



**AUDITOR  
GENERAL**  
of Newfoundland and Labrador

# **The Financial Condition of the Province**

Presentation to MUN Economics  
February 17, 2016

# Basis of Presentation

- ▶ Auditor General's Report on the 2014–15 Public Accounts
  - <http://www.ag.gov.nl.ca/ag/finStatements.htm>
- ▶ 2015 Provincial Budget
- ▶ December 2015 Economic and Fiscal Update
- ▶ Other publically available information

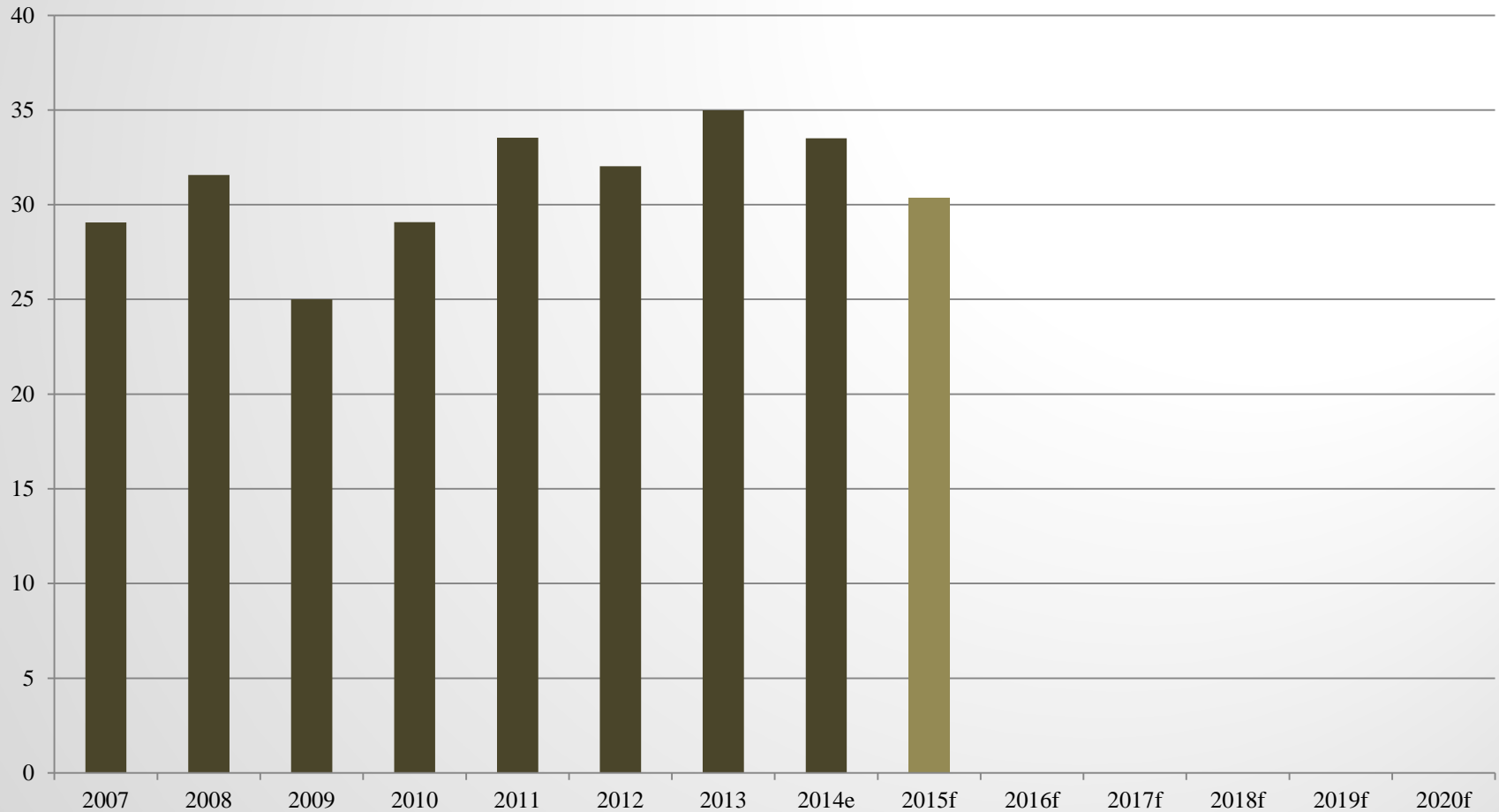
# Overview

- ▶ Significant financial challenge facing the Province
- ▶ Structural imbalance between revenue and expenses
- ▶ Financial markets will look for a strong signal that the Province will have a realistic plan to address – over time
- ▶ Any action will affect all residents of the Province

## »» Economic Outlook

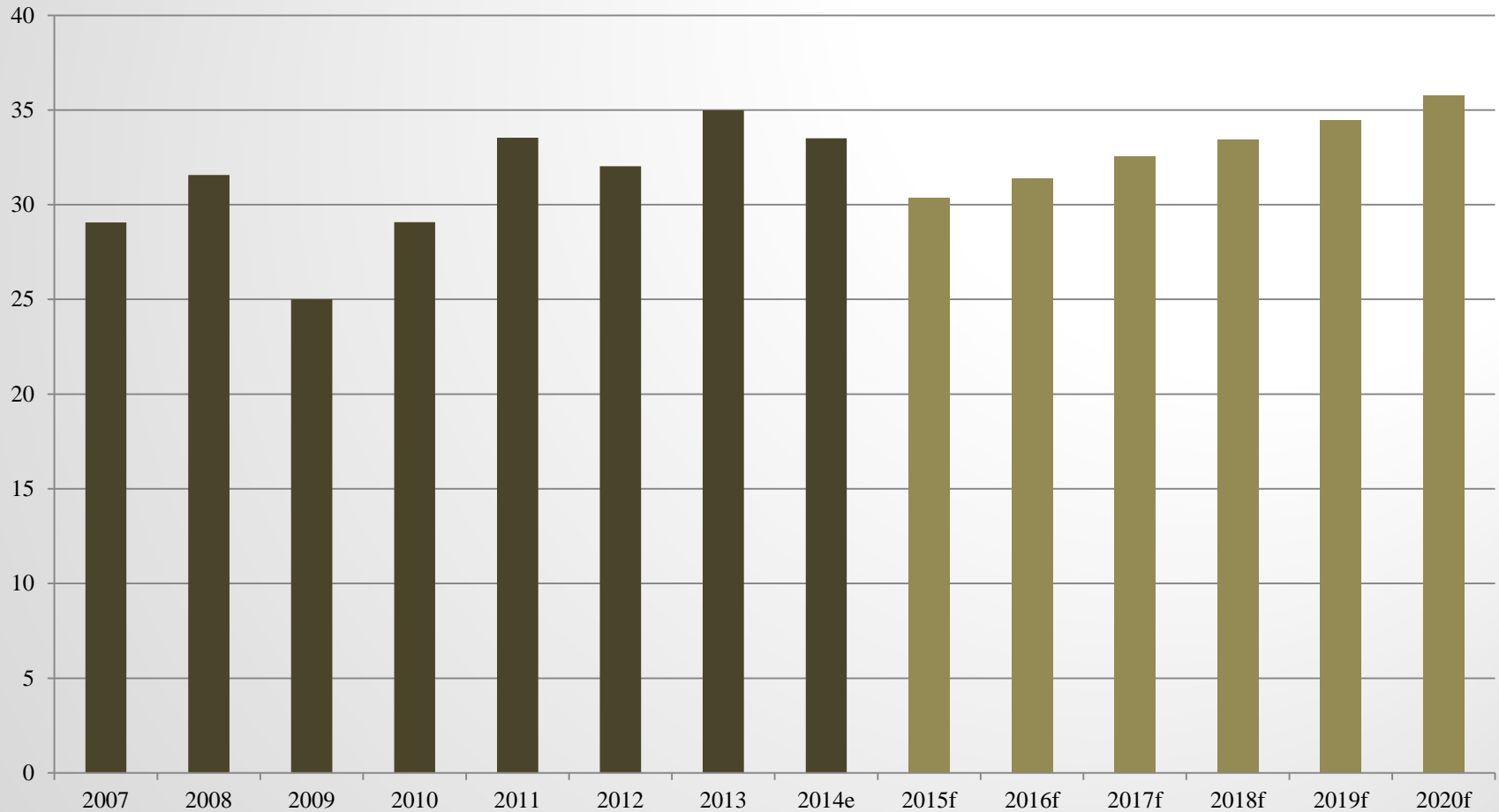
# Nominal GDP

(\$ billions)



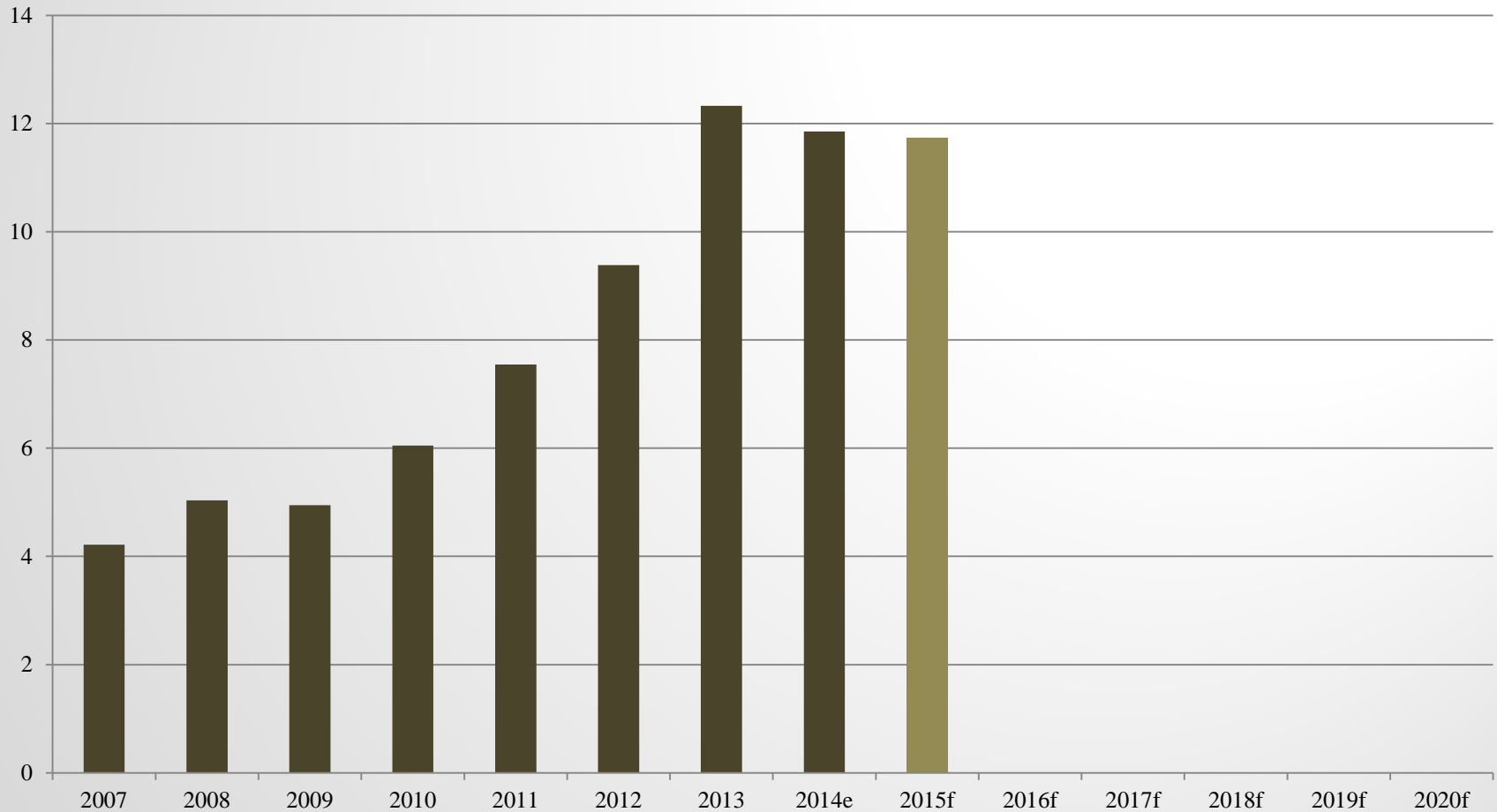
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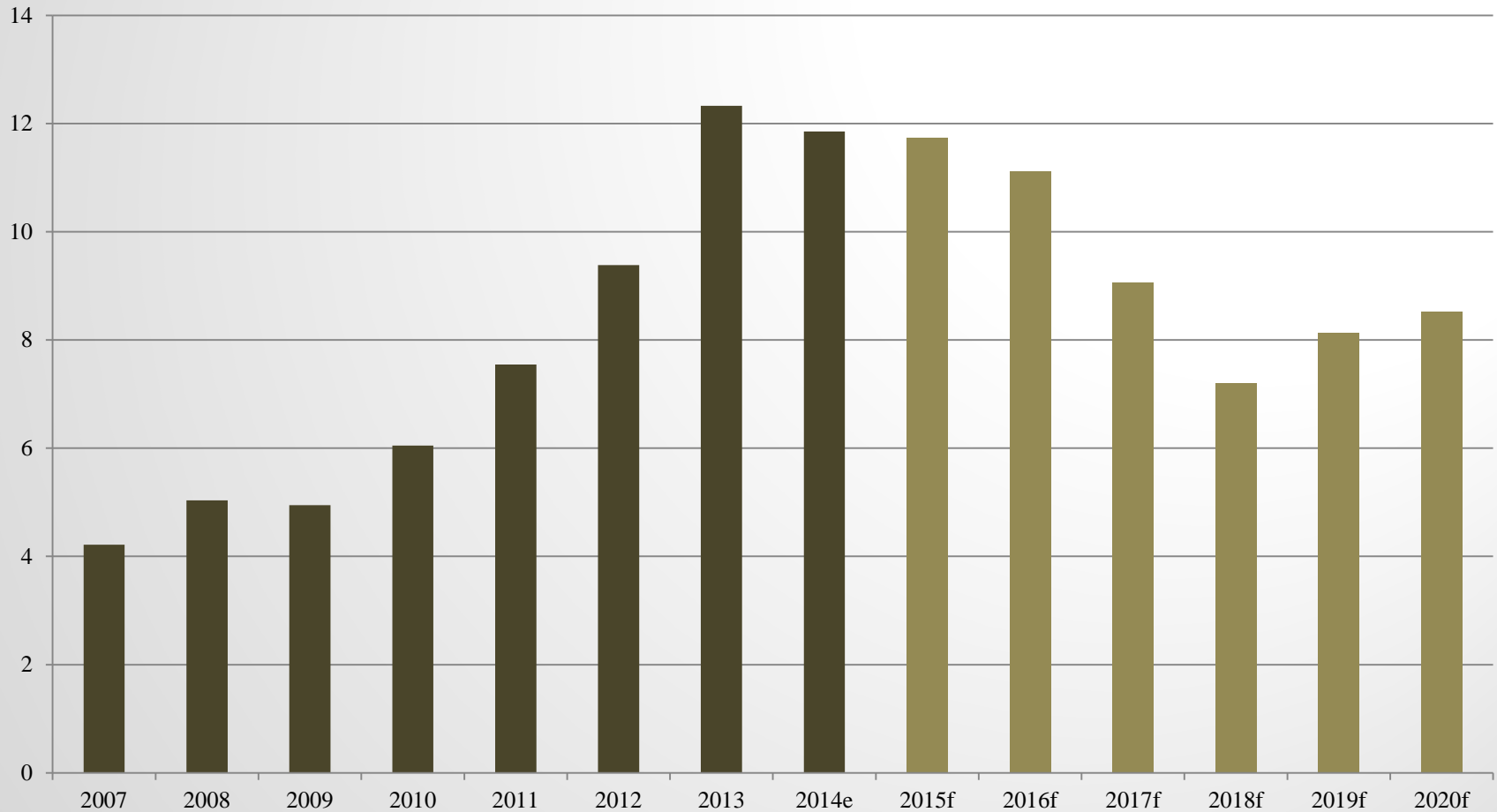
# Capital Investment

(\$ billions)



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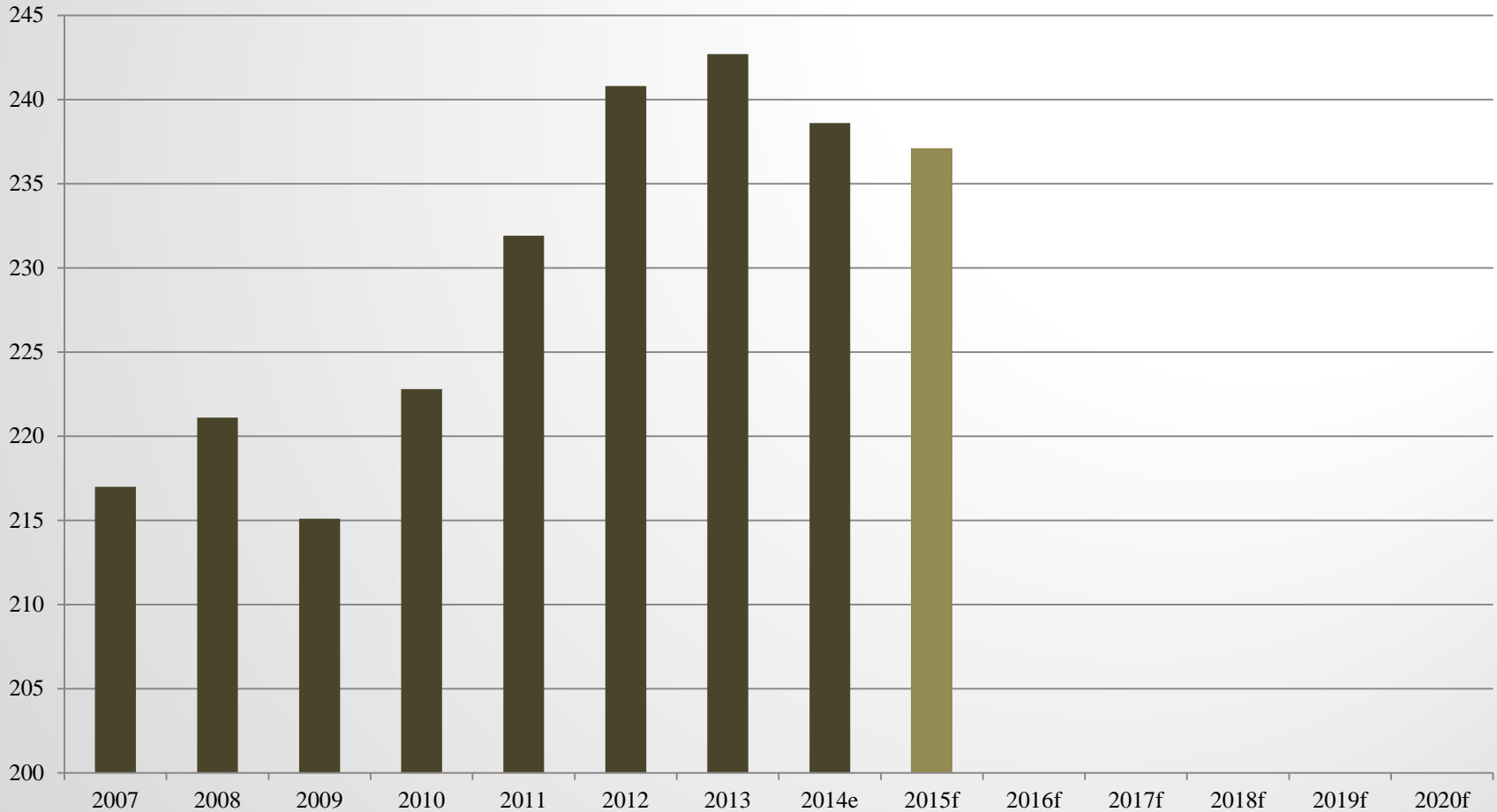
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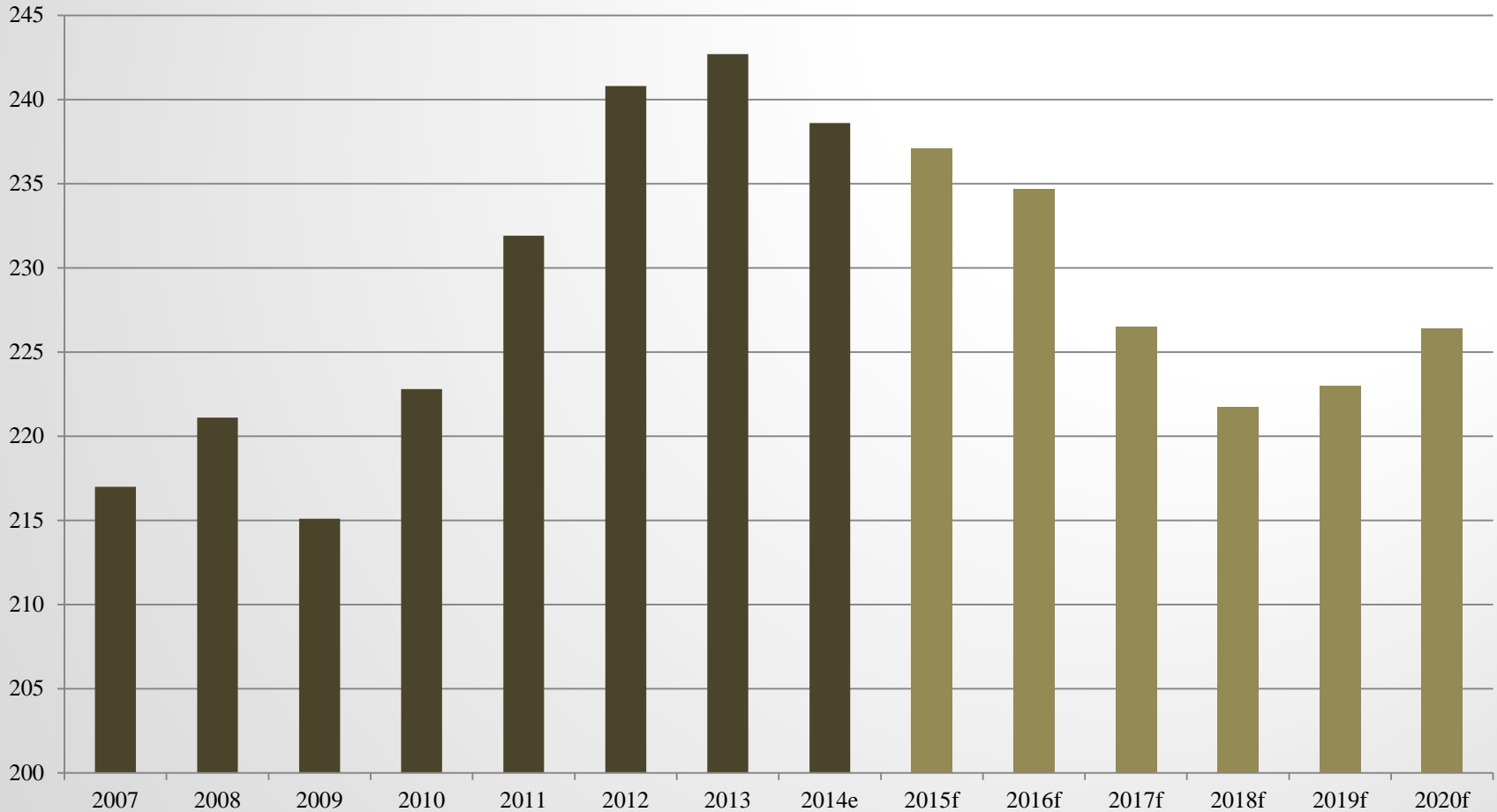
# Employment

