Chapter 3

State of New Brunswick's Financial Condition

Contents

State of New Brunswick's Financial Condition

What do the 2021 Financial Results Tell Us About the Province's Financial Condition?

Financial condition largely unchanged from 2020

3.1 This chapter presents our work in evaluating the state of the Province's financial condition. Overall, the Province's financial condition is largely unchanged from last year. One of the Province of New Brunswick's (the Province) long-term trends changed from favourable to unfavourable during 2021, one change from favourable to neutral and one changed from unfavourable to neutral, with other trends remaining consistent with 2020.

3.2 We reached our conclusion by analysing twelve financial indicators[1] used to assess a public sector entity's financial state; they provide a broader view of the Province's financial condition. See Exhibit 3.4 for a complete summary of all financial indicators.

Our analyses have not been adjusted to reflect the impact of the COVID-19 pandemic

3.3 Financial information presented in this chapter is up to March 31, 2021. The Province's response to the COVID-19 global pandemic impacted the Province's financial results this year. The pandemic also had an impact on Gross Domestic Product (GDP), a key input in many of the financial indicators presented in this chapter. No adjustments as a result of these impacts have been made in our analysis. Refer to Chapter 2 in this Volume for more details regarding how the Province's response to the pandemic impacted this year's financial results.

[1] We report on twelve indicators of financial condition identified by the Public Sector Accounting Board (PSAB) in a Statement of Recommended Practice (SORP). This analysis is intended to give a broader view of the financial health of the Province as the analysis shows trends. The analysis expands on the information reported in the audited consolidated financial statements which only reflect the Province's fiscal status at a point in time.

Can the Province Sustain Its Existing Programs?

Small steps of progress in the short-term

3.4 The Province's ability in the short-term to sustain existing programs and services without significantly increasing Net Debt remained consistent with 2020, mainly as a result of the Province's 2021 annual surplus. We were, therefore, able to again assess five of the seven short-term sustainability indicators as favourable this year.

Past deficits and Net Debt prevent improvements in long-term sustainability

3.5 Past deficits and the significant amount of Net Debt prevent us from assessing many long-term indicators as favourable, we therefore assess four of the seven long-term sustainability indicators as unfavourable again this year. This year, we have also changed two long-term indicators. (Total expenses-to-GDP from favourable to neutral and Net Debt-to-Total Annual Revenue from unfavourable to neutral).

3.6 Exhibit 3.1 presents a summary of the Province's sustainability indicators. We have assessed sustainability as mostly favourable in the short term and as largely unfavourable in the long term.

Sustainability defined

3.7 Sustainability indicates if the Province can maintain programs and meet existing creditor payments without increasing the burden on the economy.

Exhibit 3.1 - Sustainability Indicator Trends

Sustainability Indicator Trends

Sustainability indicator	Short-term trend	Long-term trend
Assets-to-liabilities	Favourable	Unfavourable
Financial assets-to-liabilities	Favourable	Unfavourable
Net Debt-to-total annual revenue	Favourable	Neutral
Expense by function-to-total expenses	Neutral	Neutral
Net Debt-to-GDP	Favourable	Unfavourable
Accumulated deficit-to-GDP	Favourable	Unfavourable
Total expenses-to-GDP	Neutral	Neutral

Source: Prepared by AGNB.

Is the Province Flexible in Its Ability to Raise Taxes and Borrow?

Mostly unfavourable trends

3.8 In our view, the Province's flexibility in its ability to raise taxes and borrow is mostly unfavourable in the long term because of:

- declining asset lives (such as schools, highways and bridges that will need to be replaced in the future); and
- the percentage of own source revenue compared to GDP has generally increased over the past ten years.

3.9 As summarized in Exhibit 3.2, we have assessed flexibility in the short term as mixed and in the long term as mostly unfavourable.

Flexibility defined

3.10 Flexibility is the degree to which a government can change its debt or tax burden on the economy to maintain programs and meet existing creditor requirements. When flexibility decreases a government is less able to pay for its expenses with its internally generated revenue.

Exhibit 3.2 - Flexibility Indicator Trends

Flexibility Indicator Trends

Flexibility indicator	Short-term trend	Long-term trend
Public debt charges-to-revenues	Favourable	Favourable
Net book value of capital assets-to-cost of capital assets	Unfavourable	Unfavourable
Own source revenues-to-GDP	Neutral	Unfavourable

Source: Prepared by AGNB.

Is the Province Vulnerable from Relying on Outside Sources of Revenue?

Province is vulnerable to changes in transfers from the Federal government

3.11 This year, we have changed one long-term indicator (Government transfers-to-total revenue) from favourable to unfavourable. In our view, the Province is more vulnerable to changes in transfers from the Federal government than it was last year.

3.12 As summarized in Exhibit 3.3, we have assessed vulnerability in both the short term and long term as mixed.

Vulnerability defined

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

Exhibit 3.3 - Vulnerability Indicator Trends

Vulnerability Indicator Trends

Vulnerability indicator	Short-term trend	Long-term trend
Government transfers-to-total revenue	Unfavourable	Unfavourable
Foreign currency debt-to-Net Debt	Favourable	Favourable

Source: Prepared by AGNB.

