

Chapter 2

New Brunswick's Year End Financial Results

Contents

Chapter Summary.....	9
This Year's Financial Results.....	10
Appendix I – Supplementary Information.....	21

New Brunswick's Year End Financial Results

Chapter Summary

First Surplus in A Decade

- Annual surplus was \$67 million
- Revenues of \$9.34 billion exceeded expenses of \$9.27 billion
- Improvement from budgeted deficit of \$192 million and prior year deficit of \$117 million

Debt Reaches New Historic High

- Debt is now \$17 billion
- In simple terms, if \$100 million a year was repaid, it would take 170 years to repay the debt
- Annual servicing (interest) cost is \$667 million

Why Was There a Surplus?

- Revenues were higher by \$328 million largely due to increases in provincial tax revenue and transfers from Federal government
- Expenses increased \$253 million, but were \$109 million under budget

Why did Net Debt Increase In A Surplus Year?

- Capital Assets increased \$168 million, offsetting the surplus
- Net Debt increased \$106 million in 2018
- 2018 Net Debt increase was the smallest annual rate of increase since 2007
- As of the time of this report, government had no targets to reduce Net Debt

How Does New Brunswick Compare to Other Provinces?

- Among comparable provinces, New Brunswick has the:
 - highest Net Debt per capita - \$18,300 per New Brunswicker
 - highest Net Debt as a percentage of GDP

What's the State of the Province's Financial Condition?

- Three of the twelve short-term indicators improved since 2017
- All twelve long term indicators remain unchanged
- All indicators are presented in Chapter 5.

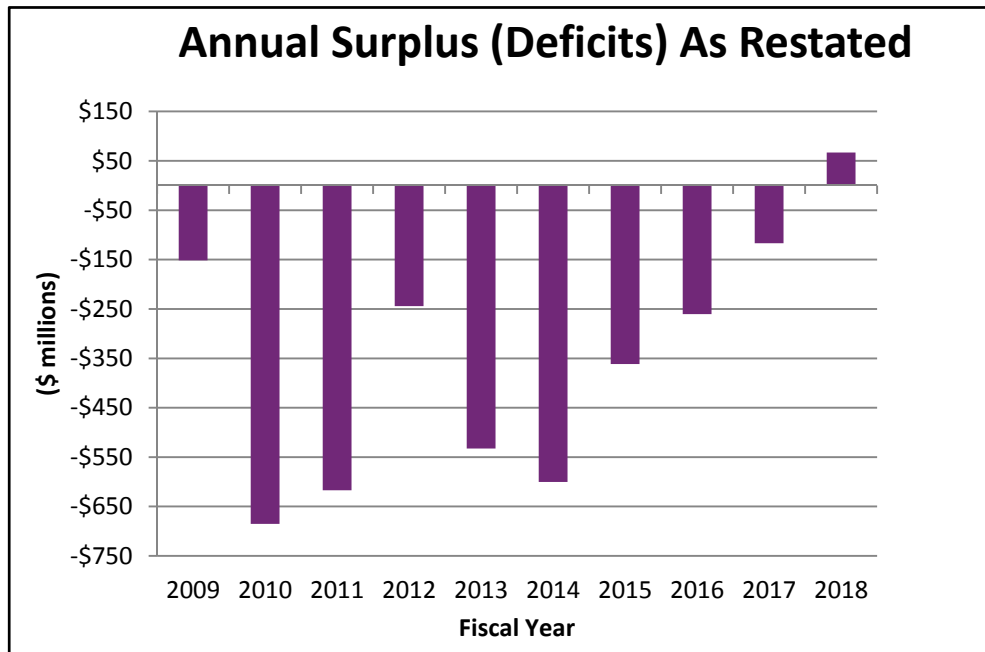
This Year's Financial Results

First Surplus in a Decade

2.1 For the first time in a decade, the Province of New Brunswick recorded an annual surplus of \$67 million. The Province's March 31, 2018 audited consolidated financial statements reported government spent less than it earned during the year.

