AUDITOR GENERAL
OF NEW BRUNSWICK

VÉRIFICATEUR GÉNÉRAL
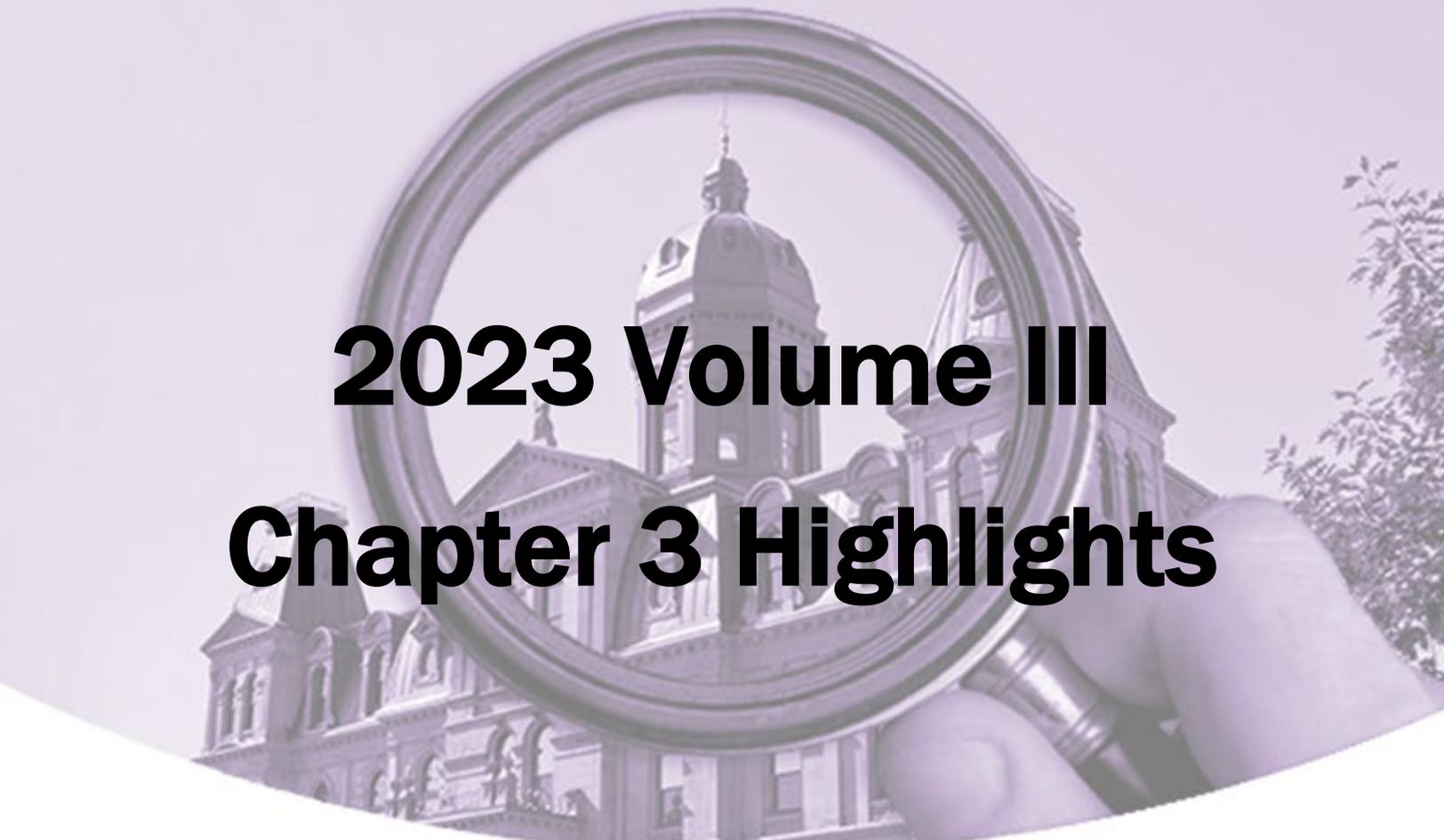DU NOUVEAU-BRUNSWICK

State of New Brunswick's Financial Condition

Contents

2023 Volume III Chapter 3 Highlights

Sustainability	Flexibility	Vulnerability
5/7 short-term favourable trends	**1/3 short-term favourable trends**	**1/2 short-term favourable trends**
3/7 long-term favourable trends	**1/3 long-term favourable trends**	**1/2 long-term favourable trends**

Overall, the Province's financial condition has improved since 2022

The Province's Financial Condition

Financial Indicators

3.1 The Province's financial condition has improved since 2022. We analyzed twelve financial indicators, as issued by the Public Sector Accounting Board (PSAB). For the purpose of our analysis, we have defined trends as follows:
- short term – the most recent two years
- long term – over a ten-year period

3.2 See Exhibit 3.1 for a complete summary of all financial indicators.

Sustainability

Sustainability indicates if the Province can maintain its current level of spending and meet debt obligations without increasing taxes or funded debt.

Flexibility

Flexibility is the degree to which the Province can react to unexpected or increased expenses, either by increasing taxes or increasing funded debt.

Vulnerability

Vulnerability is the degree to which the Province is dependent on sources of funding outside its control or influence.