('000s)



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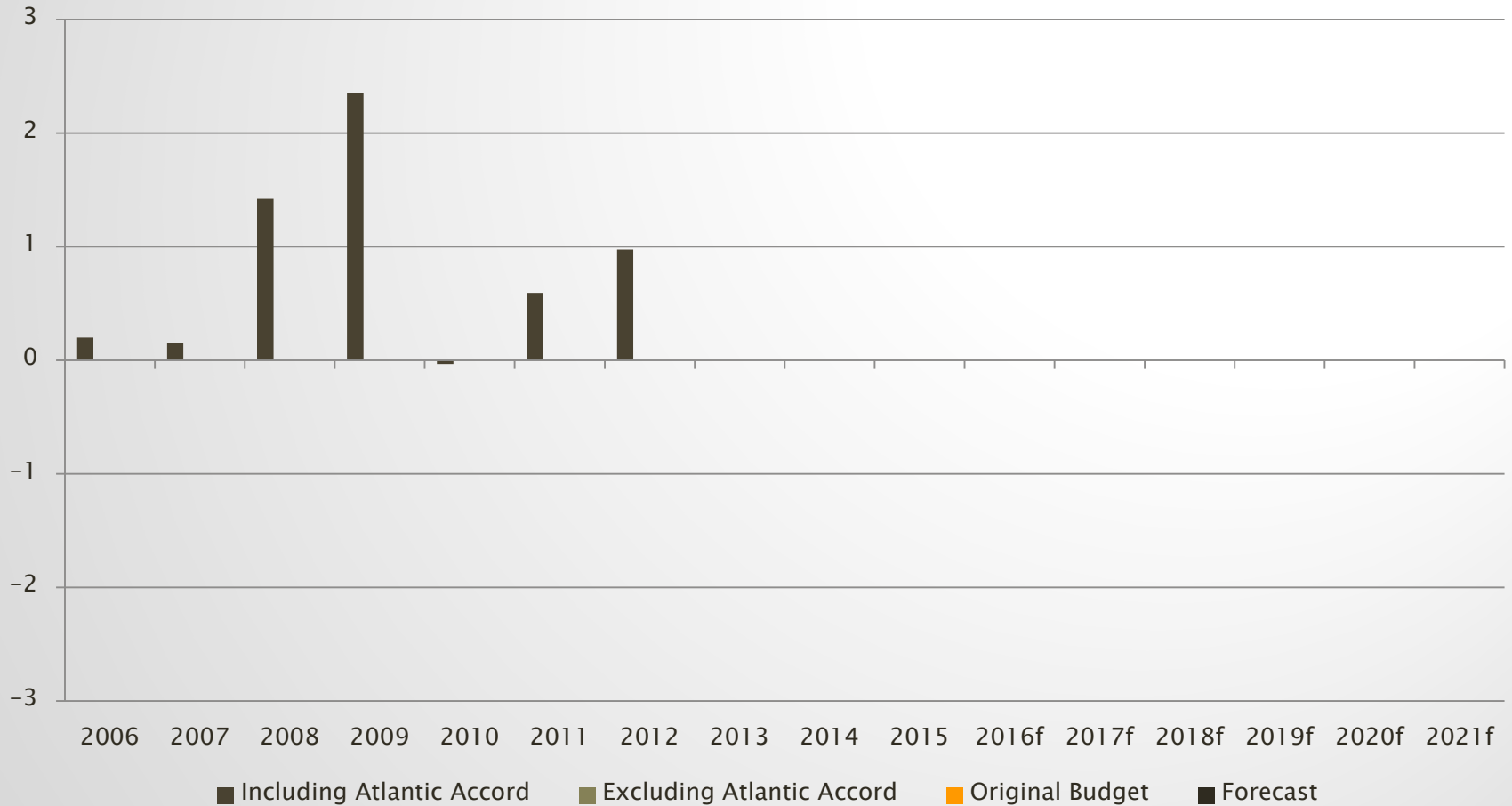
('000s)



## »» Deficits

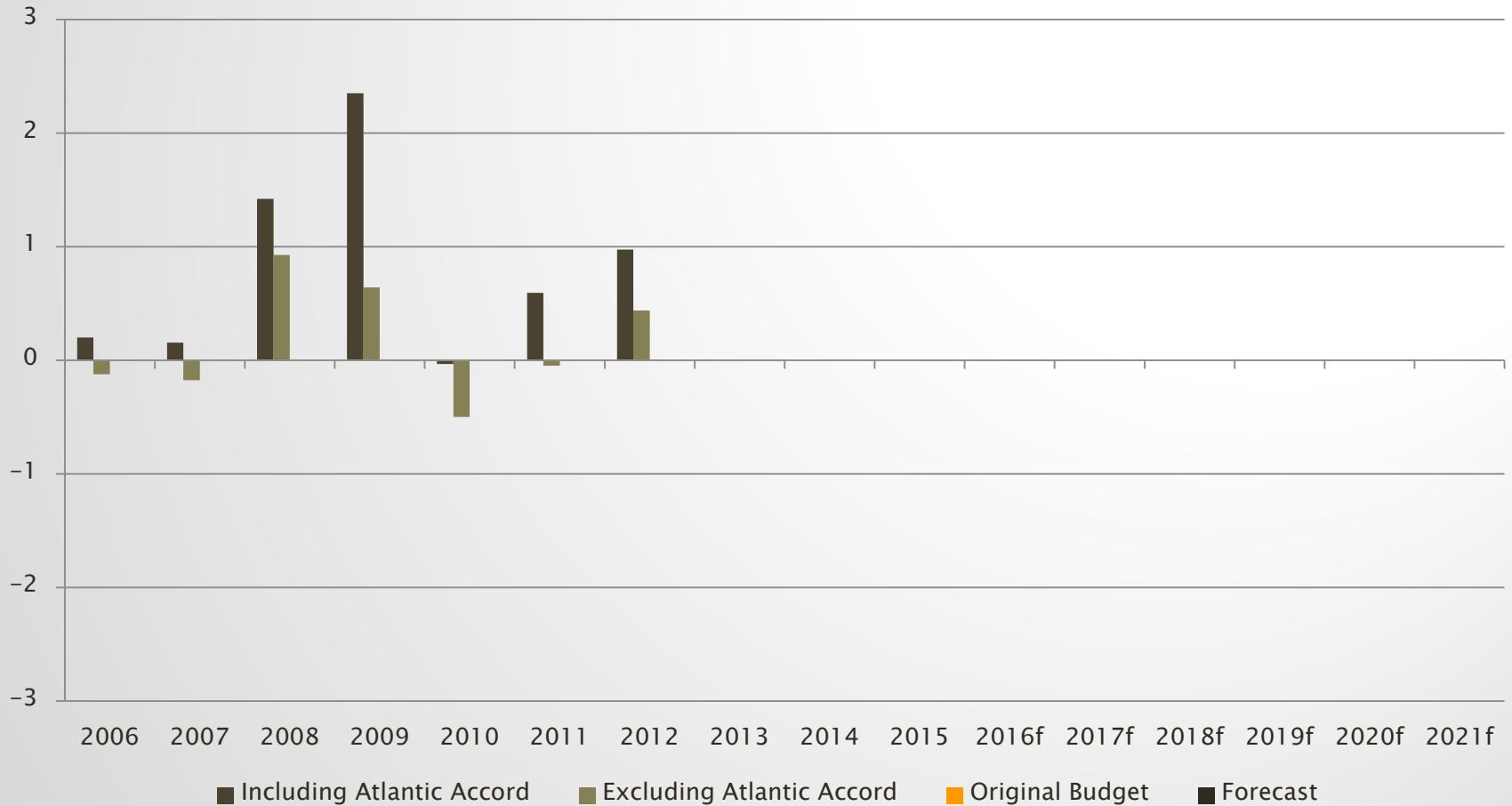
# Surplus / Deficit

(\$ Billions)



