



**AUDITOR
GENERAL**
of Newfoundland and Labrador

Financial Update Newfoundland and Labrador

**Presentation to
Department of Economics - MUN
October 25, 2017**

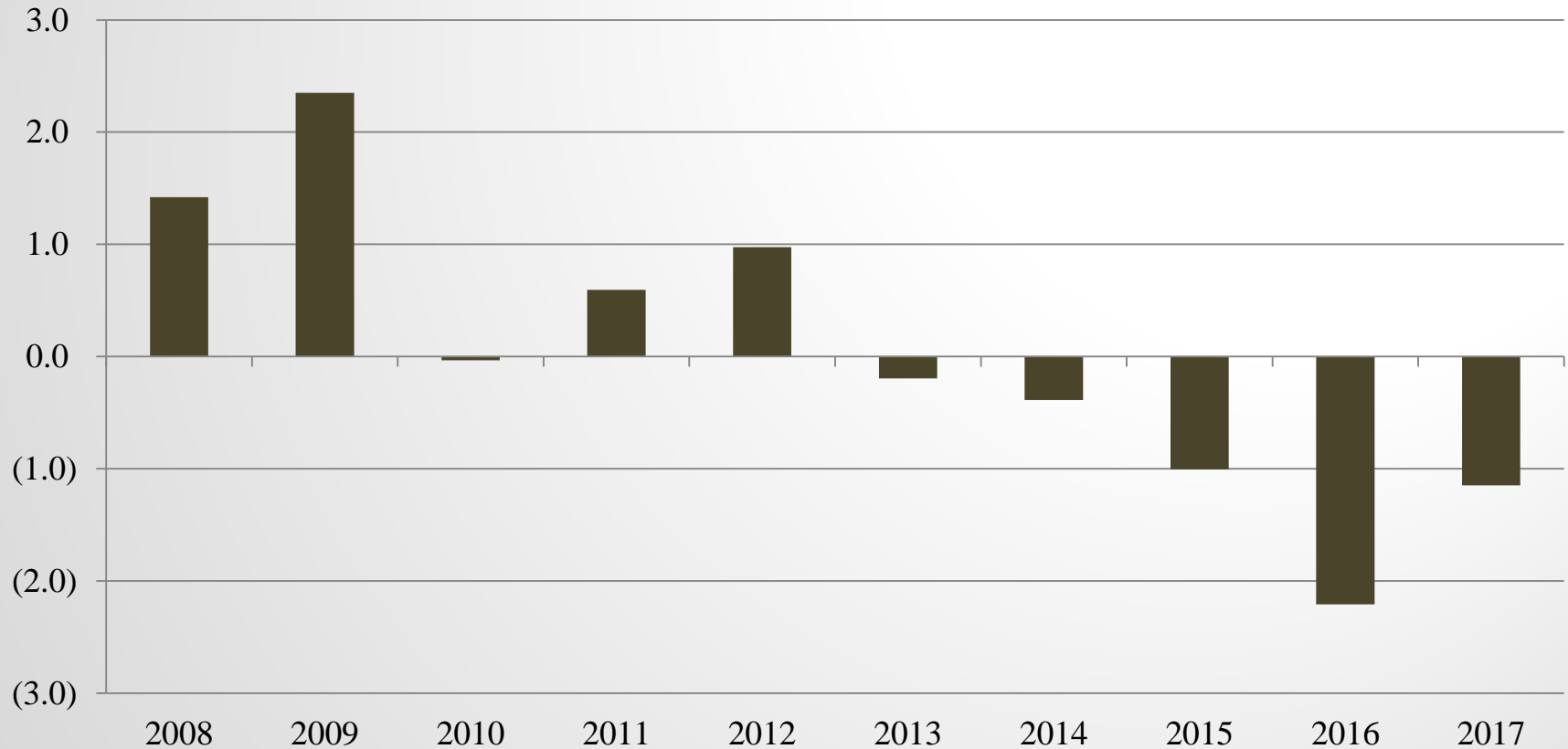
Outline

- ▶ Current Financial Position
- ▶ Targets and Forecasts
- ▶ Components and Risk
- ▶ Other Issue
- ▶ Summary

»» Current Financial Position

Surplus / Deficit

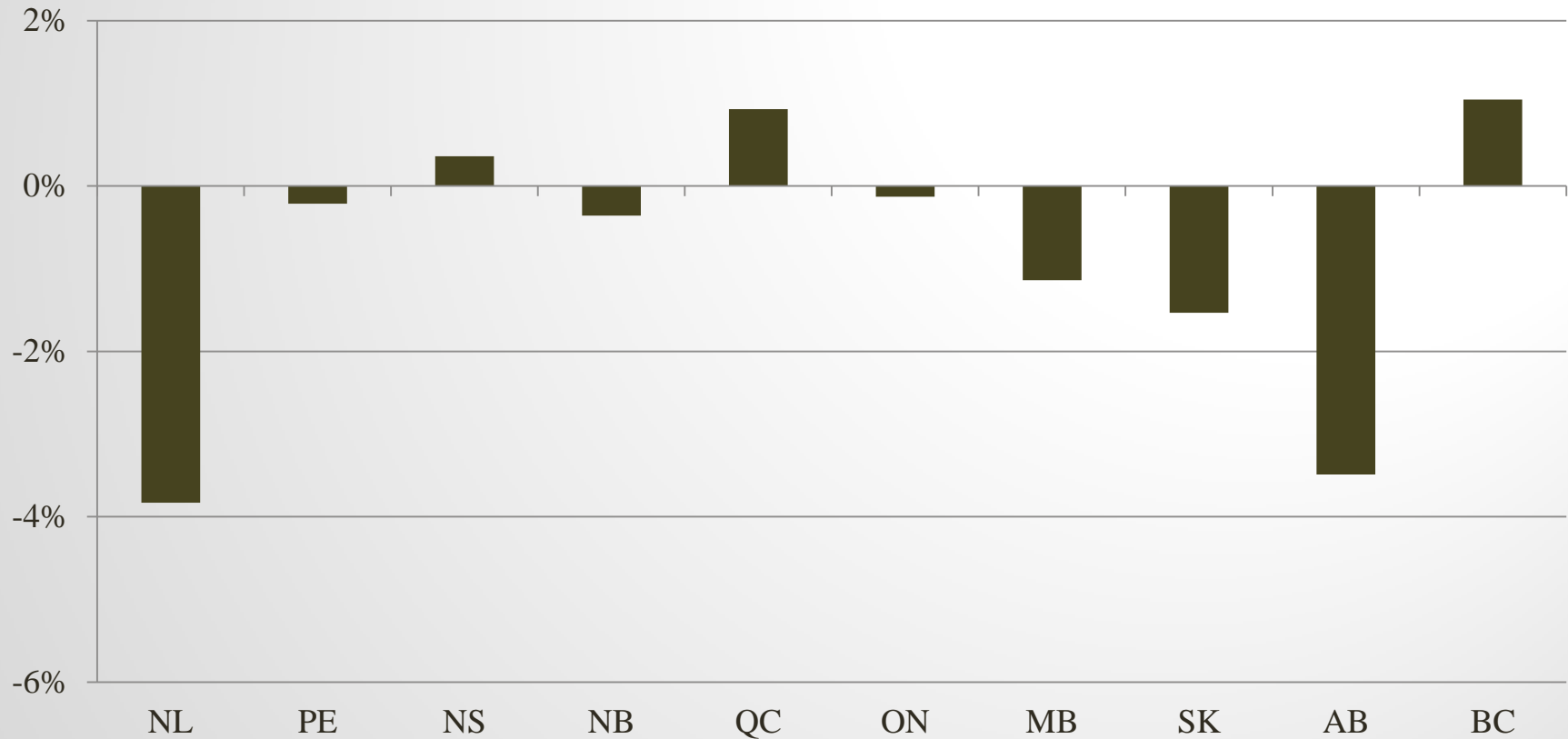
\$ Billions



Source: Public Accounts

Deficit As a Percent of GDP

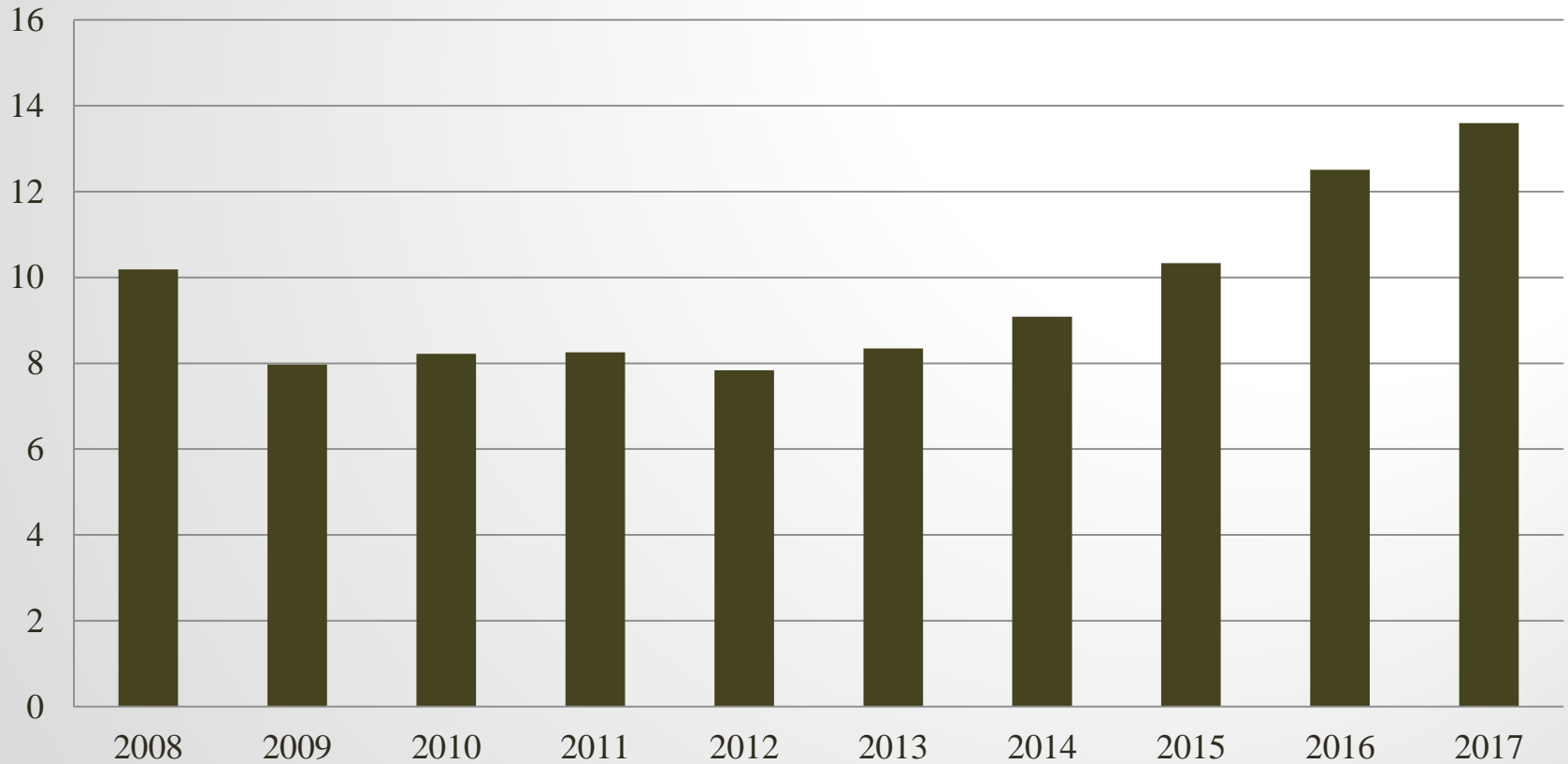
(2016-17)



Source: Economic Updates – all Provinces; Statistics Canada; Public Accounts – All Provinces

Net Debt

\$ Billions

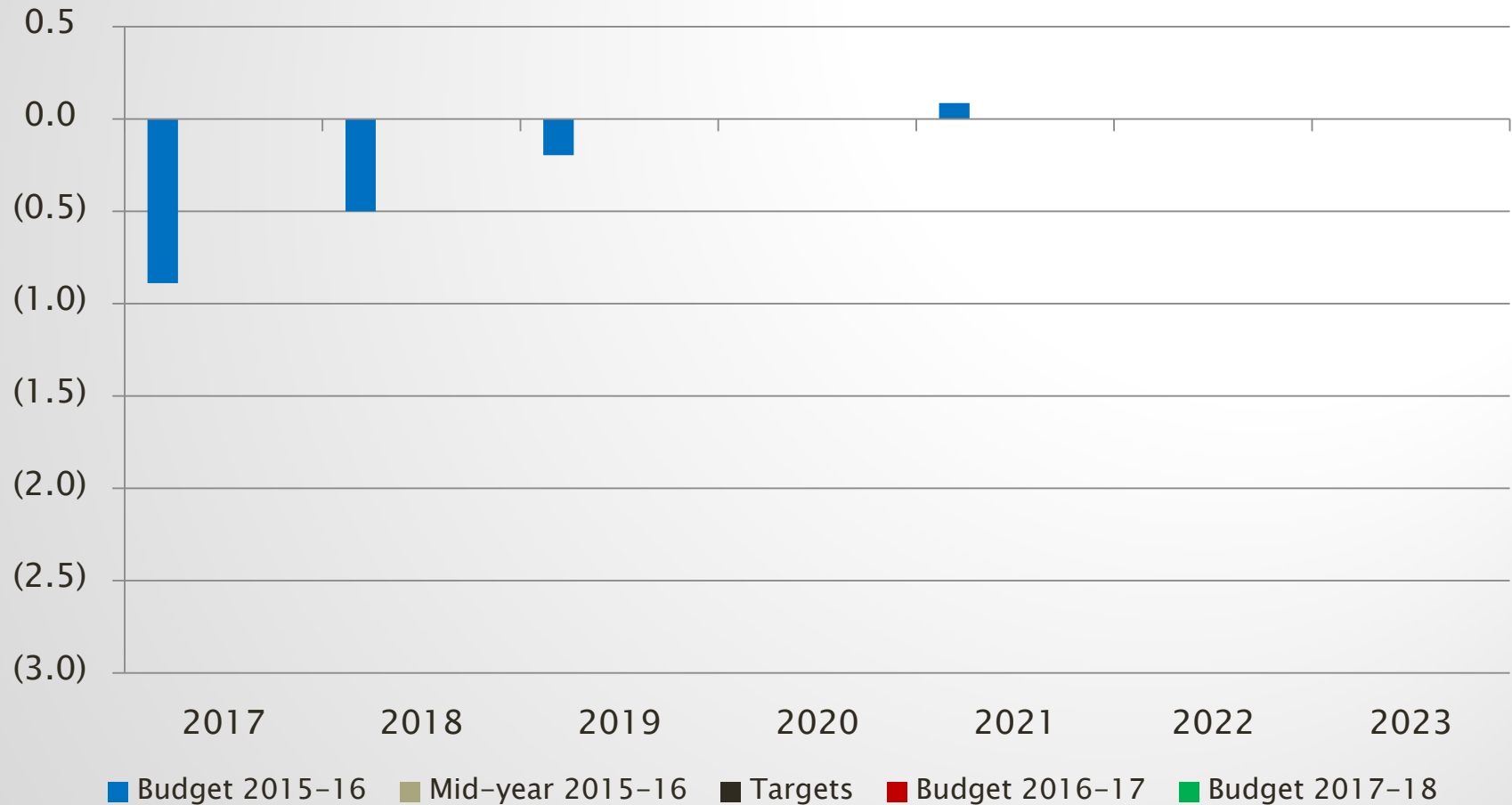


Source: Public Accounts

»» Targets and Forecasts

Forecasts and Targets

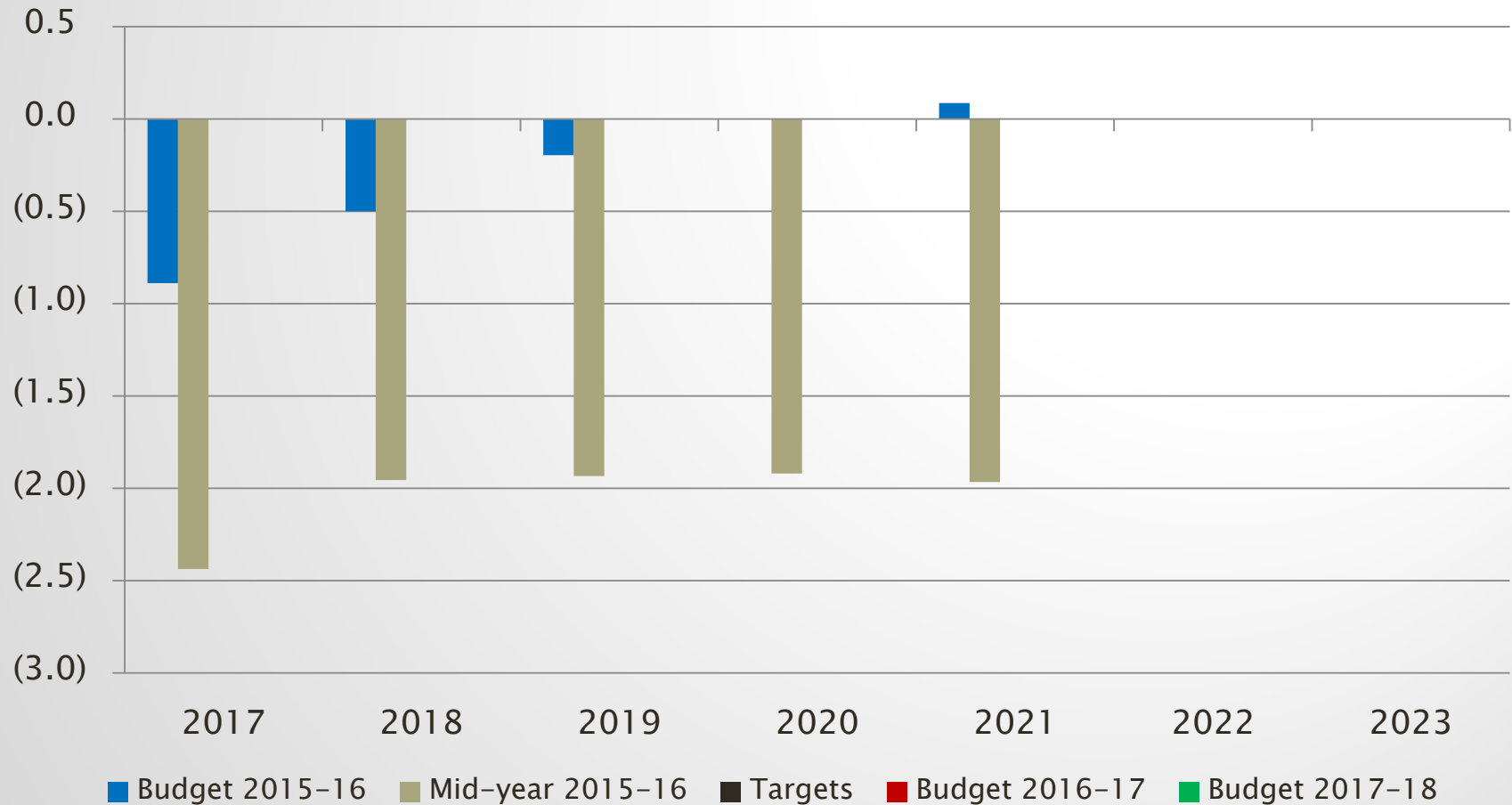
(\$ Billions)



Source: Provincial Department of Finance

Forecasts and Targets

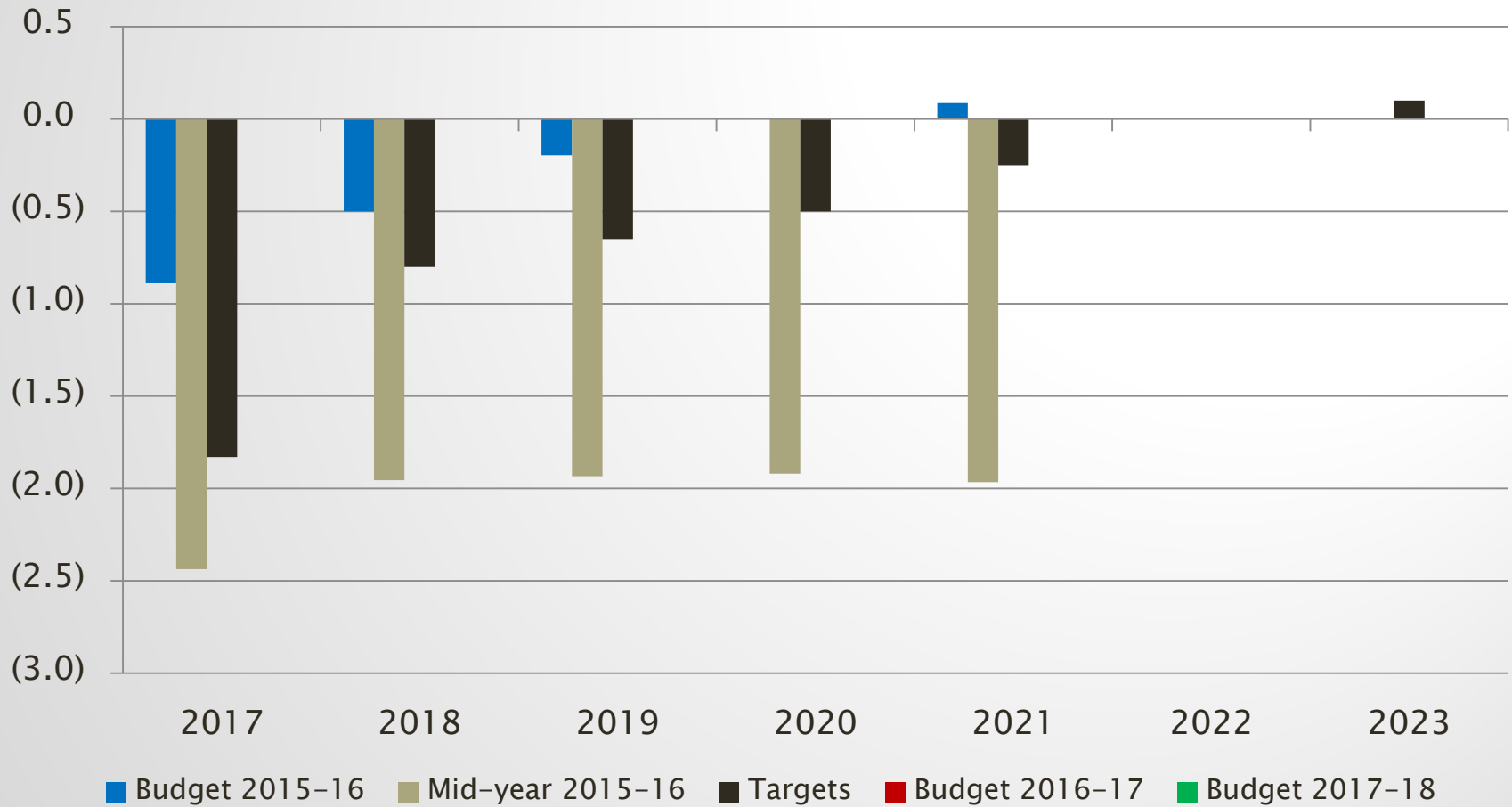
(\$ Billions)