2.2 We are pleased the annual surplus improved \$259 million from the budgeted deficit of \$192 million. Prior to this, the last annual surplus was in 2008. The ten year history is presented in Exhibit 2.1 below.

Exhibit 2.1 - Annual Surplus (Deficits) As Restated

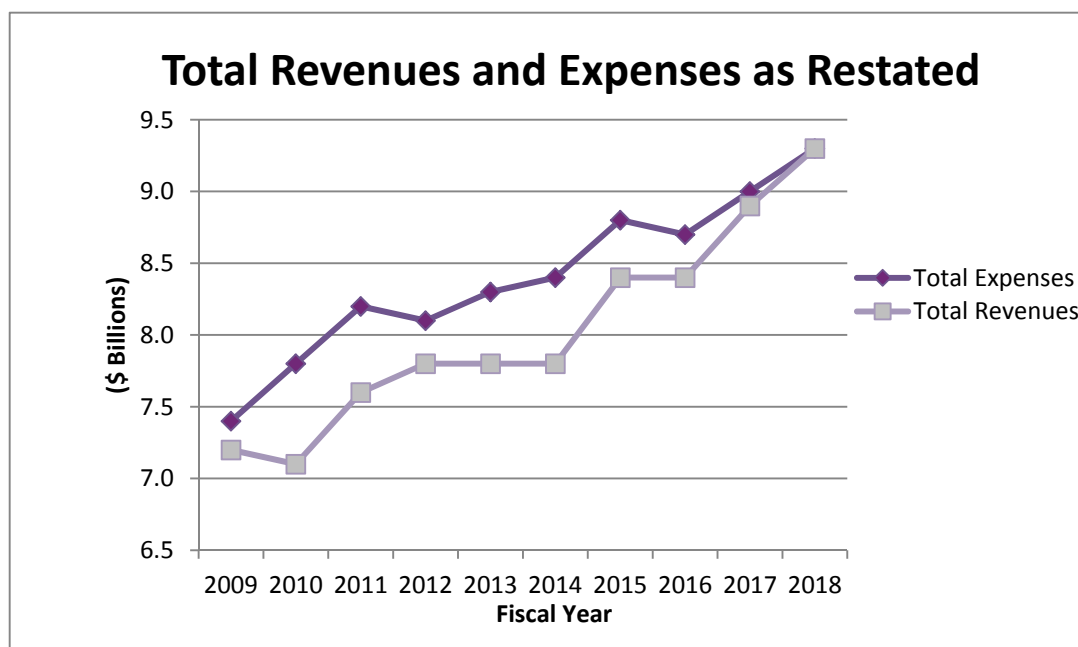


Source: As restated – refer to Appendix I – Exhibit A2.1 for supporting information.

Encouraging, but small compared to expenses

2.3 While these results are encouraging to the fiscal situation of the Province, the annual surplus is very small when compared to expenses of \$9.3 billion. As shown in Exhibit 2.2, revenues and expenses continued to grow in 2018.

Exhibit 2.2 - Total Revenues and Expenses as Restated



Source: As restated – refer to Appendix I – Exhibit A2.2 for supporting information.

2.4 During fiscal 2018, revenues grew slightly faster than expenses, resulting in the annual surplus.

Why Was There a Surplus?

2.5 Exhibit 2.3 shows at a summary level, the reasons for the change from a deficit in March 31, 2017 to a surplus in March 31, 2018.

Exhibit 2.3 - Analysis of Annual Surplus

Analysis of Annual Surplus		
What Happened Since Last Year?		Significant Reasons Why?
	(millions)	
Fiscal 2017 Deficit	\$(117.0)	
Increase in provincial revenue	+327.9	Increases and recoveries in Harmonized Sales Tax (+197M) and Corporate Income Tax (+111M), and other taxes (+17M), Other Provincial Revenue (+39M) offset by lower Personal Income Tax (-34M) and lower income from NB Power (-4M).
Increase in transfers from Federal government	+108.9	Increases in Conditional and Unconditional Grants (+57M), and Fiscal Equalization Payments (+52M).
Increase in expense	(252.8)	Expenses increased in Education and Training (+65M), Health (+95M), Social Development (+19), Economic Development (+44M) and Transportation & Infrastructure (+37M) offset by lower expenses in Service of the Public Debt (-7M).
Fiscal 2018 Surplus	\$ 67.0	

Source: AGNB prepared from New Brunswick Public Accounts Volume I for year ended March 31, 2018.