Exhibit 3.1 - Summary of Financial Indicators

|	Indicator	Purpose	Short-Term Trend	Long-Term Trend
Sustainability	Assets-to-liabilities	Measures extent that government finances its operations by issuing debt	Favourable	Unfavourable
	Financial assets-to-liabilities	Measures whether future revenues will be needed to pay for past transactions	Favourable	Unfavourable
	Net debt-to-total annual revenue	Shows whether more time is needed to pay for past transactions	Favourable	Favourable
	Expense by function-to-total expenses	Shows the trend of government spending over time	Neutral	Neutral
	Net debt-to-GDP	Shows the relationship between net debt and the activity in the economy	Favourable	Favourable
	Accumulated deficit-to-GDP	Measures the sum of the current and all prior year operating results relative to the growth in the economy	Favourable	Favourable
	Total expenses-to-GDP	Shows the trend of government spending over time in relation to the growth in the economy	Neutral	Neutral
Flexibility	Public (Funded) debt charges-to-revenues	Measures extent that past borrowing decisions limits ability to meet current financial and service commitments	Favourable	Favourable
	Net book value of capital assets-to-cost of capital assets	Measures the estimated useful lives of tangible capital assets available to provide products /services	Unfavourable	Unfavourable
	Own source revenues-to-GDP	Measures extent income is taken out of the economy	Unfavourable	Neutral
Vulnerability	Government transfers-to-total revenue	Measures the dependence on another level of government	Neutral	Neutral
	Foreign currency debt-to-nNet debt	Measures the government's potential vulnerability to currency fluctuations	Favourable	Favourable

Source: Prepared by AGNB

Sustainability Indicators

Assets-to-Liabilities

3.3 Assets-to-liabilities measures the extent government finances its operations by issuing debt. A percentage:
- below 100% indicates an unfavourable trend as the Province has more liabilities than it has assets
- that increases year over year indicates a favourable trend in the short-term

3.4 See Exhibit 3.2 below for assets-to-liabilities results from 2014-2023.

Exhibit 3.2 – Comparing Assets-to-Liabilities
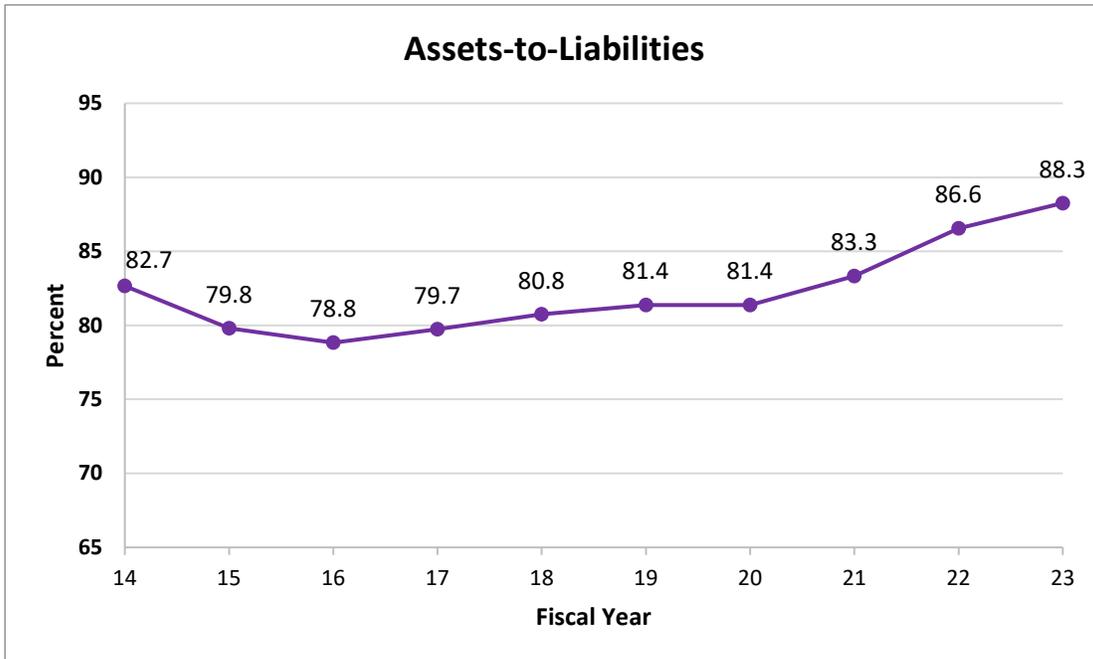
Source: Prepared by AGNB, based on applicable years Public Accounts data with restatements where identified in Public Accounts.

3.5 The assets-to-liabilities ratio has remained below 100% for the past ten years. It has, however, increased during the past 3 years. We have assessed trends as:
- long term – unfavourable
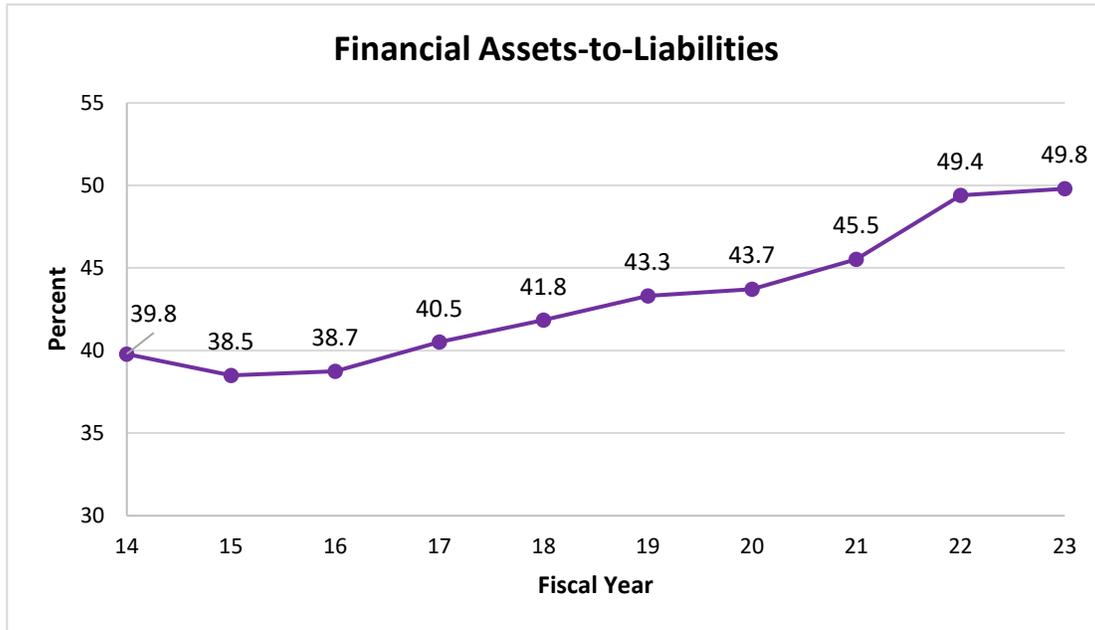- short term – favourable