Summary of Financial Indicators

3.14 In Exhibit 3.4, we summarize our analysis of all the Province's financial indicators. In this exhibit we show:

- the indicators for each category (sustainability, flexibility, and vulnerability);
- the purpose of the indicator;
- the short-term (two year) and long-term (ten year) trends; and
- a reference within this chapter of where we discuss the indicator in more detail.

Exhibit 3.4 - Summary of Financial Indicators

	Indicator	Purpose	Short-Term Trend	Long-Term Trend	Change in Trends from Prior Year	Paragraph
Sustainability	Assets-to-liabilities	Measures extent that government finances its operations by issuing debt	Favourable	Unfavourable	No change	3.16
	Financial assets-to-liabilities	Measures whether future revenues will be needed to pay for past transactions	Favourable	Unfavourable	No change	3.20
	Net Debt-to-total annual revenue	Shows whether more time is needed to pay for past transactions	Favourable	**Neutral**	**Long-term Trend Changed from Unfavourable**	3.24
	Expense by function-to-total expenses	Shows the trend of government spending over time	Neutral	Neutral	No change	3.28
	Net Debt-to-GDP	Shows the relationship between Net Debt and the activity in the economy	Favourable	Unfavourable	No change	3.34
	Accumulated deficit–to-GDP	Measures the sum of the current and all prior year operating results relative to the growth in the economy	Favourable	Unfavourable	No change	3.38
	Total expenses-to-GDP	Shows the trend of government spending over time in relation to the growth in the economy	Neutral	**Neutral**	**Long-term Trend Changed from Favourable**	3.41
Flexibility	Public (Funded) debt charges-to-revenues	Measures extent that past borrowing decisions limits ability to meet current financial and service commitments	Favourable	Favourable	No change	3.48
	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	No change	3.52
	Own source revenues-to-GDP	Measures extent income is taken out of the economy	Neutral	Unfavourable	No change	3.56
Vulnerability	Government transfers-to-total revenues	Measures the dependence on another level of government	Unfavourable	**Unfavourable**	**Long-term Trend Changed from Favourable**	3.62
	Foreign currency debt-to-Net Debt	Measures the government's potential vulnerability to currency fluctuations	Favourable	Favourable	No change	3.67

Source: Prepared by AGNB.

Detailed Support for Sustainability Indicators

Sustainability defined

3.15 Sustainability indicates if the Province can maintain programs and meet existing creditor payments without increasing the Funded Debt.

Comparing Assets-to-Liabilities

3.16 We have again assessed the short-term trend as favourable and the long-term trend as unfavourable.

3.17 For the last five years, this indicator has improved slightly indicating a favourable trend in the short-term. For the past ten years, the Province's percentage has remained below 100% indicating the Province has financed its operations by issuing Funded Debt. While improvements have been made in recent years, this is an unfavourable long-term trend which we would like to see reversed.

3.18 We present the assets-to-liabilities sustainability indicator in Exhibit 3.5.

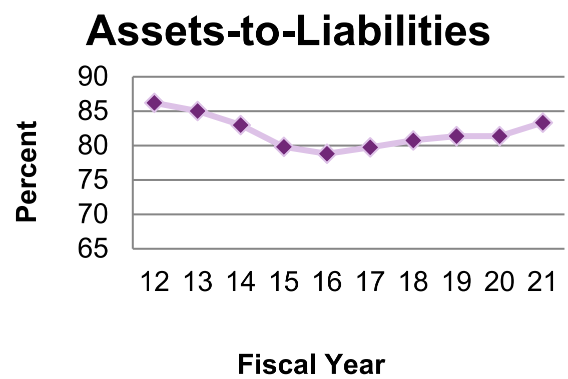
How to read exhibit

3.19 An assets-to-liability percentage below 100% indicates a negative trend as the Province has more liabilities than it has assets. This means the government has accumulated deficits and has been financing its operations by issuing Funded Debt.

Exhibit 3.5 - Comparing Assets-to-Liabilities

Comparing Assets-to-Liabilities

Fiscal Year	Total Assets ($ billions)	Total Liabilities ($ billions)	Total Assets/ Total Liabilities (percent)
2012	15.0	17.4	86.2%
2013	15.9	18.7	85.0%
2014	16.1	19.4	83.0%
2015	17.0	21.3	79.8%
2016	17.5	22.2	78.8%
2017	18.5	23.2	79.7%
2018	19.3	23.9	80.8%
2019	20.1	24.7	81.4%
2020	20.1	24.7	81.4%
2021	20.5	24.6	83.3%



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

Comparing Financial Assets-to-Liabilities

3.20 We have assessed the short-term trend as favourable and the long-term trend as unfavourable.

3.21 While the percentage has been improving over the past ten years, it is still below 100%, meaning future revenues will be needed to pay for past transactions. As a result, we are still assessing the long-term trend as unfavourable. For the past five years, the Province's percentage for this indicator has improved slightly, indicating a favourable trend in the short-term.

