

Chapter 2

Annual Surplus, Net Debt and Funded Debt

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Annual Surplus, Net Debt and Funded Debt

Fifth Consecutive Annual Surplus

Province recorded an annual surplus of \$777 million – its fifth consecutive surplus

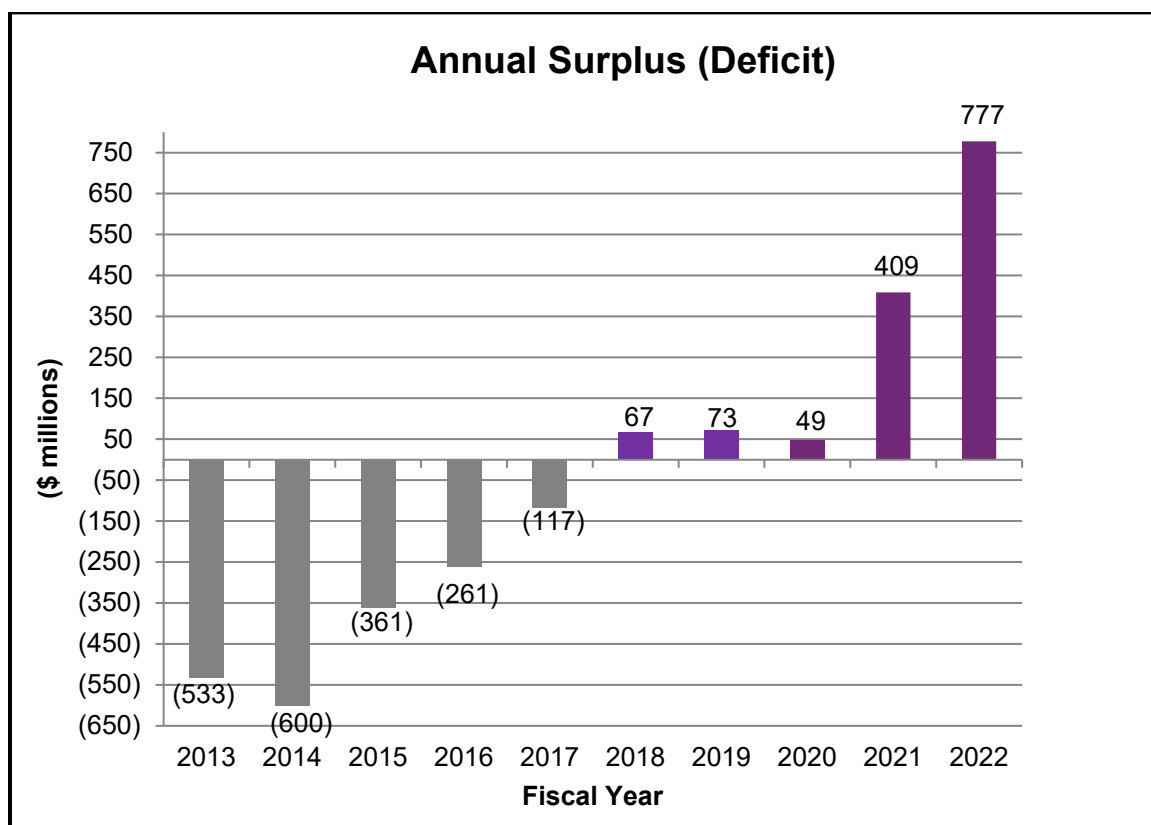
2.1 The Province of New Brunswick’s March 31, 2022 audited consolidated financial statements reported an annual surplus of \$777 million. This surplus is:

- \$1 billion better result than budgeted (a deficit of \$245 million was budgeted for 2022); and
- \$368 million more than the surplus of \$409 million reported in 2021.

This is also the fifth consecutive year the Province recorded a surplus and is almost double the surplus recorded in 2021.

2.2 The ten-year history for the annual surplus (deficit) and revenues and expenses are presented in Exhibits 2.1 and 2.2.

Exhibit 2.1 - Annual Surplus (Deficit)



With figures restated as per data below

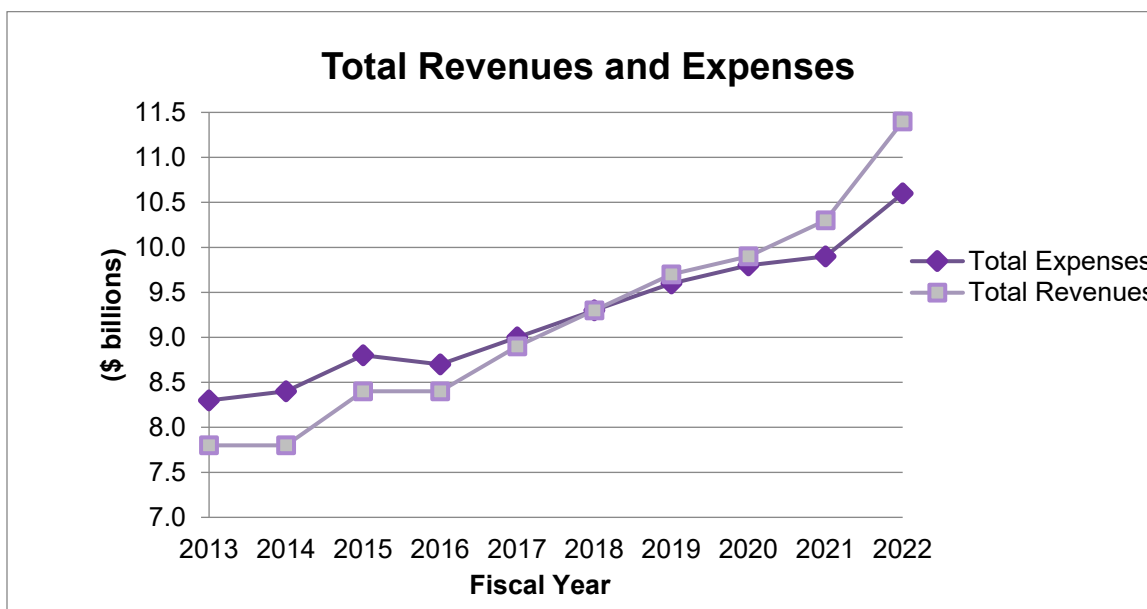
Annual Surpluses (Deficits) (\$ millions)

	Fiscal year									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
As Restated	(532.7)	(600.4)	(361.4)	(260.5)	(117.0)	67.0	72.6	48.7	408.5	N/A
Originally Recorded	(507.7)	(498.7)	(388.6)	(260.5)	(118.9)	67.0	72.6	48.7	408.5	777.3

Note: Prior years' amounts have been restated to comply with the requirements of adopting new accounting standards or to improve financial statement presentation. The impacts of the 2016 consolidation of nursing home financial results into the Province's financial statements has not been included in the restated amounts for the years prior to 2015 in the exhibits as this information is not available. Significant variances to data presented in this chapter may have occurred for 2014 and earlier years as a result of this accounting change.

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

Exhibit 2.2 - Total Revenues and Expenses



With figures restated as per data below

Total Revenues and Expenses (\$ billions)

Fiscal year										
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Revenues	7.8	7.8	8.4	8.4	8.9	9.3	9.7	9.9	10.3	11.4
Total Expenses	8.3	8.4	8.8	8.7	9.0	9.3	9.6	9.8	9.9	10.6

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

\$726 Million Increase in Provincial Tax Revenues Impacted the Surplus

Increased surplus is mostly due to increased revenue

2.3 The 2022 surplus increase of \$368 million from 2021 was mostly due to increases in revenue. This included growth of \$726 million in provincial tax revenues over 2021 with significant increases in:

- Harmonized Sales Tax of \$373 million;
- Corporate Income Tax of \$167 million; and
- Personal Income Tax of \$106 million.

2.4 Exhibit 2.3 shows, at a summary level, the reasons for the increase in surplus from 2021 to 2022, along with significant changes in revenues and expenses.

Exhibit 2.3 - Breakdown of 2022 Annual Surplus

Breakdown of 2022 Annual Surplus (\$ millions)

What Happened Since Last Year?		Significant Reasons
Fiscal 2021 Surplus	\$409	
Increase in provincial tax revenues	+ \$726	Increases in: Harmonized Sales Tax (+373) Corporate Income Tax (+167) Personal Income Tax (+106) Carbon Emitting Tax (+51) Offset by decreases in: Tobacco Tax (-29)
Increase in other provincial revenue sources	+ \$251	Increases in: Income from NB Power (+83) Other Revenue (+58) There were no significant decreases to offset increases
Increase in amounts from the Federal government	+ \$95	Increases in: Canada Health Transfer (+112) Fiscal Equalization Payments (+64) Canada-New Brunswick Integrated Bilateral Agreement (+52) Canada Community-Building Fund (+30) Offset by decreases in: Safe Restart Agreement (-219)
Increase in expense	- \$704	Expense increases in: Health (+334) Education and Training (+155) Social Development (+111) Economic Development (+67) Offset by expense decreases in: Central Government (-59)
Fiscal 2022 Surplus	\$777	

Source: Prepared by AGNB from New Brunswick Public Accounts Volume I for year ended March 31, 2022

Revenues Increased in 2022 for Harmonized Sales Tax, Personal Income Tax, and Corporate Income Tax

Harmonized Sales Tax, Personal Income Tax, and Corporate Income Tax account for 60% of provincial source revenue

Tax estimates are subject to a significant amount of uncertainty

Adjustments are made to estimates

\$168 million in prior year HST adjustments recorded in 2022

\$39 million in prior year Personal Income Tax adjustments recorded in 2022

2.5 Harmonized Sales Tax (HST), Personal Income Tax (PIT), and Corporate Income Tax (CIT) are significant components of provincial revenue. In 2022, the combined total of these tax revenues was \$4.3 billion which represents 60% of all provincial source revenues.

