Chapter 4

State of New Brunswick's Financial Condition

Contents

State of New Brunswick's Financial Condition

What do the 2019 Financial Results Tell Us About the Province's Financial Condition?

Financial condition improved slightly in 2019

4.1 The Province of New Brunswick's (the Province) 2019 financial condition improved slightly from 2018. Short-term trends continue to improve as a result of the small surplus realized by the Province in 2019. To improve the financial health of the Province these positive trends need to continue in the future.

4.2 We reached this 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 4.4 for a complete summary of all financial indicators.

Three changes trends since our 2018 report

4.3 Since our last report in 2018, we changed our assessment of:

- one sustainability long-term indicator trend changed from unfavourable to favourable (paragraph 4.40);
- one flexibility short-term indicator trend changed from unfavourable to neutral (paragraph 4.55); and
- one vulnerability short-term indicator trend changed from favourable to neutral (paragraph 4.61).

The small negative trend change of the vulnerability short-term indicator was not significant enough to affect our overall conclusion that the Province's financial condition improved slightly from 2018.

[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?

4.4 The Province's ability to sustain existing programs and services without significantly increasing Net Debt improved slightly during 2019 mainly as a result of the Province's 2019 surplus. We were, therefore, able to assess five of the seven short-term sustainability indicators as favourable again this year. Past deficits and the significant amount of Net Debt prevent us from assessing many long-term indicators as favourable. We have, however, changed our assessment for one long-term indicator, "total expenses-to-GDP" from unfavourable to favourable.

4.5 Exhibit 4.1 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

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

Exhibit 4.1 - 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	Unfavourable
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	Favourable

Source: Prepared by AGNB.

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

Largely unfavourable trends

4.7 Despite a small improvement in one short-term indicator since 2018, in our view the Province's flexibility in its ability to raise taxes and borrow is still largely 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
- increases in own source revenues (such as increases in HST and Corporate Income Taxes which reduce the ability to raise further in the future).

4.8 As summarized in Exhibit 4.2, we have assessed flexibility in both the short and long term as largely unfavourable.

Flexibility defined

4.9 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 4.2 - 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?

Favourable trends overall

4.10 Despite a small negative change in one short-term indicator from favourable to neutral, in our view the Province is less vulnerable from outside revenue sources because of:

- increases in the Province's own source revenue;
- relying less on the Federal government to assist in funding major infrastructure projects in the long-term; and
- managing and controlling its exposure from changes in foreign currencies.

4.11 As summarized in Exhibit 4.3, we have largely assessed vulnerability in both the short and long term as favourable.

Vulnerability defined

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

Exhibit 4.3 - Vulnerability Indicator Trends

Vulnerability Indicator Trends

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

Source: Prepared by AGNB.

Summary of Financial Indicators

4.13 In Exhibit 4.4, 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 4.4 - 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	4.15
Sustainability	Financial assets-to-liabilities	Measures whether future revenues will be needed to pay for past transactions	Favourable	Unfavourable	No change	4.19
Sustainability	Net Debt-to-total annual revenue	Shows whether more time is needed to pay for past transactions	Favourable	Unfavourable	No change	4.23
Sustainability	Expense by function-to-total expenses	Shows the trend of government spending over time	Neutral	Neutral	No change	4.27
Sustainability	Net Debt-to-GDP	Shows the relationship between Net Debt and the activity in the economy	Favourable	Unfavourable	No change	4.33
Sustainability	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	4.37
Sustainability	Total expenses-to-GDP	Shows the trend of government spending over time in relation to the growth in the economy	Neutral	**Favourable**	**Long-term Trend Change from Unfavourable**	4.40
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	4.47
Flexibility	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	4.51
Flexibility	Own source revenues-to-GDP	Measures extent income is taken out of the economy	**Neutral**	Unfavourable	**Short-term Trend Change from Unfavourable**	4.55
Vulnerability	Government transfers-to-total revenues	Measures the dependence on another level of government	**Neutral**	Favourable	**Short-term Trend Change from Favourable**	4.61
Vulnerability	Foreign currency debt-to-Net Debt	Measures the government's potential vulnerability to currency fluctuations	Favourable	Favourable	No change	4.66

Source: Prepared by AGNB.

