....	2,559			2,559
Increased natural resources revenue.....	1,939			1,939
Increased contributions from the federal government.....	1,450			1,450
Increased miscellaneous revenue.....	580			580
Increased transportation spending.....		2,117		(2,117)
Increased natural resources and economic development spending.....		1,601		(1,601)
Increased health spending.....		1,478		(1,478)
Increased protection spending.....		1,002		(1,002)
Decreased other spending.....		(2,739)		2,739
Forecast allowance.....			1,000	1,000
Subtotal of changes in actual results compared to budget.....	<u>13,463</u>	<u>3,459</u>	<u>1,000</u>	<u>11,004</u>
Actual Results	<u>72,392</u>	<u>71,086</u>	<u>0</u>	<u>1,306</u>

Revenue was \$13,463 million (22.9%) higher than the budgeted amount of \$58,929 million and expenses were \$3,459 million (5.1%) higher than the budgeted amount of \$67,627 million. Additional spending over budget was authorized by 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	
	2021/22 Budget	2021/22 Actual	2020/21 Actual	2021/22 Budget to Actual	2021/22 vs 2020/21
	\$	\$	\$	\$	\$
Financial assets.....	55,016	64,198	58,395	9,182	5,803
Less: liabilities.....	(126,938)	(119,982)	(111,560)	6,956	(8,422)
Net Liabilities.....	(71,922)	(55,784)	(53,165)	16,138	(2,619)
Less: non-financial assets.....	62,466	59,939	56,301	(2,527)	3,638
Accumulated surplus	<u>(9,456)</u>	<u>4,155</u>	<u>3,136</u>	<u>13,611</u>	<u>1,019</u>

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The accumulated surplus represents the sum of the current and prior years' operating results, and accumulated changes in other comprehensive income. At March 31, 2022, the accumulated surplus was \$4,155 million, \$13,611 million higher than budget.

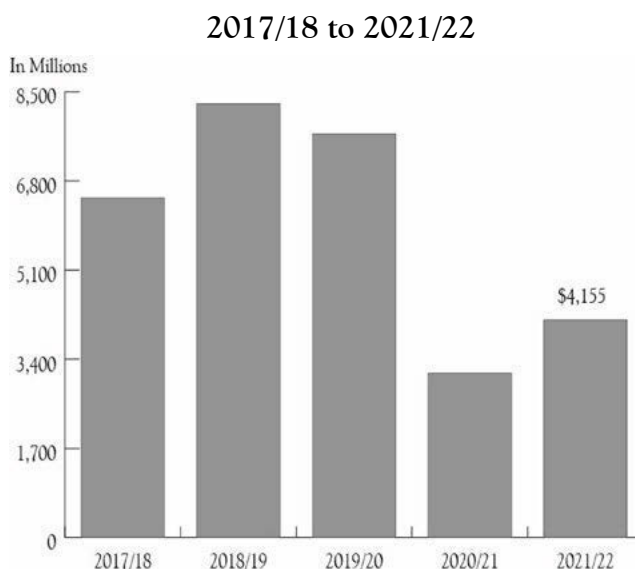
Financial assets were \$5,803 million higher than 2020/21 as the result of increases in equity in self-supported Crown corporations and agencies of \$2,591 million, loans for the purchase of assets, recoverable from agencies of \$917 million, cash, cash equivalents and temporary investments of \$582 million, and \$1,713 million in other financial assets.

Liabilities increased by \$8,422 million from 2020/21. This increase was the result of an increase of \$2,583 million in taxpayer-supported debt to support infrastructure spending on hospitals, schools, post-secondary facilities, transit, and roads, an increase in self-supported debt of \$934 million due to investment in government power projects, an increase in deferred revenue of \$1,168 million, and an increase of \$3,737 million in other liabilities.

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 \$3,638 million over 2020/21 representing government's investment in current year infrastructure spending.

Accumulated Surplus

The accumulated surplus represents current and all prior years' operating results. In 2021/22, the province had an accumulated surplus of \$4,155 million, \$1,019 million higher than in 2020/21. The positive operating results of prior years continue to provide the flexibility to sustain core public services.



