

Public Accounts

For the Fiscal Year Ended
March 31, 2006

2005/2006



**BRITISH
COLUMBIA**

Ministry of Finance
Office of the Comptroller General

**National Library of Canada Cataloguing in Publication
Data**

British Columbia. Office of the Comptroller General.
Public accounts for the year ended... – 2000/2001–

Annual.

Report year ends Mar. 31.

Continues: British Columbia. Ministry of Finance.

Public accounts. ISSN 1187–8657.

ISSN 1499–1659 = Public accounts–British Columbia.

Office of the Comptroller General

1. British Columbia–Appropriations and
expenditures–Periodicals. 2. Revenue–British
Columbia–Periodicals.

3. Finance, Public–British Columbia–Periodicals. 1.
British Columbia. Ministry of Finance. 2. Title.

HJ13.B74 352.4'09711'05 C2001–960204–9

July 17, 2006
Victoria, British Columbia

Lieutenant Governor of the Province of British Columbia

MAY IT PLEASE YOUR HONOUR:

The undersigned has the honour to present the Public Accounts of the Government of the Province of British Columbia for the fiscal year ended March 31, 2006.

CAROLE TAYLOR
Minister of Finance

*Ministry of Finance
Victoria, British Columbia*

*Honourable Carole Taylor
Minister of Finance*

I have the honour to submit herewith the Public Accounts of the Government of the Province of British Columbia for the fiscal year ended March 31, 2006.

Respectfully submitted,

DAVID FAIRBOTHAM
Acting Comptroller General

British Columbia's Public Accounts

Staying the Course

The Public Accounts are one of the major accountability documents of the provincial government. They demonstrate accountability to the citizens of British Columbia by providing actual audited financial statements and other information in a consistent, timely and understandable format. They allow the reader to see how government's operating results compare to its fiscal plan as well as report on the financial state of the province in terms of its assets, liabilities and net debt.

The main focus of the Public Accounts is the Summary Financial Statements that represent the consolidated financial results, and financial position, for all those organizations that make up the government reporting entity. These statements provide an aggregate overview of how the province and its various organizations performed against the financial plan. Consistent with its legislative requirement to follow generally accepted accounting principles (GAAP), the province includes the financial balances and results of operations of school districts, universities, colleges, institutes and health organizations (the SUCH sector). Supplementary information is also provided through the Consolidated Revenue Fund Extracts (available on the Internet) that compares actual to planned spending on an appropriation basis, which represents another significant accountability of ministries back to the Legislative Assembly.

The province continues to improve the Public Accounts in terms of their usefulness to readers. Following inclusion of the SUCH sector in the province's financial statements in 2004/05 and again this year, the summary financial statements are for the second year running free of any audit qualifications.

This year the financial highlights section of the report has been expanded to include certain additional measures of government's financial condition recommended by The Canadian Institute of Chartered Accountants. These financial measures help users understand: government's ability to sustain its existing activities, the flexibility of government to fund additional activities, and the vulnerability of government to outside sources of funding. Further, the financial statements now incorporate trend information covering the three year period 2003/04 to date.

With regard to future improvements, the Public Sector Accounting Board of The Canadian Institute of Chartered Accountants has now issued guidance on providing segmented financial information in financial statements, effective for year ends commencing on or after April 1, 2007. The guidance is intended to address concerns that the government entity may have become too large and lost some of its meaningfulness in terms of describing government's major responsibilities—for example, health and education. British Columbia already provides extensive supplementary sectoral information that substantially meets the new requirements. We will ensure any remaining requirements are addressed in next year's financial statements.

As a result of the province's full compliance with GAAP, British Columbia continues to lead the country in terms of the organizations it includes in its reporting entity. As stated in previous years we will continue to monitor the practices of other senior governments to determine if universities should be considered part of government in the long term.

This year, there have been no significant changes to the reporting entity. There is a complete listing of organizations in the reporting entity on pages 71 – 73.

Accounting policies are reviewed each year for continued relevance and consistency with GAAP. As GAAP changes, the province must change its policies accordingly. For fiscal 2005/06, there was one accounting policy change: to defer certain expenses of rate regulated entities against future revenues from rate increases, rather than to recognize them in the year. Accounting policy and format changes are made in consultation with the independent Accounting Policy Advisory Committee created under the *Budget Transparency and Accountability Act* in 2001.

British Columbia continues to be a leader in budgeting and financial reporting based on the comparability of its Estimates and Public Accounts and the focus on "one bottom line"; that is, the Summary Financial Statements of the province. We will continue to change as accounting standards evolve and respond to the changing needs of the legislature and our financial statement readers. British Columbia's open and transparent financial reporting has played a significant part in the decision by certain major credit rating agencies to increase or maintain the credit rating of the province.

I would like to thank the Select Standing Committee on Public Accounts of the Legislative Assembly, government ministries, Crown corporations, agencies, the SUCH sector and the Office of the Auditor General staff for their cooperation and support in preparing the 2005/06 Public Accounts. I would also like to acknowledge the dedication of staff of the Office of the Comptroller General—specifically, the Financial Reporting and Advisory Services Branch, who prepared the Public Accounts and supporting documents. The efforts of all participants were critical in maintaining an early completion date comparable with the best practitioners in Canada.

Comments or questions regarding the Public Accounts documents are encouraged and much appreciated. Please direct your comments or questions to me by mail at PO Box 9413 STN PROV GOVT, Victoria BC V8W 9V1; e-mail at: David.Fairbotham@gov.bc.ca; or, by telephone at 250 387-6692, fax at 250 356-2001.

DAVID FAIRBOTHAM
Acting Comptroller General

Contents

Overview (Unaudited)		<i>SUCH Statement of Operations</i>	90
<i>Public Accounts Content</i>	9	<i>Consolidated Staff Utilization</i>	91
<i>Legislative Compliance and Accounting Policy Report</i>	10	Consolidated Revenue Fund Extracts (Unaudited)	
<i>Financial Statement Discussion and Analysis Report</i>	11	<i>Statement of Operations</i>	95
<i>Financial Highlights</i>	11	<i>Schedule of Net Revenue by Source</i>	96
<i>Economic Highlights</i>	14	<i>Schedule of Comparison of Estimated Expenses to Actual Expenses</i>	98
<i>Financial Performance</i>	15	<i>Schedule of Financing Transaction Disbursements</i>	100
<i>Risks and Uncertainties</i>	28	<i>Schedule of Write-offs, Extinguishments and Remissions</i>	101
Summary Financial Statements		Provincial Debt Summary	
<i>Statement of Responsibility for the Summary Financial Statements of the Government of the Province of British Columbia</i>	31	<i>Overview of Provincial Debt (Unaudited)</i>	105
<i>Report of the Auditor General of British Columbia</i>	33	<i>Provincial Debt (Unaudited)</i>	106
<i>Consolidated Statement of Financial Position</i> ...	35	<i>Change in Provincial Debt (Unaudited)</i>	107
<i>Consolidated Statement of Operations</i>	36	<i>Reconciliation of Summary Financial Statements Surplus (Deficit) to Change in Taxpayer-supported Debt and Total Debt (Unaudited)</i> ..	108
<i>Consolidated Statement of Change in Net Liabilities</i>	37	<i>Reconciliation of Total Debt to the Summary Financial Statements Debt (Unaudited)</i>	108
<i>Consolidated Statement of Cash Flow</i>	38	<i>Change in Provincial Debt, Comparison to Budget (Unaudited)</i>	109
<i>Notes to Consolidated Summary Financial Statements</i>	40	<i>Interprovincial Comparison of Taxpayer-supported Debt as a Percentage of Gross Domestic Product (Unaudited)</i>	110
<i>Reporting Entity</i>	71	<i>Interprovincial Comparison of Taxpayer-supported Debt per Capita (Unaudited)</i>	111
<i>Consolidated Statement of Financial Position by Sector</i>	74	<i>Report of the Auditor General of British Columbia on the Summary of Provincial Debt, Key Indicators of Provincial Debt, and Summary of Performance Measures</i>	113
<i>Consolidated Statement of Operations by Sector</i>	76	<i>Summary of Provincial Debt</i>	115
<i>Statement of Financial Position for Self-supported Crown Corporations and Agencies</i>	78	<i>Key Indicators of Provincial Debt</i>	116
<i>Summary of Results of Operations and Statement of Equity for Self-supported Crown Corporations and Agencies</i>	79	<i>Summary of Performance Measures</i>	117
<i>Consolidated Statement of Tangible Capital Assets</i>	80	Definitions (Unaudited)	118
<i>Consolidated Statement of Guaranteed Debt</i>	81	Acronyms (Unaudited)	120
Supplementary Information (Unaudited)			
<i>Adjusted Net Income of Crown Corporations, Agencies and the SUCH Sector</i>	85		
<i>SUCH Statement of Financial Position</i>	88		