3.22 We present the financial assets-to-liabilities sustainability indicator in Exhibit 3.6.

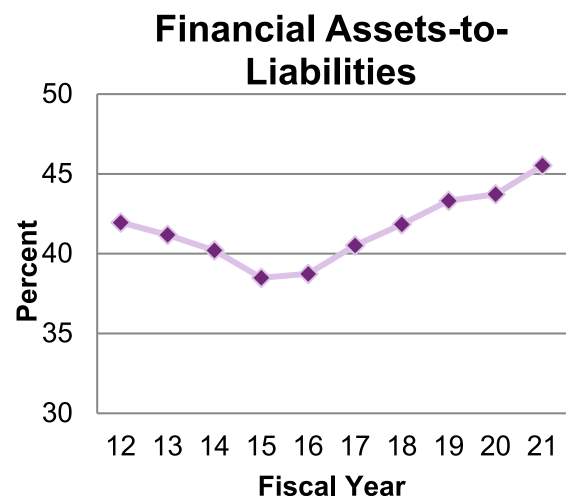
How to read exhibit

3.23 A financial assets-to-liabilities percentage that is less than 100% implies that future surpluses will be required to pay for past transactions and events and is an unfavourable trend. An increasing percentage indicates a favourable trend in the short-term.

Exhibit 3.6 - Comparing Financial Assets-to-Liabilities

Comparing Financial Assets-to-Liabilities

Fiscal Year	Total Financial Assets ($ billions)	Total Liabilities ($ billions)	Total Financial Assets/ Total Liabilities (percent)
2012	7.3	17.4	42.0%
2013	7.7	18.7	41.2%
2014	7.8	19.4	40.2%
2015	8.2	21.3	38.5%
2016	8.6	22.2	38.7%
2017	9.4	23.2	40.5%
2018	10.0	23.9	41.8%
2019	10.7	24.7	43.3%
2020	10.8	24.7	43.7%
2021	11.2	24.6	45.5%



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

Comparing Net Debt-to-Total Annual Revenue

3.24 We have assessed the short-term trend as favourable and the long-term trend as neutral.

3.25 The Province's Net Debt-to-total annual revenue percentage increased from 2012 to 2016, which indicates the Province would need more time to eliminate Net Debt. In 2021 however, the percentage declined to 131.1%, as Net Debt decreased while total revenue increased. While the short-term increase is favourable, we urge caution in interpreting this indicator, as the positive trend was achieved in part through Federal transfers that may not be of a recurring nature.

3.26 We present the Net Debt-to-total annual revenue sustainability indicator in Exhibit 3.7.

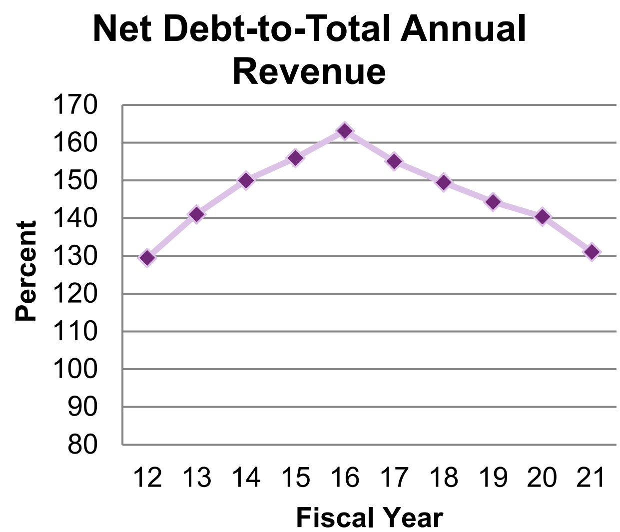
How to read exhibit

3.27 A Net Debt-to-total annual revenue percentage that is increasing indicates a negative trend as the Province will need more time to eliminate the Net Debt. Net Debt provides a measure of the future revenue required to pay for past transactions and events.

Exhibit 3.7 - Comparing Net Debt-to-Total Annual Revenue

Comparing Net Debt-to-Total Annual Revenue

Fiscal Year	Net Debt ($ billions)	Total Revenue ($ billions)	Net Debt/ Total Revenue (percent)
2012	10.1	7.8	129.5%
2013	11.0	7.8	141.0%
2014	11.7	7.8	150.0%
2015	13.1	8.4	156.0%
2016	13.7	8.4	163.1%
2017	13.8	8.9	155.1%
2018	13.9	9.3	149.5%
2019	14.0	9.7	144.3%
2020	13.9	9.9	140.4%
2021	13.5	10.3	131.1%



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

Comparing Expense by Function-to-Total Expense

3.28 We have assessed both the short-term and long-term trend as neutral as there has been little change in how expenses are allocated to functions during the last ten years. The cost of servicing Funded Debt has remained relatively consistent over the last ten years.

3.29 The size of New Brunswick's Net Debt needs to be closely monitored in the future. The interest burden on the Funded Debt consumes resources that would otherwise be used to deliver services.

3.30 We present the expense by function-to-total expenses sustainability indicator in Exhibit 3.8 for 2021. Exhibit 3.8 shows the amount of expenses allocated to each expense function for the year.