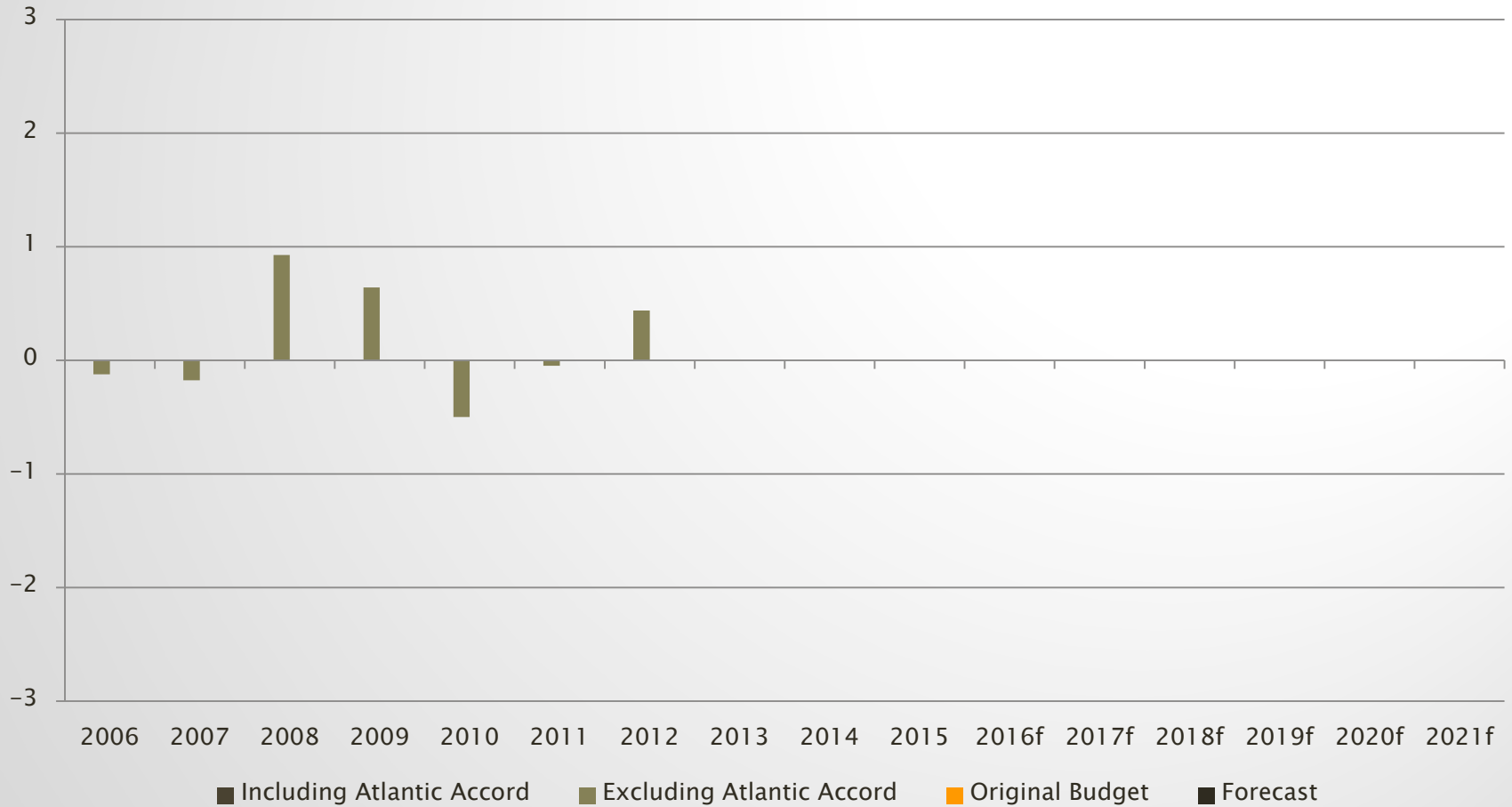
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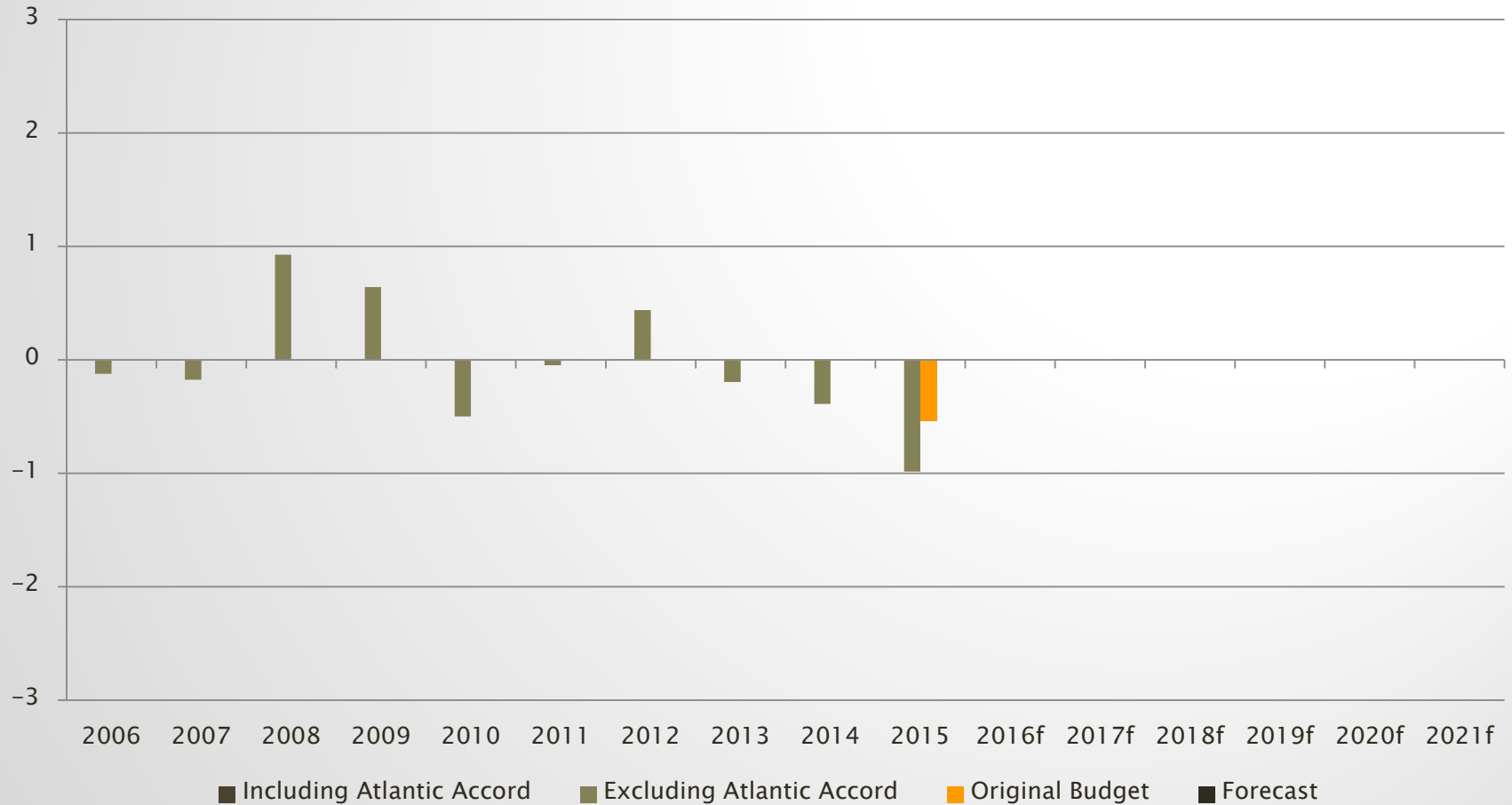
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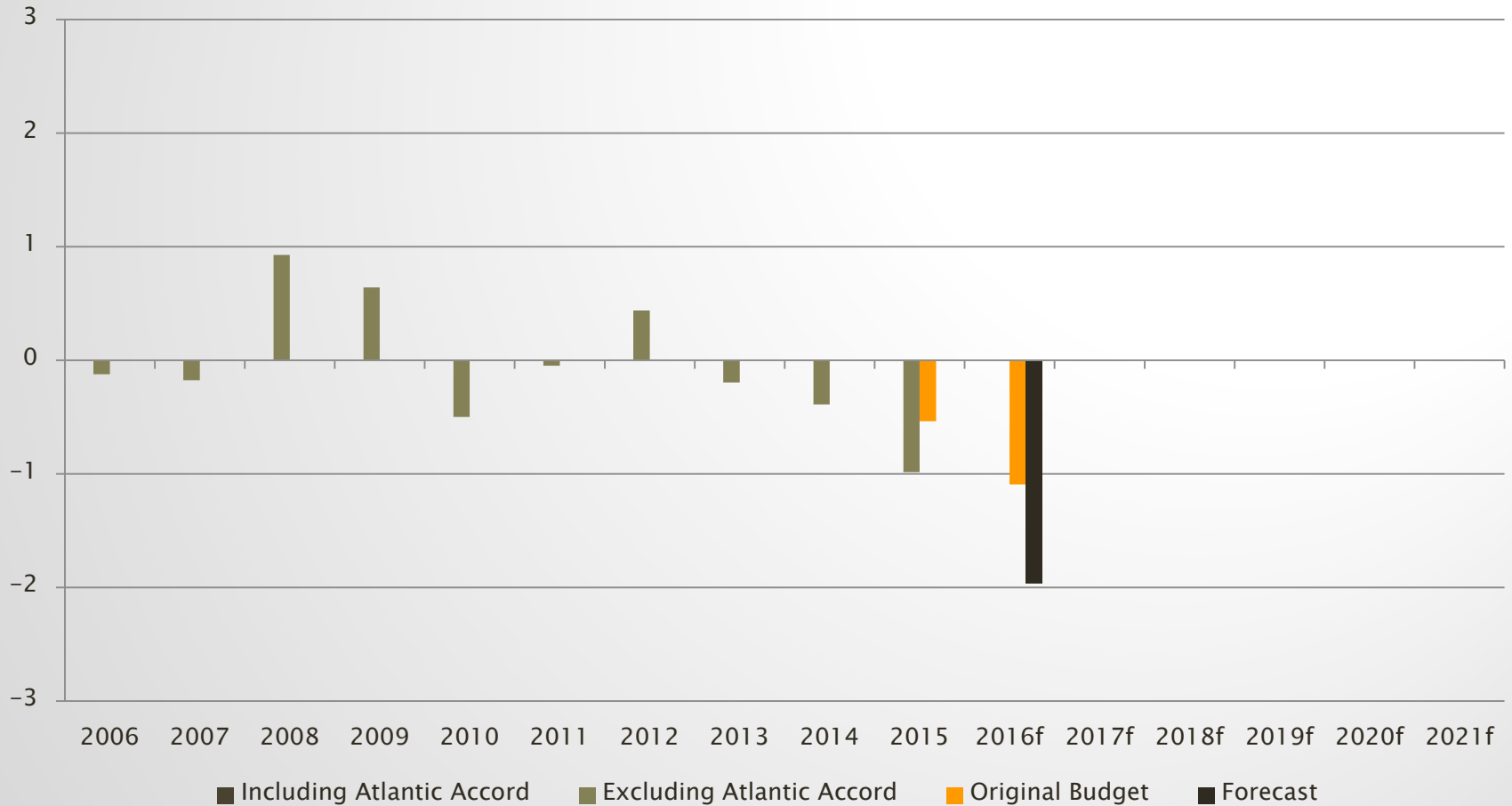
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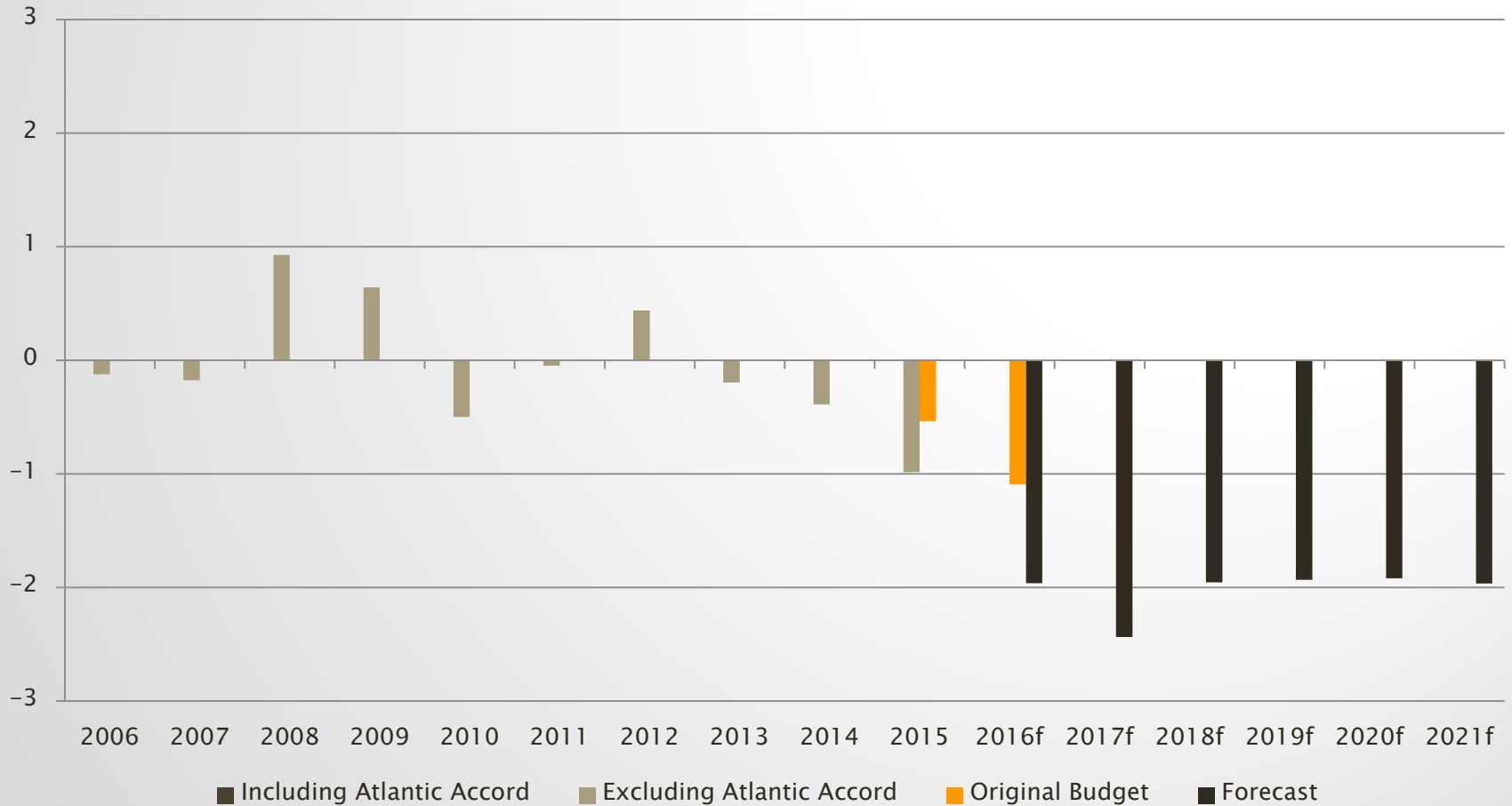
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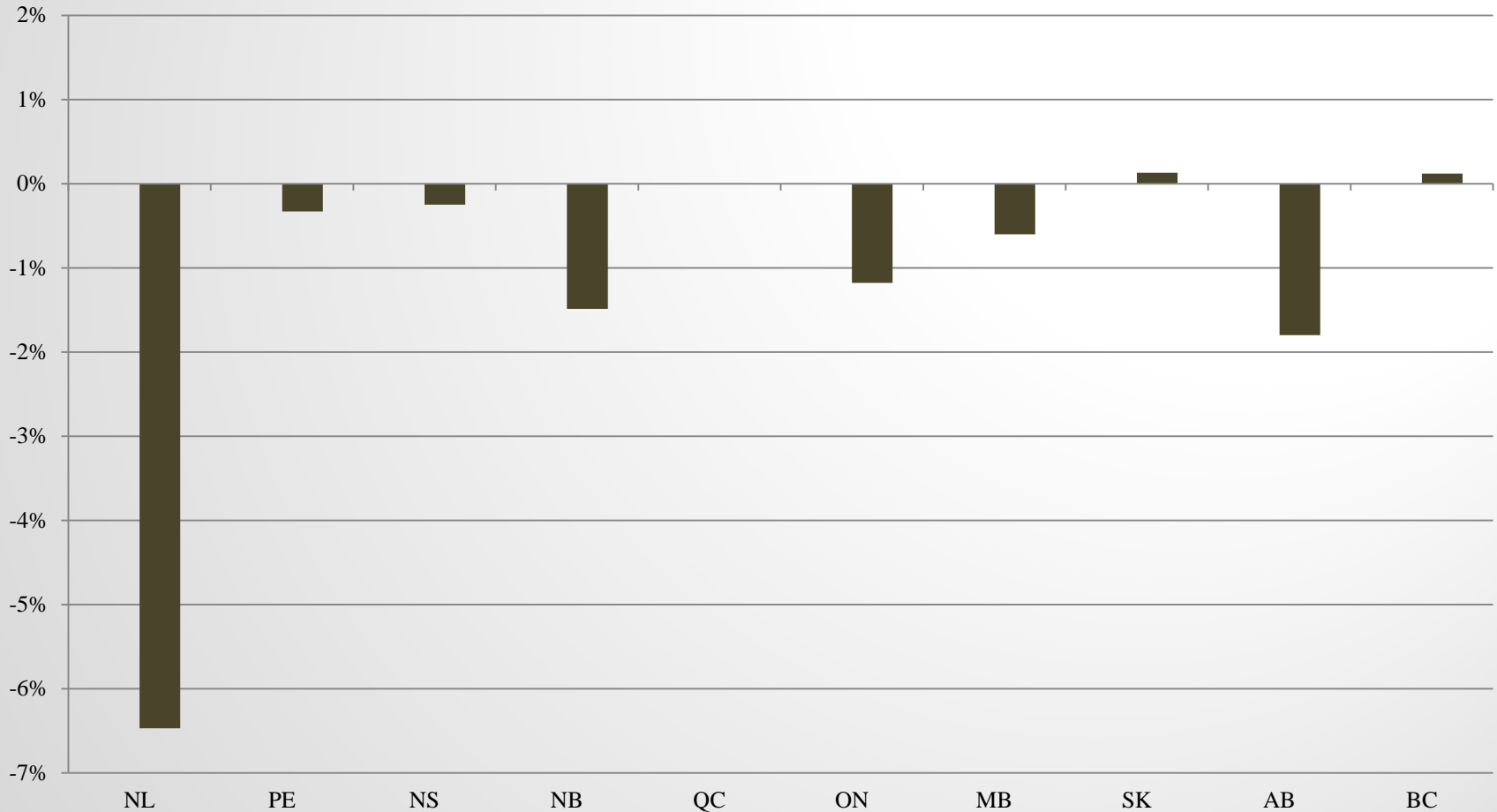
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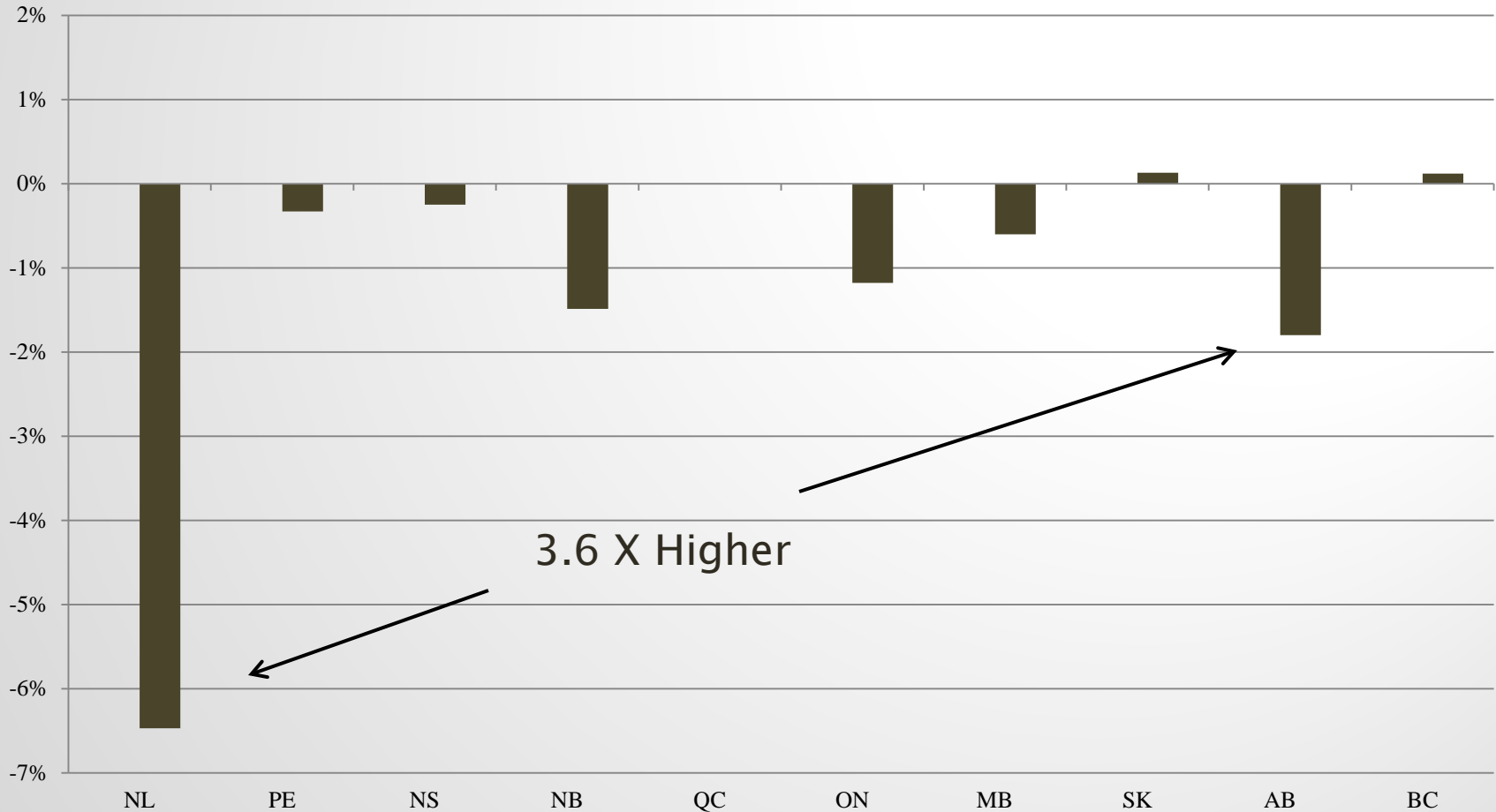
# Deficit as a Percentage of GDP

(2015-16)



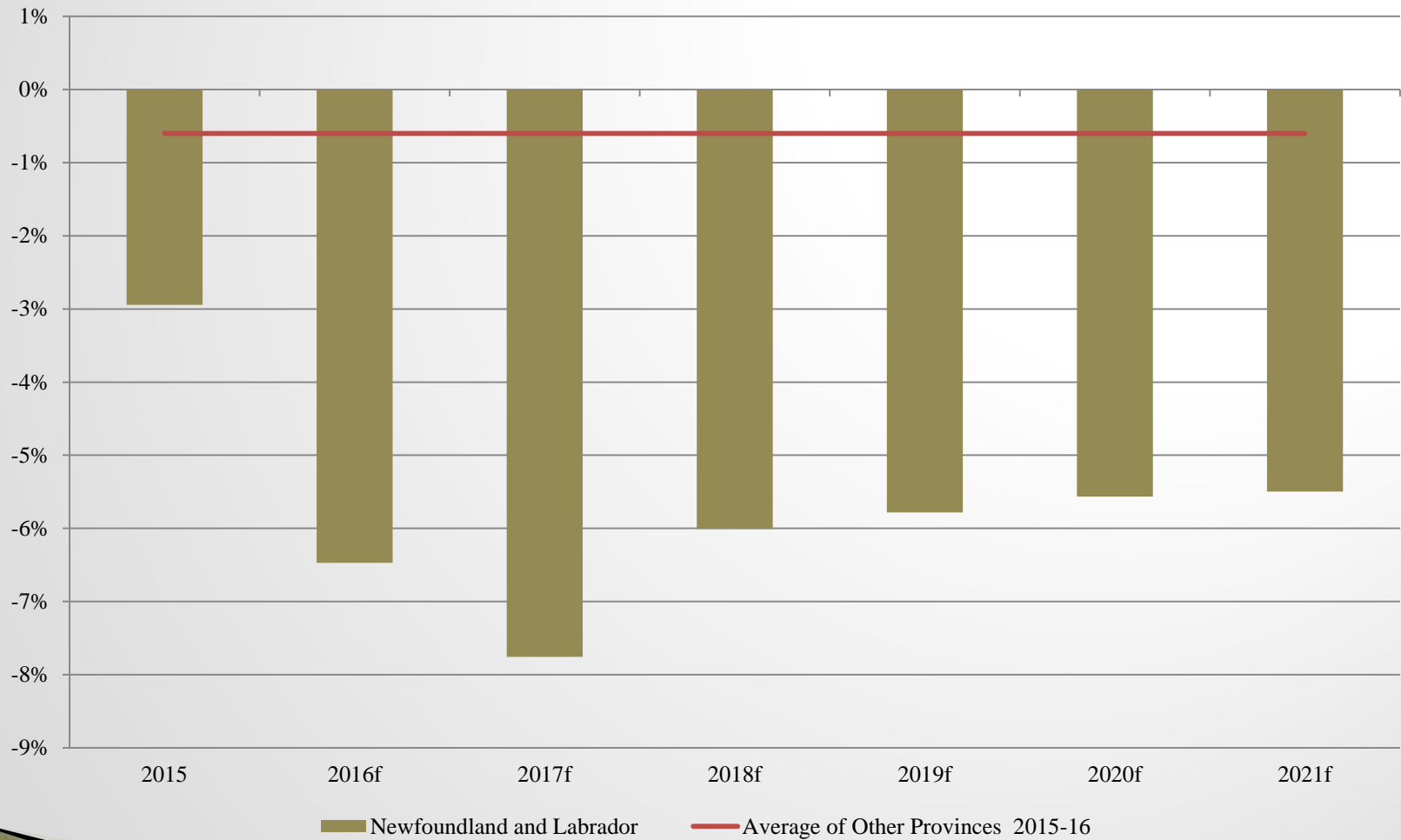
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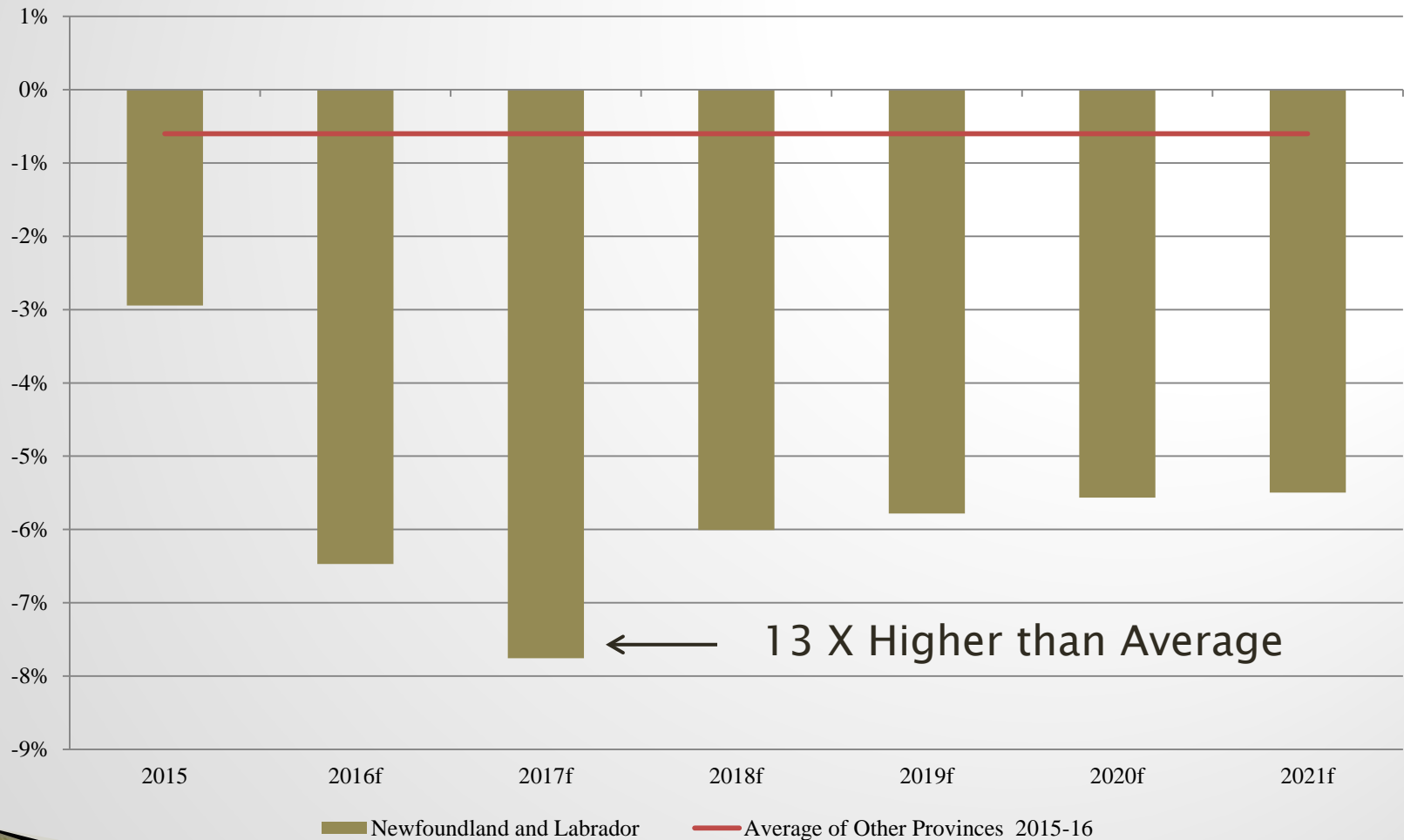
# Deficits as a Percentage of GDP

(2015 to 2021)



# Deficits as a Percentage of GDP

(2015 to 2021)



## »» Net Debt

# Components of Net Debt

March 31, 2015

		\$ billions	
<b>Liabilities</b>			
– Accounts payable and accruals			\$2.9
– Employee retirement obligations			7.0
– Borrowings			5.5
<b>Total Liabilities</b>			<b>15.4</b>

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<b>Less: Financial Assets</b>			
– Cash			1.3
– Amounts receivable and inventory			1.0
– Equity in Government Business Enterprises	Assets	10.5	
	Liabilities	7.7	2.8
<b>Total Financial Assets</b>			<b>5.1</b>