Source: Provincial Department of Finance

Forecasts and Targets

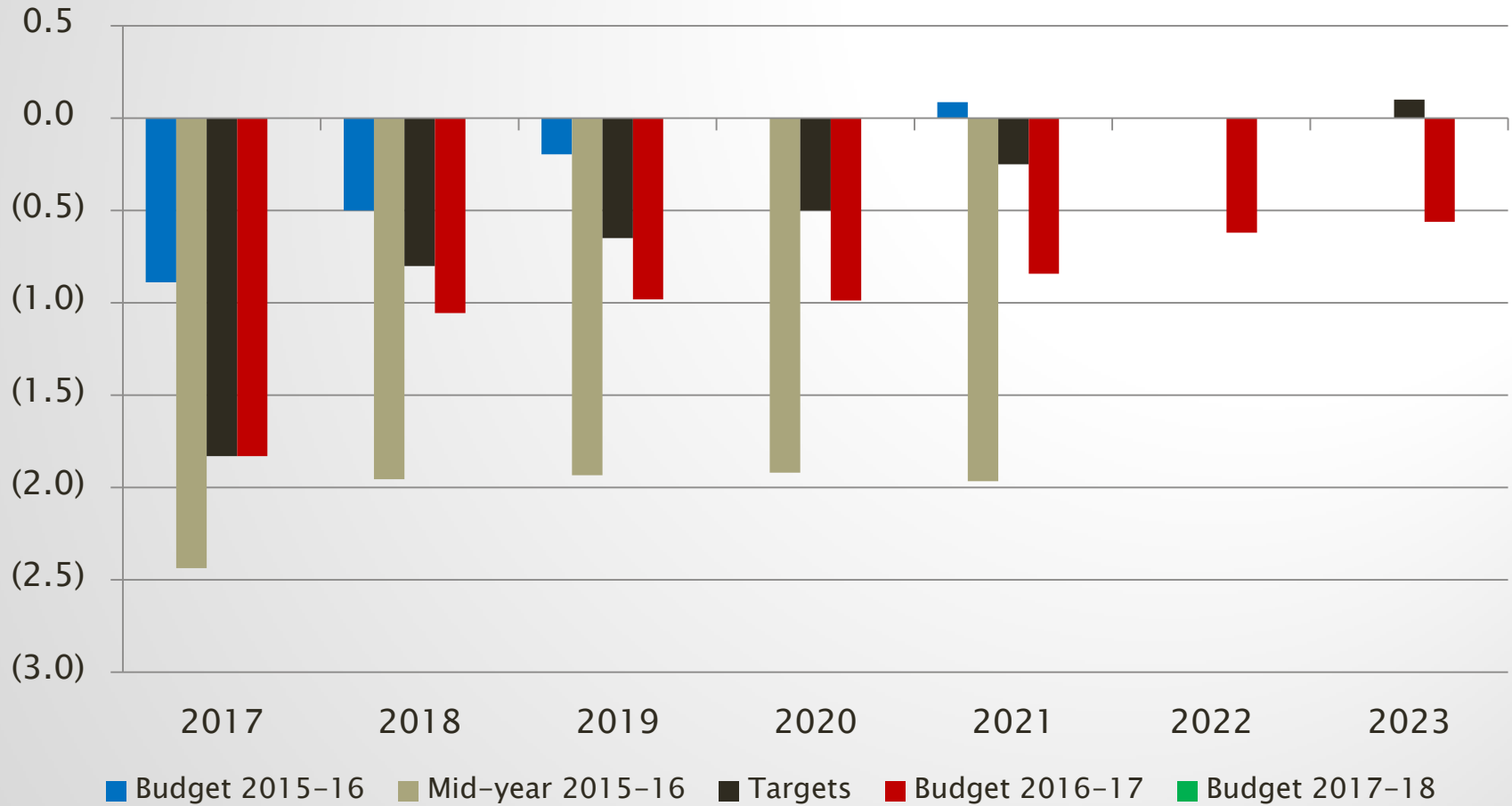
(\$ Billions)



Source: Provincial Department of Finance

Forecasts and Targets

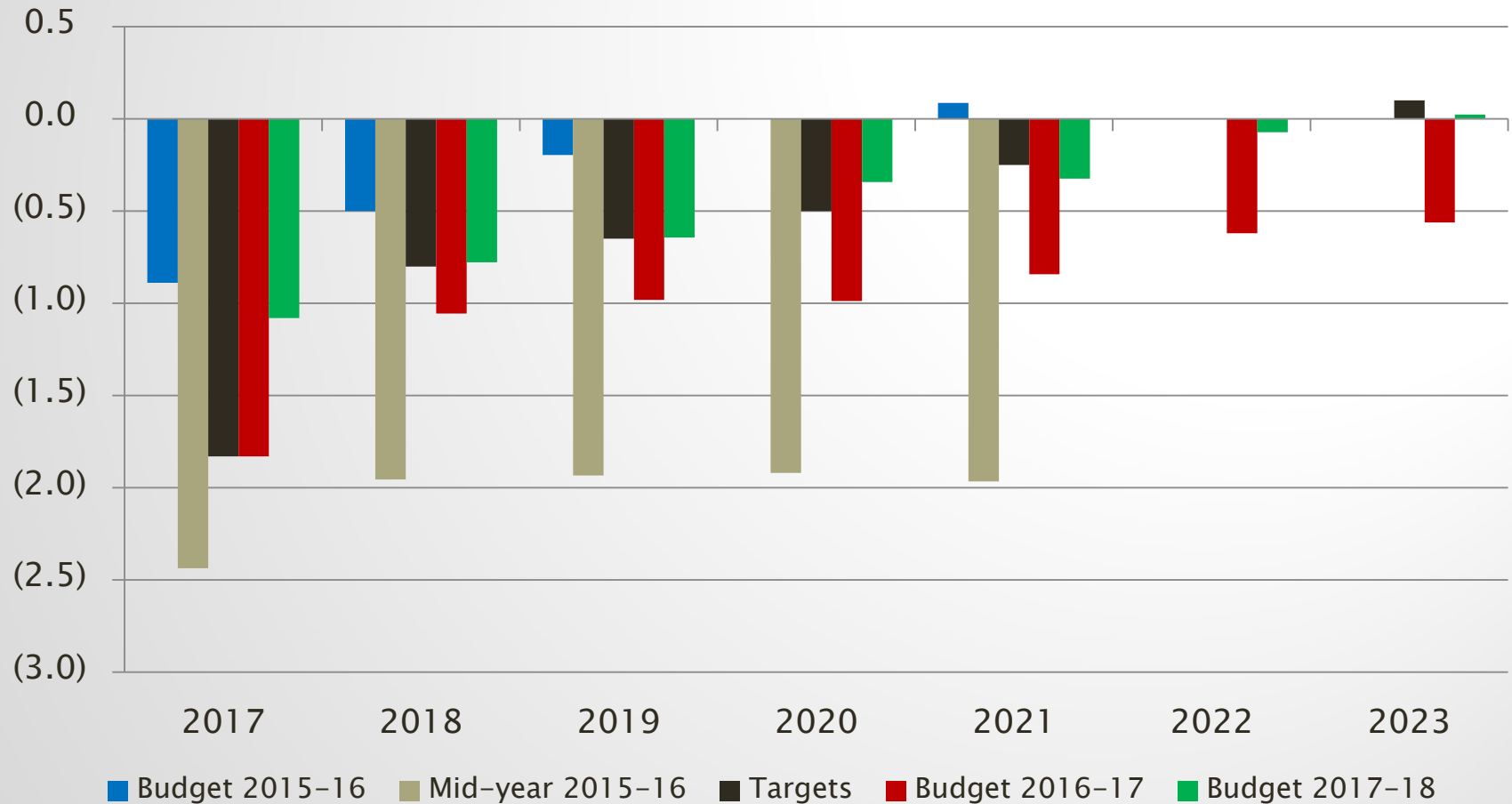
(\$ Billions)



Source: Provincial Department of Finance

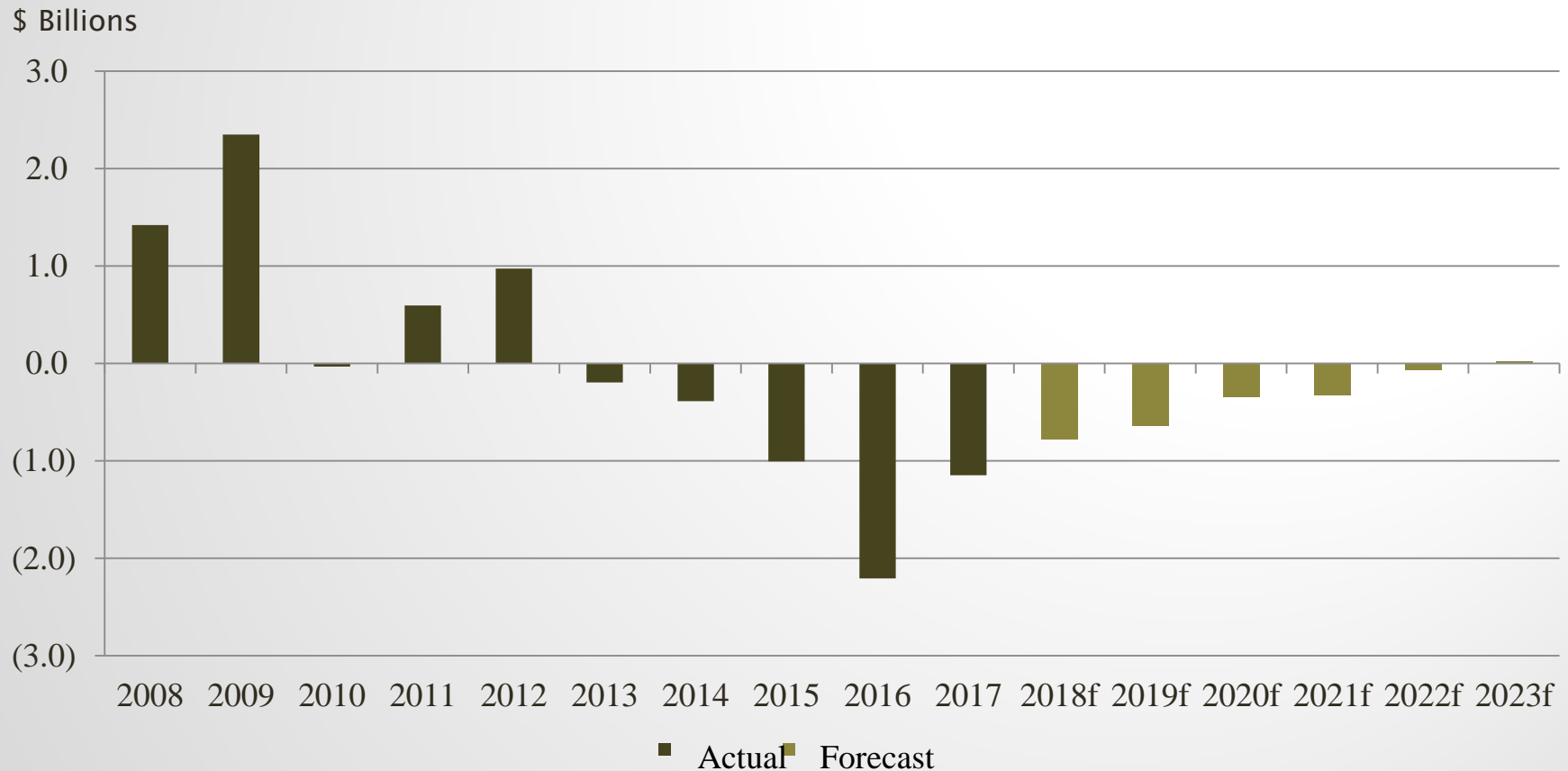
Forecasts and Targets

(\$ Billions)



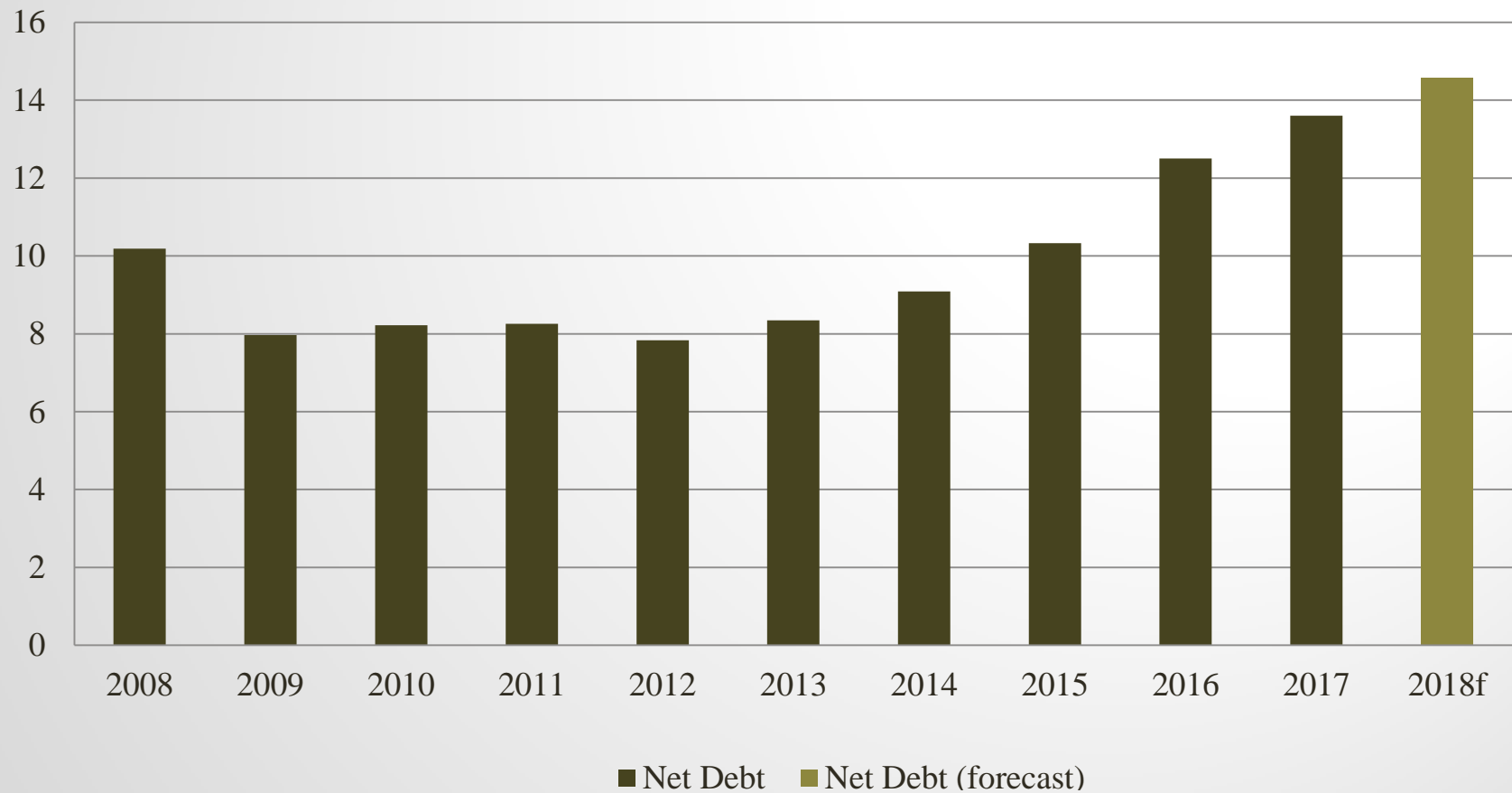
Source: Provincial Department of Finance

Surplus/Deficit and Forecast



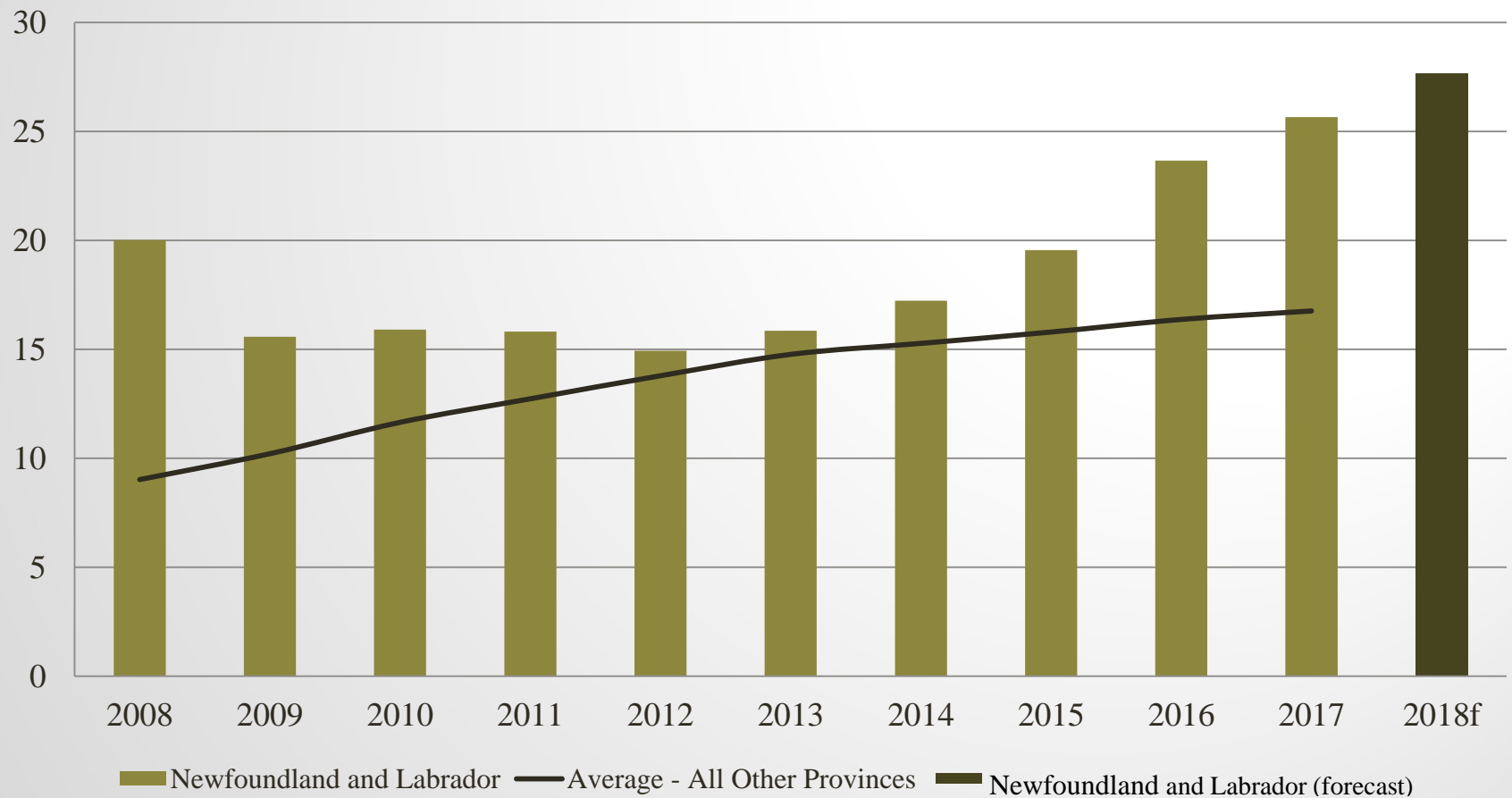
Source: Public Accounts (actual); Department of Finance (forecast)

Net Debt



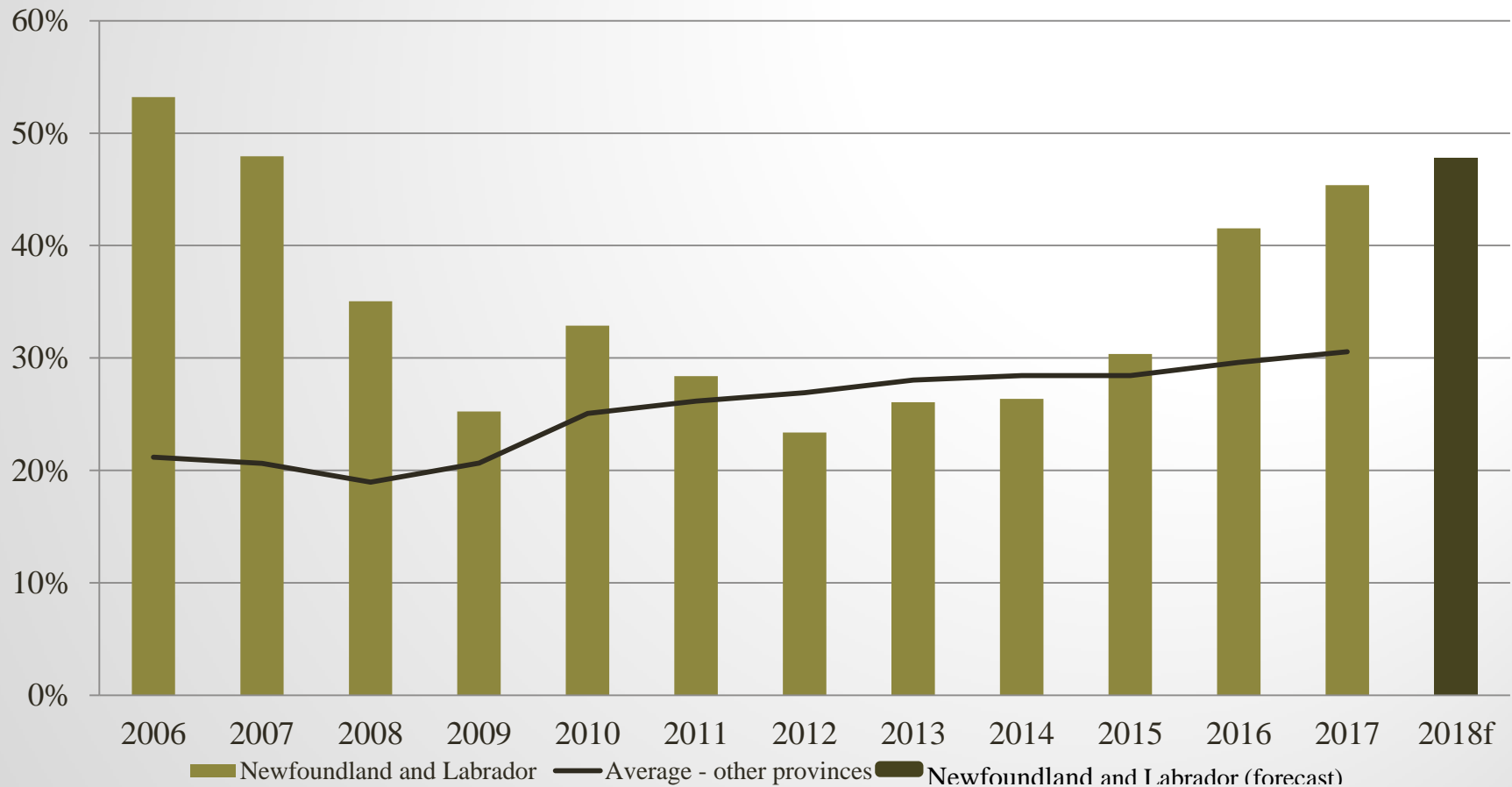
Source: Public Accounts (actual); Department of Finance (forecast)