Detailed Support for Sustainability Indicators

Sustainability defined

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

Comparing Assets-to-Liabilities

No change from last year

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

4.16 For the last three years, this indicator has improved slightly indicating a favourable trend in the short-term. For the past ten years, the Province's percentage has trended further below 100% indicating the Province has financed its operations by issuing Funded Debt. This is an unfavourable long-term trend which we would like to see reversed.

4.17 We present the assets-to-liabilities sustainability indicator in Exhibit 4.5.

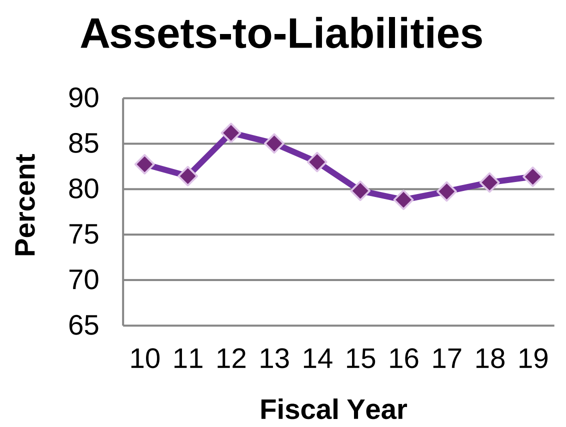
How to read exhibit

4.18 An assets-to-liability percentage below 100% and decreasing 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 4.5 - Comparing Assets-to-Liabilities

Comparing Assets-to-Liabilities

Fiscal Year	Total Assets ($ billions)	Total Liabilities ($ billions)	Total Assets/ Total Liabilities (percent)
2010	12.0	14.5	82.8%
2011	13.6	16.7	81.4%
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%



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

Comparing Financial Assets-to-Liabilities

No change from last year

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

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

4.21 We present the financial assets-to-liabilities sustainability indicator in Exhibit 4.6.

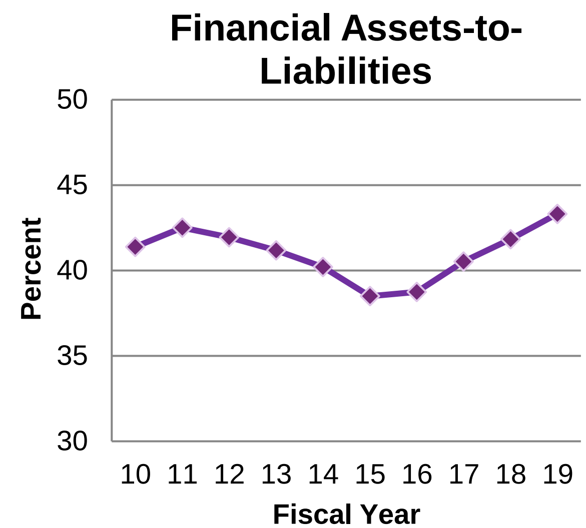
How to read exhibit

4.22 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. A decreasing percentage indicates a negative trend.

Exhibit 4.6 - 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)
2010	6.0	14.5	41.4%
2011	7.1	16.7	42.5%
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%



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

No change from last year

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

4.24 The Province's Net Debt-to-total annual revenue percentage increased from 2010 to 2016. In 2019, the percentage declined to 144.3% as Net Debt remained relatively consistent with the prior year, while total revenue increased.

4.25 We present the Net Debt-to-total annual revenue sustainability indicator in Exhibit 4.7.

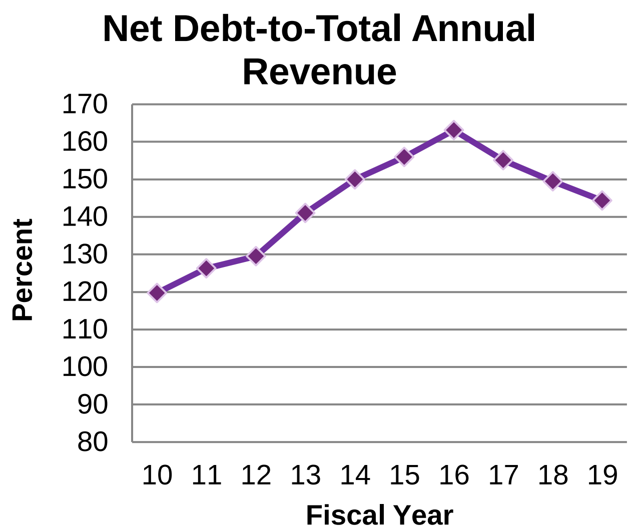
How to read exhibit

4.26 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 4.7 - 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)
2010	8.5	7.1	119.7%
2011	9.6	7.6	126.3%
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%



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

No change from last year

4.27 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 in the last ten years. The cost of servicing Funded Debt has remained relatively consistent over the last ten years.