2.6 Each year, HST, PIT and CIT revenues are recorded in the consolidated financial statements based on estimates prepared by the Federal government and the Province's Department of Finance and Treasury Board (FTB). These estimates are, at times, subject to a significant amount of uncertainty as they involve estimating items such as tax filing data and economic results.

2.7 Given the complex nature of this process, the timing of when final tax year numbers are available can be delayed. As time passes and more information (such as tax filings and tax audits) becomes available, current year and prior year tax estimates are revised. Any changes to the estimates are recorded as increases or decreases to revenue in the current year.

2.8 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. In 2022, for example, the Province received approximately \$168 million in adjustments (increase to revenue) for the entitlement years 2015 through 2021.

2.9 PIT estimates are based on estimates of personal income by Finance Canada, as well as estimates prepared by FTB. For example, in January 2022, the Province received its initial estimate of 2022 revenue and in February 2022, it received notice of a prior-year adjustment (increase) for the 2020 tax year. Prior year

\$18 million in prior year Corporate Income Tax adjustments recorded in 2022

Impact of estimate uncertainty was evident in 2022

HST, PIT and CIT revenues were \$662 million greater than budgeted in 2022

HST, PIT and CIT revenues were \$646 million greater than in 2021

Current year revenues may not be indicative of future results

PIT adjustments for 2022 totalled an increase of approximately \$39 million.

2.10 CIT estimates are based, in part, on Finance Canada's estimates of New Brunswick's share of national corporate taxable income. For example, Finance Canada revises these estimates throughout the year based on tax assessment data. In 2022, the Province received a prior-year adjustment related to the 2020 tax year which resulted in an adjustment (increase) to CIT revenue this year of approximately \$18 million.

2.11 The uncertainty in estimating these tax revenues along with the timing delay of possible adjustments may result in significant variances from the amounts budgeted and the amounts recorded in the prior year. The impact of this uncertainty was evident in 2022 as all three of these tax revenues were:

- significantly greater than budgeted; and
- significantly greater than amounts recorded in fiscal 2021.

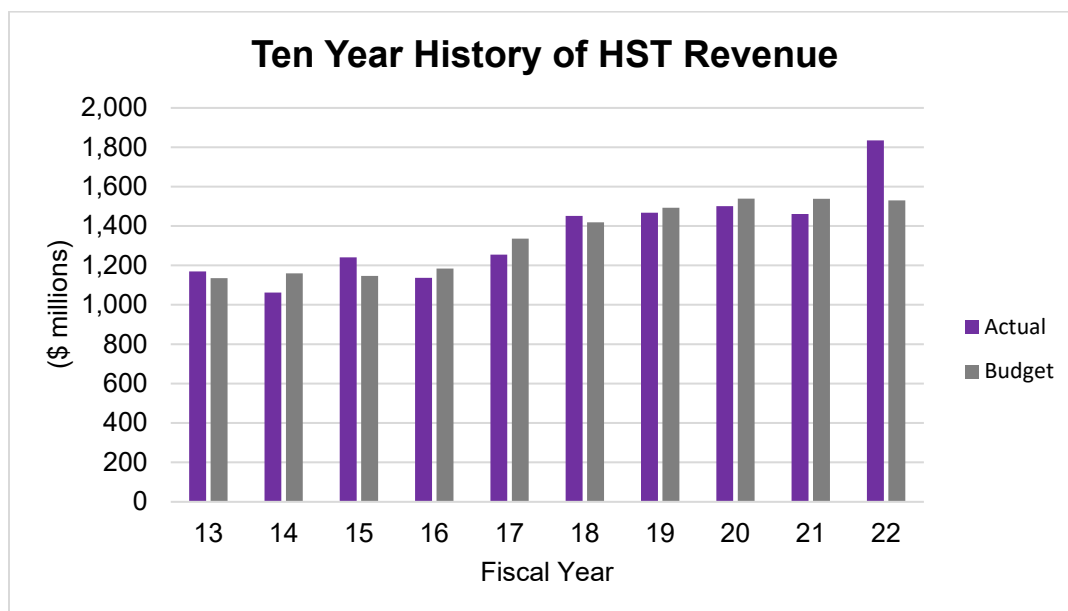
2.12 Actual HST, PIT and CIT revenues are generally similar to amounts the Province budgets for each year. For the most part, actual results are within \$100 million of the budgeted amount. In 2022 however, the actual amounts for these tax revenues were a combined \$662 million greater than budget.

- HST was \$305 million greater than budget.
- PIT was \$196 million greater than budget.
- CIT was \$161 million greater than budget.

2.13 As described in paragraph 2.3, actual revenues for these taxes were also a combined \$646 million greater than in 2021.

2.14 In our view, given the significance of these estimates, along with uncertainty and prior year adjustments involved in HST, PIT and CIT revenues, the revenue recorded this year may not be indicative of future results. The ten year history of actual and budgeted revenues for HST, PIT and CIT are presented in Exhibits 2.4, 2.5 and 2.6.

Exhibit 2.4 - Ten Year History of HST Revenue

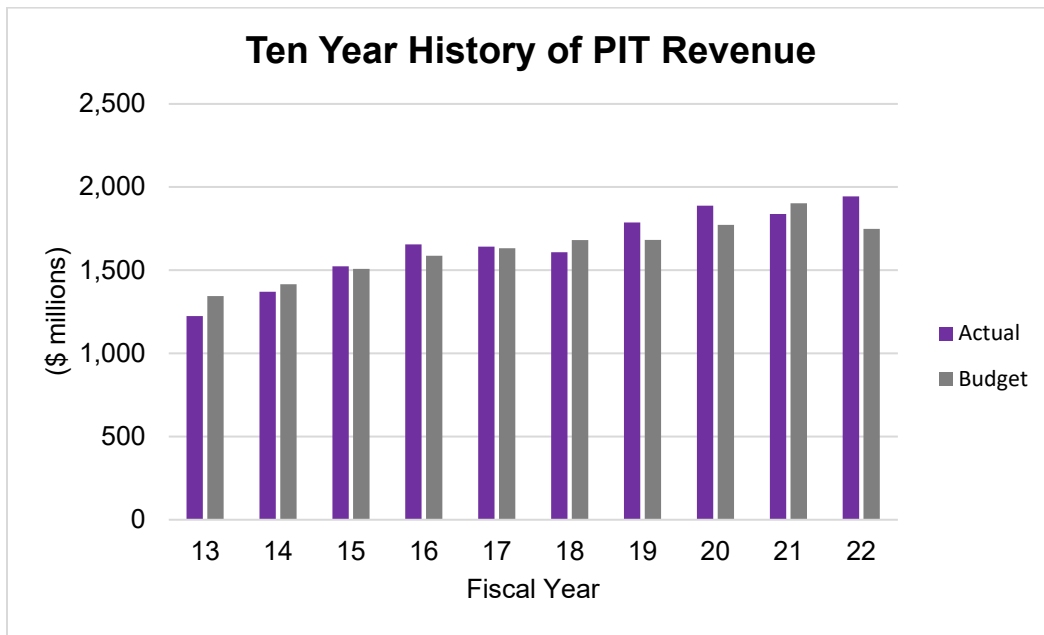


Harmonized Sales Tax (HST) Revenue (\$ millions)

Fiscal year										
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Actual	1,170	1,062	1,241	1,137	1,254	1,452	1,468	1,501	1,461	1,835
Budget	1,135	1,160	1,147	1,184	1,336	1,419	1,493	1,539	1,538	1,530
Difference	35	(98)	94	(47)	(82)	33	(25)	(38)	(77)	305