Net Debt Per Capita



Source: Public Accounts – all Provinces; Statistics Canada; Department of Finance (forecast)

Net Debt as a % of GDP



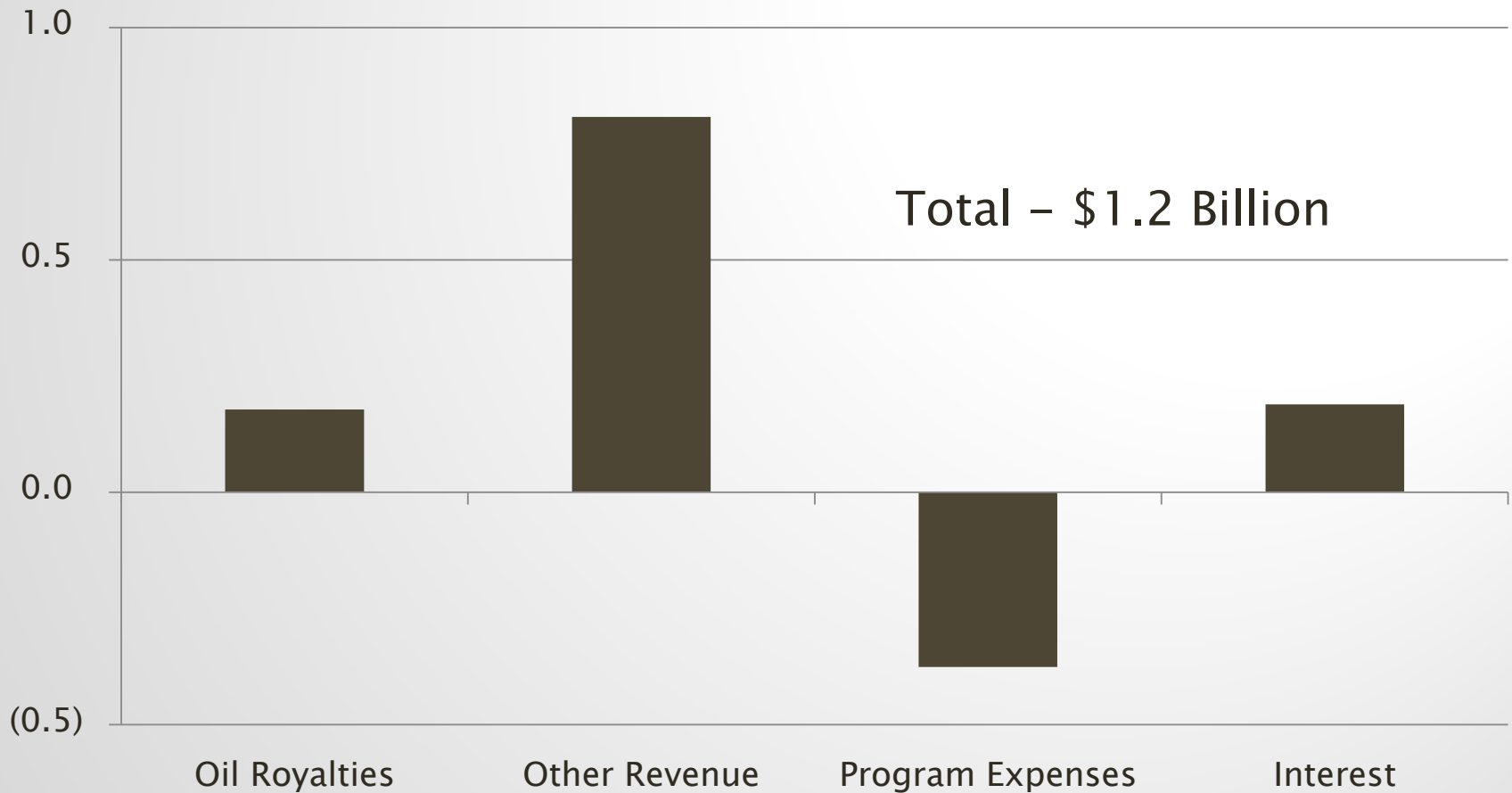
Source: Economic Updates - all Provinces; Statistics Canada; Public Accounts - All Provinces

»» Components and Risk

Components of Deficit Change

(2016-17 to 2022-23)

(\$ Billions)