# Components of Net Debt

March 31, 2015

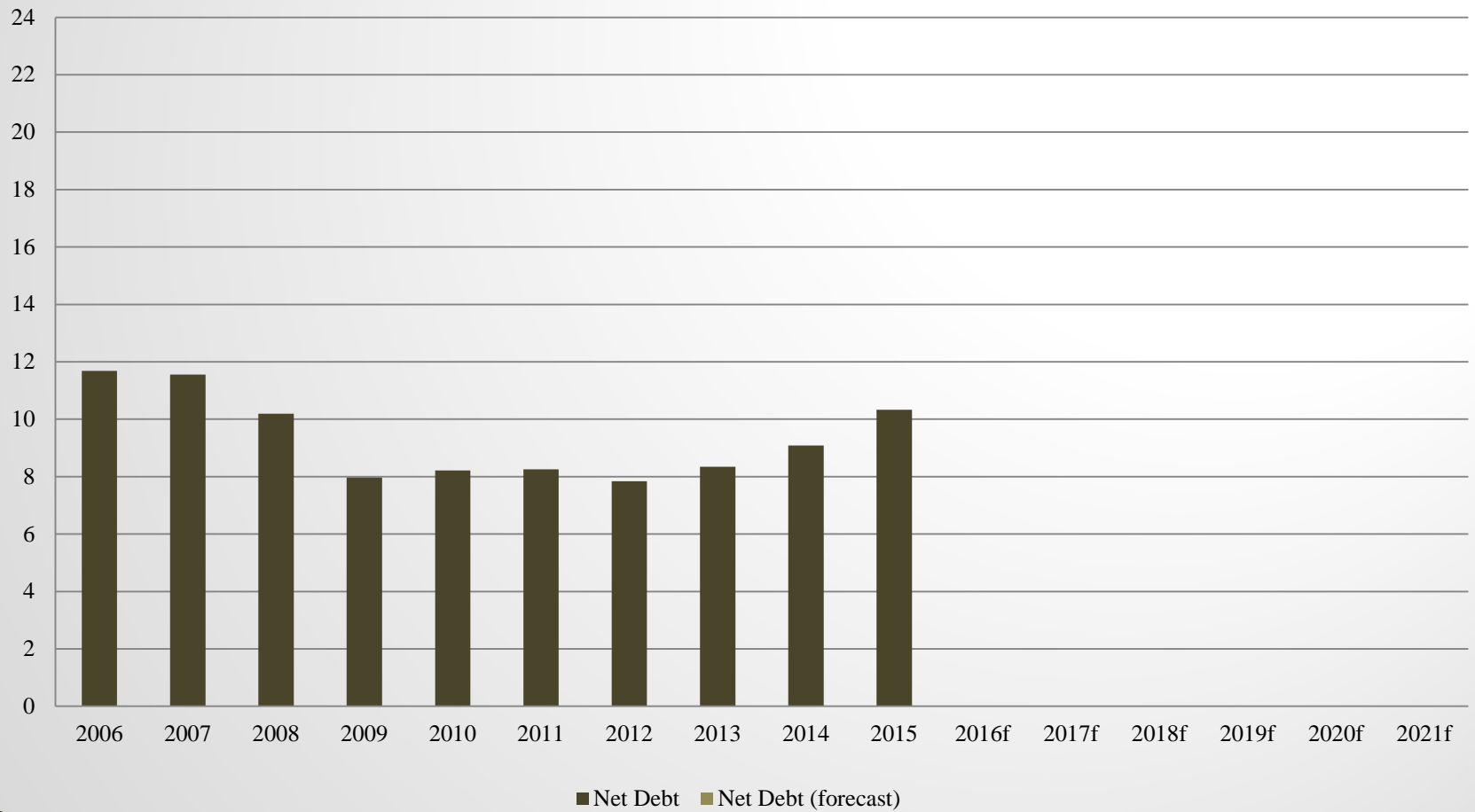
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<b>Less: Financial Assets</b>			
– Cash			1.3
– Amounts receivable and inventory			1.0
– Equity in Government Business Enterprises	Assets	10.5	
	Liabilities	7.7	2.8
<b>Total Financial Assets</b>			<b>5.1</b>
<b>Net Debt</b>			<b>\$10.3</b>

# What Impacts Net Debt?

- ▶ Annual surplus or deficit
- ▶ Acquisitions of infrastructure

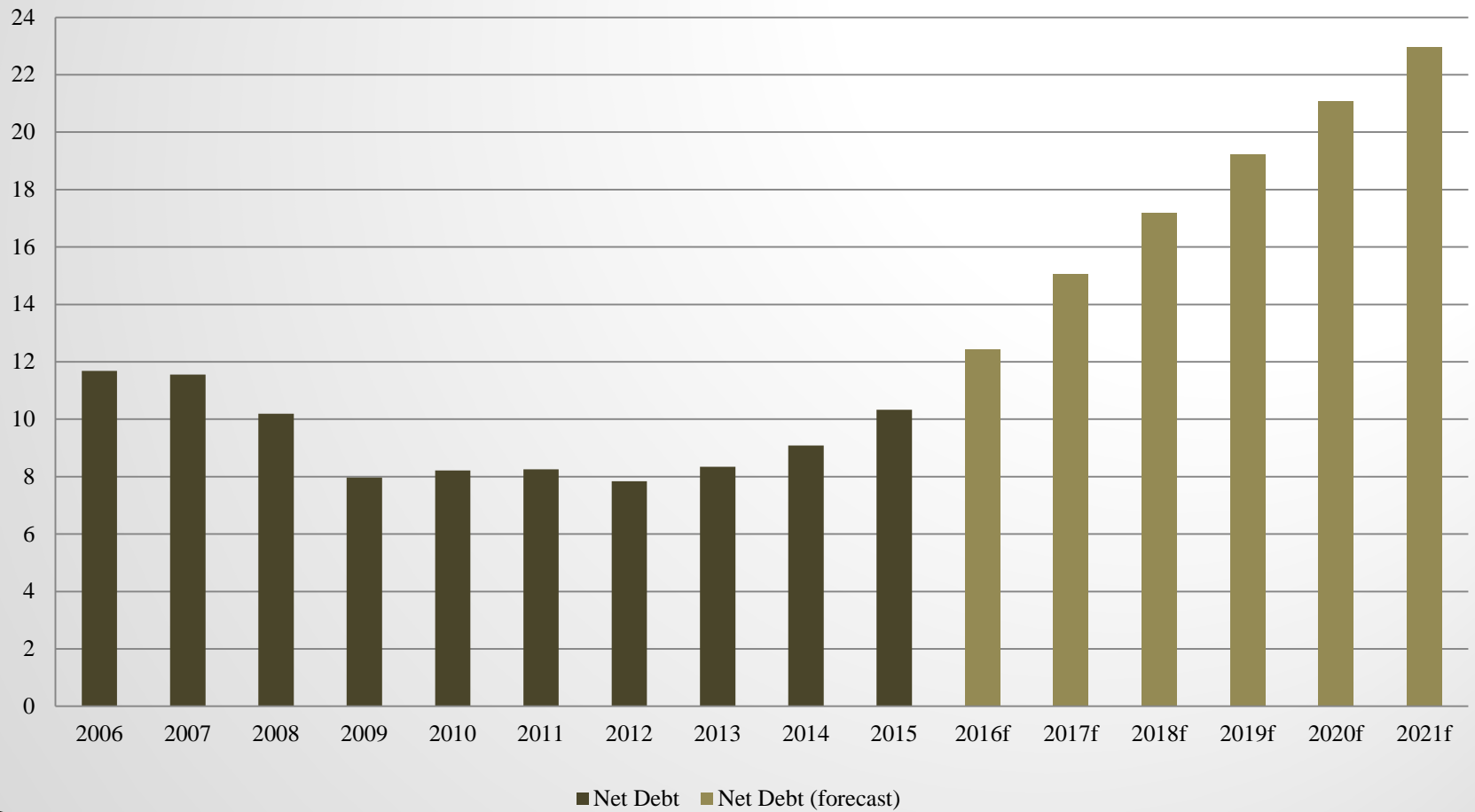
# Net Debt

(\$ billions)

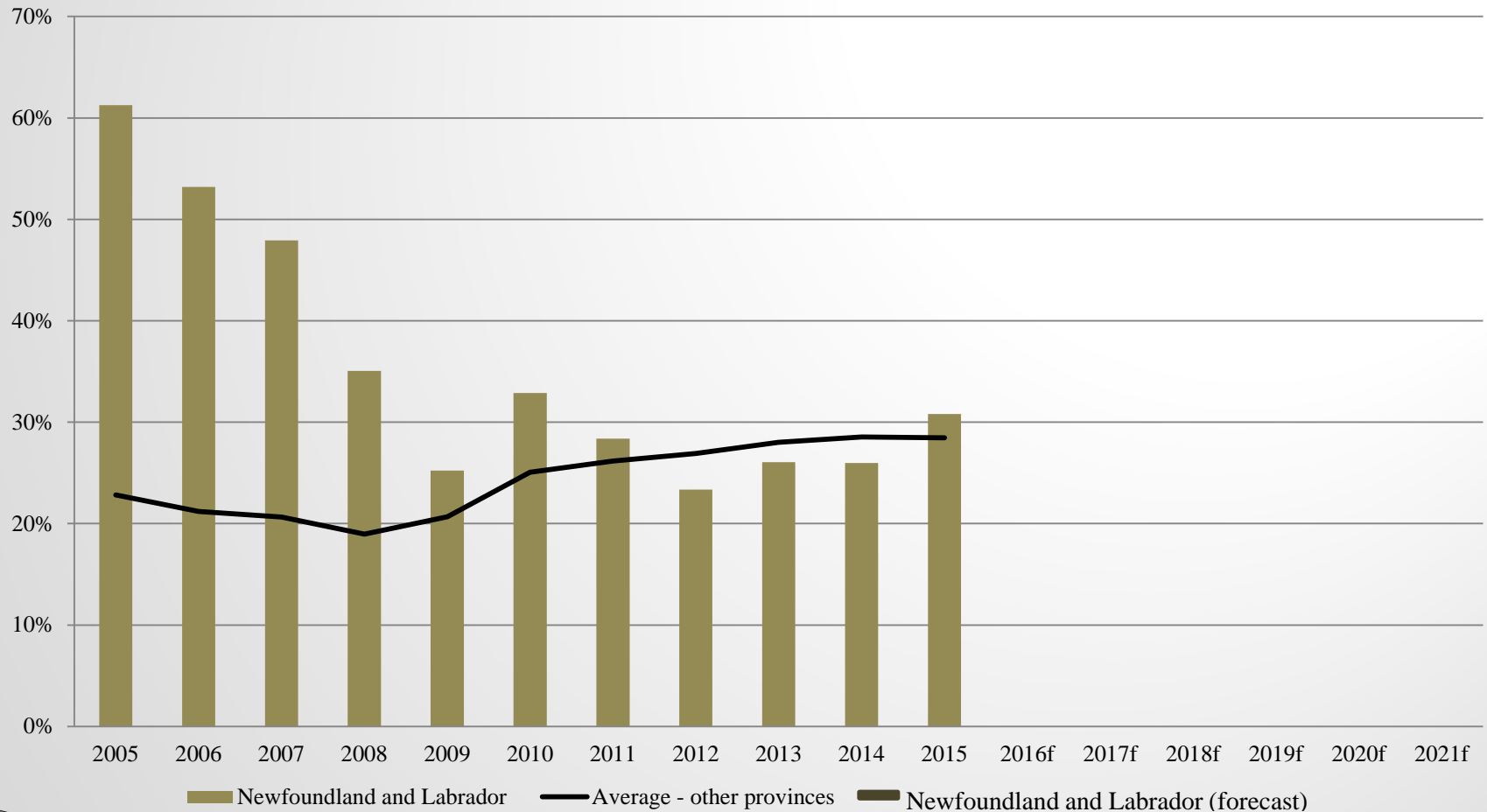


# Net Debt

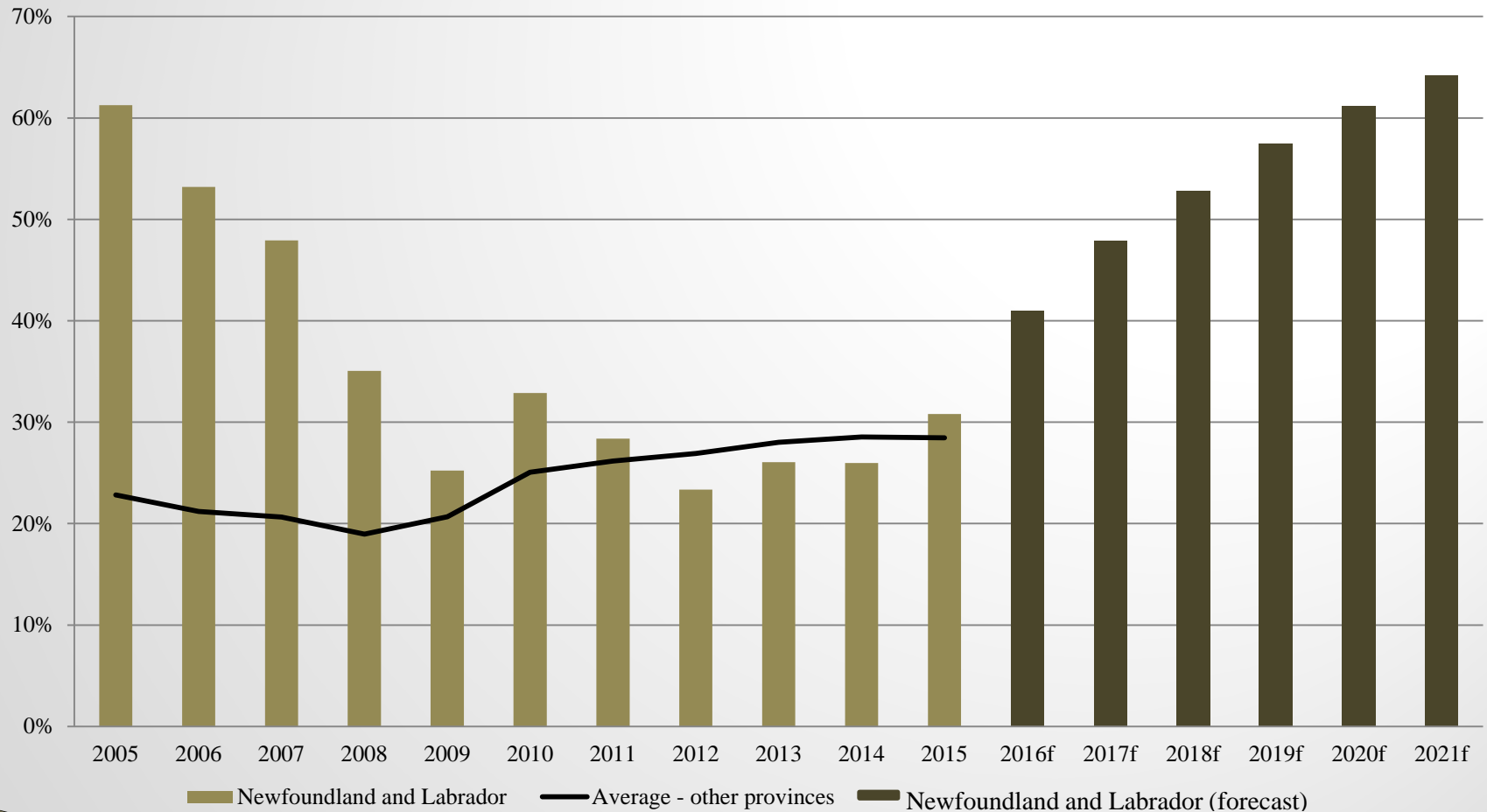
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# Net Debt as a Percentage of GDP

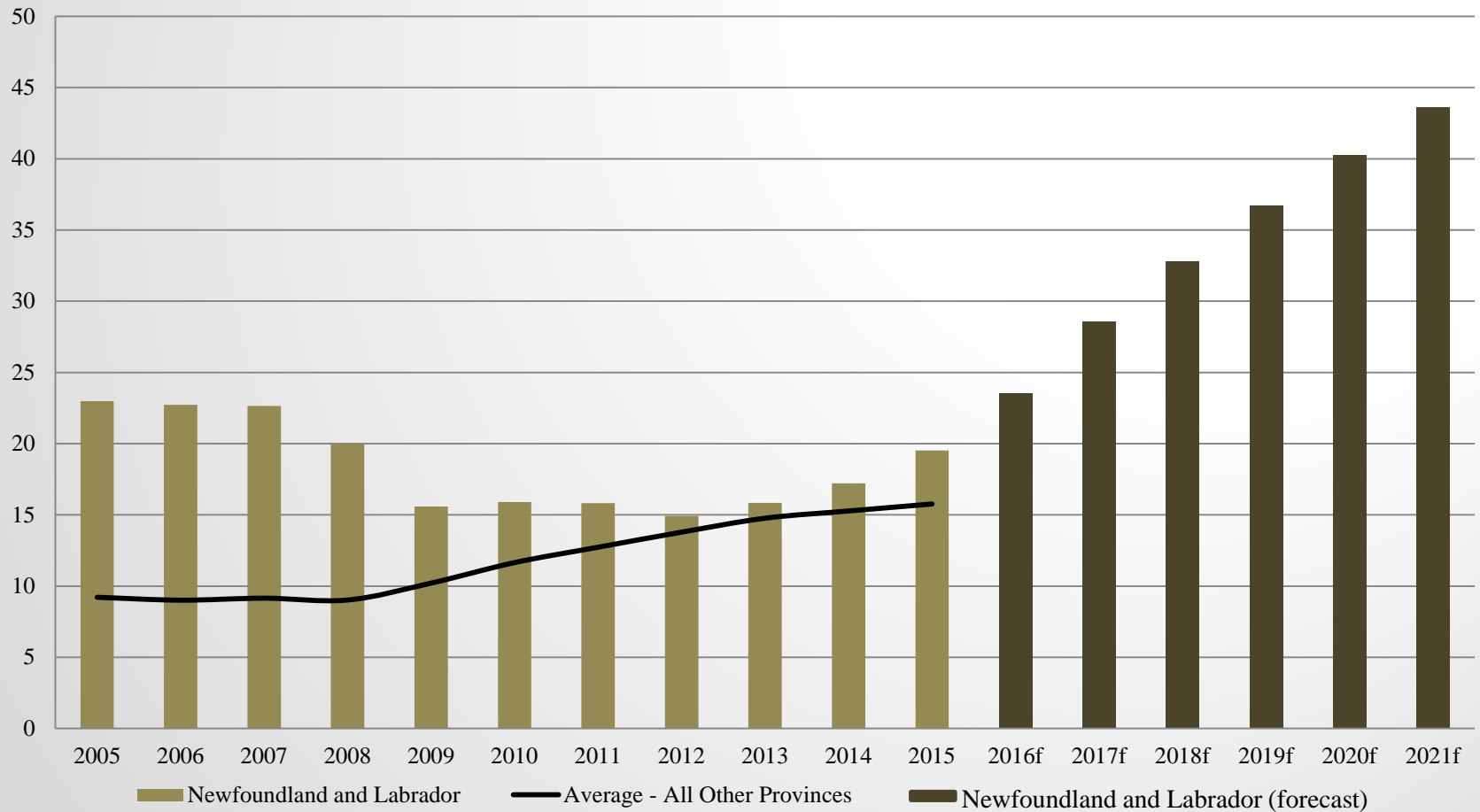


# Net Debt as a Percentage of GDP



# Net Debt per Capita

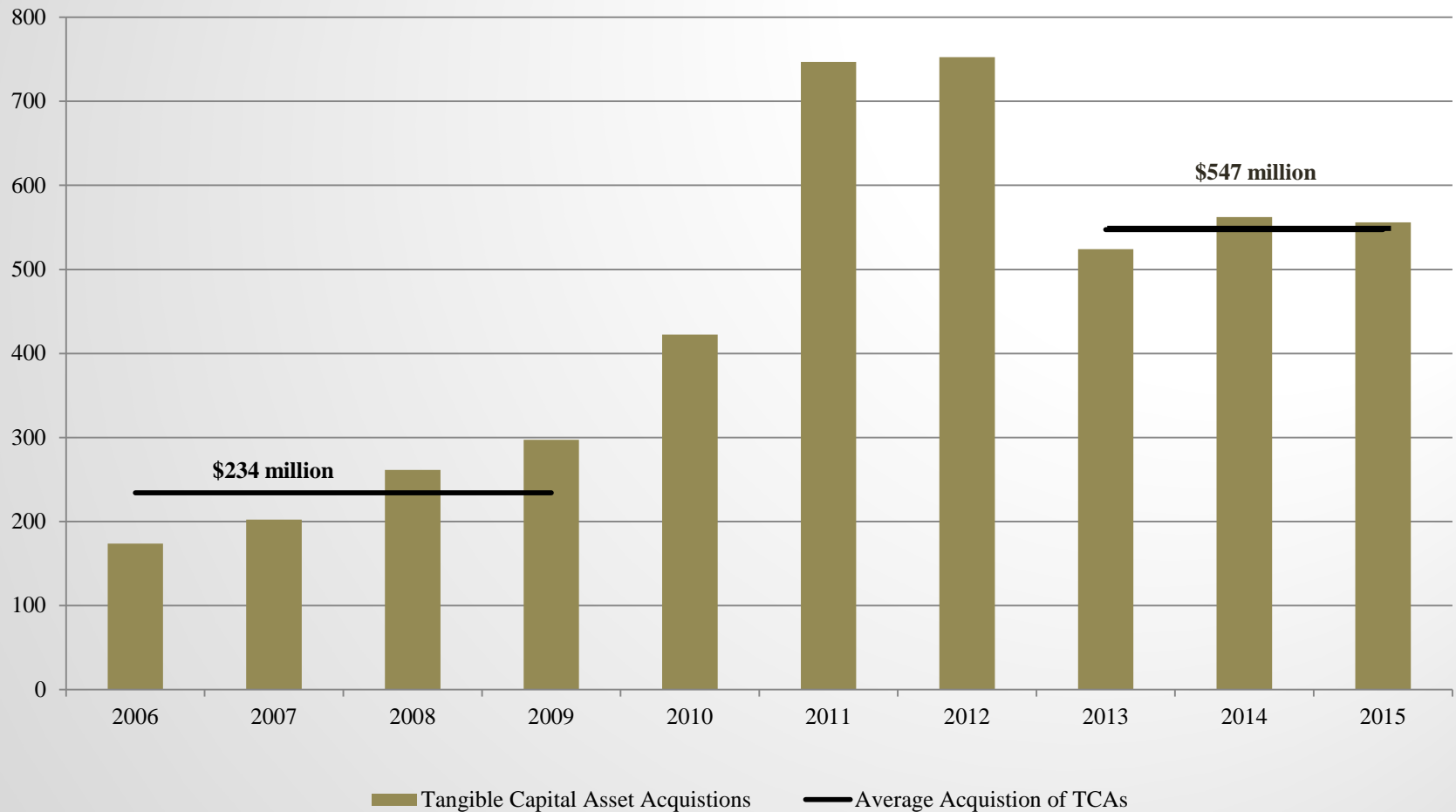
(\$000s)





