

Annual Surplus, Net Debt and Funded Debt



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2023 Volume III

Chapter 2 Highlights

Annual surplus of \$1 billion was the Province's sixth consecutive surplus

Provincial tax revenues increased by almost \$1 billion from 2022

Net debt is at its lowest point since 2015

\$4 billion in debt is due to be repaid over the next four years

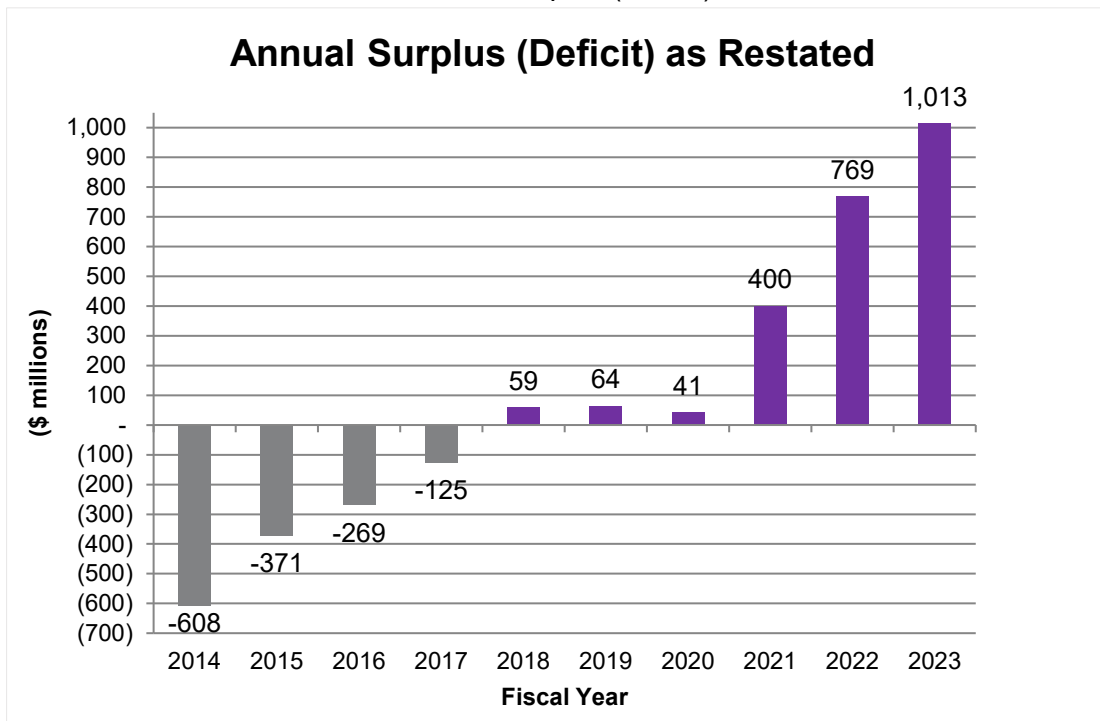
Annual Surplus

Sixth Consecutive Annual Surplus

2.1 For the sixth consecutive year, the Province of New Brunswick’s March 31, 2023 audited consolidated financial statements reports an annual surplus. Despite the budgeted surplus of \$35 million, the surplus at year end was over \$1 billion.

2.2 The ten year history for the annual surplus (deficit) is presented in Exhibit 2.1.





Exhibit 2.1 - Annual Surplus (Deficit) as Restated



Source: Prepared by AGNB from New Brunswick Public Accounts Volume I for year ended March 31, 2023

2.3 Exhibit 2.2 shows, at a summary level, the contributing factors for the increase in surplus from 2022 to 2023.

Exhibit 2.2 - Breakdown of Increase in 2023 Annual Surplus

What happened since last year?
<p>Provincial Tax Revenue</p> <p> <i>Increased \$975M from 2022</i></p>
<p>Revenue from the Federal Government</p> <p> <i>Increased \$90M from 2022</i></p>
<p>All Other Provincial Revenue Sources</p> <p> <i>Decreased \$4M from 2022</i></p>
<p>Provincial Expenses</p> <p> <i>Increased \$817M from 2022</i></p>

Source: Prepared by AGNB from New Brunswick Public Accounts Volume I for year ended March 31, 2023

Increases in Provincial Tax Revenues of Almost \$1 Billion

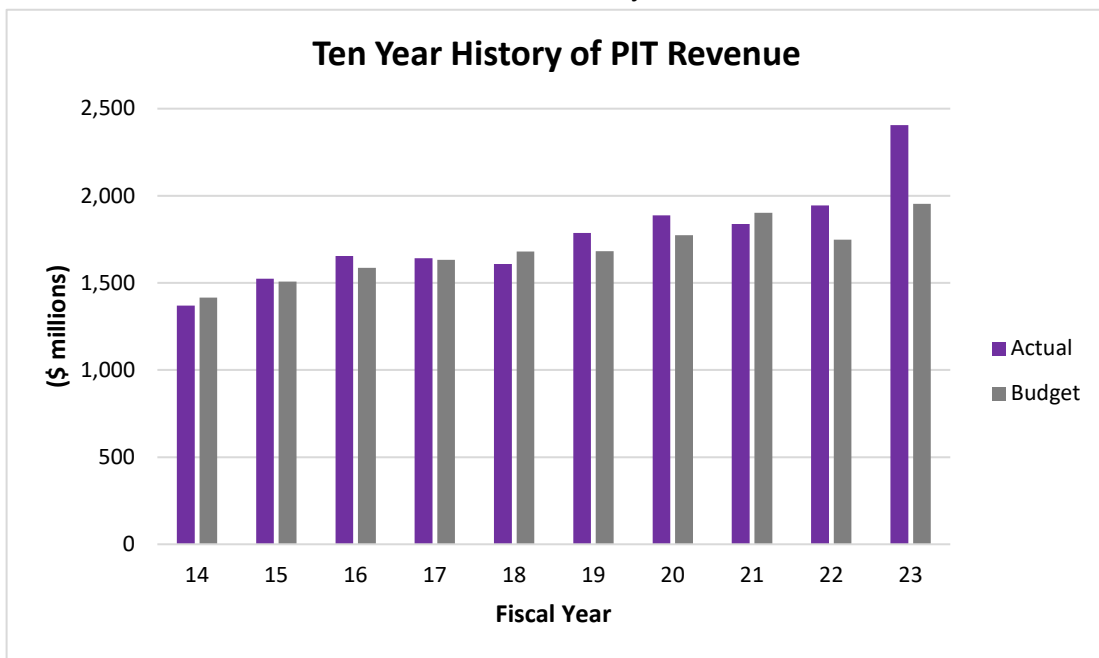
2.4 The increased surplus in 2023 was primarily attributable to increases in provincial tax revenues from the prior year including:

- personal income tax (\$461 million)
- corporate income tax (\$436 million)
- harmonized sales tax (\$80 million)

Personal Income Tax

2.5 Personal income tax (PIT) revenue estimates are based on information provided by Finance Canada and the Department of Finance and Treasury Board. The ten year history of actual and budgeted revenues for PIT is presented in Exhibit 2.3.