Financial Assets-to-Liabilities

3.6 Financial assets-to-liabilities measures the extent future revenues will be needed to pay for past transactions. Percentages that are:
- less than 100% is an unfavourable trend as it implies that future surpluses will be required to pay for past transactions
- increasing year over year is a favourable trend in the short-term

3.7 See Exhibit 3.3 below for financial assets-to-liabilities results from 2014-2023.

Exhibit 3.3 - Financial Assets-to-Liabilities

Source: Prepared by AGNB based on applicable years Public Accounts data with restatements where identified in Public Accounts.

3.8 The financial assets-to-liabilities ratio has remained below 100% for the past 10 years. However, the percentage has consistently increased since 2015. We have assessed trends as:
- long term – unfavourable
- short term – favourable

Net Debt-to-Total Annual Revenue

3.9 Net debt-to-total annual revenue shows if more time is needed to pay for past transactions. A percentage that is:
- decreasing indicates a positive trend as the Province will require less time to eliminate the net debt
- increasing indicates a negative trend as the Province will require more time to eliminate the net debt

3.10 See Exhibit 3.4 below for net debt-to-total annual revenue from 2014-2023.

Exhibit 3.4 - Net Debt-to-Total Annual Revenue
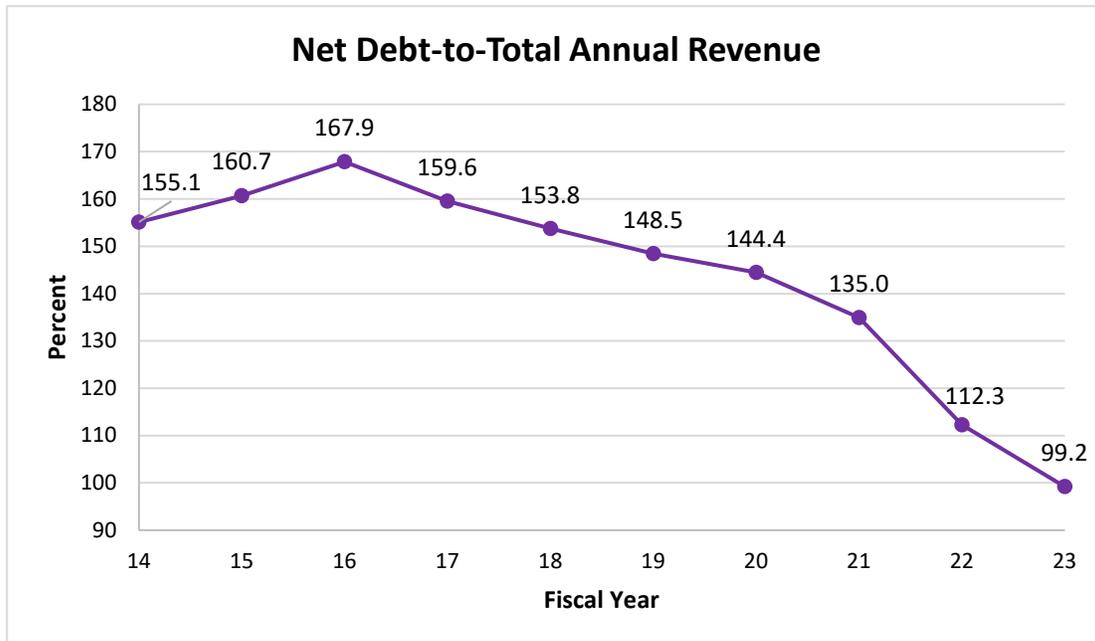
Net Debt-to-Total Annual Revenue

155.1 160.7 167.9 159.6 153.8 148.5 144.4 135.0 112.3 99.2

Source: Prepared by AGNB based on applicable years Public Accounts data with restatements where identified in Public Accounts.

3.11 Net debt-to-total annual revenue has been consistently decreasing since 2016. We have assessed trends as:
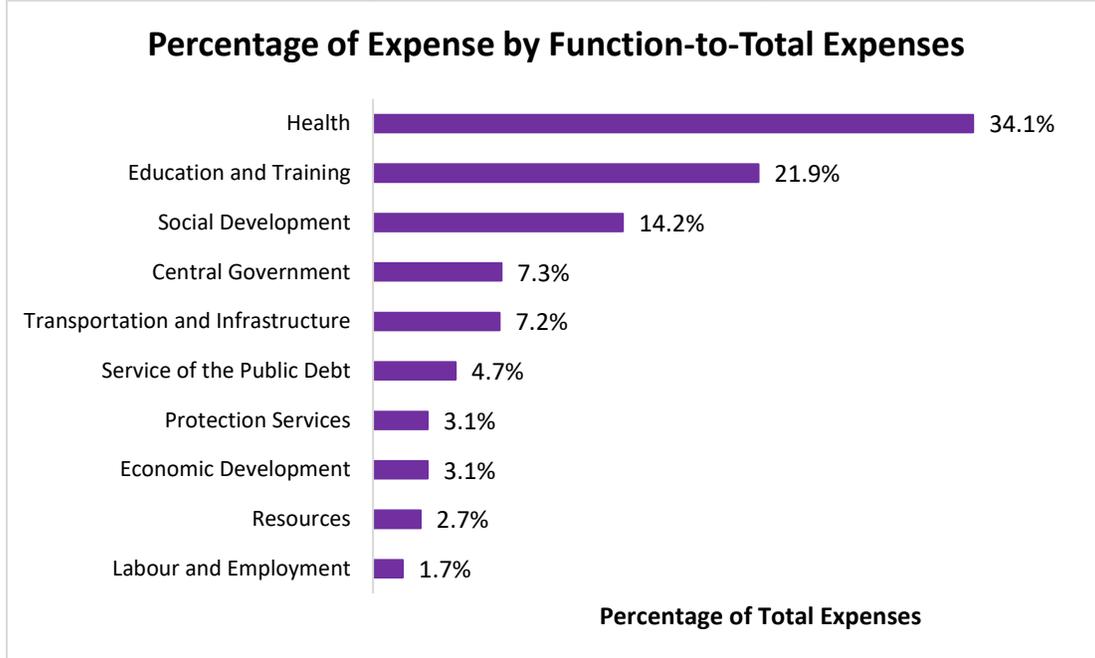- long term – favourable
- short term – favourable