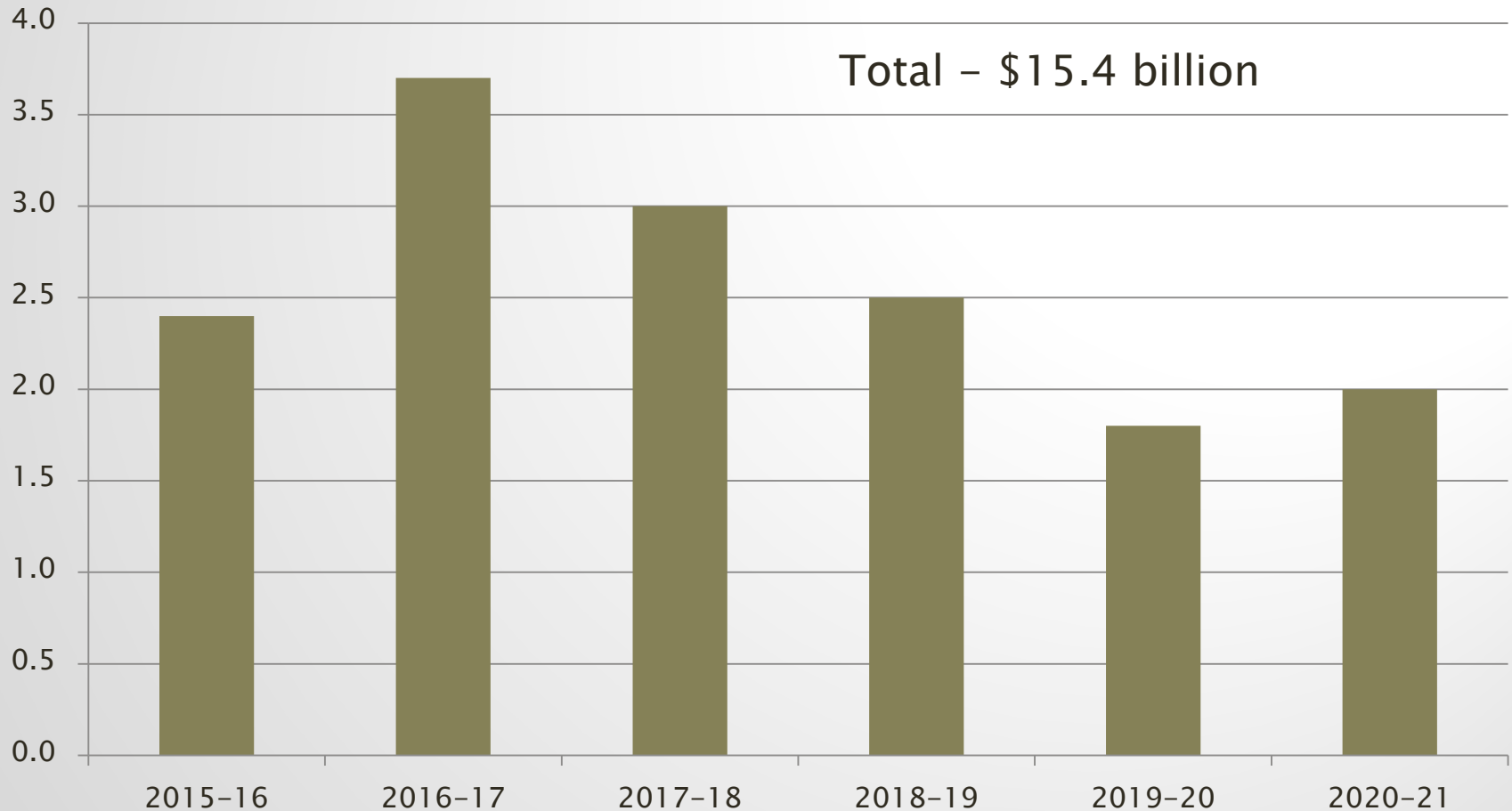
# Infrastructure Acquisitions

(\$ millions)



# Borrowing Program

(\$ billions)



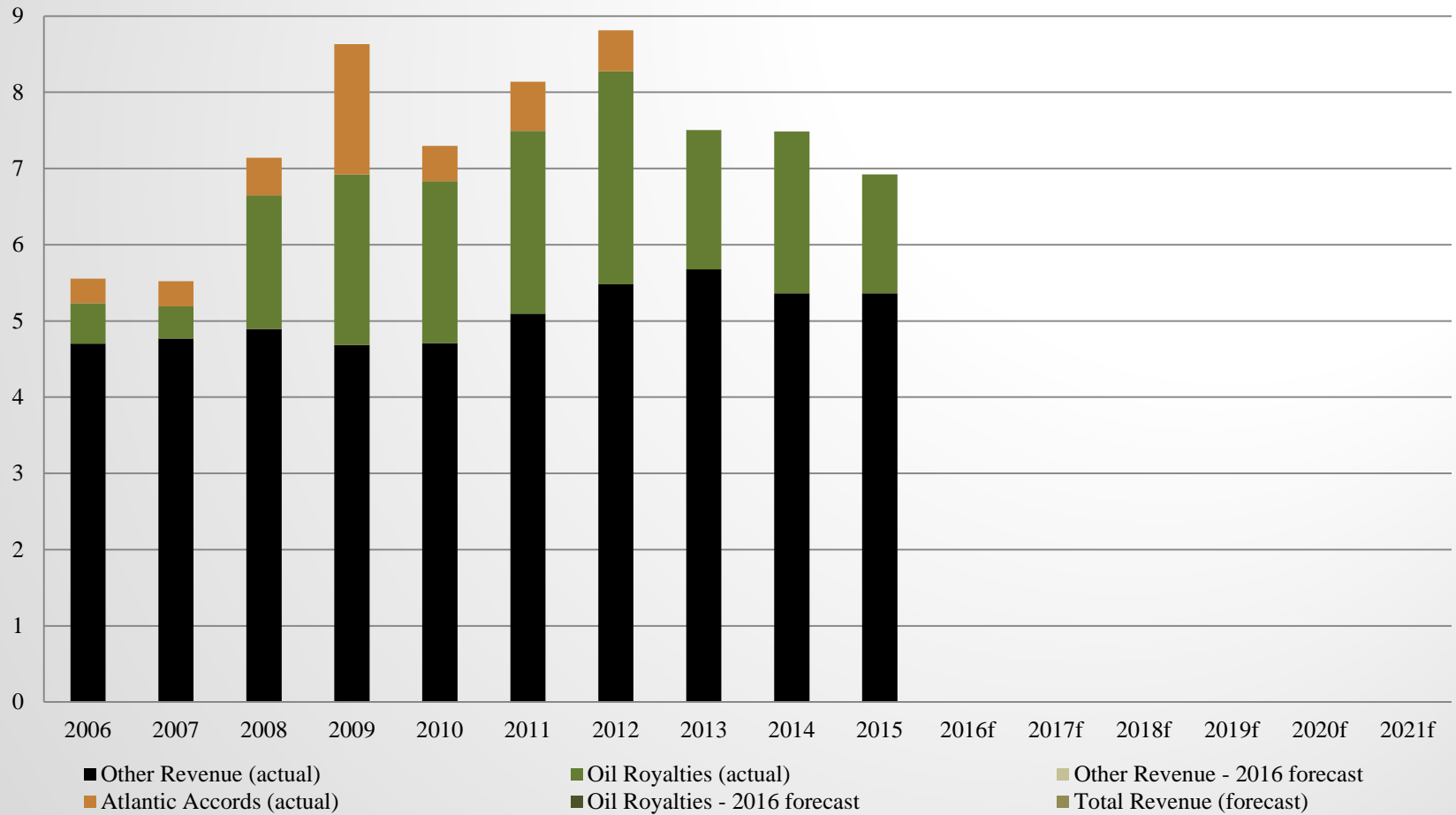
# 6 Year Borrowing Program

- ▶ Operating cash requirements
- ▶ Pension Promissory Notes
- ▶ Debt refinancing
- ▶ Infrastructure acquisitions
- ▶ Muskrat Falls equity

## Revenue

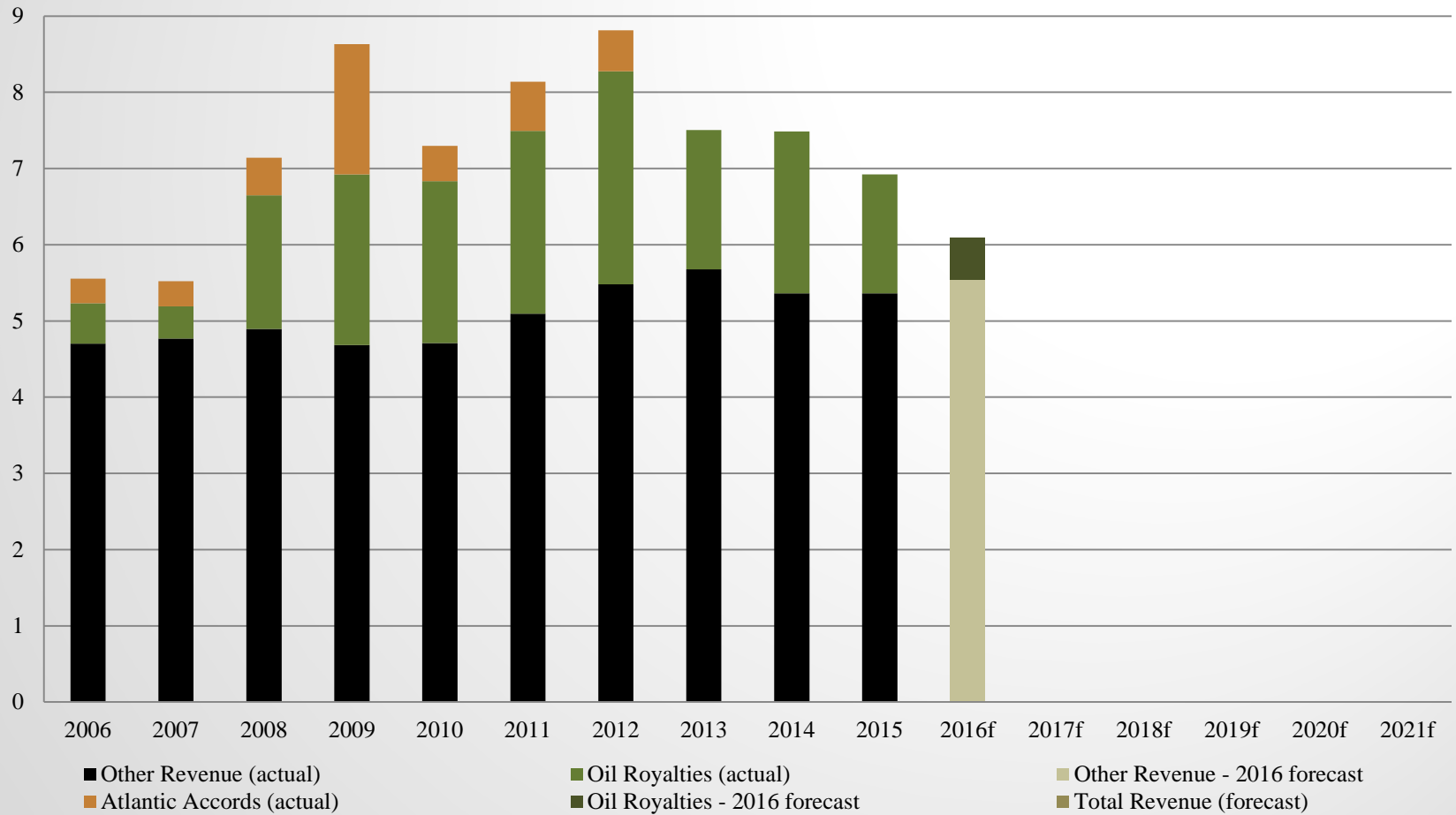
# Revenue

(\$ billions)



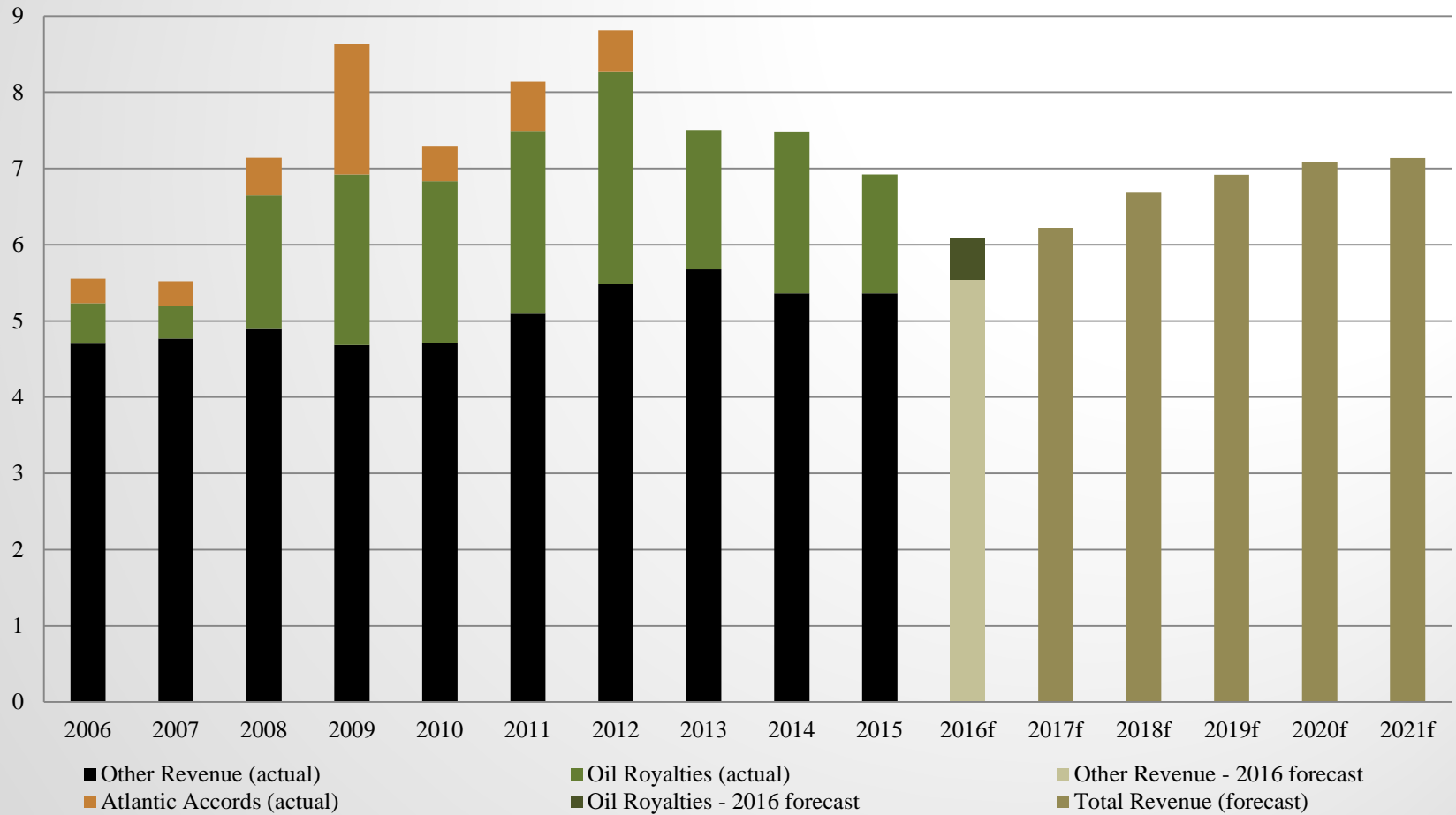
# Revenue

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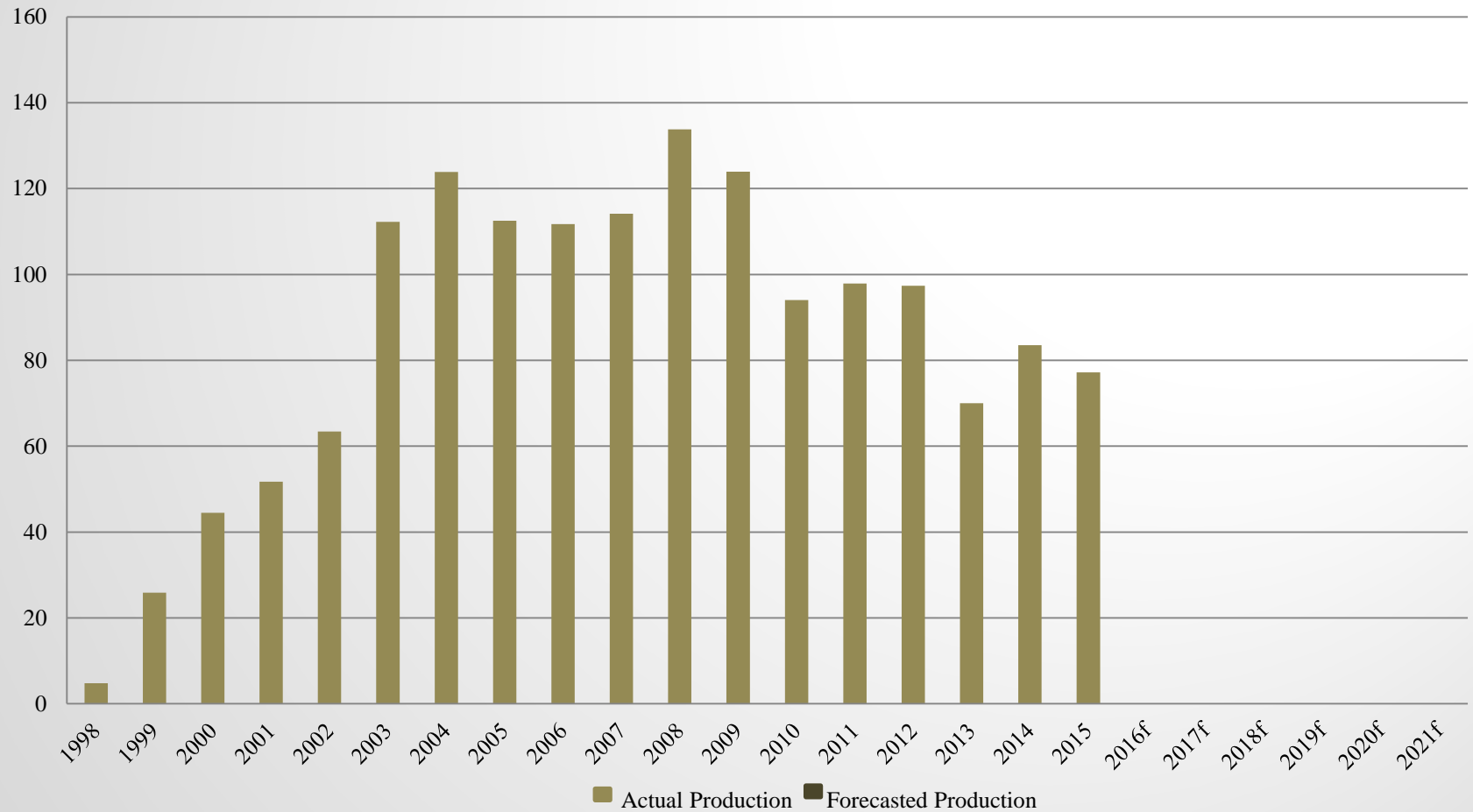
# Revenue