4.28 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.

4.29 We present the expense by function-to-total expenses sustainability indicator in Exhibit 4.8 for 2019. Exhibit 4.8 shows the amount of expenses allocated to each expense function for the year.

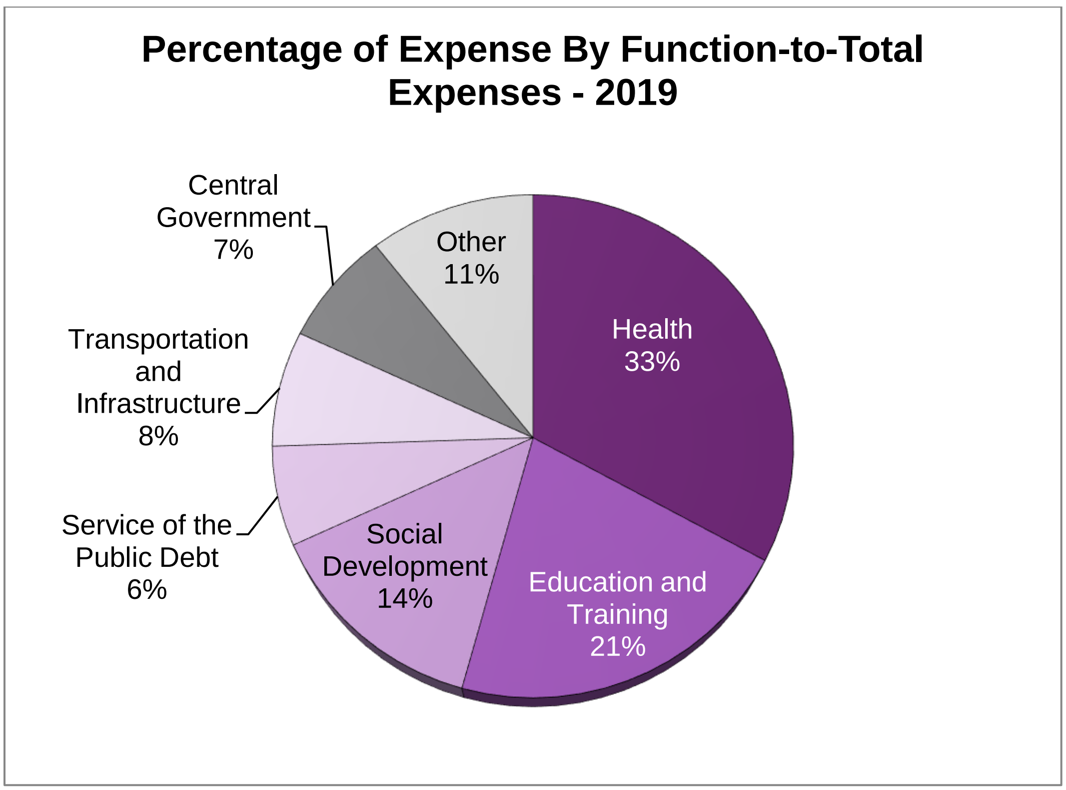
How to read exhibit

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

- For Exhibit 4.8, each slice of pie represents the percentage of expenses allocated to each expense function for 2019.
- For Exhibit 4.9, each line in the chart represents an expense function. As the line progresses, it shows (by year) the percentage of expenses allocated to each function. As the line decreases, the Province is allocating less of its total 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 4.8 - Percentage of Expense By Function-to-Total Expenses – 2019