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

Exhibit 2.5 - Ten Year History of PIT Revenue

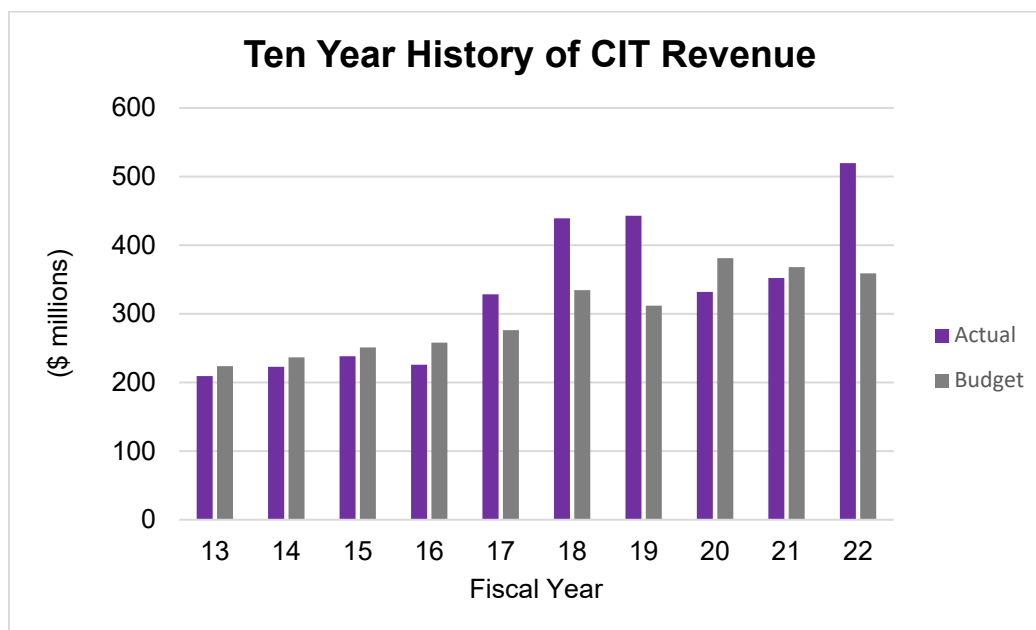


Personal Income Tax (PIT) Revenue (\$ millions)

Fiscal year										
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Actual	1,224	1,370	1,524	1,655	1,642	1,608	1,787	1,888	1,838	1,944
Budget	1,344	1,416	1,508	1,587	1,632	1,681	1,682	1,773	1,902	1,748
Difference	(120)	(46)	16	68	10	(73)	105	115	(64)	196

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

Exhibit 2.6 - Ten Year History of CIT Revenue



Corporate Income Tax (CIT) Revenue (\$ millions)

Fiscal year										
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Actual	209	223	238	226	328	439	443	332	352	519
Budget	224	236	251	258	276	334	312	381	368	359
Difference	(15)	(13)	(13)	(32)	52	105	131	(49)	(16)	160

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

Net Debt, Funded Debt and Interest Costs Remain a Concern

Net Debt and Funded Debt are not the same

2.15 Net Debt and Funded Debt are two forms of debt presented in the Province's audited consolidated financial statements. The Province also records an expense to service (repay) its Funded Debt annually, mostly consisting of interest costs. Exhibit 2.7 explains, at a high level, the differences between these three items.

Exhibit 2.7 - Net Debt, Funded Debt and Service of the Public Debt Defined

Net Debt, Funded Debt and Service of the Public Debt Defined

Term	2022 Amount	Definition	Paragraph
Net Debt	\$12.4 billion	A mathematical accounting calculation presented as total liabilities <i>less</i> financial assets.	2.16
Funded Debt	\$18.4 billion*	Total long-term debenture debt the Province has borrowed and is legally bound to repay.	2.45
Service of the Public Debt	\$635 million	Annual cost of servicing Funded Debt ¹ , consisting mostly of interest costs.	2.52

* *Funded Debt excludes \$4.6 billion borrowed on behalf of NB Power*

Source: Prepared by AGNB using 2022 Public Accounts

Decrease in Net Debt Caused Mostly by Surplus

\$1.1 billion decrease in Net Debt mostly caused by surplus

2.16 Net Debt decreased by \$1.1 billion in 2022 to \$12.4 billion. This is an 8% decrease from last year and was mostly caused by the surplus of \$777 million. This is the third consecutive year Net Debt has decreased.

¹ 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.

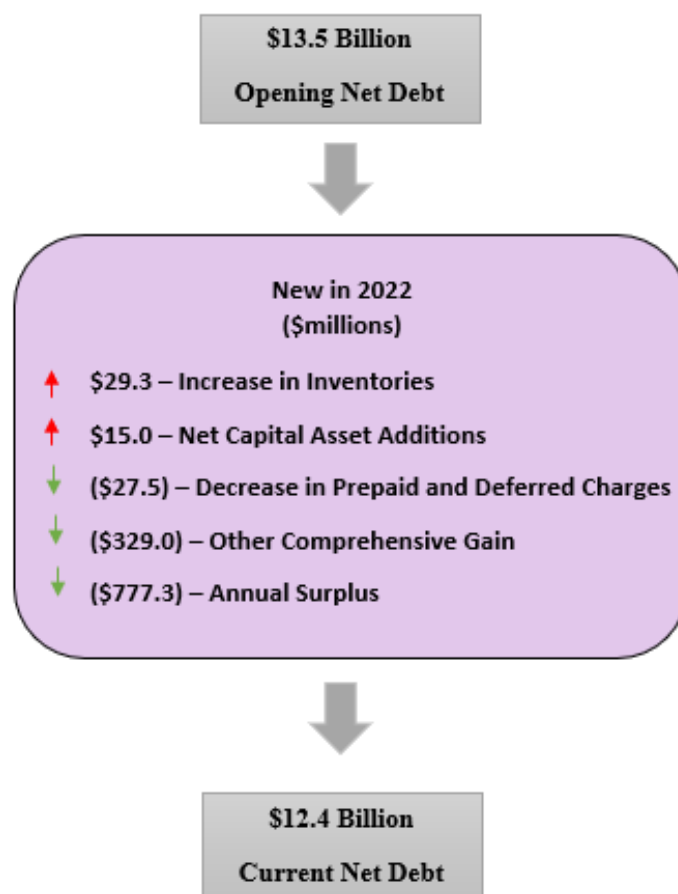
Net Debt shows future revenue needed to meet past spending

2.17 Net Debt is a key performance indicator in the public sector because it offers insight into the financial health of the Province. It provides information about future revenues needed to meet past spending.

2.18 While the decrease in Net Debt is mostly being caused by the annual surplus, there are other components which make up the change in Net Debt. These include items such as the purchase and depreciation of tangible capital assets (e.g. roads, buildings and equipment) and other smaller items.

2.19 Exhibit 2.8 shows the year-over-year change in Net Debt.

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



Source: Prepared by AGNB using 2022 Public Accounts. Refer to Exhibit 2.10 for detailed information.

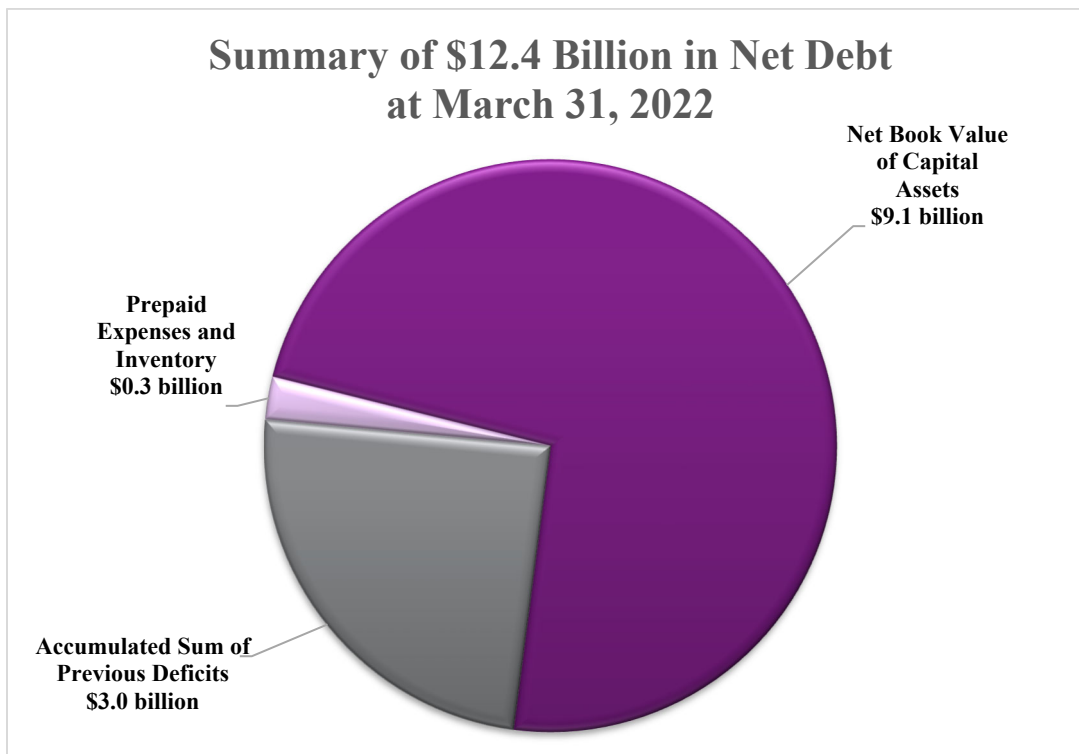
What Makes up the \$12.4 Billion in Net Debt?