Why Did Government Project a Deficit?

2.6 Government projected there would be an annual deficit of \$115 million in its 3rd quarter budget estimate at December 31, 2017. This differs from the actual annual surplus of \$67 million.

2.7 Exhibit 2.4 below shows at a summary level, the reasons for the significant difference in estimate to actual.

Exhibit 2.4 - Analysis of 3rd Quarter Budget Projection Estimate

2018 (\$ millions)	3 rd Quarter Budget Projection	Actual Results	Difference	Significant Reasons Why? (unaudited)
Revenues	9,263	9,339	+ 76	<ul style="list-style-type: none"> higher tax revenue due to property taxes, insurance premium tax, and other tax income (+\$23M); earlier timing of revenue from Federal government for a shared economic development agreement (+\$20M); prior-year recoveries from universities, revenues in schools and a school lease buy-out (+\$23M); and higher number of out-of-province patients in Regional Health Authorities (+\$18M) these increases were offset by lower net income for NB Power (-\$22M)
Expenses	9,378	9,272	+ 106	<ul style="list-style-type: none"> slower timing of recognizing a significant local government grant (+22.8M); lower cost of servicing the public debt due to timing of new debt issues and more favourable interest rates (+16M); and actuarial changes to employee retirement benefit plans were lower than expected (+15M).
Surplus (Deficit)	(115)	67	+ 182	

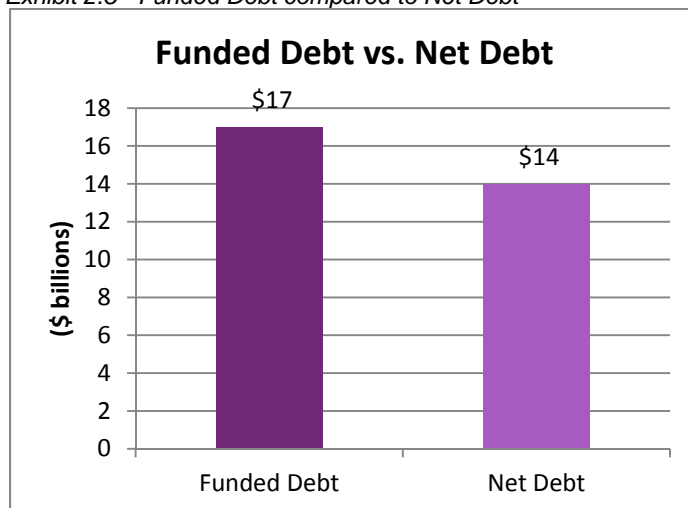
Source: AGNB prepared from information provided by Treasury Board and the Department of Finance.

2.8 Overall, actual revenue varied by only 0.8%, and actual expenses by 1.1%, from the 3rd quarter budget projection estimate. In our view, these are relatively small variances given the magnitude of total revenue and expense amounts in excess of \$9 billion and the uncertainty in the remaining three months of the fiscal year.

How Do Funded Debt and Net Debt Differ?

2.9 Funded Debt and Net Debt are the two forms of debt presented in the Province's consolidated financial statements.

Exhibit 2.5 - Funded Debt compared to Net Debt



Source: Refer to Appendix I – Exhibits A2.3 and A2.4 for supporting information.

2.10 Funded Debt is the total long-term debenture debt the Province is legally bound to repay and has borrowed. This excludes \$4.4 billion borrowed on behalf of NB Power.

2.11 This differs from Net Debt, which is a mathematical accounting calculation presented as total liabilities less financial assets.

