

# Chapter 3

## Debt

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## Debt

### How do Net Debt and Funded Debt Differ?

**3.1** Net Debt and Funded Debt are two forms of debt presented in the Province's consolidated financial statements. The Province services Funded Debt annually, mostly consisting of interest costs. A table explaining the differences is presented in Exhibit 3.1.

*Exhibit 3.1 - Net Debt, Funded Debt and Service of the Public Debt Defined*

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

Term	2020 Amount	Definition	Paragraph
Net Debt	\$13.9 billion	A mathematical <b>accounting calculation</b> presented as total liabilities <i>less</i> financial assets.	<b>3.2</b>
Funded Debt	\$18.4 billion*	Total long-term debenture debt the Province has borrowed and is legally bound to repay.	<b>3.23</b>
Service of the Public Debt	\$643 million	Annual cost of servicing <b>Funded Debt</b> <sup>1</sup> , consisting mostly of interest costs.	<b>3.25</b>

*\*Funded Debt excludes \$4.8 billion borrowed on behalf of NB Power*

*Source: Prepared by AGNB. Refer to Appendix I for supporting information*

#### **Why does Net Debt matter?**

**3.2** Net Debt is often seen as a key performance indicator in the public sector because it offers insight into the financial health of the Province. It provides information about future revenue requirements to meet past spending.<sup>2</sup>

<sup>1</sup> 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.

<sup>2</sup> <https://www.frascanada.ca/-/media/frascanada/psab/news/psab-statement-of-principles-a-revised-reporting-model-for-the-canadian-public-sector-may-2018-en.pdf?la=en&hash=D42895384A8D7F01CDB4FC0C7AF0EC7683ED62D>

## 2020 Net Debt

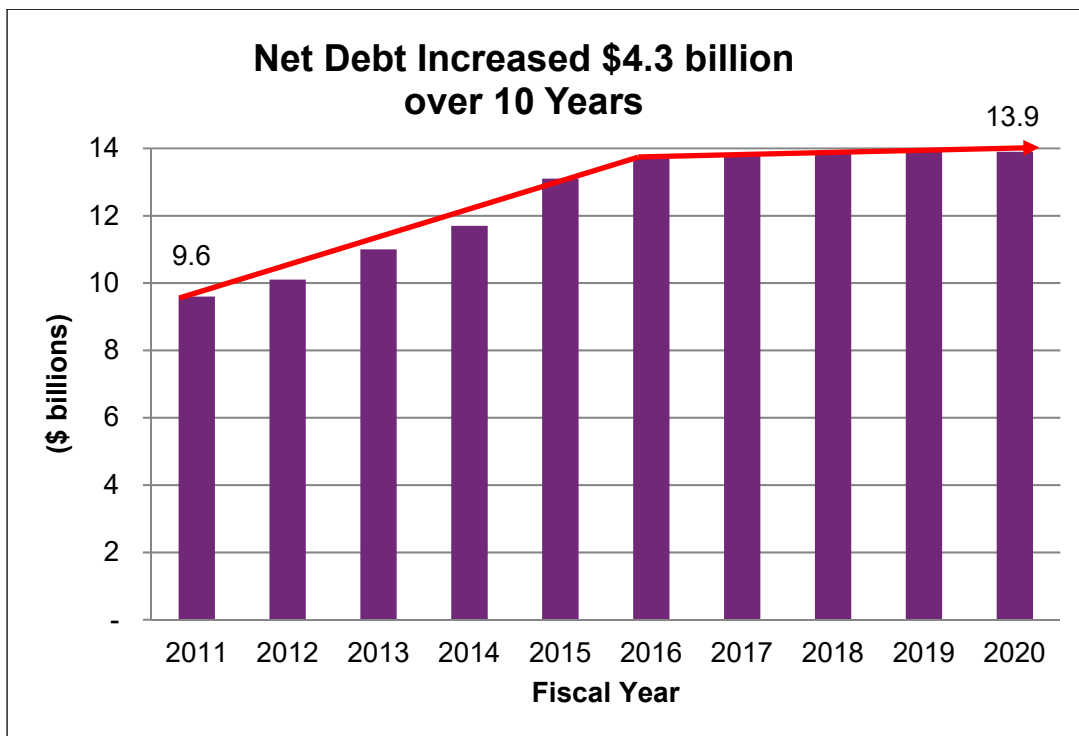
### *First decrease in Net Debt since 2007*

**3.3** Net Debt decreased by \$37 million in 2020. This is a 0.3% decrease from last year and is the first time Net Debt has decreased since 2007. As shown in Exhibit 3.2, the small decrease follows four years of small growth in Net Debt.