Exhibit 2.3 - Ten Year History of PIT Revenue

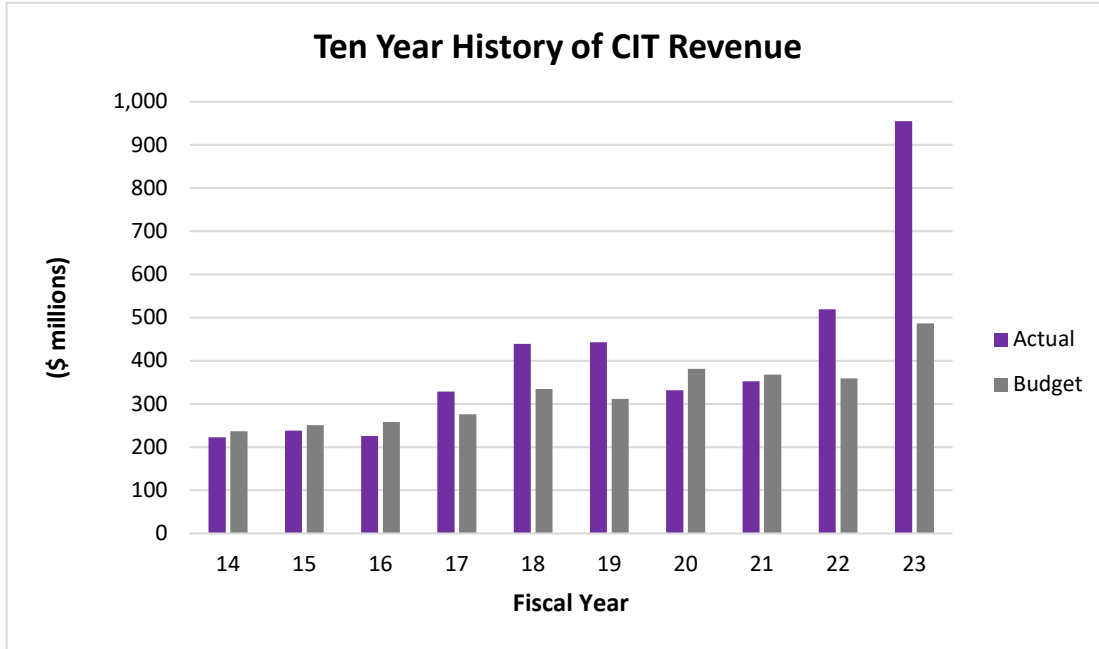


Source: Prepared by AGNB based on applicable year's Public Accounts

Corporate Income Tax

2.6 Corporate income tax (CIT) estimates are based on information provided by Finance Canada and the Department of Finance and Treasury Board. The ten year history of actual and budgeted revenues for CIT is presented in Exhibit 2.4.

Exhibit 2.4 - Ten Year History of CIT Revenue

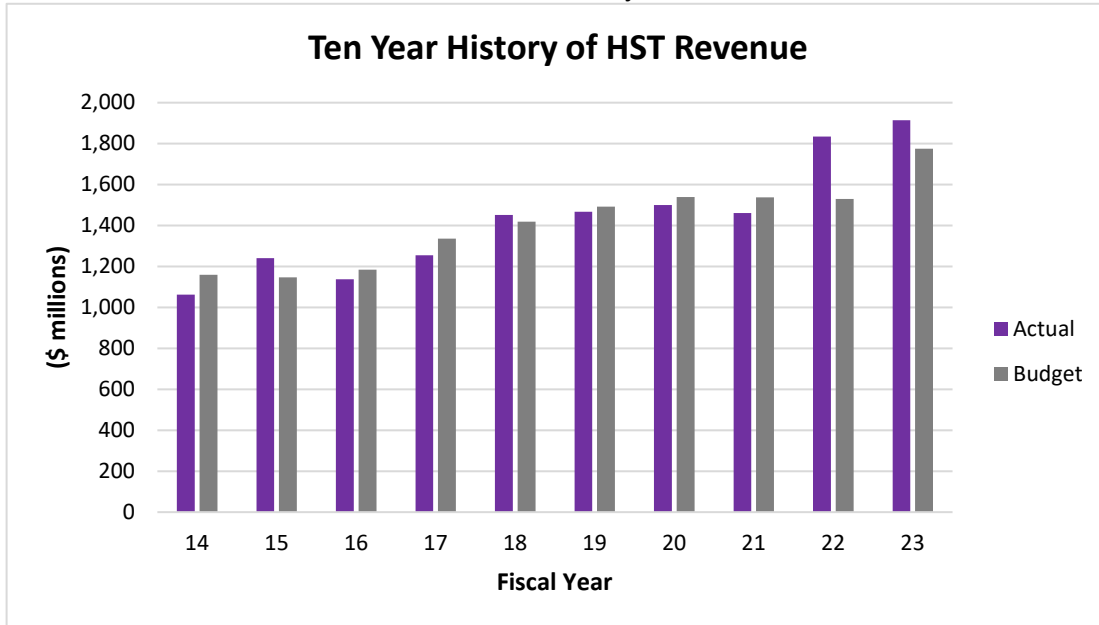


Source: Prepared by AGNB based on applicable year's Public Accounts

Harmonized Sales Tax

2.7 Harmonized sales tax (HST) revenue estimates are based on a formula which is part of an agreement the Province has with the Federal government. Each year, the Federal government estimates the Province’s HST entitlement according to the formula. The Federal government then makes payments to the Province based on these estimates. These estimates are subsequently revised according to a formal schedule as more economic and tax data become available. The ten year history of actual and budgeted revenues for HST is presented in Exhibit 2.5.

Exhibit 2.5 - Ten Year History of HST Revenue



Source: Prepared by AGNB based on applicable year’s Public Accounts

2.8 The challenges associated with estimating tax revenues, including timing delay of possible adjustments may contribute to budget variances.