Net Debt is made up of mostly tangible capital assets and past deficits

2.20 As described in Exhibit 2.7, Net Debt is the difference between the Province's total liabilities and its financial assets. As shown in Exhibit 2.9 the \$12.4 billion in Net Debt is made up of the following items:

- **\$9.1 billion in tangible capital assets** (such as roads, schools and hospitals). This amount represents the net book value (cost less amortization) of these assets at March 31, 2022.
- **\$3.0 billion in accumulated previous deficits.** This amount represents the sum of previous spending which has exceeded revenues.
- **\$0.3 billion in prepaid expenses and inventories** at March 31, 2022.

Exhibit 2.9 - Summary of \$12.4 Billion in Net Debt at March 31, 2022



Source: Prepared by AGNB using 2022 Public Accounts

Most capital assets relate to items such as highways, schools, hospitals and nursing homes

2.21 As shown in Exhibit 2.9, tangible capital assets (capital assets) of \$9.1 billion are, by far, the most significant component of Net Debt. Each year, the capital asset balance changes based on items such as additions, disposals and amortization. In Exhibit 2.10, we present the net book value of the most significant capital assets which are included in the total of \$9.1 billion at March 31, 2022. These are items New Brunswickers use on a day-to-day basis and include things such as:

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

*Exhibit 2.10 - Net Book Value of Significant Tangible Capital Assets
at March 31, 2022*

**Net Book Value of Significant Tangible Capital Assets
at March 31, 2022 (\$ millions)**

Capital Asset Category and Department/Entity	Total Cost	Total Accumulated Amortization	Net Book Value
Roads, Bridges and Highways: Department of Transportation and Infrastructure	7,690.1	(4,208.3)	3,481.8
Roads, Bridges and Highways: New Brunswick Highway Corporation			
Fredericton-Moncton Highway	1,055.6	(416.9)	638.7
Trans-Canada Highway	936.4	(293.5)	642.9
Route 1 Gateway	703.7	(191.9)	511.8
Buildings and Land Improvements: Department of Education and Early Childhood Development (e.g. Schools)	2,028.1	(1,072.9)	955.2
Buildings and Land Improvements: Regional Health Authorities* (e.g. Hospitals)	1,661.5	(856.3)	805.2
Buildings and Land Improvements: Department of Transportation and Infrastructure (e.g. Other buildings owned by the Province)	1,022.0	(436.9)	585.1
Buildings and Land Improvements: Nursing Homes	664.3	(244.9)	419.4
Other	2,316.5	(1,269.1)	1,047.4
Totals	18,078.2	(8,990.7)	9,087.5

* Regional Health Authorities include Horizon Health Network and Vitalité Health Network

Source: Prepared by AGNB using 2022 Public Accounts

How Has Net Debt Changed Over the Past Decade?

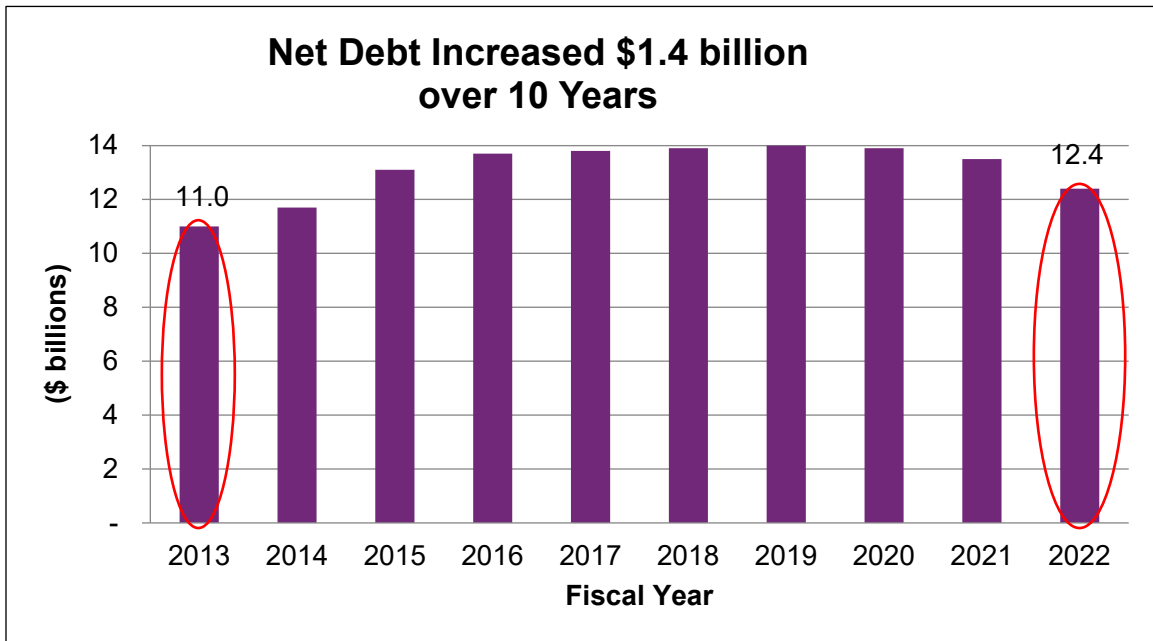
Net Debt is \$1.4 billion higher than it was 10 years ago

2.22 Despite Net Debt significantly decreasing during 2022, it is still \$1.4 billion higher than it was ten years ago. The increase of \$1.4 billion over this period of time is mostly due to:

- net capital asset costs (purchases less amortization) which total an increase of approximately \$1.2 billion; and
- annual deficits and surpluses which total an increase of approximately \$500 million.

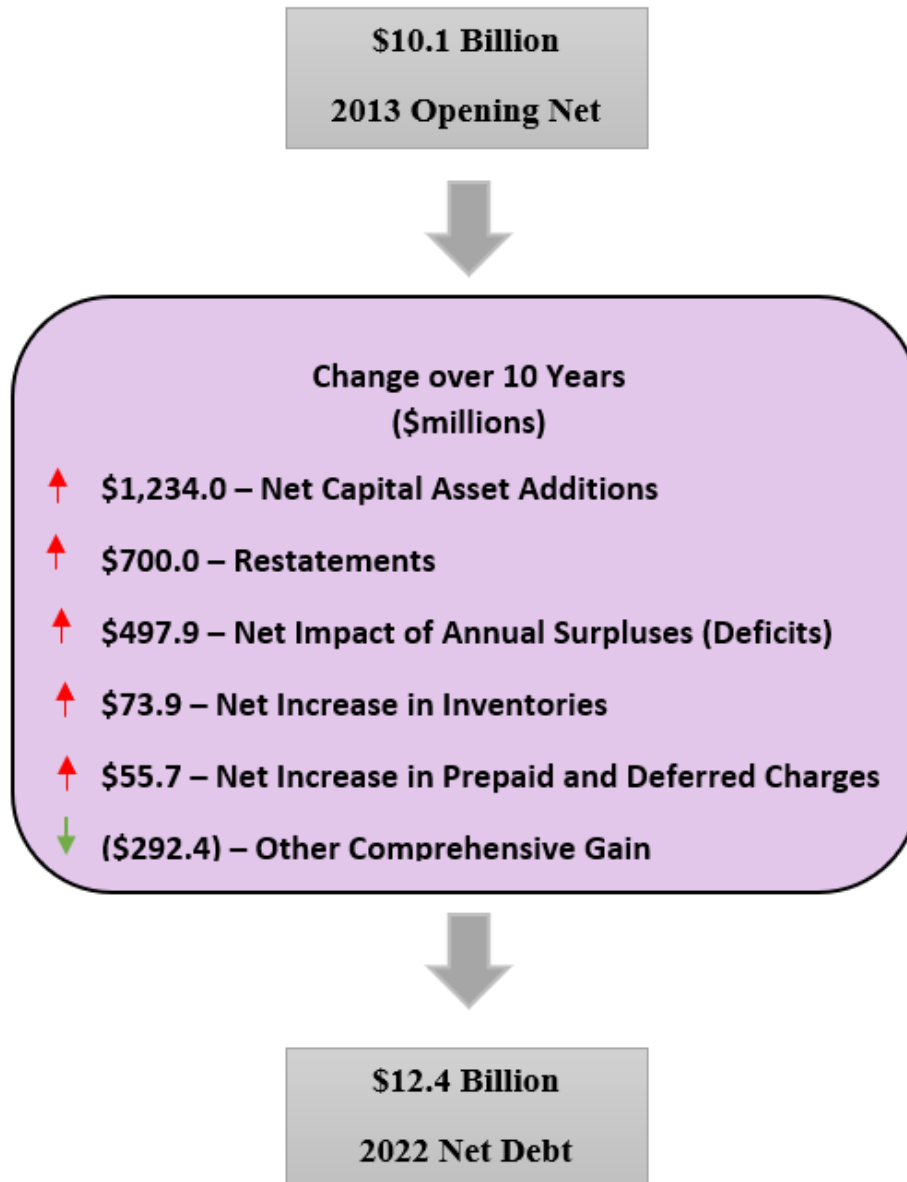
2.23 Exhibits 2.11, 2.12 and 2.13 show the overall increase in Net Debt over the last ten years.