Public Accounts Content

Financial Statement Discussion and Analysis (Financial Highlights (Unaudited))—this section provides a written commentary on the Summary Financial Statements plus additional information on the financial performance of the provincial government.

Summary Financial Statements—these audited statements have been prepared to disclose the financial impact of the government's activities. They aggregate the Consolidated Revenue Fund (CRF), the taxpayer-supported Crown corporations and agencies (government organizations), the self-supported Crown corporations and agencies (government enterprises) and the school districts, universities, colleges, institutes and health authorities (SUCH) sector.

Supplementary Information (Unaudited)—this section provides supplementary schedules containing detailed information on the results of those Crown corporations and agencies that are part of the government reporting entity and the impact of the SUCH sector on the province's financial statements.

Consolidated Revenue Fund Extracts (Unaudited)—the CRF reflects the core operations of the province as represented by the operations of government ministries and legislative offices. Its statements are included in an abridged form. The CRF Extracts include a summary of the CRF operating result, a schedule of net revenue by source, a schedule of expenses, a schedule of financing transactions, and a schedule of write-offs, extinguishments and remissions, as required by statute.

Provincial Debt Summary—this section presents unaudited schedules and unaudited statements that provide further details on provincial debt and reconcile the Summary Financial Statements debt to the province's total debt. Also included are the audited Summary of Provincial Debt, Key Indicators of Provincial Debt and Summary of Performance Measures.

This publication is available on the Internet at: www.fin.gov.bc.ca

Additional Information Available (Unaudited)

The following information is available only on the Internet at: www.fin.gov.bc.ca

Consolidated Revenue Fund Supplementary Schedules—this section contains schedules that provide details of financial activities of the CRF, including details of expenses by ministerial appropriations, an analysis of statutory appropriations, Special Accounts and Special Fund balances and operating statements, and financing transactions.

Consolidated Revenue Fund Detailed Schedules of Payments—this section contains detailed schedules of salaries, wages, travel expenses, grants and other payments.

Financial Statements of Government Organizations and Enterprises—this section contains links to the audited financial statements of those Crown corporations, agencies and SUCH sector entities that are included in the government reporting entity.

Summaries of Financial Statements of Corporations and Agencies to which the Financial Information Act applies—this section contains summaries of the financial statements of corporations, associations, boards, commissions, societies and public bodies required to report under the *Financial Information Act* (R.S.B.C. 1996, chap. 140, sec. 2).

Legislative Compliance and Accounting Policy Report

The focus of the province's financial reporting is the Summary Financial Statements, which consolidate the operating and financial results of the province's Crown corporations, agencies, and school districts, universities, colleges, institutes and health organizations with the Consolidated Revenue Fund. These are general-purpose statements designed to meet, to the extent possible, the information needs of a variety of users.

The Public Accounts are prepared in accordance with the *Financial Administration Act* and the *Budget Transparency and Accountability Act* (BTAA).

The BTAA was amended in 2001 with the passing of Bill 5. Under section 20 of that Bill, the government has mandated that "all accounting policies and practices applicable to documents required to be made public under this Act for the government reporting entity must conform to generally accepted accounting principles."

For senior governments, GAAP is generally considered to be the recommendations and guidelines of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

An accounting policy advisory committee has been established as an independent body and is assisting the province in applying professional guidance.

Financial Statement Discussion and Analysis Report

1. Financial Highlights

The financial highlights section provides a summary of the key events affecting the financial statements.

The information contained within the Financial Highlights is taken from the Summary Financial Statements on pages 35–81. The budget figures are from pages 3–7 of the *Estimates—Fiscal Year Ending March 31, 2006*, tabled in September 2005, with the exceptions of reclassifications outlined in Note 32, page 70.

Summary Accounts' Surplus

	In Millions			Variance	
	2005/06 Budget	2005/06 Actual	2004/05 Actual	2005/06 Actual to Budget	2005/06 vs 2004/05
Taxpayer-supported Programs and Agencies	\$	\$	\$	\$	\$
Revenue.....	32,202	33,749	30,805	1,547	2,944
Expense.....	(32,876)	(32,887)	(30,667)	(11)	(2,220)
Taxpayer-supported net earnings	(674)	862	138	1,536	724
Self-supported Crown corporation net earnings.....	2,274	2,198	2,558	(76)	(360)
Surplus before forecast allowance	1,600	3,060	2,696	1,460	364
Forecast allowance.....	(300)			300	0
Surplus for the year.....	1,300	3,060	2,696	1,760	364

The province ended the year with a significant surplus of \$3,060 million, \$1,760 million higher than budget, reflecting robust economic performance, strong commodity prices, higher than anticipated federal transfers and sound financial management on the spending side. Compared to the previous year, the 2005/06 surplus was \$364 million higher.

Changes in Actual Results from 2004/05 to 2005/06

	In Millions		
	Revenue	Expense	Surplus
	\$	\$	\$
2004/05 Surplus.....	33,363	30,667	2,696
Increased income tax revenue – from the 2004 tax year.....	339		339
Increased income tax revenue – economic growth.....	620		620
Other taxation revenue increases.....	553		553
Increased natural gas royalties.....	482		482
Increased federal transfers.....	564		564
Other revenue increases.....	386		386
Decreased commercial crown income.....	(360)		(360)
Health spending increases.....		885	(885)
Education and post-secondary spending increases.....		431	(431)
Other program spending increase.....		194	(194)
Negotiating framework incentives.....		710	(710)
Subtotal of changes in actual results.....	2,584	2,220	364
2005/06 Surplus.....	35,947	32,887	3,060
2004/05 Accumulated (Deficit).....			(3,184)
2005/06 Accumulated (Deficit).....			(124)

Financial Statement Discussion and Analysis Report

Revenue increased 8% or \$2,584 million from 2004/05 mainly due to the effects on taxation and natural resource revenues of strong economic growth in 2005 and rising energy, metal and mineral prices. These were partly offset by the impacts of tax reductions totaling an estimated \$438 million introduced in the September Update. Federal government contributions also increased \$564 million from 2004/05 mainly due to British Columbia's share of rising health transfers as a result of the First Ministers' Accord on Health Renewal, partly offset by falling equalization entitlements.

Personal and corporate income tax revenue rose \$959 million over the previous year including \$339 million of increased prior year adjustments due to improved 2004 tax return results. The remaining \$620 million increase reflected the strong growth in personal income in 2005 and British Columbia's share of an increased national corporate income tax base. The growth in personal and business incomes in 2005 combined with strong demand for residential and commercial property led to an increase of \$553 million in other taxation revenues – mainly social service and property transfer taxes. The \$482 million increase in natural gas royalties was due to increases in price.