Net Debt

Net Debt, Funded Debt and Interest Costs

2.9 Net debt and funded debt are two forms of debt presented in the Province's consolidated financial statements. The Province also records an expense to service (repay) its funded debt annually, primarily consisting of interest costs. See Exhibit 2.6 below for definitions for net debt, funded debt, and service of the public debt.

Exhibit 2.6 - Net Debt, Funded Debt and Service of the Public Debt Defined

Term	2023 Amount	Definition
Net Debt	\$12.4 billion	An accounting calculation presented as total liabilities <i>minus</i> financial assets.
Funded Debt	\$17.4 billion*	Total long-term debenture debt the Province has borrowed and is legally bound to repay. The Province's outstanding funded debt balance consists mostly of bonds issued in the financial market.
Service of the Public Debt	\$535 million	Annual cost of servicing funded debt** , consisting mostly of interest costs.

Source: Prepared by AGNB using 2023 Public Accounts

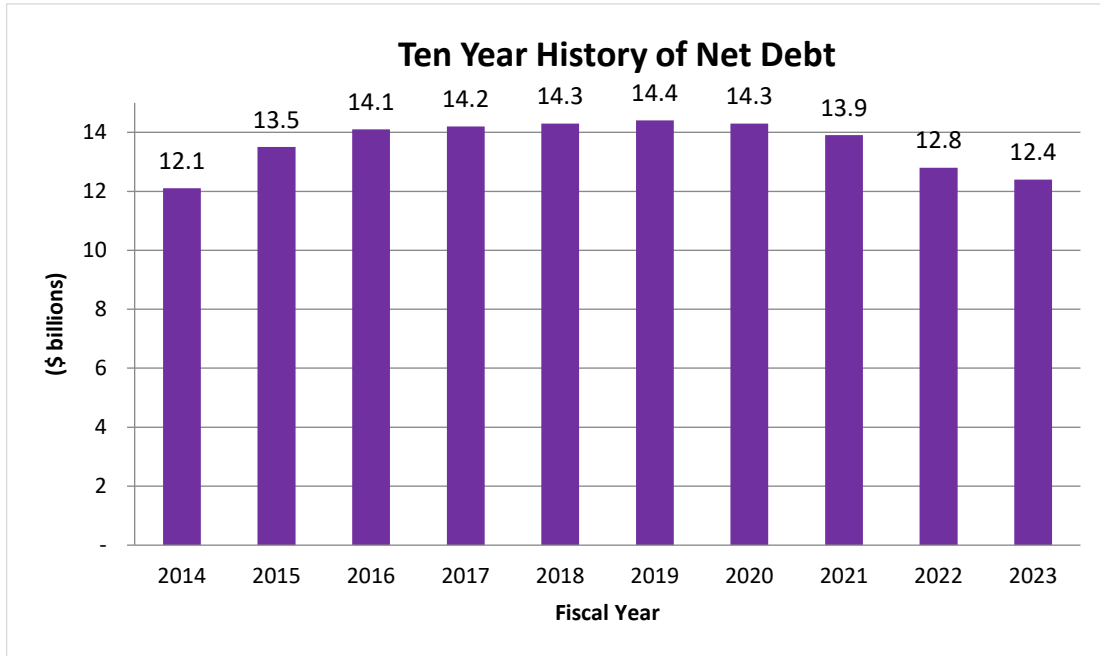
* Funded debt excludes \$5.1 billion borrowed on behalf of NB Power

**Service of the funded debt includes interest, interest on capital leases, and interest on short-term borrowing offset by short-term investment income, amortization of foreign exchange gains and losses and amortization of discounts and premiums which were incurred on the issuance of provincial debentures

Fourth Consecutive Year Net Debt has Decreased

2.10 Net debt offers valuable insight into the financial health of the Province as it provides information about future revenues which will be needed to meet past spending. Net debt has consistently decreased for the past four years and is \$12.4 billion at year ended 2023. See Exhibit 2.7 below for ten year net debt amounts.

Exhibit 2.7 – Ten Year History of Net Debt



Source: Prepared by AGNB based on applicable year's Public Accounts with restatements where identified in Public Accounts

2.11 Factors contributing to the change in net debt from prior year are noted in Exhibit 2.8.

Exhibit 2.8 - Year-Over-Year Change in Net Debt

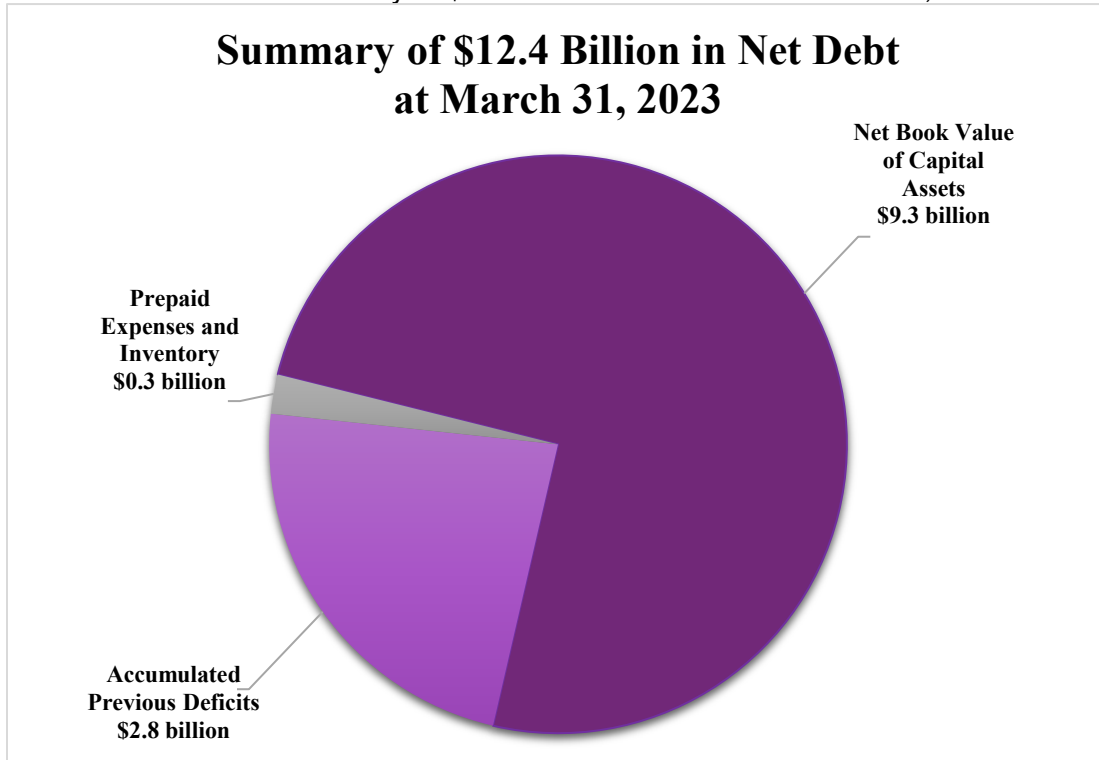


Source: Prepared by AGNB using 2023 Public Accounts

What Makes Up the \$12.4 Billion in Net Debt?

