

Chapter 3

Debt

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Debt

How do Net Debt and Funded Debt Differ?

3.1 Net Debt and Funded Debt are the 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

Debt Type	2019 Amount	Definition
Net Debt	\$14 billion	A mathematical accounting calculation presented as total liabilities <i>less</i> financial assets.
Funded Debt	\$18 billion*	Total long-term debenture debt the Province is legally bound to repay and has borrowed.
Service of the Public Debt	\$648 million	Annual cost of servicing Funded Debt ¹ , consisting mostly of interest costs.

*Funded Debt excludes \$4.6 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.²

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.

² <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>

Why did Net Debt Increase in a Surplus Year?

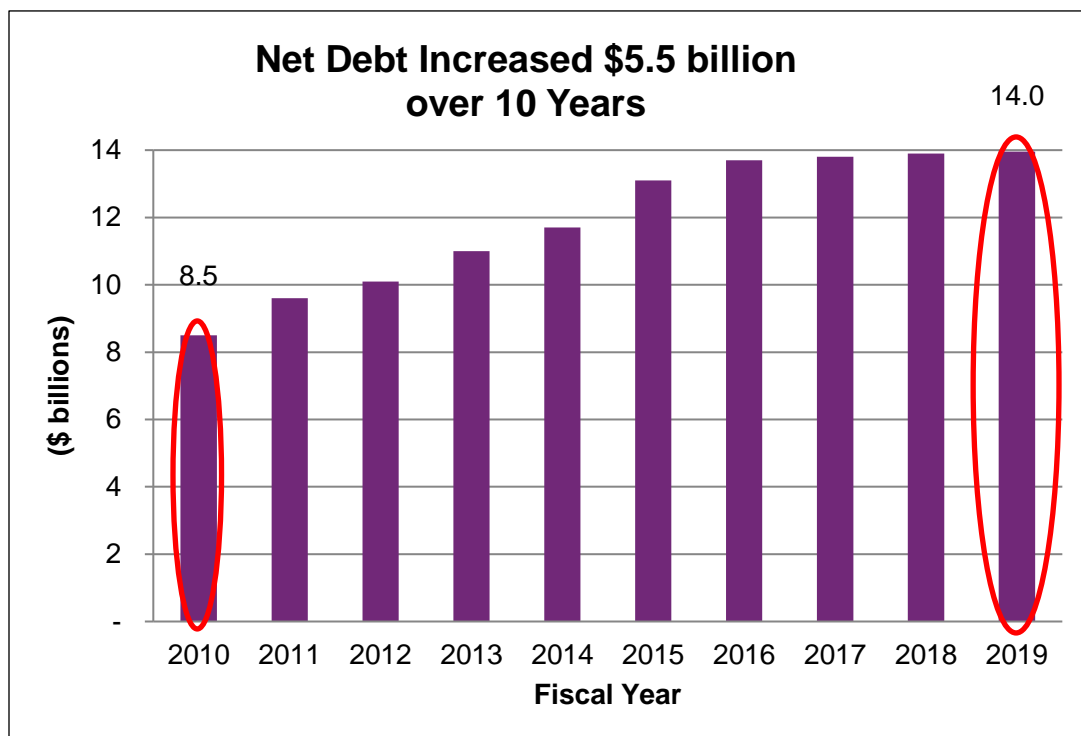
3.3 Net Debt increased by \$33 million in 2019. This is a 0.2% increase since last year and is the lowest year over year percentage increase since 2007.

Net Debt increased \$5.5 billion over 10 years

3.4 As of March 31, 2019, New Brunswick has \$14 billion in Net Debt. Over the past ten years, Net Debt has increased \$5.5 billion due to annual deficits and increases in capital assets.