Exhibit 2.11 - Net Debt Increased \$1.4 Billion over 10 Years



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

Exhibit 2.12 - Ten Year Summary of Change in Net Debt



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

Exhibit 2.13 - Net Debt Increased \$1.4 Billion over 10 Years

Net Debt Increase \$1.4 billion over 10 Years Data (\$ millions)

	Fiscal Year										Total
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	
Annual deficit / (surplus)	532.7	600.4	361.4	260.5	117.0	(67.0)	(72.6)	(48.7)	(408.5)	(777.3)	497.9
Purchase of capital assets	899.7	418.3	591.0	586.1	615.7	641.7	671.4	464.5	500.7	560.4	5,949.5
Amortization of capital assets	(349.9)	(373.2)	(406.0)	(426.8)	(463.5)	(473.5)	(496.1)	(508.6)	(514.8)	(539.1)	(4,551.5)
Other Misc.	(98.5)	(16.1)	156.7	121.6	(100.4)	4.7	(70.0)	56.0	(47.3)	(333.5)	(326.8)
Net Debt As originally recorded (\$ billions)	11.1	11.6	12.4	13.7	13.8	13.9	14.0	13.9	13.5	12.4	
Net Debt As restated (\$ billions)	11.0	11.7	13.1	13.7	13.8	13.9	14.0	13.9	13.5	N/A	
% Growth Rate in Net Debt from the prior year	8.9%	6.4%	12.0%	4.6%	0.7%	0.7%	0.7%	-0.7%	-2.9%	-8.1%	

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

Capital assets are one significant part of Net Debt

2.24 As shown in Exhibits 2.12 and 2.13, capital assets are a significant component of changes in Net Debt over the past ten years. Some of the most significant capital assets recorded in the Province's financial statements which have contributed to Net Debt include:

- roads, bridges and highways; and
- buildings and land improvements

2.25 Exhibit 2.14 shows the ten-year history of capital asset additions by asset type.

Exhibit 2.14 - Ten-Year History of Capital Asset Additions by Type

**Ten Year History of Capital Asset Additions by Type
(\$ millions)**

Capital Asset Type	Total
Roads, Bridges and Highways: Excluding New Brunswick Highway Corporation	2,196.8
Roads, Bridges and Highways: New Brunswick Highway Corporation	1,015.1
Buildings and Land Improvements	1,848.1
Machinery and Equipment	412.6
Vehicles and Mobile Heavy Equipment	201.2
Computer Hardware and Software	162.9
Dams and Water Management Systems	43.8
Ferries and Landings	35.7
Land	33.3
Total	5,949.5

Source: Prepared by AGNB based on Public Accounts (with restatements where identified)

Progress is being made, but significantly more time is needed to fully address Net Debt

2.26 Overall, there has been significant progress in addressing the Net Debt balance and paying down past deficits with the 2022 surplus. Also, as we discuss later in this chapter, progress has been made in reducing New Brunswick's Net Debt per capita which is now at its lowest point since 2014.

2.27 Unfortunately, the issue of Net Debt growth has built over many years. It may take significantly more time to fully address these older balances.

New Brunswick's Net Debt-to-GDP Ratio

Net Debt-to-GDP is a critical sustainability indicator

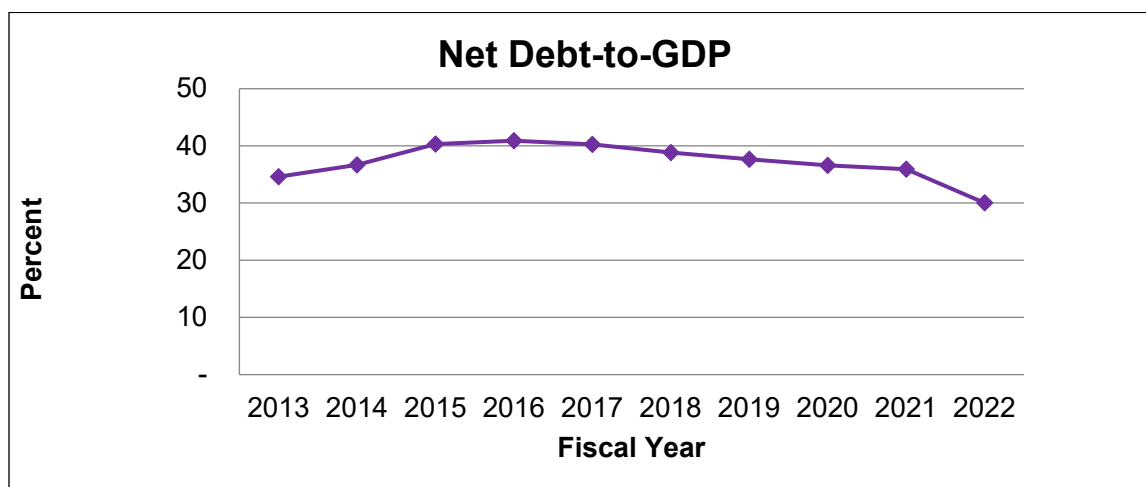
2.28 The Net Debt-to-Gross Domestic Product (GDP)² ratio has become an important sustainability indicator for governments. The Province includes an analysis of this ratio in its annual Financial Statement and Disclosure Analysis. As well, media and other analysts may also refer to it in their reports. Sustainability indicators are further discussed in Chapter 3 of this Report.

2.29 Net Debt provides information about how future revenues will be required to meet past spending. GDP measures goods and services produced by an economy. Therefore, a low Net Debt-to-GDP ratio indicates an economy that is producing enough to service its Net Debt.

2.30 Exhibit 2.15 shows the 10-year history of the Net Debt-to-GDP ratio.

² Gross Domestic Product (GDP) measures the value of all final goods and services produced in an economy in a given period of time.

Exhibit 2.15 - Ten-Year History of Net Debt-to-GDP Ratio



Ten-Year History of Net Debt-to-GDP Ratio

	Fiscal year									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Net Debt (\$ billions)	11.0	11.7	13.1	13.7	13.8	13.9	14.0	13.9	13.5	12.4
GDP (\$ billion)	31.8	31.9	32.5	33.5	34.3	35.8	37.2	38.0	37.6	41.3
Net Debt-to-GDP	34.7%	36.6%	40.4%	40.8%	40.3%	38.9%	37.6%	36.6%	35.8%	29.9%

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

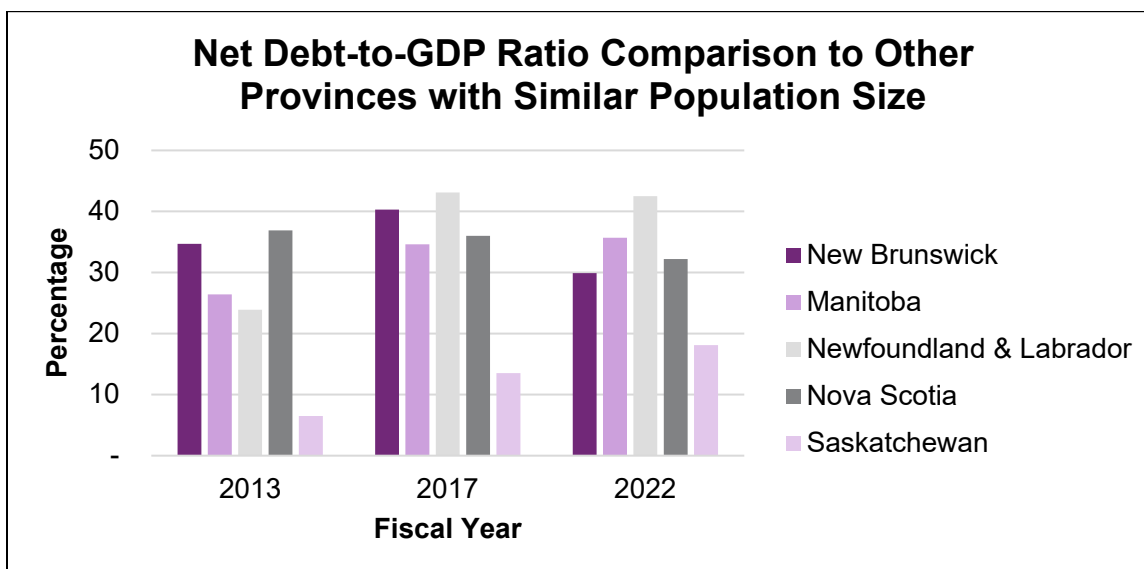
Short-term Net Debt-to-GDP ratio is trending favourably

2.31 As shown in Exhibit 2.15, we note a negative trend from 2013 to 2016 because the Net Debt of the Province increased faster than the growth in the economy. From 2017 to 2022, we start to see this trend reverse and the growth in the economy was faster than growth in Net Debt. In 2022, the Province reported its lowest Net Debt-to GDP ratio over the past ten years.