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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				
	2017/18	2018/19	2019/20	2020/21	2021/22
	Actual	Actual	Actual	Actual	Actual
	\$	\$	\$	\$	\$
Cash, cash equivalents, temporary investments.....	3,440	3,029	3,985	6,560	7,142
Equity in self-supported Crown corporations and agencies.....	6,118	5,738	6,523	9,632	12,223
Loans, advances and mortgages receivable.....	2,339	2,395	2,952	4,032	4,199
Loans for the purchase of assets, recoverable from agencies.....	20,534	22,547	24,768	26,301	27,218
Other financial assets.....	10,748	10,994	10,144	11,870	13,416
Total financial assets.....	43,179	44,703	48,372	58,395	64,198

In 2021/22, financial assets increased by \$5,803 million primarily due to an increase in equity in self-supported Crown corporations and agencies of \$2,591 million mainly related to the increase in ICBC's unremitted earnings, an increase in recoverable capital loans of \$917 million due to investments in power projects, and an increase in cash, cash equivalents, and temporary investments of \$582 million. The remaining financial assets including receivables and other investments increased by \$1,713 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				
	2017/18	2018/19	2019/20	2020/21	2021/22
	Actual	Actual	Actual	Actual	Actual
	\$	\$	\$	\$	\$
Taxpayer-supported debt.....	44,752	43,209	46,669	59,982	62,565
Self-supported debt.....	20,619	22,655	24,847	26,275	27,209
Total financial statement debt.....	65,371	65,864	71,516	86,257	89,774
Accounts payable and other liabilities.....	9,751	10,572	11,497	13,092	16,829
Deferred revenue.....	10,052	10,543	10,651	12,211	13,379
Total liabilities.....	85,174	86,979	93,664	111,560	119,982

In 2021/22, total liabilities increased by \$8,422 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 \$2,583 million and self-supported financial statement debt increased by \$934 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 26. Deferred revenue increased by \$1,168 million and accounts payable and other liabilities increased by \$3,737 million. Deferred revenue represents unearned revenues and restricted contributions that will be recognized as revenue in future periods.

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Non-financial Assets

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

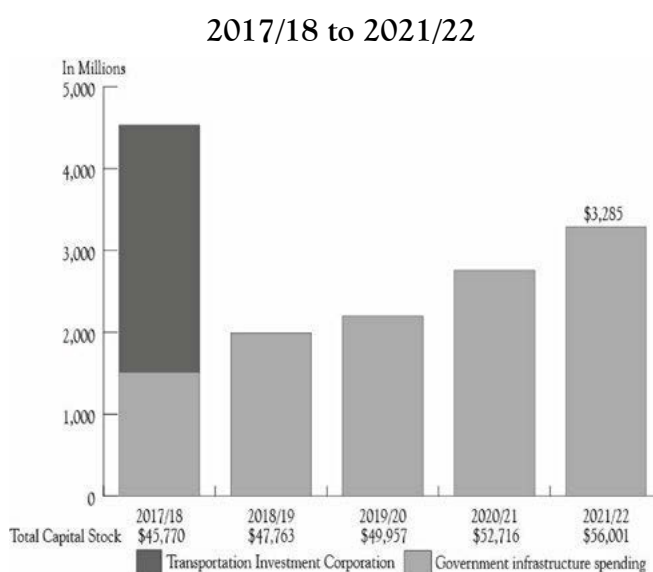
	In Millions				
	2017/18 Actual	2018/19 Actual	2019/20 Actual	2020/21 Actual	2021/22 Actual
	\$	\$	\$	\$	\$
Tangible capital assets.....	45,770	47,763	49,957	52,716	56,001
Other non-financial assets.....	2,700	2,786	3,031	3,585	3,938
Total non-financial assets.....	48,470	50,549	52,988	56,301	59,939

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, 2022, non-financial assets were \$59,939 million which was \$3,638 million higher than 2020/21 and \$11,469 million higher than fiscal 2017/18. 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 \$3,285 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 annual surplus (deficit). They reduce future operating results 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 \$3,285 million in 2021/22, and \$14,766 million since the start of fiscal 2017/18 (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.