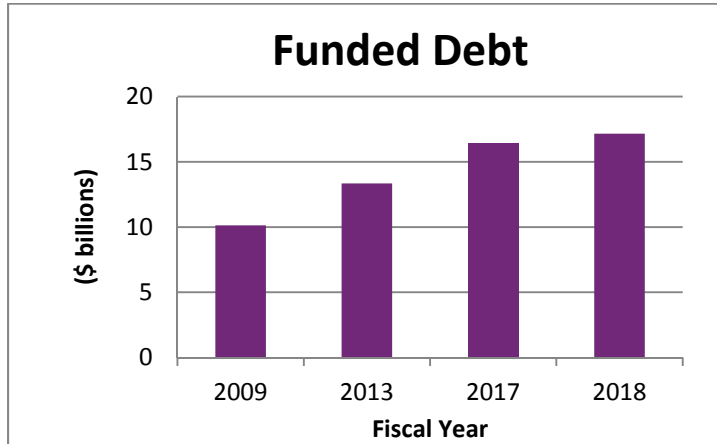
2.12 Net Debt is often seen as a key performance indicator in the public sector because it offers insight into the financial health of the Province. It provides information about future revenue requirements to meet past spending.¹

¹ <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>

Funded Debt Reaches New Historic High

2.13 New Brunswick's Funded Debt for provincial purposes ("Funded Debt") was \$17 billion at March 31, 2018, a historic new high. It has increased \$7 billion over the past 10 years as shown in Exhibit 2.6.

Exhibit 2.6 - Funded Debt



Source: Refer to Appendix I – Exhibit A2.3 for supporting information.

No plan to reduce debt

2.14 Government has no plan to address this elevated level of Funded Debt.

2.15 Funded Debt is similar to household debt in which many New Brunswickers have. The Province must make interest payments on its outstanding balance, and repay principal as debenture debt matures. The Province's outstanding balance consists mostly of bonds issued in the financial market.



2.16 To put the balance in simple terms, if the Province repaid \$100 million per year, it would take 170 years to repay \$17 billion. This does not include the annual cost of interest, also known as servicing the public debt.

Annual cost – Servicing the debt

2.17 In the last fiscal year, service of this debt, including paying interest, was \$667 million. This is an annual cost, and does not reduce the principal amount outstanding.

2.18 If this interest cost was a department, its budget would be larger than the Department of Transportation and Infrastructure.

What happens when interest rates increase?

2.19 If the interest rate goes up by 1%, the Province estimates in three years, the annual interest expense could increase by \$60 million. Such an increase would further restrict government program spending.

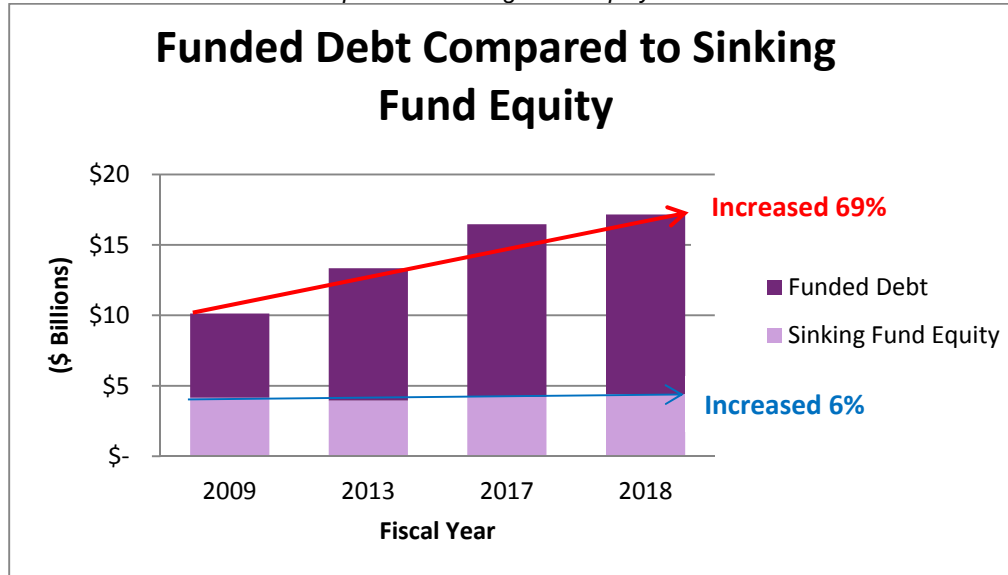
How is Funded Debt Repaid?

