

# Chapter 3

## Comments on the Province's Financial Position

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# Comments on the Province's Financial Position

## Introduction

3.1 This chapter covers two separate, but related, topics:

- Indicators of the Province's financial condition

This section takes some of the information disclosed in the Province's financial statements, adds other objective information such as the Province's Gross Domestic Product, and attempts to chart the results in a way that is clear and understandable. It shows trends in the Province's financial health over the past ten years as measured by sustainability, flexibility and vulnerability.

- Comments on components of the Province's financial statements

This section analyzes various components of the Province's financial statements. It provides information and shows trends over the past six or seven years.

## Indicators of the Province's financial condition

### Background

3.2 In 1997, a research report published by the Canadian Institute of Chartered Accountants (CICA) defined financial condition as a government's "financial health as measured by sustainability, vulnerability and flexibility, looked at in the context of the overall economic and financial environment."<sup>1</sup>

3.3 Some of the information presented below has been included in the discussion of the Results for the Year in volume 1 of the Public Accounts. We are pleased to see such analysis included in the Public Accounts. However not all of the indicators are presented there and the Public Accounts information is for a six not a ten-year period. For these reasons, we will continue to present this section as we have in prior years.

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1. Indicators of Government Financial Condition, 1997 published by the Canadian Institute of Chartered Accountants.

## Scope

**3.4** The purpose of this section is to provide readers with useful information about the Province's financial condition using the CICA research report as a guideline.

**3.5** Though many potential indicators of sustainability, vulnerability and flexibility were considered in preparing the research report, only ten indicators were found which were relevant, necessary, measurable and clear to users of government financial information. Of these, our Office has concluded that six can be considered meaningful in the context of the Province of New Brunswick. We have, over the years, focused on these same six indicators in order to present readers with consistent analysis over a ten-year period. They are:

- |                       |  |
|-----------------------|--|
| <i>Sustainability</i> | <ul style="list-style-type: none"> <li>• <i>Net debt as a percentage of gross domestic product (GDP)</i></li> <li>• <i>Change in net debt and GDP</i></li> </ul>   |
| <i>Flexibility</i>    | <ul style="list-style-type: none"> <li>• <i>Own source revenue as a percentage of GDP</i></li> <li>• <i>Cost of servicing the public debt as a percentage of total revenue</i></li> </ul>                              |
| <i>Vulnerability</i>  | <ul style="list-style-type: none"> <li>• <i>Federal government transfers as a percentage of total revenue</i></li> <li>• <i>Foreign currency debt as a percentage of total debt for provincial purposes</i></li> </ul> |

## Financial results used in analyses

**3.6** In this section, our analyses are based on the current year financial statements as presented in the Public Accounts. These financial statements report a decrease in net debt for the year of \$122.6 million. Prior year numbers used in our analyses may include restated figures obtained from the Office of the Comptroller.

**3.7** The 31 March 2000 financial statement expenditure figures included \$903.8 million relating to the capital cost of the Fredericton to Moncton highway. This transaction resulted in a one-time increase in net debt of \$903.8 million. The magnitude of this transaction can be seen in Exhibit 3.1. The net debt increased to a higher level in that year and has remained at, or close to, that level ever since.

## Results in brief

**3.8** In general, the indicators for the last ten years show that the Province of New Brunswick's financial condition has improved in sustainability, flexibility and vulnerability, with some deviations from this trend showing in 1999 and 2000. For the most part, the indicators affected by these deviations showed more positive results in the past six years.

## Sustainability

**3.9** Sustainability is the degree to which a government can maintain existing programs and meet existing creditor requirements without increasing the debt burden on the economy.<sup>1</sup>

**3.10** It is now well understood by the general public that increases in the cost of servicing the public debt can directly impact the quantity and quality of programs and services to which the public has access. Accordingly many provinces, including New Brunswick, are striving to control their debt in order to ensure an optimum amount of funding is allocated to programs and services.

**3.11** There are circumstances when governments may tolerate increases in their debt load. For example, when revenues are increasing, a higher cost of servicing the public debt might be tolerated without impacting existing programs and services. However, the ability to generate such revenues (e.g. through taxes, user fees, or licenses) is closely linked to the performance of the economy.

**3.12** Therefore, any growth in New Brunswick's debt must remain in line with growth in the economy to ensure that our Province can sustain its programs and services. If debt is growing faster than the economy, New Brunswick will suffer reduced capacity for sustainability. Programs and services offered to the public may eventually suffer.

**3.13** Gross Domestic Product (GDP) is the total value of all goods and services produced in the Province during a specific period. GDP is often used to measure the growth of the economy.

### *Net debt as a percentage of GDP as a measure of sustainability*

**3.14** Net debt is an accounting measure of the extent to which total liabilities of the Province exceed financial assets. The financial statements for 2006 indicate that net debt stands at \$6,655.7 million - \$873.1 million more than its level ten years ago, but \$393.2 million less than in 2000.

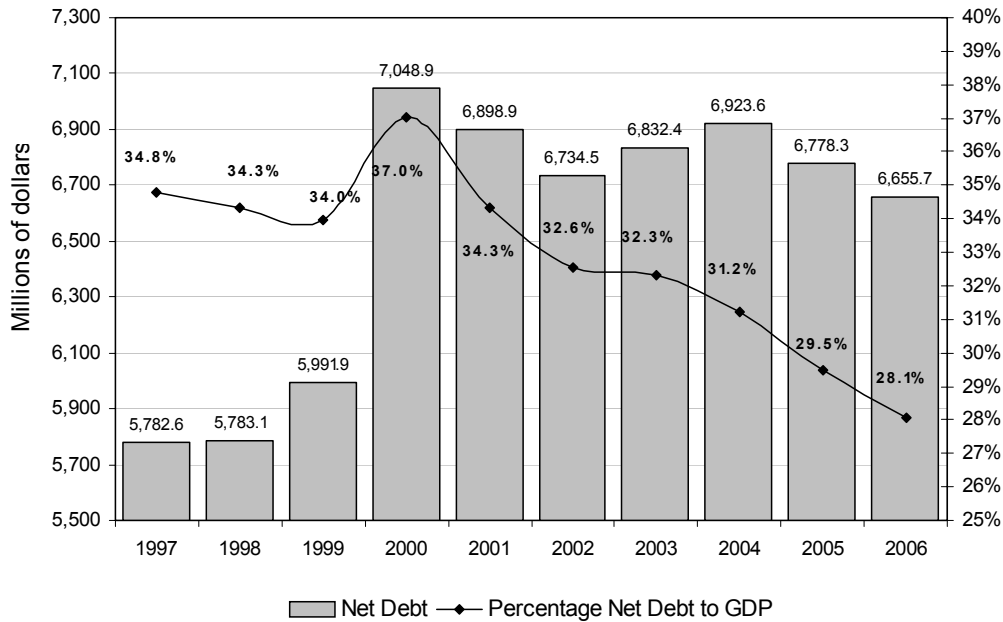
**3.15** The New Brunswick economy has also grown. Exhibit 3.1 shows that the Province's net debt to GDP ratio generally decreased (favourable) over the last ten years – showing the Province's increasing ability to sustain existing programs and services. The only exception to this trend came in the year 2000 as a result of recording the debt for the Fredericton to Moncton highway.

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1. Indicators of Government Financial Condition, 1997 published by the Canadian Institute of Chartered Accountants.

Exhibit 3.1

Net debt as a percentage of GDP<sup>1</sup> for the last ten years



**Change in net debt and GDP as a measure of sustainability**

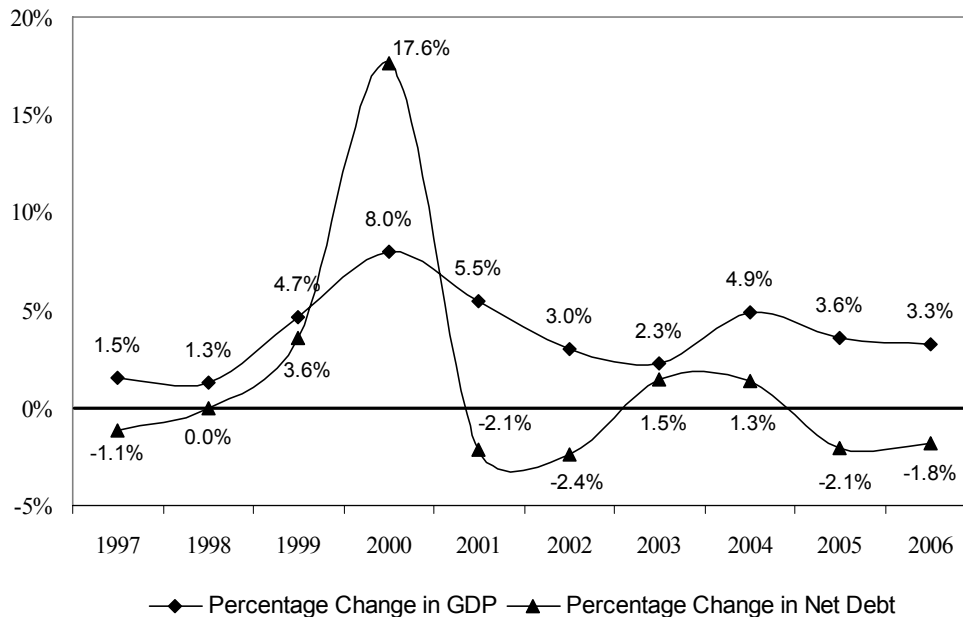
**3.16** The Province can positively influence sustainability in two ways: by increasing surpluses and by increasing growth in the economy. Though governments use various political, legislative and regulatory powers to stimulate the economy, the effect is neither guaranteed nor timely.

**3.17** The rate of growth in the surplus or deficit and their impact on net debt is much more controllable. Exhibit 3.2 shows that the Province has experienced economic growth in excess of growth in the net debt (favourable) every year since 1997, with the exception of the year 2000. The deviation in the year 2000 resulted from the effects of the Fredericton to Moncton highway.

1. GDP is measured on a calendar year basis. The GDP used in our tables for each 31 March year end is the GDP for the calendar year ended during that fiscal year. GDP information is provided by N. B. Department of Finance: actual GDP for calendar years 1996-2005.

Exhibit 3.2

Change in net debt and GDP<sup>1</sup> for the last ten years



## Flexibility

**3.18** Flexibility is the degree to which a government can increase its financial resources to respond to rising commitments, by either expanding its revenues or increasing its debt burden.<sup>2</sup>

**3.19** Funding for programs and services is provided by either revenue or borrowing during the year. It is a useful measure of flexibility to know to what extent the Province is able to raise revenue from existing and potential sources should new commitments arise.