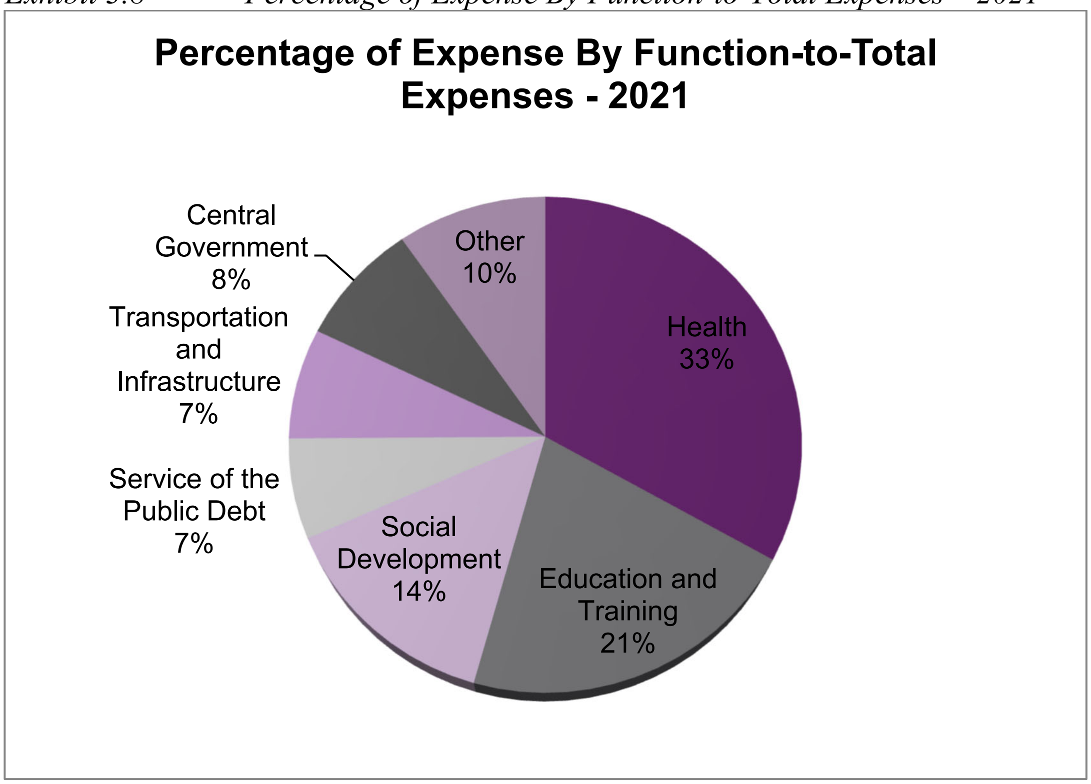
How to read exhibit

3.31 The two exhibits in this section can be read as follows:

- For Exhibit 3.8, each slice of pie represents the percentage of expenses allocated to each expense function for 2021.
- For Exhibit 3.9, each line in the chart represents an expense function. As the line progresses, it shows (by year) the amount of expenses allocated to each function. As the line decreases, the Province is allocating less expenses to a function. (i.e. the function is receiving a smaller slice of the pie.)

If the Province has allocated more to servicing Funded Debt, this represents a negative trend as it shows the cost to service the debt is increasing.

Exhibit 3.8 - Percentage of Expense By Function-to-Total Expenses – 2021



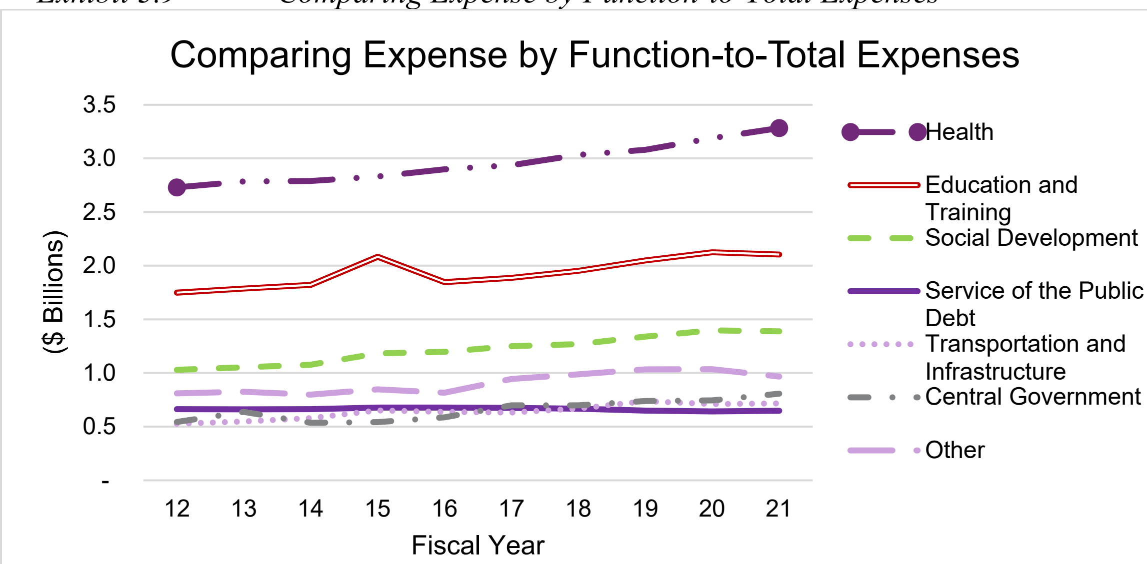
Source: Prepared by AGNB based on Public Accounts 2021
Other includes: Protection Services, Economic Development, Resources and Labour and Employment

3.32 In Exhibit 3.8, we observed the following information.

- The expenses for Education and Training and Health consume 54% of the total expenses in 2021, remaining stable from 2020 of 54%.
- The expenses for service of the public debt ($647 million) are almost as large as expenses for Transportation and Infrastructure ($716 million).