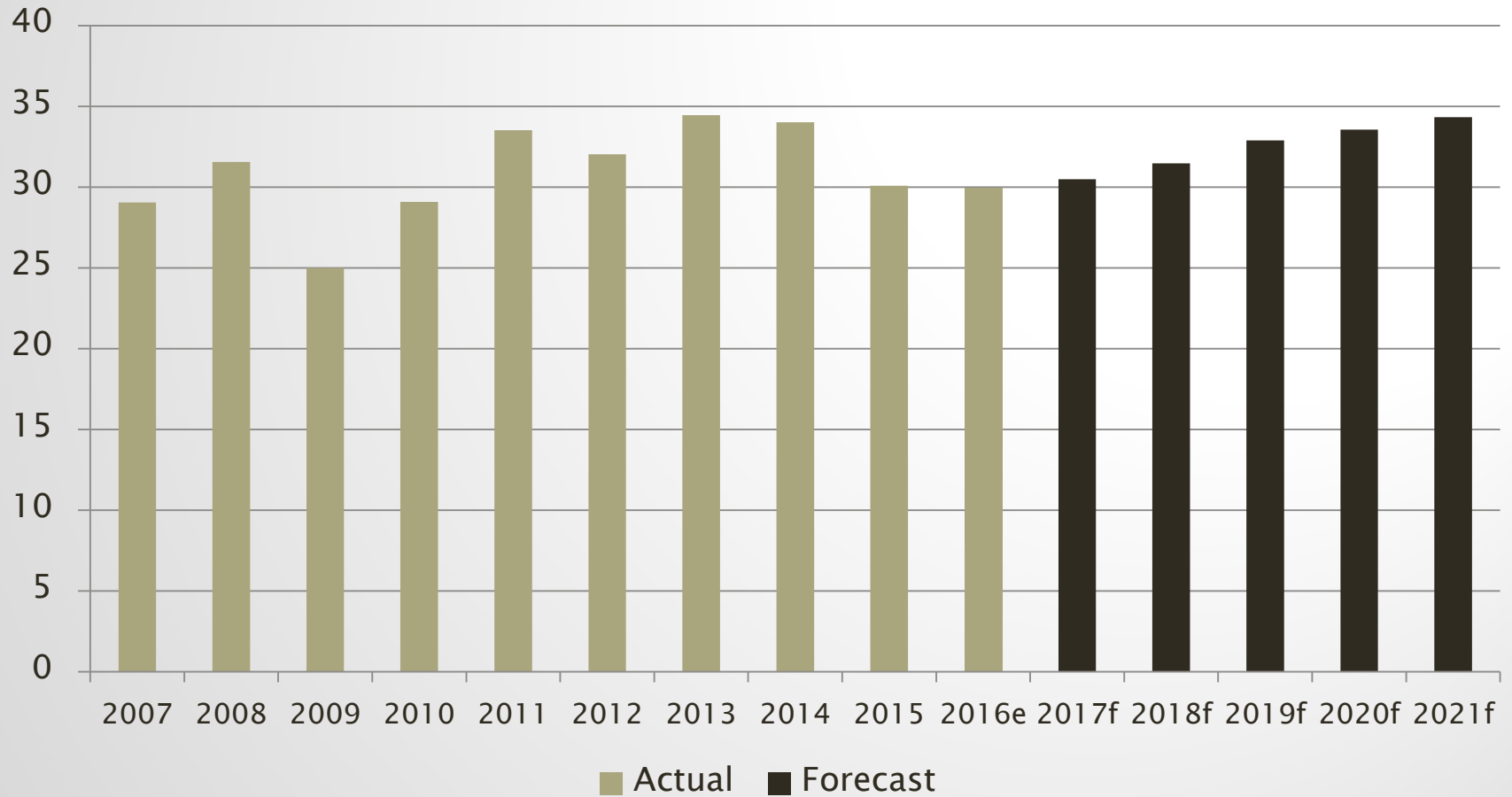


Source: Public Accounts; Department of Finance

»» Economic Forecast

Nominal GDP

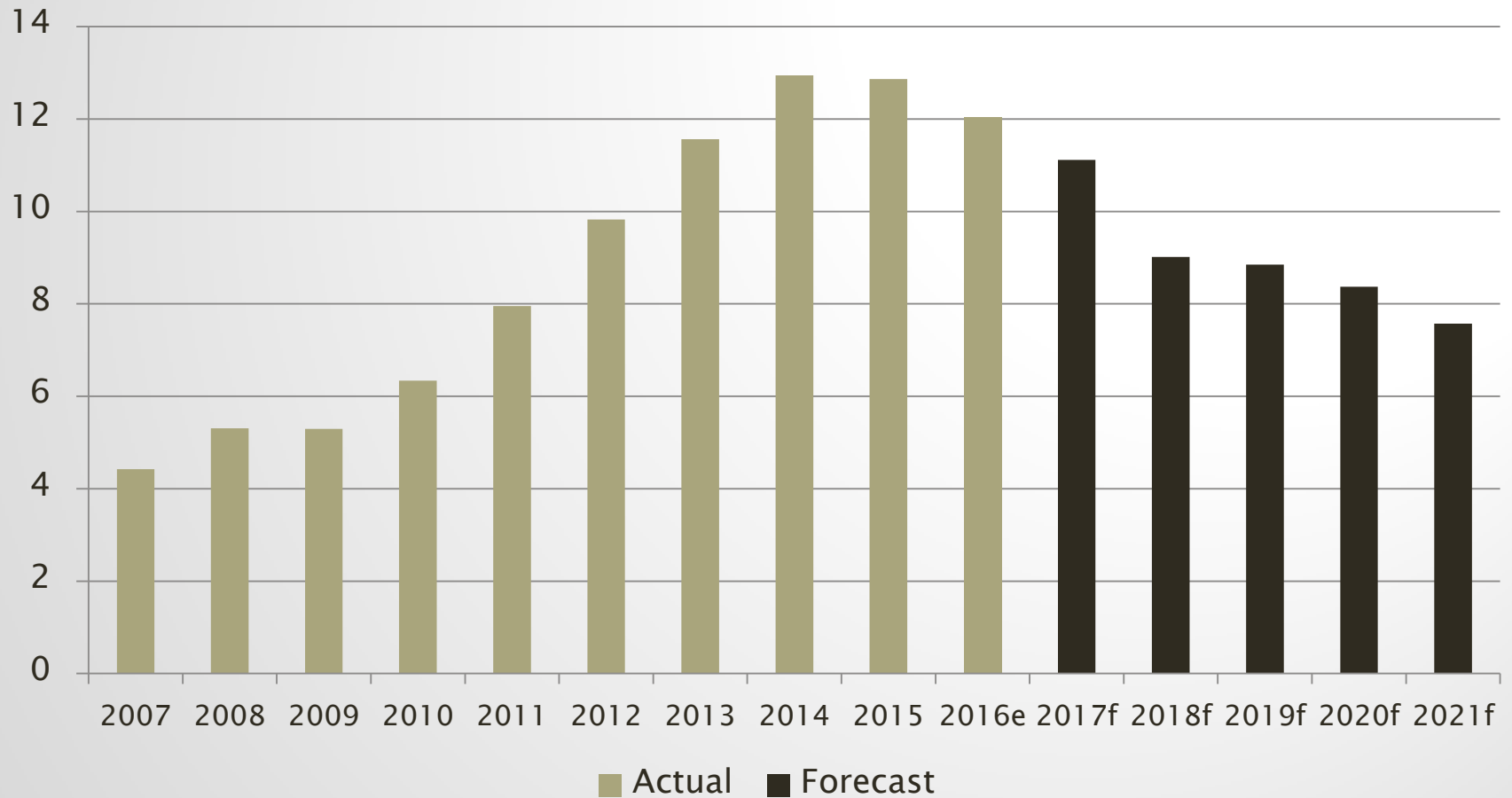
\$ Billions



Source: Department of Finance

Capital Investment

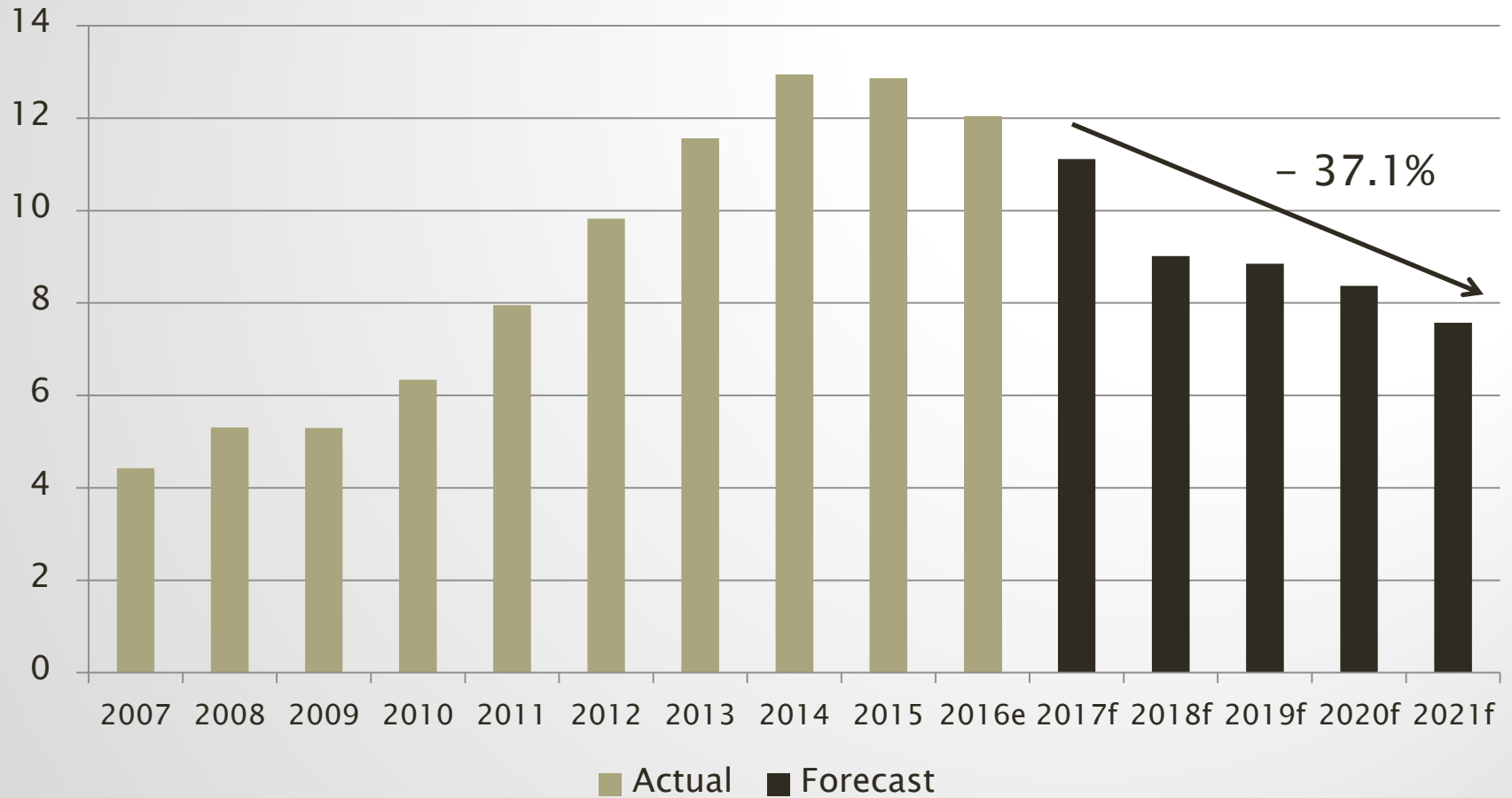
\$ Billions



Source: Department of Finance

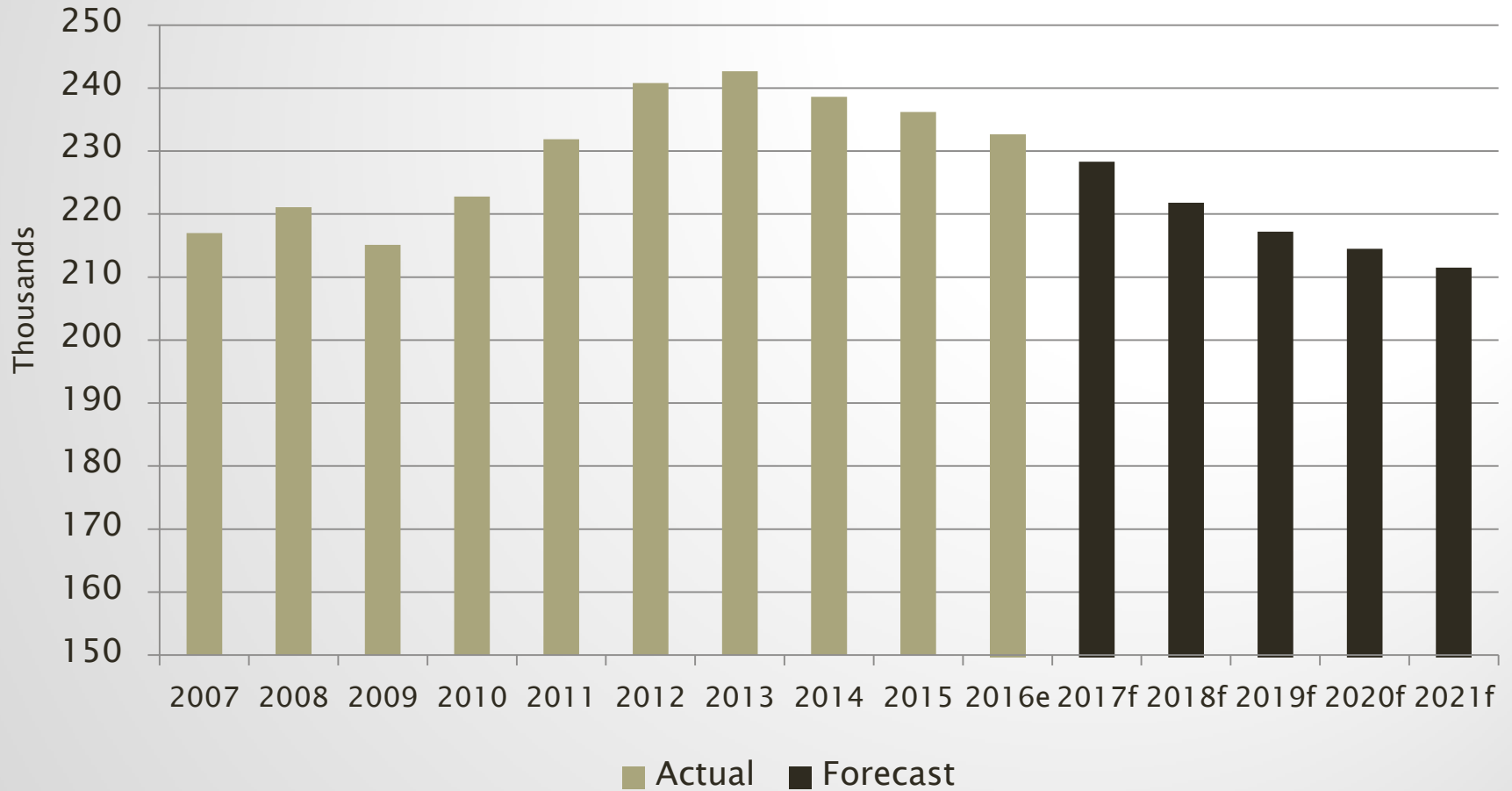
Capital Investment

\$ Billions



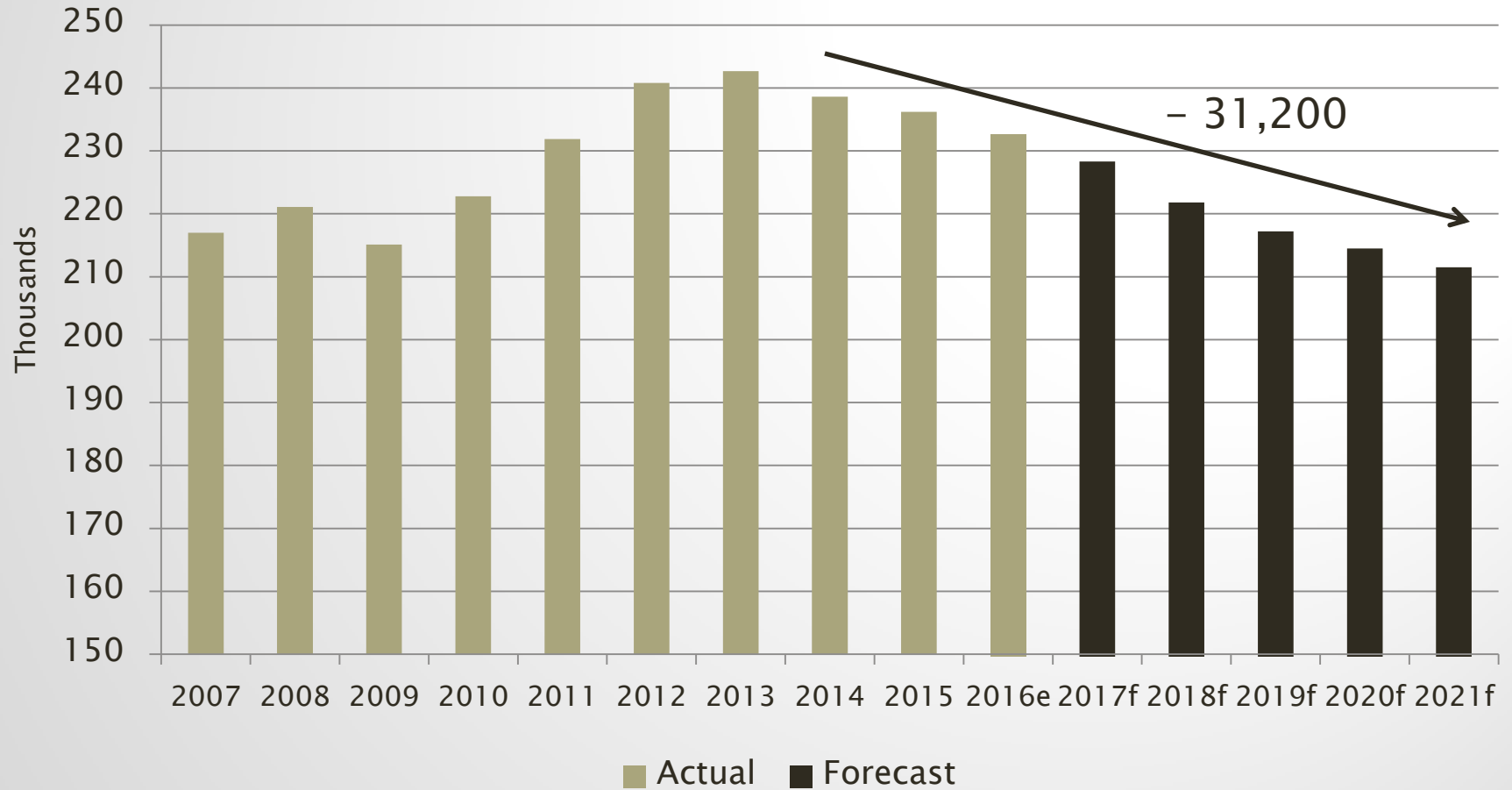
Source: Department of Finance

Employment



Source: Department of Finance

Employment

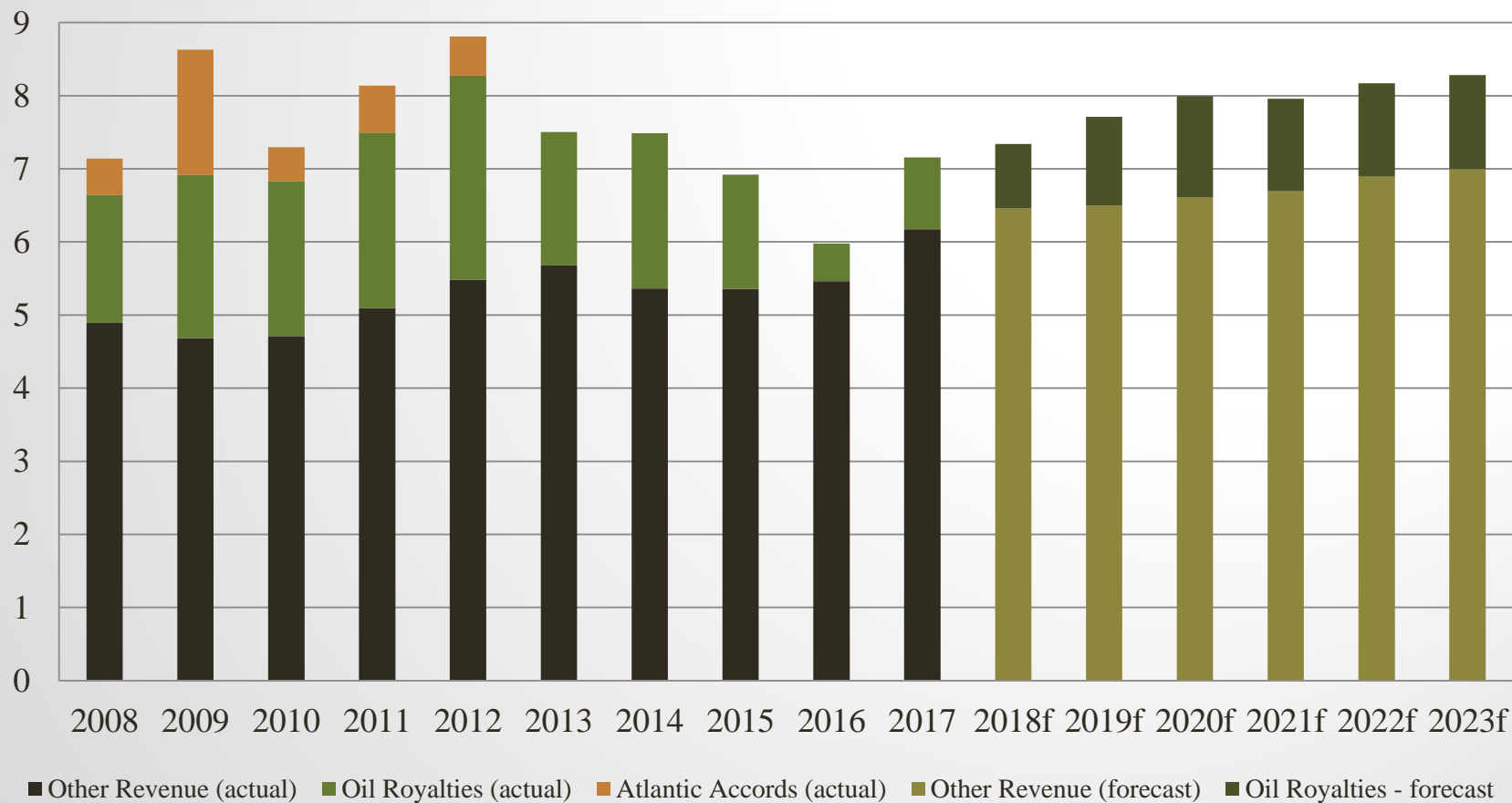


Source: Department of Finance

»» Revenue

Revenue

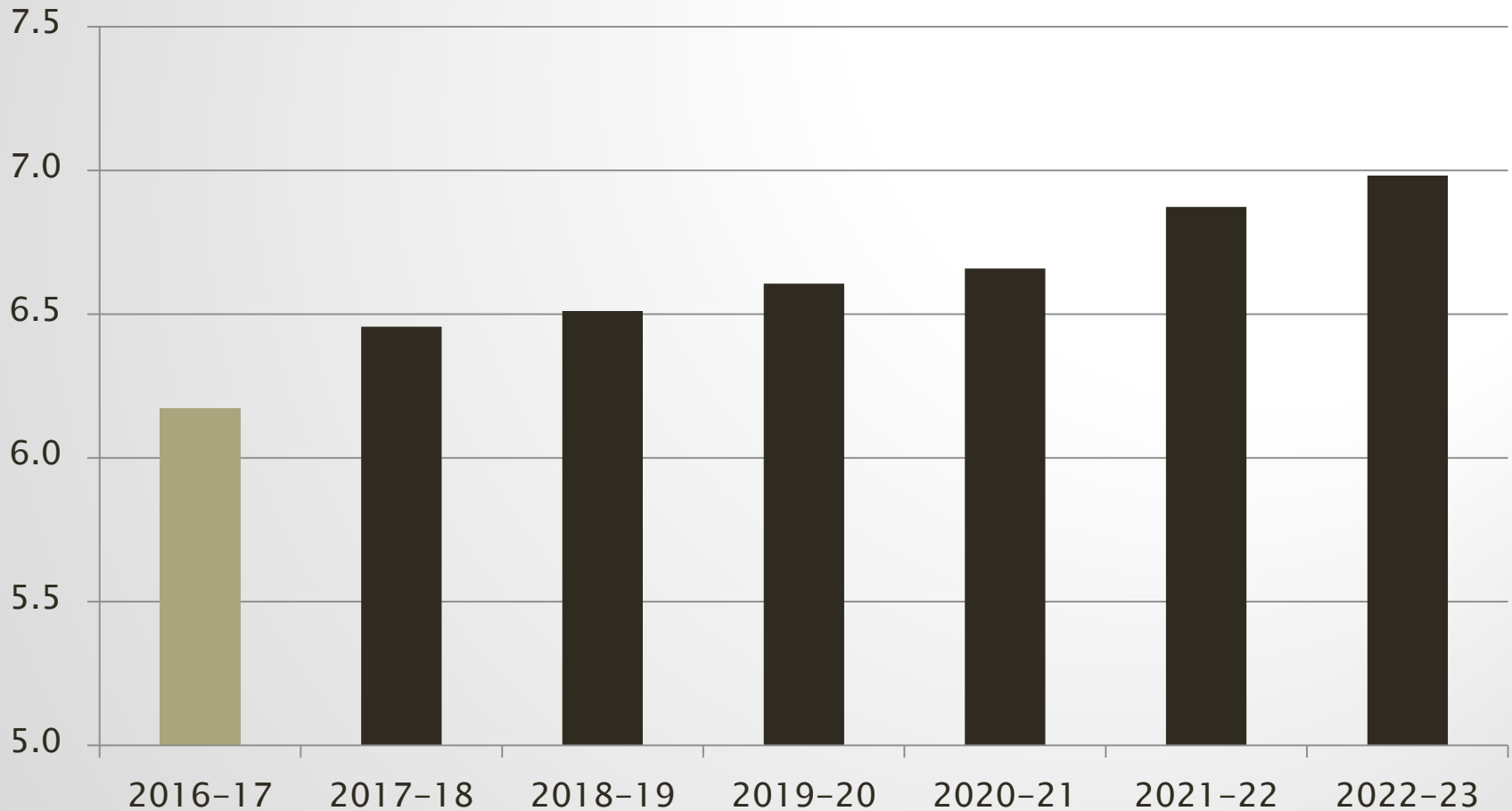
\$ Billions



Source: Public Accounts (actual); Department of Finance (forecast)

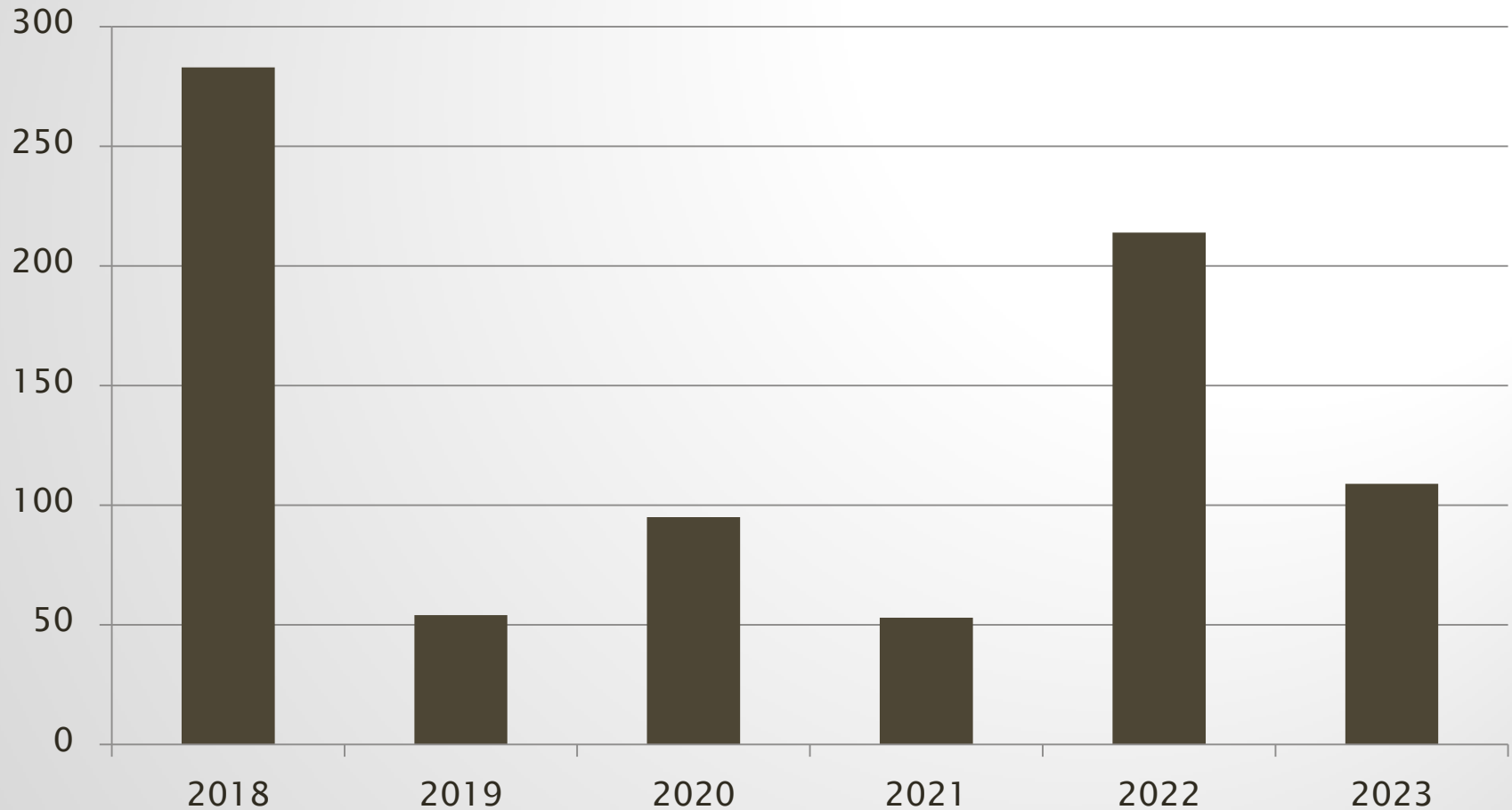
Revenue Forecast (Non-Oil)

\$ Billions



Source: Public Accounts (actual); Department of Finance (forecast)

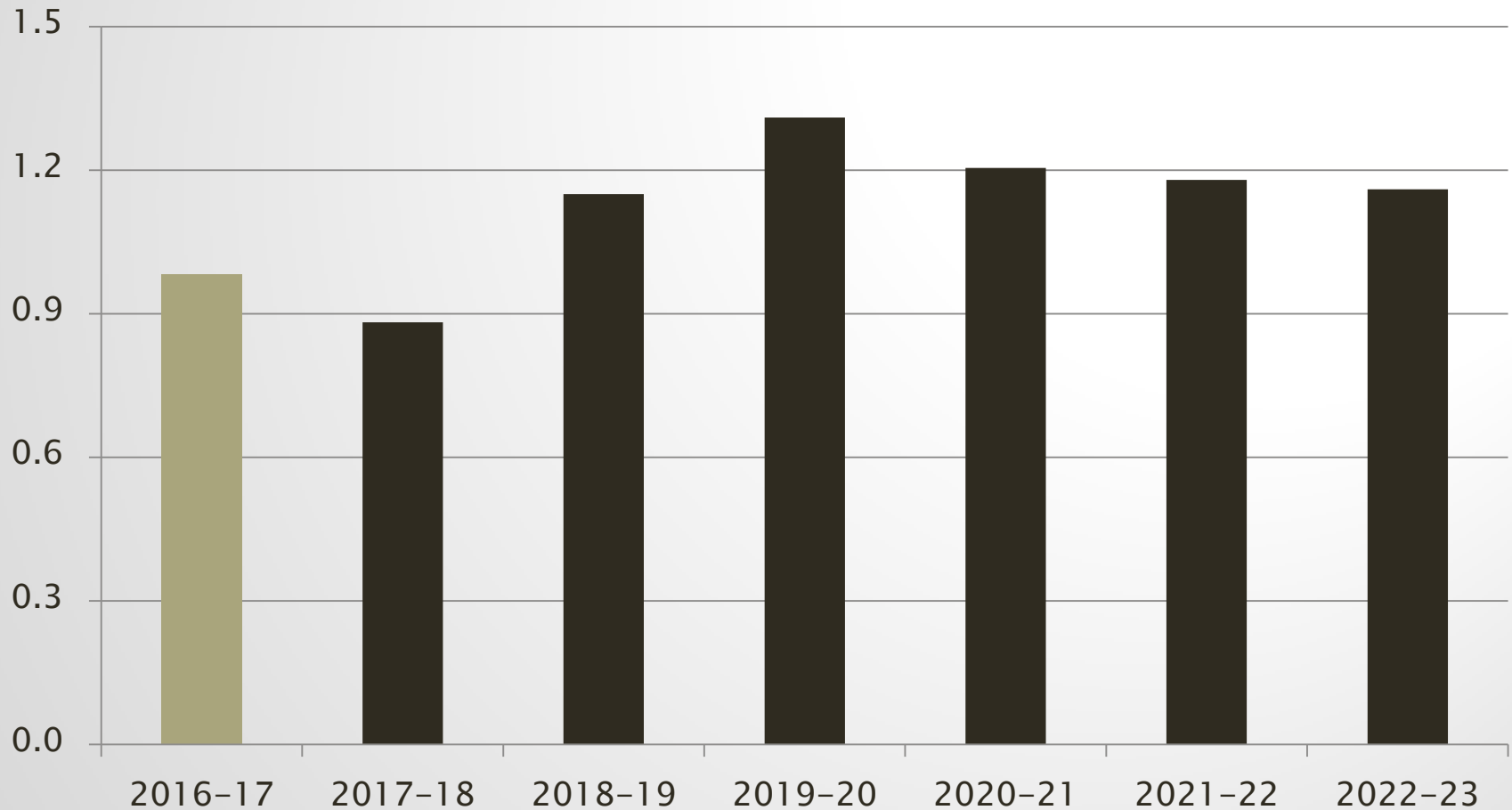
Annual non-oil Revenue Growth



Source: Department of Finance

Revenue Forecast (Oil)

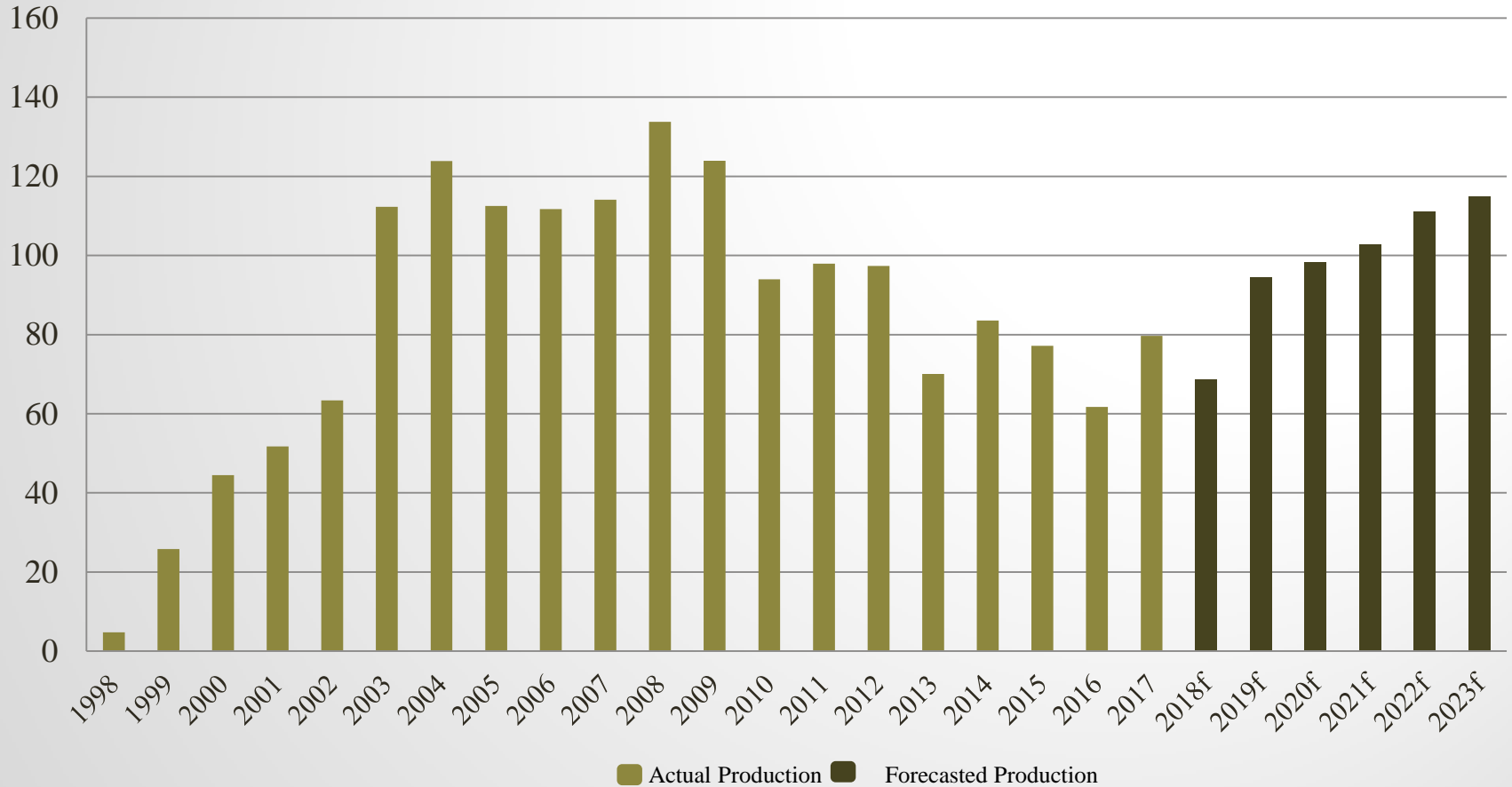
\$ Billions



Source: Public Accounts (actual); Department of Finance (forecast)