### *Net Debt increased \$4.3 billion over 10 years*

**3.4** As of March 31, 2020, New Brunswick has Net Debt of \$13.9 billion. Despite Net Debt decreasing during 2020, over the past ten years, it has increased \$4.3 billion due to previous annual deficits and purchases of capital assets.

*Exhibit 3.2 - Net Debt Increased \$4.3 billion over 10 Years*



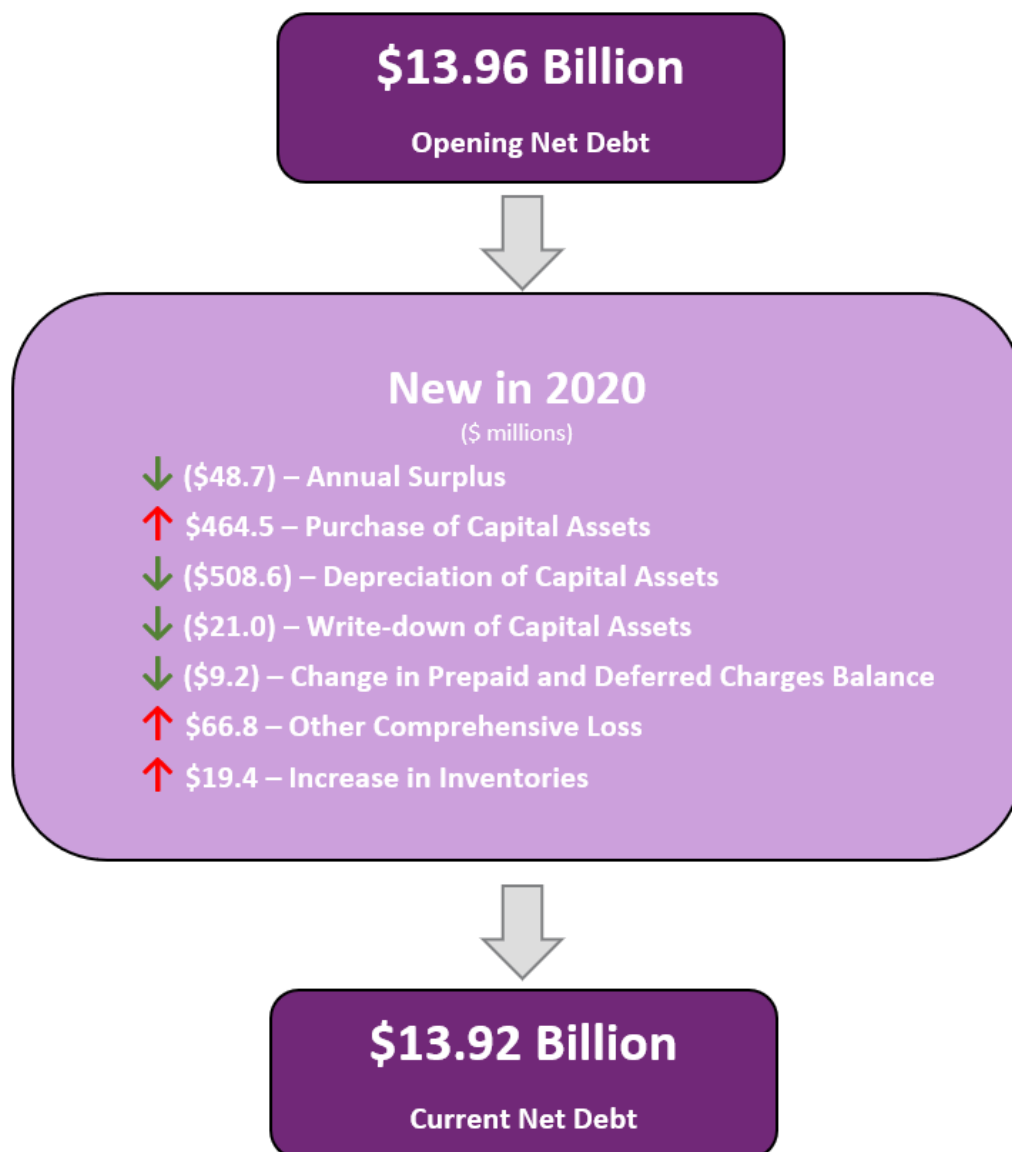
*Source: Prepared by AGNB. As restated – refer to Appendix I for supporting information*

### *Purchase of capital assets impact Net Debt*

**3.5** Annual surplus is just one component of the Net Debt calculation. Other components of the calculation are the purchase and depreciation of capital assets (e.g. roads, buildings and equipment) and other smaller items.