### *Own source revenue as a percentage of GDP as a measure of flexibility*

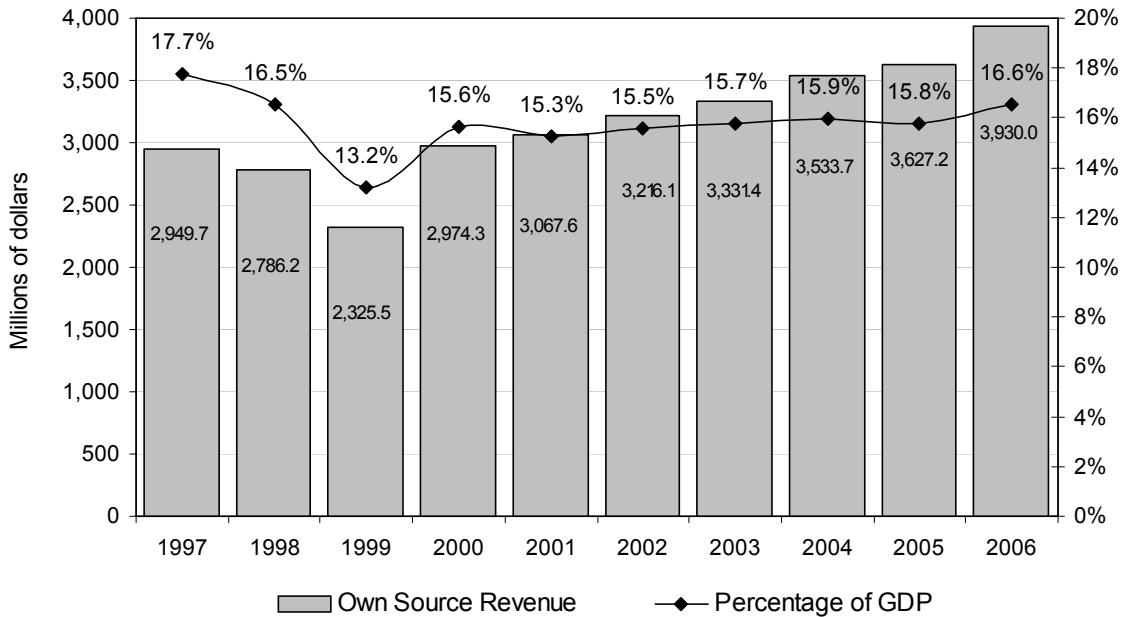
**3.20** One could assume that any additional funding for new programs or services might not be possible from existing revenue sources. A reasonable alternative would be to raise revenue from new provincial sources. However, the Province is only able to extract a finite amount of dollars from the economy of New Brunswick before the economy begins to falter. Though the exact capacity of the economy to bear such a burden is not known, one can determine the relative increase or decrease over time.

1. GDP information provided by N. B. Department of Finance.

2. Indicators of Government Financial Condition, 1997 published by the Canadian Institute of Chartered Accountants.

Exhibit 3.3

Own source revenue as a percentage of GDP<sup>1</sup> for the last ten years



**3.21** Exhibit 3.3 shows the extent to which the Province has removed dollars from the provincial economy through taxes and user fees/licenses during the last ten years. This exhibit shows that the dollars extracted by the Province from the New Brunswick economy as a percent of GDP decreased (favourable) during the first three years of the ten-year period, but has been increasing gradually over the past seven years. However, the current percentage is still lower than in 1997.

**3.22** The large reduction in own-source revenue in 1999 was due to a \$450 million one-time write-down in the Province's investment in the New Brunswick Power Corporation.

***Cost of servicing the public debt as a percentage of total revenue (or "interest-bite") as a measure of flexibility***

**3.23** One of the most publicized factors which affects the flexibility of governments is the cost of servicing the public debt.

**3.24** The cost of servicing the public debt is comprised mainly of interest on the funded debt of the Province. It also includes foreign exchange paid on interest and maturities during the year, the amortization of foreign exchange gains and losses, and the amortization of discounts and premiums which were incurred on the

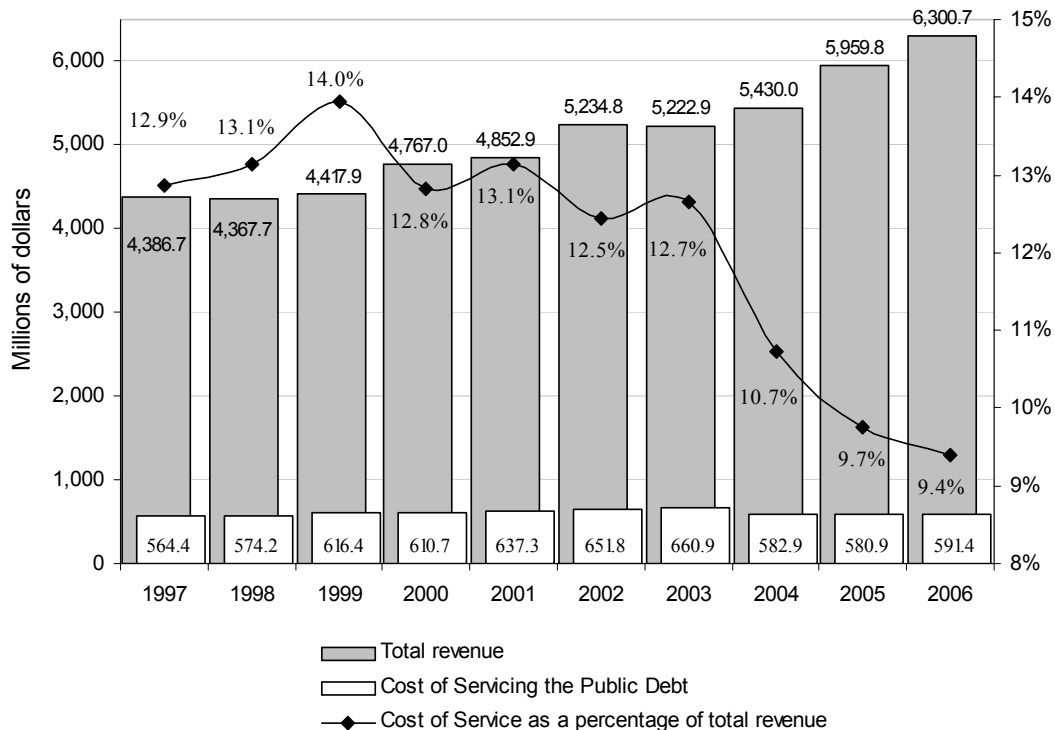
1. GDP information provided by N. B. Department of Finance.

issuance of provincial debt. It does not include principal repayments on the funded debt of the Province.

**3.25** Exhibit 3.4 shows debt servicing costs as compared to total provincial revenue for the last ten years.

*Exhibit 3.4*

*Cost of servicing the public debt as a percentage of total revenue for the last ten years*



**3.26** This exhibit shows the cost of servicing the public debt increased in 2006 over 2005 by \$10.5 million to \$591.4 million. However, it also shows that the Province has decreased its overall “interest-bite” percentage from its 2003 level of 12.7% to its current level of 9.4%. This is a significant decrease, attributable mainly to the strengthening of the Canadian dollar against its U.S. counterpart, and also to a general lowering of interest rates. The exhibit indicates that, on a percentage basis, the Province has more of its total revenues available for current needs today than it did ten years ago.

## Vulnerability

**3.27** Vulnerability is the degree to which a government becomes dependent on, and therefore vulnerable to, sources of funding outside its control or influence, both domestic and international.<sup>1</sup>

1. Indicators of Government Financial Condition, 1997 published by the Canadian Institute of Chartered Accountants.



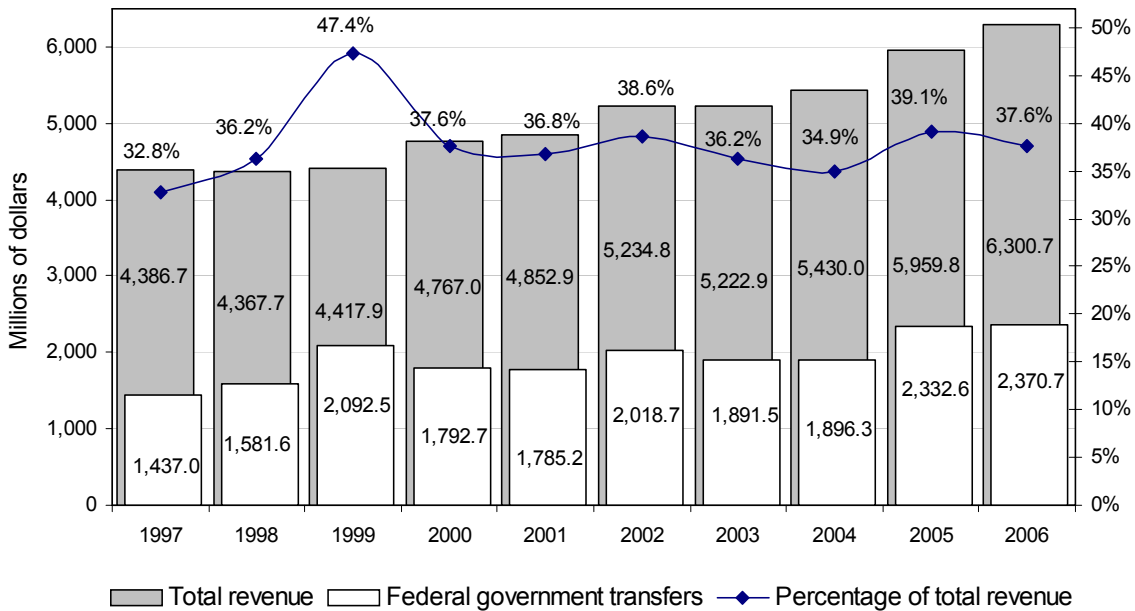
**Federal government transfers as a percentage of total revenue as a measure of vulnerability**

**3.28** Funding for programs and services can only come from two sources: revenue or borrowing.

**3.29** In 2006, 37.6% of the Province's total revenue came from federal transfers. This is significant because revenue from federal sources is not considered to be as controllable as revenue generated in the Province.

**3.30** Own-source revenue is more controllable because the government can directly impact the amount generated using tax legislation as well as implementation or adjustment of user-fees/licensing rates. Federal transfers are subject to very different variables, few of which are under the jurisdiction of the provincial government. Federal fiscal policy decisions can severely impact provincial governments by determining the amount and timing of future transfers.

*Exhibit 3.5  
Federal government transfers as a percentage of total revenue for the last ten years*



**3.31** Increasing New Brunswick's reliance on federal transfers will leave the Province more vulnerable to variables outside of its own control. Exhibit 3.5 details the Province's reliance on federal transfers over the last ten years. Though a significant fluctuation occurred in 1999, this exhibit shows that the trend over the past ten years has been relatively stable. To maintain comparability, revenue from 1997 to 2004 has been restated to reflect current accounting policy.