3.33 We present the expense by function-to-total expenses sustainability indicator in Exhibit 3.9 for the past ten years.

Exhibit 3.9 - Comparing Expense by Function-to-Total Expenses



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

Comparing Net Debt-to-GDP

3.34 We have assessed the short-term trend as favourable and the long-term trend as unfavourable.

3.35 We note a negative trend from 2012 to 2016 because the Net Debt of the Province increased faster than the growth in the economy. From 2017 to 2021, we start to see this trend reverse, the growth in the economy was faster than growth in Net Debt. However, this percentage is still higher than it was in the first half of the decade. For these reasons, we have assessed the short-term trend as favourable and the long-term trend as unfavourable. While the short-term trend is favourable, we urge caution in interpreting this indicator, as the positive trend was achieved in part through Federal revenue transfers and related Net Debt reduction that may not be of a recurring nature.

3.36 We present the Net Debt-to-GDP sustainability indicator, in Exhibit 3.10.

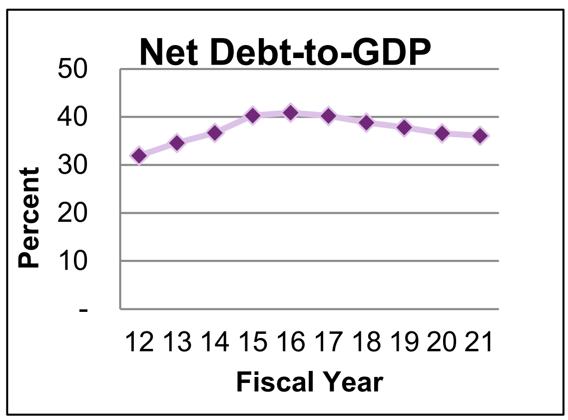
How to read exhibit

3.37 A Net Debt-to-GDP percentage that is increasing indicates a negative trend as the growth of Net Debt (liabilities less financial assets) exceeds the growth in GDP.

Exhibit 3.10 - Comparing Net Debt-to-GDP

Comparing Net Debt-to-GDP

Fiscal Year	Net Debt ($ billions)	GDP ($ billions)	Net Debt/ GDP (percent)
2012	10.1	31.6	32.0%
2013	11.0	31.8	34.6%
2014	11.7	31.9	36.7%
2015	13.1	32.5	40.3%
2016	13.7	33.5	40.9%
2017	13.8	34.3	40.2%
2018	13.9	35.8	38.8%
2019	14.0	37.0	37.8%
2020	13.9	38.0	36.6%
2021	13.5	37.4	36.1%



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

Comparing Accumulated Deficit-to-GDP

3.38 We have assessed the short-term trend as favourable and the long-term trend as unfavourable.

3.39 Exhibit 3.11 shows a negative trend from 2012 to 2016 as the accumulated deficit has grown more than the economy. We see this negative trend start to decline from 2017 to 2021. In these years, the accumulated deficit has remained stable, but the economy has continued to grow. While the short-term trend is favourable, we urge caution in interpreting this indicator, as the positive trend was achieved in part through Federal revenue transfers and related accumulated deficit reduction that may not be of a recurring nature.

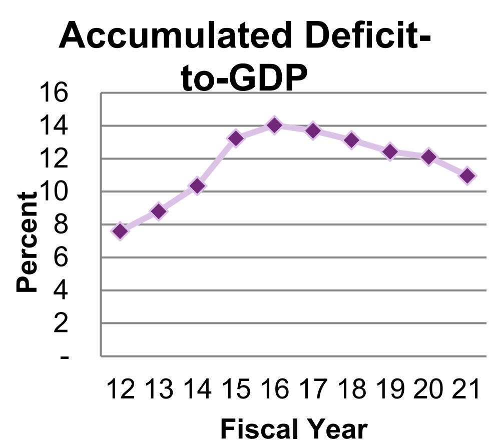
How to read exhibit

3.40 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 increasing indicates a negative trend as the growth of the accumulated deficit is outpacing the growth in GDP.

Exhibit 3.11 - Comparing Accumulated Deficit-to-GDP

Comparing Accumulated Deficit-to-GDP

Fiscal Year	Accumulated Deficit ($ billions)	GDP ($ billions)	Accumulated Deficit/GDP (percent)
2012	2.4	31.6	7.6%
2013	2.8	31.8	8.8%
2014	3.3	31.9	10.3%
2015	4.3	32.5	13.2%
2016	4.7	33.5	14.0%
2017	4.7	34.3	13.7%
2018	4.7	35.8	13.1%
2019	4.6	37.0	12.4%
2020	4.6	38.0	12.1%
2021	4.1	37.4	11.0%



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

Comparing Total Expenses-to-GDP

Change to neutral in long-term

3.41 We continue to assess the short-term trend as neutral and we have changed our assessment of the long-term trend from favourable to neutral.