Net Debt-to-GDP ratio favourable compared to other provinces

2.32 A comparison of Net Debt-to-GDP for provinces who, in our view, have similar population size or economic characteristics is presented in Exhibit 2.16.

Exhibit 2.16 - Net Debt-to-GDP Ratio Comparison to Other Provinces with Similar Population Size



Net Debt-to-GDP Ratio Comparison to Other Provinces with Similar Population Size Data (percent)

Province	Fiscal Year			
	2013	2017	2022	% Increase 2013 to 2022
New Brunswick	34.7	40.3	29.9	-14%
Manitoba*	26.4	34.6	35.7	35%
Newfoundland & Labrador	23.9	43.1	42.5	78%
Nova Scotia	36.9	36.0	32.2	-13%
Saskatchewan	6.5	13.5	18.1	178%

*2022 Public Accounts information used for Manitoba contained a qualified Independent Auditor's Report.

Source: Prepared by AGNB as restated where applicable

2.33 New Brunswick's ratio of 29.9% was the second lowest Net Debt-to-GDP ratio amongst provinces with similar population size. Newfoundland & Labrador, Manitoba and Nova Scotia all had higher percentages at March 31, 2022.

Net Debt-to-GDP has remained stable in other Provinces

2.34 While we note New Brunswick's ratio fluctuated since 2013, it did have one of the highest ratios in 2013 and 2017. This year, New Brunswick's improved position among similar provinces is largely due to ratios

in Newfoundland & Labrador, Manitoba, and Nova Scotia remaining stable as well as New Brunswick's large surplus in 2022 and corresponding reduced Net Debt.

New Brunswick's Net Debt per Capita

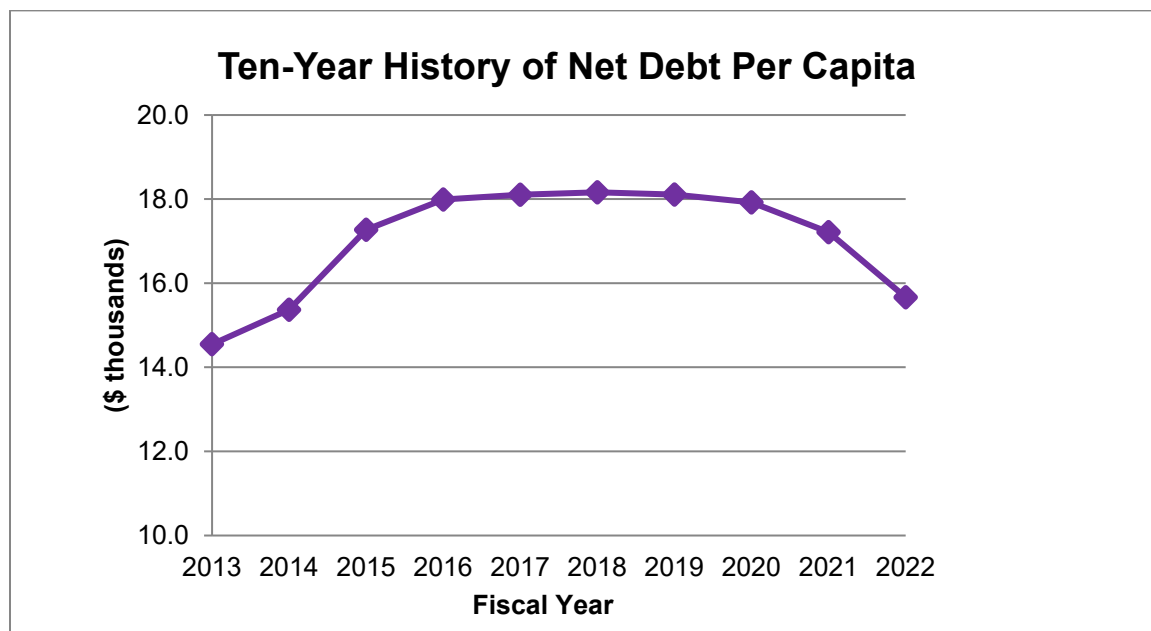
*Net Debt per Capita
another way to assess
Net Debt*

2.35 Another way to assess the significance of the size of the New Brunswick's Net Debt is to compare it to its population size, also known as Net Debt per Capita (or per New Brunswicker).

*Net Debt is over \$15,000
per New Brunswicker*

2.36 New Brunswick's Net Debt per Capita hit a high of \$18,200 in 2018 but has since decreased to \$15,700 in 2022. Exhibit 2.17 shows the ten-year history of Net Debt per Capita.

Exhibit 2.17 - Ten-Year History of Net Debt per Capita



Ten-Year History of Net Debt per Capita

	Fiscal year									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Net Debt (\$ billions)	11.0	11.7	13.1	13.7	13.8	13.9	14.0	13.9	13.5	12.4
Population (thousands)	758.4	758.5	759.0	758.8	763.4	766.8	770.9	776.8	783.2	789.2
Net Debt per Capita (\$)	14,500	15,400	17,300	18,000	18,100	18,200	18,100	17,900	17,200	15,700

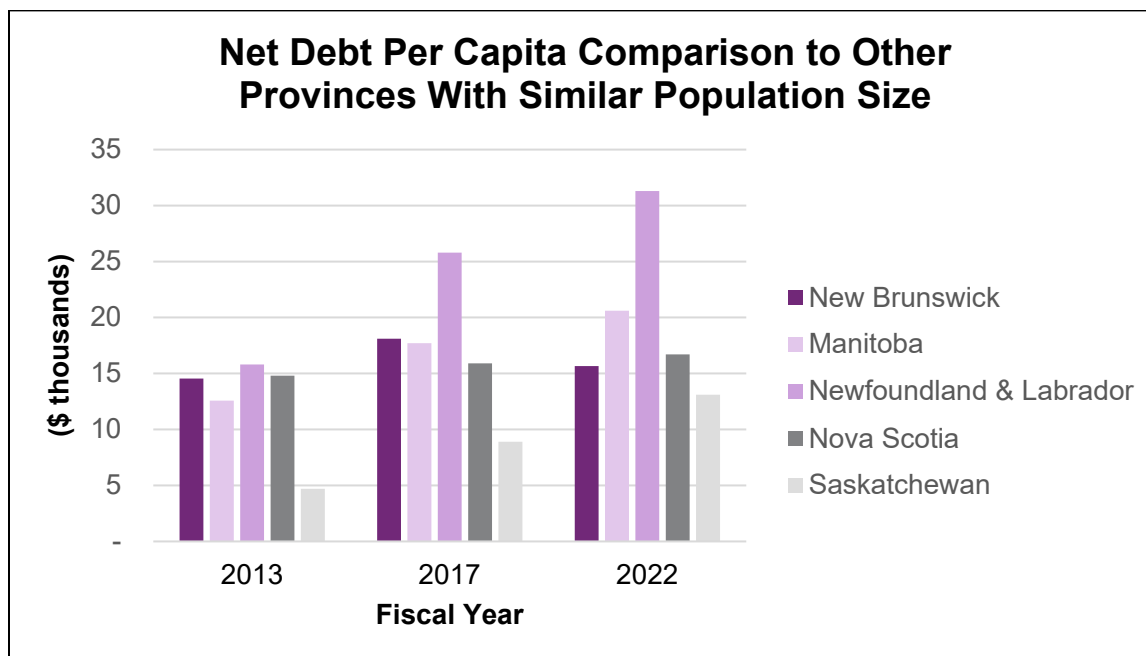
Source: Prepared by AGNB based on applicable year's Public Accounts with restatements where identified in Public Accounts

Net Debt per capita compared favourably to other provinces with similar population size

2.37 The Net Debt per capita saw a large reduction in 2022 and compared favourably to other provinces with similar population size. Per capita includes all members of the population, such as adults and children.

2.38 A comparison of Net Debt per capita to provinces of similar population size including Manitoba, Newfoundland & Labrador, Nova Scotia and Saskatchewan is presented in Exhibit 2.18 below.

Exhibit 2.18 - Net Debt per Capita Comparison to Other Provinces with Similar Population Size



Net Debt per Capita Comparison to Other Provinces Data (\$ Thousands)

Province	Fiscal Year			
	2013	2017	2022	% Increase 2013 to 2022
New Brunswick	14.5	18.1	15.7	8%
Manitoba*	12.6	17.7	20.6	64%
Newfoundland & Labrador	15.8	25.8	31.3	98%
Nova Scotia	14.8	15.9	16.7	13%
Saskatchewan	4.7	8.9	13.1	179%

*2022 Public Accounts information used for Manitoba contained a qualified Independent Auditor's Report.