**Foreign currency debt as a percentage of total debt for provincial purposes as a measure of vulnerability**

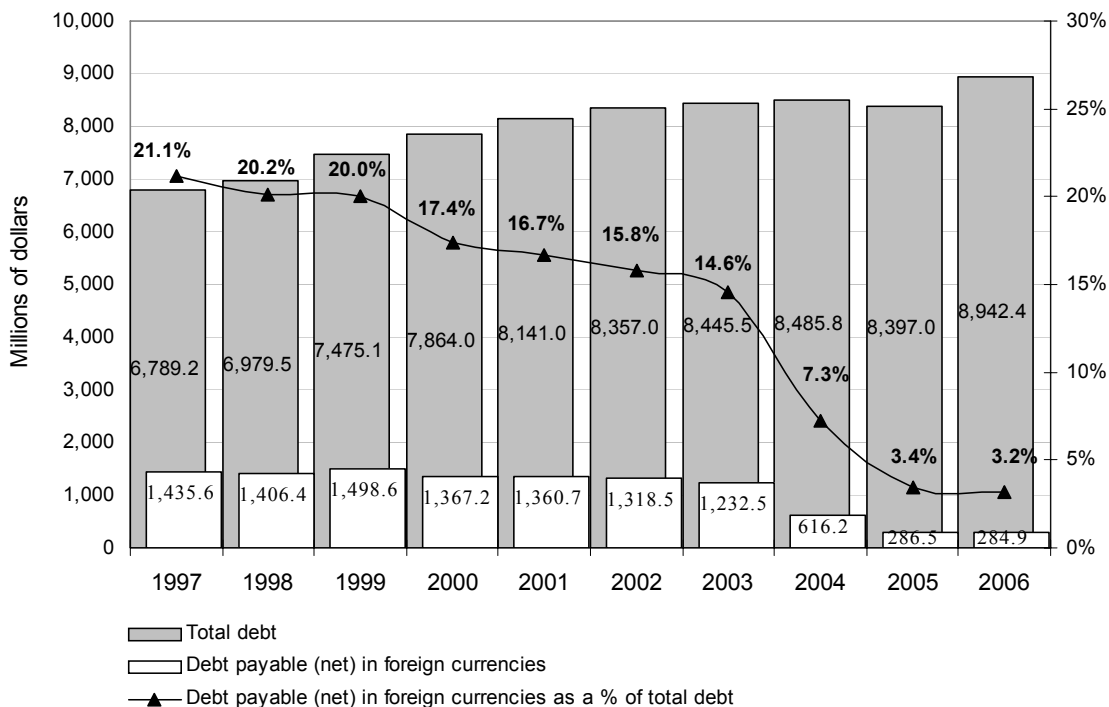
**3.32** When borrowing is required, there are choices to be made by the Province. For instance, if the Province chooses to issue its debt in a foreign currency instead of Canadian dollars, the Province will assume the risk of foreign exchange fluctuations. Such fluctuations can increase or decrease the amount ultimately payable in Canadian dollars for interest, and later, redemption of foreign currency debt.

**3.33** Exhibit 3.6 shows the relationship of foreign currency debt to total debt for provincial purposes over the last ten years. The Province has several alternatives to reduce (hedge) the risk associated with debt repayable in foreign currencies:

- purchasing assets denominated in foreign currencies for the Province's sinking fund;
- entering into debt swap agreements which allows repayment of the debt in Canadian dollars; and
- entering into forward contracts (which allow the Province to purchase foreign currency at a stipulated price on a specified future date).

Exhibit 3.6

Exposure to foreign currency risk for the last ten years



**3.34** The exhibit reflects the Province's exposure to foreign currency risk after eliminating the effect of hedges against foreign currency fluctuations.

**3.35** The exhibit demonstrates that the Province's vulnerability to foreign currency risk has experienced continuous decline (favourable) over the past ten years.

## Summary

**3.36** In general, over the last ten years, the indicators of sustainability, flexibility and vulnerability show that the Province of New Brunswick's financial condition has improved. While there were unfavourable deviations in 1999 and 2000 with some of the indicators, these for the most part have improved in the past six years.

## Comments on components of the Province's financial statements

**3.37** In this section we have examined various components of the Province's financial statements for the year ended 31 March 2006. We have broken this into three areas:

- Statement of Financial Position
- Items reported in the notes
- Statement of Operations

**3.38** We intend this information to help members of the Legislative Assembly understand the information contained in the Province's financial statements, and to help them formulate questions about those financial statements.

## Statement of Financial Position

**3.39** We have analyzed the following components of the Province's Statement of Financial Position:

- Receivables and advances
- Taxes receivable
- Loans
- Accrued expenses
- Allowance for losses
- All allowances
- Obligations under capital leases
- Pension liability
- Funded debt for provincial purposes
- Tangible capital assets
- Net debt

## *Receivables and advances*

**3.40** The following table breaks down the Province's receivables and advances.

|                                 | (\$ millions) |       |       |       |       |       |       |
|---------------------------------|---------------|-------|-------|-------|-------|-------|-------|
|                                 | 2006          | 2005  | 2004  | 2003  | 2002  | 2001  | 2000  |
| General receivables             | 171.4         | 153.5 | 231.2 | 200.1 | 197.8 | 174.8 | 156.7 |
| Receivables from Canada         | 161.2         | 141.6 | 132.3 | 121.5 | 122.8 | 119.5 | 106.9 |
| Guarantee payouts               | 50.1          | 52.4  | 32.0  | 32.7  | 26.8  | 21.6  | 15.9  |
| Other receivables               |               |       | 7.2   | 7.3   | 9.8   | 10.6  | 12.3  |
| Advances                        | 126.1         | 125.9 |       |       |       |       |       |
| Subtotal                        | 508.8         | 473.4 | 402.7 | 361.6 | 357.2 | 326.5 | 291.8 |
| Interest receivable             | 33.4          | 26.3  | 30.8  | 30.3  | 25.6  | 24.1  | 27.1  |
| Subtotal                        | 542.2         | 499.7 | 433.5 | 391.9 | 382.8 | 350.6 | 318.9 |
| Consolidated entities           | 48.3          | 43.3  | 42.8  | 47.4  | N/A   | N/A   | N/A   |
| Total                           | 590.5         | 543.0 | 476.3 | 439.3 | 382.8 | 350.6 | 318.9 |
| Allowance for doubtful accounts | 140.7         | 132.9 | 118.5 | 113.3 | 97.7  | 87.4  | 77.5  |
| Receivables and advances        | 449.8         | 410.1 | 357.8 | 326.0 | 285.1 | 263.2 | 241.4 |

**3.41** Not all of these receivables require active management by the Province to ensure collection, for example, receivables from Canada, receivables of consolidated entities that are responsible for their own collection, and advances of grants. The following table calculates the value of the accounts and interest amounts owing to the Province that require active management to ensure collection, and compares that value to the value of the accounts that are considered doubtful.

|                                 | (\$ millions) |       |       |       |       |       |       |
|---------------------------------|---------------|-------|-------|-------|-------|-------|-------|
|                                 | 2006          | 2005  | 2004  | 2003  | 2002  | 2001  | 2000  |
| Total before allowance          | 590.5         | 543.0 | 476.3 | 439.3 | 382.8 | 350.6 | 318.9 |
| Receivables from Canada         | 161.2         | 141.6 | 132.3 | 121.5 | 122.8 | 119.5 | 106.9 |
| Consolidated entities           | 48.3          | 43.3  | 42.8  | 47.4  | N/A   | N/A   | N/A   |
| Advances of grants              | 51.6          | 55.2  |       |       |       |       |       |
| Net amount                      | 329.4         | 302.9 | 301.2 | 270.4 | 260.0 | 231.1 | 212.0 |
| Allowance for doubtful accounts | 140.7         | 132.9 | 118.5 | 113.3 | 97.7  | 87.4  | 77.5  |
| Allowance percentage            | 42.7%         | 43.9% | 39.3% | 41.9% | 37.6% | 37.8% | 36.6% |

**3.42** In the year ended 31 March 2006:

- the Province reported \$590.5 million in receivables and advances, which is about 9% higher than the 31 March 2005 balance;
- \$48.3 million of the \$590.5 million was receivable by and managed by the consolidated entities;
- another \$161.2 million was due from the federal government and so there should not be any doubt about its collection;

- another \$51.6 million were advances on operating grants for April 2006;
- this left \$329.4 million in receivables that the Province has to actively manage to ensure collection; and
- the collection of 42.7 % of these amounts, or \$140.7 million, is considered to be in doubt.

**3.43** At the year ended 31 March 2000, the percentage of doubtful accounts was 36.6%.

**3.44** Some other figures in the receivables and advances that raise questions are:

- The amount of receivables for guarantee payouts has risen from \$15.9 million at 31 March 2000 to \$50.1 million at 31 March 2006.
- The amount receivable from Canada under the Official Languages program was \$6.6 million at 31 March 2000 and it was \$48.2 million at 31 March 2006. This raises questions about whether this funding is being received on a timely basis.
- The receivables of consolidated entities were included in the receivables numbers beginning in the fiscal year ended 31 March 2003, however no information is provided about the gross amount of their receivables and their level of doubtful accounts.

**3.45** This analysis indicates that there is need to improve the management of the general accounts receivable of the Province. A doubtful collection rate of 42.7%, a rate that has been growing, significant guarantee payouts and questions about the timeliness of collections all point to opportunities for improvement.

### ***Taxes receivable***

**3.46** The following table breaks down the taxes receivable by the Province.

|                                  | (\$ millions) |       |       |       |       |       |       |
|----------------------------------|---------------|-------|-------|-------|-------|-------|-------|
|                                  | 2006          | 2005  | 2004  | 2003  | 2002  | 2001  | 2000  |
| Gasoline and motive fuel tax     | 20.7          | 26.0  | 21.9  | 20.0  | 17.2  | 21.5  | 14.6  |
| Real property tax                | 387.7         | 395.3 | 384.0 | 374.3 | 359.9 | 342.4 | 323.8 |
| Royalties and stumpage on timber | 24.3          | 21.8  | 28.0  | 18.2  | 18.4  | 22.7  | 19.1  |
| Sales tax                        | 87.9          | 32.7  | 107.7 | 85.4  | 68.9  | 68.9  | 69.5  |
| Tobacco tax                      | 8.5           | 10.2  | 11.3  | 9.0   | 7.4   | 5.3   | 4.4   |
| Other                            | 2.5           | 2.9   | 0.3   | 0.1   | 0.1   | 0.1   | 0.2   |
| Subtotal                         | 531.6         | 488.9 | 553.2 | 507.0 | 471.9 | 460.9 | 431.6 |
| Allowance for doubtful accounts  | 85.4          | 96.9  | 86.6  | 89.5  | 89.5  | 84.5  | 83.9  |
|                                  | 446.2         | 392.0 | 466.6 | 417.5 | 382.4 | 376.4 | 347.7 |

**3.47** To analyze the taxes receivable, we compared the outstanding receivable balance at the end of the year with the tax revenue for the year, in certain tax types.

|                              | (\$ millions) |       |       |       |       |       |       |
|------------------------------|---------------|-------|-------|-------|-------|-------|-------|
| Tax Revenue                  | 2006          | 2005  | 2004  | 2003  | 2002  | 2001  | 2000  |
| Gasoline and motive fuel tax | 232.1         | 239.7 | 234.9 | 222.1 | 184.3 | 186.5 | 185.5 |
| Real property tax            | 341.0         | 334.1 | 303.9 | 295.0 | 288.6 | 274.7 | 258.1 |
| Forest royalties             | 56.9          | 60.2  | 62.9  | 53.1  | 54.6  | 58.3  | 54.5  |
| Tobacco tax                  | 90.5          | 96.5  | 101.4 | 91.9  | 69.7  | 49.8  | 47.8  |

**3.48** The following table shows the ratio of outstanding taxes to the applicable tax revenue for the year.

|                              | 2006   | 2005   | 2004   | 2003   | 2002   | 2001   | 2000   |
|------------------------------|--------|--------|--------|--------|--------|--------|--------|
| Gasoline and motive fuel tax | 8.9%   | 10.8%  | 9.3%   | 9.0%   | 9.3%   | 11.5%  | 7.9%   |
| Real property tax            | 113.7% | 118.3% | 126.4% | 126.9% | 124.7% | 124.6% | 125.5% |
| Forest royalties             | 42.7%  | 36.2%  | 44.5%  | 34.3%  | 33.7%  | 38.9%  | 35.0%  |
| Tobacco tax                  | 9.4%   | 10.6%  | 11.1%  | 9.8%   | 10.6%  | 10.6%  | 9.2%   |

**3.49** Some observations:

- Because the property tax bills for a calendar year are sent out before 31 March, but are not due until after 31 March, the financial statements will always report a large balance of property taxes receivable. This makes it difficult to assess the collection position of property taxes.