Source: Prepared by AGNB based on Public Accounts 2019

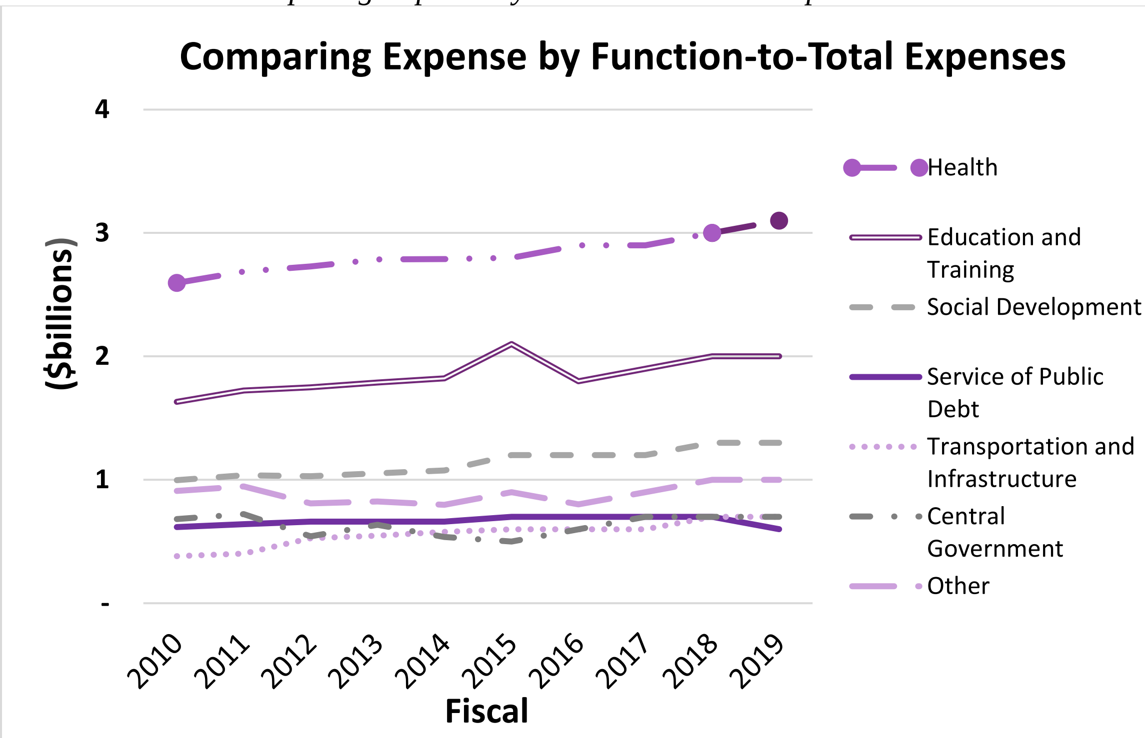
4.31 In Exhibit 4.8, we observed the following information.

- The expenses for Education and Training and Health consume 54% of the total expenses in 2019, remaining stable from 2018 of 54%.

- The expenses for service of the public debt are almost as large as expenses for Transportation and Infrastructure.

4.32 We present the expense by function-to-total expenses sustainability indicator in Exhibit 4.9 for the past ten years.

Exhibit 4.9 - 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

No change from last year

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

4.34 We note a negative trend from 2010 to 2016 because the Net Debt of the Province increased faster than the growth in the economy. From 2017 to 2019, we start to see this trend reverse, the growth in the economy was faster than growth in Net Debt however, the 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. The long-term trend, however, remains unfavourable.

4.35 We present the Net Debt-to-GDP sustainability indicator, in Exhibit 4.10.

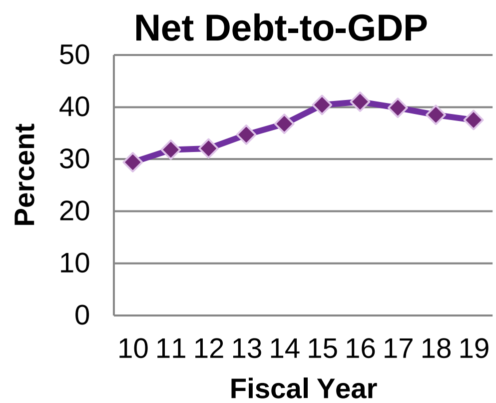
How to read exhibit

4.36 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 4.10 - Comparing Net Debt-to-GDP

Comparing Net Debt-to-GDP

Fiscal Year	Net Debt ($ billions)	GDP ($ billions)	Net Debt/ GDP (percent)
2010	8.5	28.9	29.4%
2011	9.6	30.2	31.8%
2012	10.1	31.5	32.1%
2013	11.0	31.7	34.7%
2014	11.7	31.8	36.8%
2015	13.1	32.4	40.4%
2016	13.7	33.4	41.0%
2017	13.8	34.6	39.9%
2018	13.9	36.1	38.5%
2019	14.0	37.3	37.5%



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

Comparing Accumulated Deficit-to-GDP

No change from last year

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

4.38 Exhibit 4.11 shows a negative trend from 2010 to 2016 as the accumulated deficit has grown more than the economy. We see this negative trend start to decline from 2017 to 2019. In these years, the accumulated deficit has remained stable, but the economy has continued to grow.