Sinking fund equity assets are available

2.20 The Province annually contributes to a fund intended to repay funded debt when it matures. The asset balance of the fund at March 31, 2018 was \$4.4 billion. The consolidated financial statements present this fund as Sinking Fund Equity (separate from the Funded Debt balance).

2.21 The Sinking Fund Equity has increased over the past 10 years however, not at a rate consistent with Funded Debt. Exhibit 2.7 shows the change in the balances.

Exhibit 2.7 - Funded Debt Compared to Sinking Fund Equity



Source: Refer to Appendix I – Exhibit A2.3 for supporting information.

2.22 The increase of 69% in Funded Debt is much higher than the increase of 6% in the fund used to repay the debt balance as it matures.

2.23 This is due to the *Provincial Loans Act* requiring only annual installments paid at a minimum rate of 1% of the outstanding Funded Debt principal balance into the sinking fund. This is calculated based on the amount of the outstanding principal on each bond issue at each annual anniversary date.

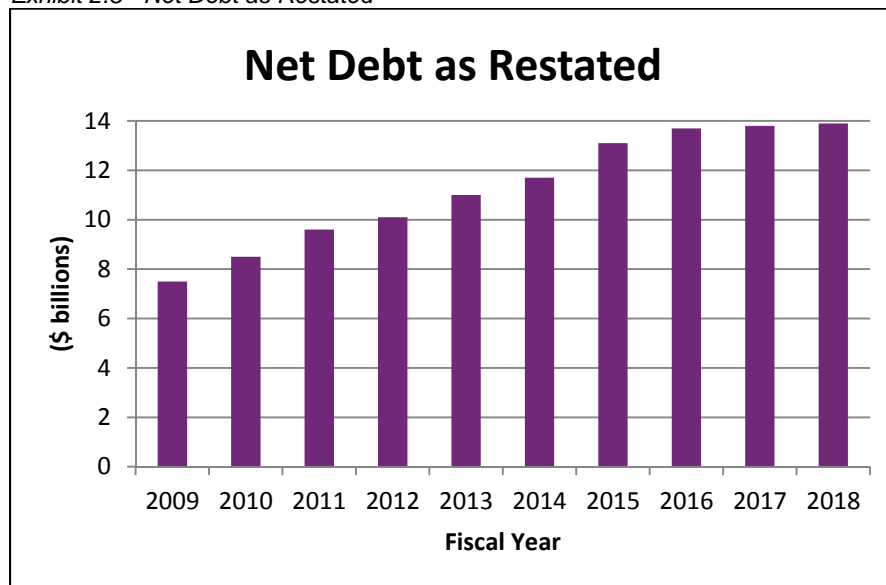
Why Did Net Debt Increase in a Surplus Year?

2.24 Net Debt increased by \$106 million, the slowest rate in over a decade at 0.7%. The last time Net Debt increased at a slower rate was 2007.

2.25 As of March 31, 2018, New Brunswick has \$13.9 billion in Net Debt. Since 2009, Net Debt has increased almost \$7 billion.