- Assuming that gasoline and tobacco taxes are due each month, it would be reasonable for approximately 1/12<sup>th</sup> of the revenue for the year for those taxes to be outstanding at the end of the year. This would represent 8.3%.

**3.50** Because of the timing of the property tax bills and payments, it is difficult to assess the overall doubtful account percentage for the taxes receivable category.

|                                 | (\$ millions) |       |       |       |       |       |       |
|---------------------------------|---------------|-------|-------|-------|-------|-------|-------|
|                                 | 2006          | 2005  | 2004  | 2003  | 2002  | 2001  | 2000  |
| Taxes receivable                | 531.6         | 488.9 | 553.2 | 507.0 | 471.9 | 460.9 | 431.6 |
| Allowance for doubtful accounts | 85.4          | 96.9  | 86.6  | 89.5  | 89.5  | 84.5  | 83.9  |
| Percentage                      | 16.1%         | 19.8% | 15.7% | 17.7% | 19.0% | 18.3% | 19.4% |

**3.51** If we were able to adjust for the timing of real property tax bills and payments, the percentages of doubtful accounts would be significantly higher.

## Loans

**3.52** The following table breaks down the loans receivable by the Province.

|  | (\$ millions) |       |       |       |       |       |       |
|--|---------------|-------|-------|-------|-------|-------|-------|
|  | 2006          | 2005  | 2004  | 2003  | 2002  | 2001  | 2000  |
| Business New Brunswick                                     | 200.2         | 206.7 | 201.8 | 239.0 | 228.0 | 224.2 | 215.8 |
| Education  | 258.3         | 0.2   | 0.2   | 0.2   | 0.2   | 0.2   | 0.2   |
| Energy Efficiency and Conservation Agency of New Brunswick | 0.2           |       |       |       |       |       |       |
| Environment and Local Government                           | 0.7           | 0.6   | 0.6   | 0.6   | 0.7   | 0.7   | 0.7   |
| Executive Council  | 4.0           | 4.0   | 4.0   | 4.0   | 4.0   | 4.0   | 4.0   |
| Family and Community Services                              | 34.5          | 33.6  | 32.7  | 31.8  | 30.9  | 31.3  | 24.9  |
| Finance  | 1.0           | 1.6   | 1.6   | 1.9   | 1.7   | 1.9   | 2.3   |
| Public Safety  | 10.5          | 10.7  | 10.9  | 11.2  | 11.4  | 11.6  | 12.2  |
| Regional Development Corporation                           | 3.6           | 5.3   | 3.8   | 3.6   | 3.2   | 3.2   | 3.0   |
| Supply and Services  |               |       |       |       |       | 0.5   | 0.5   |
| Subtotal   | 513.0         | 262.7 | 255.6 | 292.3 | 280.1 | 277.6 | 263.6 |
| Allowance for doubtful accounts                            | 193.0         | 142.6 | 129.3 | 143.9 | 133.7 | 124.7 | 122.3 |
| Total  | 320.0         | 120.1 | 126.3 | 148.4 | 146.4 | 152.9 | 141.3 |

**3.53** During the year ended 31 March 2006, the Province took over responsibility for loans to students. The amount receivable at 31 March 2006 was \$258 million. This essentially doubles the size of the loans receivable by the Province and makes it difficult to compare to previous years.

**3.54** Some of the loans receivable should be written off. The Executive Council loan to La fondation du quotidien francophone has a 100% allowance against it and its structure is essentially the same as a grant. The Public Safety loans for unsatisfied judgments are old loans and have a 100% allowance recorded against them. These two items total \$13.5 million that the Province knows it will not collect and so they should be written off.

**3.55** The percentage of loans accounts that are doubtful is as follows:

|                                 | (\$ millions) |       |       |       |       |       |       |
|---------------------------------|---------------|-------|-------|-------|-------|-------|-------|
|                                 | 2006          | 2005  | 2004  | 2003  | 2002  | 2001  | 2000  |
| Loans                           | 513.0         | 262.7 | 255.6 | 292.3 | 280.1 | 277.6 | 263.6 |
| Allowance for doubtful accounts | 193.0         | 142.6 | 129.3 | 143.9 | 133.7 | 124.7 | 122.3 |
| Percentage                      | 37.6%         | 54.3% | 50.6% | 49.2% | 47.7% | 44.9% | 46.4% |

**3.56** The reduction in the percentage in 2006 is caused by the addition of the student loan program to the Province's loan portfolio.

**3.57** Here is a history of the allowance percentage for some of the categories of loans:

|                                       | 2006  | 2005  | 2004  | 2003  | 2002  | 2001  | 2000  |
|---------------------------------------|-------|-------|-------|-------|-------|-------|-------|
| <i>Agricultural Development Act</i>   | 72.4% | 73.2% | 71.0% | 69.0% | 66.3% | 48.0% | 37.5% |
| <i>Economic Development Act</i>       | 65.1% | 56.8% | 46.0% | 45.0% | 41.7% | 37.2% | 30.5% |
| <i>Fisheries Development Act</i>      | 73.8% | 71.6% | 76.8% | 74.3% | 74.3% | 77.9% | 82.2% |
| Provincial Holdings Ltd.              | 73.3% | 44.6% | 34.3% | 30.9% | 25.9% | 18.8% | 32.5% |
| Loans to students                     | 15.9% | 100%  | 100%  | 100%  | 100%  | 100%  | 100%  |
| Other environment loans               | 100%  | 100%  | 100%  | 100%  | 100%  | 100%  | 100%  |
| La fondation du quotidien francophone | 100%  | 100%  | 100%  | 100%  | 100%  | 100%  | 100%  |
| <i>New Brunswick Housing Act</i>      | 7.0%  | 6.3%  | 7.6%  | 7.9%  | 8.1%  | 9.2%  | 10.8% |
| DRIE agreements                       | N/A   | 0     | 54.5% | 42.9% | 35.3% | 31.6% | 26.1% |
| Unsatisfied judgments                 | 100%  | 100%  | 100%  | 100%  | 100%  | 100%  | 100%  |

**3.58** The five largest categories of loans, which represent 94.8% of all loans and advances outstanding at 31 March 2006, are:



- Loans to students 50.4%
- *Economic Development Act* loans 26.4%
- *Fisheries Development Act* loans 7.8%
- *New Brunswick Housing Act* loans 6.7%
- *Agricultural Development Act* loans 3.5%

**3.59** Two of these loan categories have had significant increases in the rate of uncollectible accounts. The percentage of uncollectible loans under the *Economic Development Act* has increased from 30.5% to 65.1% from 31 March 2000 to 31 March 2006. The percentage of uncollectible loans under the *Agricultural Development Act* has increased from 37.5% to 72.4%.

**3.60** Two of these loan categories have had decreases in the rate of uncollectible accounts. The percentage of uncollectible loans under the *Fisheries Development Act* has decreased from 82.2% to 73.8% from 31 March 2000 to 31 March 2006. The percentage of uncollectible loans under the *New Brunswick Housing Act* has decreased from 10.8% to 7.0%.

### *Accrued expenses*

**3.61** The following table provides the history of the accrued expenses balance over the past seven years.

|                  | (\$ millions) |       |       |       |       |       |       |
|------------------|---------------|-------|-------|-------|-------|-------|-------|
|                  | 2006          | 2005  | 2004  | 2003  | 2002  | 2001  | 2000  |
| Accrued expenses | 920.1         | 927.7 | 836.2 | 710.1 | 676.0 | 709.9 | 674.5 |

**3.62** Two components of the accrued expenses balance are:

|                               | (\$ millions) |       |       |       |       |       |       |
|-------------------------------|---------------|-------|-------|-------|-------|-------|-------|
|                               | 2006          | 2005  | 2004  | 2003  | 2002  | 2001  | 2000  |
| Liability for injured workers | 103.3         | 95.7  | 89.6  | 83.2  | 68.9  | 55.7  | 42.3  |
| Retirement allowances         | 230.9         | 222.4 | 222.6 | 214.7 | 208.1 | 214.8 | 217.5 |

**3.63** The difference in the growth of these two accrued expenditures is noticeable. The liability for injured workers has increased 144.2% over a six year period, while the liability for accrued retirement allowances has only increased 6.2%. Both of the liabilities are related to the Province's work force, however one is growing at a significant rate while the other is growing at a slow rate.

### *Allowance for losses*

**3.64** The following table provides the history of the allowance for losses balance over the past seven years.

|                      | (\$ millions) |      |      |      |      |      |      |
|----------------------|---------------|------|------|------|------|------|------|
|                      | 2006          | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 |
| Allowance for losses | 60.7          | 67.1 | 75.8 | 50.2 | 44.7 | 30.9 | 16.2 |

**3.65** This allowance at 31 March 2006 was over three times its balance at 31 March 2000. The components of the allowance are:

|                        | (\$ millions) |      |      |      |      |      |      |
|------------------------|---------------|------|------|------|------|------|------|
|                        | 2006          | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 |
| Business New Brunswick | 60.5          | 36.2 | 40.0 | 19.9 | 19.1 | 12.2 | 14.7 |
| Education              | 0             | 30.7 | 35.1 | 30.1 | 25.4 | 18.5 | 1.3  |
| Other                  | 0.2           | 0.2  | 0.7  | 0.2  | 0.2  | 0.2  | 0.2  |

**3.66** This table shows that while the total allowance at 31 March 2006 is lower than the 31 March 2005 balance, the reason for the decrease is the change in the method of providing student loans from guarantees to direct loans. The Business New Brunswick allowance for losses on loan guarantees has been increasing over the past five years.

### *All allowances*

**3.67** The Province has various allowances for losses. We have seen these allowances against their respective accounts. If we look at them in total we get a comprehensive picture of the allowances:

|  | (\$ millions) |       |       |       |       |       |       |
|--|---------------|-------|-------|-------|-------|-------|-------|
| All Allowances   | 2006          | 2005  | 2004  | 2003  | 2002  | 2001  | 2000  |
| Allowance for losses   | 60.7          | 67.1  | 75.8  | 50.2  | 44.7  | 30.9  | 16.2  |
| Allowance for doubtful accounts (Loans and advances)               | 193.0         | 142.6 | 129.3 | 143.9 | 133.7 | 124.7 | 122.3 |
| Allowance for doubtful accounts (Taxes receivable)                 | 85.4          | 96.9  | 86.6  | 89.5  | 89.5  | 84.5  | 83.9  |
| Allowance for doubtful accounts (Accounts and interest receivable) | 140.7         | 132.9 | 118.5 | 113.3 | 97.7  | 87.4  | 77.5  |
| Total all allowances   | 479.8         | 439.5 | 410.2 | 396.9 | 365.6 | 327.5 | 299.9 |

**3.68** These numbers are concerning. As at 31 March 2006, the Province expects to lose \$479.8 million of the various amounts it is owed or that it guarantees. This would seem to be symptomatic of a flaw in the collection function. It also seems that there is a significant opportunity here. Every one percent of these doubtful accounts that the Province could collect would represent \$4.8 million to the Province.