Expense by Function-to-Total Expenses

3.12 Expense by function-to-total expenses shows the trend of government spending over time. If the cost to servicing debt increases, there is less funding available to deliver services.

3.13 See Exhibit 3.5 below for percentage of expense by function-to-total expenses for fiscal year ended March 31, 2023.

Exhibit 3.5 - Percentage of Expense by Function-to-Total Expenses at March 31, 2023

Percentage of Expense by Function-to-Total Expenses

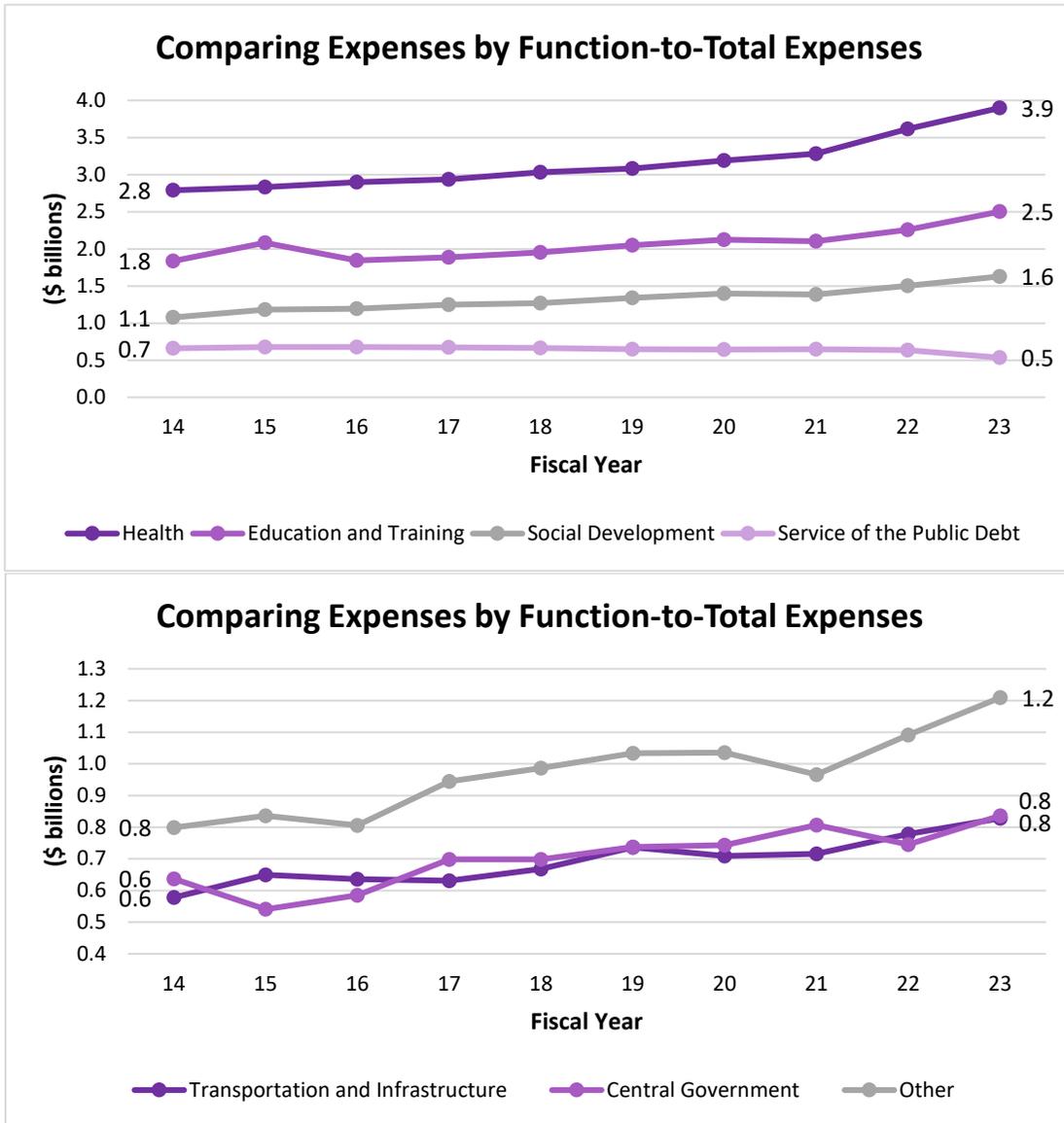| Function	Percentage
Health	34.1%
Education and Training	21.9%
Social Development	14.2%
Central Government	7.3%
Transportation and Infrastructure	7.2%
Service of the Public Debt	4.7%
Protection Services	3.1%
Economic Development	3.1%
Resources	2.7%
Labour and Employment	1.7%

Percentage of Total Expenses

Source: Prepared by AGNB based on Public Accounts 2023.