2.26 Exhibit 2.8 shows the increase in Net Debt over the last ten years.

Exhibit 2.8 - Net Debt as Restated

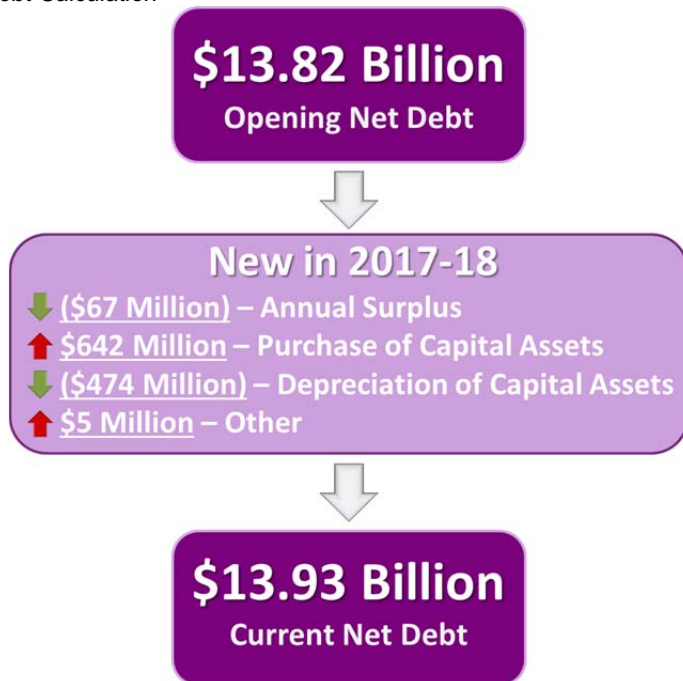


Source: As restated – refer to Appendix I – Exhibit A2.4 for supporting information.

2.27 Annual surplus is a component of the Net Debt calculation, however, adjustments are also made for the purchase and decline of capital assets (e.g. roads, buildings and equipment) and other smaller items.

2.28 Exhibit 2.9 details amounts included in the calculation of Net Debt for the year ended March 31, 2018.

Exhibit 2.9 - Net Debt Calculation



Source: AGNB prepared information using 2018 Public Accounts

- 2.29** Action is required to address this increasing Net Debt and we again encourage government to set targets to eliminate annual deficits and reduce Net Debt. At the time of writing this report no targets have been set.
- 2.30** As we have reported repeatedly, this trend is not sustainable. If this continues, eventually governments will not be able to provide the same level of programs and services such as health care, education, roads, schools and hospitals.
- 2.31** As Net Debt increases, an even higher demand will exist on future generations to pay for past expenses.
- 2.32** New Brunswick's ability to reduce Net Debt is more limited than other Provinces given challenges such as an aging and declining population, high unemployment rates and slow economic growth.

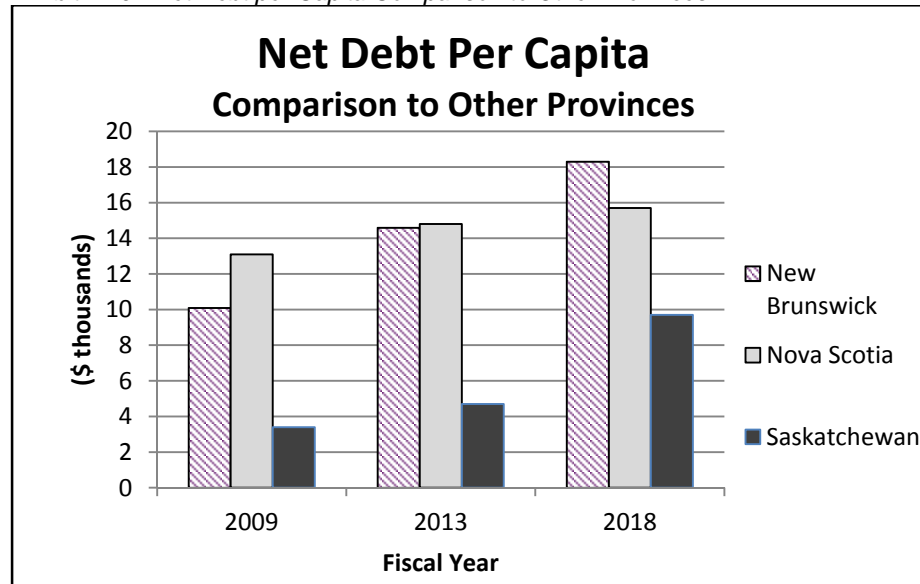
How Does New Brunswick Compare to Other Provinces?

Net Debt per capita higher than other provinces with similar populations

- 2.33** 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.
- 2.34** A comparison of Net Debt per capita to Nova Scotia

and Saskatchewan is presented in Exhibit 2.10 below.