How to read exhibit

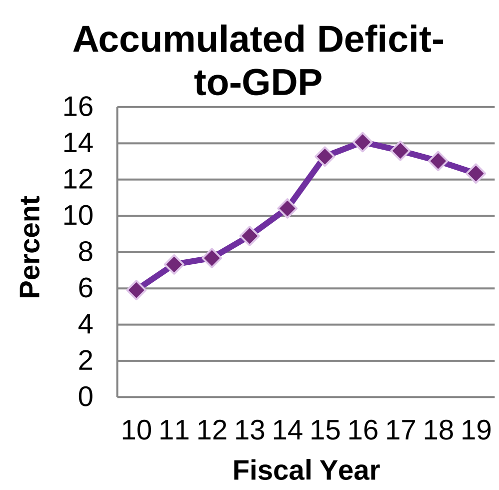
4.39 An accumulated deficit-to-GDP percentage that is increasing indicates a negative trend as the growth of the accumulated deficit is out pacing the growth in

GDP. (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.)

Exhibit 4.11 - Comparing Accumulated Deficit-to-GDP

Comparing Accumulated Deficit-to-GDP

Fiscal Year	Accumulated Deficit ($ billions)	GDP ($ billions)	Accumulated Deficit/GDP (percent)
2010	1.7	28.9	5.9%
2011	2.2	30.2	7.3%
2012	2.4	31.5	7.6%
2013	2.8	31.7	8.8%
2014	3.3	31.8	10.4%
2015	4.3	32.4	13.3%
2016	4.7	33.4	14.1%
2017	4.7	34.6	13.6%
2018	4.7	36.1	13.0%
2019	4.6	37.3	12.3%



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

Comparing Total Expenses-to-GDP

Long-term trend changed to favourable

4.40 We continue to assess the short-term trend as neutral but, we have changed our long-term trend assessment from unfavourable to favourable.

4.41 Exhibit 4.12 shows from 2010 to 2019 the increase in GDP outweighed the increase in expenses, resulting in the percentage decreasing from 27.0% to 25.7%. However, in the short-term, from 2017 to 2019, the percentage has remained relatively stable. Therefore we have assessed the short-term trend as neutral and the long-term trend as favourable.

4.42 We present the total expenses-to-GDP sustainability indicator in Exhibit 4.12.

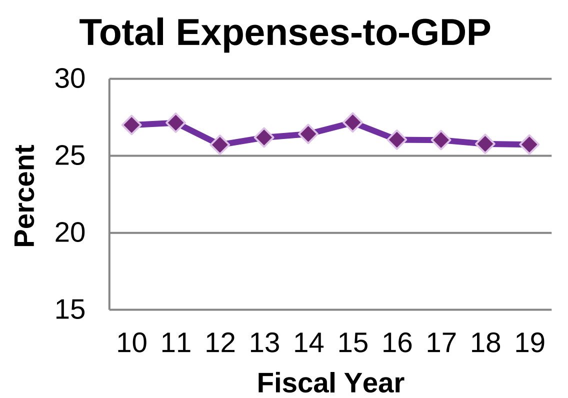
How to read exhibit

4.43 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 4.12 - Comparing Total Expenses-to-GDP

Comparing Total Expenses-to-GDP

Fiscal Year	Total expenses ($ billions)	GDP ($ billions)	Total expenses/ GDP (percent)
2010	7.8	28.9	27.0%
2011	8.2	30.2	27.2%
2012	8.1	31.5	25.7%
2013	8.3	31.7	26.2%
2014	8.4	31.8	26.4%
2015	8.8	32.4	27.2%
2016	8.7	33.4	26.0%
2017	9.0	34.6	26.0%
2018	9.3	36.1	25.8%
2019	9.6	37.3	25.7%



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

4.44 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.

4.45 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.