**3.6** Exhibit 3.3 details amounts included in the calculation of Net Debt for the year ended March 31, 2020.

Exhibit 3.3 - Understanding the Net Debt Calculation



Source: Prepared by AGNB using 2020 Public Accounts

## New Brunswick's Net Debt-to-GDP Ratio

***Net Debt-to-GDP is a critical sustainability indicator***

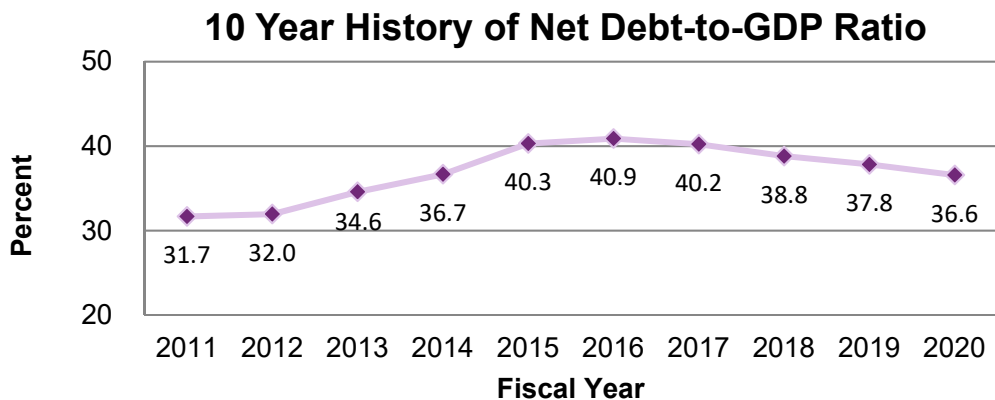
**3.7** The Net Debt-to-Gross Domestic Product (GDP)<sup>3</sup> ratio has become a critical sustainability indicator for governments. Governments often reference Net Debt-to-GDP in explaining their finances to the public.<sup>4</sup> The media and other analysts also refer to it in their reports.

**3.8** 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.

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

**3.9** The history of the ratio is presented in Exhibit 3.4. We note a negative trend from 2011 to 2016 because the Net Debt of the Province increased faster than the growth in the economy. From 2017 to 2020, 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.

*Exhibit 3.4 - 10 Year History of Net Debt-to-GDP Ratio*



*Source: Refer to Chapter 4 - Exhibit 4.10 for supporting information*

<sup>3</sup> Gross Domestic Product (GDP) measures the value of all final goods and services produced in an economy in a given period of time.

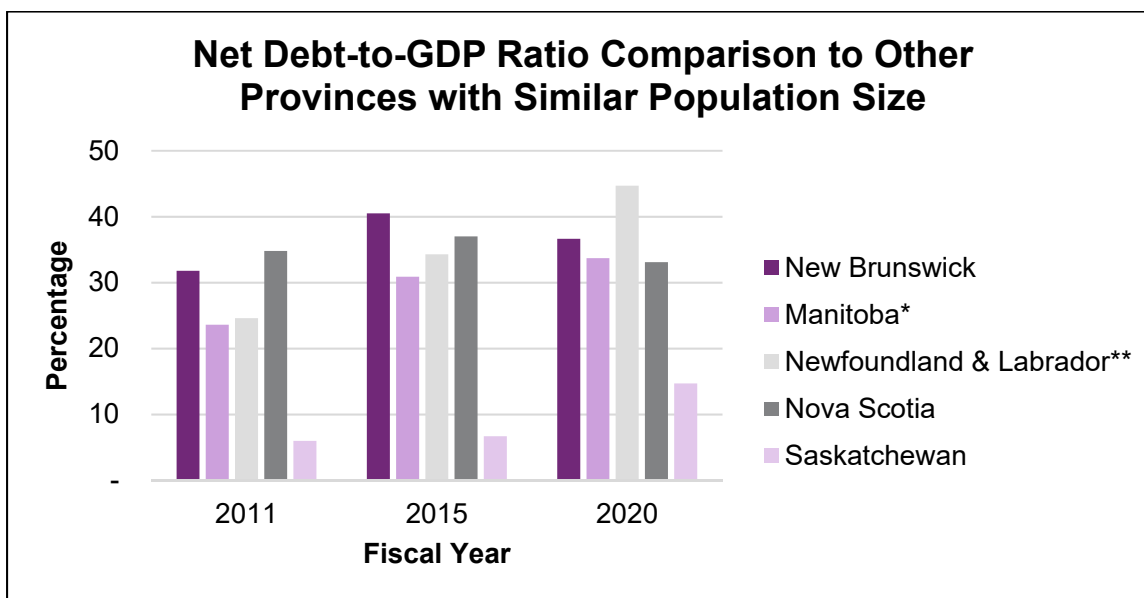
<sup>4</sup> <https://www.cpacanada.ca/en/members-area/profession-news/2018/september/whats-happening-with-net-debt>