Source: Prepared by AGNB (as restated where applicable).

2.39 New Brunswick's Net Debt per capita for 2022 decreased significantly to \$15,700 and was only \$1,200 higher than the \$14,500 reported in 2013. New Brunswick had the second lowest Net Debt per capita, with Newfoundland & Labrador, Manitoba and Nova Scotia all being higher at March 31, 2022.

Did New Brunswick Meet its Net Debt Reduction Targets?

Net Debt reduction targets have been mostly met for the past five years

2.40 In recent years, the Province has set targets for its Net Debt and its Net Debt-to-GDP ratio. The targets set are for future fiscal years and can represent either an increase or a decrease. For the past five years, we note, for the most part, Net Debt and Net Debt-to-GDP reduction targets were met or exceeded.

2.41 Exhibit 2.19 shows the Province's annual Net Debt reduction targets along with actual Net Debt for the past five years.

2.42 Exhibit 2.20 shows the Province's Net Debt-to-GDP targets along with actual results for the past five years.

Exhibit 2.19 - Five Year History of Net Debt Reduction Targets Compared to Actual

5 Year History of Net Debt Reduction Targets Compared to Actual (\$ millions)

Fiscal Year					
	2018	2019	2020	2021	2022
Target (Increase) Decrease	(362)	(372)	49	129	(241)
Actual (Increase) Decrease	(106)	(33)	37	470	1,090
Difference	256	339	(12)	341	1,331
	(Actual Increase Lower than Projected)	(Actual Increase Lower than Projected)	(Actual Decrease Lower than Projected)	(Actual Decrease Higher than Projected)	(Actual Decrease when an Increase was projected)
Target Met or Exceeded?	Yes	Yes	No	Yes	Yes

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

*Exhibit 2.20 - Five Year History of Net Debt-toGDP Targets Compared to Actual***5 Year History of Net Debt-to-GDP Targets Compared to Actual**

Fiscal Year					
	2018	2019	2020	2021	2022
Target	40.1%	39.0%	37.0%	34.7%	36.4%
Actual*	38.9%	37.6%	36.6%	35.8%	29.9%
Difference	(1.2)% (Actual Ratio Lower than Projected)	(1.4)% (Actual Ratio Lower than Projected)	(0.4)% (Actual Ratio Lower than Projected)	1.1% (Actual Ratio Higher than Projected)	(6.5)% (Actual Ratio Lower than projected)
Target Met or Exceeded?	Yes	Yes	Yes	No	Yes

* 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).

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

Ability to continue to reduce Net Debt in the future remains challenging

2.43 Despite a reduction in Net Debt in 2022, New Brunswick's ability to reduce Net Debt in the future remains challenging due to an aging population, and increasing health costs. These challenges are not new and have existed in previous years. If increases to Net Debt were to return, this could eventually lead to the government being unable to provide the same level of programs and services such as health care, education, roads, schools and hospitals. An even higher demand could fall to future generations to pay for past expenses.

Province continues to set multi-year Net Debt reduction targets

2.44 We remain pleased to see the Province continues to set multi-year Net Debt reduction targets and Net Debt-to-GDP targets through fiscal 2025. The multi-year targets announced in the Province’s 2022-2023 Main Estimates are presented in Exhibit 2.21.

Exhibit 2.21 - Government’s Net Debt Reduction Targets

Government’s Net Debt Reduction Targets

(\$ millions)

	2023 Budget	2024 Plan	2025 Plan
Annual (Increase) Decrease in Net Debt	(15)	(109)	36
Net Debt-to-GDP Ratio	30.1%	29.3%	28.2%

Source: <https://www2.gnb.ca/content/dam/gnb/Departments/fin/pdf/Budget/2022-2023/speech-2022-2023.pdf>

Funded Debt Remains at Historic High

Funded Debt remains at a historic high of over \$18 billion

2.45 While there has been significant progress in reducing New Brunswick's Net Debt, we caution that Funded Debt for provincial purposes remained at a historic high of \$18.4 billion at March 31, 2022. Funded debt has been approximately \$18.4 billion since 2020. The Province's outstanding Funded Debt balance consists mostly of bonds issued in the financial market.

2.46 This debt figure does not include \$4.6 billion in NB Power debt, as well as just under \$1 billion in New Brunswick Municipal Finance Corporation (NBMFC) debt relating to the financing needs of New Brunswick municipalities.

Sinking Fund is set aside to help repay debt

2.47 To assist with future repayments of this \$18 billion debt, the Province maintains a Sinking Fund. The Sinking Fund is required under the *Provincial Loans Act* and 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.

Sinking Fund covers only one third of total Funded Debt

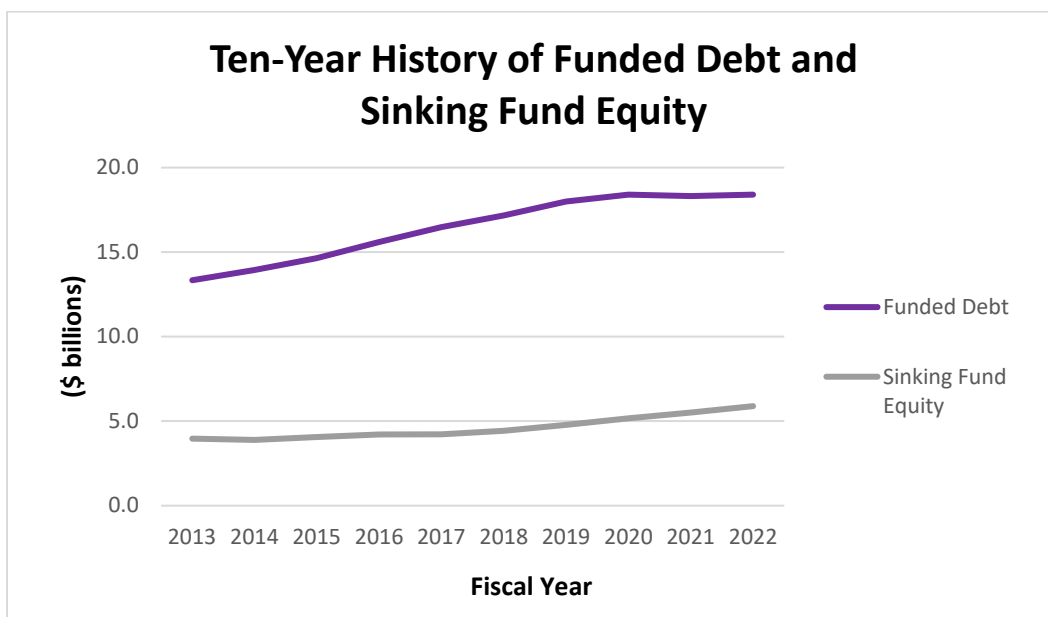
2.48 At March 31, 2022, the market value of the Province's Sinking Fund Equity was approximately \$6 billion. As a result, significant additional cash outlays of approximately \$12 billion will be needed in the future to repay the total debt of \$18 billion.

\$4.6 billion of debt is due to be repaid over the next four years

2.49 Over the next four years, approximately \$4.6 billion in Funded Debt is due to be repaid. As part of re-paying Funded Debt, the Province may either use the consolidated fund or re-finance it. For example, in 2022, \$706 million of debt matured (was repaid) while \$1.1 billion of new debt was issued.

2.50 Exhibit 2.22 shows the ten-year history of the Province's Funded Debt and Sinking Fund Equity. Future cash requirements to repay debt in the next four years and beyond are outlined in Exhibit 2.23.