Exhibit 2.10 - Net Debt per Capita Comparison to Other Provinces



Source: As restated – refer to Appendix I – Exhibit A2.7 for supporting information.

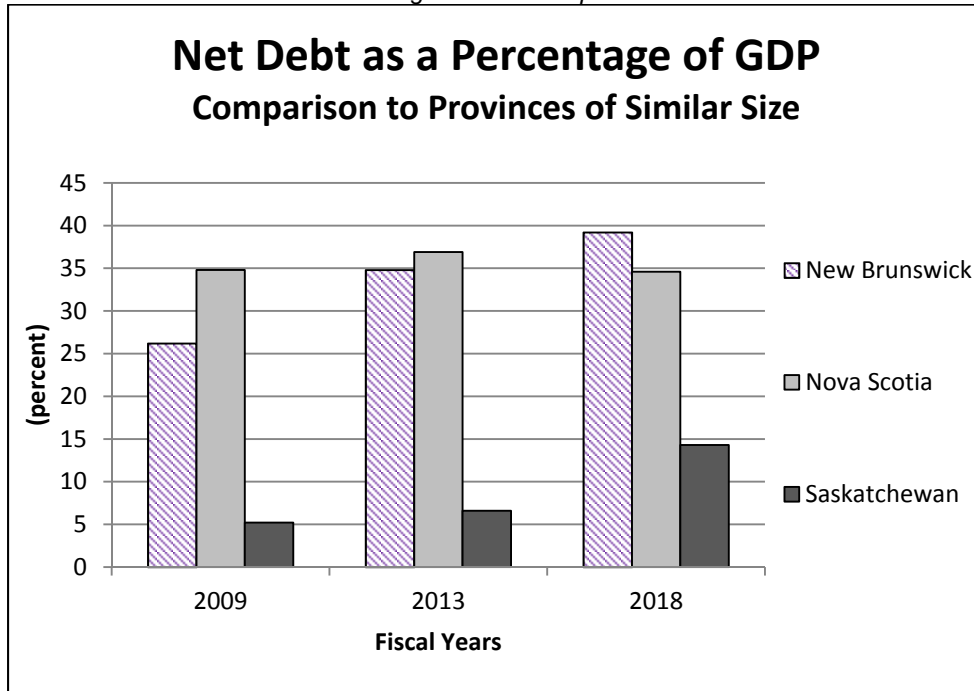
2.35 Net Debt per capita at March 31, 2018 was \$18,300 and is expected to grow to \$19,000 by 2019, based on the government’s approved budget.

2.36 New Brunswick also had the highest Net Debt as a percentage of Gross Domestic Product (GDP)² among comparable provinces, which indicates high Net Debt and low activity in the economy.

2.37 A comparison of Net Debt as a percentage of GDP to Nova Scotia and Saskatchewan is presented in Exhibit 2.11.

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



Source: As restated – refer to Appendix I – Exhibit A2.8 for supporting information.

2.38 New Brunswick's Net Debt as a percentage of GDP has increased from 26% in 2009 to 39% in 2018. This increase was greater than Nova Scotia and Saskatchewan as presented in Exhibit 2.11.

Where is there more information on the Province's Financial Condition?

See chapter 5

2.39 A full analysis of indicators of financial condition is presented in Chapter 5. These include indicators of sustainability, flexibility and vulnerability.

Appendix I

Supplementary Information

This appendix contains supporting data for exhibits presented in Chapter 2.

Exhibit A2.1 - Annual Surplus (Deficit) Data

Annual Surplus (Deficit) Data										
(\$ millions)										
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
As restated	(151.6)	(695.2)	(617.0)	(244.3)	(532.7)	(600.3)	(361.4)	(260.5)	(117.0)	67.0
As originally recorded	(192.3)	(737.9)	(633.0)	(260.6)	(507.7)	(498.7)	(388.6)	(260.5)	(118.9)	67.0

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

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.