4.46 The cost of debt servicing 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

No change from last year

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

4.48 Exhibit 4.13 shows the cost of servicing the Funded Debt as a percentage of the Province's total revenues has decreased in 2019 compared to the previous nine fiscal years. This is a result of the Province's 2019 revenues increasing and the cost to service Funded Debt has remained relatively stable.

4.49 We present the public (Funded) debt charges-to-revenues flexibility indicator in Exhibit 4.13.

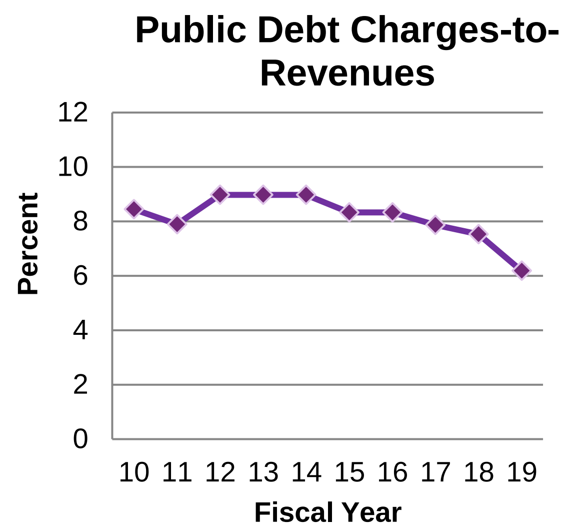
How to read exhibit

4.50 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 4.13 - 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)
2010	0.6	7.1	8.5%
2011	0.6	7.6	7.9%
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%



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

No change from last year

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

4.52 Exhibit 4.14 shows the Province's capital assets have approximately 54.8% 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.

4.53 We present the net book value of capital assets-to-cost of capital assets flexibility indicator in the Exhibit 4.14.

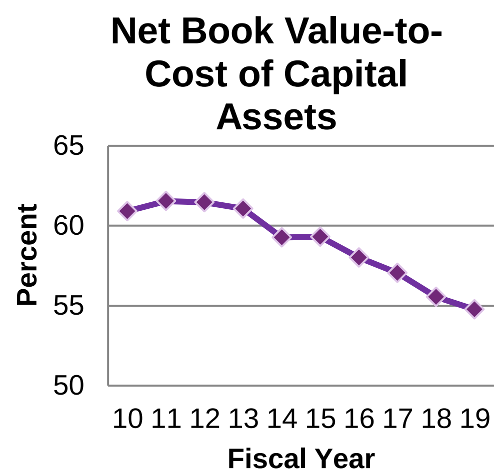
How to read exhibit

4.54 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 4.14 - 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)
2010	6.7	11.0	60.9%
2011	7.2	11.7	61.5%
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%



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

Comparing Own Source Revenues-to-GDP

Change from unfavourable to neutral in short term

4.55 We have changed our assessment of the short-term trend from unfavourable to neutral. We continue to assess the long-term trend as unfavourable.

4.56 For the last three years, the percentage of own source revenue (such as taxes) compared to GDP has remained relatively stable indicating the Province's has not increased its revenue from taxing the provincial economy in the short-term. Therefore we assessed the short-term trend as neutral.

No change in unfavourable long-term trend

4.57 We still assess the long-term trend as unfavourable. From 2010 to 2019, the percentage of own source revenue compared to GDP has generally increased mostly a result of the government recording more revenue in Harmonized

Sales Tax (HST), Corporate Income Tax and Personal Income Tax.

