5.4 The Financial Condition of the Province

The Province's annual surplus or deficit shows the extent to which Government spends less or more than it raises in revenues in one fiscal year. It shows if Government is living within its means. The net debt is the sum of all annual deficits and surpluses along with any equity adjustments which are made on an annual basis. In the Public Accounts, the net debt is the total of all liabilities (e.g. borrowings, group health and life insurance retirement benefits, unfunded pension liability) less financial assets (e.g. cash and accounts receivable). This amount is then reduced by the total of non-financial assets to arrive at the Province's accumulated deficit.

For 2005 the Province had a deficit of $488.8 million and a net debt of $11.9 billion. To put this in perspective, the $11.9 billion amounts to approximately $23,000 for every person in the Province. There are signs of encouragement in our financial outlook and Government has committed to address the annual deficits; however, it is important that it continue with efforts to spend within its means and consider a reasonable plan to reduce the Province's substantial net debt.

In order for Government to eliminate or reduce the $11.9 billion net debt, it will have to have annual surpluses. As Figure 19 shows, with the exception of 1998, the Province has had an annual deficit each year since 1994. Therefore, there has to be a substantial improvement in the Government's results of operations in order to support a reasonable plan to address the substantial net debt.

Figure 19 provides details of the Province's liabilities, annual deficits, net debt and interest costs for the years 1994 to 2005 (1998 was a surplus) as reported in the Public Accounts of the Province. As the Figure shows, the Province has had substantial deficits and interest costs, and the net debt has increased each year.

Figure 19

Consolidated Summary Financial Statements
Debt, Annual Deficits and Debt Expenses
Years ended 31 March
($Millions)

Year	Net Borrowing and other Liabilities	Unfunded Pension Liability	Group Health and Group Life Insurance Benefits Liability	Total Liabilities	Annual Deficit (Surplus)	Net Debt	Debt Expenses
1994	6,162	2,519		8,681	341	6,453	904
1995	6,535	2,686		9,221	374	6,831	1,004
1996	6,725	2,739		9,464	190	7,121	822
1997	6,730	2,943		9,673	107	7,254	819
1998	6,373	3,134		9,507	(133)	7,301	865
1999	6,758	3,352		10,110	187	7,851	1,008
2000	6,689	3,309		9,998	269	8,087	883
2001	6,801	3,348		10,149	350	8,437	951
2002	7,270	3,392		10.662	468	8,932	942
2003	7,581	3,557	985	12,123	644	10,616	979
2004	8,073	3,746	1,067	12,886	914	11,487	982
2005	8,640	3,934	1,159	13,733	489	11,888	940
Total					**4,200**		**11,099**

Prudent fiscal management and spending within its means has to remain a priority for Government if it is to make progress in improving the Province's financial position.

Deficit for 2005

Although for 2005 the Province had budgeted a deficit of $840 million, the actual deficit was $489 million, an improvement of $351 million. Figure 20 provides details on the budget forecast versus actual results for the year ended 31 March 2005.

Figure 20

Consolidated Summary Financial Statements
Actual Compared to Budget
31 March 2005
($ 000's)

	Actual	Original Estimates	Impact on Deficit	% of Impact
REVENUE				
Provincial				
Taxation	1,892,809	1,960,225	67,416	(19.2)
Investment	237,411	184,180	(53,231)	15.2
Fees and fines	185,118	160,425	(24,693)	7.0
Offshore royalties	264,673	121,350	(143,323)	40.9
Other	218,710	374,866	156,156	(44.5)
Government of Canada	1,513,493	1,450,816	(62,677)	17.9
Net income of government business enterprises	171,217	158,170	(13,047)	3.7
Total Revenue	**4,483,431**	**4,410,032**	**(73,399)**	**21.0**
EXPENSE				
General Government Sector	1,429,875	1,519,092	(89,217)	25.4
Resource Sector	173,143	191,072	(17,929)	5.1
Social Sector	3,369,260	3,539,464	(170,204)	48.5
Total Expense	**4,972,278**	**5,249,628**	**(277,350)**	**79.0**
ANNUAL DEFICIT	**488,847**	**839,596**	**(350,749)**	**100.0**

As Figure 20 shows, improvements were realized in the areas of increased oil revenues ($143 million), increased Government of Canada revenues ($63 million) and decreased expenses ($277 million). This was offset by decreases in other Provincial revenue ($156 million) .

Budget for 2006

There is a sense of optimism in a number of new areas that may bring some much needed prosperity to the Province and result in further improvements to the Province's financial condition. The most significant event occurred in July 2005, when the Province received a $2 billion advance payment from the Government of Canada relating to the Atlantic Accord (2005). Another notable occurrence was the increase in oil price which resulted in increased oil revenues. These have an immediate impact on the Province’s financial position and will have a significant impact on the Province’s results of operations for 2006.

In a mid-year financial update, Government indicated that the budgeted deficit of $492.5 million for 2006 is now expected to be a $1.5 million surplus. The significant portion of the change relates to increased oil revenues, additional Atlantic Accord (2005) revenues, and increased Corporate and Personal income taxes.

$2 Billion Atlantic Accord (2005) Money

In July 2005, the Province received an advance cash payment of $2 billion representing the minimum amount it would receive over an 8 year period to 2012 as a 100% offset against reductions in Equalization payments resulting from offshore resource revenues.

To date the Province has placed the money in temporary investments and, as at 18 October 2005, had earned a total of $15.4 million. Interest rates varied from 2.6% to 3.03%. However, the Province currently pays approximately 7.5% on its unfunded pension liability and interest rates ranging from 5.25% to 11.625% on its debenture debt.

Therefore, significant savings could be realized if the $2 billion was applied against the unfunded pension liability or debenture debt instead of invested in temporary investments. For example, the Province could realize a spread of at least 4.5% (7.5% - 3.03%) which would equate to an additional $90 million per year over and above the expected $60 million per year to be earned on temporary investments. This additional $90 million annually would then be available to fund programs.