3.42 Exhibit 3.12 shows between 2012 to 2021, the ratio of total expenses-to-GDP has remained relatively consistent and ranged from 25.6% in 2012 to 26.5% in 2021. The only exception is 2015 when the ratio was 27.1%. Therefore, we have assessed the short-term trend as neutral and the long-term trend as neutral. We caution that while the trends are neutral, provincial expenses increased during the ten year period.

3.43 We present the total expenses-to-GDP sustainability indicator in Exhibit 3.12.

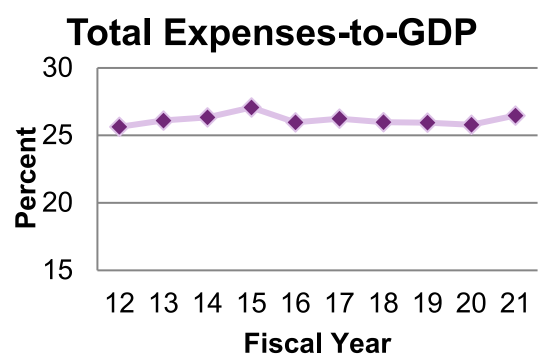
How to read exhibit

3.44 A total expenses-to-GDP percentage that is increasing indicates a negative trend as the government expenses continue to grow faster than the economy.

Exhibit 3.12 - Comparing Total Expenses-to-GDP

Comparing Total Expenses-to-GDP

Fiscal Year	Total expenses ($ billions)	GDP ($ billions)	Total expenses/ GDP (percent)
2012	8.1	31.6	25.6%
2013	8.3	31.8	26.1%
2014	8.4	31.9	26.3%
2015	8.8	32.5	27.1%
2016	8.7	33.5	26.0%
2017	9.0	34.3	26.2%
2018	9.3	35.8	26.0%
2019	9.6	37.0	25.9%
2020	9.8	38.0	25.8%
2021	9.9	37.4	26.5%



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

Detailed Support for Flexibility Indicators

Flexibility defined

3.45 Flexibility is the degree to which the government can change its debt or tax burden on the economy to maintain programs and meet existing creditor requirements.

3.46 One of the most publicized factors which affect the flexibility of governments is the cost of servicing Funded Debt. This is an indicator of flexibility, since the government's first payment commitment is to service its Funded Debt, leaving no flexibility in the timing of these payments.

3.47 The cost of debt servicing is comprised mainly of:

- interest on the Funded Debt of the Province as well as interest cost on capital leases;
- amortization of foreign exchange gains and losses;
- amortization of discounts and premiums which were incurred on the issuance of provincial debentures; and
- interest on short-term borrowing offset by short-term investment income.

It does not include principal repayments on the Funded Debt of the Province.

Comparing Public (Funded) Debt Charges-to-Revenues

3.48 We have assessed both the short-term and long-term trend as favourable.

3.49 Exhibit 3.13 shows the cost of servicing the Funded Debt as a percentage of the Province's total revenues has decreased in 2021 compared to the previous nine fiscal years. This is a result of the Province's 2021 revenues increasing and the cost to service Funded Debt has remained relatively stable.

3.50 We present the public (Funded) debt charges-to-revenues flexibility indicator in Exhibit 3.13.

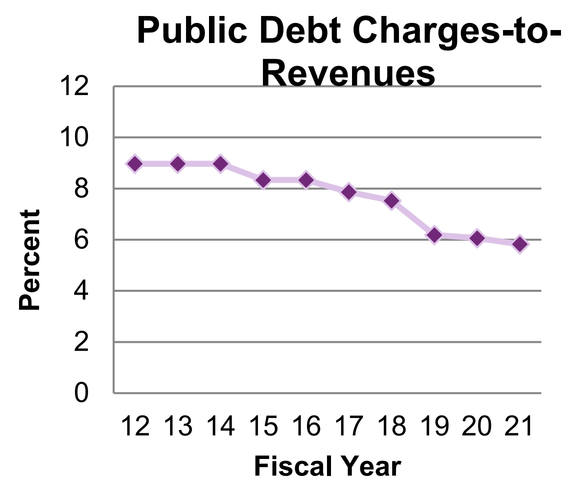
How to read exhibit

3.51 A public (Funded) debt charges-to-revenues percentage that is decreasing indicates a favourable trend, as proportionately less revenue is needed to service the Funded Debt.

Exhibit 3.13 - Comparing Public (Funded) Debt Charges-to-Revenues

Comparing the Public (Funded) Debt Charges-to-Revenues

Fiscal Year	Cost of servicing public (funded) debt ($ billions)	Revenue ($ billions)	Cost of servicing public (funded) debt/ revenue (percent)
2012	0.7	7.8	9.0%
2013	0.7	7.8	9.0%
2014	0.7	7.8	9.0%
2015	0.7	8.4	8.3%
2016	0.7	8.4	8.3%
2017	0.7	8.9	7.9%
2018	0.7	9.3	7.5%
2019	0.6	9.7	6.2%
2020	0.6	9.9	6.1%
2021	0.6	10.3	5.8%



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

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

3.52 We have assessed both the short-term and long-term trend as unfavourable.

3.53 Exhibit 3.14 shows the Province's capital assets have approximately 51.7% of their average useful lives remaining. For example, this means, on average:

- an asset with a ten-year estimate of useful life will have approximately five years of useful life remaining; and
- an asset with a twenty-year estimate of useful life will have approximately ten years useful life remaining.