4.58 We present the own source revenues-to-GDP flexibility indicator in Exhibit 4.15.

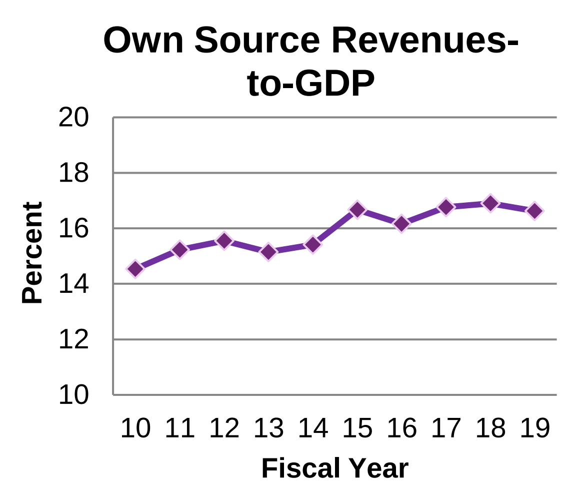
How to read exhibit

4.59 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 4.15 - 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)
2010	4.2	28.9	14.5%
2011	4.6	30.2	15.2%
2012	4.9	31.5	15.6%
2013	4.8	31.7	15.1%
2014	4.9	31.8	15.4%
2015	5.4	32.4	16.7%
2016	5.4	33.4	16.2%
2017	5.8	34.6	16.8%
2018	6.1	36.1	16.9%
2019	6.2	37.3	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

4.60 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 neutral in short-term

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

4.62 We note in 2019 approximately 1% more of the Province's total revenue was generated from Federal government transfers compared to 2018. This indicates in 2019 the Province was more dependent on the Federal government making the Province more vulnerable. As a result, we have changed our assessment of the short-term as neutral.

No change in favourable long-term trend

4.63 We still assess the long-term trend as favourable. We note the percentage has decreased from 2010 to 2019. This shows the Province was less dependent on the Federal government as a source of revenue in the long term.

4.64 We present the government transfers-to-total revenues vulnerability indicator in Exhibit 4.16.

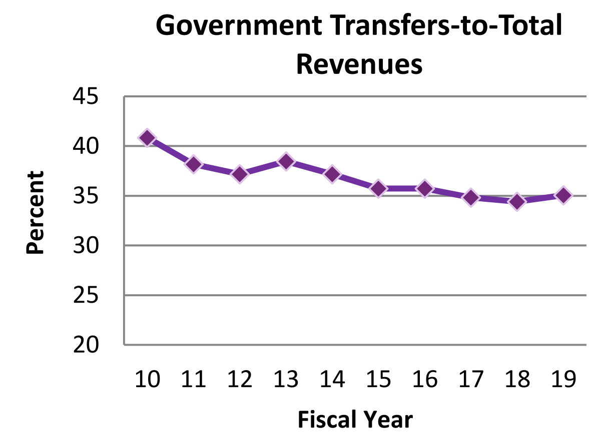
How to read exhibit

4.65 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 4.16 - 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)
2010	2.9	7.1	40.8%
2011	2.9	7.6	38.2%
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%



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

4.66 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.

4.67 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 two years. The Province, however, offsets/reduces this risk by having an effective hedging strategy.

4.68 The Province uses several alternatives to reduce (hedge) 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).

4.69 We present the foreign currency debt-to-net debt vulnerability indicator in Exhibit 4.17.

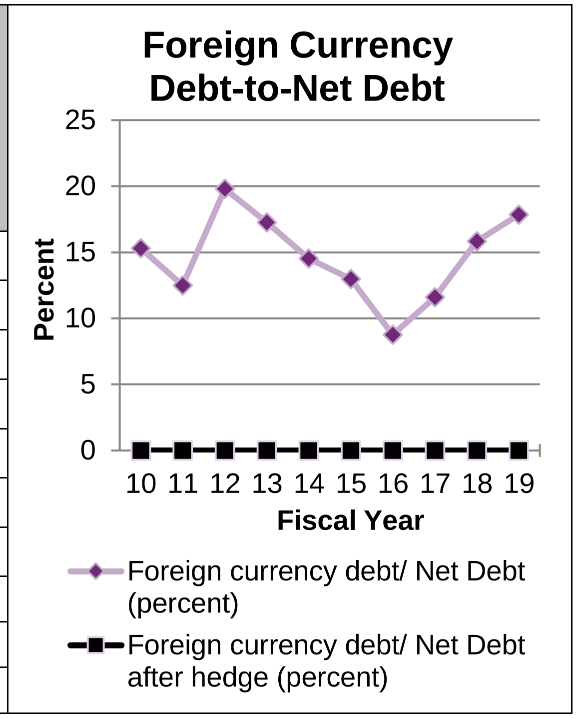
How to read exhibit

4.70 Exhibit 4.17 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 4.17 - 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)
2010	1.3	8.5	15.3%	0.7%
2011	1.2	9.6	12.5%	0.6%
2012	2.0	10.1	19.8%	0.0%
2013	1.9	11.0	17.3%	0.0%
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	18.0%	0.0%



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