Oil Production

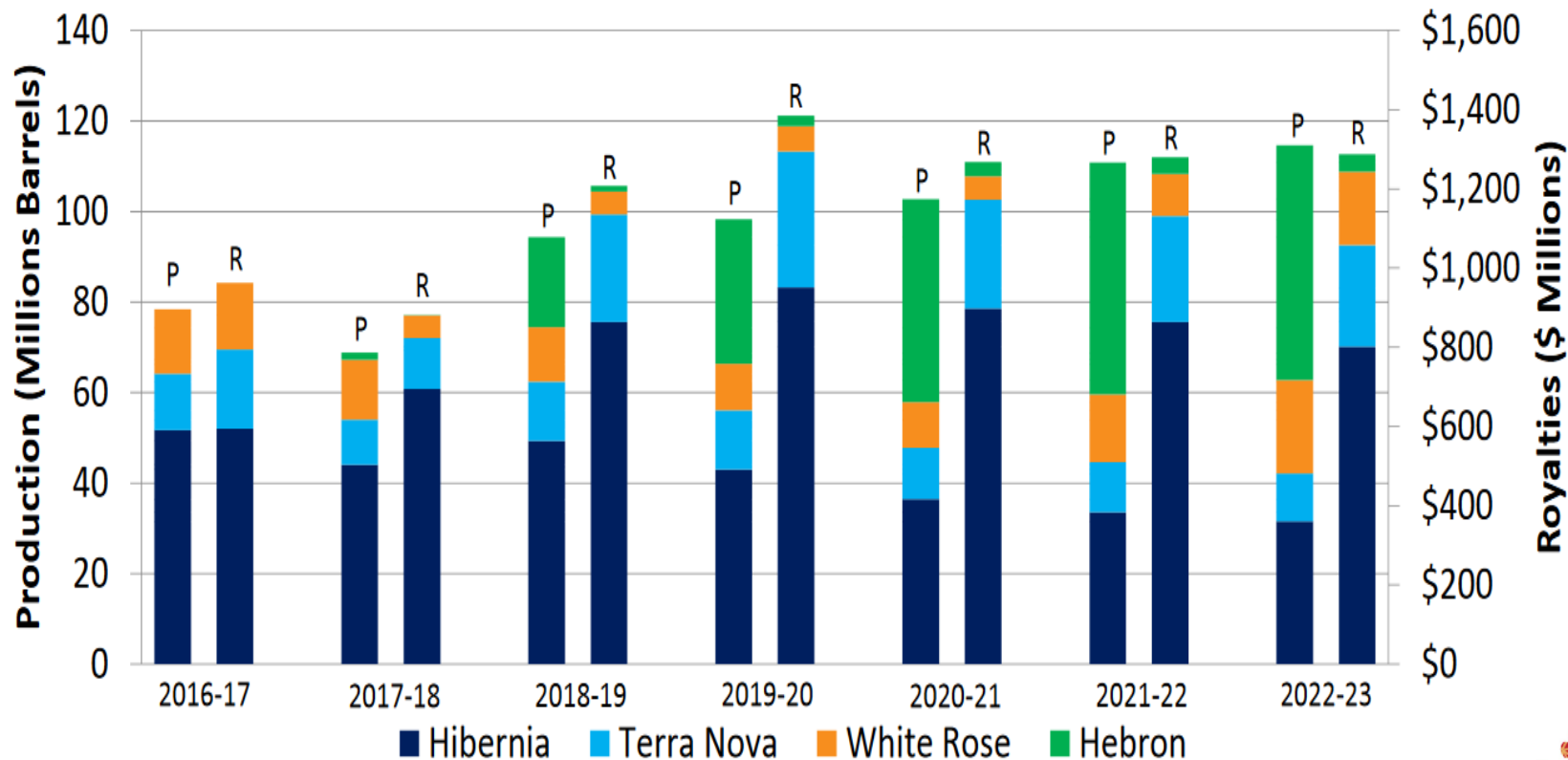
Millions Bbls



Source: Canada-Newfoundland Offshore Petroleum Board (actual); Department of Finance (forecast)

OIL PRODUCTION AND ROYALTIES

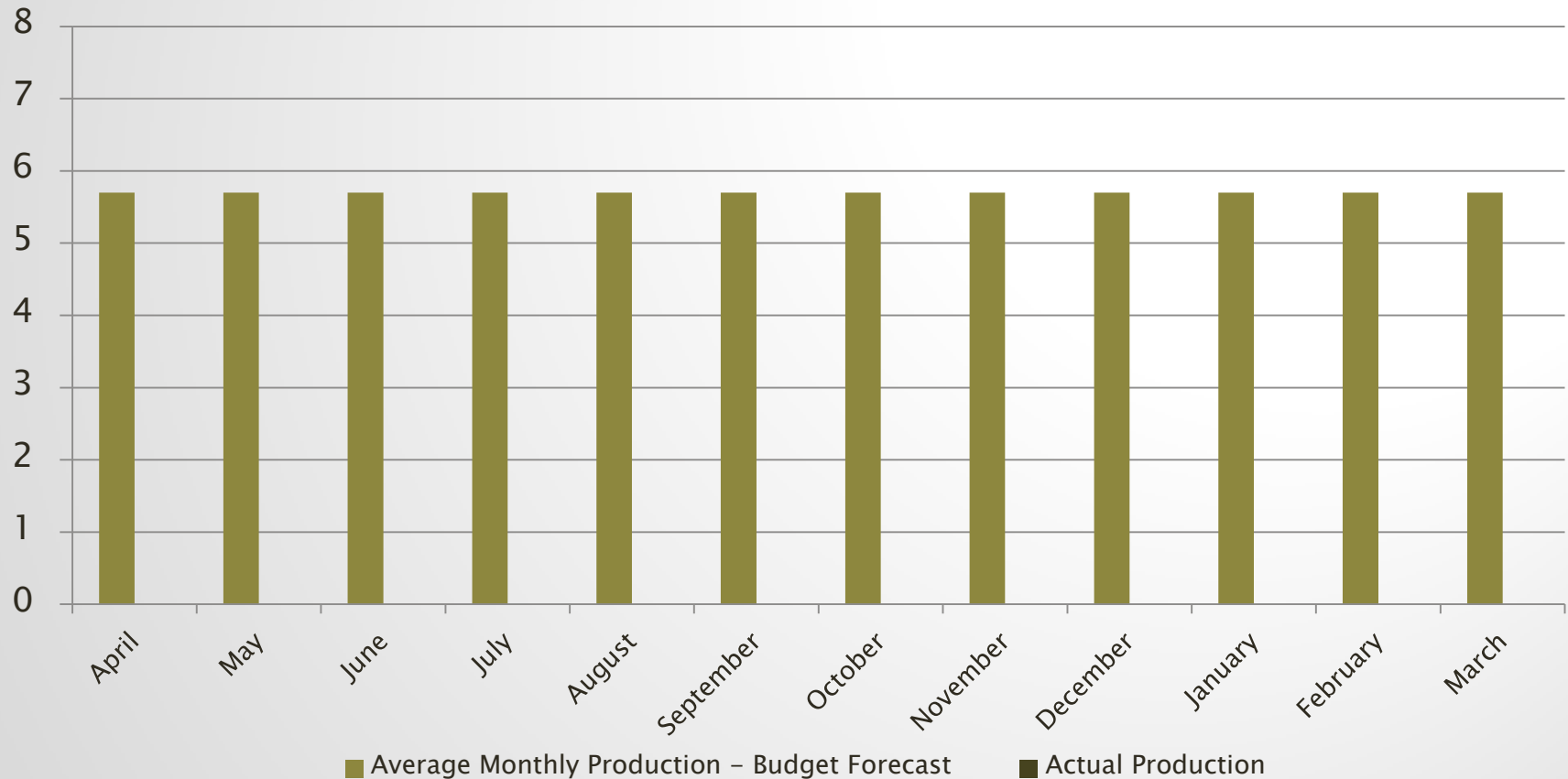
Production (P) left stacked columns; Royalties (R) right stacked columns



Sources: Department of Finance, Department of Natural Resources, C-NLOPB, Nalcor.

Oil Production – 2017–18

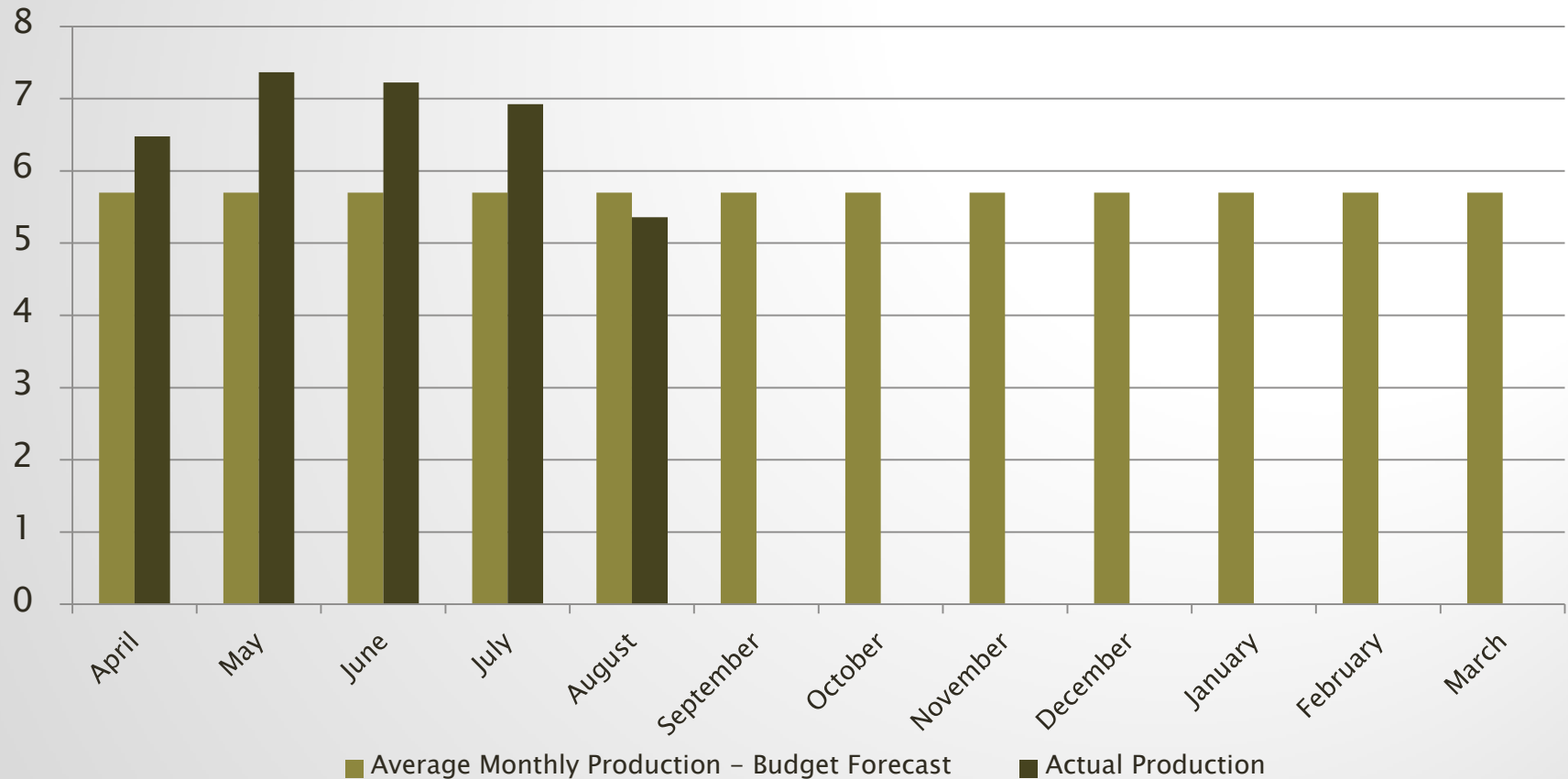
Millions Bbls



Source: Department of Finance

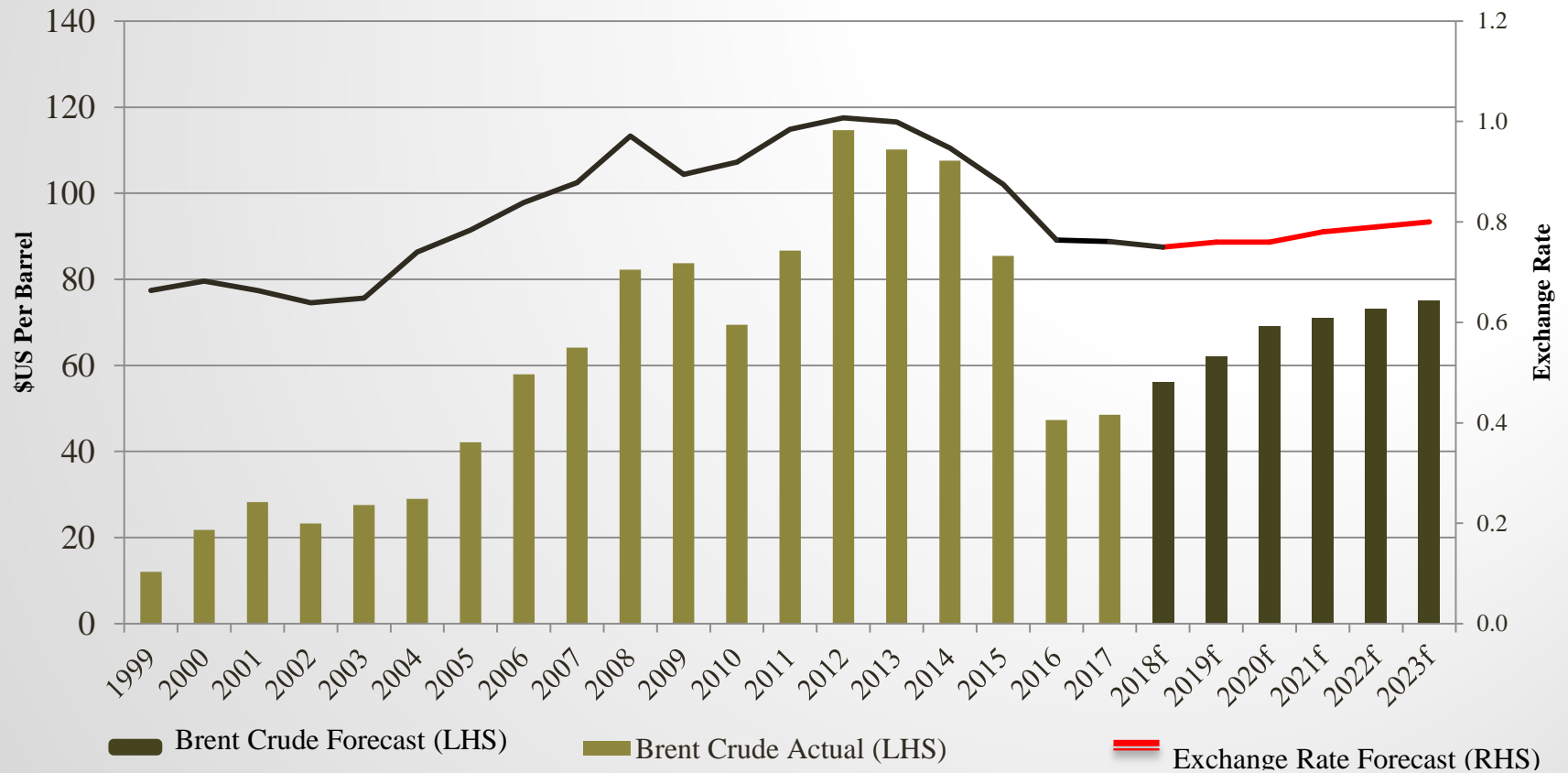
Oil Production – 2017–18

Millions Bbls



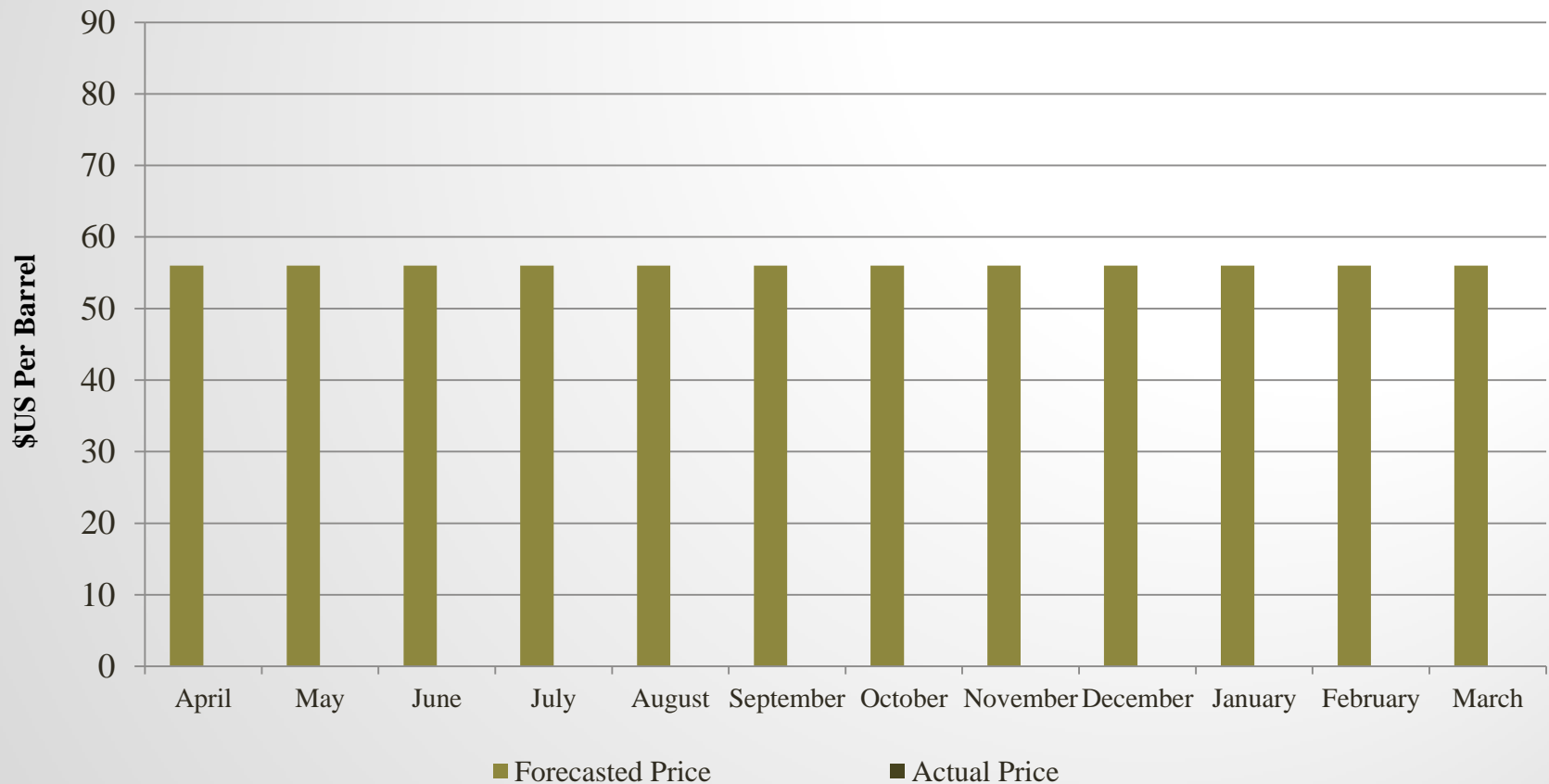
Source: Canada–Newfoundland Offshore Petroleum Board (actual); Department of Finance (forecast)

Oil Price (Brent)



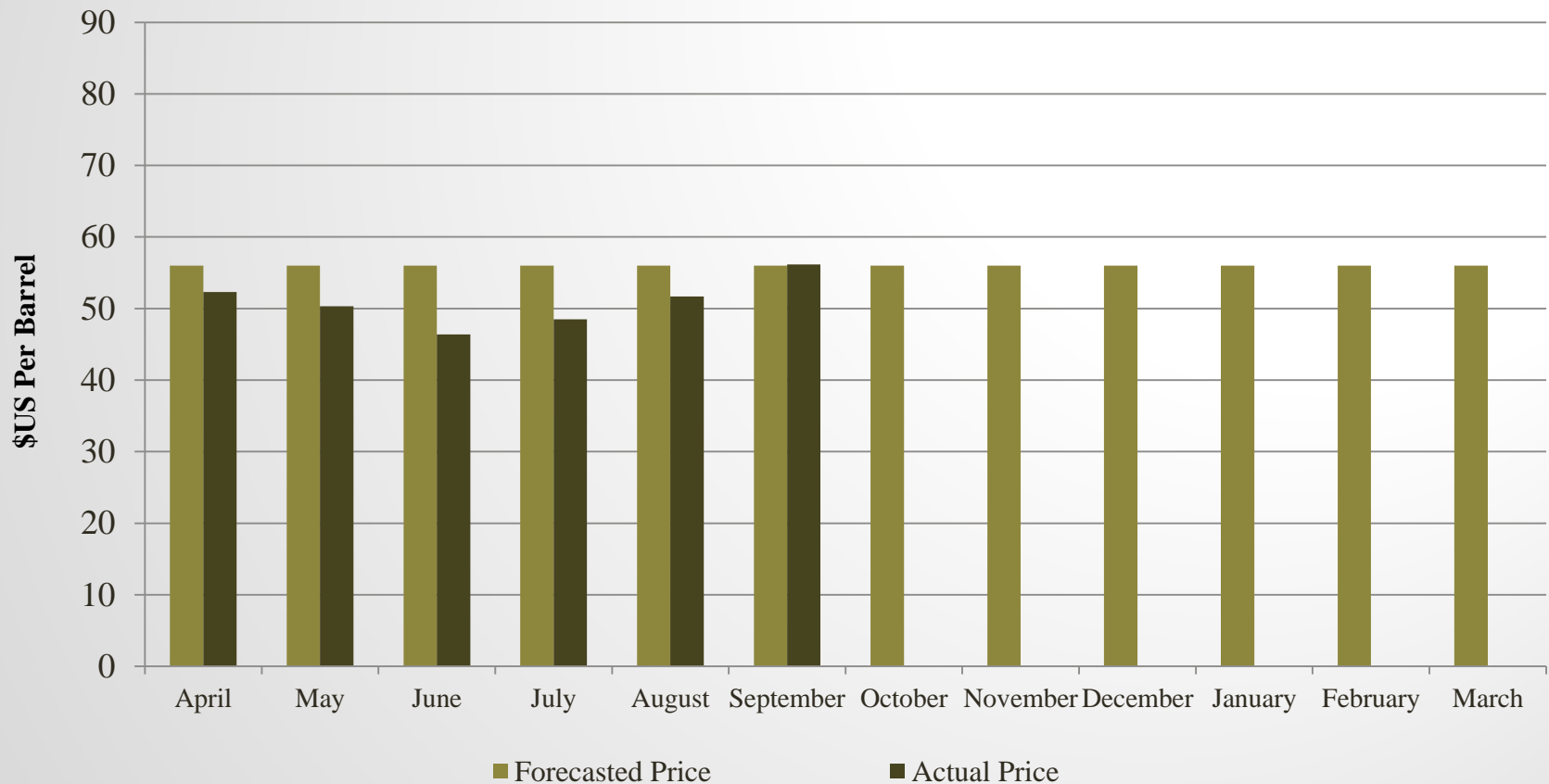
Source: US Department of Energy - EAI (Brent); Bank of Canada (Exchange Rate); Department of Finance (forecast)

Oil Price – 2017–18 (\$US)