Furthermore, there is at least one mechanism to do this that would be inexpensive and has been successful in other provinces, that is a collection service that is offered by the Canada Revenue Agency. Many of the Province's credit and loan programs need to be reviewed to determine if any changes should be implemented.

**Obligations under capital leases**

**3.69** The following table provides the history of the obligations under capital leases balance over the past seven years.

|                | (\$ millions) |       |       |       |       |       |       |
|----------------|---------------|-------|-------|-------|-------|-------|-------|
|                | 2006          | 2005  | 2004  | 2003  | 2002  | 2001  | 2000  |
| Capital leases | 834.1         | 849.4 | 865.8 | 873.7 | 871.9 | 900.0 | 900.7 |

**3.70** The largest capital lease is the lease of the Fredericton to Moncton highway:

|                                      | (\$ millions) |       |       |       |       |       |       |
|--------------------------------------|---------------|-------|-------|-------|-------|-------|-------|
|                                      | 2006          | 2005  | 2004  | 2003  | 2002  | 2001  | 2000  |
| Fredericton to Moncton highway lease | 808.4         | 823.0 | 837.0 | 843.8 | 844.6 | 871.8 | 872.0 |

**3.71** Over the past six years, the Province has paid \$63.6 million against the outstanding principle owing on the Fredericton to Moncton highway lease.

**Pension liability**

**3.72** The following table provides the history of the Province's pension liability balance over the past seven years.

|                   | (\$ millions) |       |       |       |       |       |       |
|-------------------|---------------|-------|-------|-------|-------|-------|-------|
|                   | 2006          | 2005  | 2004  | 2003  | 2002  | 2001  | 2000  |
| Pension liability | 30.2          | 156.7 | 271.5 | 362.1 | 372.6 | 442.6 | 596.0 |

**3.73** This reports a steady decline in the outstanding pension liability over this time period. This picture is the result of the way that pensions are accounted for. Pension accounting rules include measures that help to remove much of the underlying volatility primarily in the market value of the plans' assets. The pension liability actually includes the following components:

|                                      | (\$ millions) |         |         |         |         |         |         |
|--------------------------------------|---------------|---------|---------|---------|---------|---------|---------|
|                                      | 2006          | 2005    | 2004    | 2003    | 2002    | 2001    | 2000    |
| Estimated accrued benefits liability | 7,324.5       | 6,719.6 | 6,380.9 | 5,983.7 | 5,603.1 | 5,339.0 | 5,138.2 |
| Market value of pension plan assets  | 7,449.3       | 6,521.7 | 6,086.5 | 4,926.3 | 5,445.1 | 5,407.4 | 5,819.1 |
| Subtotal                             | (124.8)       | 197.9   | 294.4   | 1,057.4 | 158.0   | (68.4)  | (680.9) |
| Accounting adjustments               | 155.0         | (41.2)  | (22.9)  | (695.3) | 214.6   | 511.0   | 1,276.9 |
| Pension liability                    | 30.2          | 156.7   | 271.5   | 362.1   | 372.6   | 442.6   | 596.0   |

**3.74** This table shows a steady increase in the estimated accrued benefits earned by members of the Province's various pension plans. However, the market value of the pension plan assets fluctuates significantly. Over the seven year ends reported in the table, the plan assets were at a low of \$4,926.3 million at 31 March 2003, and at a high of \$7,449.3 million at 31 March 2006.

**3.75** The table also reports the difference between the market value of the plans' assets and the estimated accrued benefit liabilities of the plans at each year end. At 31 March 2000, the market value of the assets actually exceeded the estimated liability for benefits earned by plan members by \$680.9 million. By 31 March 2003, that situation had reversed, and the value of the estimated liabilities exceeded the market value of the plans' assets by \$1,057.4 million. By 31 March 2006, the situation had again reversed such that the market value of assets once again exceeded the estimated liability by \$124.8 million.

**3.76** The accounting rules for pensions for governments allow adjustments that reduce the effects of large changes in the components of the pension liability, such as market returns on assets. For example, even though the assets of the Province's pension plans exceeded the estimated benefit obligations at 31 March 2000 by \$680.9 million, the Province's financial statements actually reported a pension liability of \$596.0 million. Similarly, at 31 March 2003 the value of the plans' estimated accrued benefits exceeded the market value of the plans' assets by \$1,057.4 million, however, the pension liability reported on the Province's financial statements was \$362.1 million. As at 31 March 2006, the market value of the plans' assets exceeds the estimated accrued benefits by \$124.8 million, however, the pension liability reported on the Province's financial statements was \$30.2 million.

**3.77** The annual change in the pension liability is not all caused by market returns on assets and accounting adjustments. The Province is

also making contributions to the pension funds to reduce the pension liability. The following table compares the pension expense for the year with the contributions to the plans made by the Province.

|                                | (\$ millions) |       |       |       |       |        |       |
|--------------------------------|---------------|-------|-------|-------|-------|--------|-------|
|                                | 2006          | 2005  | 2004  | 2003  | 2002  | 2001   | 2000  |
| Pension expense                | 109.9         | 108.4 | 124.2 | 90.4  | (0.7) | (51.1) | (9.1) |
| Employer contributions         | 236.4         | 223.2 | 214.8 | 100.9 | 69.1  | 102.3  | 167.6 |
| Reduction in pension liability | 126.5         | 114.8 | 90.6  | 10.5  | 69.8  | 153.4  | 176.7 |

### ***Funded debt for provincial purposes***

**3.78** The following table provides the history of the funded debt for provincial purposes balance over the past seven years.

|                                     | (\$ millions) |         |         |         |         |         |         |
|-------------------------------------|---------------|---------|---------|---------|---------|---------|---------|
|                                     | 2006          | 2005    | 2004    | 2003    | 2002    | 2001    | 2000    |
| Funded debt for provincial purposes | 8,942.4       | 8,397.0 | 8,485.8 | 8,418.7 | 8,004.7 | 7,656.2 | 7,408.5 |

**3.79** The Province's funded debt for provincial purposes at 31 March 2006 is \$1,533.9 million higher than it was at 31 March 2000. This could be confusing to some readers of the financial statements because it seems inconsistent with the fact that net debt has dropped over that period. The primary reason for this is the Province's sinking fund. The following table reports the book value of the Province's sinking fund for the past seven years.

|                         | (\$ millions) |         |         |         |         |         |         |
|-------------------------|---------------|---------|---------|---------|---------|---------|---------|
|                         | 2006          | 2005    | 2004    | 2003    | 2002    | 2001    | 2000    |
| Sinking fund book value | 3,984.0       | 3,773.8 | 3,716.2 | 3,543.0 | 3,358.8 | 3,130.2 | 2,925.5 |

**3.80** So, while the Province's funded debt for provincial purposes increased by \$1,533.9 million from 31 March 2000 until 31 March 2006, \$1,058.5 million of those borrowings were put aside in the Province's sinking fund.

**3.81** Also, during the year ended 31 March 2006, the Province acquired \$209.2 million worth of student loans. The acquisition of this financial asset was financed through funded debt.

**3.82** Another use of the funds raised through borrowing is to pay down the Province's pension liability. As the last table in the section on pension liability reports, the Province has paid a significant amount of money into its pension funds over the past five years.

**Tangible capital assets**

**3.83** The following table provides the history of the tangible capital asset balance over the past three years.

|                         | (\$ millions) |         |         |
|-------------------------|---------------|---------|---------|
|                         | 2006          | 2005    | 2004    |
| Tangible capital assets | 4,859.1       | 4,746.7 | 4,650.0 |

**3.84** Below is an analysis in the change in the tangible capital asset balance:

|   | (\$ millions) |         |
|---|---------------|---------|
|   | 2006          | 2005    |
| Opening balance                                   | 4,746.7       | 4,650.0 |
| Acquisitions                                      | 342.2         | 326.7   |
| Funds received to acquire tangible capital assets | (24.9)        | (34.3)  |
| Amortization of tangible capital assets           | (204.5)       | (193.4) |
| Loss on disposal of tangible capital assets       | (0.4)         | (2.3)   |
| Ending balance                                    | 4,859.1       | 4,746.7 |

**Net debt**

**3.85** Net debt is an important measure of the financial position of the Province. The following table provides the history of the Province's net debt over the past seven years.

|          | (\$ millions) |         |         |         |         |         |         |
|----------|---------------|---------|---------|---------|---------|---------|---------|
|          | 2006          | 2005    | 2004    | 2003    | 2002    | 2001    | 2000    |
| Net debt | 6,655.7       | 6,778.3 | 6,923.6 | 6,832.4 | 6,734.5 | 6,898.9 | 7,048.9 |

**3.86** Over this six-year period, net debt has been reduced by \$393.2 million. The Province's net debt per capita for the past seven years is:

|                        | 2006    | 2005    | 2004    | 2003    | 2002    | 2001    | 2000    |
|------------------------|---------|---------|---------|---------|---------|---------|---------|
| Net debt (\$ millions) | 6,655.7 | 6,778.3 | 6,923.6 | 6,832.4 | 6,734.5 | 6,898.9 | 7,048.9 |
| Population             | 749,000 | 752,000 | 752,000 | 751,000 | 750,000 | 750,000 | 750,000 |
| Net debt per capita    | \$8,886 | \$9,014 | \$9,207 | \$9,098 | \$8,979 | \$9,199 | \$9,399 |

**3.87** At 31 March 2000, the share of the Province's net debt for each citizen of the Province was \$9,399. By 31 March 2006 that share had reduced to \$8,886.

**3.88** The Province's net debt as a percentage of GDP for the past seven years is:

|   | 2006    | 2005    | 2004    | 2003    | 2002    | 2001    | 2000    |
|---|---------|---------|---------|---------|---------|---------|---------|
| Net debt                                    | 6,655.7 | 6,778.3 | 6,923.6 | 6,832.4 | 6,734.5 | 6,898.9 | 7,048.9 |
| GDP (GDP is for the previous calendar year) | 23,727  | 22,976  | 22,179  | 21,152  | 20,684  | 20,085  | 19,041  |
| Net debt as a percentage of GDP             | 28.1%   | 29.5%   | 31.2%   | 32.3%   | 32.6%   | 34.3%   | 37.0%   |

**3.89** These indicators of net debt all reflect improvement over the six year period reported. Another way to assess these results is to compare them to provinces with similar population size as New Brunswick. In these tables, net debt is taken from the audited summary financial statements of the individual provinces, information about GDP and population are taken from the Statistics Canada web site.

| (\$ millions) |        |
|---------------|--------|
| Net debt      | 2006   |
| New Brunswick | 6,656  |
| Saskatchewan  | 7,761  |
| Manitoba      | 10,519 |
| Nova Scotia   | 12,239 |

| Net debt per capita | 2006     |
|---------------------|----------|
| Saskatchewan        | \$7,808  |
| New Brunswick       | \$8,886  |
| Manitoba            | \$8,952  |
| Nova Scotia         | \$13,048 |

| Net debt as a percentage of GDP | 2006   |
|---------------------------------|--------|
| Saskatchewan                    | 18.30% |
| Manitoba                        | 25.10% |
| New Brunswick                   | 28.10% |
| Nova Scotia                     | 37.30% |

**Items reported in the notes**

**3.90** There are some economic events that accounting rules do not require to be reported immediately, although the notes to the financial statements are required to disclose most of them. The Province's accounting treatment of these items is correct, however, the reader of the financial statements should be aware of these items. The main items are:

- Contingent liabilities
- Commitments
- Foreign exchange fluctuations
- Market value of the sinking fund investments

**Contingent liabilities**

**3.91** The Province's primary contingent liability is for guaranteed loans. Guaranteed loans, net of the recorded allowance for losses for the past seven years were:

| Contingent liabilities | (\$ millions) |       |       |       |       |       |      |
|------------------------|---------------|-------|-------|-------|-------|-------|------|
|                        | 2006          | 2005  | 2004  | 2003  | 2002  | 2001  | 2000 |
| Guaranteed loans       | 102.6         | 269.4 | 263.5 | 196.5 | 151.4 | 135.7 | 50.6 |

**3.92** This reports a significant increase in the value of guarantees issued by the Province over the five year period from 31 March 2000 until 31 March 2005, and then a significant decrease in 2006. The large decrease in 2006 was caused by the change in student loans from guarantees to loans receivable.

