

### 3.1 Introduction

In this Chapter, I present key financial information contained in the Public Accounts. I also present information on the financial condition of the Province, including a discussion of financial indicators in the Newfoundland and Labrador context. These financial indicators are intended to assist the reader in interpreting the financial information contained in the Public Accounts and to more completely understand the significance of the information provided.

### 3.2 Key Balances in the Public Accounts

There are five key balances in Volume I of the Public Accounts, i.e. the consolidated summary financial statements - net debt, accumulated deficit, surplus (deficit), revenue and expense.

#### *Net Debt*

Net debt as at 31 March 2006 was \$11.7 billion (2005 - \$11.9 billion). This is the amount by which the Province's liabilities of \$13.8 billion (2005 - \$13.7 billion) exceeded its financial assets of \$2.1 billion (2005 - \$1.8 billion). It is also considered to be the amount which the government of the day leaves for future governments to either repay or refinance.

#### *Accumulated Deficit*

The accumulated deficit as at 31 March 2006 was \$9.4 billion (2005 - \$9.8 billion). This is the total net amount of all annual surpluses and deficits experienced by the Province. Adjustments to the opening accumulated deficit balance are made each year to reflect changes in prior year's amounts for certain entities.

#### *Surplus (Deficit)*

The consolidated surplus for the year ended 31 March 2006 was \$199 million (2005 - deficit of \$489 million). The \$199 million surplus for 2006 is the amount by which the Province's total revenue of \$5.6 billion exceeded total expense of \$5.4 billion. The \$489 million deficit for 2005 is the amount by which the Province's total expense of \$5.0 billion exceeded total revenue of \$4.5 billion.

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## Financial Condition of the Province

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### *Revenue*

Total revenue for the year ended 31 March 2006 was \$5.6 billion (2005 - \$4.5 billion). Revenues consist of:

- own source revenues generated by the Province e.g. through taxes and fees;
- revenues received from the Government of Canada including equalization transfers; and
- net income of Government business enterprises (considered as organizations which carry on business and sell goods and services to individuals and non-government organizations as their principal activity and source of revenue - in the Newfoundland and Labrador context, these consist of Newfoundland and Labrador Liquor Corporation and Newfoundland and Labrador Hydro).

### *Expense*

Total expense for the year ended 31 March 2006 was \$5.4 billion (2005 - \$5.0 billion). Expenses include:

- salaries and employee benefits;
- debt expenses;
- operating costs;
- grants and subsidies; and
- other costs to Government of providing programs and services.

Expenses are summarized in the statements by the three sectors - general government sector, resource sector and social sector.

A summary of key balances contained in the consolidated summary financial statements is provided in Figure 1.

## Financial Condition of the Province

Figure 1

**Consolidated Summary Financial Statements**  
**Key Balances**  
**Years Ended 31 March**  
**(\$ Billions)**

Balance	2004	2005	2006
<b>Statement of Financial Position</b>			
Financial Assets	1.399	1.845	2.118
Liabilities	12.886	13.733	13.802
<b>Net Debt</b>	<b>11.487</b>	<b>11.888</b>	<b>11.684</b>
Non-Financial Assets	2.176	2.135	2.289
<b>Accumulated Deficit</b>	<b>9.311</b>	<b>9.753</b>	<b>9.395</b>
<b>Statement of Operations</b>			
Revenue	4.219	4.483	5.556
Expense	5.133	4.972	5.357
<b>Annual Surplus (Deficit)</b>	<b>(.914)</b>	<b>(.489)</b>	<b>.199</b>

Source: Consolidated Summary Financial Statements

### 3.3 The Financial Condition of the Province

While Government's financial condition has improved somewhat, its net debt of \$11.7 billion is still quite high, with net debt per capita of \$22,924 as at 31 March 2006, still the highest in the country.

Also, while the Province's economic growth has been positive, its ability to raise its own source revenue remains vulnerable to changes in the economy, including changes due to fluctuations in oil prices and production levels, the Canadian dollar and interest rates.

With regards to oil revenues, the Province is becoming increasingly reliant on these revenues due to growth in this revenue source in recent years. Actual oil revenue in 2004 was \$127 million and increased by \$406 million to \$533 million in 2006. These revenues are generated from non-renewable resources and are very vulnerable to changes in world oil