These revenue increases were partially offset by a \$360 million reduction in commercial Crown corporation net income. The British Columbia Hydro and Power Authority (BC Hydro) results were down \$136 million mainly due to higher operating costs; British Columbia Railway Company was \$168 million lower than the previous year due to the gain in 2004/05 from the Canadian National Railway Company transaction; and the Insurance Corporation of British Columbia (ICBC) was down \$192 million as a result of higher claims costs. These net income reductions were partially offset by \$136 million in additional revenue from the British Columbia Liquor Distribution Branch, British Columbia Lottery Corporation and other commercial Crown corporations.

Expenses increased \$2,220 (7%) million from 2004/05 primarily due to the \$885 million increase in health spending. The increase in health spending reflects implementation of programs funded by the First Ministers' Accord on Health Care Renewal and the 10 year federal government health care funding from the September 2004 agreement. The increase also reflects \$710 million in negotiating incentive payments, and an additional \$431 million in education spending, primarily due to the implementation of government's post-secondary seat expansion program and additional funding provided to school districts.

Changes from 2005/06 Budget

	In Millions			
	Revenue	Expense	Forecast Allowance	Surplus
	\$	\$	\$	\$
Surplus per Budget September 2005.....	34,476	32,876	(300)	1,300
Increased income tax revenue – from the 2004 tax year.....	278			278
Increased income tax revenue – 2005/06.....	287			287
Increased property transfer tax revenue.....	193			193
Other taxation revenue increases.....	226			226
Increased natural gas royalties.....	167			167
Increase federal transfers and other changes.....	320			320
Interest savings.....		(154)		154
Program savings.....		(545)		545
Negotiating framework incentives.....		710		(710)
Unused forecast allowance.....			300	300
Subtotal of changes in actual results compared to budget.....	<u>1,471</u>	<u>11</u>	<u>300</u>	<u>1,760</u>
Actual Results.....	<u>35,947</u>	<u>32,887</u>	<u>0</u>	<u>3,060</u>

Revenue was \$1,471 (4%) million higher than budget mainly due to the effects of robust economic performance, income growth, and strong commodity prices.

Revenue from personal and corporate income taxes was up \$565 million, of which \$278 million represented higher prior year adjustments due to better than expected 2004 tax return results. The remaining \$287 million improvement reflects, stronger 2005 personal income growth and increased corporate income tax instalment payments in 2005. The remaining increase in taxation revenue is mainly due to the effects on social service and property transfer taxes of increased consumer spending and a strong housing market respectively.

Financial Statement Discussion and Analysis Report

Revenue from natural gas royalties were \$167 million higher than budget reflecting higher average prices due to strong North American demand for energy products, partly offset by lower than expected production volumes. Revenue from other sources were up \$320 million due to higher transfers from the federal government, increased revenues from investment earnings due to improved cash balances, but were partially offset by lower forests revenue in the coastal forest industry and BC Timber Sales, and a higher Canadian dollar.

Expenses were \$11 million higher than budget reflecting the \$710 million dollar incentive package provided to bargaining units who negotiated their contracts before their expiry date in 2005/06, partially offset by a \$154 million reduction in interest costs and \$545 million in other program savings. Further information on the wage settlement incentive payments can be found in Note 31 (page 67).

Net Liabilities and Accumulated Deficit

In accordance with Canadian generally accepted accounting principles, the government's statement of financial position is presented on a net liabilities basis. Net liabilities represent the difference between a government's financial assets and its liabilities and is a measure of the future revenue required to pay for past transactions and events.

	In Millions			Variance	
	2005/06 Budget	2005/06 Actual	2004/05 Actual	2005/06 Actual to Budget	2005/06 vs 2004/05
	\$	\$	\$	\$	\$
Financial assets.....	24,616	25,238	24,825	622	413
Less: liabilities.....	(51,993)	(50,928)	(51,757)	(1,065)	(829)
Net Liabilities.....	(27,377)	(25,690)	(26,932)	(1,687)	(1,242)
Less: non-financial assets.....	25,602	25,566	23,748	(36)	1,818
Accumulated deficit.....	(1,775)	(124)	(3,184)	(1,651)	(3,060)

The accumulated deficit represents the sum of the current and all prior years' operating results. At March 31, 2006, the accumulated deficit totaled \$124 million, \$1,651 million lower than budget due to a higher than forecast surplus. The \$3,060 million reduction from the previous year reflects the 2005/06 operating surplus.

The \$622 million increase in financial assets over budget primarily reflects an increase in cash and temporary investments. Liabilities were \$1,065 million under budget and \$829 million less than the prior year, primarily due to a reduction in taxpayer-supported debt reflecting the surplus for the year. The reduction in taxpayer-supported debt was partially offset by an increase in accounts payable, primarily due to the accrual of wage settlement incentive payments. Other changes from budget reflect the forecast allowance that was not required, and changes in deferred revenue and self-supported debt.

Non-financial assets typically represent resources that the government can use in the future to provide services, such as tangible capital assets. Non-financial assets were mostly on budget as capital spending and amortization of assets were consistent with plan. Non-financial assets increased significantly over the prior year due to the government's increased capital spending for the post-secondary education, health facilities and transportation sectors.

Total Provincial Debt

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 at March 31, 2006 was \$34,356 million, \$1,554 million lower than budget and \$1,470 million lower than 2004/05. This includes \$27,175 million of taxpayer-supported debt, which was \$1,099 million lower than budget and \$1,482 million lower than 2004/05.

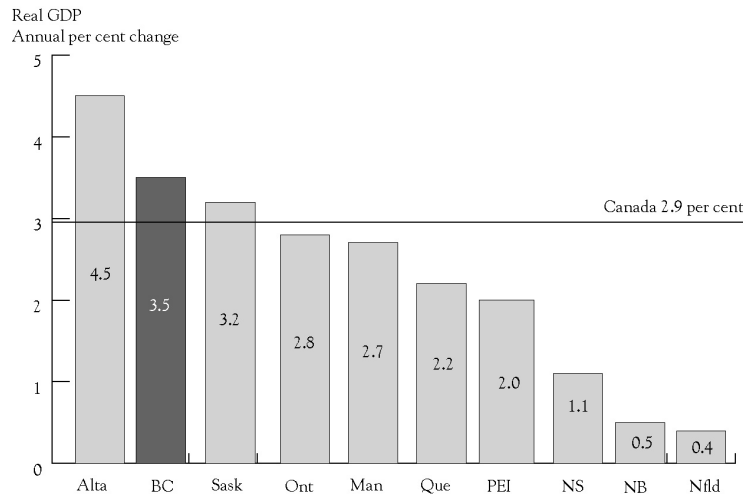
Reflecting the province's fiscal performance, British Columbia has maintained its strong credit rating. In 2005/06, Standard and Poor's upgraded the province to AA+ (2005: AA) and the ratings from Moody's Investors Service Inc. and Dominion Bond Rating Services remained unchanged at Aa1 and AA respectively.

Financial Statement Discussion and Analysis Report

2. Economic Highlights

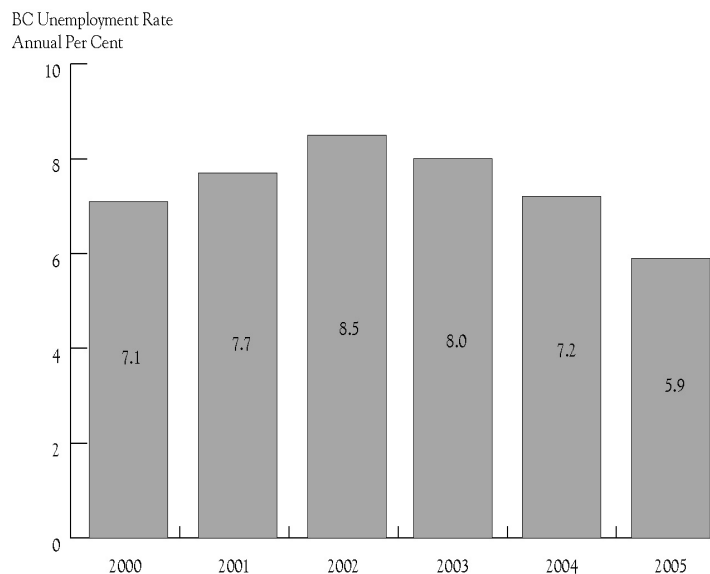
British Columbia's economy grew by 3.5% in 2005, which is the second strongest growth of all the provinces and above the national average of 2.9%, according to preliminary results from Statistics Canada. The estimated 3.5% growth last year was slightly faster than the 3.4% growth rate forecast in the September Budget Update, and slightly lower than the 3.6% pre-budget forecast of the Economic Forecast Council.