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Net Liabilities and Accumulated Surplus

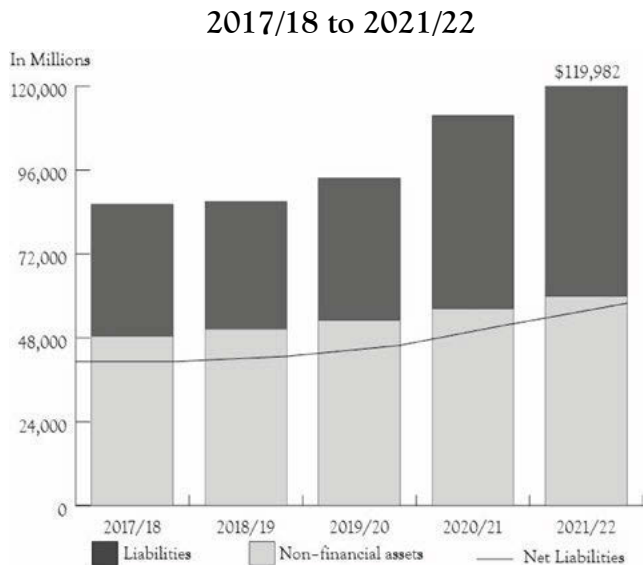
	In Millions				
	2017/18 Actual	2018/19 Actual	2019/20 Actual	2020/21 Actual	2021/22 Actual
	\$	\$	\$	\$	\$
Financial assets.....	43,179	44,703	48,372	58,395	64,198
Less: liabilities.....	(85,174)	(86,979)	(93,664)	(111,560)	(119,982)
Net liabilities.....	(41,995)	(42,276)	(45,292)	(53,165)	(55,784)
Less: non-financial assets.....	48,470	50,549	52,988	56,301	59,939
Accumulated surplus.....	6,475	8,273	7,696	3,136	4,155

Net liabilities increased by \$2,619 million in 2021/22. Liabilities include deferred revenue of \$13,379 million which represents unearned revenues and restricted contributions that will be recognized as revenue in future periods.

In the year the financial measure of net liabilities has increased less than the increase in investments in infrastructure, resulting in an increase in accumulated surplus. The accumulated surplus of the province was \$4,155 million at the end of 2021/22, 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, the relationship between non-financial assets and net liabilities has remained stable.



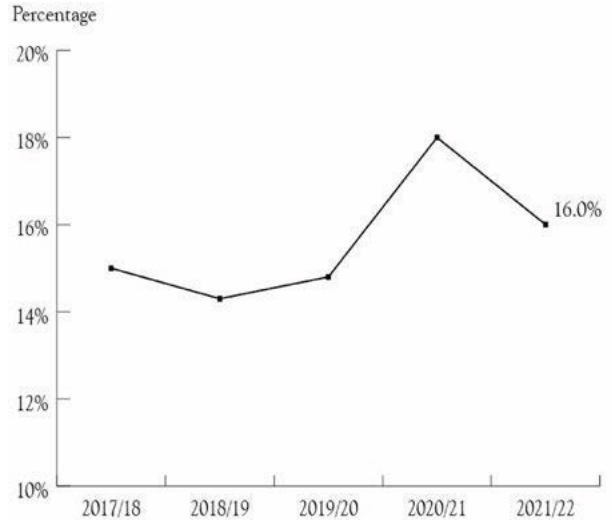
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Net Liabilities to GDP

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 trend toward increased net liabilities to GDP reflects the ongoing impacts from the COVID-19 pandemic and disaster response, while the ratio returned to a more normal level in 2021/22. Net liabilities include deferred revenue that will be recognized as revenue in future periods, and obligations to outside parties including accounts payable and debt.