3.54 We present the net book value of capital assets-to-cost of capital assets flexibility indicator in the Exhibit 3.14.

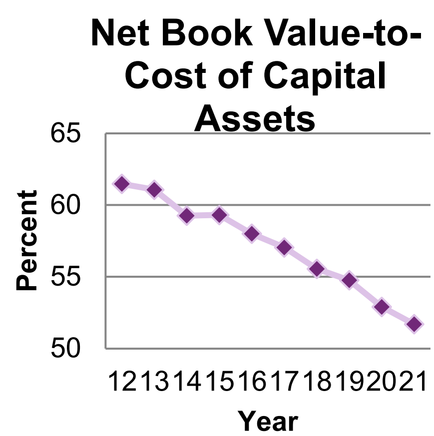
How to read exhibit

3.55 A net book value of capital assets-to-cost of capital assets percentage that is decreasing indicates a negative trend as assets are depreciating (being used) at a faster rate than they are being replaced. We caution the reader on the use of this indicator. The indicator is based on an estimate of an asset's useful life.

Exhibit 3.14 - Comparing Net Book Value of Capital Assets-to-Cost of Capital Assets

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

Fiscal Year	Net Book Value ($ billions)	Capital Cost ($ billions)	Net Book Value/ Capital Cost (percent)
2012	7.5	12.2	61.5%
2013	8.0	13.1	61.1%
2014	8.0	13.5	59.3%
2015	8.6	14.5	59.3%
2016	8.7	15.0	58.0%
2017	8.9	15.6	57.1%
2018	9.0	16.2	55.6%
2019	9.2	16.8	54.8%
2020	9.1	17.2	52.9%
2021	9.1	17.6	51.7%



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

Comparing Own Source Revenues-to-GDP

3.56 We have assessed the short-term trend as neutral and the long-term trend as unfavourable.

3.57 In the short-term, the percentage of own source revenue (such as taxes) compared to GDP has remained relatively stable indicating the Province has not increased its revenue from taxing the provincial economy in the short-term. Therefore, we continued to assess the short-term trend as neutral.

3.58 We still assess the long-term trend as unfavourable. From 2012 to 2021, the percentage of own source revenue compared to GDP has generally increased.

3.59 We present the own source revenues-to-GDP flexibility indicator in Exhibit 3.15.

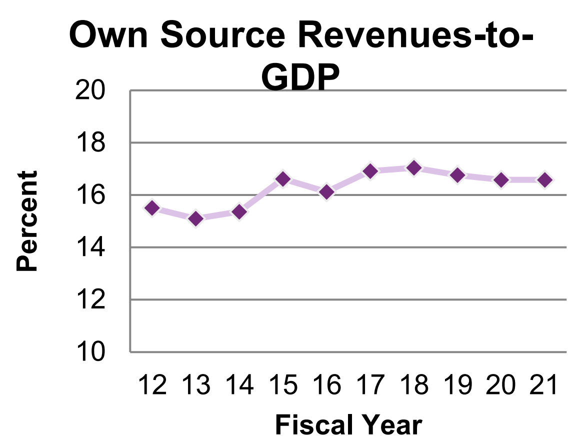
How to read exhibit

3.60 An own source revenues-to-GDP percentage that is increasing indicates a negative trend as more of the Province's revenue is generated from the provincial economy. This limits the Province's ability to raise taxes in the future, making the Province less flexible in how it can generate revenue.

Exhibit 3.15 - Comparing Own Source Revenues-to-GDP

Comparing Own Source Revenues-to-GDP

Fiscal Year	Own Source Revenues ($ billions)	GDP ($ billions)	Own Source Revenues/ GDP (percent)
2012	4.9	31.6	15.5%
2013	4.8	31.8	15.1%
2014	4.9	31.9	15.4%
2015	5.4	32.5	16.6%
2016	5.4	33.5	16.1%
2017	5.8	34.3	16.9%
2018	6.1	35.8	17.0%
2019	6.2	37.0	16.8%
2020	6.3	38.0	16.6%
2021	6.2	37.4	16.6%



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

Detailed Support for Vulnerability Indicators

Vulnerability defined

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

Comparing Government Transfers-to-Total Revenues

Change to unfavourable in long-term

3.62 We have assessed both the short-term and long-term trends as unfavourable.

3.63 We note in 2021 approximately 3.4%, or $460 million, more of the Province's total revenue was generated from Federal government transfers compared to 2020. This indicates in 2021, the Province was more dependent on the Federal government resulting in the Province being more vulnerable. As a result, we have maintained our assessment of the short-term as unfavourable.