Real Gross Domestic Product in 2005



Economic growth in British Columbia was driven by robust domestic activity in 2005. Business investment grew by 8.5%, with growth in both residential construction (8.6%) and machinery and equipment investment (16.7%). Consumer spending, which accounts for about two-thirds of all economic activity in the province, grew by 4.6% in 2005. British Columbia's economic growth was accompanied by a marked drop in the annual unemployment rate to 5.9% (the lowest in 30 years) and strong labour income growth of 6.3%. Despite the continued rise of the Canadian dollar against the US dollar in 2005, total exports of goods and services grew by 2.9%. Imports of goods and services from other countries and other provinces grew by 6.0% in 2005.

Unemployment Rate in 2005



Financial Statement Discussion and Analysis Report

3. Financial Performance

The financial performance section includes a more detailed analysis of significant trends relating to the statement of operations, statement of financial position and the provincial debt.

Revenue Analysis

The following analysis helps users understand the government's finances in terms of its revenue sources and to evaluate the revenue-producing capacity of the government.

Revenue by Source

	In Millions		
	2003/04	2004/05	2005/06
	Actual	Actual	Actual
	\$	\$	\$
Taxation.....	13,830	14,917	16,429
Contributions from federal government.....	3,619	5,222	5,786
Natural resources.....	3,309	3,973	4,567
Fees and licences.....	3,531	3,621	3,649
Net earnings of self-supported Crown corporations.....	1,955	2,558	2,198
Miscellaneous.....	1,968	2,239	2,370
Investment earnings.....	950	833	948
Total revenue.....	29,162	33,363	35,947

In 2005/06, tax revenue increased by \$1,512 million (10%) over the prior year and \$2,599 million (19%) over 2003/04. Personal income tax, social services tax, property tax and corporate income tax all increased over the previous year. The increase in tax revenue is a result of the stronger economic activity and personal and labour income growth, partially offset by tax reduction measures introduced in the 2005/06 budget.

Contributions from the federal government have increased in 2005/06 by \$564 million (11%) from 2004/05 mainly reflecting BC's share of increased funding from the first ministers health accord. Federal contributions rose in 2004/05 by \$1,603 million (44%) from 2003/04 reflecting the negative impact of adjustments made in that year.

Natural resources revenues increased in 2005/06 by \$594 million from 2004/05. The increase is mostly attributable to an increase in revenue for natural gas royalties offset by lower forestry revenues. Increased revenues also included the effects of higher electricity and metal prices and revenues from the sale of Crown land drilling rights.

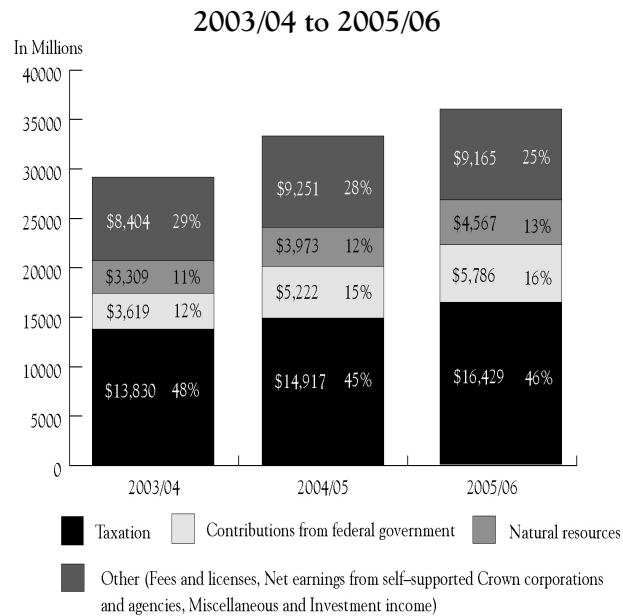
Commercial Crown corporation income decreased in 2005/06 by \$360 million. The reduction in 2005/06 is primarily due to the comparatively higher results in 2004/05 that included gains resulting from the BC Rail/CN transactions. BC Hydro energy costs, operating costs, and financing charges have increased. ICBC experienced increasingly higher claims costs, and changed its method of recording future claims costs.

Investment earnings have increased by \$115 million from 2004/05 due to increased investments held by the school districts, universities, colleges, institutes and health organizations (SUCH) sector partially due to endowments for universities and overall improvement in financial markets.

Financial Statement Discussion and Analysis Report

Revenue by Source

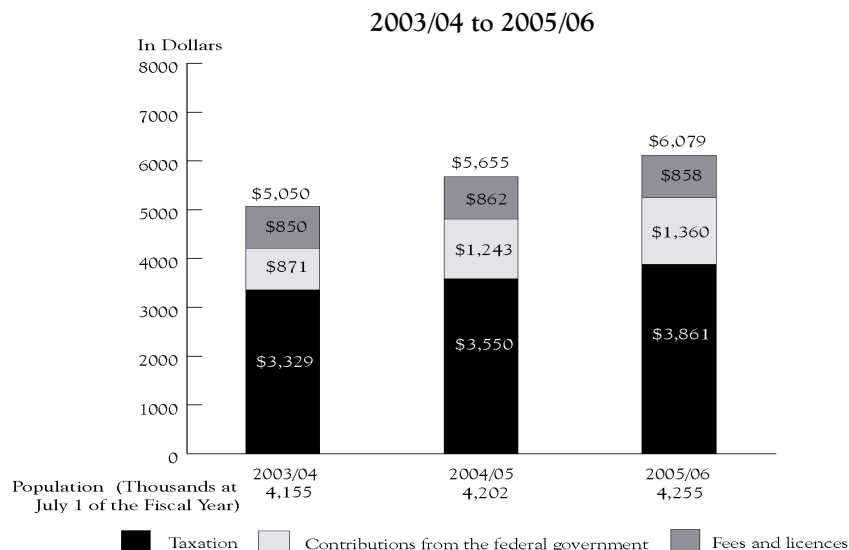
Revenue by source provides an outline of the primary sources of provincial revenue and changes between sources over time. Revenues are broken down into separate components of taxation; contributions from the federal government; natural resources and other sources, which includes contributions from crown corporations, fees and licenses, and investment income.



As indicated, the province has experienced a steady growth in revenues over the last three years. This growth is mainly due to provincial economic growth, resulting in an increase in taxation, and natural resources revenues. Federal contributions have also increased as a proportion of total revenues.

Per Capita Revenue

Per capita revenue indicates the amount of revenue received per person in the province for the three main categories of revenue.