2017/18 to 2021/22

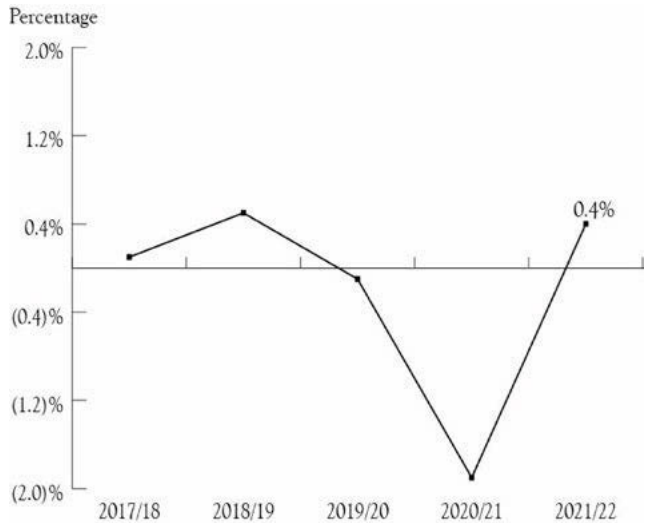


Surplus (Deficit) to GDP

The annual 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. Results in the negative range of the chart reflect government spending on pandemic response and recovery programs.

2017/18 to 2021/22



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				
	2017/18	2018/19	2019/20	2020/21	2021/22
	Actual	Actual	Actual	Actual	Actual
	\$	\$	\$	\$	\$
Gross debt.....	65,371	65,864	71,516	86,257	89,774
Less: sinking fund assets.....	(1,348)	(752)	(692)	(492)	(510)
Third party guarantees and non-guaranteed debt.....	896	850	1,337	1,335	1,402
Total provincial debt.....	64,919	65,962	72,161	87,100	90,666

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 \$892 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.

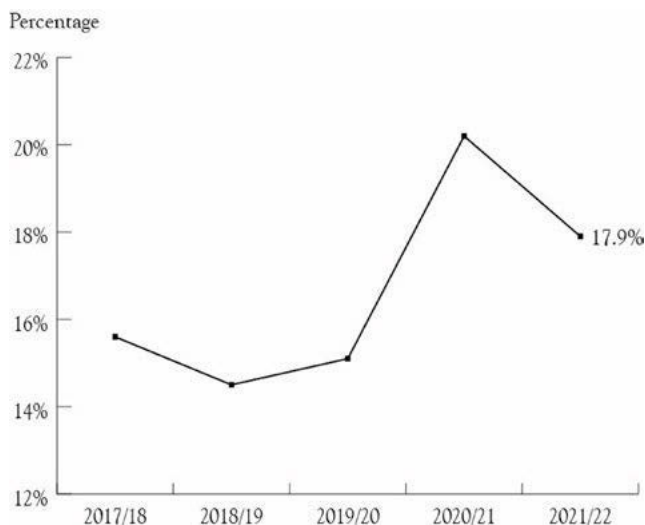
Total provincial debt increased by \$3,566 million in 2021/22 to support investments in capital projects. Taxpayer-supported debt increased by \$2,591 million, including increases for BC Transportation Financing Authority of \$1,294 million, in the education sector of \$1,160 million, the health sector by \$703 million, and other taxpayer-supported corporations and agencies by \$947 million, while government direct operating debt decreased \$1,513 million. The debt of self-supported Crown corporations and agencies increased \$975 million for investments in power projects.

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 2021/22, taxpayer-supported debt to GDP was 17.9%, which was lower than the budgeted 22.8%, returning to a stable trend after the impacts of COVID-19 in 2020/21.

2017/18 to 2021/22



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 2021/22, Moody's Investors Service Inc. gave the province a Aaa credit rating (2021: Aaa); Standard and Poor's gave the province a AA+ credit rating (2021: AAA); and Dominion Bond Rating Service gave the province a AA(high) credit rating (2021: AA(high)).