***Net Debt-to-GDP ratio higher than most other provinces with similar population size***

**3.10** New Brunswick's ratio of 36.6% was one of the highest Net Debt-to-GDP ratios amongst provinces with similar population size, which indicates sustainability concerns to reduce/service its Net Debt. Only Newfoundland & Labrador had a higher percentage; 44.7% at March 31, 2020.

**3.11** A comparison of Net Debt-to-GDP to provinces of similar population size, including Manitoba, Newfoundland & Labrador, Nova Scotia and Saskatchewan, is presented in Exhibit 3.5.

*Exhibit 3.5 - Net Debt-to-GDP Ratio Comparison to Other Provinces with Similar Population Size*



\*2020 public accounts information used for Manitoba contained a qualified Independent Auditor's Report.

\*\*2019 public accounts information used for Newfoundland & Labrador in 2020, as 2020 results were not published at the time of writing this report.

Source: Prepared by AGNB. Refer to Appendix I for supporting information.

**3.12** New Brunswick's Net Debt-to-GDP ratio has increased from 31.8% in 2011 to 36.6% in 2020. The percentage increase over the ten-year period in New Brunswick of 15.2% was greater than Nova Scotia (-4.9%) and less than Manitoba (42.8%), Newfoundland & Labrador (81.7%) and Saskatchewan (145.0%).

## New Brunswick's Net Debt per Capita

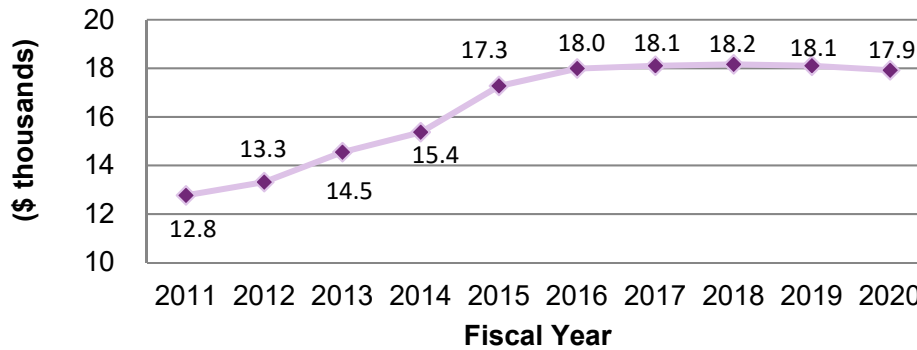
***Net Debt per Capita  
another way to assess  
Net Debt***

**3.13** 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*).

**3.14** New Brunswick's Net Debt per Capita hit a high of \$18,200 in 2018 but has since decreased to \$17,900 in 2020. The ten year history of Net Debt per Capita is presented in Exhibit 3.6.