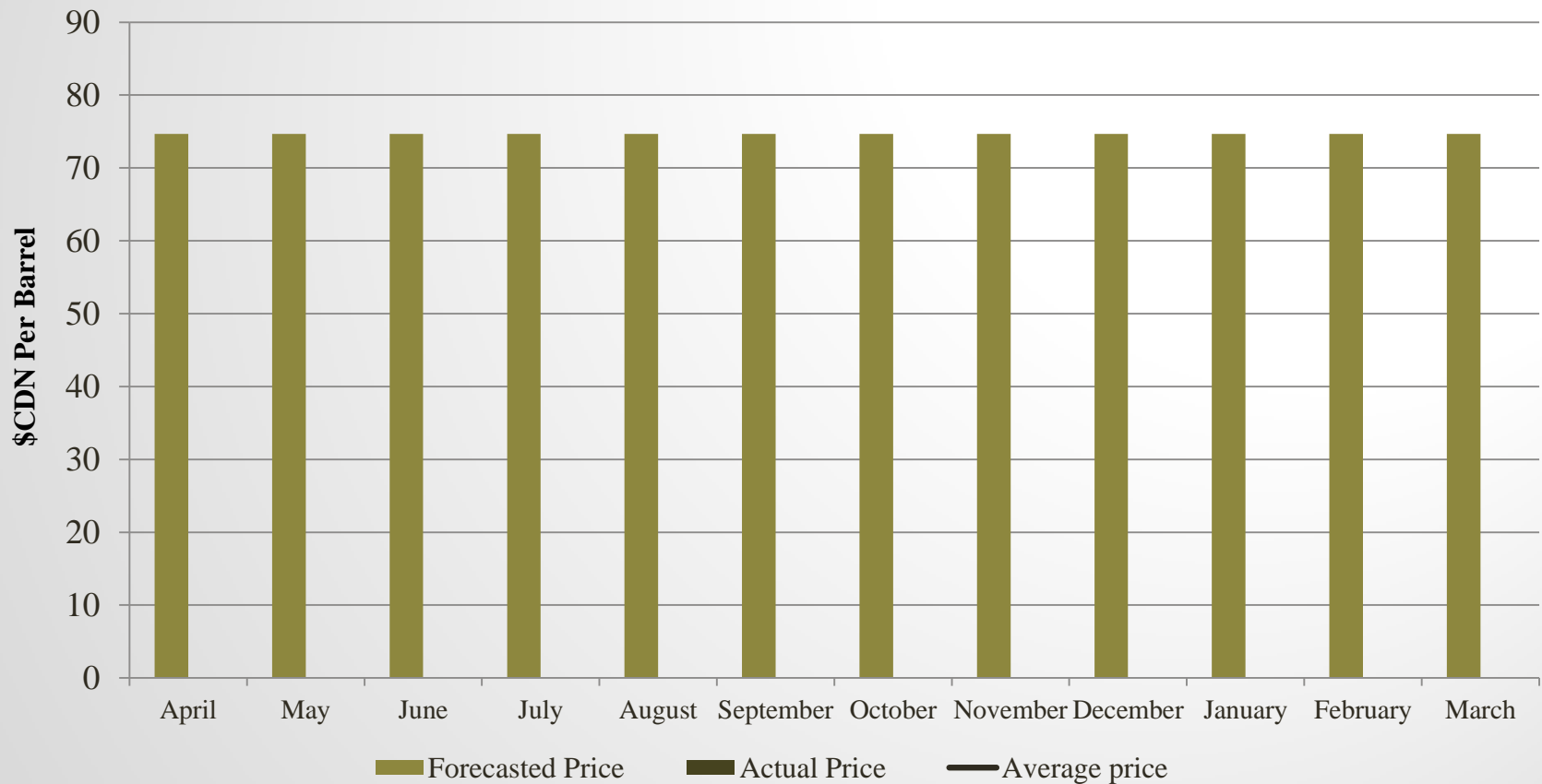
Source: Department of Finance

Oil Price – 2017–18 (\$US)



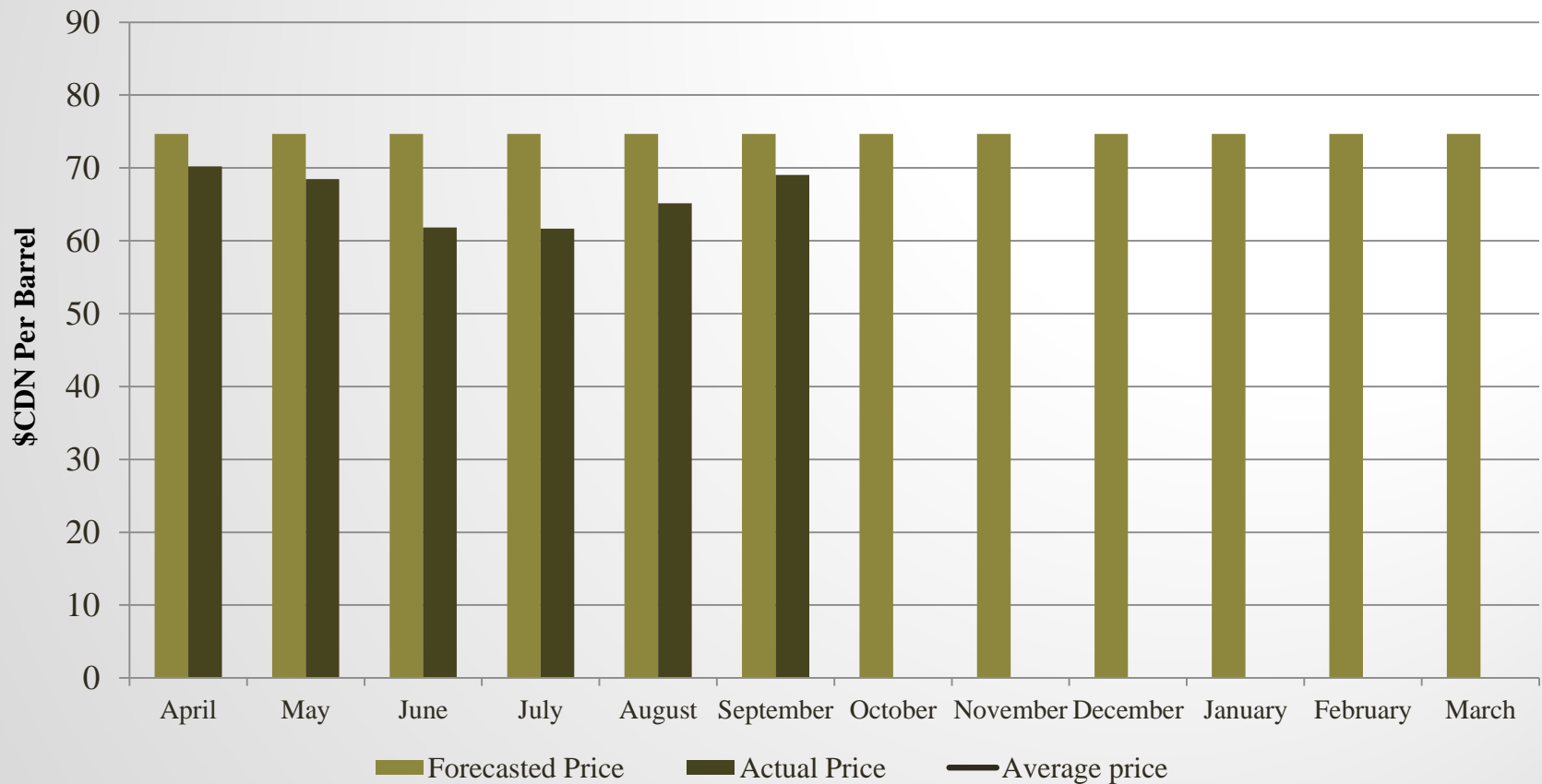
Source: Department of Finance (forecast); US Department of Energy – EIA (actual Brent)

Oil Price – 2017–18 (\$CDN)



Source: Department of Finance

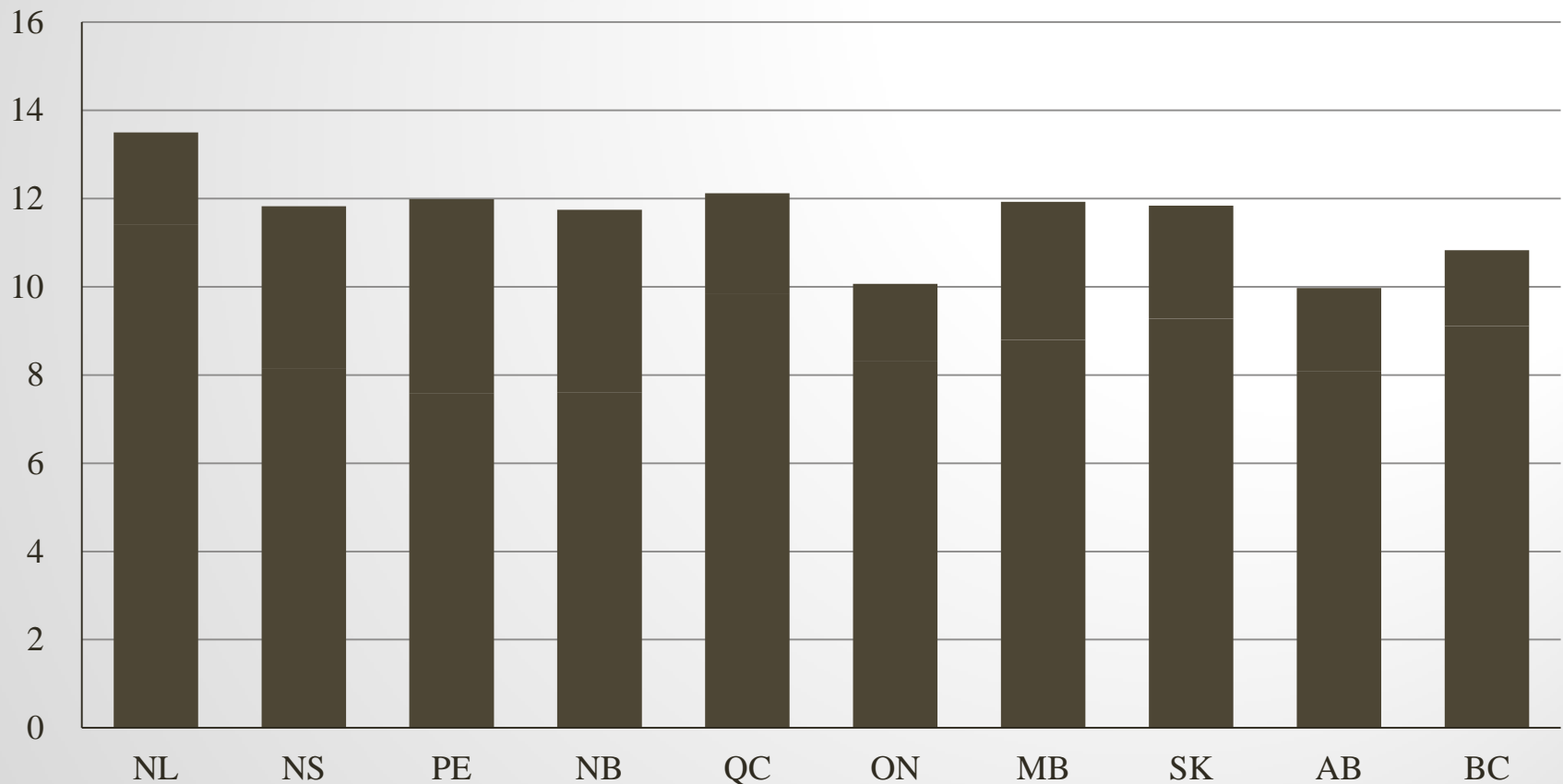
Oil Price – 2017–18 (\$CDN)



Source: Department of Finance (forecast); US Department of Energy – EIA (actual Brent); Bank of Canada (Exchange Rate)