Exhibit 2.22 - Ten-Year History of Funded Debt and Sinking Fund Equity

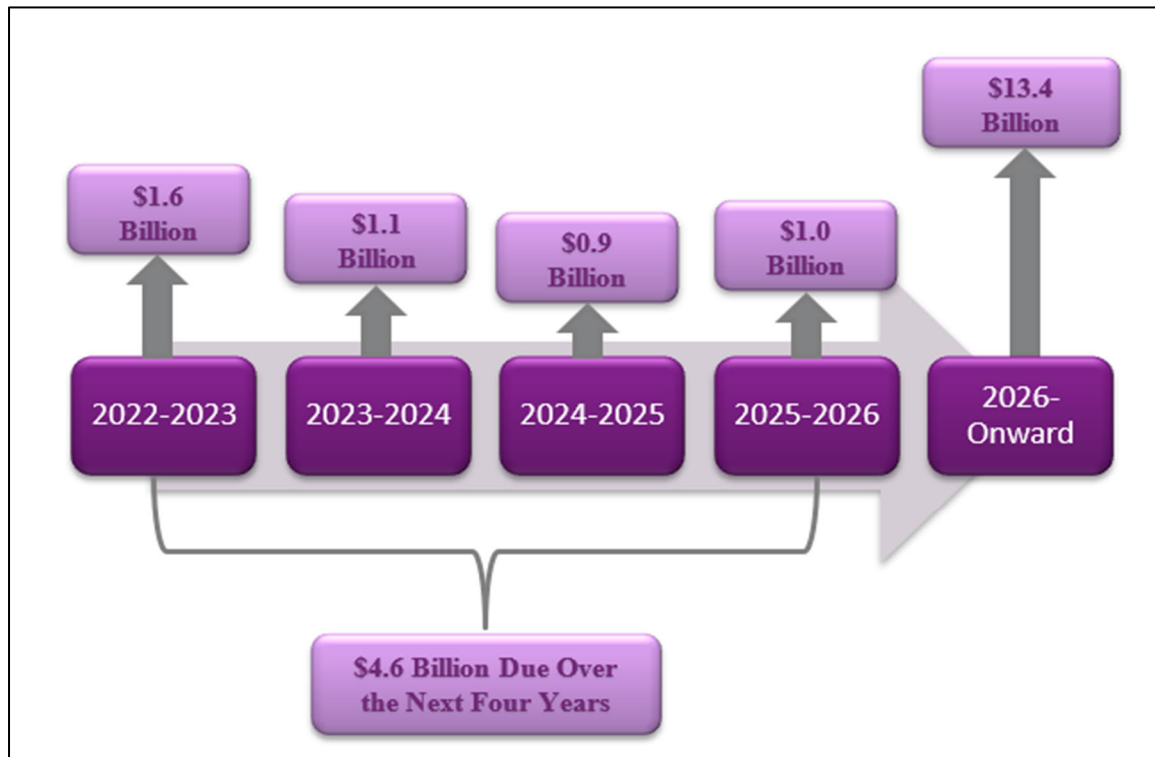


Ten-Year History of Funded Debt and Sinking Fund Equity (\$ billions)

Fiscal year										
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Funded Debt	18.0	18.5	19.2	20.1	20.9	21.6	22.6	23.2	23.0	23.0
NB Power	(4.7)	(4.6)	(4.6)	(4.5)	(4.4)	(4.4)	(4.6)	(4.8)	(4.7)	(4.6)
Funded Debt for Provincial Purposes	13.3	13.9	14.6	15.6	16.5	17.2	18.0	18.4	18.3	18.4
Sinking Fund Equity	4.0	3.9	4.0	4.2	4.2	4.4	4.8	5.2	5.5	5.9

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

Exhibit 2.23 - Future Cash Requirements to Repay Funded Debt



Source: Prepared by AGNB based on 2022 Public Accounts

2.51 In certain respects, Funded Debt could be compared to household debt, which many New Brunswickers have. The Province must make interest payments on its outstanding balance and repay principal as Funded Debt matures. To put the balance in simple terms, if the Province repaid \$100 million per year, it would take 184 years to repay the \$18.4 billion. This is presented in Exhibit 2.24. If we include NB Power's debt of \$4.6 billion, another 46 years are added for a total of 230 years to repay the debt at this rate.

Exhibit 2.24 - \$100 Million Debt Repayment Per Year



Source: Prepared by AGNB

Service of the Public Debt cost \$1,208 per minute in 2022

2.52 In the last fiscal year, the service cost of this debt (excluding NB Power), consisting mostly of paying interest, was \$635 million. This is an annual cost and does not reduce the principal amount outstanding. In 2022, Service of the Public Debt cost approximately \$1,208 per minute. Exhibit 2.25 presents this cost by year, day, hour and minute.

Exhibit 2.25 - Service of Funded Debt by Year, Day, Hour, Minute in 2022

Service of Funded Debt by Year, Day, Hour, Minute in 2022

Per Year	Per Day	Per Hour	Per Minute
\$635 million	\$1.7 million	\$72 thousand	\$1,208

Source: Prepared by AGNB using 2022 Public Accounts

Service of the Public Debt expense was larger than other areas such as Protection Services and Economic Development

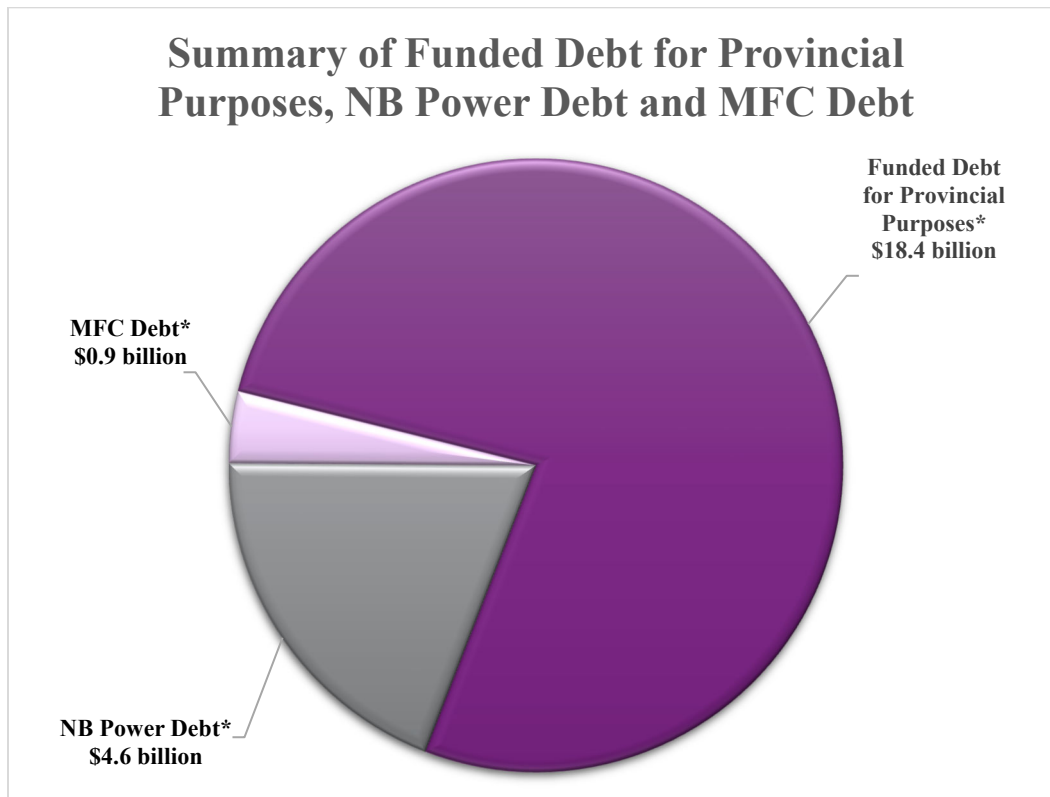
2.53 Service of the Public Debt was 6% of all expenses for 2022. This was more than other expenses such as Protection Services, Economic Development, Labour and Employment, and Resources. While we have experienced a low interest rate environment in the last few years, interest rates have risen recently. As a result, provincial expenses to service the public debt may increase in future if this trend persists when re-financing occurs.

Approximately \$24 billion in debt between the Province’s Funded Debt, NB Power debt and MFC debt

2.54 As presented in paragraph 2.46, Funded Debt for provincial purposes does not include NB Power debt or NBMFC debt related to the financing needs of New Brunswick municipalities. In 2020 our Office published a chapter outlining our concerns with NB Power’s debt challenges. In addition to these concerns, from a provincial perspective, we also note the Province guarantees all municipal debt issued through the New Brunswick Municipal Finance Corporation.

2.55 These three items combined (the Province’s debt for provincial purposes, NB Power’s debt and municipal debt) represent approximately \$24 billion in debt owed ultimately by the Province. This information is summarized in Exhibit 2.26.

Exhibit 2.26 - Summary of Funded Debt for Provincial Purposes, NB Power Debt and MFC Debt



* Funded Debt for provincial purposes and NB Power debt are as at March 31, 2022

** MFC Debt as at December 31, 2021

Source: Prepared by AGNB

2.56 In Exhibit 2.27, we provide details of NBMFC's debt relating to the financing needs of New Brunswick municipalities as at December 31, 2021. We present this information on a per municipality basis for debt greater than \$8 million.

Exhibit 2.27 - Summary of NBMFC 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, 2021**

Municipality	Debt (\$ millions)
Bathurst	26.5
Caraquet	9.8
Dieppe	61.4
Edmundston	51.7
Fredericton	32.2
Grand-Sault/Grand Falls	9.5
Miramichi	26.4
Moncton	172.6
Quispamsis	20.8
Riverview	29.5
Rothsay	12.3
Sackville	10.3
Saint John	210.7
Shediac	14.8
Southeast Regional Service Commission	13.8
Tracadie	14.8
Other Municipalities	178.8
TOTAL	\$895.9

Source: Prepared by AGNB

2.57 We remain concerned with the amount of debt the Province is ultimately responsible for and we will continue to report our concerns along with any significant findings from our work.