3.5 Exhibit 3.2 shows the increase in Net Debt over the last ten years.

Exhibit 3.2 - Net Debt Increased \$5.5 billion over 10 Years



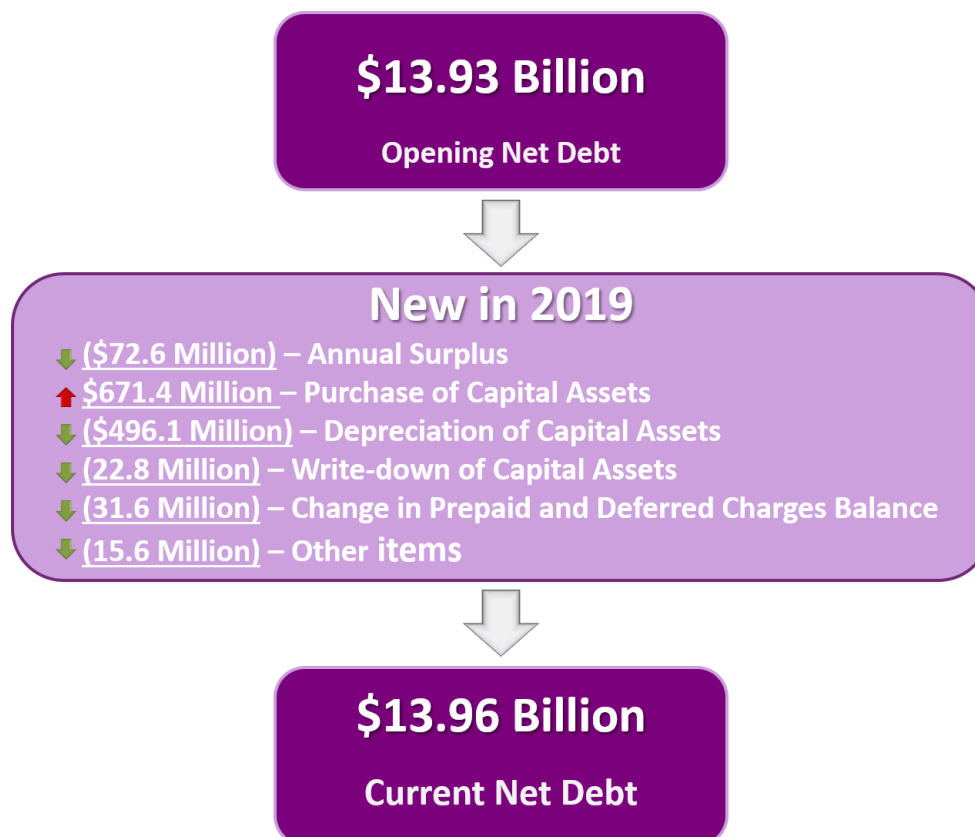
Source: Prepared by AGNB. As restated – refer to Appendix I for supporting information

Purchase of capital assets impact Net Debt

3.6 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.