*Exhibit 3.6 - 10 Year History of Net Debt per Capita*

### 10 Year History of Net Debt per Capita



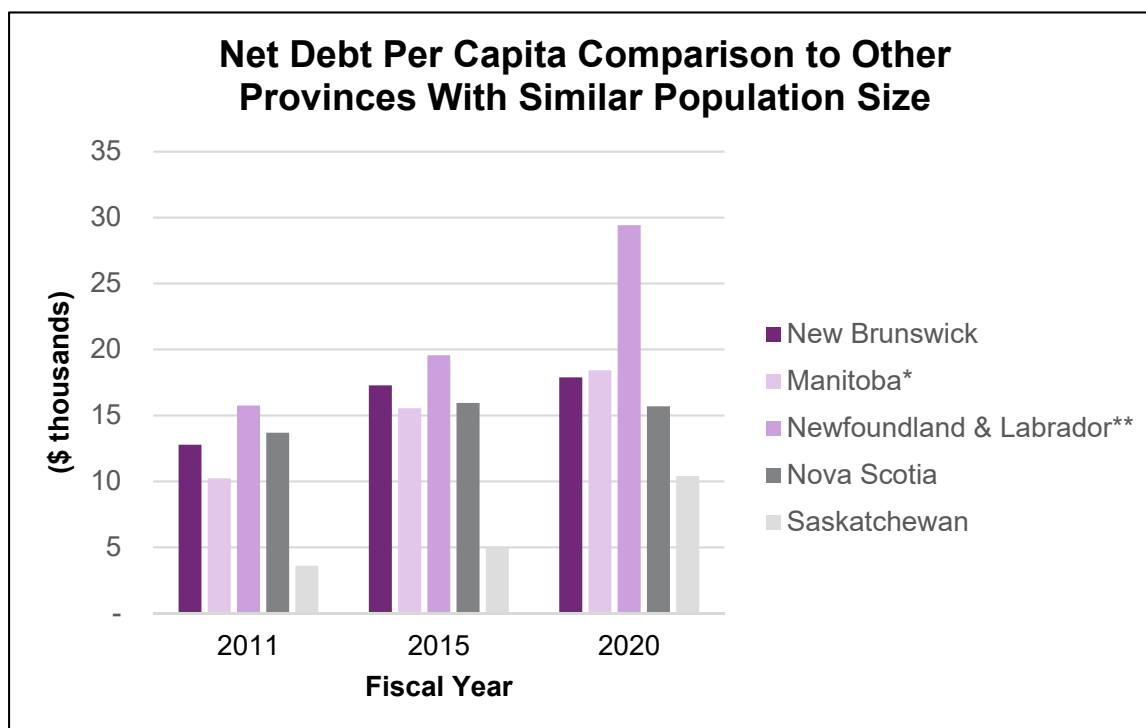
*Source: Prepared by AGNB. Refer to Appendix I for supporting information.*

***Net Debt per capita is  
mid range when  
compared to other  
provinces with similar  
population size***

**3.15** The Net Debt per capita is mid range among comparable provinces with similar size population. Per capita includes all members of the population, such as adults and children.

**3.16** 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 3.7 below.

Exhibit 3.7 - Net Debt per Capita Comparison to Other Provinces with Similar Population Size



\*2020 public accounts information used for Manitoba contained a qualified Independent Auditor’s Report.

\*\*2019 public accounts information used for Newfoundland & Labrador in 2020, as 2020 results were not published at the time of writing this report.

Source: Prepared by AGNB. As restated – refer to Appendix I for supporting information.

**3.17** Net Debt per capita at March 31, 2020 was \$17,900 and is \$5,100 higher than the \$12,800 reported in 2011. New Brunswick surpassed Nova Scotia (\$15,700) during the ten-year period, however is less than Manitoba (\$18,400), and Newfoundland & Labrador (\$29,400) at March 31, 2020.

**What is New Brunswick’s Plan to Reduce Net Debt?**

*New Brunswick’s ability to reduce Net Debt challenging*

**3.18** Despite a small reduction in Net Debt in 2020, New Brunswick’s ability to reduce Net Debt in the future is challenging because of an aging population, an unemployment rate higher than the national average, and slow economic growth. These challenges are not new and have existed in previous years.



**3.19** This elevated level of Net Debt reduces the government's ability to maintain aging infrastructure with deferred maintenance. It 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.

***Government set multi-year Net Debt reduction targets***

**3.20** We were pleased to see government set multi-year Net Debt reduction targets and Net Debt-to-GDP targets for the next four years. We recommended targets be set in previous reports of the Auditor General.

**3.21** The multi-year targets are presented in Exhibit 3.8. We caution however, these multi-year targets were set prior to the Covid-19 global pandemic and have not been updated to include any related financial impacts.