(\$ billions)



# Annual Oil Production

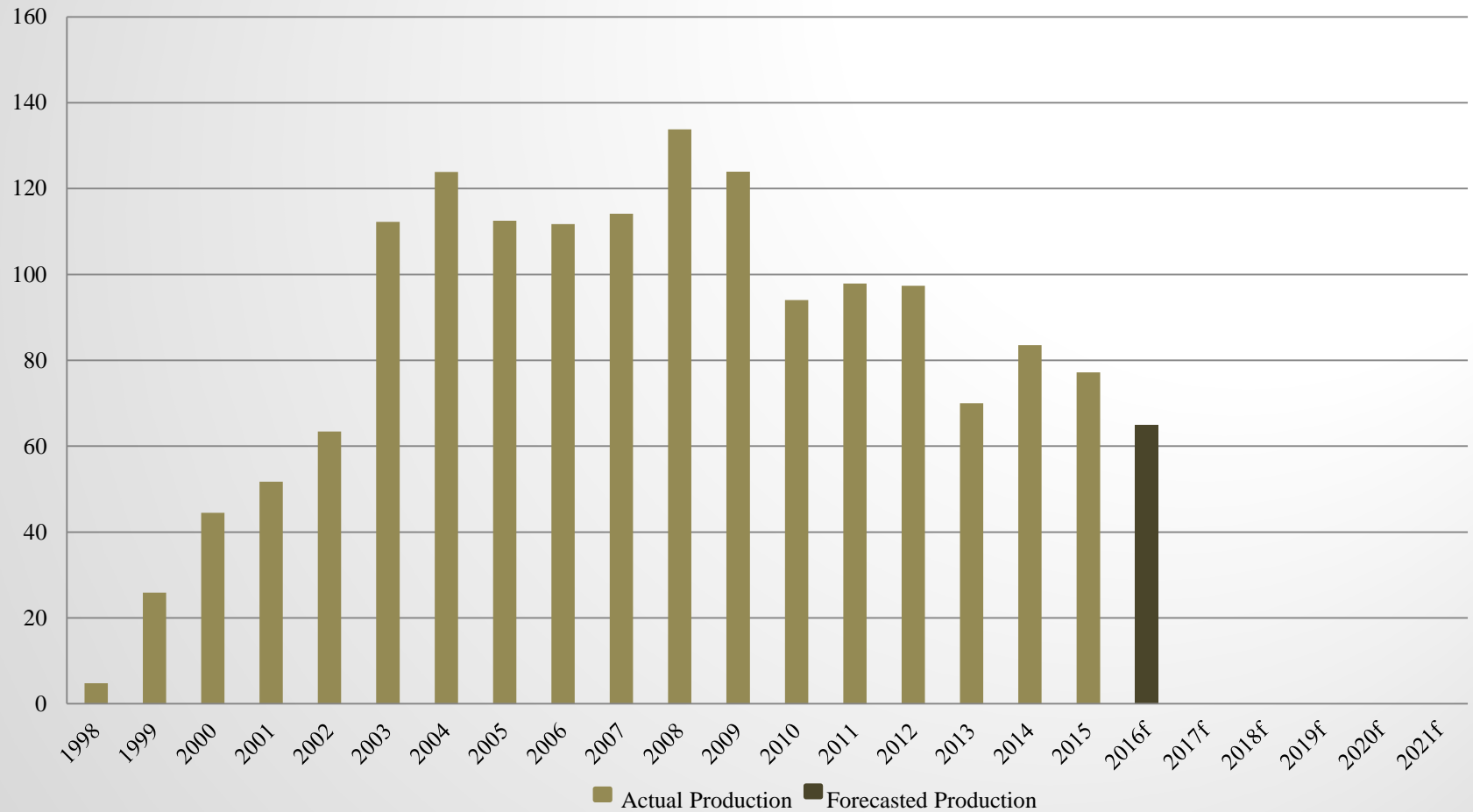
(Mbbbls)





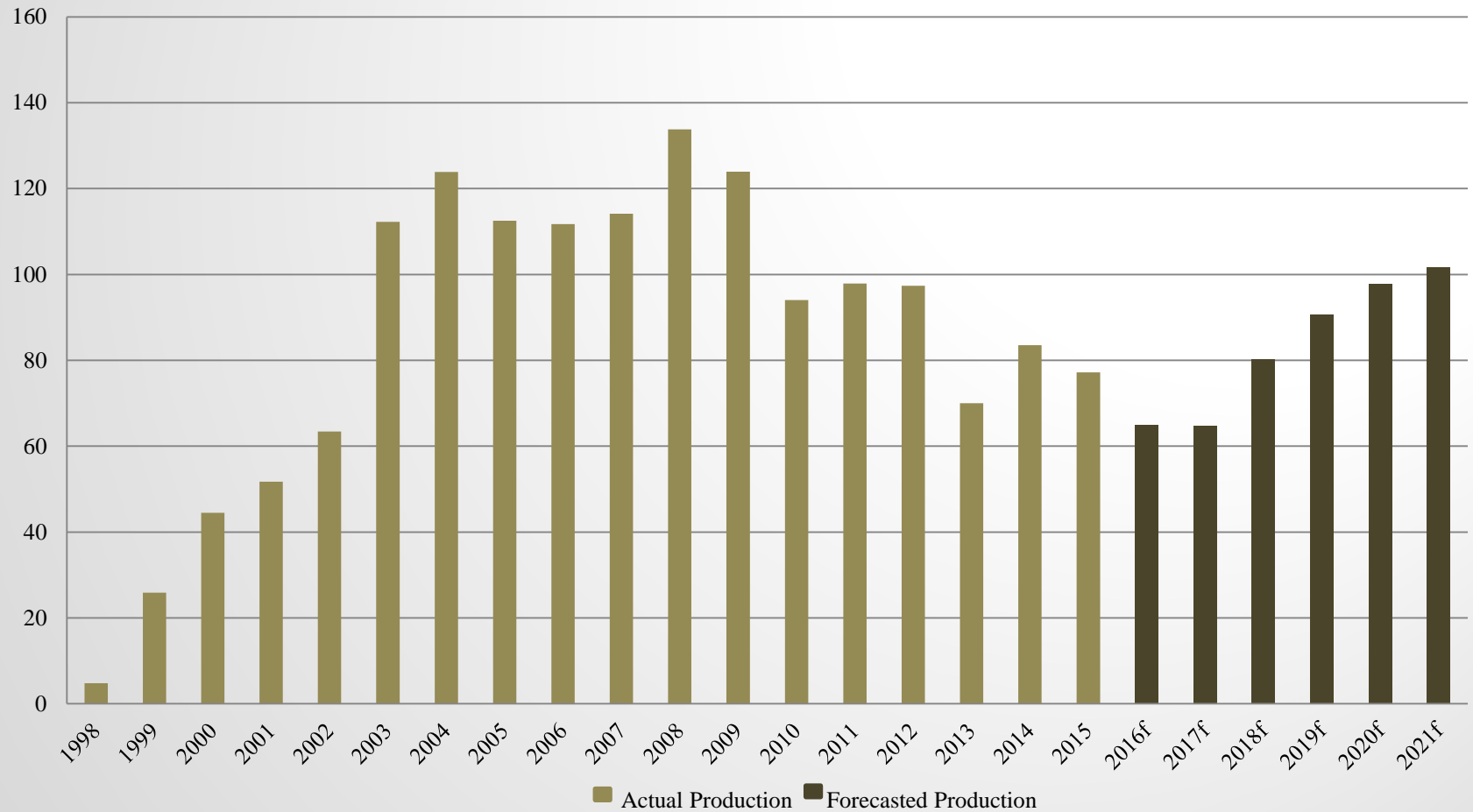
# Annual Oil Production

(Mbbbls)



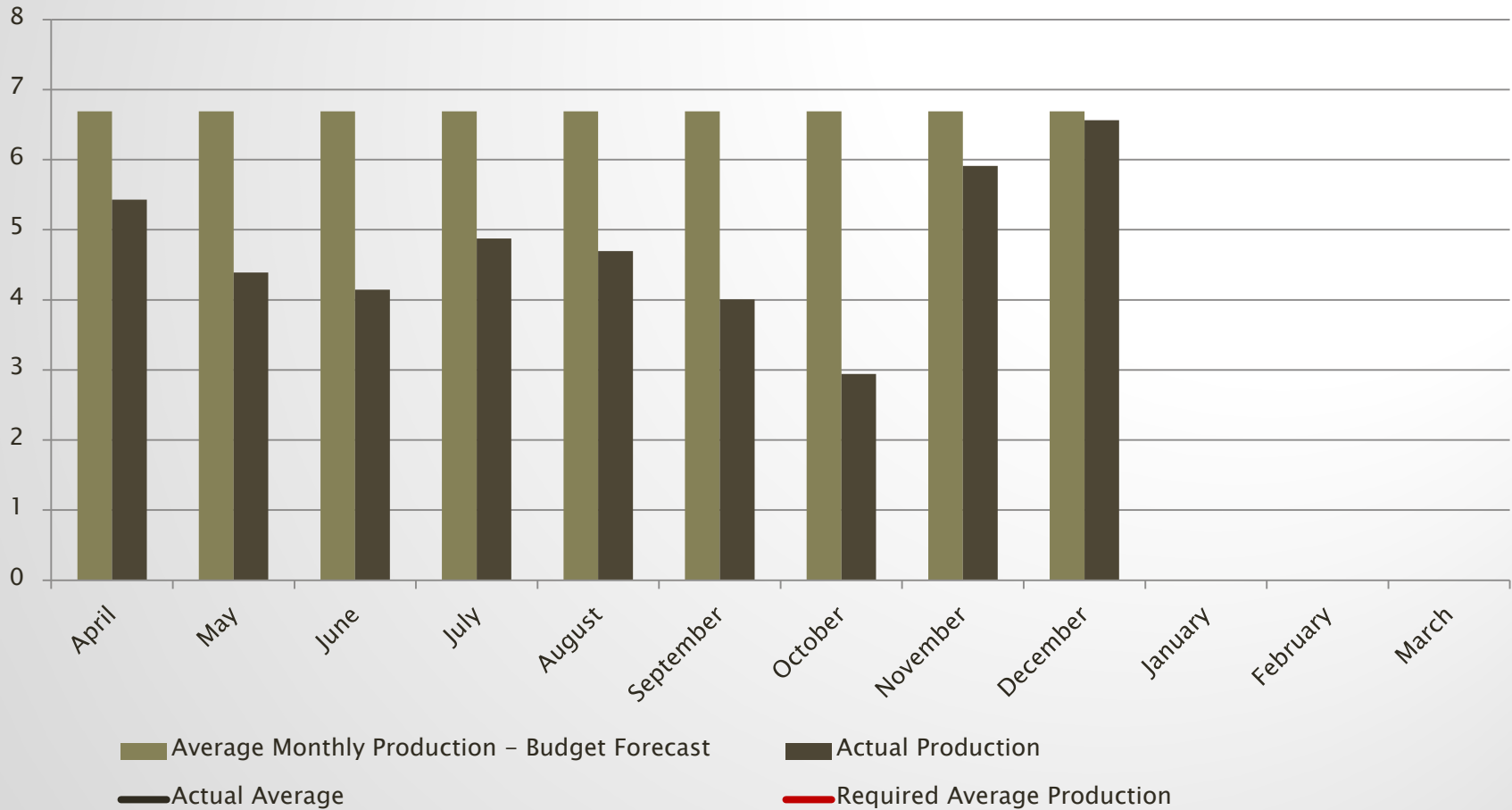
# Annual Oil Production

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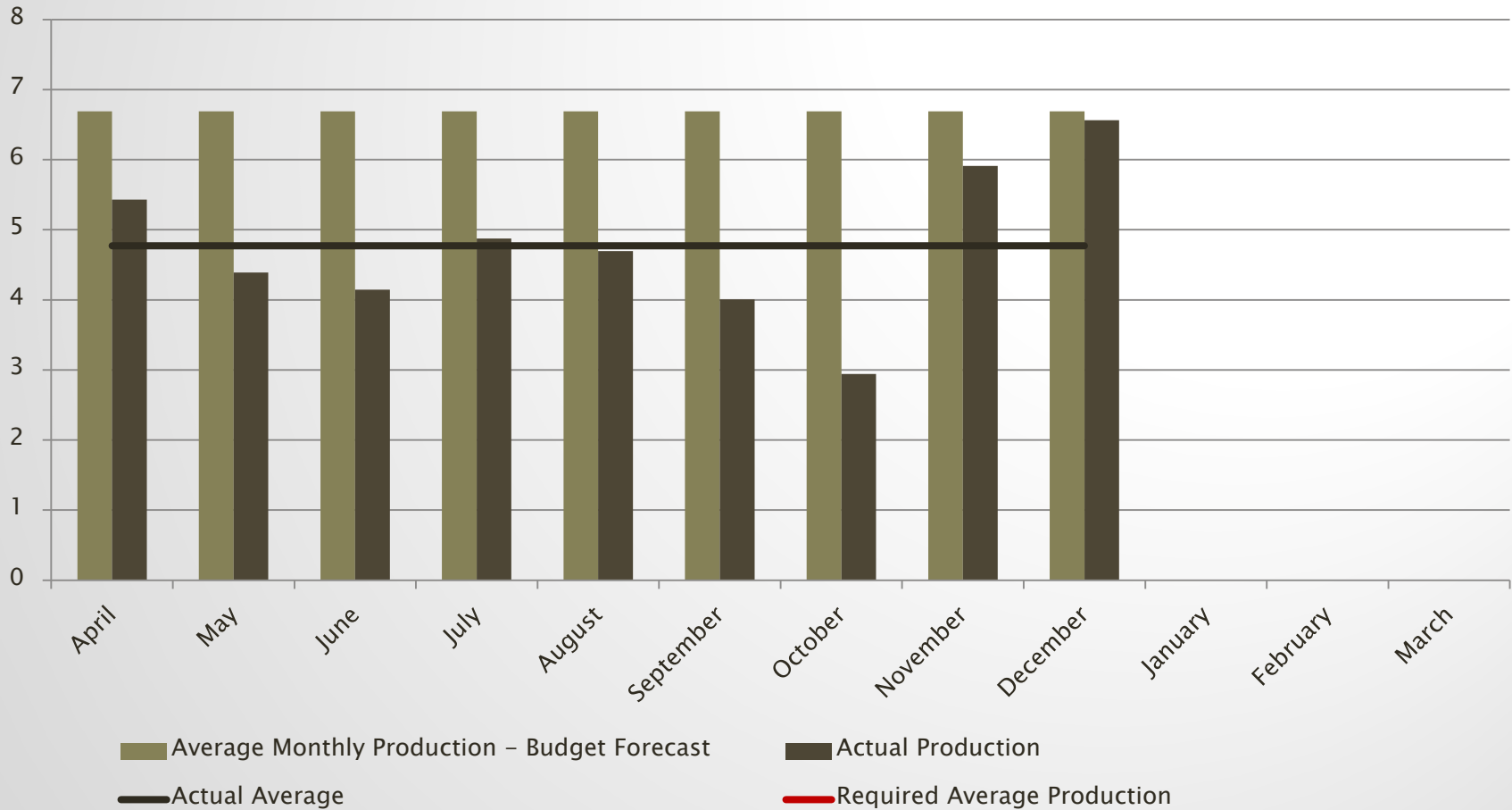
# Oil Production (2015-16)

(Mbbbls)



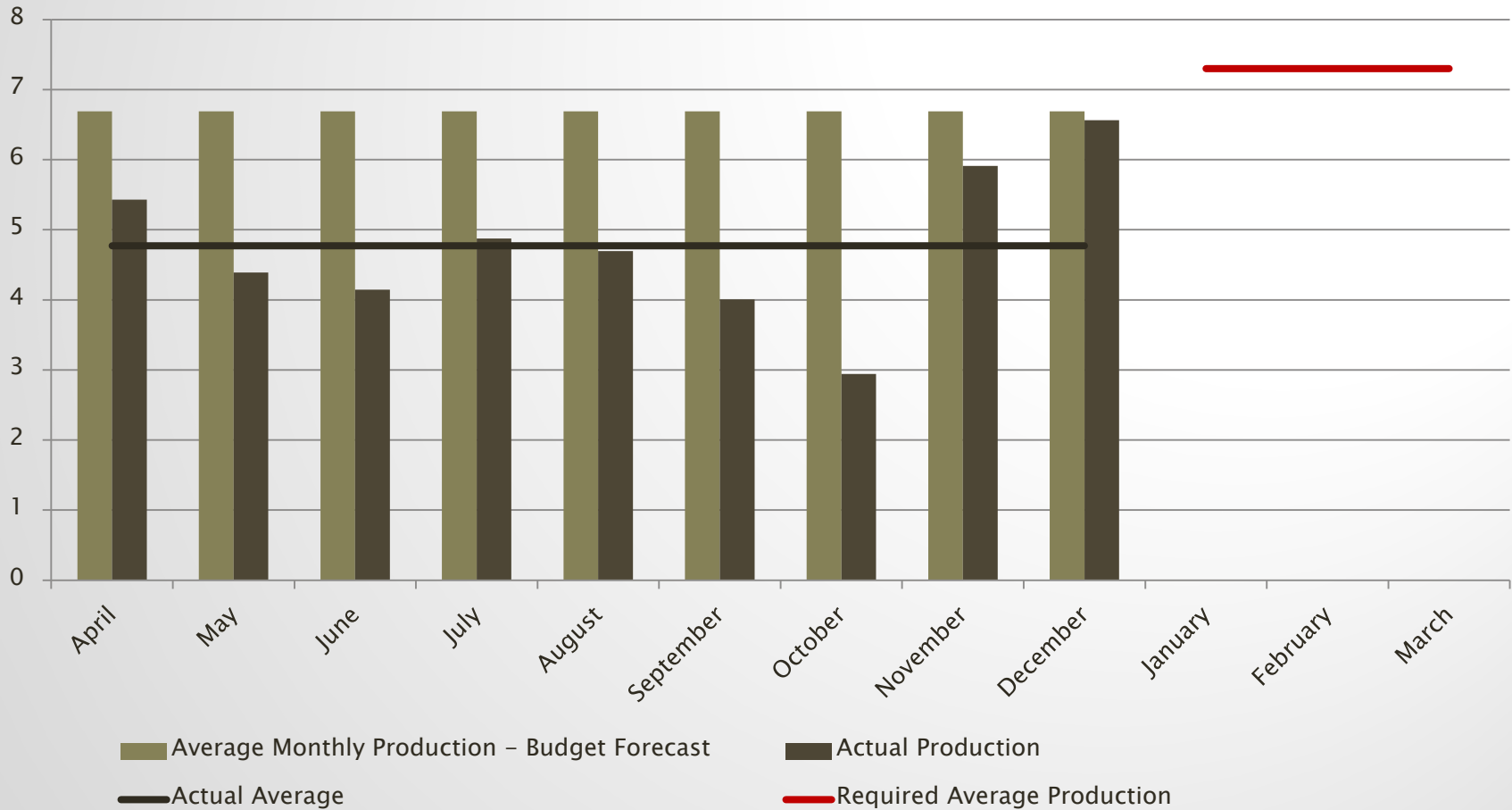
# Oil Production (2015-16)

(Mbbbls)