**3.93** The following is a breakdown of the components of the Province's guarantees.

|   | (\$ millions) |       |       |       |       |       |      |
|---|---------------|-------|-------|-------|-------|-------|------|
|   | 2006          | 2005  | 2004  | 2003  | 2002  | 2001  | 2000 |
| <i>Adult Education and Training Act</i>     | 0.3           | 0.3   | 0.3   | 0.3   | 0.3   | 0.3   | 0.3  |
| <i>Agricultural Development Act</i>         | 0.4           | 0.4   | 0.1   | 0.2   | 0.2   | 0.9   | 0.8  |
| <i>Economic Development Act</i>             | 123.5         | 103.8 | 124.8 | 47.4  | 33.8  | 35.9  | 43.7 |
| <i>Employment Development Act</i>           | 4.5           | 3.9   | 5.3   | 4.3   | 3.6   | 2.0   | 2.3  |
| <i>Fisheries Development Act</i>            | 20.8          | 5.0   | 6.5   | 10.4  | 5.9   | 3.3   | 4.3  |
| <i>Livestock Incentives Act</i>             | 0.9           | 0.9   | 1.5   | 1.6   | 1.5   | 1.7   | 0.5  |
| <i>Nursing Homes Act</i>                    | 9.4           | 10.3  | 10.6  | 10.6  | 10.7  | 10.6  | 11.0 |
| <i>Regional Development Corporation Act</i> | 3.5           | 3.3   | 3.4   | 3.7   | 3.5   | 4.0   | 3.9  |
| <i>Youth Assistance Act</i>                 | 0             | 209.1 | 186.8 | 168.2 | 136.6 | 107.9 | 0    |
| Subtotal                                    | 163.3         | 337.0 | 339.3 | 246.7 | 196.1 | 166.6 | 66.8 |
| Allowance for losses                        | 60.7          | 67.6  | 75.8  | 50.2  | 44.7  | 30.9  | 16.2 |
| Contingent liability                        | 102.6         | 269.4 | 263.5 | 196.5 | 151.4 | 135.7 | 50.6 |

**3.94** This table reports that there has been a significant increase in the guarantees issued under the *Economic Development Act*. At 31 March 2000, the value of these guarantees was \$43.7 million. That declined to \$33.8 million by 31 March 2002, and since then has increased to a value of \$123.5 million at 31 March 2006. Also, guarantees under the *Fisheries Development Act* have increased from \$4.3 million at 31 March 2000 to \$20.8 million at 31 March 2006.

**Commitments**

**3.95** The following table reports the Province's outstanding commitments for the past seven years.



| Commitments                 | (\$ millions) |       |       |       |       |       |       |
|-----------------------------|---------------|-------|-------|-------|-------|-------|-------|
|                             | 2006          | 2005  | 2004  | 2003  | 2002  | 2001  | 2000  |
| Operating leases            | 436.4         | 407.8 | 392.0 | 398.5 | 369.8 | 308.9 | 329.7 |
| Nursing home debt funding   | 90.4          | 84.1  | 84.8  | 82.5  | 81.0  | 78.6  | 68.2  |
| Authorized capital projects | 1,572.1       | 708.1 | 206.4 | 751.1 | 838.0 | 36.6  | 36.5  |

**3.96** The significant increase in authorized capital projects in 2002 and 2003 were due to NB Power's capital projects. The 2005 value of authorized capital projects was originally reported in the Province's 31 March 2005 financial statements as \$97.6 million. This was restated in the 31 March 2006 financial statements to \$708.1 million. The value of authorized capital projects increased significantly in the year ended 31 March 2006. As these commitments are met, they will put pressure on the Province's net debt position. The notes to the financial statements do not provide any details about the nature of these significant commitments, nor is there any explanation in the results for the year discussion that accompanies the financial statements.

**3.97** Both the operating lease commitments and the nursing home funded debt commitments have steadily increased since 31 March 2001.

### *Foreign exchange fluctuations*

**3.98** Accounting rules allow foreign currency fluctuations to be accounted for over the remaining term of the outstanding debt instrument. Foreign currency accounting is complex, and the method used to defer changes in value can seem to be counter-intuitive. When accounting for foreign currency changes, the outstanding debt is revalued using the exchange rate on the year end date, 31 March for the Province of New Brunswick. Then, part of the change is deferred to be expensed in future years. This is done by creating an account for unrealized foreign exchange gains or losses. Unrealized foreign exchange gains are recorded as liabilities and unrealized foreign exchange losses are recorded as assets.

**3.99** The following table reports the Province's unrealized foreign exchange gains or losses for the past seven years:

|  | (\$ millions) |        |        |      |       |       |       |
|--|---------------|--------|--------|------|-------|-------|-------|
|  | 2006          | 2005   | 2004   | 2003 | 2002  | 2001  | 2000  |
| Unrealized foreign exchange losses (gains) | (48.7)        | (39.9) | (22.8) | 59.7 | 159.2 | 182.8 | 110.1 |

### *Market value of sinking fund investments*

**3.100** The Province does not disclose the market value of its sinking fund investments in its summary financial statements. However, it does

produce separate financial statements for the sinking fund which do report the market value of the sinking fund investments. These financial statements are included in Volume 2 of the Province's Public Accounts. The following table reports the book value and market value of the provincial portion of the sinking fund for the years ended 31 March 2000 until 31 March 2005.

| Sinking fund                           | (\$ millions) |         |         |         |         |         |
|--|---------------|---------|---------|---------|---------|---------|
|  | 2005          | 2004    | 2003    | 2002    | 2001    | 2000    |
| Book value – provincial portion        | 3,773.8       | 3,716.2 | 3,543.0 | 3,358.8 | 3,130.2 | 2,925.5 |
| Book value – NB Power portion          | 391.6         | 363.7   | 351.3   | 327.4   | 297.3   | 295.1   |
| Total book value                       | 4,165.4       | 4,079.9 | 3,894.3 | 3,686.2 | 3,427.5 | 3,220.6 |
| Market value                           | 4,583.3       | 4,575.9 | 4,255.3 | 3,913.0 | 3,703.3 | 3,448.4 |
| Excess of market value over book value | 417.9         | 496.0   | 361.0   | 226.8   | 275.8   | 227.8   |

**3.101** This shows that at 31 March 2005, the sinking fund had a market value that was significantly higher than its recorded book value.

### Statement of Operations Surplus

**3.102** For the year ended 31 March 2006, the Province reported a surplus of \$243.6 million.

**3.103** The following table shows the surplus for the past three years as originally recorded and as restated.

| Surplus (Deficit)      | (\$ millions) |       |         |
|------------------------|---------------|-------|---------|
|                        | 2006          | 2005  | 2004    |
| As originally recorded | 243.6         | 242.2 | (103.2) |
| As restated            | 243.6         | 242.2 | (173.4) |

### Change in net debt

**3.104** For the year ended 31 March 2006, the Province reported a reduction in net debt of \$122.6 million.

**3.105** The following table shows the change in net debt for the past seven years as originally recorded and as restated.

| (Increase) Decrease in net debt | (\$ millions) |       |         |         |       |       |         |
|---------------------------------|---------------|-------|---------|---------|-------|-------|---------|
|                                 | 2006          | 2005  | 2004    | 2003    | 2002  | 2001  | 2000    |
| As originally recorded          | 122.6         | 131.5 | (103.2) | (109.4) | 143.8 | 181.8 | (895.7) |
| As restated                     | 122.6         | 145.3 | (91.2)  | (97.9)  | 164.4 | 150.0 | (895.7) |

### Revenue

**3.106** The main items of revenue that we have analyzed are:

- Total revenue

- Revenue from provincial sources
- Taxes on consumption
- Taxes on income
- Other provincial source revenue
- Revenue from federal sources

Total revenue

**3.107** The following table reports the Province's revenue for the past seven years, divided between revenue from provincial sources and revenue from federal sources.

| Revenue            | (\$ millions) |         |         |         |         |         |         |
|--------------------|---------------|---------|---------|---------|---------|---------|---------|
|                    | 2006          | 2005    | 2004    | 2003    | 2002    | 2001    | 2000    |
| Provincial sources | 3,930.0       | 3,627.2 | 3,533.7 | 3,331.4 | 3,216.1 | 3,067.7 | 2,974.3 |
| Federal sources    | 2,370.7       | 2,332.6 | 1,896.3 | 1,891.5 | 2,018.7 | 1,785.2 | 1,792.7 |
| Total              | 6,300.7       | 5,959.8 | 5,430.0 | 5,222.9 | 5,234.8 | 4,852.9 | 4,767.0 |

**3.108** The following table shows the annual increase (decrease) in each major source of revenue, both in dollars and percentage.

| Revenue            | 2006  | 2005  | 2004  | 2003    | 2002  | 2001  |
|--------------------|-------|-------|-------|---------|-------|-------|
| (\$ millions)      |       |       |       |         |       |       |
| Provincial sources | 302.8 | 93.5  | 202.3 | 115.3   | 148.5 | 93.3  |
| Federal sources    | 38.1  | 436.3 | 4.8   | (127.2) | 233.5 | (7.5) |
| Total              | 340.9 | 529.8 | 207.1 | (11.9)  | 382.0 | 85.8  |
| %                  |       |       |       |         |       |       |
| Provincial sources | 8.3   | 2.6   | 6.1   | 3.6     | 4.8   | 3.1   |
| Federal sources    | 1.6   | 23.0  | 0.3   | (6.3)   | 13.1  | (0.4) |
| Total              | 5.7   | 9.8   | 4.0   | (0.2)   | 7.9   | 1.8   |

**3.109** Provincial source revenue has increased 32.1% since the year ended 31 March 2000, while federal source revenue has increased 32.2%. The following table reports the share of annual revenue that is made up of each primary source.

| Revenue            | 2006  | 2005  | 2004  | 2003  | 2002  | 2001  | 2000  |
|--------------------|-------|-------|-------|-------|-------|-------|-------|
| Provincial sources | 62.4% | 60.9% | 65.1% | 63.8% | 61.4% | 63.2% | 62.4% |
| Federal sources    | 37.6% | 39.1% | 34.9% | 36.2% | 38.6% | 36.8% | 37.6% |

**3.110** Over these seven years, the provincial source revenue has been as high as 65% of total revenue and as low as 61%. Currently it is at the same percentage as it was in 2000.