2.12 See Exhibit 2.9 for the net debt composition for fiscal year ended 2023.

Exhibit 2.9 - Summary of \$12.4 Billion in Net Debt at March 31, 2023



Source: Prepared by AGNB using 2023 Public Accounts

2.13 As noted above, tangible capital assets (capital assets) contribute to 75% of the net debt. Each year, the capital asset balance changes due to additions, disposals and amortization. The most significant capital assets are:

- roads, bridges and highways
- schools
- hospitals
- nursing homes
- other buildings owned by the Province

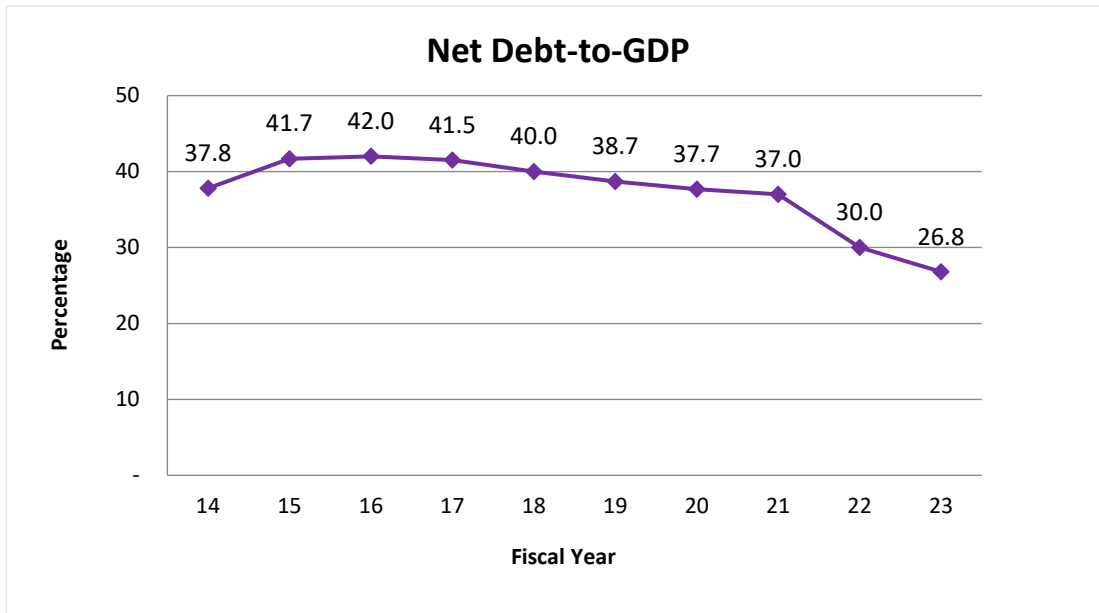
New Brunswick’s Net Debt-to-GDP Ratio

2.14 The net debt-to-gross domestic product (GDP)¹ ratio has become an important sustainability indicator for governments. The Province includes an analysis of this ratio in its annual Financial Statement and Disclosure Analysis.

2.15 Net debt-to-GDP shows the relationship between net debt and the activity in the economy.

2.16 Exhibit 2.10 shows the ten year history of the Net Debt-to-GDP ratio.

Exhibit 2.10 – Ten Year History of the Net Debt-to-GDP Ratio



Source: Prepared by AGNB based on applicable year’s Public Accounts with restatements where identified in Public Accounts

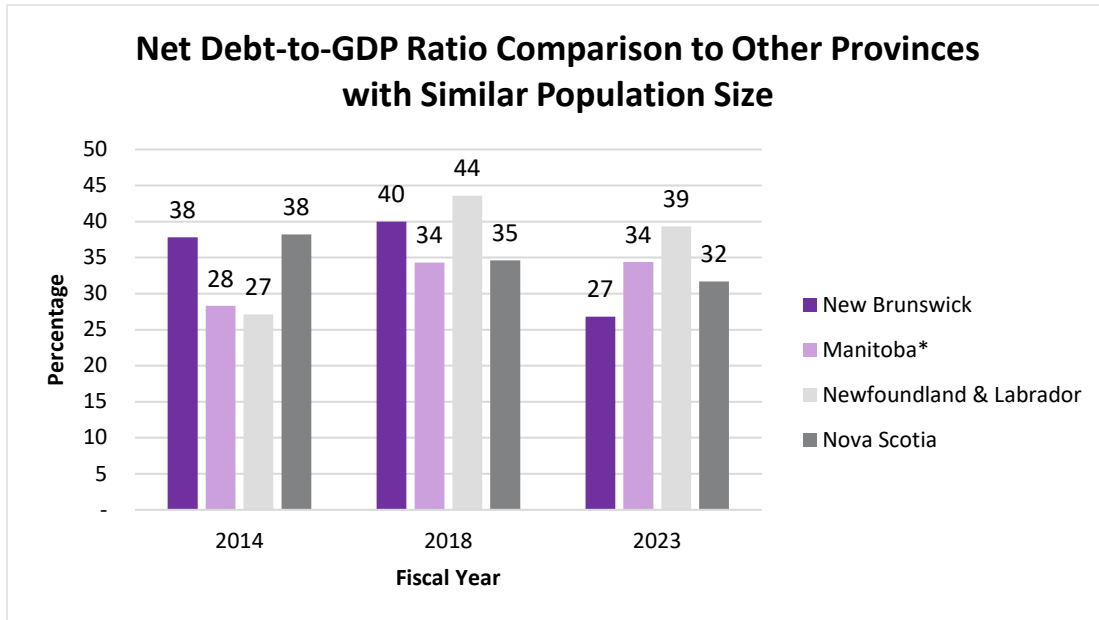
2.17 Net debt-to-GDP has consistently decreased since 2016 and is the lowest it has been in the past ten years. This indicates the growth of GDP continues to exceed the growth in net debt.

¹ Gross Domestic Product (GDP) measures the value of all final goods and services produced in an economy in a given period of time.

How Does New Brunswick’s Net Debt-to-GDP Ratio Compare to Other Provinces?