*Exhibit 3.8 - Government's Net Debt Reduction Targets Prior to the Covid-19 Global Pandemic*

**Government's Net Debt Reduction Targets Prior to the Covid-19 Global Pandemic  
(\$ millions)**

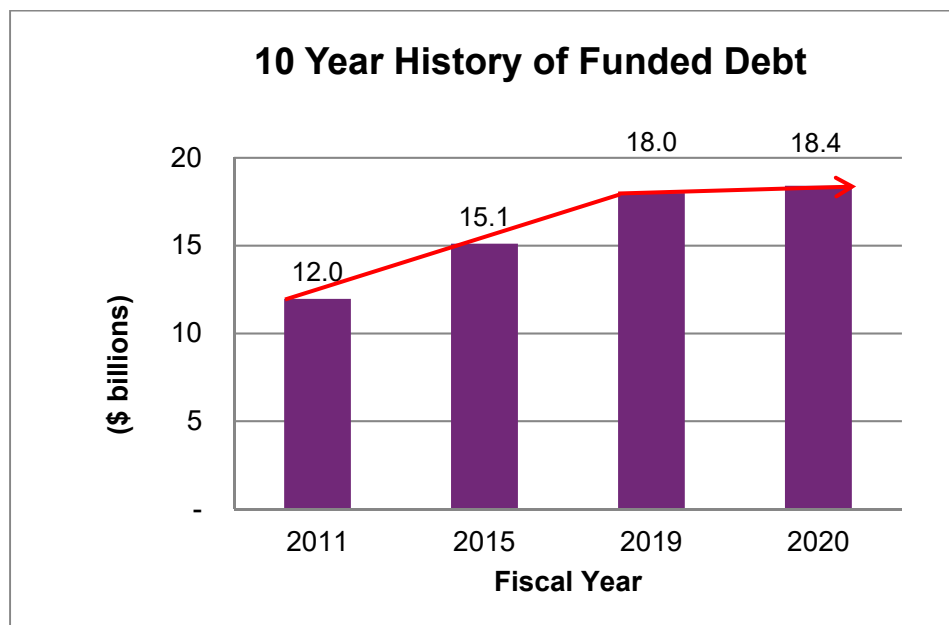
	<b>2021 Budget</b>	<b>2022 Plan</b>	<b>2023 Plan</b>	<b>2024 Plan</b>
Annual Decrease in Net Debt	129	126	126	149
Net Debt-to-GDP Ratio	34.7%	34.0%	33.0%	32.0%

*Source: <https://www2.gnb.ca/content/dam/gnb/Departments/fin/pdf/Budget/2020-2021/BudgetSpeech2020-2021.pdf>*

**Funded Debt Reaches New Historic High**

**3.22** New Brunswick's Funded Debt for provincial purposes was \$18.4 billion at March 31, 2020, a new historic high. It has increased by \$415 million in the past year, and by \$6.4 billion in the past ten years as shown in Exhibit 3.9.

Exhibit 3.9 - 10 Year History of Funded Debt



Source: Prepared by AGNB. Refer to Appendix I for supporting information

***Funded Debt consists mostly of bonds issued***

**3.23** Funded Debt is similar 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. The Province's outstanding Funded Debt balance consists mostly of bonds issued in the financial market.

**3.24** To put the balance in simple terms, if the Province repaid \$100 million per year, it would take 184 years to repay \$18.4 billion. This is presented in Exhibit 3.10. If we include NB Power's debt of \$4.8 billion, another 48 years are added for a total of 232 years to repay the debt at this rate. This does not include the annual cost of interest, also known as servicing the public debt.

Exhibit 3.10 - \$100 Million Debt Repayment Per Year



Source: Prepared by AGNB

**Service of Funded Debt was \$643 million last fiscal year**

**3.25** In the last fiscal year, the service cost of this debt (excluding NB Power), consisting mostly of paying interest, was \$643 million. This is an annual cost and does not reduce the principal amount outstanding. Exhibit 3.11 presents this cost by year, day, hour and minute.

Exhibit 3.11 - Service of Funded Debt by Year, Day, Hour, Minute in 2020

**Service of Funded Debt by Year, Day, Hour, Minute in 2020**

Per Year	Per Day	Per Hour	Per Minute
\$643 million	\$1.8 million	\$73 thousand	\$1,223

Source: Prepared by AGNB. Refer to Appendix I for supporting information

**Interest cost larger than budget of Department of Public Safety**

**3.26** If this interest cost was a department, its annual budget would be larger than the annual budget of the Department of Public Safety.