Per Capita Revenue

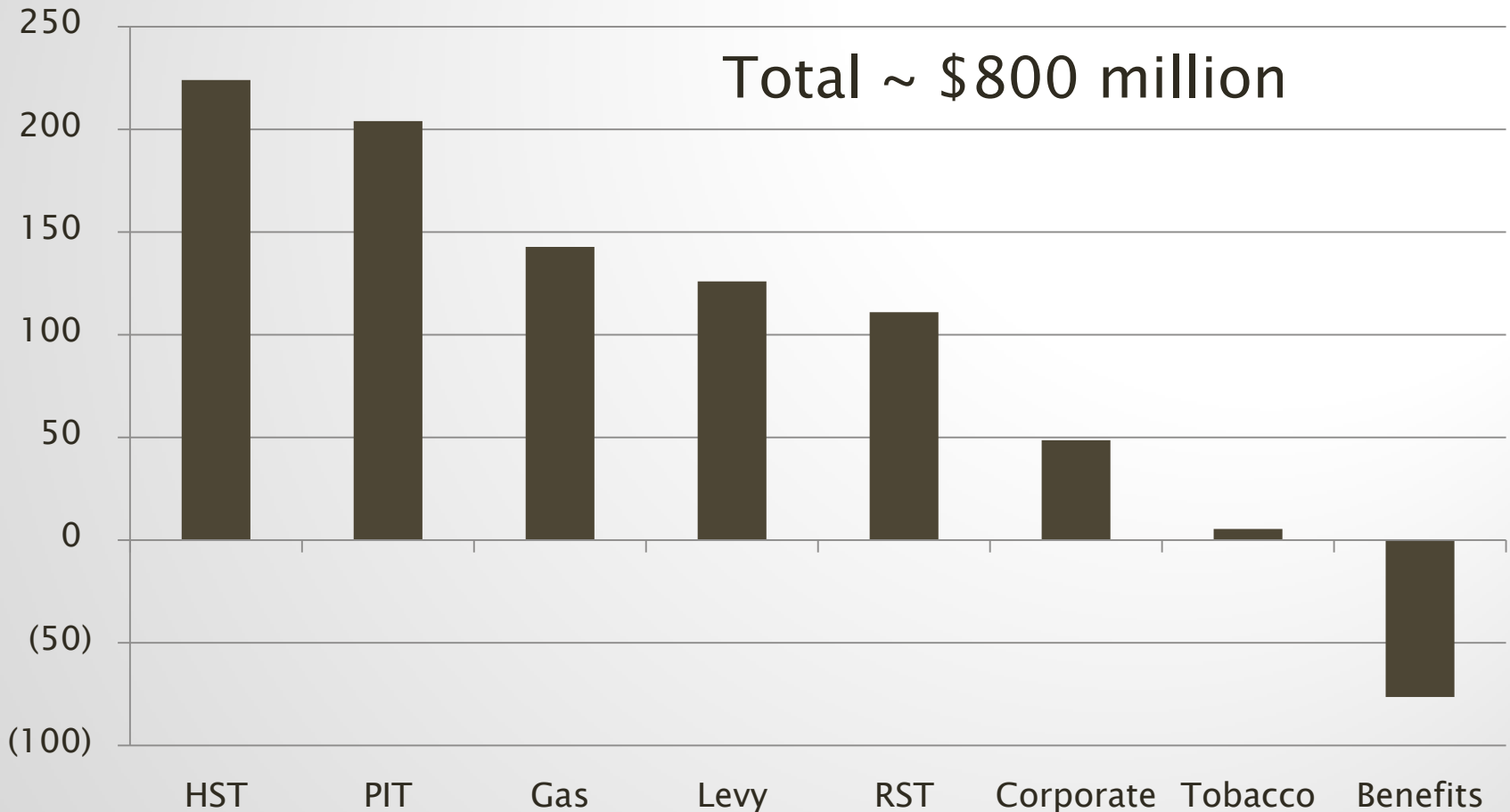
\$ '000



Source: Public Accounts – all Provinces; Statistics Canada

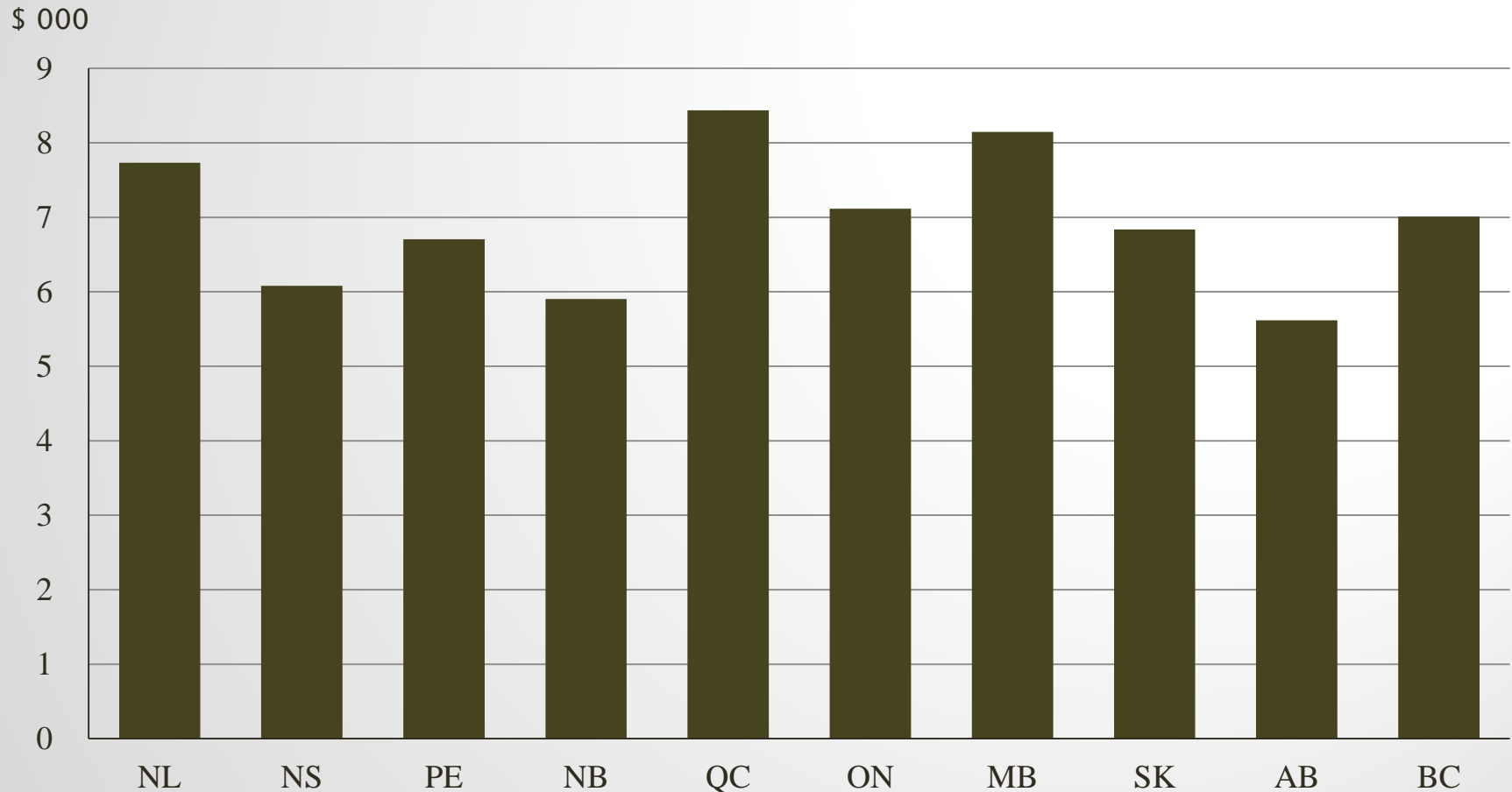
Revenue Measures – Budget 2016

\$ Millions



Source: Department of Finance

Per Capita Taxes and Fees

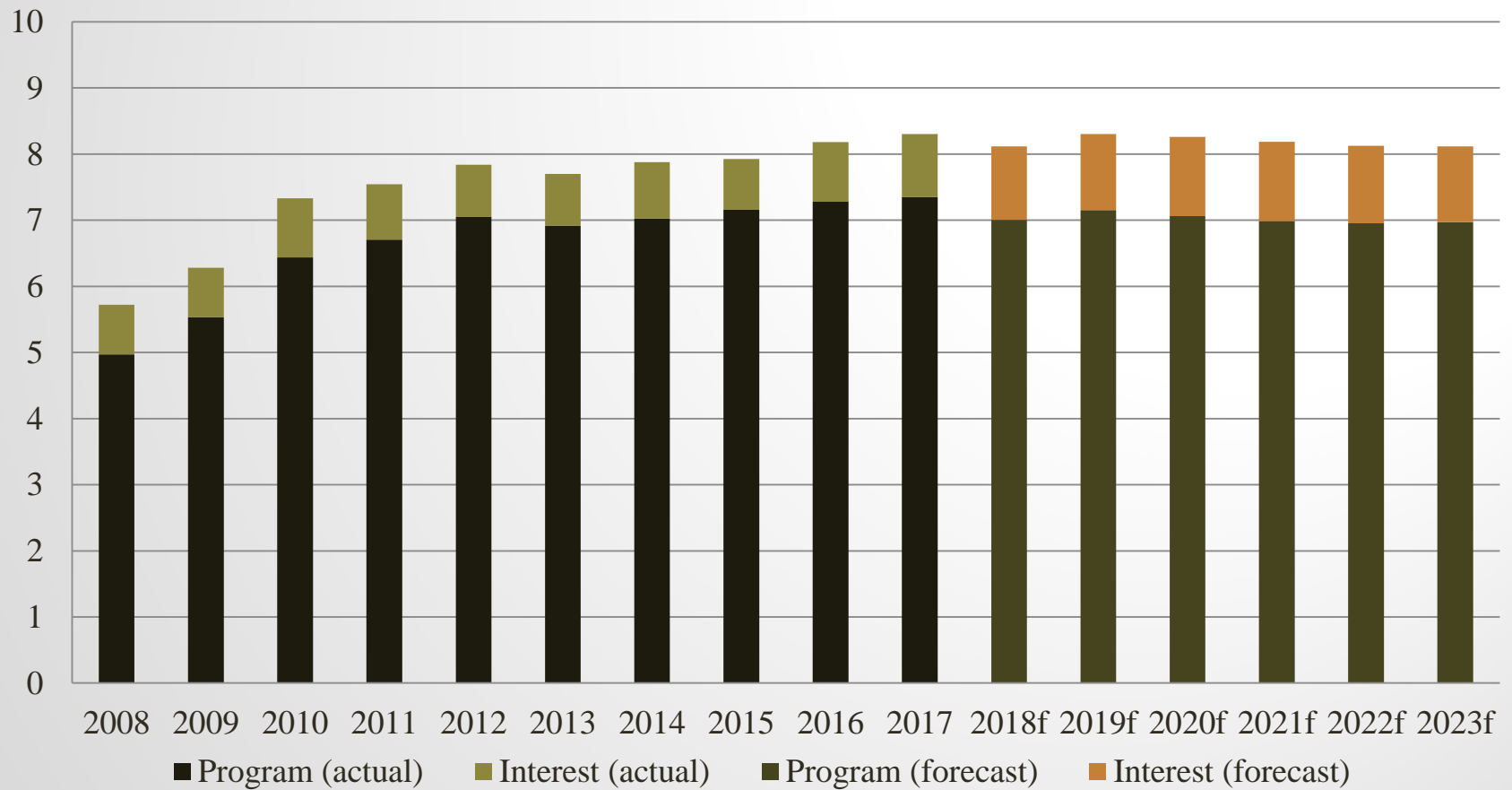


Source: Public Accounts – all Provinces; Statistics Canada

»» Expenses

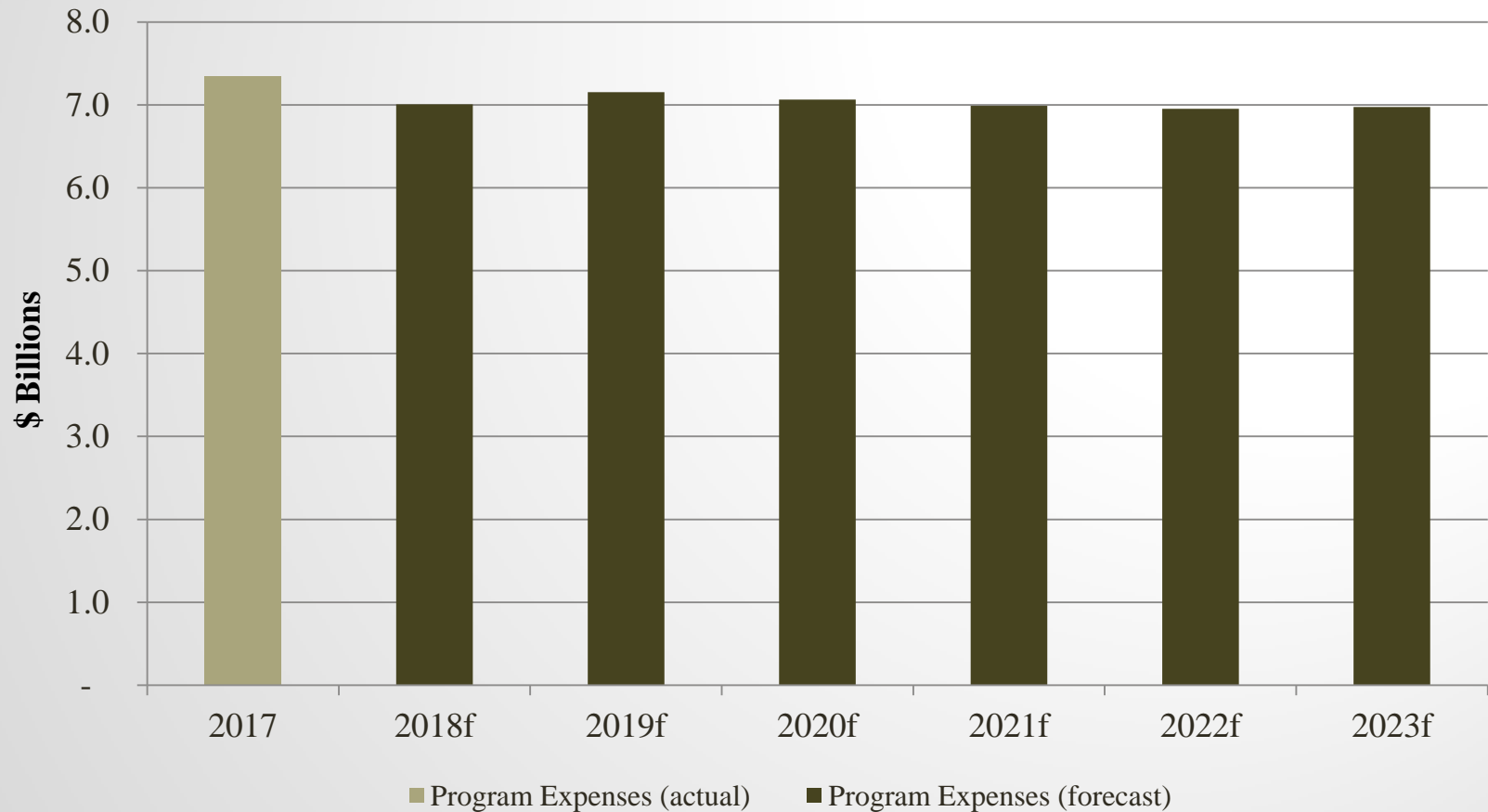
Expenses

\$ Billions



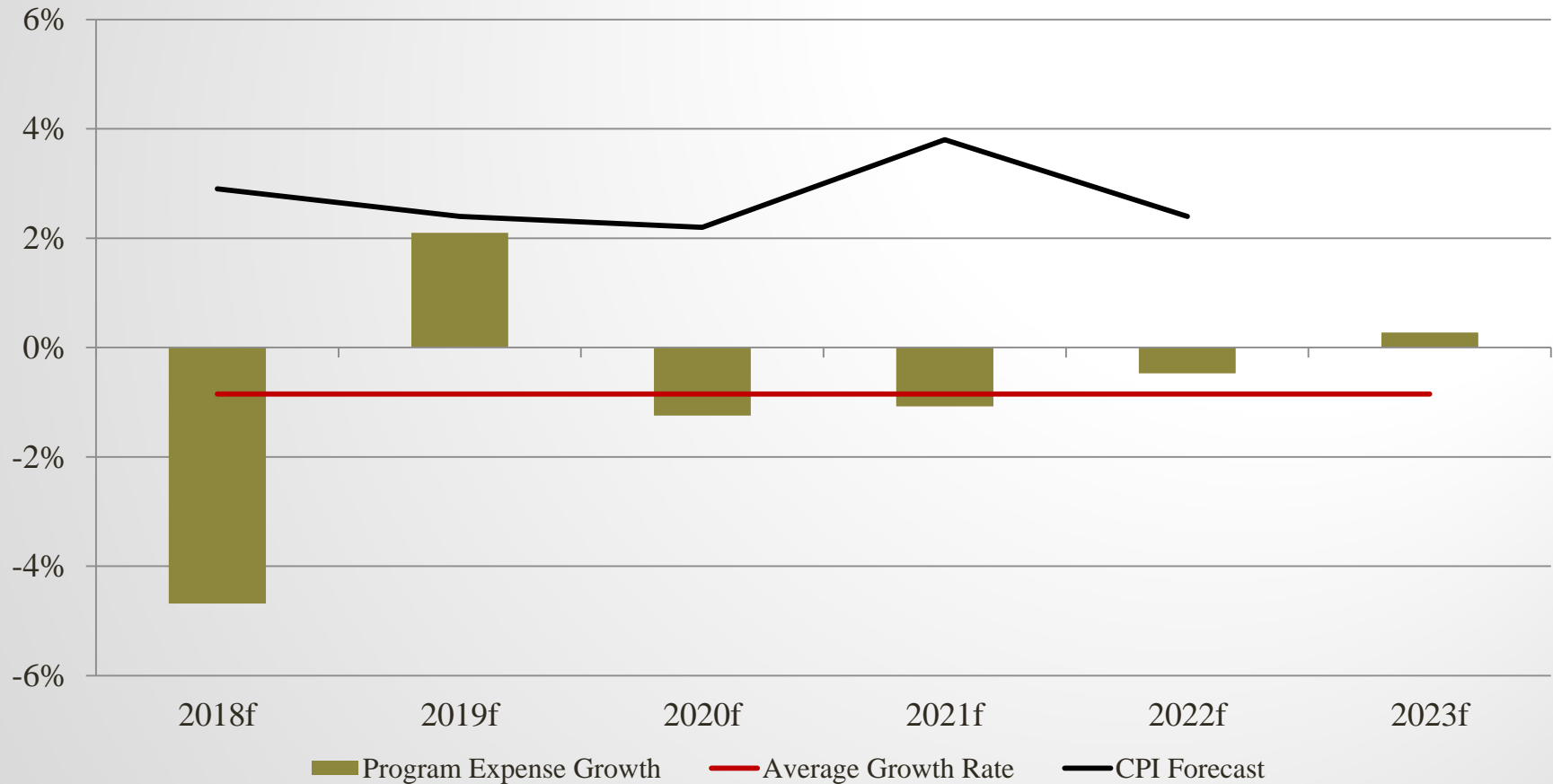
Source: Public Accounts (actual); Department of Finance (forecast)

Program Expense Forecast



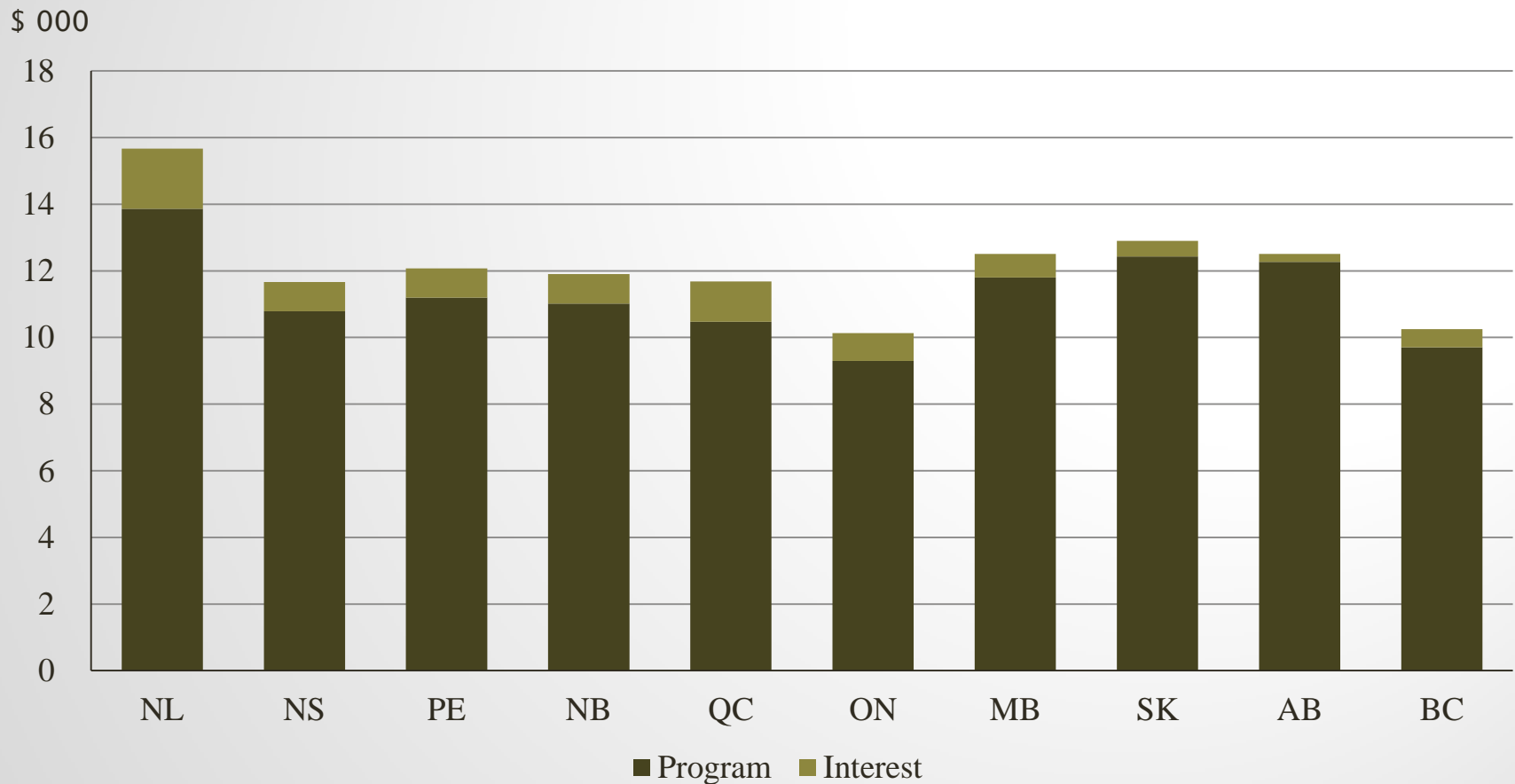
Source: Public Accounts (actual); Department of Finance (forecast)

Forecast Program Expense Growth



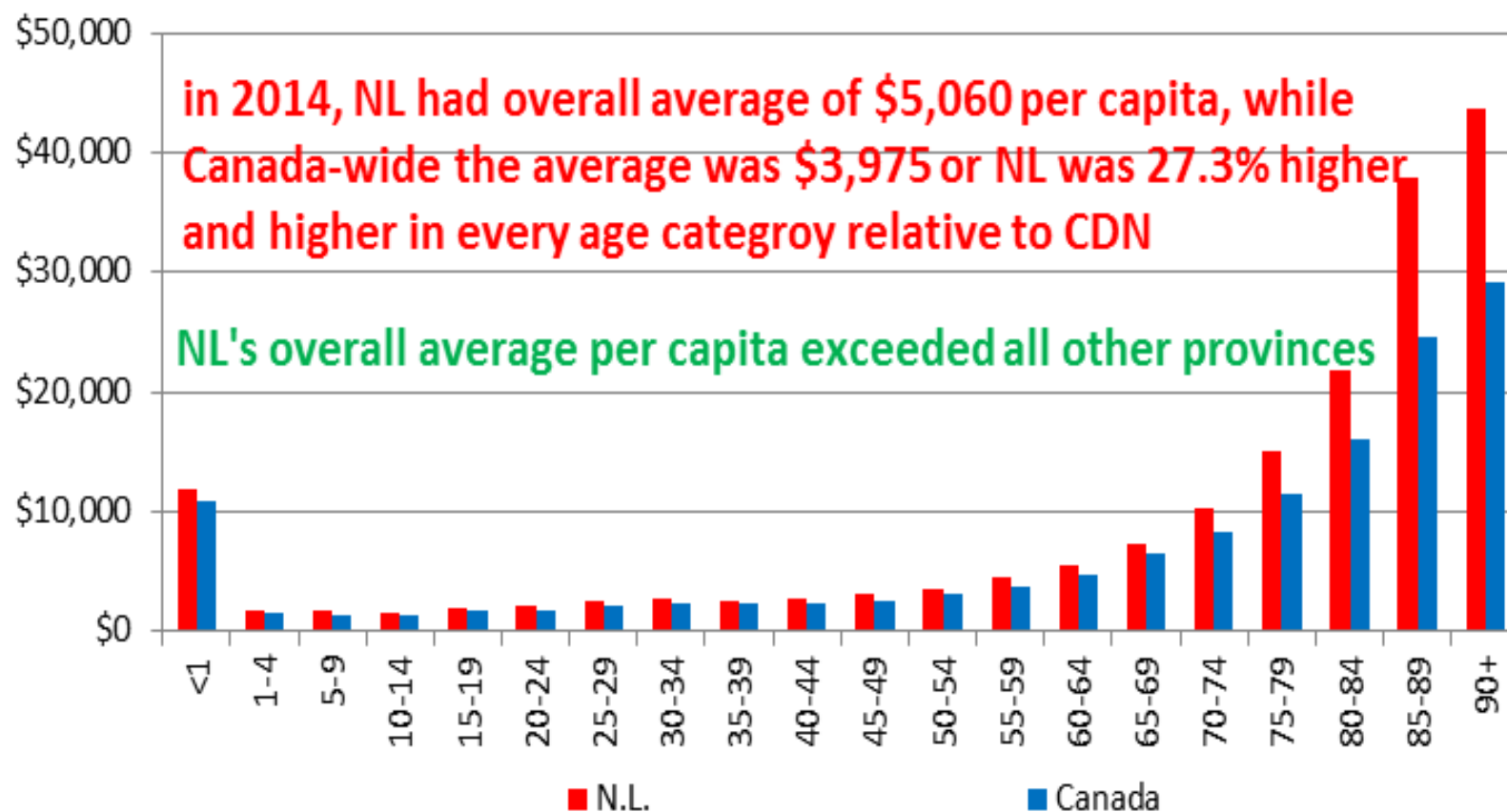
Source: Department of Finance

Per Capita Expenses



Source: Public Accounts – all Provinces; Statistics Canada

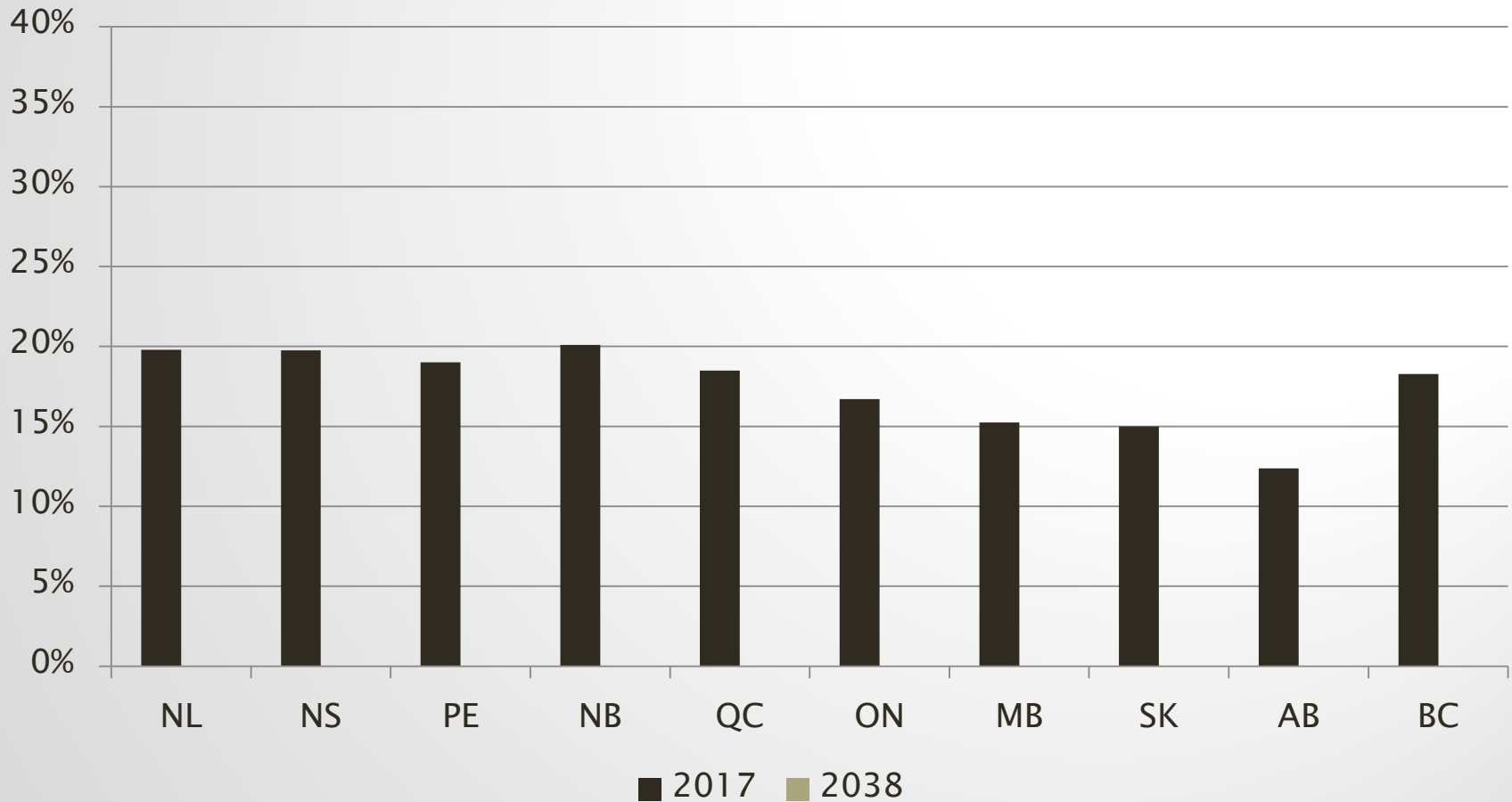
Total Per Capita Health Care Expenditure (by Use of Funds) - Age Comparison NL and CDN