3.14 The following exhibit details expense by function-to-total expenses for 2014-2023:
- Health, Education and Training, Social Development, Service of the Public Debt
- Transportation and Infrastructure, Central Government, Other

Exhibit 3.6 - Expense by Function-to-Total Expenses

Comparing Expenses by Function-to-Total Expenses

Legend: Health | Education and Training | Social Development | Service of the Public Debt

Comparing Expenses by Function-to-Total Expenses

Legend: Transportation and Infrastructure | Central Government | Other

Source: Prepared by AGNB based on applicable years Public Accounts data with restatements where identified in Public Accounts.
Other: Includes Economic Development, Labour and Employment, Protection Services, and Resources

3.15 There has been little change in expense allocation during the past ten years. We have assessed trends as:
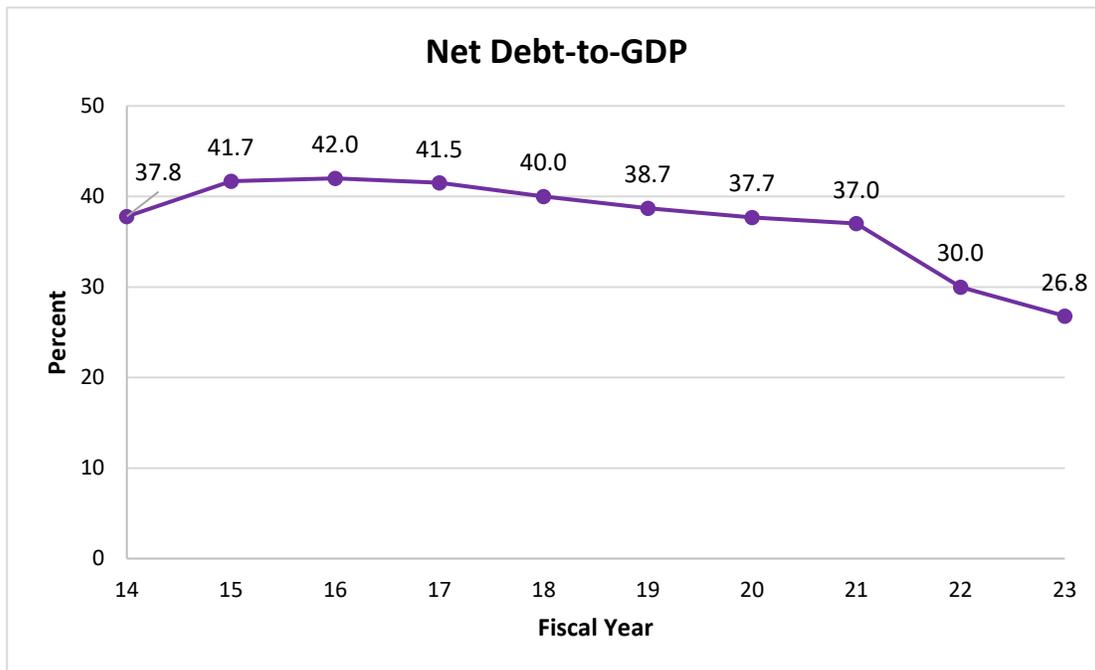- long term – neutral
- short term – neutral

Net Debt-to-GDP

3.16 Net debt-to-GDP shows the relationship between net debt and the activity in the economy. A percentage that is:
- decreasing indicates a positive trend as the growth of GDP exceeds the growth in net debt
- increasing would be negative, as it indicates the growth in net debt exceeds that of GDP

3.17 See Exhibit 3.7 below for net debt-to-GDP results from 2014-2023.

Exhibit 3.7 – Net Debt-to-GDP

Net Debt-to-GDP

Fiscal Year	Percent
14	37.8
15	41.7
16	42.0
17	41.5
18	40.0
19	38.7
20	37.7
21	37.0
22	30.0
23	26.8

Source: Prepared by AGNB based on applicable years Public Accounts data with restatements where identified in Public Accounts.

3.18 Net debt-to-GDP has consistently decreased since 2016. We have assessed trends as:
- long term – favourable
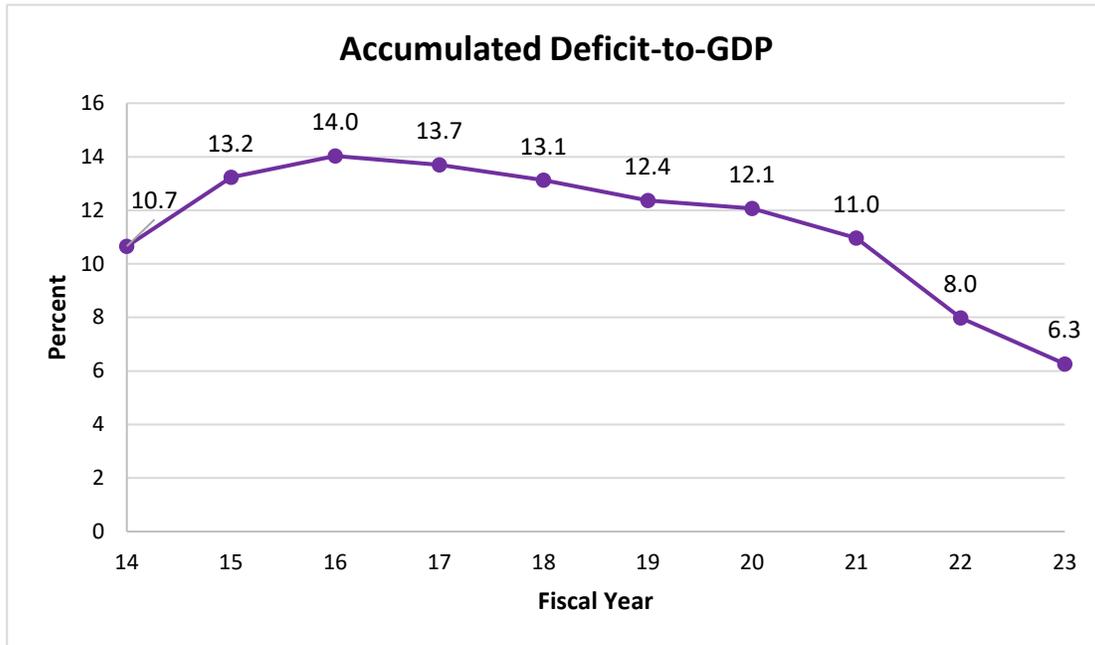- short term – favourable