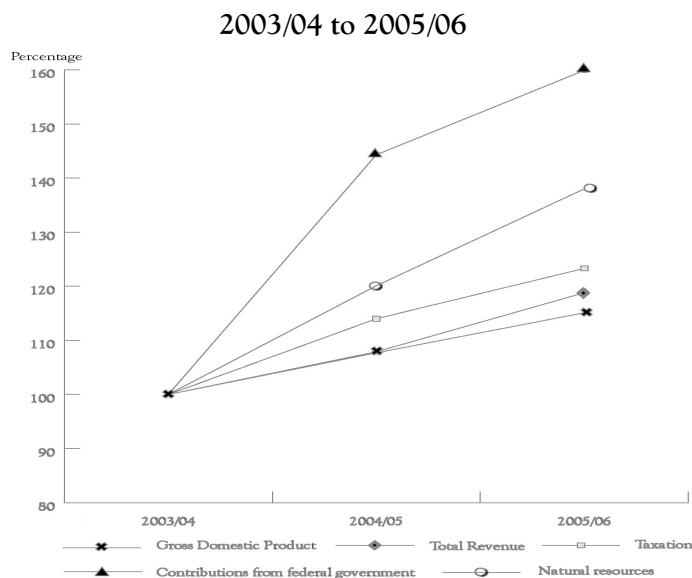


Total revenue per capita for these three sources has increased from \$5,050 to \$6,079 per person (20.4%) 2003/04 to 2005/06. Tax revenue and federal government contributions per capita are increasing at a faster rate than the increase in population, reflecting growth in the economy.

Financial Statement Discussion and Analysis Report

Change in Revenue

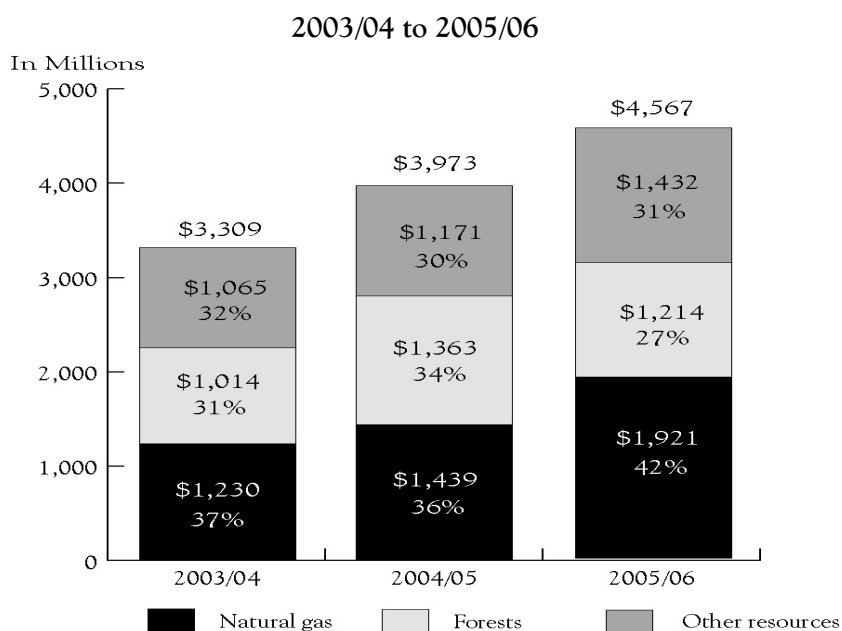
A trend analysis of revenue provides users with information about significant changes in revenue over time and between sources, enabling users to evaluate past performance and assess potential implications for the future.



Increases in total revenues and taxation have been consistent with the change in gross domestic product (GDP), federal transfer income and natural resources revenue have exceeded GDP in the past two years.

Natural Resources Revenue

Natural resources revenues are among the most volatile revenue sources for the province mainly due to the effects of market fluctuations on natural gas and forestry revenues.

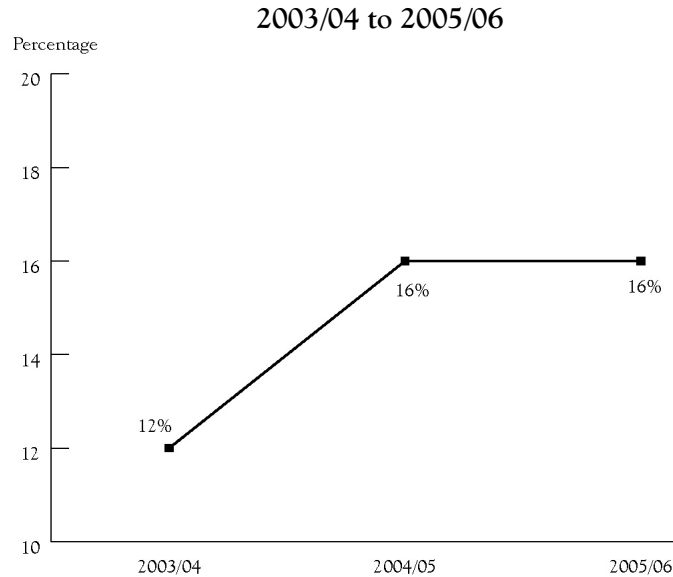


The above shows significant increases in natural resources revenue as a result of the high market demand for energy and minerals. Over the last three years, the make-up of natural resource revenues have changed significantly. Revenues from natural gas have increased proportionally, while revenues from forests have decreased. Other resource revenues, which include petroleum, minerals, energy, and various other revenues, have increased, but remain constant at around 30% of natural resource revenues.

Financial Statement Discussion and Analysis Report

Government-to-Government Transfers to Total Revenue

Government-to-government transfers to total revenue indicates the vulnerability of the province to changes in revenues from the federal government.



The increase in the proportion of government-to-government transfers to total revenue shows a higher dependence on the federal government to fund provincial programs than in 2003/04, mainly due to the increase from the first ministers health accord in 2004/05.

Own-source Revenue to GDP

The ratio of own-source revenue to GDP represents the proportion of income government is taking from the whole provincial economy in the form of taxation, natural resource revenues, user fees and sales (own-source revenue is all revenue except for federal transfers). Own-source revenue to GDP has remained constant at 18% for the last three years. This indicates the government has not needed to increase the proportion received from the economy to fund increases in social spending.

Financial Statement Discussion and Analysis Report

Expense Analysis

The following analysis helps users analyse 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

	In Millions		
	2003/04	2004/05	2005/06
	Actual	Actual	Actual
	\$	\$	\$
Health.....	11,250	11,529	12,822
Education.....	8,237	8,512	9,053
Social services.....	2,753	2,598	2,798
Natural resources and economic development.....	1,504	1,688	1,638
Transportation.....	1,119	1,308	1,203
Other.....	1,075	1,027	1,101
Protection of persons and property.....	1,363	1,206	1,414
Interest.....	2,438	2,294	2,182
General government.....	491	505	676
Total operating expense.....	30,230	30,667	32,887
Restructuring exit expense.....	123		
Total expense.....	30,353	30,667	32,887