3.7 Exhibit 3.3 details amounts included in the calculation of Net Debt for the year ended March 31, 2019.

Exhibit 3.3 - Understanding the Net Debt Calculation



Source: Prepared by AGNB using 2019 Public Accounts

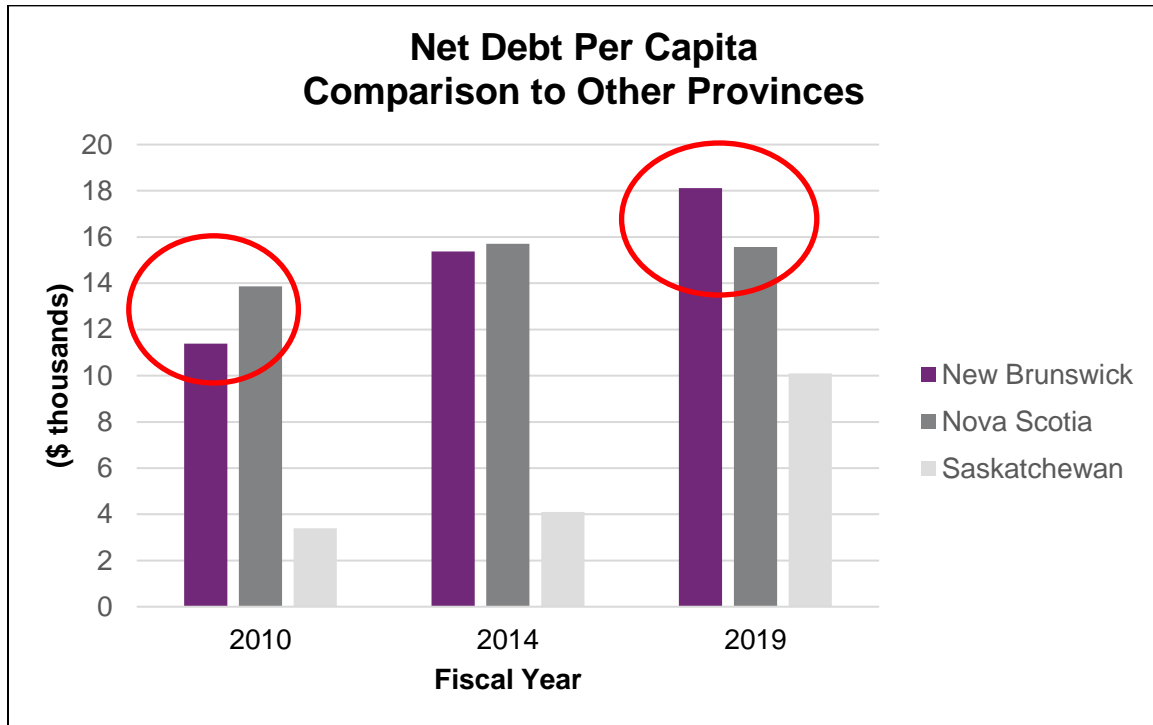
How Does New Brunswick Compare to Other Provinces?

Net Debt per capita higher than other provinces with similar populations

3.8 The Net Debt per capita (*per New Brunswicker*) is higher than other provinces with similar populations or economies. Per capita includes all members of the population such as adults and children.

3.9 A comparison of Net Debt per capita to Nova Scotia and Saskatchewan is presented in Exhibit 3.4 below.

Exhibit 3.4 - Net Debt per Capita Comparison to Other Provinces



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

3.10 Net Debt per capita at March 31, 2019 was \$18,100 and is \$6,700 higher than the \$11,400 reported in 2010. New Brunswick surpassed Nova Scotia during the ten-year period. Net Debt per capita is expected to decrease to \$18,000, based on the Government’s approved budget.

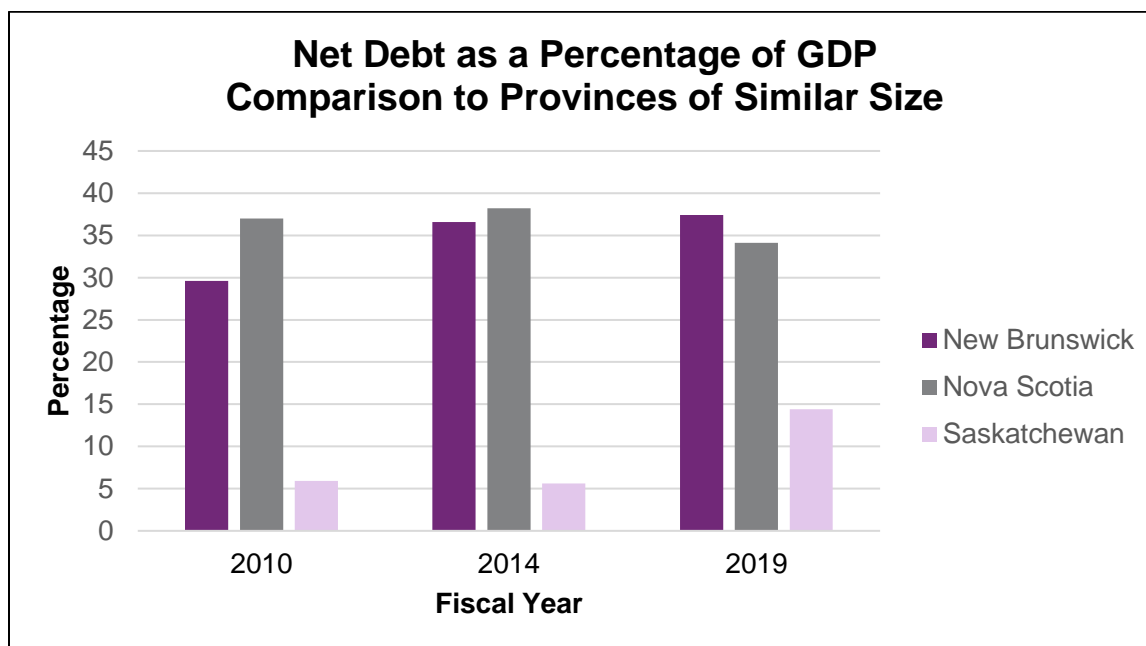
Net Debt as a percentage of GDP higher than other provinces with similar populations