Accumulated Deficit-to-GDP

3.19 Accumulated deficit-to-GDP shows the trend of government spending over time in relation to the growth in the economy. The accumulated deficit is the extent to which current and past annual revenues have been insufficient to cover the current and past annual costs of providing services. An accumulated deficit-to-GDP percentage that is:
- decreasing indicates a positive trend as the growth of GDP is outpacing the growth in the accumulated deficit
- increasing indicates a negative trend as the accumulated deficit is outpacing the growth of GDP

3.20 See Exhibit 3.8 below for accumulated deficit-to-GDP results from 2014-2023.

Exhibit 3.8 - Accumulated Deficit-to-GDP

Source: Prepared by AGNB based on applicable years Public Accounts data with restatements where identified in Public Accounts.

3.21 Accumulated deficit-to-GDP has consistently decreased since 2016. We have assessed trends as:
- long term – favourable
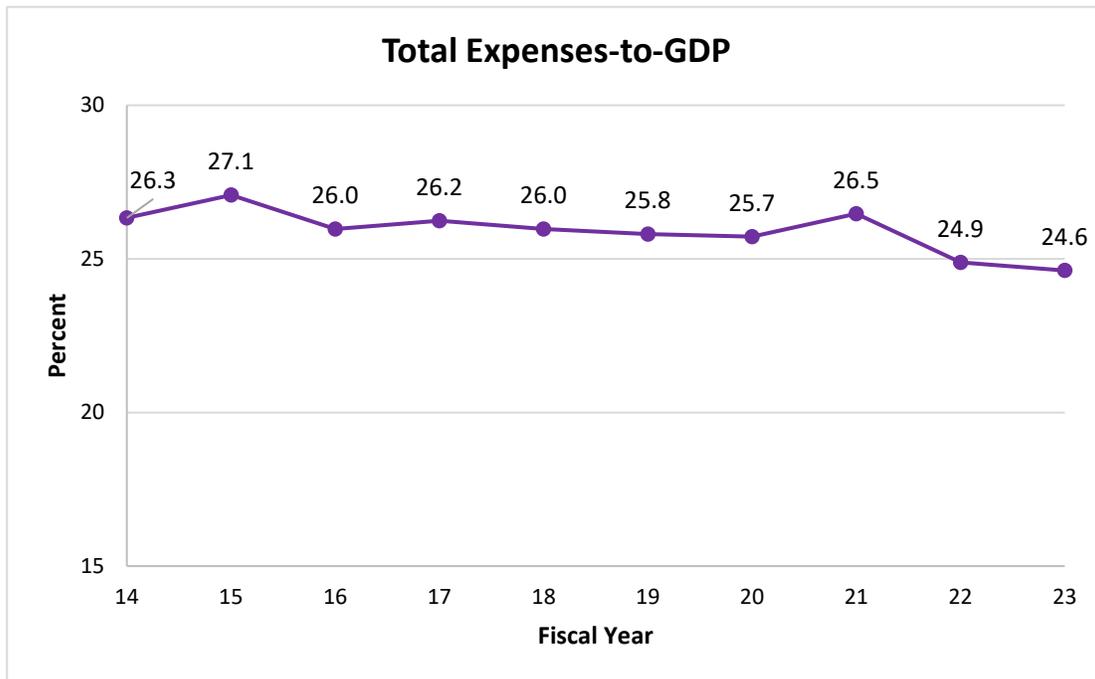- short term – favourable

Total Expenses-to-GDP

3.22 Total expenses-to-GDP shows the trend of government spending over time in relation to the growth in the economy. A percentage that is:
- increasing indicates a negative trend as the government expenses continue to grow faster than the economy
- decreasing indicates a positive trend as the economy continues to grow faster than government expenses

3.23 See Exhibit 3.9 below for total expenses-to-GDP results from 2014-2023.

Exhibit 3.9 - Total Expenses-to-GDP

Total Expenses-to-GDP

Fiscal Year	14	15	16	17	18	19	20	21	22	23
Percent	26.3	27.1	26.0	26.2	26.0	25.8	25.7	26.5	24.9	24.6

Source: Prepared by AGNB based on applicable years Public Accounts data with restatements where identified in Public Accounts.

3.24 There has been little change during the past ten years. We have assessed trends as:
- long term – neutral
- short term – neutral

Flexibility Indicators

Debt Charges-to-Revenues

3.25 Debt charges-to-revenues measures the extent that past borrowing decisions limit ability to meet current financial and service commitments. A percentage that is:

- decreasing indicates a favourable trend, as proportionately less revenue is needed to service the funded debt
- increasing indicates an unfavourable trend, as proportionately more revenue is needed to service the funded debt