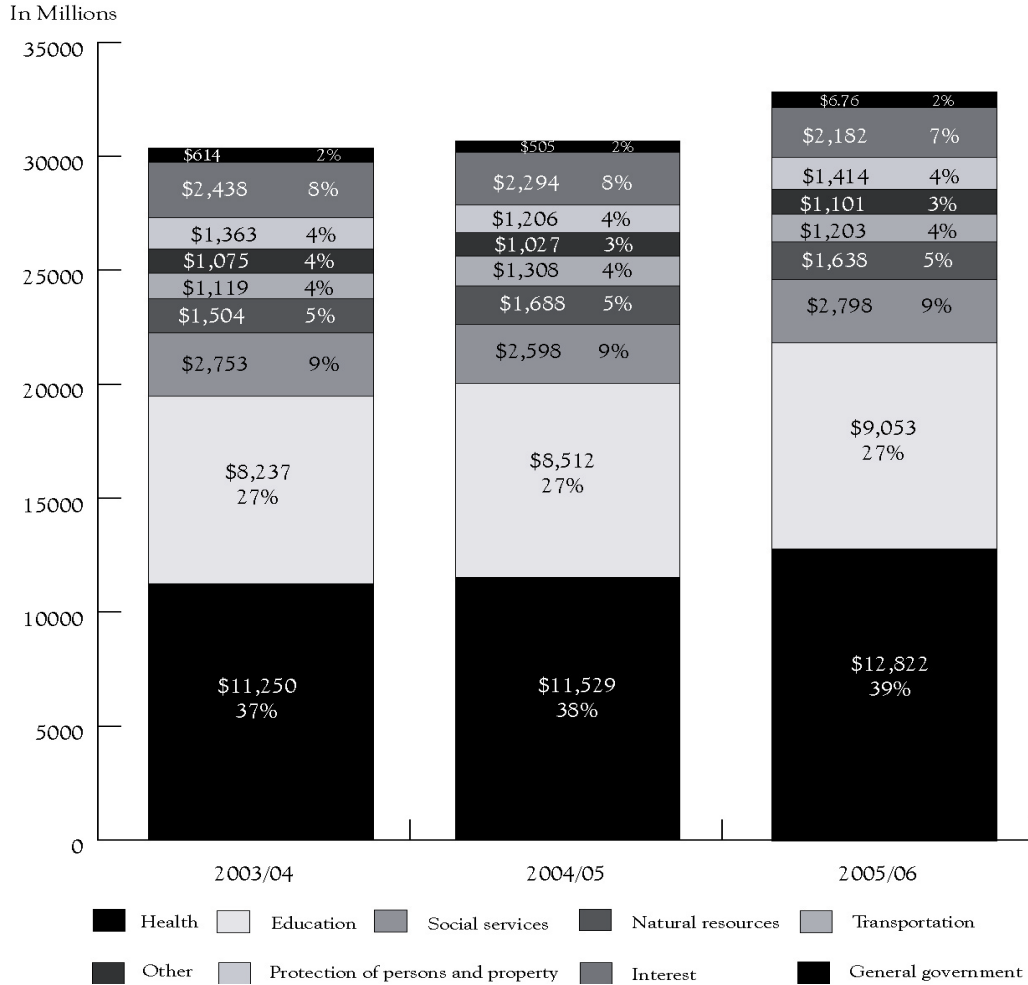
In 2005/06, provincial expense totaled \$32,887 million, a \$2,220 million (7%) increase over 2004/05 and a \$2,534 million (8%) increase over 2003/04. Health spending increased \$1,293 million (11%) from 2004/05 with additional expenditures related to surgeries, nurses training, increased staffing levels to provide additional service to a growing and aging population. An increase of \$541 (6%) in the education expense reflects the increase in salary and operating costs related to the increase in seat availability in colleges and universities. Social services costs increased \$200 million (8%) from 2004/05, but remains consistent with the costs incurred in 2003/04. Increased funding primarily reflects higher income assistance rates for persons with disabilities and funding for childcare.

A detailed breakdown of the impact of the negotiating framework incentive as expensed in each function can be found in Note 31.

Financial Statement Discussion and Analysis Report

Expense by Function

2003/04 to 2005/06



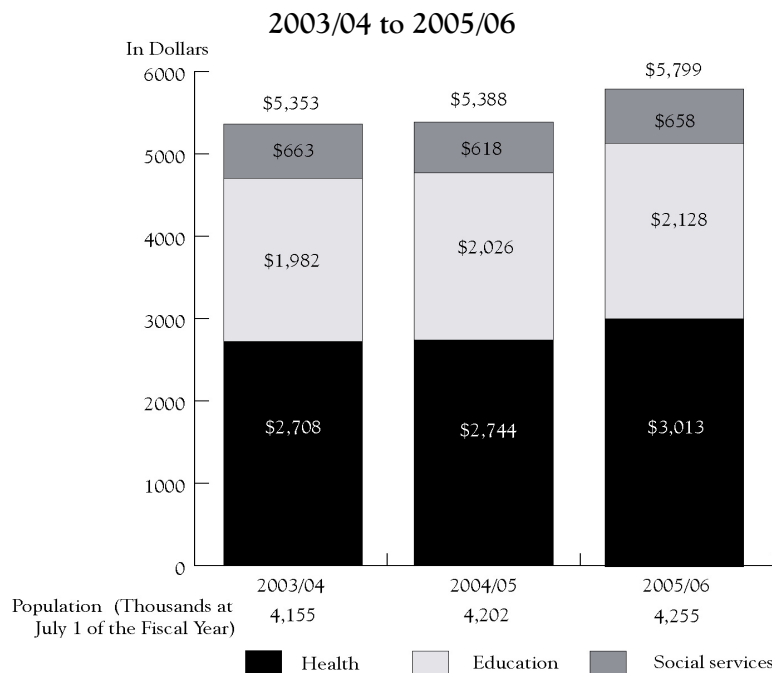
Health, education and social services make up 75% of the province's total operating expense.

The above shows a small spending increase between 2003/04 and 2004/05, while overall spending in 2005/06 increased significantly over 2003/04 and 2004/05. The main increases in spending related to: the increased wages and operating expense in the health sector, which were paid for partially from the funding received from the federal government; increased education funding reflecting post-secondary seat expansion; increased funding to school districts; and the incentive payment made in 2005/06 in relation to the union contract negotiations.

Financial Statement Discussion and Analysis Report

Expenses Per Capita

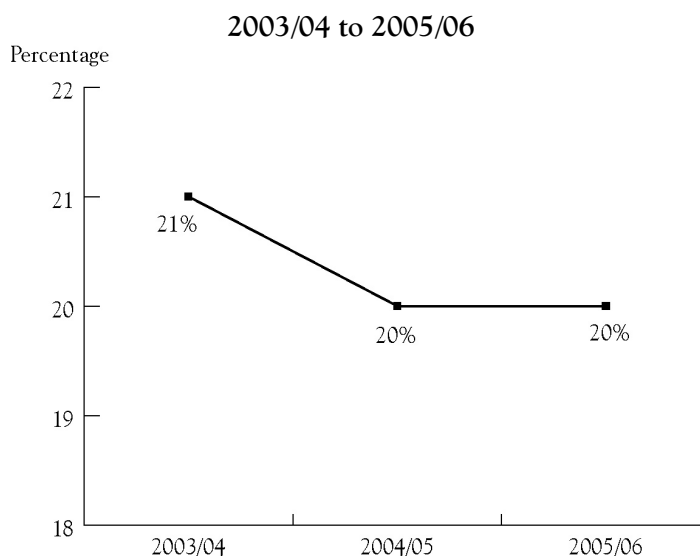
Expenses per capita indicate the amount expended per person in the province for the three largest categories of provincial expense: health, education and social services.



For the three largest areas of spending, expenses per capita have increased from \$5,353 to \$5,799 (8.3%) between 2003/04 and 2005/06. When combined with other expenses, total expense per capita has increased by 6.3% from 2003/04 to 2005/06. Per capita spending for both education and health continue to gradually increase, while spending on social services has remained relatively constant.

Expense To GDP

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



Government spending to GDP decreased slightly in 2004/05 and has remained constant in 2005/06. This indicates that the growth in the economy is able to support additional investment in the province's health, education and social services sectors.

Financial Statement Discussion and Analysis Report

Financial Assets Analysis

Analysis of financial assets provides users with information regarding the amount of resources available to the government that can be converted to cash if required.

	In Millions		
	2003/04	2004/05	2005/06
	Actual	Actual	Actual
	\$	\$	\$
Cash, cash equivalents and temporary investments.....	2,690	3,583	3,901
Accounts receivable.....	2,838	2,649	2,602
Equity in self-supported Crown corporations and agencies.....	3,020	3,164	3,422
Sinking fund investments.....	4,619	4,516	4,059
Loans for purchases of assets recoverable from agencies...	7,512	6,901	6,916
Other financial assets.....	3,501	4,012	4,338
Total financial assets.....	24,180	24,825	25,238

Financial assets trends continue to increase. In 2004/05, financial assets increased by \$893 million in cash and temporary investments due to increased federal funding from agreements in healthcare.

Liabilities Analysis

The analysis of liabilities is to provide users with relevant information to assess the provinces ability to meet obligations.