Revenue from provincial sources

**3.111** The following table compares the provincial source revenue to GDP.

| Revenue  | (\$ millions) |         |         |         |         |         |
|--|---------------|---------|---------|---------|---------|---------|
|  | 2006          | 2005    | 2004    | 2003    | 2002    | 2001    |
| Provincial sources                             | 3,930.0       | 3,627.2 | 3,533.7 | 3,331.4 | 3,216.1 | 3,067.7 |
| GDP (GDP is for the previous calendar year)    | 23,727        | 22,976  | 22,179  | 21,152  | 20,684  | 20,085  |
| Provincial source revenue as a % of GDP        | 16.6%         | 15.8%   | 15.9%   | 15.7%   | 15.5%   | 15.3%   |
| Percentage growth in provincial source revenue | 8.3%          | 2.6%    | 6.1%    | 3.6%    | 4.8%    | 3.1%    |
| Percentage growth in GDP                       | 3.3%          | 3.6%    | 4.9%    | 2.3%    | 3.0%    | 5.5%    |

**3.112** In four of the past five years, provincial source revenue has increased at a rate that exceeds the rate of growth of the GDP. The result is that in 2006, provincial source revenue was 16.6% of GDP, compared to 15.3% in 2001.

**3.113** The following table reports the main categories of provincial source revenue and their history over the past seven years.

| Provincial source revenue | (\$ millions) |         |         |         |         |         |         |
|---------------------------|---------------|---------|---------|---------|---------|---------|---------|
|                           | 2006          | 2005    | 2004    | 2003    | 2002    | 2001    | 2000    |
| Taxes on consumption      | 1,161.3       | 1,059.3 | 1,139.5 | 1,050.1 | 913.7   | 889.6   | 824.1   |
| Taxes on property         | 341.0         | 334.1   | 303.9   | 295.0   | 288.6   | 274.7   | 258.1   |
| Taxes on income           | 1,224.4       | 1,176.1 | 1,065.6 | 1,051.5 | 1,092.1 | 1,091.9 | 1,045.2 |
| Other taxes               | 90.8          | 94.7    | 103.4   | 85.0    | 81.9    | 69.2    | 65.8    |
| Licenses and permits      | 113.8         | 103.0   | 104.1   | 103.0   | 101.6   | 106.6   | 105.4   |
| Royalties                 | 67.8          | 70.7    | 70.4    | 60.0    | 61.1    | 66.5    | 62.5    |
| Investment income         | 409.5         | 283.7   | 252.7   | 176.7   | 246.3   | 156.4   | 211.3   |
| Other provincial revenue  | 295.0         | 284.0   | 271.6   | 267.1   | 199.9   | 192.8   | 198.2   |
| Sinking fund earnings     | 226.4         | 221.6   | 222.5   | 243.0   | 230.9   | 220.0   | 203.7   |
| Total                     | 3,930.0       | 3,627.2 | 3,533.7 | 3,331.4 | 3,216.1 | 3,067.7 | 2,974.3 |

**3.114** The shading indicates that the revenue in that category is higher than it was in the previous year.

Taxes on consumption

**3.115** The following table reports the details of revenue from taxes on consumption over the past seven years.

|                                | (\$ millions) |             |             |             |             |             |             |
|--------------------------------|---------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>Taxes on consumption</b>    | <b>2006</b>   | <b>2005</b> | <b>2004</b> | <b>2003</b> | <b>2002</b> | <b>2001</b> | <b>2000</b> |
| Gasoline and Motive Fuels Tax  | 232.1         | 239.7       | 234.9       | 222.1       | 184.3       | 186.5       | 185.5       |
| Harmonized Sales Tax           | 838.6         | 723.0       | 803.1       | 736.0       | 659.6       | 653.2       | 590.7       |
| Tobacco Tax                    | 90.5          | 96.5        | 101.4       | 91.9        | 69.7        | 49.8        | 47.8        |
| Other                          | 0.1           | 0.1         | 0.1         | 0.1         | 0.1         | 0.1         | 0.1         |
| Total                          | 1,161.3       | 1,059.3     | 1,139.5     | 1,050.1     | 913.7       | 889.6       | 824.1       |
| Increase (decrease)            | 102.0         | (80.2)      | 89.4        | 136.4       | 24.1        | 65.5        | 10.1        |
| Percentage increase (decrease) | 9.6%          | (7.0%)      | 8.5%        | 14.9%       | 2.7%        | 7.9%        | 1.2%        |
| Total as a percentage of GDP   | 4.9%          | 4.6%        | 5.1%        | 5.0%        | 4.4%        | 4.4%        | 4.3%        |

**3.116** Over this seven year period, the major change in Gasoline and Motive Fuels Tax was in 2003 which was due to tax increases. The year ended 31 March 2003 was also the first year that a full year's interest expense was recorded on the debt issued for the Fredericton to Moncton highway. If we use the gasoline tax revenue for 2002 as a base year, we can compare the approximate extra revenue generated by the tax increase to the interest on the highway debt:

|                                     | (\$ millions) |             |             |             |             |
|-------------------------------------|---------------|-------------|-------------|-------------|-------------|
|                                     | <b>2006</b>   | <b>2005</b> | <b>2004</b> | <b>2003</b> | <b>2002</b> |
| Extra Gasoline and Motive Fuels Tax | 47.8          | 55.4        | 50.6        | 37.8        | 0           |
| Interest on highway debt            | 56.5          | 57.5        | 58.1        | 55.8        | 22.5        |

**3.117** The ratio of Harmonized Sales Tax revenue to GDP over the past seven years is as follows:

|   | (\$ millions) |             |             |             |             |             |             |
|---|---------------|-------------|-------------|-------------|-------------|-------------|-------------|
|   | <b>2006</b>   | <b>2005</b> | <b>2004</b> | <b>2003</b> | <b>2002</b> | <b>2001</b> | <b>2000</b> |
| Harmonized Sales Tax                        | 838.6         | 723.0       | 803.1       | 736.0       | 659.6       | 653.2       | 590.7       |
| GDP (GDP is for the previous calendar year) | 23,727        | 22,976      | 22,179      | 21,152      | 20,684      | 20,085      | 19,041      |
| Ratio                                       | 3.5%          | 3.1%        | 3.6%        | 3.5%        | 3.2%        | 3.3%        | 3.1%        |

Taxes on income

**3.118** The following table reports the details of revenue from taxes on income over the past seven years.

| Taxes on income   | (\$ millions) |         |         |         |         |         |         |
|---|---------------|---------|---------|---------|---------|---------|---------|
|   | 2006          | 2005    | 2004    | 2003    | 2002    | 2001    | 2000    |
| Corporate Income Tax  | 150.3         | 173.1   | 111.1   | 134.9   | 179.9   | 178.6   | 141.0   |
| Mining Tax  | 10.5          | 2.8     | 2.2     | 5.7     | 2.3     | 3.3     | 3.9     |
| Personal Income Tax   | 1,063.6       | 1,000.2 | 952.3   | 910.9   | 909.9   | 910.0   | 900.3   |
| Total   | 1,224.4       | 1,176.1 | 1,065.6 | 1,051.5 | 1,092.1 | 1,091.9 | 1,045.2 |
| Total as a percentage of GDP(GDP is for the previous calendar year) | 5.2%          | 5.1%    | 4.8%    | 5.0%    | 5.3%    | 5.4%    | 5.5%    |

**3.119** The following table compares corporate income taxes to the component of GDP that is from corporation profits before taxes:

|   | (\$ millions) |       |       |       |       |       |       |
|---|---------------|-------|-------|-------|-------|-------|-------|
|   | 2006          | 2005  | 2004  | 2003  | 2002  | 2001  | 2000  |
| Corporate Income Tax                                      | 150.3         | 173.1 | 111.1 | 134.9 | 179.9 | 178.6 | 141.0 |
| Corporation profits before taxes (previous calendar year) | 2,162         | 2,292 | 1,862 | 1,849 | 1,904 | 1,846 | 1,769 |
| Percentage  | 7.0%          | 7.6%  | 6.0%  | 7.3%  | 9.4%  | 9.7%  | 8.0%  |

**3.120** The percentage increases in personal income taxes over the past six fiscal years have been:

|                     | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 |
|---------------------|------|------|------|------|------|------|
| Personal Income Tax | 6.3% | 5.0% | 4.5% | 0.1% | 0.0% | 1.1% |

**3.121** The following table shows the growth over the past six calendar years, in personal income per capita and in certain applicable components of the provincial GDP:

|   | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|------|------|------|------|------|------|
| Increase in per capita income   | 3.5% | 2.7% | 2.9% | 2.3% | 2.5% | 4.8% |
| Increase in wage component of GDP                                       | 3.5% | 2.3% | 4.8% | 4.2% | 0.5% | 6.1% |
| Increase in wage, interest and unincorporated business component of GDP | 4.1% | 2.3% | 4.2% | 2.4% | 0.7% | 5.5% |

**3.122** This is confusing because while per capita income has grown at a reasonably consistent rate over the past four years, personal income taxes collected by the Province have grown more significantly in the past three years. It is hard to understand why the growth in personal income tax is larger than the growth in the wage component of GDP.

This is true even when the growth in the wage component of GDP is added to the growth in the interest and investment component and the income from non-incorporated businesses.

Other provincial source revenues

**3.123** The following table reports the details of certain other revenue from provincial sources over the past seven years.

|                                 | (\$ millions) |       |        |        |       |        |       |
|---------------------------------|---------------|-------|--------|--------|-------|--------|-------|
|                                 | 2006          | 2005  | 2004   | 2003   | 2002  | 2001   | 2000  |
| Insurance Premium Tax           | 39.4          | 39.7  | 42.2   | 34.3   | 30.3  | 28.2   | 25.9  |
| Large Corporation Capital Tax   | 36.3          | 39.5  | 47.3   | 38.7   | 39.0  | 30.6   | 28.1  |
| Motor vehicle licenses          | 92.4          | 82.3  | 78.0   | 78.8   | 79.1  | 80.6   | 78.8  |
| Forest royalties                | 56.9          | 60.2  | 62.9   | 53.1   | 54.6  | 58.3   | 54.5  |
| Lottery revenues                | 111.2         | 118.1 | 116.7  | 109.1  | 89.2  | 89.7   | 86.3  |
| NB Electric Finance Corporation | 131.5         | 7.8   | (18.0) | (77.4) | 19.0  | (78.0) | 17.0  |
| NB Liquor Corporation           | 126.1         | 122.6 | 118.6  | 110.1  | 106.8 | 103.0  | 100.8 |
| Sinking fund earnings           | 226.4         | 221.6 | 222.5  | 243.0  | 230.9 | 220.0  | 203.7 |

**3.124** The average annual growth rate of each of these sources of provincial revenue, other than the revenue from the NB Electric Finance Corporation, were:

| Revenue source                | Six year annual average growth rate |
|-------------------------------|-------------------------------------|
| Insurance Premium Tax         | 7.3%                                |
| Large Corporation Capital Tax | 4.4%                                |
| Lottery revenues              | 4.3%                                |
| NB Liquor Corporation         | 3.8%                                |
| Motor vehicle licenses        | 2.7%                                |
| Sinking fund earnings         | 1.8%                                |
| Forest royalties              | 0.1%                                |

Revenue from federal sources

**3.125** The following table reports the main categories of federal source revenue and their history over the past seven years.

| Federal source revenue             | (\$ millions) |         |         |         |         |         |         |
|------------------------------------|---------------|---------|---------|---------|---------|---------|---------|
|                                    | 2006          | 2005    | 2004    | 2003    | 2002    | 2001    | 2000    |
| Canada Health and Social Transfer  | 696.4         | 607.3   | 545.2   | 498.9   | 494.9   | 404.0   | 369.2   |
| Health Reform Transfer             | 0             | 35.3    | 0       | 0       | 0       | 0       | 0       |
| Fiscal Equalization Payments       | 1,348.0       | 1,395.5 | 1,089.3 | 1,146.9 | 1,321.3 | 1,150.5 | 1,152.1 |
| Other unconditional grants         | 1.9           | 1.7     | 1.9     | 1.9     | 1.9     | 1.9     | 1.8     |
| Conditional grants                 | 324.4         | 292.8   | 259.9   | 243.8   | 200.6   | 194.8   | 203.6   |
| Harmonization Transitional Payment |               |         |         |         |         | 34.0    | 66.0    |
| Total                              | 2,370.7       | 2,332.6 | 1,896.3 | 1,891.5 | 2,018.7 | 1,785.2 | 1,792.7 |
| Increase (decrease)                | 38.1          | 436.3   | 4.8     | (127.2) | 233.5   | (7.5)   | (299.8) |
| Percentage increase (decrease)     | 1.6%          | 23.0%   | 0.3%    | (6.3%)  | 13.1%   | (0.4%)  | (14.3%) |

**3.126** Even though the growth in federal source revenue has fluctuated significantly over the past six years, as was stated earlier, the percentage of the Province's total revenue that comes from federal sources is at the same level as it was in the year ended 31 March 2000.