2.18 Exhibit 2.11 below shows New Brunswick’s net debt-to-GDP ratio relative to other comparable provinces. For fiscal year ended 2023, New Brunswick had the lowest net debt-to-GDP ratio.

Exhibit 2.11 - Net Debt-to-GDP Ratio Comparison to Other Provinces with Similar Population Size



Source: Prepared by AGNB as restated where available

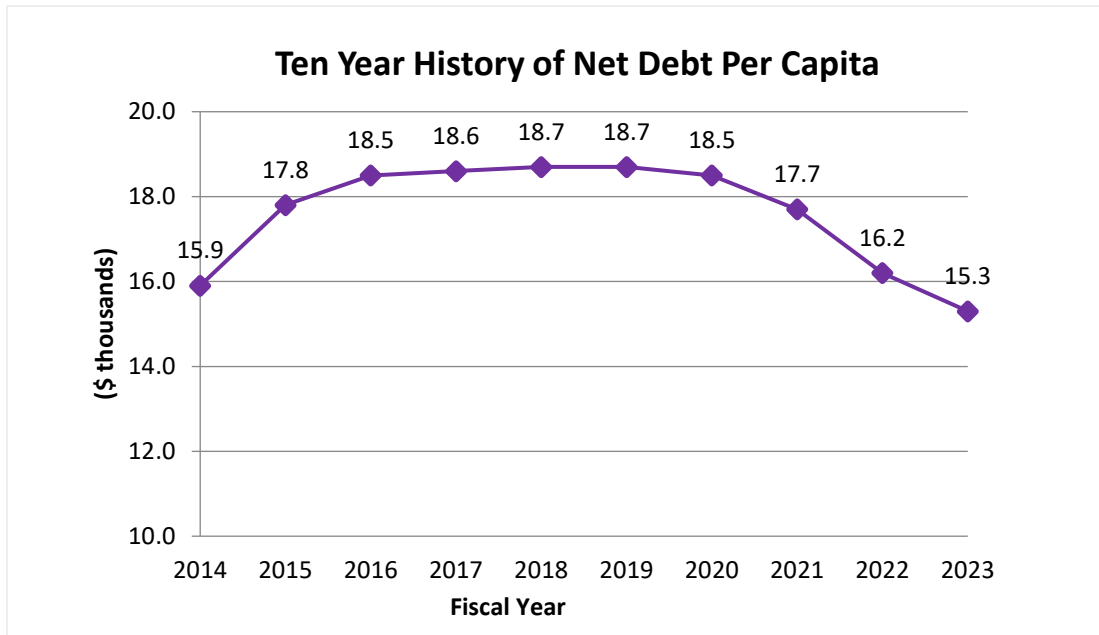
*2023 Public Accounts information used for Manitoba contained a qualified Independent Auditor’s Report

New Brunswick’s Net Debt per Capita

2.19 Another way to assess the significance of the size of New Brunswick’s net debt is to compare it to population size, also known as net debt per capita.

2.20 New Brunswick’s net debt per capita hit a high of \$18,700 in 2018 and 2019 but has since decreased to \$15,300 in 2023. Exhibit 2.12 shows the ten year history of net debt per capita, showing a continual improvement since 2019.

Exhibit 2.12 – Ten Year History of Net Debt Per Capita

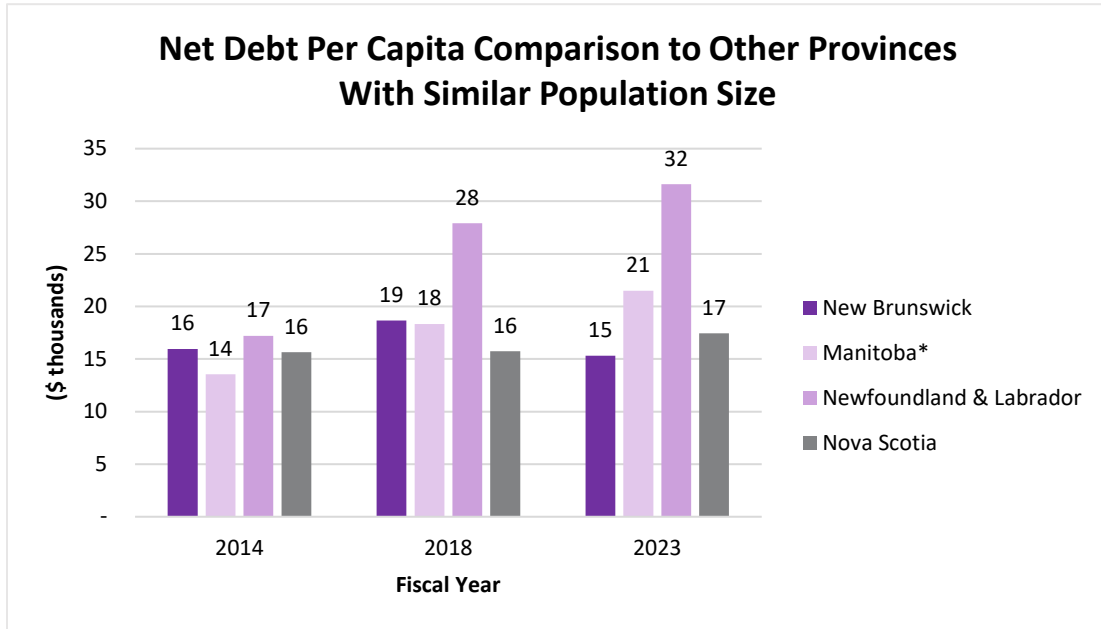


Source: Prepared by AGNB based on applicable year’s Public Accounts with restatements where applicable

How Does New Brunswick’s Net Debt per Capita Compare to Other Provinces?

2.21 Exhibit 2.13 below shows New Brunswick’s net debt per capita relative to other comparative provinces. For fiscal year ended 2023, New Brunswick had the lowest ratio.

Exhibit 2.13 - Net Debt Per Capita Comparison to Other Provinces



Source: Prepared by AGNB as restated where available

*2023 Public Accounts information used for Manitoba contained a qualified Independent Auditor's Report

Is New Brunswick Meeting its Targets?

Debt reduction targets

2.22 Exhibit 2.14 details the provincial established net debt reduction targets for the past five years. New Brunswick has met or exceeded its established targets for four of the past five years.