3.64 Our long-term assessment has changed from favourable to unfavourable. We note the percentage has fluctuated from 37.2% in 2012 to a high of 39.8% in 2021. This shows, overall, the Province was more dependent on the Federal government as a source of revenue in the long term.

3.65 We present the government transfers-to-total revenues vulnerability indicator in Exhibit 3.16.

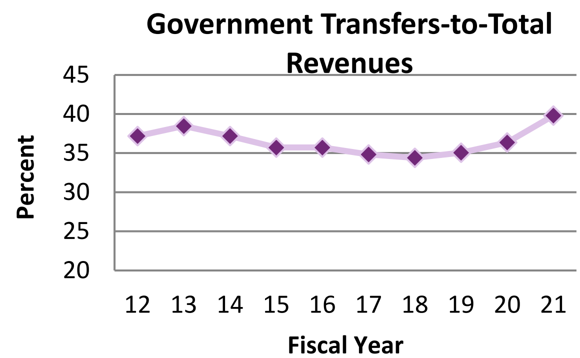
How to read exhibit

3.66 A government transfers-to-total revenues percentage that is decreasing indicates a positive trend as the Province is less dependent on outside sources (such as the Federal government) for revenue. If the percentage increases, the Province is more vulnerable to the Federal government funding decisions.

Exhibit 3.16 - Comparing Government Transfers-to-Total Revenues

Comparing Government Transfers-to-Total Revenues

Fiscal Year	Federal Government Transfer Revenue ($ billions)	Total Revenue ($ billions)	Federal Government Transfer Revenue/ Total Revenue (percent)
2012	2.9	7.8	37.2%
2013	3.0	7.8	38.5%
2014	2.9	7.8	37.2%
2015	3.0	8.4	35.7%
2016	3.0	8.4	35.7%
2017	3.1	8.9	34.8%
2018	3.2	9.3	34.4%
2019	3.4	9.7	35.1%
2020	3.6	9.9	36.4%
2021	4.1	10.3	39.8%



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

Comparing Foreign Currency Debt-to-Net Debt

3.67 We have assessed both the short-term and long-term trend as favourable. The effectiveness of the Province's hedging strategy has led us to assess this indicator as favourable.

3.68 The Province's risk of exposure to foreign currency fluctuations has been mixed over time. The amount of Net Debt in foreign currency has increased in the last three years. The Province, however, offsets/reduces this risk by having an effective hedging strategy.

3.69 The Province uses several alternatives to hedge (reduce) risk associated with debt repayable in foreign currencies:

- entering into swap agreements which allows repayment of the Funded Debt and interest payments in Canadian dollars; and

- entering into forward contracts (which allows the Province to purchase foreign currency at a stipulated price on a specified future date).

3.70 We present the foreign currency debt-to-net debt vulnerability indicator in Exhibit 3.17.

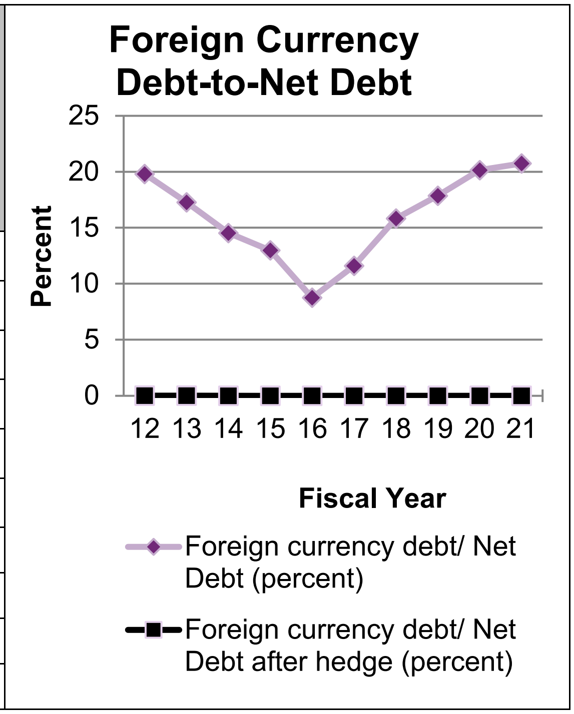
How to read exhibit

3.71 Exhibit 3.17 presents two percentages. The percentage after the hedge is the key percentage to analyze. If this percentage increases, then the Province is more at risk when exchange rates fluctuate which indicates a negative trend.

Exhibit 3.17 - Comparing Foreign Currency Debt-to-Net Debt

Comparing Foreign Currency Debt-to-Net Debt

Fiscal Year	Foreign Currency Debt ($ billions)	Net Debt ($ billions)	Foreign Currency Debt/ Net Debt (percent)	Foreign Currency Debt/ Net Debt After Hedge (percent)
2012	2.0	10.1	19.8%	0.7%
2013	1.9	11.0	17.3%	0.6%
2014	1.7	11.7	14.5%	0.0%
2015	1.7	13.1	13.0%	0.0%
2016	1.2	13.7	8.8%	0.0%
2017	1.6	13.8	11.6%	0.0%
2018	2.2	13.9	15.8%	0.0%
2019	2.5	14.0	17.9%	0.0%
2020	2.8	13.9	20.1%	0.0%
2021	2.8	13.5	20.7%	0.0%



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