3.11 New Brunswick also had the highest Net Debt as a percentage of Gross Domestic Product (GDP)³ among comparable provinces, which indicates higher Net Debt to economic activity.

3.12 A comparison of Net Debt as a percentage of GDP to Nova Scotia and Saskatchewan is presented in Exhibit 3.5.

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

Exhibit 3.5 - Net Debt as a Percentage of GDP Compared to Provinces of Similar Size



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

3.13 New Brunswick's Net Debt as a percentage of GDP has increased from 29.6% in 2010 to 37.4% in 2019. The percentage increase over the ten-year period was greater than Nova Scotia and less than Saskatchewan.

New Brunswick's ability to reduce Net Debt challenging

3.14 New Brunswick's ability to reduce Net Debt is challenging because of an aging population, an unemployment rate higher than the national average, and slow economic growth.

3.15 This elevated level of Net Debt 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 will exist on future generations to pay for past expenses.

Auditor General encourages government to set Net Debt targets

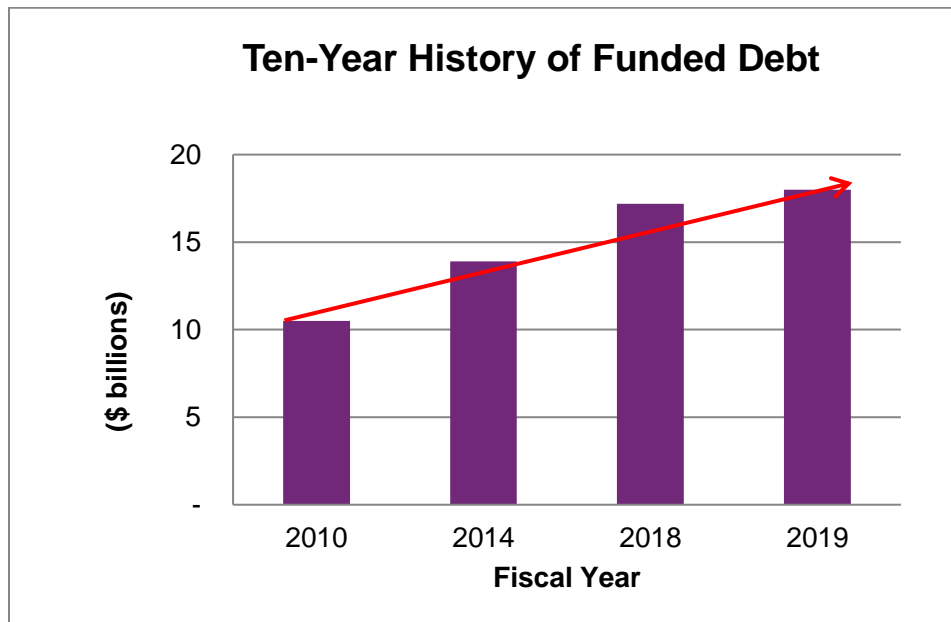
3.16 While we are pleased the increase in Net Debt has slowed, action is required to address this elevated level of Net Debt. We encourage the government to set multi-year Net Debt reduction targets and/or Net Debt-to-GDP targets.