*Exhibit 2.14 - Five Year History of Net Debt Reduction Targets Compared to Actual
(as restated where applicable)*

(\$ millions)

Fiscal Year					
	2019	2020	2021	2022	2023
Target (Increase) Decrease	(372)	49	129	(241)	(15)
Actual (Increase) Decrease	(33)	37	470	1,088	359
Difference	339 (Actual Increase Lower than Projected)	(12) (Actual Decrease Lower than Projected)	341 (Actual Decrease Higher than Projected)	1,329 (Actual Decrease when an Increase was projected)	374 (Actual Decrease when an Increase was projected)
Target Met or Exceeded?	Yes	No	Yes	Yes	Yes

Source: Prepared by AGNB based on applicable year's Budgets and Public Accounts

Net debt-to-GDP targets

2.23 Exhibit 2.15 details the provincial established net debt-to-GDP targets for the past five years. New Brunswick has met or exceeded its established targets for three of the past five years.

Exhibit 2.15 - Five Year History of Net Debt-to-GDP Targets Compared to Actual (as originally recorded)

Fiscal Year					
	2019	2020	2021	2022	2023
Target	39.0%	37.0%	34.7%	36.4%	30.1%
Actual*	37.6%	36.6%	35.9%	29.0%	26.8%
Difference	(1.4)% (Actual Ratio Lower than Projected)	(0.4)% (Actual Ratio Lower than Projected)	1.2% (Actual Ratio Higher than Projected)	(7.4)% (Actual Ratio Lower than Projected)	(3.3)% (Actual Ratio Lower than Projected)
Target Met or Exceeded?	Yes	Yes	No	Yes	Yes

Source: Prepared by AGNB based on applicable year's Budgets and Public Accounts

** A Net Debt-to-GDP percentage that is decreasing indicates a positive trend as the growth in GDP exceeds the growth of Net Debt (liabilities less financial assets)*

Multi-year targets

2.24 We also remain pleased to see the Province continues to set multi-year net debt targets and net debt-to-GDP targets through fiscal 2026. The multi-year targets announced in the Province's 2023-2024 Main Estimates are presented in Exhibit 2.16.

Exhibit 2.16 - Government's Net Debt Reduction Targets

(\$ millions)

	2024 Budget	2025 Plan	2026 Plan
Annual (Increase) Decrease in Net Debt	(183)	(143)	(36)
Net Debt-to-GDP Ratio	24.9%	24.2%	23.4%

Source: <https://www2.gnb.ca/content/dam/gnb/Departments/fin/pdf/Budget/2023-2024/speech-2023-2024.pdf>

Funded Debt

\$17.4 Billion in Funded Debt

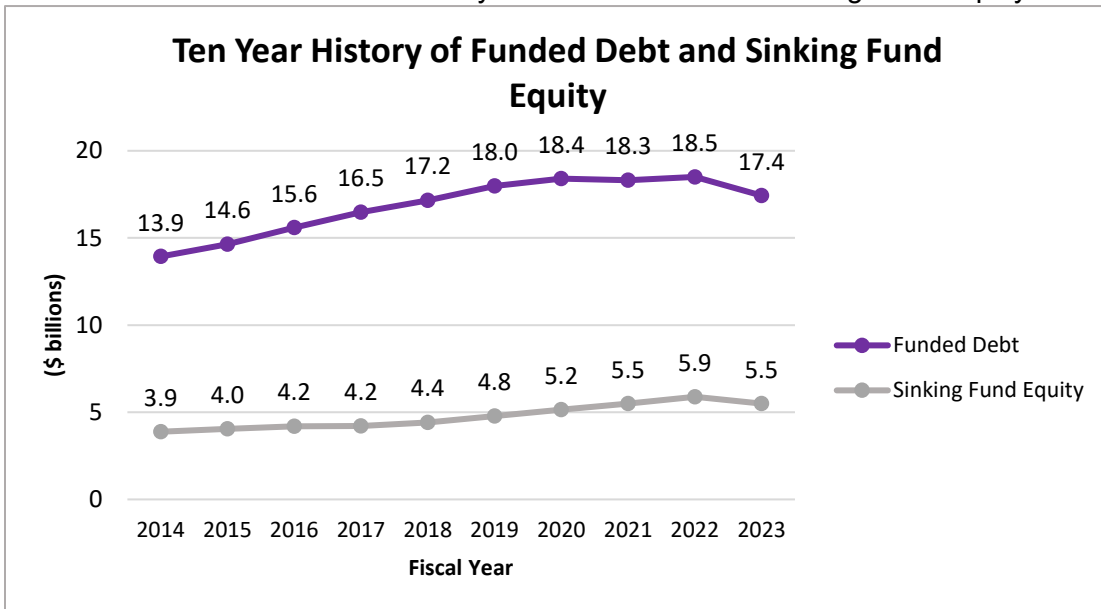
2.25 This year, funded debt was \$17.4 billion which is a decrease from the historic high of \$18.5 billion in 2022. It should be noted, this amount does not include:

- \$5.1 billion in NB Power debt
- \$845 million in New Brunswick Municipal Finance Corporation (MFC) debt

2.26 To assist with future repayments of provincial debt, the Province maintains a sinking fund. The *Provincial Loans Act* mandates that on or before the anniversary date of each issue of funded debt, not less than 1% of the outstanding principal amount of the issue shall be paid into the sinking fund. At March 31, 2023, the market value of the Province’s sinking fund equity was approximately \$5.5 billion.

2.27 Exhibit 2.17 shows the ten year history of the Province’s funded debt and sinking fund equity.

Exhibit 2.17 – Ten Year History of Funded Debt and Sinking Fund Equity



Source: Prepared by AGNB based on applicable year’s Public Accounts with restatements where identified in Public Accounts