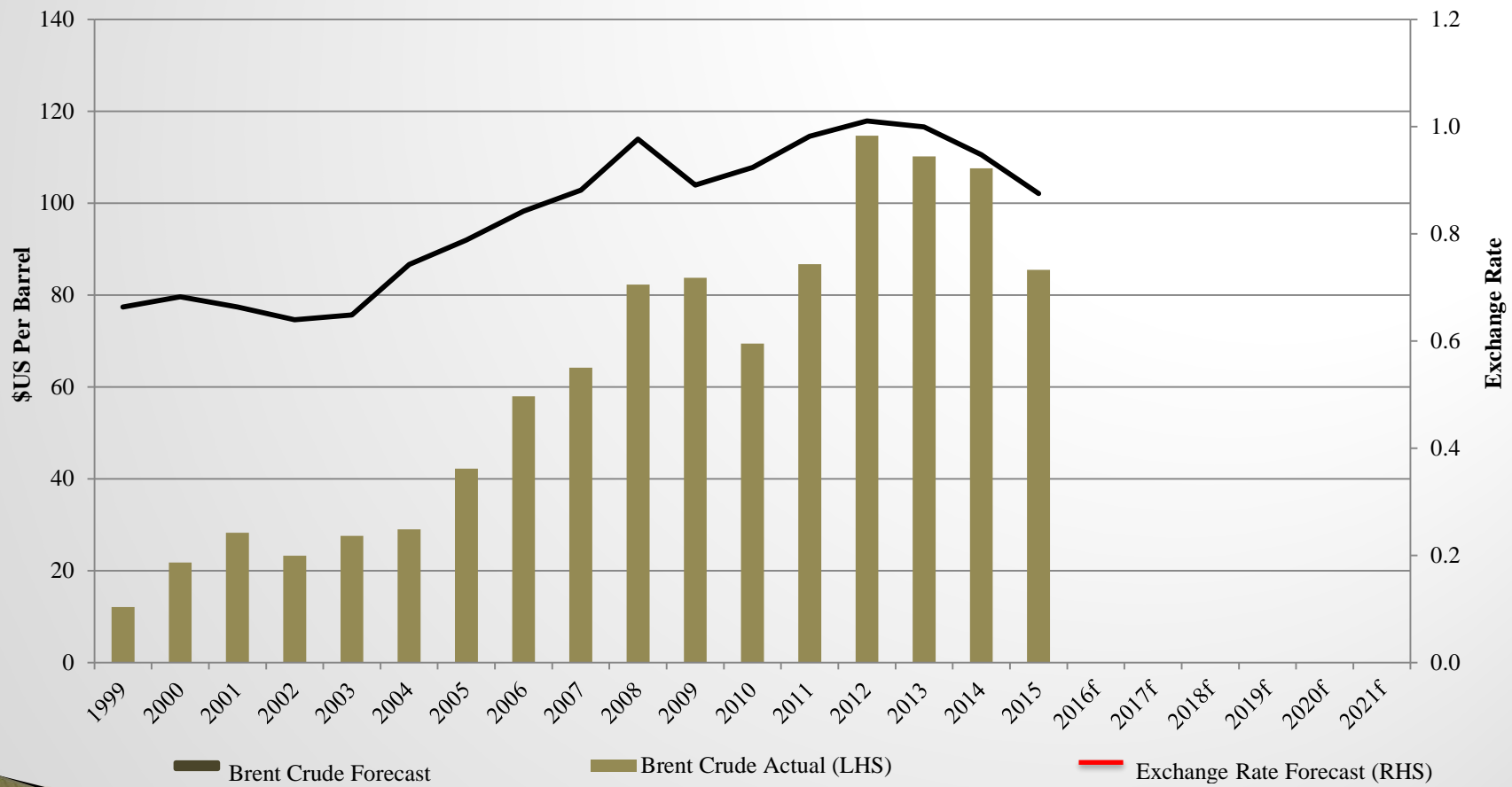


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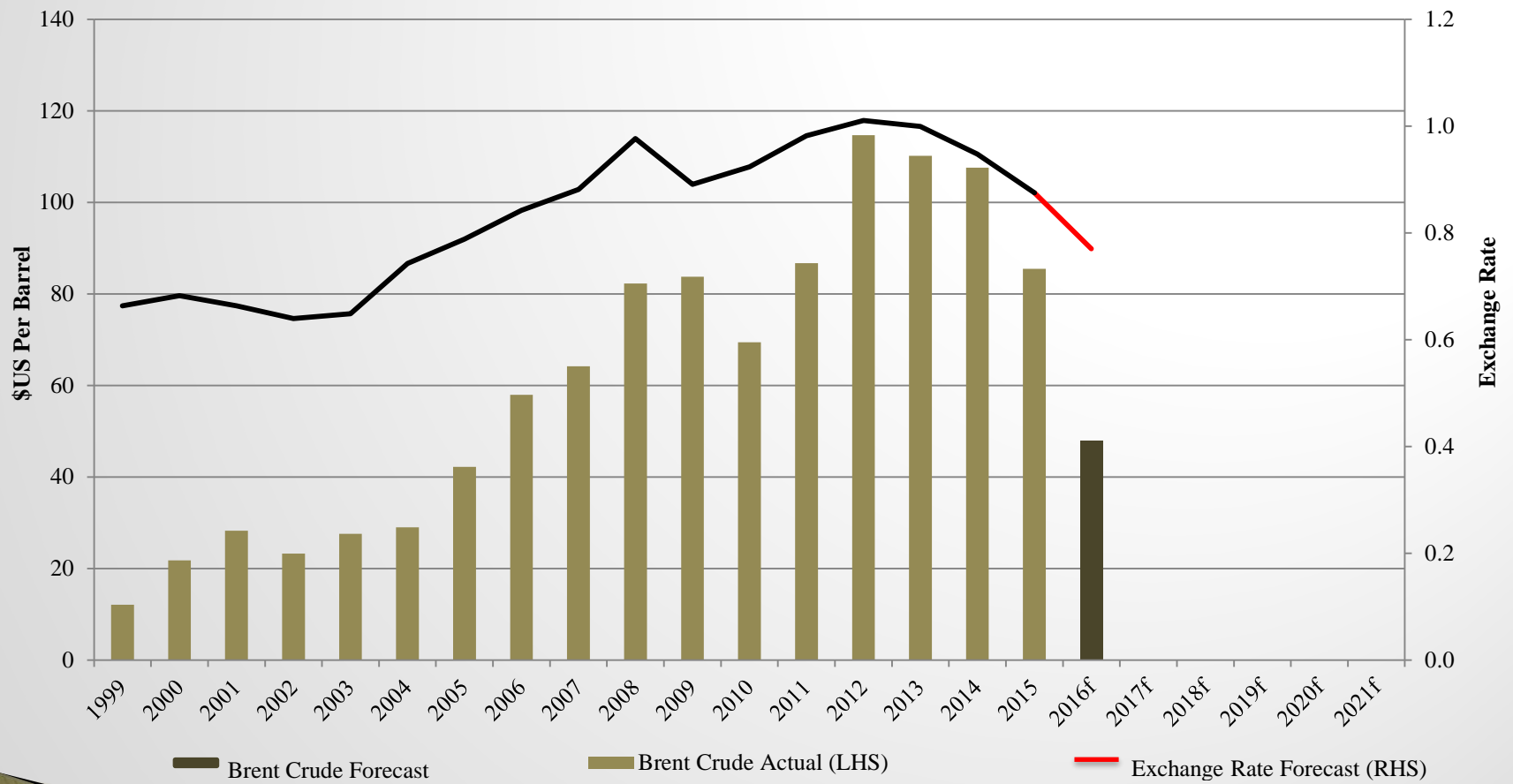
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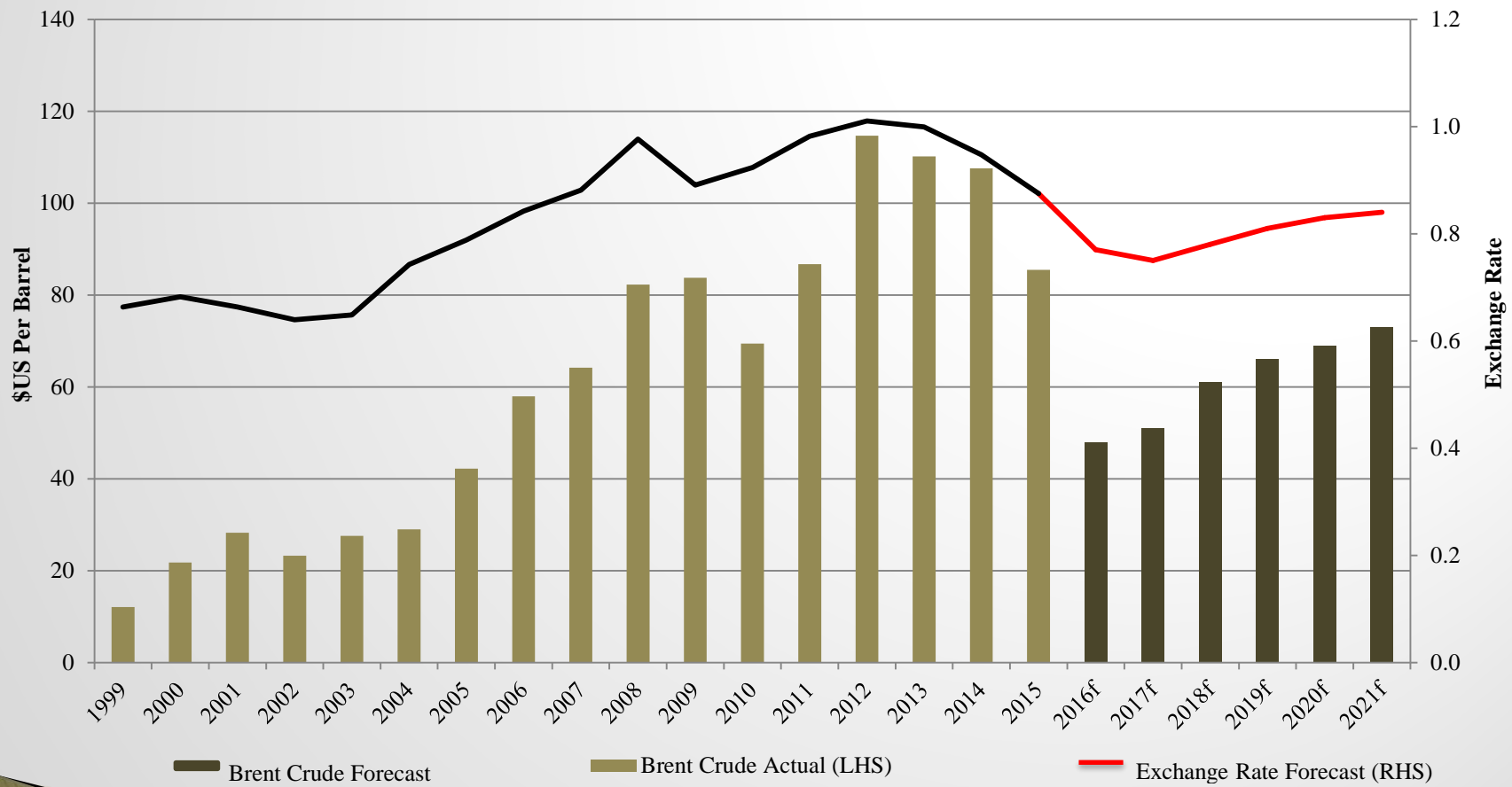
# Brent Crude Price/Canada-US Exchange Rate



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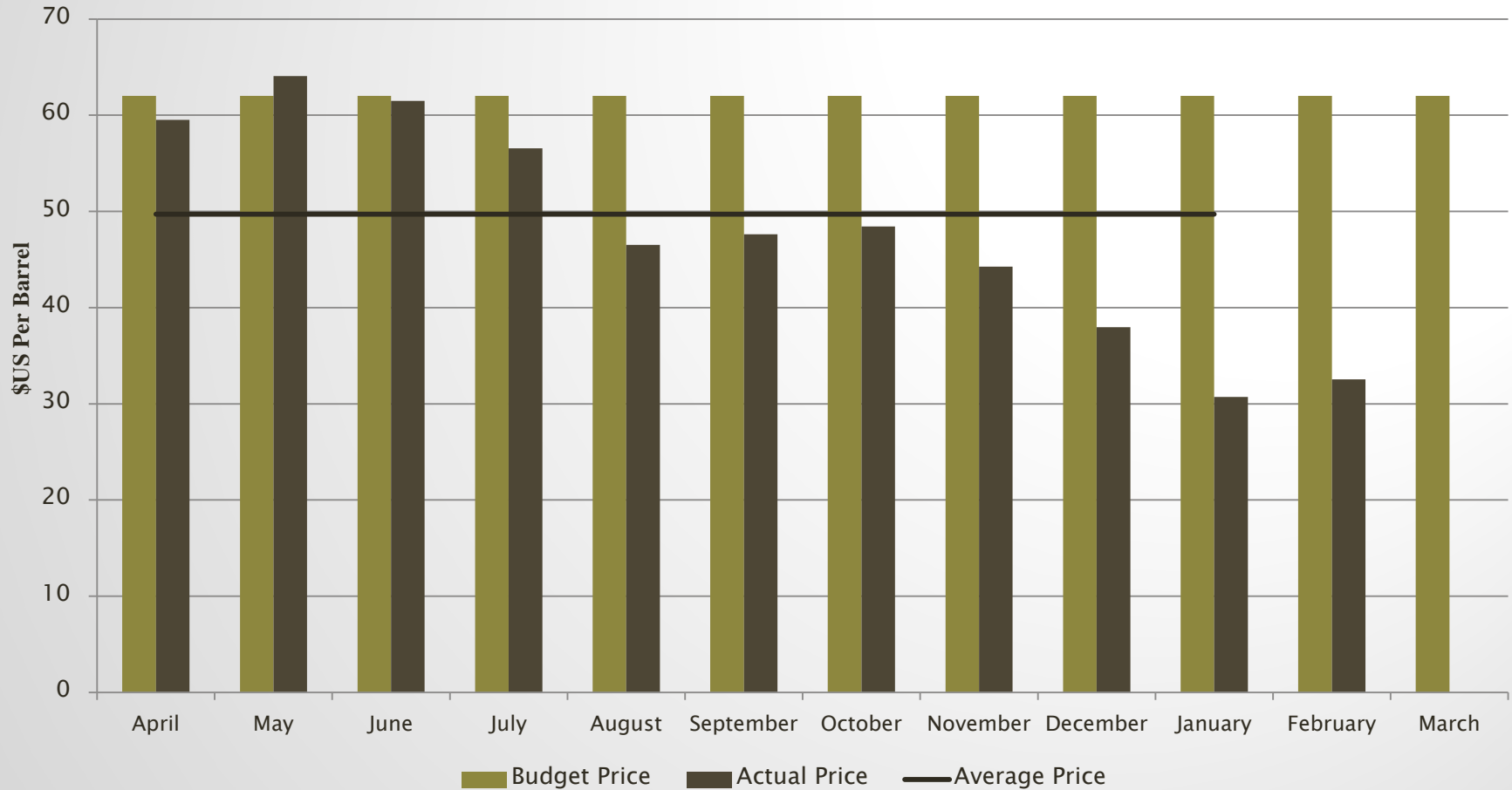


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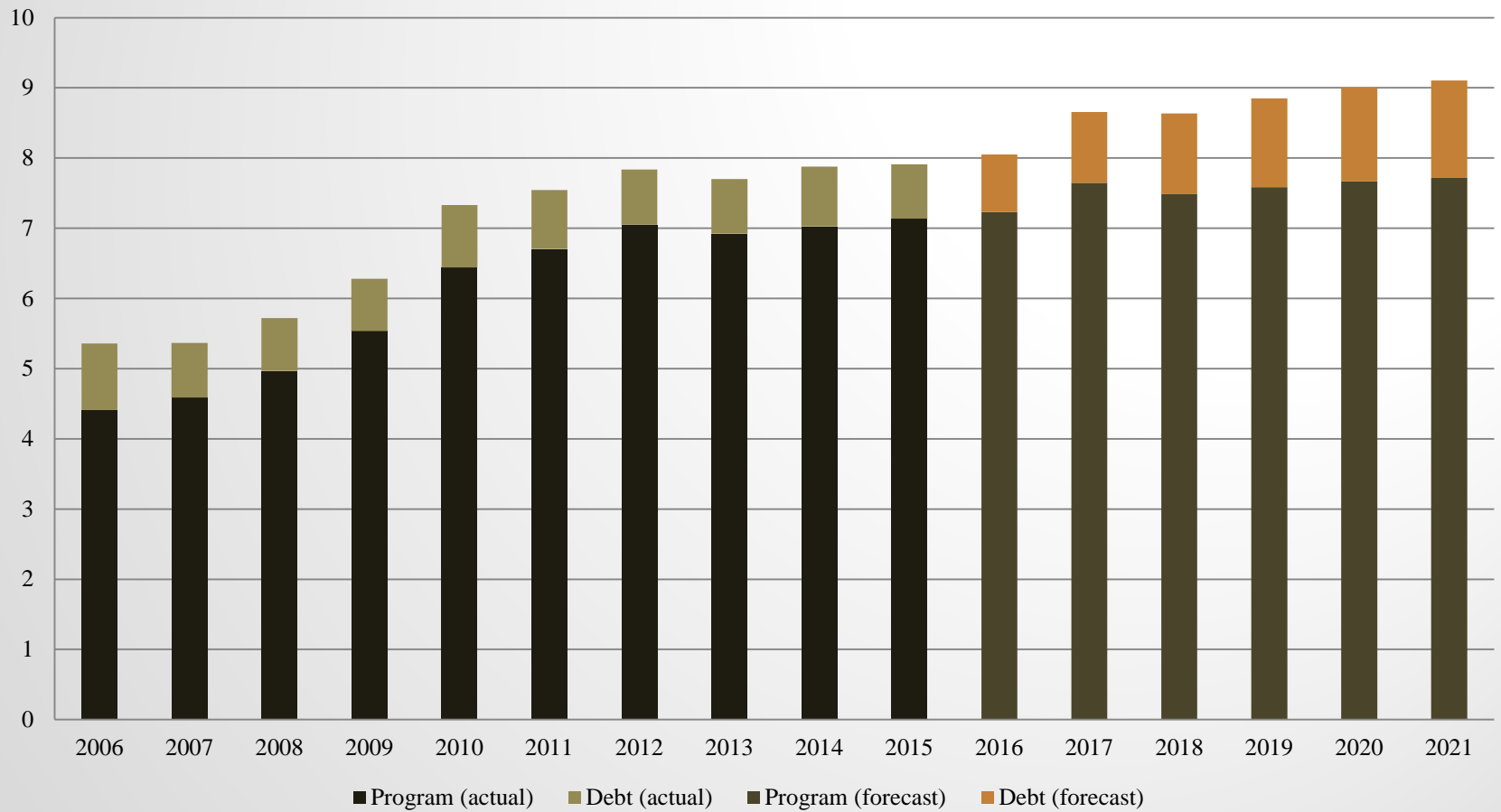
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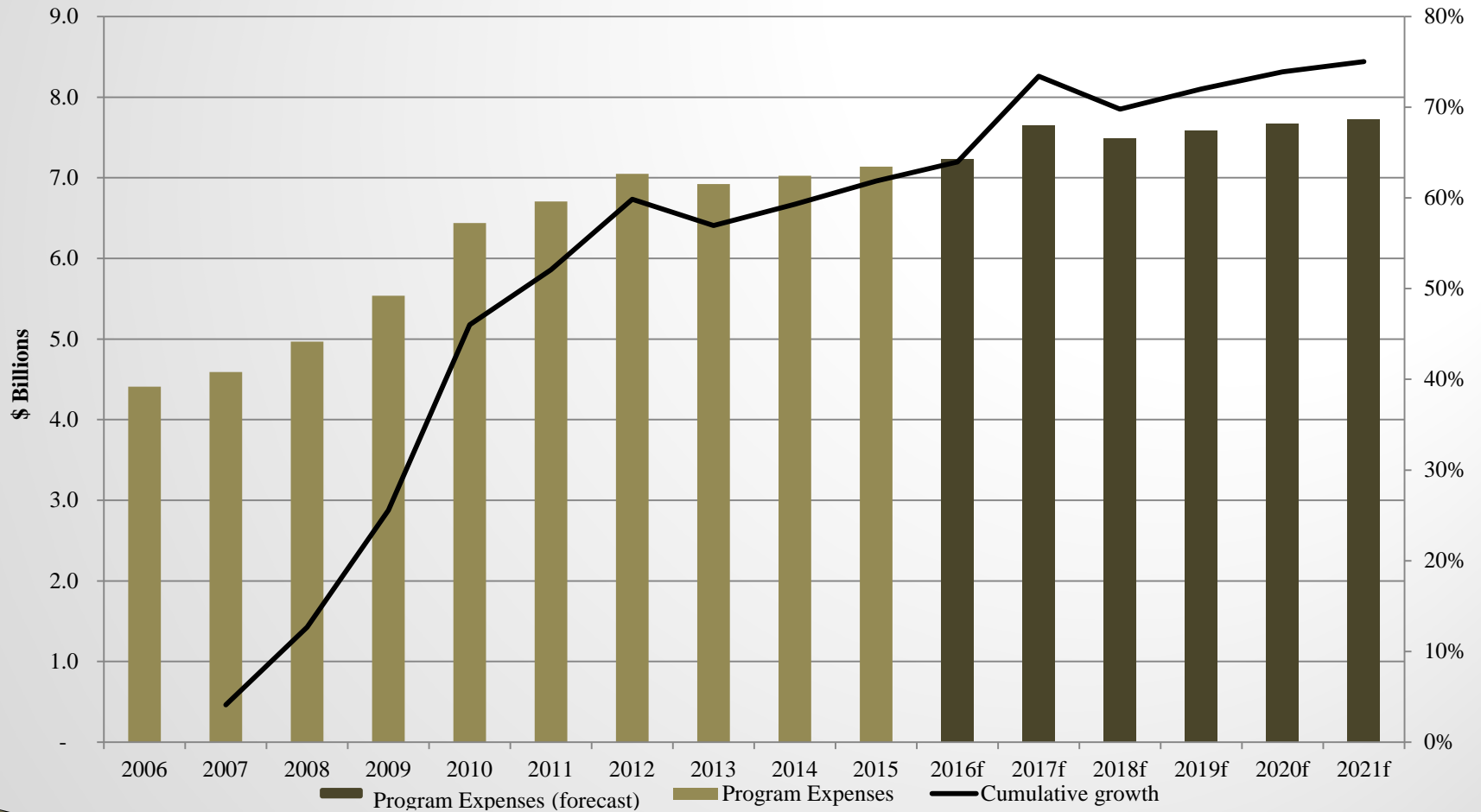
## »» Expenses