3.26 See Exhibit 3.10 below for debt charges-to-revenues from 2014-2023.

Exhibit 3.10 - Public (Funded) Debt Charges-to-Revenues
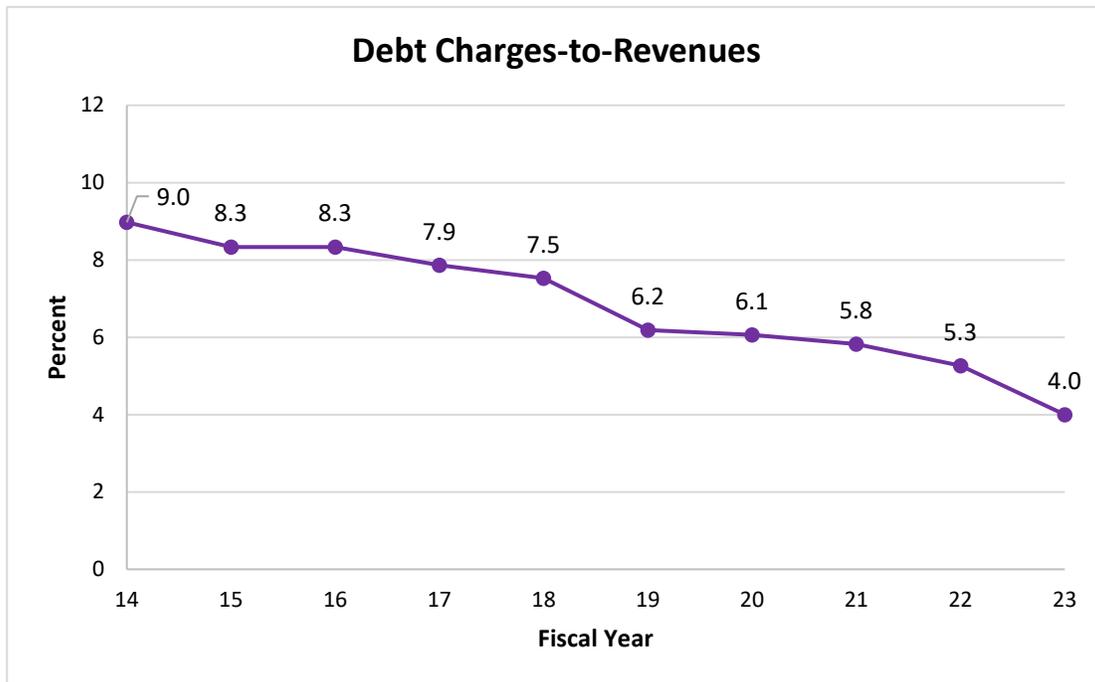
Source: Prepared by AGNB based on applicable years Public Accounts data with restatements where identified in Public Accounts.

3.27 Debt charges-to-revenues has consistently decreased in the past 10 years. We have assessed trends as:

- long term – favourable
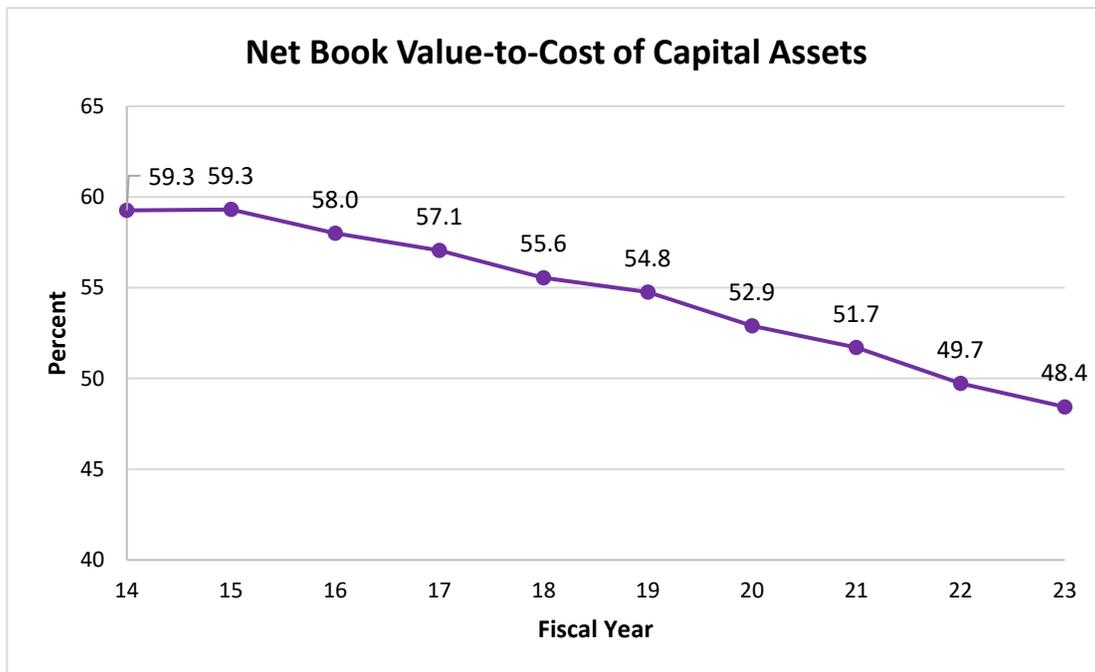- short term – favourable

Net Book Value of Capital Assets-to-Cost of Capital Assets

3.28 Net book value of capital assets-to-cost of capital assets measures the estimated useful lives of tangible capital assets available to provide products /services. A percentage that is:

- decreasing indicates a negative trend as assets are depreciating (being used) at a faster rate than they are being replaced
- increasing indicates a positive trend as assets are being replaced at a faster rate than they are depreciating (being used)

3.29 See Exhibit 3.11 below for net book value of capital assets-to-cost of capital assets from 2014-2023.

Exhibit 3.11 - Comparing Net Book Value of Capital Assets-to-Cost of Capital Assets

Net Book Value-to-Cost of Capital Assets

Fiscal Year	Percent
14	59.3
15	59.3
16	58.0
17	57.1
18	55.6
19	54.8
20	52.9
21	51.7
22	49.7
23	48.4

Source: Prepared by AGNB based on applicable years Public Accounts data with restatements where identified in Public Accounts.