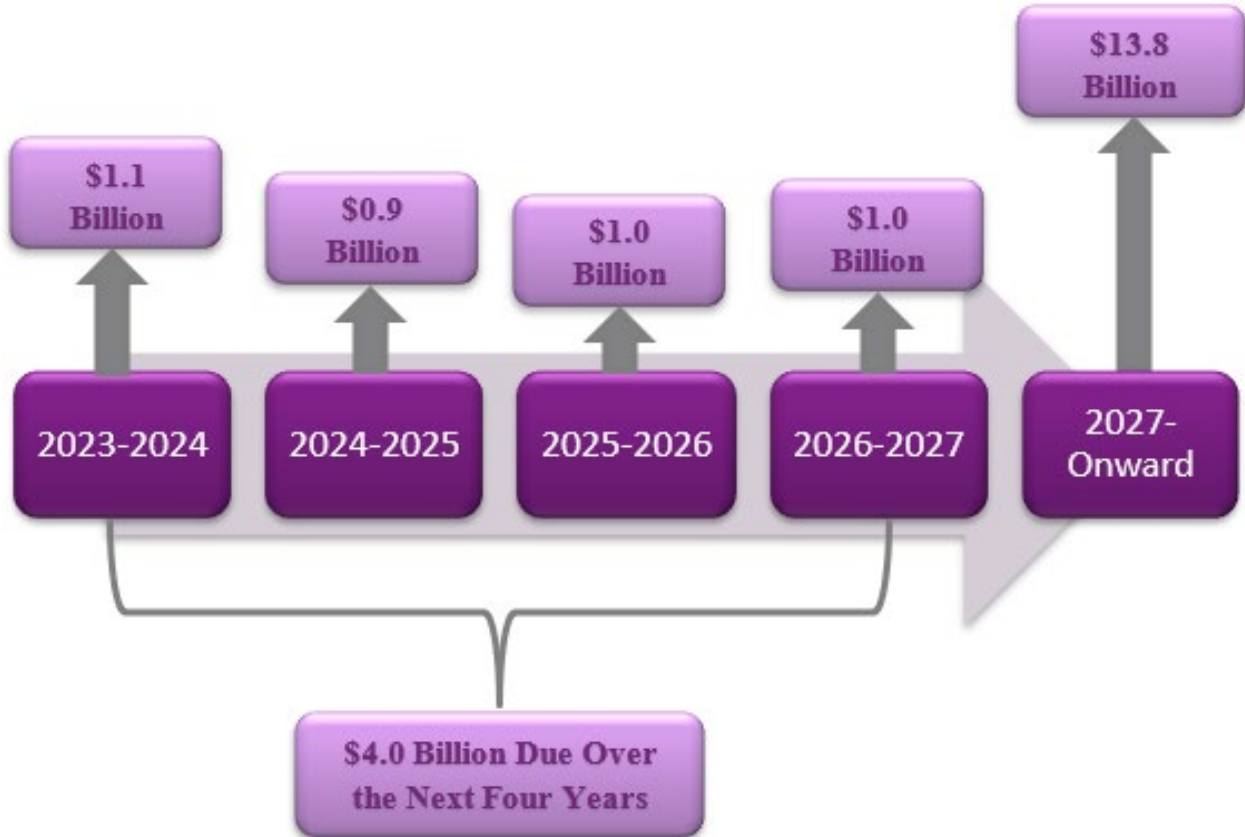
2.28 As noted above, funded debt is significantly more than the equity in the sinking fund. Additional cash outlays of approximately \$12 billion will be needed in the future to repay the total funded debt.

2.29 Over the next four years, approximately \$4.0 billion in funded debt is due to be repaid. The Province may either use consolidated fund monies or re-finance it. Some examples of debt activity in 2023 include:

- \$900 million (CAD) was repaid
- \$1.9 billion (CAD) of new debt was issued

2.30 Future cash requirements to repay debt in the next four years and beyond are outlined in Exhibit 2.18.

Exhibit 2.18 - Future Cash Requirements to Repay Funded Debt



Source: Prepared by AGNB based on 2023 Public Accounts

Interest Costs

- 2.31 In the fiscal year ended 2023, the service cost of this debt (excluding NB Power), was \$535 million. This is an annual cost and does not reduce the principal amount outstanding.
- 2.32 While the Province has experienced a low interest rate environment in the last few years, interest rates have risen recently. As a result, provincial expenses to service the public debt may increase in future if this trend persists when re-financing occurs.

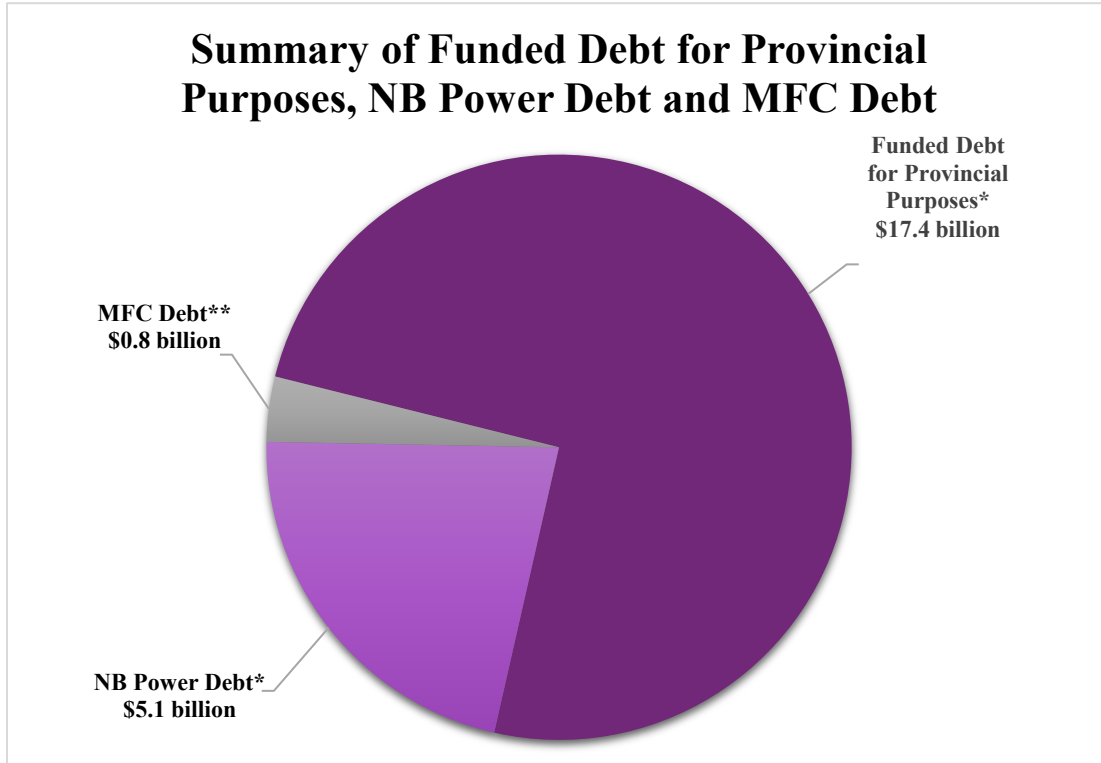
Provincial Debt

2.33 The amount recorded as provincial debt (\$17.4 billion) does not include:

- \$5.1 billion in NB Power debt
- \$845 million in New Brunswick Municipal Finance Corporation (MFC) guaranteed debt

2.34 Exhibit 2.19 below details \$23 billion in debt owed ultimately by the Province.

Exhibit 2.19 - Summary of Funded Debt for Provincial Purposes, NB Power Debt and MFC Debt



Source: Prepared by AGNB

*Funded Debt for Provincial Purposes and NB Power debt are as at March 31, 2023

** MFC Debt as at December 31, 2022

2.35 In Exhibit 2.20, we provide details of MFC’s debt relating to the financing needs of New Brunswick municipalities as at December 31, 2022. We present this information on a per municipality basis for debt greater than \$8 million.