Credit Ratings March 31, 2022

Jurisdiction	Rating Agency ¹		
	Moody's Investors Service Inc.	Standard and Poor's	Dominion Bond Rating Service
British Columbia	Aaa	AA+	AA (high)
Alberta	Aa3	A	AA (low)
Saskatchewan	Aa1	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

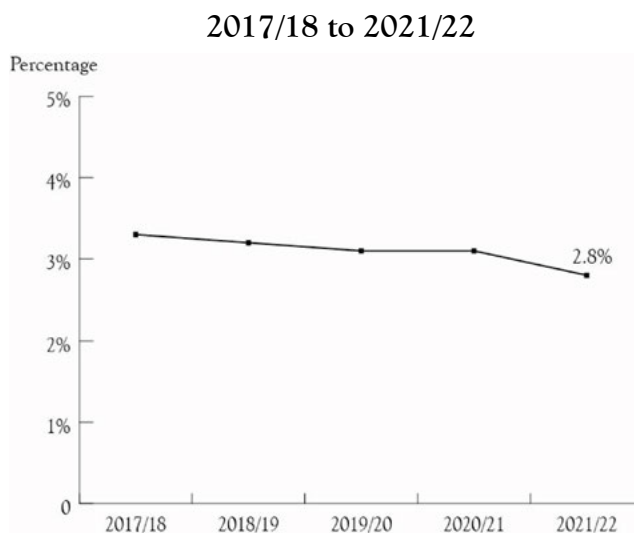
¹The rating agencies assign letter ratings to borrowers. The major categories, in descending order of credit quality, are: AAA/Aaa; AA/Aa; A; BBB/Baa; BB/Ba; and B. The "1", "2", "3", "high", "low", "-", and "+" modifiers show relative standing within the major categories. For example, AA+ exceeds AA.

A more comprehensive overview of provincial debt, including key debt indicators is located on pages 135–150.

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 2021/22, the province spent 2.8 cents of each revenue dollar on interest on provincial taxpayer-supported debt.



Financial Statement Discussion and Analysis Report

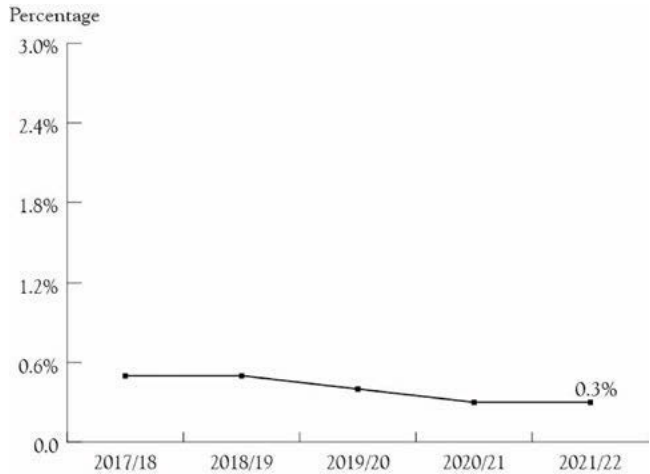
Non-Hedged Foreign Currency Debt to Total Provincial Debt

2017/18 to 2021/22

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 2021/22, the province had the equivalent of CAD \$284 million in non-hedged debt.



Financial Statement Discussion and Analysis Report

Economic Highlights

British Columbia's economy grew by 6.2% in the 2021 calendar year, the second highest among provinces, following a contraction of 3.4% in 2020 according to preliminary GDP by industry data from Statistics Canada. The estimated 6.2% advancement for British Columbia in 2021 is an improvement compared to the government's Budget 2022 estimate of 5.0% growth.

Real Gross Domestic Product in Calendar Year 2021

Both service-producing industries and goods-producing industries experienced growth compared to 2020.