3.30 Net book value of capital assets-to-cost of capital assets has consistently decreased since 2015. We have assessed trends as:

- long term – unfavourable
- short term – unfavourable

Own Source Revenues-to-GDP

3.31 Own source revenues-to-GDP measures the extent income is taken out of the economy. A percentage that is:
- increasing indicates a negative trend as it makes the Province less flexible in how it can generate revenue
- decreasing indicates a positive trend as it makes the Province more flexible in how it can generate revenue

3.32 See Exhibit 3.12 below for own source revenues-to-GDP for 2014-2023.

Exhibit 3.12 - Own Source Revenues-to-GDP
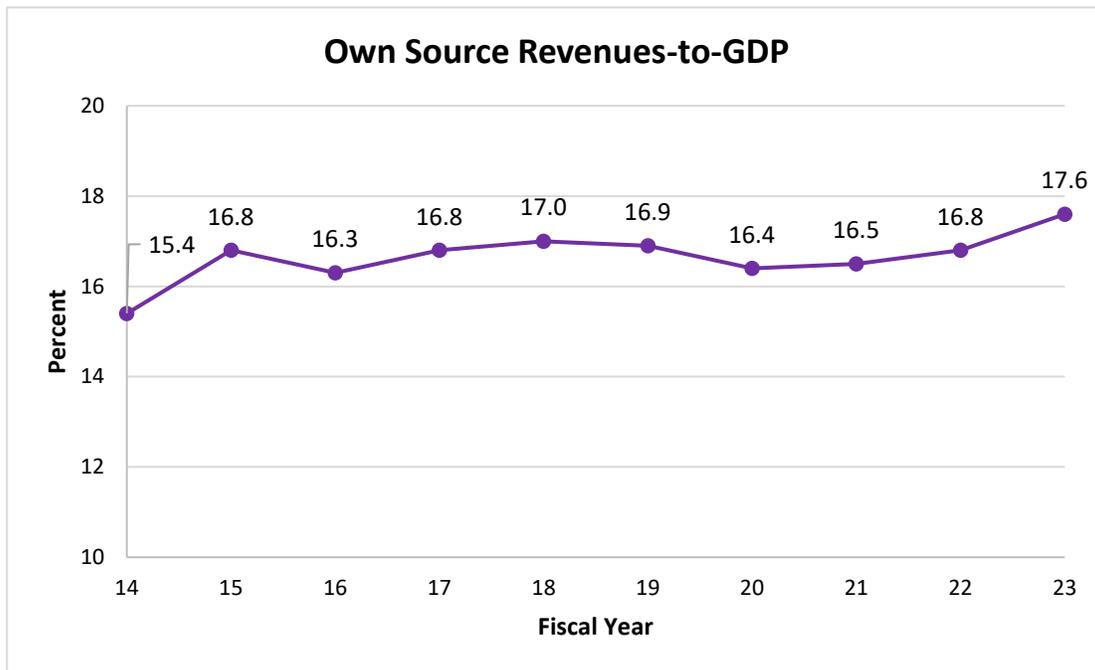
Source: Prepared by AGNB based on applicable years Public Accounts data with restatements where identified in Public Accounts.

3.33 Own source revenues-to-GDP has remained relatively stable since 2015. However, as it has increased since 2020, we have assessed trends as:
- long term – neutral
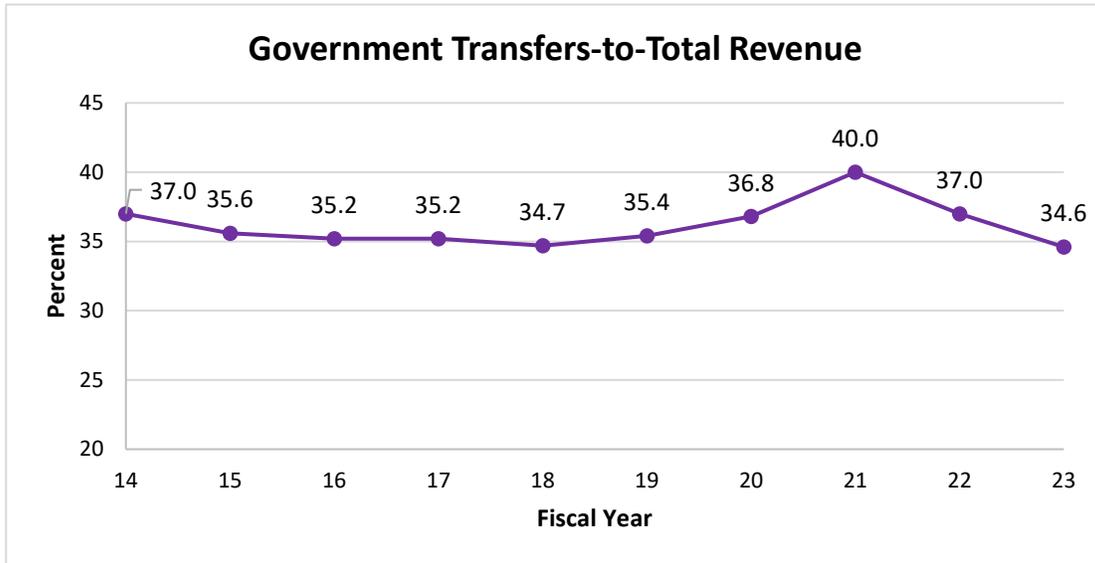- short term – unfavorable

Vulnerability Indicators

Government Transfers-to-Total Revenue

3.34 Government transfers-to-total revenue measures the dependence on another level of government. A percentage that is:
- decreasing indicates a positive trend as the Province is less dependent on government transfers for revenue
- increasing indicates a negative trend as the Province is more dependent on government transfers for revenue

3.35 See Exhibit 3.13 below for government transfers-to-total revenue for 2014-2023.

Exhibit 3.13 - Government Transfers-to-Total Revenue

Government Transfers-to-Total Revenue

Fiscal Year	Percent
14	37.0
15	35.6
16	35.2
17	35.2
18	34.7
19	35.4
20	36.8
21	40.0
22	37.0
23	34.6

Source: Prepared by AGNB based on applicable years Public Accounts data with restatements where identified in Public Accounts.

3.36 Government transfers-to-total revenue has remained relatively stable over the past ten years. There was a noted increase in government transfers in 2021, due to COVID funding. When removed from the analysis as an extraordinary item, we have assessed trends as:
- long term – neutral
- short term – neutral

Comparing Foreign Currency Debt-to-Net Debt

3.37 Foreign currency debt-to-net debt measures government's potential vulnerability to currency fluctuations. As the Province has hedged 100% of its foreign currency, we have assessed trends as:
- long term – favourable
- short term – favourable