# Expenses

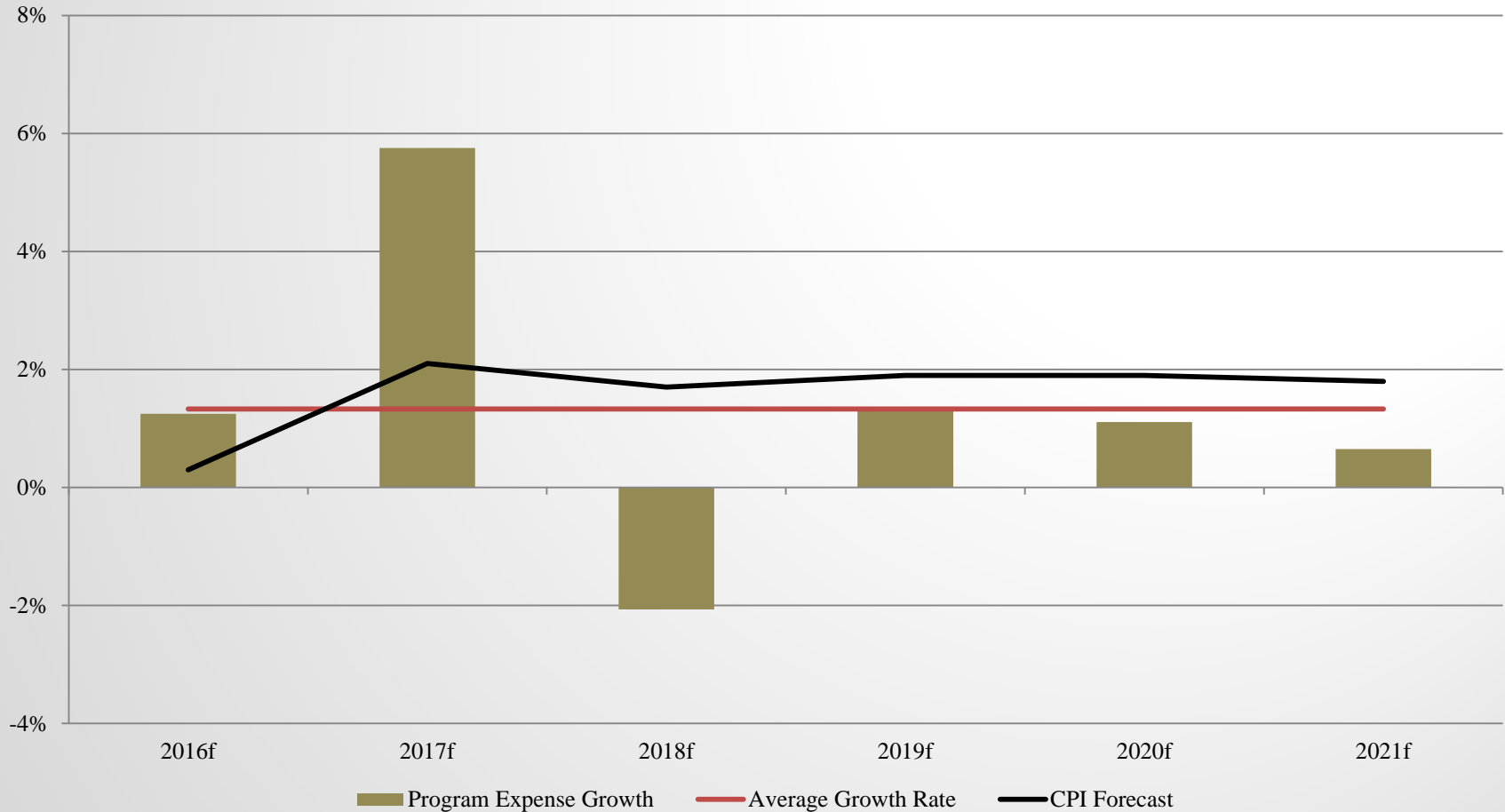
(\$ billions)



# Program Expenses and Cumulative Growth

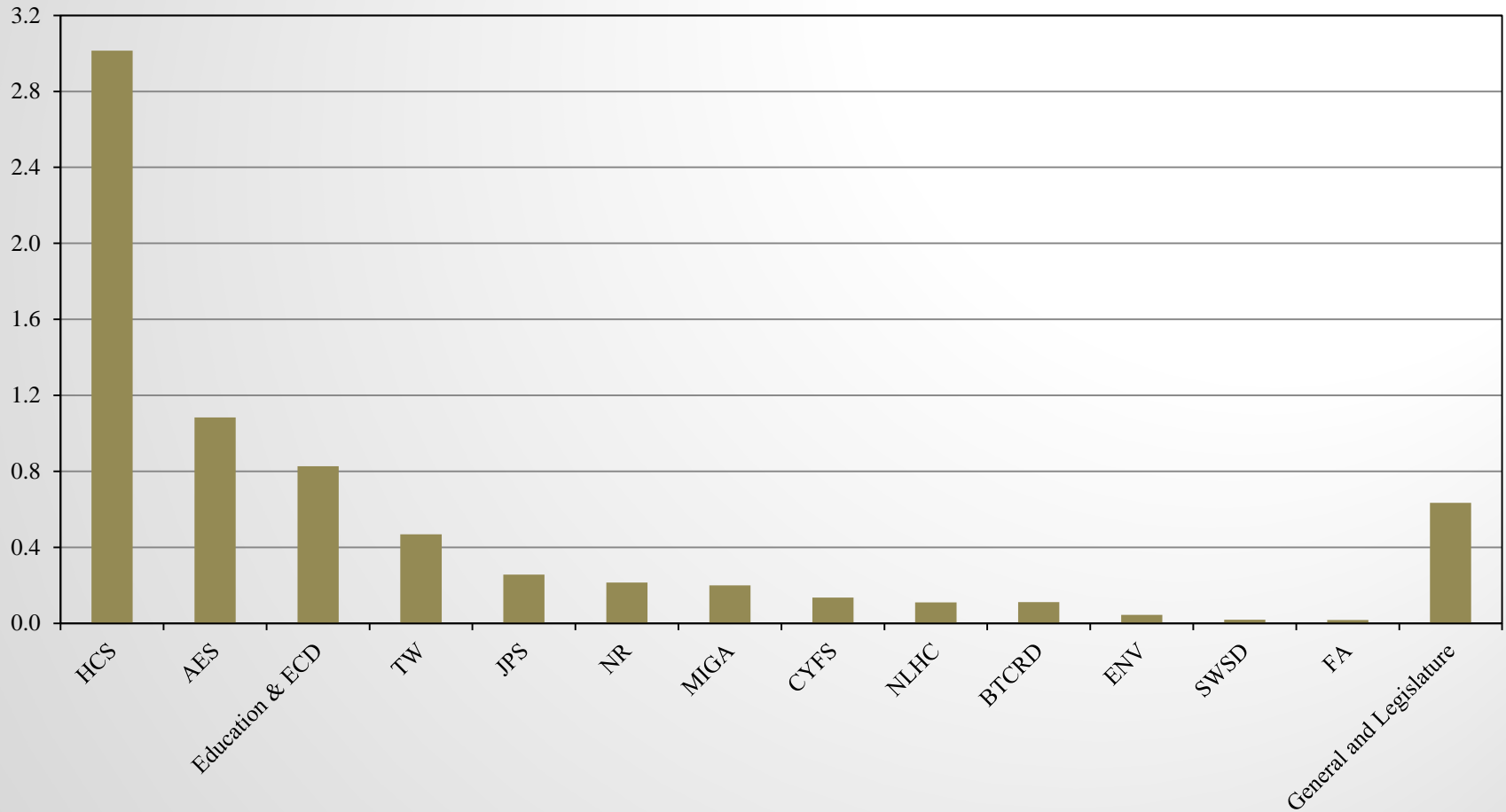


# Forecast Program Expense Growth



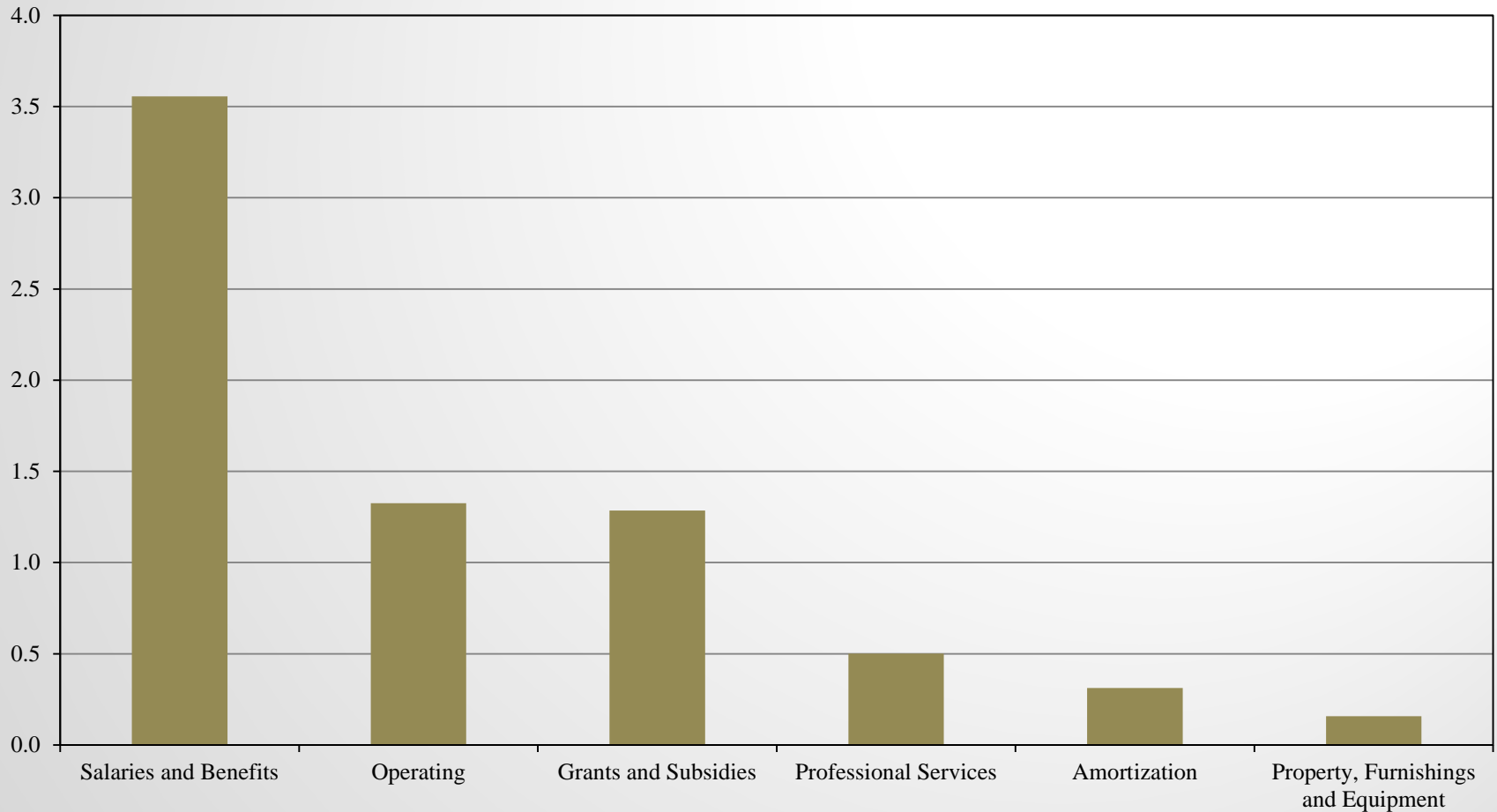
# Program Expenses by Department

(\$ billions)



# Program Expenses by Category

(\$ billions)



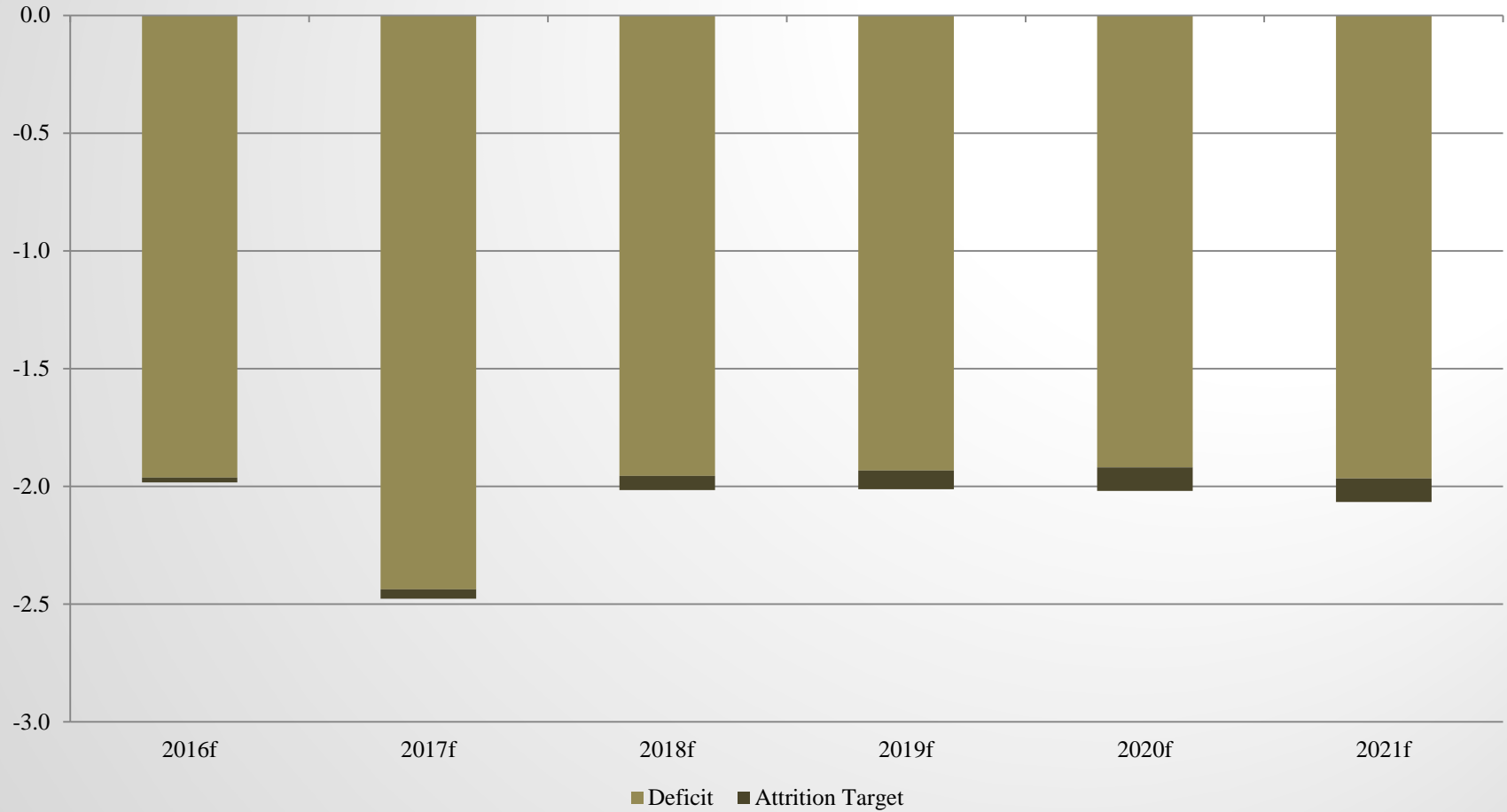
# Attrition Plan Summary

Year	Positions			Anticipated Savings
	Core Government	Broader Public Service	Total	(\$ Millions)
2015-16	87	197	284	20
2016-17	174	394	568	40
2017-18	261	591	852	60
2018-19	348	788	1,136	80
2019-20	435	985	1,420	100

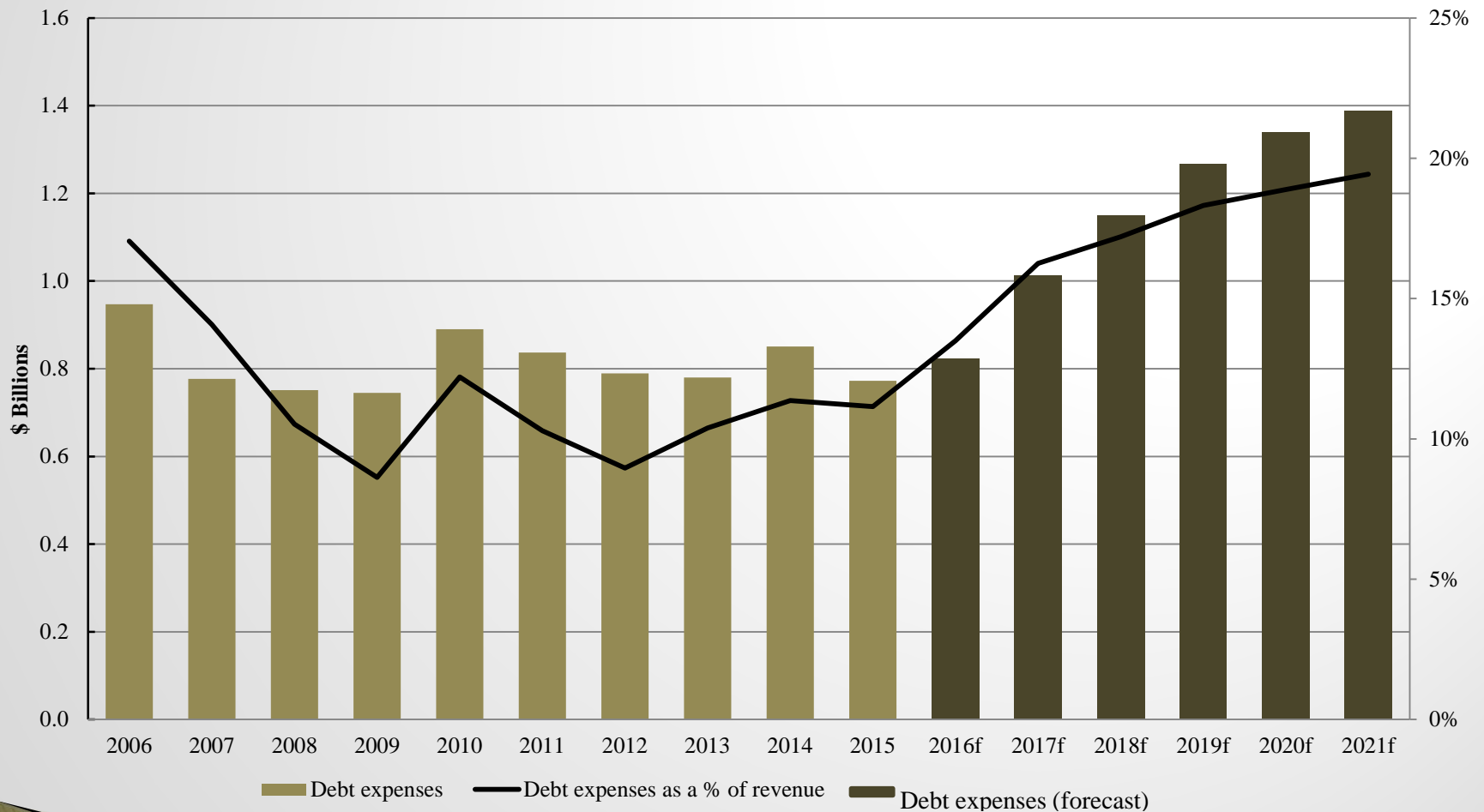


# Attrition Plan Impact

(\$ billions)



# Debt Expenses and as a % of Revenue



## »» Dealing with the Deficit

# Dealing with the Deficit

- ▶ 2 basic questions
  - What to do?
  - How to do it?
- ▶ Realistic medium term expectations
- ▶ Reasonable deficit targets and timelines
- ▶ Consideration of tax increases
  - Income Tax, HST and other taxes
- ▶ Spending decreases
  - Include all sectors
  - Reduced workforce/salary costs
- ▶ Balance the need to reduce the deficit with the economic and financial consequences of any action or inaction

# Bond Rating Agencies

- ▶ “...without a material improvement in the Province’s fiscal and debt prospects, supported by a credible, multi-year fiscal strategy, a one-notch downgrade is likely.”
  - DBRS
- ▶ “Structural imbalances between the long-term growth rates of revenue and expenses, leading to a lengthy period of consolidated deficits, along with a long-term expectation of recording debt in excess of 200% of revenues or interest expense in excess of 9% of revenues, could result in negative pressures on the rating.”
  - Moodys

# Bond Rating Agencies

- ▶ “The negative outlook reflects our view of the uncertainty of the magnitude of the government's expected fiscal policy response to lowered offshore royalties and projected operating and after-capital deficits.”
  - Standard & Poors

» Questions?