	In Millions		
	2003/04	2004/05	2005/06
	Actual	Actual	Actual
	\$	\$	\$
Taxpayer-supported debt.....	33,432	32,032	30,278
Self-supported debt.....	8,555	7,889	7,758
Total financial statement debt.....	41,987	39,921	38,036
Accounts payable and other liabilities.....	6,879	6,655	7,218
Deferred revenue.....	4,003	5,181	5,674
Total liabilities.....	52,869	51,757	50,928

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. Total debt has declined \$1,885 million (5%) from 2004/05, \$3,951 million (9%) lower than 2003/04. The decline in debt is due to the government's continuing operating surplus and reduced working capital requirements.

Accounts payable and other liabilities were \$563 million (8%) higher than 2004/05, primarily due to amounts accrued for the province's negotiating framework incentives.

Deferred revenue has been increasing steadily over the last three years. In 2004/05, the accounting treatment for bid revenues from oil and gas tenure agreements changed, increasing deferred revenue by \$1,262 million.

Financial Statement Discussion and Analysis Report

Non-financial Assets Analysis

Analysis of non-financial assets provides users with information relevant in assessing the management of a government's infrastructure and long-term non-financial assets. 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.

	In Millions		
	2003/04	2004/05	2005/06
	Actual	Actual	Actual
	\$	\$	\$
Tangible capital assets.....	22,270	23,135	24,719
Other assets.....	539	613	847
Total non-financial assets.....	22,809	23,748	25,566

At March 31, 2006, non-financial assets totaled \$25,566 million which was \$1,818 million (8%) higher than 2004/05 and \$2,757 million (12%) higher than 2003/04. The increase in non-financial assets from previous year reflects infrastructure spending in health, education and transportation for new buildings and highways.

The majority of the province's non-financial assets reflects capital expenditures for tangible capital assets. The government has increased its investment in tangible capital assets by \$1,584 in 2005/06 and \$865 in 2004/05 to be able to provide services well into the future. Total investment in tangible capital assets in 2005/06 was \$2,970 million, \$2,195 million in 2004/05.

Net Liabilities and Accumulated Deficit Analysis

An analysis of net liabilities and accumulated deficit provides users with information relevant in assessing the government's overall financial position. Net liabilities represents the amount repayable by the government before financing future operations.

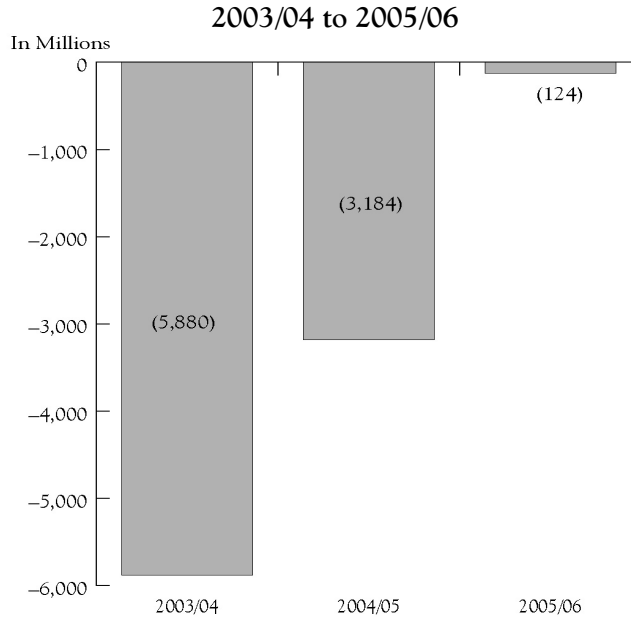
	In Millions		
	2003/04	2004/05	2005/06
	Actual	Actual	Actual
	\$	\$	\$
Financial assets.....	24,180	24,825	25,238
Less: liabilities.....	(52,869)	(51,757)	(50,928)
Net liabilities.....	(28,689)	(26,932)	(25,690)
Less: non-financial assets.....	22,809	23,748	25,566
Accumulated deficit.....	(5,880)	(3,184)	(124)

Net liabilities have decreased \$1,242 million (5%) in 2005/06 due primarily to paying down the debt. The accumulated deficit totalling \$124 million is a \$3,060 million (96%) reduction from the previous year and \$5,756 million (98%) reduction from 2003/04 reflecting the operating surplus for the past two years. Although the province continues to invest in capital infrastructure, successive surpluses have meant these investments did not require additional borrowing.

Financial Statement Discussion and Analysis Report

Accumulated Deficit

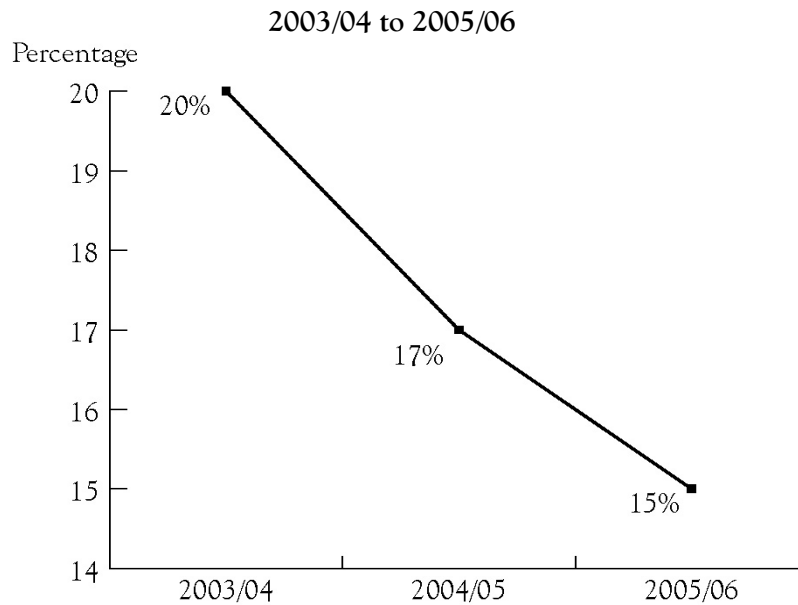
The accumulated deficit represents the sum of the current and all prior years' operating results. As at March 31, 2006 the accumulated deficit totaled \$124 million.



The province has reduced the accumulated deficit by \$5,756 million over the last three years as a result of the growing economy and exercising sound fiscal management. The accumulated deficit is now almost eliminated.

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.

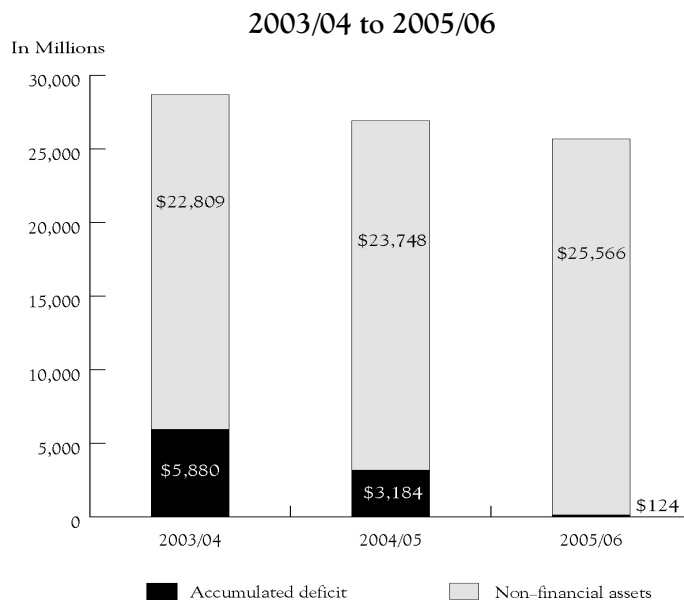


The government's net liabilities to GDP have declined in both 2004/05 and 2005/06, decreasing the financial burden on the provincial economy and on future taxpayers. The decrease in net liabilities to GDP indicates the province is moving to a greater degree of sustainability.