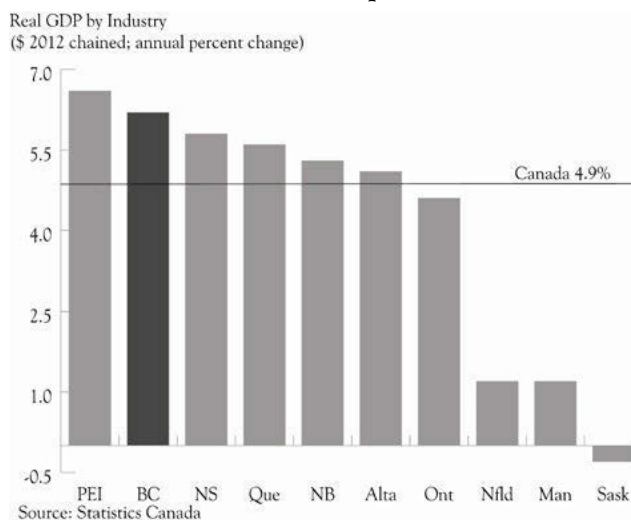
Service-producing industries, which account for just over three-quarters of British Columbia's GDP, contributed the most to 2021 GDP gains with 6.6% growth, with all sectors experiencing gains except for the management of companies and enterprises sector (down 26.6%). Output in the real estate and rental and leasing (up 5.2%), healthcare and social assistance (up 10.3%), professional, scientific and technical services (up 8.2%), and retail trade (up 7.8%) sectors were the main drivers of the increase. Some sectors heavily impacted by pandemic restrictions in 2020 rebounded in 2021, but were still below 2019 GDP levels.

British Columbia's goods-producing industries grew by 4.8% in 2021. Output in the mining, quarrying and oil and gas extraction sector advanced by 13.6%, supported by global demand and higher energy prices. Smaller increases were observed in the construction sector (up 3.6%), manufacturing (up 4.2%), and the utilities sector (up 1.8%). At the same time, the agriculture, forestry, fishing and hunting sector remained flat compared to 2020.

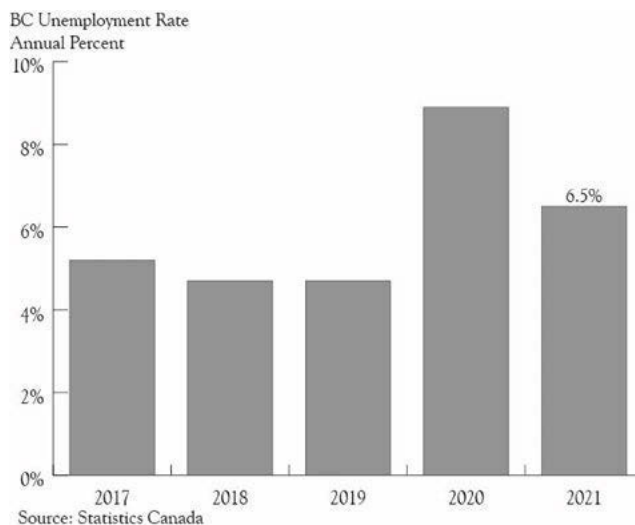
Unemployment Rate

British Columbia's annual unemployment rate was 6.5% in 2021, down from 8.9% in 2020. It remained above pre-pandemic levels throughout the year, although it has trended down with labour market improvements. The unemployment rate in British Columbia in 2021 was lower than the national unemployment rate of 7.5%. The average level of employment in British Columbia increased by 6.6% in 2021, following a 6.6% decline in 2020.

Provincial Comparison



2017 to 2021



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 (deficit):

Key Fiscal Sensitivities		
Variable	Increase Of	Annual Fiscal Impact (\$ millions)
Nominal GDP	1%	\$200 to \$300
Lumber prices (US\$/thousand board feet)	\$50	\$100 to \$150 ¹
Natural gas prices (Cdn\$/gigajoule)	25 cents	\$130 to \$150 ²
US exchange rate (US cents/Cdn\$)	1 cent	(\$25) to (\$50)
Interest rates	1 percentage point	(\$185)
Debt	\$500 million	(\$11) to (\$13)

¹Sensitivity relates to stumpage revenue only.

²Sensitivities 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 72 of the Notes to the Consolidated Summary Financial Statements.