Exhibit 2.20 - Summary of MFC Debt Relating to Financing Needs of New Brunswick Municipalities

**New Brunswick Municipal Finance Corporation
Debt Related to Financing Needs of Municipalities
as at December 31, 2022**

Municipality	Debt (\$ millions)
Saint John	194.6
Moncton	156.2
Dieppe	55.2
Edmundston	48.2
Riverview	30.3
Fredericton	29.2
Miramichi	27.4
Bathurst	24.7
Quispamsis	20.7
Tracadie	14.8
Grand-Sault/Grand Falls	14.4
Shediac	13.3
Southeast Regional Service Commission	11.7
Rothsay	11.2
Caraquet	10.4
Sackville	9.3
Other Municipalities	173.4
TOTAL	\$845.0

Source: Prepared by AGNB

Managing the Province’s Cash, Short-Term Investments and Short-Term Debt

2.36 As part of our work, we noted the Province held significant amounts of cash, short-term investments and short-term debt at March 31, 2023. A summary of these amounts is presented in Exhibit 2.21.

Exhibit 2.21 - Cash, Short-Term Investments and Short-Term Debt at March 31, 2023

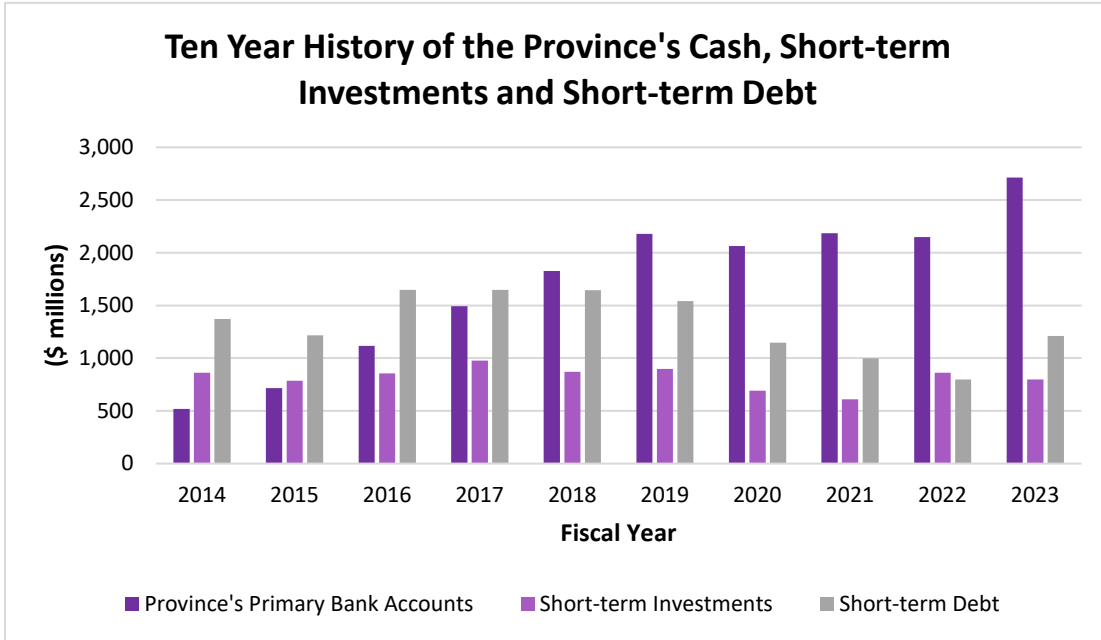
Cash and Short-term Investments (\$ millions)	
Province's primary bank accounts	\$2,712
Other provincial cash	\$124
Cash held at Crown agencies and other consolidated entities (e.g. Regional Health Authorities and Nursing Homes)	\$126
<i>Total cash</i>	<i>\$2,962</i>
Province’s short-term investments (investments in NB Power)	\$797
Other short-term investments and short-term investments held by Crown agencies and other consolidated entities	\$18
<i>Total short-term investments</i>	<i>\$815</i>
<i>Total cash and short-term investments</i>	<i>\$3,777</i>
Short-term Debt (\$ millions)	
<i>Total short-term debt</i>	<i>(\$1,213)</i>

Source: Prepared by AGNB from New Brunswick Public Accounts Volume I for year ended March 31, 2023

2.37 Given the significance of these amounts along with recent increases to interest rates, cost of borrowing, and inflation, we want to provide information regarding how the Province manages the cash in its primary bank accounts, its short-term investments in NB Power, and its short-term debt.

2.38 Exhibit 2.22 summarizes the Province’s primary bank accounts, its short-term investments and short-term debt for the past ten years.

Exhibit 2.22 – Ten Year History of the Province’s Cash, Short-term Investments and Short-term Debt



Source: Prepared by AGNB based on applicable year’s Public Accounts

2.39 The balance in the Province’s primary bank accounts has significantly increased in 2023 with an increasing trend each year to hold more cash (eight of the past ten years have increases from the previous year cash). The Province has approximately five times as much cash now compared to 2014, while short-term investments and borrowing have not significantly increased.

2.40 The Department of Finance and Treasury Board (FTB) informed us of the complexities of managing cash, investment, and debt balances.

2.41 In our discussions with FTB, we were informed the cash management strategy is for the Province to have sufficient access to cash to meet its commitments. The Province also employs an active short-term borrowing (short-term debt) program to supplement cash needs when necessary. The Province’s short-term investments consist of funds invested in NB Power on a short-term basis (NB Power borrows from the Province to take advantage of the Province’s credit rating).

2.42 We found no documented policies are in place to manage balances in the Province’s primary bank accounts, the Province’s short-term investments, and the Province’s short-term debt. We were informed work is underway to develop policies for these items and is expected to be finished before the end of March 2024.

- 2.43 In our view, given the significance of these balances, documented policies are needed as soon as possible to ensure these balances are managed with a focus on balancing operational needs, maximizing interest earned on cash balances, and minimizing costs related to short-term debt.
- 2.44 We will continue to monitor FTB's process in developing these policies and how it manages the Province's cash positions. We will report any significant findings and recommendations in our future reports.