Data Source: CIHI Data - NHEX - Series E - 2016

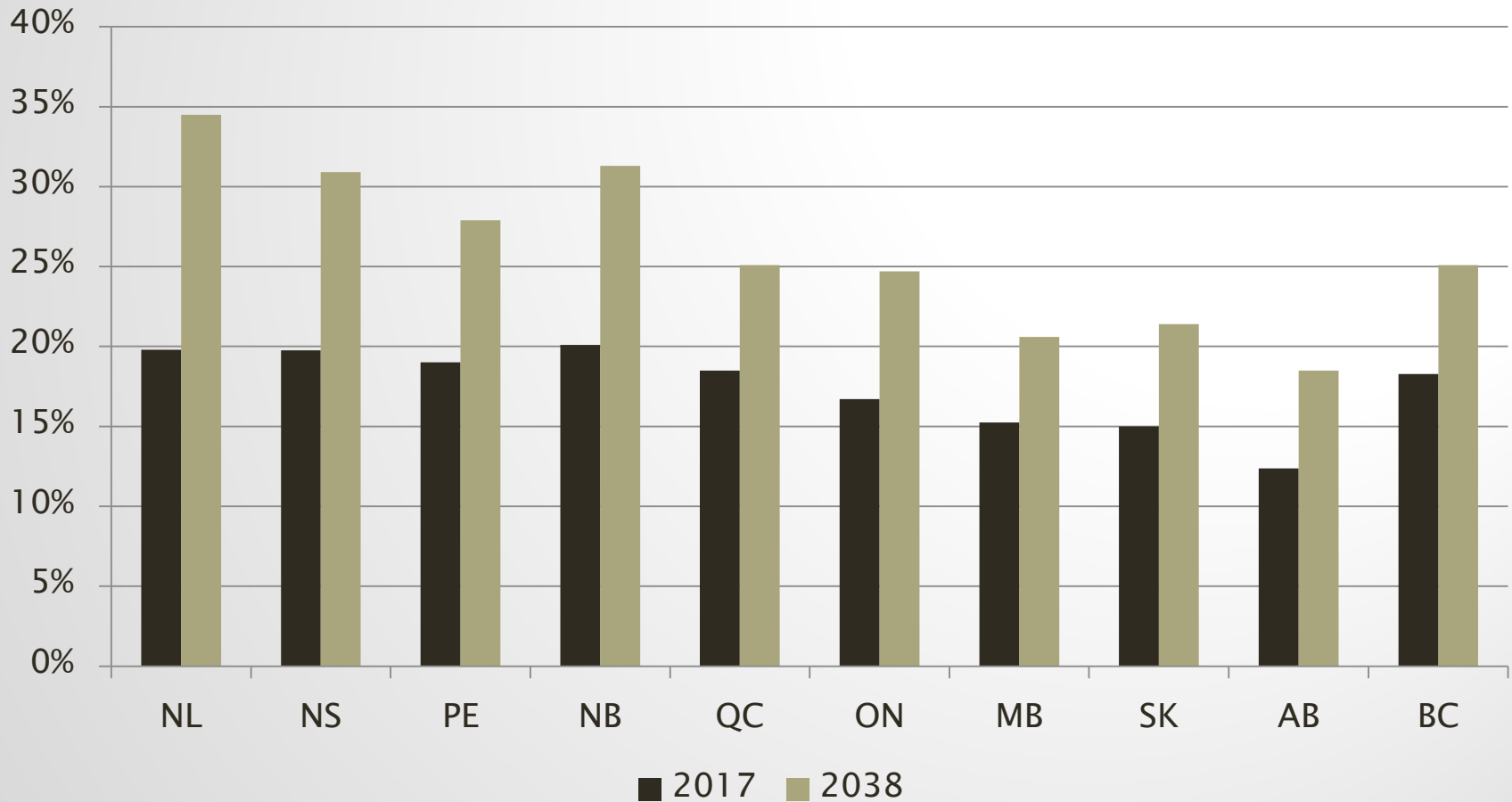
Source: Dr. Wade Locke

Percent of Population over 64



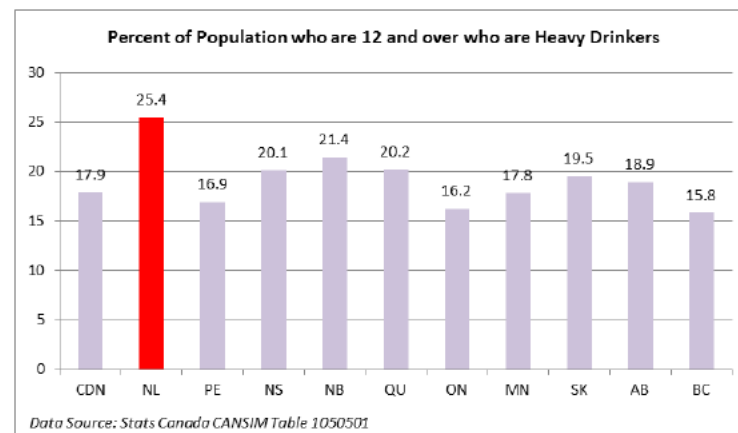
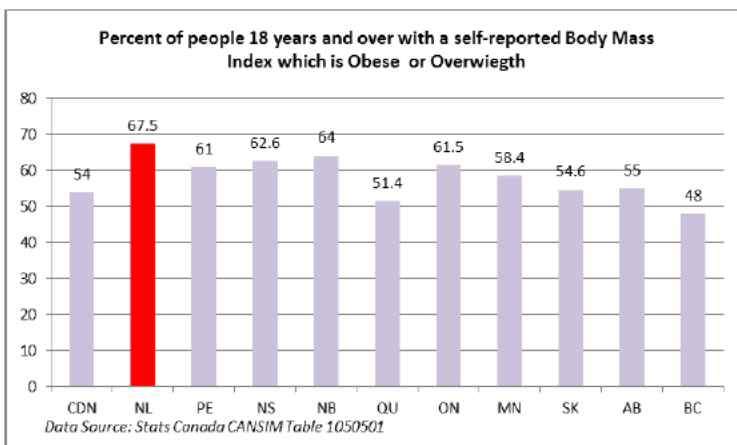
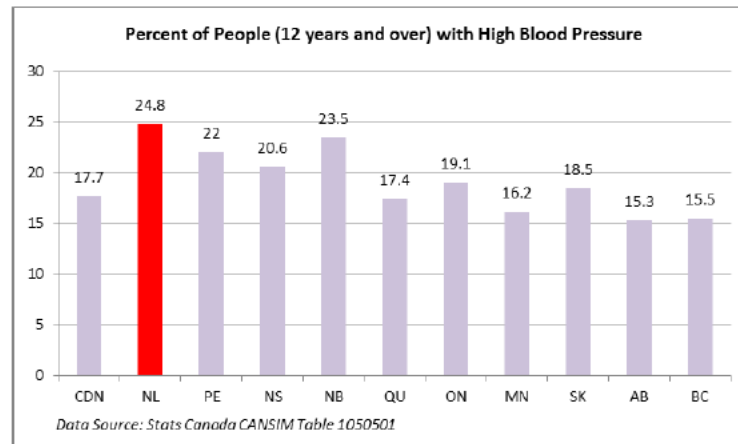
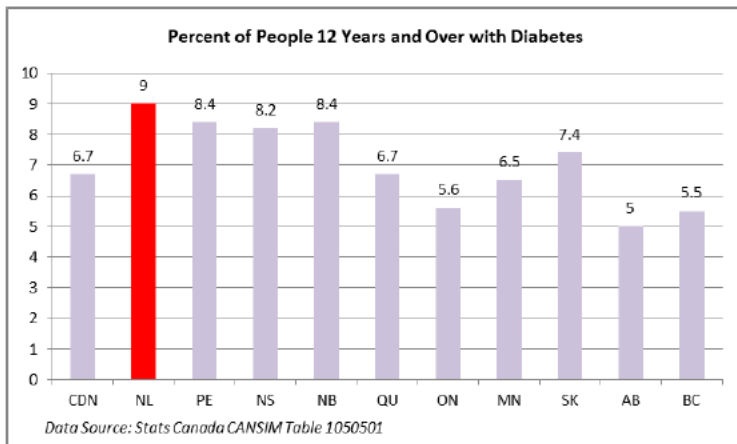
Source: Statistics Canada

Percent of Population over 64



Source: Statistics Canada

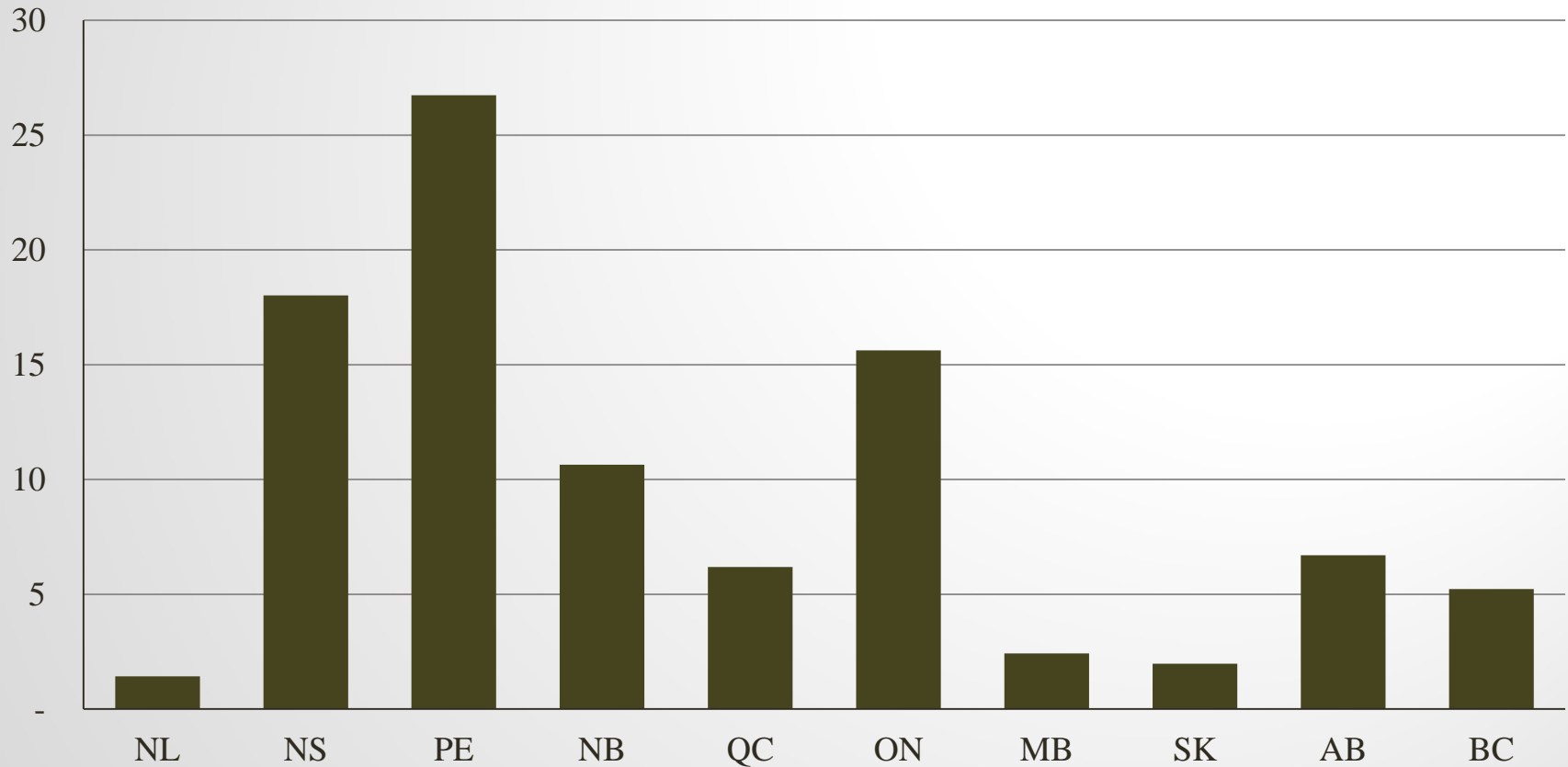
Health Indicators



It is not just fiscal issues.

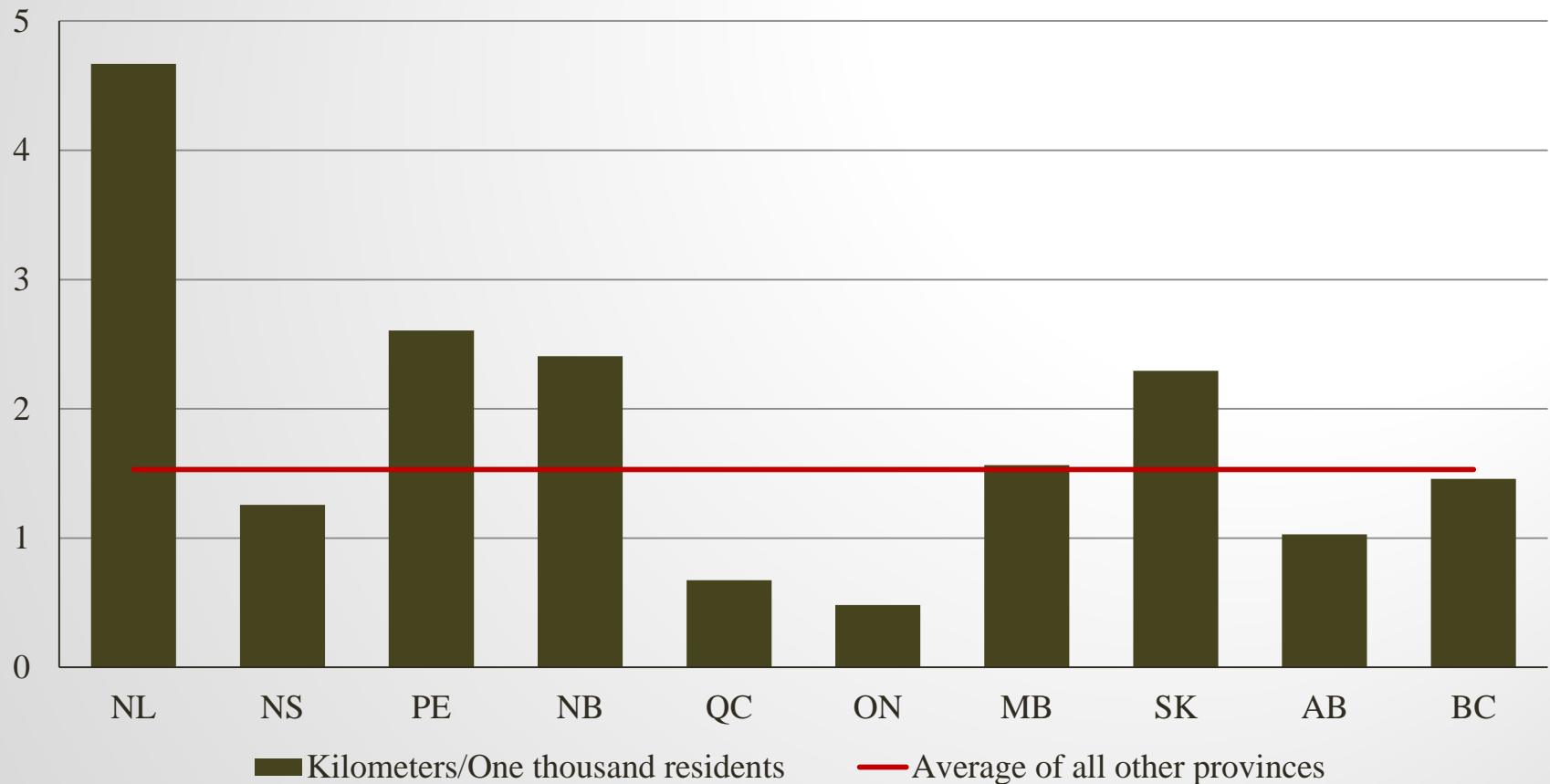
Population Density

(per Square Kilometer)



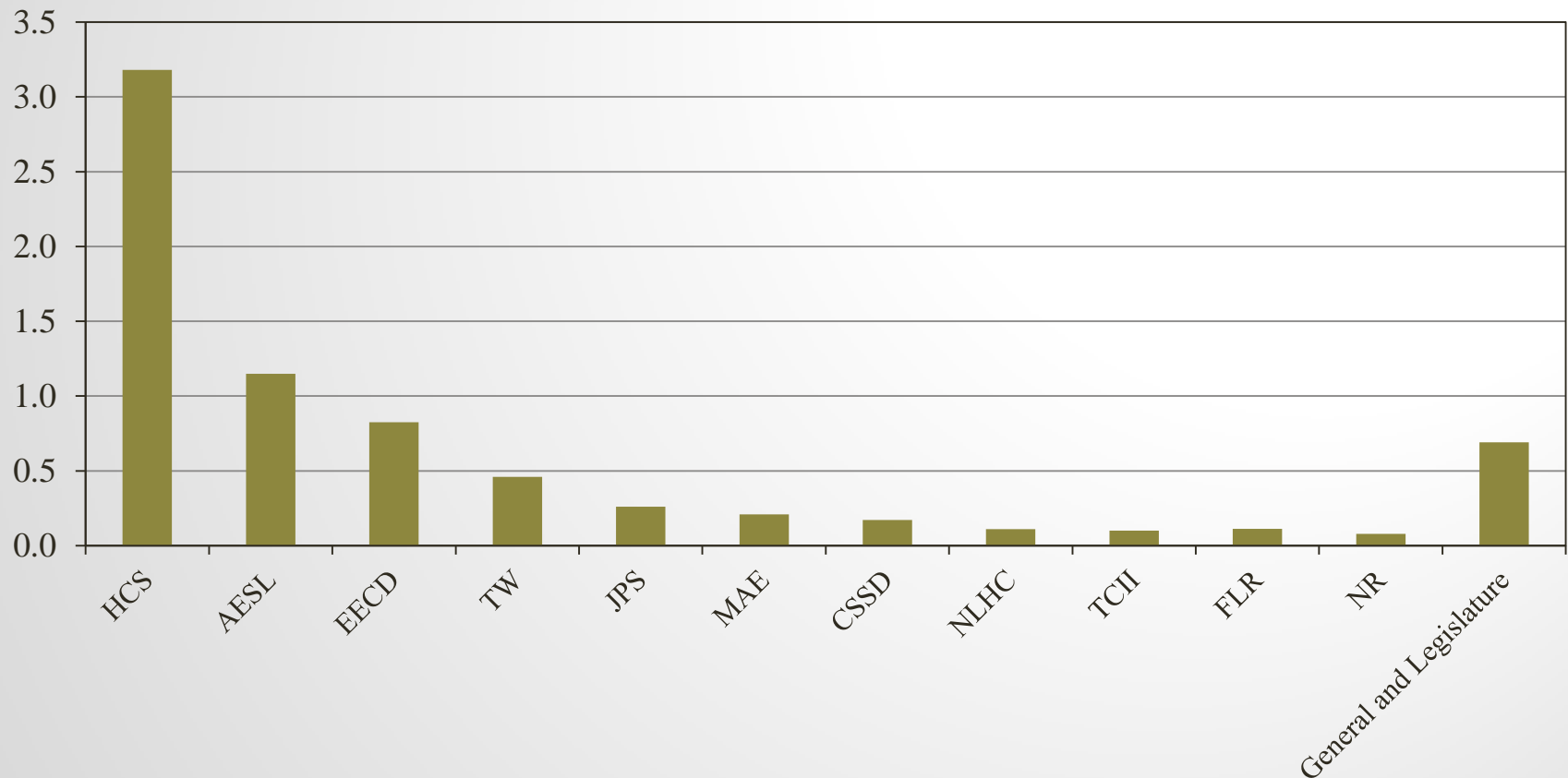
Source: Statistics Canada

Kilometers of Roads/1,000 Residents



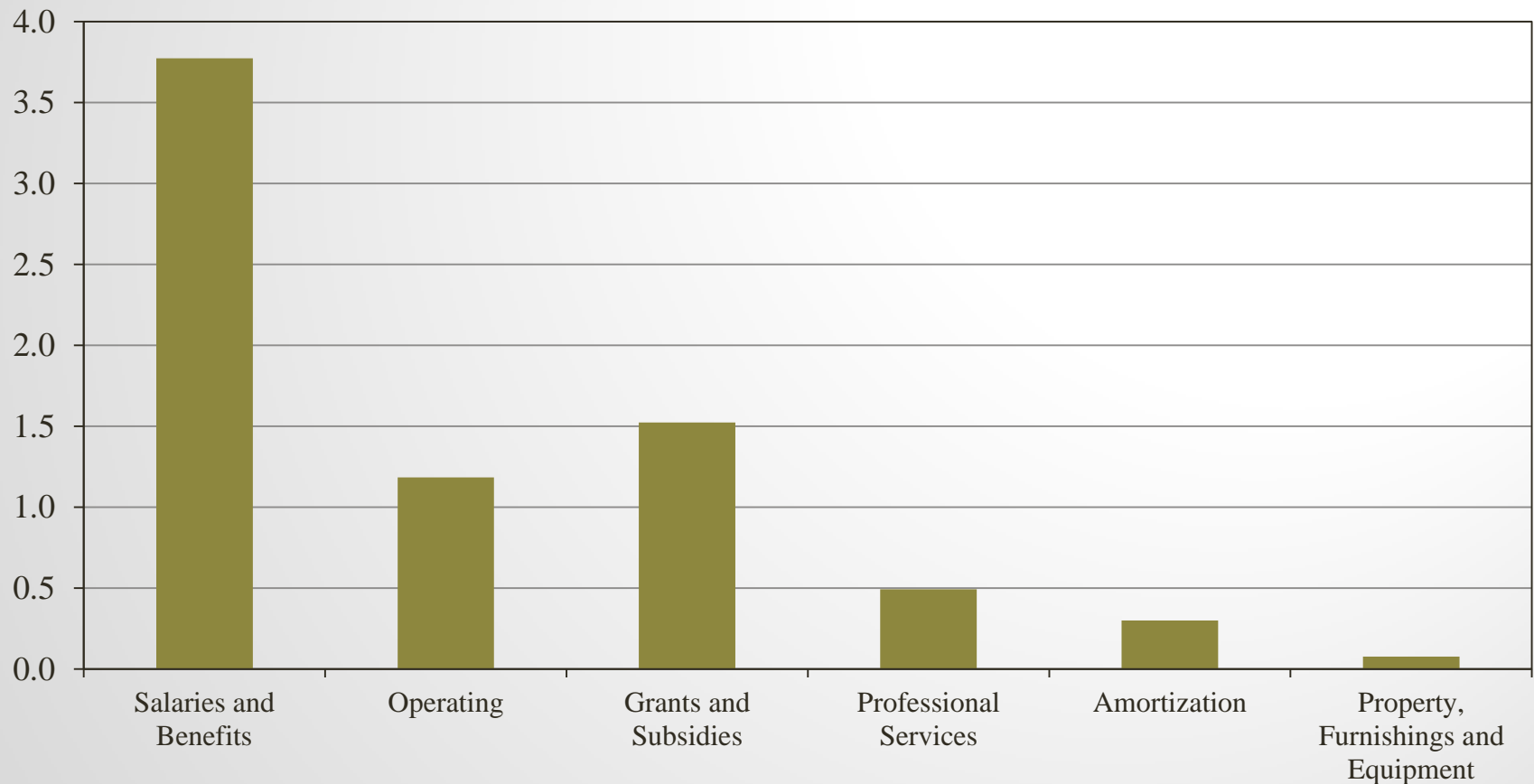
Source: Statistics Canada (population); Transport Canada (road statistics)

Program Expenses by Department



Source: Public Accounts

Program Expenses by Category



Source: Public Accounts

»» Other Significant Issue

Muskrat Falls

- ▶ Nalcor is a “Government Business Enterprise”

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 - Debt is self-supporting by customers (ratepayers)

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 - Shown directly in Public Accounts

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Muskrat Falls

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- ▶ Presumption with a GBE
 - Debt is self-supporting by customers (ratepayers)
- ▶ Debt supported by taxpayers
 - Shown directly in Public Accounts
- ▶ Debt supported by customers (ratepayers)
 - Offset by asset in Public Accounts
 - But only as long as ratepayers fully support the debt

Muskrat Falls

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- ▶ Province will have to consider impact on Public Accounts

Muskrat Falls

- ▶ Province considering options to mitigate high electricity costs
- ▶ Province will have to consider impact on Public Accounts
- ▶ Issue to consider:
 - Whether debt will, effectively, be shifted from being ratepayer supported to being taxpayer supported and potential impact on the Financial Statements of the Province

»» Summary

Summary

- ▶ Province forecasting a surplus in 2022–23
- ▶ Dependent on:
 - Achieving revenue forecast
 - Oil price and production
 - Nalcor profit
 - Economic growth
 - Expenses kept to forecast levels
 - Effects of inflation
 - Demographic and other pressures
 - Muskrat Falls rate mitigation strategy
- ▶ If forecast not achieved?
 - Either be prepared to pay more – or
 - Be prepared for lower services

»» Thank You