These could be similar to the multi-year plan released for continued annual surpluses over the next four years (2020-23). At the time of writing this chapter (October 2019), no multi-year reduction targets for Net Debt and/or Net Debt-to-GDP have been publicly set.

Funded Debt Reaches New Historic High

3.17 New Brunswick’s Funded Debt for provincial purposes (“Funded Debt”) was \$18 billion at March 31, 2019, a new historic high. It has increased by \$800 million in the past year, and by \$7.5 billion in the past 10 years as shown in Exhibit 3.6.

Exhibit 3.6 - Ten-Year History of Funded Debt



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

Funded Debt consists mostly of bonds

3.18 Funded Debt is like 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.



3.19 To put the balance in simple terms, if the Province repaid \$100 million per year, it would take 180 years to repay \$18 billion. If we include NB Power’s debt of \$4.6 billion, then we add another 46 years for a total of 226 years to repay the debt at this rate. Also, this does not include the annual cost of interest, also known as servicing the public debt.

Service of Funded Debt was \$648 million last fiscal year

3.20 In the last fiscal year, service of this debt, including paying interest, was \$648 million. This is an annual cost and does not reduce the principal amount outstanding.

Interest cost larger than Department of Public Safety

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

Rating Agencies Respond to Province’s Fiscal Situation

Bond rating trend outlook improved from negative to stable

3.22 In April 2019, one of the Province’s three bond rating agencies improved its outlook on the Province’s bond rating. This was due to the rating agency’s improved confidence in the Province to deliver on its fiscal policy commitments to put finances on a sustainable long-term path.⁴

⁴ DBRS. (2019, April 18). *DBRS Changes Trend on New Brunswick to Stable from Negative, Confirms Ratings at A (high) and R-1 (middle)* [Press Release]. Retrieved from <https://www.dbrs.com/research/343853/dbrs-changes-trend-on-new-brunswick-to-stable-from-negative-confirms-ratings-at-a-high-and-r-1-middle>

3.23 The improved outlook could affect the Province’s ability to raise cash (issue bonds), as New Brunswick bonds may be more attractive to investors.

3.24 The Dominion Bond Rating Service (DBRS) upgraded the Province’s bond rating trend from negative to stable. In an April 2019 press release, DBRS stated it changed the trends “...because of the meaningful improvement in the Province’s fiscal and debt outlook.”⁵

Moody’s Investor Service did not change bond rating

3.25 Moody’s Investors Service did not change the Province’s bond rating trend, however, in April 2019 it stated its rating is based on “the expectation of the stabilization of the province’s debt burden alongside a return to balanced budgets after a lengthy period of consolidated deficits”.⁶

S&P Global Ratings did not change bond rating

3.26 S&P Global Ratings, the third bond rating agency, did not change its bond rating trend for the Province.

⁵ DBRS. (2019, April 18). *DBRS Changes Trend on New Brunswick to Stable from Negative, Confirms Ratings at A (high) and R-1 (middle)* [Press Release]. Retrieved from <https://www.dbrs.com/research/343853/dbrs-changes-trend-on-new-brunswick-to-stable-from-negative-confirms-ratings-at-a-high-and-r-1-middle>

⁶ Moody’s Investors Services. (2019, April 9). *Announcement of Periodic Review: Moody’s announces completion of a periodic review of ratings of New Brunswick, Province of* [Press Release]. Retrieved from https://www.moody.com/research/Moodys-announces-completion-of-a-periodic-review-of-ratings-of--PR_397212