Exhibit A2.2 - Revenue and Expense Data

Revenue and Expense Data										
(\$ billions)										
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Revenues	7.2	7.1	7.6	7.8	7.8	7.8	8.4	8.4	8.9	9.3
Total Expenses	7.4	7.8	8.2	8.1	8.3	8.4	8.8	8.7	9.0	9.3

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

Exhibit A2.3 - Funded Debt Data

Funded Debt Data (\$ millions)					
	2009	2013	2017	2018	% Increase 2009-2018
Funded Debt	14,304.7	18,023.2	20,891.3	21,572.7	50.8%
NB Power (NB Electric Finance Corporation)	(4,177.1)	(4,685.4)	(4,422.7)	(4,412.3)	5.6%
Funded Debt for Provincial Purposes	10,127.6	13,337.8	16,468.6	17,160.4	69.4%
Year over year increase	n/a	3,210.2	3,130.8	691.8	n/a
Sinking Fund Equity	4,159.9	3,955.8	4,212.7	4,418.5	6.2%
Year over year increase	n/a	(204.1)	256.9	205.8	n/a

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

Exhibit A2.4 - Net Debt Data

Net Debt Data (\$ billions)										
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
As restated	7.5	8.5	9.6	10.1	11.0	11.7	13.1	13.7	13.8	n/a
As originally recorded	7.4	8.4	9.5	10.0	11.1	11.6	12.4	13.7	13.8	13.9
% Growth Rate in Net Debt from the Prior Year	5.6%	13.3%	12.9%	5.2%	8.9%	6.4%	12.0%	4.6%	0.7%	0.7%

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

Exhibit A2.5 - Provincial Population Data as of July 1

Provincial Population Data as of July 1					
Province	(thousands)				
	2014	2015	2016	2017	2018
Nova Scotia	943.0	942.2	941.5	948.6	953.9
New Brunswick	755.7	754.7	753.9	757.4	759.7
Saskatchewan	1,104.8	1,120.6	1,131.2	1,148.6	1,163.9

Source: Statistics Canada Table 17-10-0005-01 Population estimates on July 1st, by age and sex

Exhibit A2.6 - Net Debt Comparison to Other Provinces Data

Net Debt Comparison to Other Provinces				
(\$ billions)				
Province	Increase 2009 to 2018	2009	2013	2018
Nova Scotia	22.0%	12.3	13.9	15.0
New Brunswick	85.3%	7.5	11.0	13.9
Saskatchewan	222.9%	3.5	5.1	11.3

Source: Amounts from Provinces' published Financial Statement discussion and analysis

Exhibit A2.7 - Net Debt per Capita Comparison to Other Provinces' Data

Net Debt per Capita Comparison to Other Provinces Data			
(\$ Thousands)			
Province	2009	2013	2018
New Brunswick	10.1	14.6	18.3
Nova Scotia	13.1	14.8	15.7
Saskatchewan	3.4	4.7	9.7

Source: Amounts from Provinces' published Financial Statement discussion and analysis

Exhibit A2.8 - Net Debt as a Percentage of GDP Compared to Other Provinces Data

Net Debt as a Percentage of GDP Compared to Other Provinces Data				
(percent)				
Province	2009	2013	2018	% Increase (Decrease) from 2009 to 2018
New Brunswick	26.2	34.8	39.2	49.6%
Nova Scotia	34.8	36.9	34.6	(-0.6%)
Saskatchewan	5.2	6.6	14.3	175.0%

Source: Amounts from Provinces' published Financial Statement discussion and analysis

Note: Provinces used in our comparison include Nova Scotia and Saskatchewan. These provinces presented for comparison purposes were selected based on application of judgment where certain similarities in population or economic circumstances were considered. The provinces' application of accounting principles may differ upon comparing financial information, as circumstances may not be similar across provinces. Population data for provinces used in our comparison is found in Exhibit A2.5.

In the previous four exhibits:

- information from the audited summary financial statements of the individual provinces is used;
- information about population is taken from the Statistics Canada website, and
- GDP figures are from the financial statement discussion and analysis attached to the individual provinces' audited summary financial statements.