Financial Statement Discussion and Analysis Report

Change in Net Liabilities

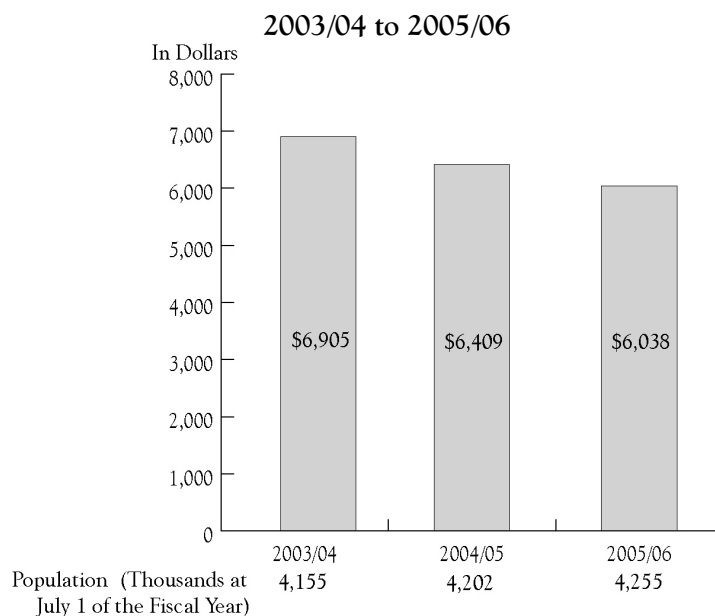
Net liabilities include the surplus (deficit) from operating results less the non-financial assets. Improvement in the net liabilities position provides capacity for increased investment in capital infrastructure.



Net liabilities have declined steadily over the last three years. However, the components of net liabilities have changed significantly. Between fiscal years 2003/04 and 2005/06, a greater proportion of the net liabilities have arisen from government's investment in infrastructure projects offset by the decline in the province's accumulated operating deficit.

Net Liabilities per Capita

Net liabilities per capita represents the amount that each citizen would need to pay in order to discharge government's past borrowing and spending practices.



The net amount required to discharge government's past borrowing has dropped from \$6,905 million to \$6,038 million in 2005/06 due to the decrease in debt and 2% increase in population.

Financial Statement Discussion and Analysis Report

Total Provincial Debt Analysis

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.

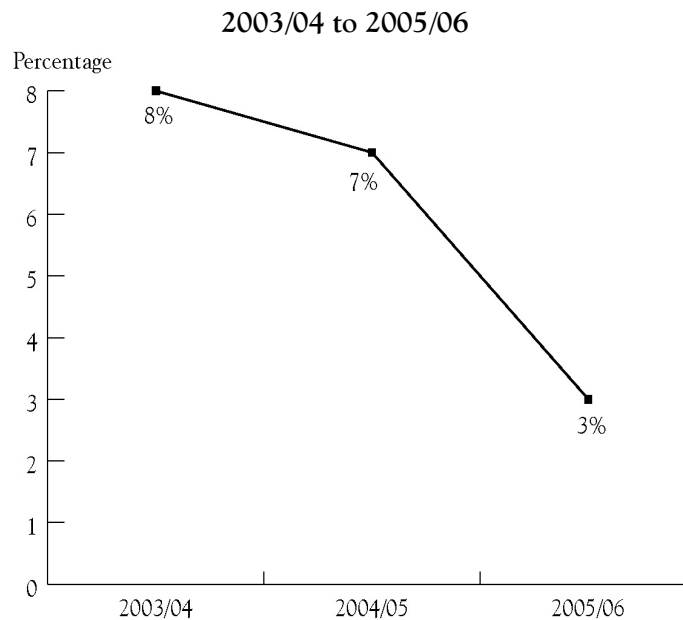
	In Millions		
	2003/04	2004/05	2005/06
	Actual	Actual	Actual
	\$	\$	\$
Gross debt.....	41,987	39,921	38,036
Less: sinking funds assets.....	(4,619)	(4,516)	(4,059)
Third party guarantees and non-guaranteed debt.....	399	421	379
Total provincial debt.....	<u>37,767</u>	<u>35,826</u>	<u>34,356</u>

Total provincial debt is \$3,680 million lower than the amounts reported in the province's financial statements after deducting sinking funds held to pay down the debt and the inclusion of debt guarantees and non-guaranteed debt.

Total provincial debt decreased by \$1,470 million in 2005/06 primarily due to operating surplus reducing the requirement to borrow.

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.

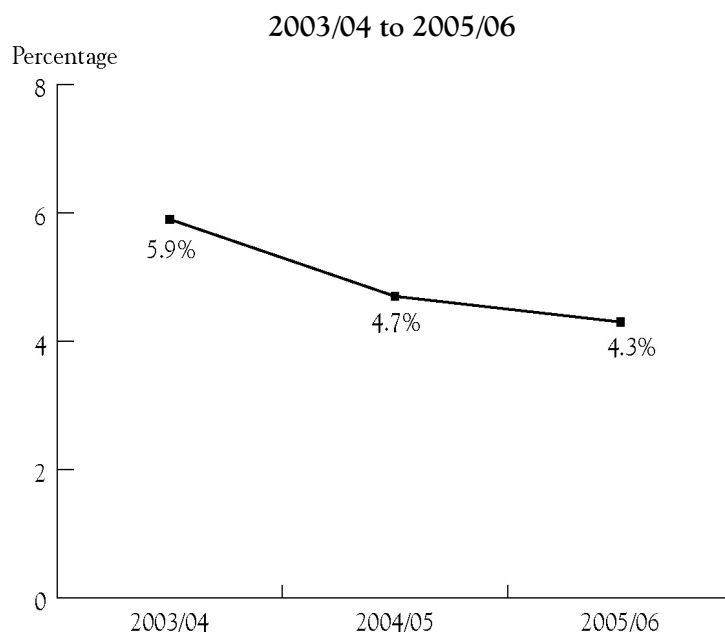


Since 2003/04, the government has reduced its foreign currency debt, thereby reducing the province's vulnerability to changes in the exchange rates.

Financial Statement Discussion and Analysis Report

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. If a decreasing portion of the provincial revenue is used to pay interest on provincial debt, more money is left to provide government services.



The interest bite has decreased over the last 3 years. In 2005/06, the province spent 4.3 cents of each revenue dollar on interest on the provincial debt.

Strong and Stable Credit

Reflecting the province's strong fiscal performance, British Columbia has maintained its stronger credit rating with all three credit rating agencies. In 2005/06, Standard and Poor's upgraded the province to AA+ (2005: AA) and the ratings from Moody's Investors Service Inc. and Dominion Bond Rating Services remain unchanged at Aa1 and AA respectively.

Credit Ratings June 2006

Province	Rating Agency ¹		
	Moody's Investors Service Inc.	Standard and Poor's	Dominion Bond Rating Service
British Columbia	Aa1	AA+	AA
Alberta	Aaa	AAA	AAA
Saskatchewan	Aa2	AA-	A(high)
Manitoba	Aa2	AA-	A(high)
Ontario	Aa2	AA	AA
Quebec	Aa3	A+	A(high)
New Brunswick	Aa3	AA-	A(high)
Nova Scotia	A2	A	A(low)
Prince Edward Island	A1	A	A(low)
Newfoundland	A2	A-	A(low)
Canada	Aaa	AAA	AAA/AA(high)

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 105–117.

Financial Statement Discussion and Analysis Report

4. Risks and Uncertainties

The government's main exposure to risks and uncertainties in regards to government's financial position comes from: economic factors such as commodity prices; outcomes from litigation, arbitration and negotiations with third parties; changes in federal transfers; exposure to interest rate fluctuations, foreign exchange rates and credit risk; and changes in generally accepted accounting principles. Risk management in relation to debt is discussed in Note 19 – Risk Management and Derivative Financial Instruments, on page 57 of the Notes to the Consolidated Summary Financial Statements.