### Expenses

**3.127** The main items of expenses we have analyzed are:

- total expenses
- expenses by department
- interest expense
- provision expense
- expenditure

### Total expenses

**3.128** The Province implemented tangible capital asset accounting in the year ended 31 March 2005, and restated its 2004 numbers to reflect this change. This means that the Province's Statement of Operations now reports expenses rather than expenditures, and it also means that only three years' worth of comparative expense figures are available.

**3.129** The following table reports the Province's expenses for the past three years.



| Expenses                          | 2006        |       | 2005        |       | 2004        |       |
|-----------------------------------|-------------|-------|-------------|-------|-------------|-------|
|                                   | \$ millions | %     | \$ millions | %     | \$ millions | %     |
| Education                         | 1,195.9     | 19.7  | 1,077.2     | 18.8  | 1,060.6     | 18.9  |
| Health                            | 1,958.3     | 32.3  | 1,837.0     | 32.1  | 1,788.5     | 31.9  |
| Family and Community Services     | 775.5       | 12.8  | 730.5       | 12.8  | 716.6       | 12.8  |
| Protection services               | 160.7       | 2.7   | 151.2       | 2.7   | 145.2       | 2.6   |
| Economic Development              | 182.0       | 3.0   | 183.6       | 3.2   | 167.0       | 3.0   |
| Employment Development and Labour | 231.5       | 3.8   | 229.3       | 4.0   | 229.0       | 4.1   |
| Resource sector                   | 164.6       | 2.7   | 166.8       | 2.9   | 159.0       | 2.8   |
| Transportation                    | 313.7       | 5.2   | 288.5       | 5.0   | 286.2       | 5.1   |
| Central government                | 483.5       | 8.0   | 472.6       | 8.3   | 468.4       | 8.4   |
| Service of the Public Debt        | 591.4       | 9.8   | 580.9       | 10.2  | 582.9       | 10.4  |
| Total                             | 6,057.1     | 100.0 | 5,717.6     | 100.0 | 5,603.4     | 100.0 |

**3.130** The following table shows the annual growth of the Province's expenses over the past two years:

| Expenses                          | 2006        |       | 2005        |       |
|-----------------------------------|-------------|-------|-------------|-------|
|                                   | \$ millions | %     | \$ millions | %     |
| Education                         | 118.7       | 11.0  | 16.6        | 1.6   |
| Health                            | 121.3       | 6.6   | 48.5        | 2.7   |
| Family and Community Services     | 45.0        | 6.2   | 13.9        | 1.9   |
| Protection services               | 9.5         | 6.3   | 6.0         | 4.1   |
| Economic Development              | (1.6)       | (0.9) | 16.6        | 9.9   |
| Employment Development and Labour | 2.2         | 1.0   | 0.3         | 0.1   |
| Resource sector                   | (2.2)       | (1.3) | 7.8         | 4.9   |
| Transportation                    | 25.2        | 8.7   | 2.3         | 0.8   |
| Central government                | 10.9        | 2.3   | 4.2         | 0.9   |
| Service of the Public Debt        | 10.5        | 1.8   | (2.0)       | (0.3) |
| Total                             | 339.5       | 5.9   | 114.2       | 2.0   |
| Rate of Growth of GDP             |             | 3.3   |             | 3.6   |

**3.131** In 2005, the rate of growth of expenses was less than the rate of growth of GDP, while in 2006, it was greater.

**3.132** The Notes to the Financial Statements also provide a detail of the expenses by what is referred to as primary classification:

| Primary   | 2006        |       | 2005        |       | 2004        |       |
|---|-------------|-------|-------------|-------|-------------|-------|
|   | \$ millions | %     | \$ millions | %     | \$ millions | %     |
| Personal services                                       | 1,985.7     | 32.8  | 1,958.1     | 34.2  | 1,908.4     | 34.1  |
| Other services  | 1,195.0     | 19.7  | 1,044.3     | 18.3  | 980.3       | 17.5  |
| Materials and supplies                                  | 127.3       | 2.1   | 124.7       | 2.2   | 113.5       | 2.0   |
| Property and equipment                                  | 88.8        | 1.5   | 73.3        | 1.3   | 69.4        | 1.2   |
| Contributions, grants and subsidies to or on behalf of: |             |       |             |       |             |       |
| Municipalities and Local Service Districts              | 151.2       | 2.5   | 143.7       | 2.5   | 145.1       | 2.6   |
| Individuals   | 971.0       | 16.0  | 943.2       | 16.5  | 894.0       | 16.0  |
| Nursing homes   | 144.6       | 2.4   | 131.8       | 2.3   | 125.1       | 2.2   |
| Other   | 497.8       | 8.2   | 471.7       | 8.2   | 435.2       | 7.8   |
| Debt and other charges                                  | 691.2       | 11.4  | 633.4       | 11.1  | 663.3       | 11.8  |
| Amortization  | 204.5       | 3.4   | 193.4       | 3.4   | 269.1       | 4.8   |
| Total   | 6,057.1     | 100.0 | 5,717.6     | 100.0 | 5,603.4     | 100.0 |

## Expenses by department

**3.133** The following table provides a three year comparison of the departments or categories with the ten largest expenses during the year ended 31 March 2006.

|                                     | 2006        |       | 2005        |       | 2004        |       |
|-------------------------------------|-------------|-------|-------------|-------|-------------|-------|
|                                     | \$ millions | %     | \$ millions | %     | \$ millions | %     |
| Regional Health Authorities         | 1,284.9     | 21.2% | 1,192.7     | 20.9% | 1,106.9     | 19.8% |
| Education                           | 876.5       | 14.5% | 817.9       | 14.3% | 804.0       | 14.3% |
| Family and Community Services       | 761.4       | 12.6% | 724.3       | 12.7% | 710.5       | 12.7% |
| Health and Wellness                 | 616.1       | 10.2% | 593.6       | 10.4% | 550.4       | 9.8%  |
| Service of the Public Debt          | 591.4       | 9.8%  | 580.9       | 10.2% | 582.9       | 10.4% |
| MPHEC                               | 258.5       | 4.3%  | 185.2       | 3.2%  | 179.7       | 3.2%  |
| Training and Employment Development | 230.8       | 3.8%  | 228.7       | 4.0%  | 228.4       | 4.1%  |
| Amortization                        | 204.5       | 3.4%  | 193.4       | 3.4%  | 269.1       | 4.8%  |
| Transportation                      | 204.1       | 3.4%  | 182.2       | 3.2%  | 179.1       | 3.2%  |
| Public Safety                       | 112.1       | 1.9%  | 105.0       | 1.8%  | 99.8        | 1.8%  |

## Interest expense

**3.134** The Notes to the Financial Statements provide details about debt charges. The following table provides a comparison of the past seven years:

|  | (\$ millions) |         |         |         |         |         |         |
|--|---------------|---------|---------|---------|---------|---------|---------|
|  | 2006          | 2005    | 2004    | 2003    | 2002    | 2001    | 2000    |
| Interest   | 744.5         | 756.9   | 766.2   | 799.1   | 817.2   | 851.1   | 833.4   |
| Interest on Fredericton to Moncton highway capital lease | 56.5          | 57.5    | 58.1    | 55.8    | 22.5    | 0       | 0       |
| Interest on other capital leases                         | 2.2           | 2.3     | 2.3     | 2.4     | 2.4     | 2.5     | 2.5     |
| Foreign exchange expense                                 | (7.8)         | (21.7)  | (40.3)  | 35.4    | 56.6    | 44.5    | 27.2    |
| Other expenses   | 1.7           | 1.9     | 2.1     | 3.3     | 1.8     | 1.2     | 8.5     |
| Subtotal   | 797.1         | 796.9   | 788.4   | 896.0   | 900.5   | 899.3   | 871.6   |
| Interest recovery – Electric Finance Corporation         | (205.7)       | (216.0) | (205.5) | (235.1) | (248.7) | (262.0) | (260.9) |
| Service of the public debt                               | 591.4         | 580.9   | 582.9   | 660.9   | 651.8   | 637.3   | 610.7   |
| Less sinking fund earnings                               | (226.4)       | (221.6) | (222.5) | (243.0) | (230.9) | (220.0) | (203.7) |
| Subtotal   | 365.0         | 359.3   | 360.4   | 417.9   | 420.9   | 417.3   | 407.0   |
| Pension interest charged                                 | 30.9          | 17.6    | 85.4    | 27.9    | 3.5     | (53.6)  | (9.1)   |
| Interest on student loans                                | 6.8           | 0       | 0       | 0       | 0       | 0       | 0       |
| Total  | 402.7         | 376.9   | 445.8   | 445.8   | 424.4   | 363.7   | 397.9   |

**3.135** The subtotal that deducts sinking fund earnings from service of the public debt is the best indicator of net interest costs. It reached a high of \$420.9 million in 2002 and declined to \$359.3 million in 2005. In 2006 it increased to \$365.0 million.

#### Provision expense

**3.136** The Province establishes allowances for loan receivable, loan guarantees and other possible losses. The provision expense for the past seven years has been:

|                   | (\$ millions) |      |      |      |      |      |      |
|-------------------|---------------|------|------|------|------|------|------|
|                   | 2006          | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 |
| Provision expense | 59.7          | 77.5 | 71.2 | 33.0 | 43.2 | 65.3 | 46.5 |

#### Expenditure

**3.137** Before the adoption of tangible capital asset accounting in the year ended 31 March 2005, the Province reported expenditures on the Statement of Revenue and Expenditure. Under the expenditure approach, the cost of acquiring tangible capital assets was included as an expenditure and amortization was not recorded. We can compare total expenditures for the past seven years:

| <b>Expenditure</b>             | <b>2006</b> | <b>2005</b> | <b>2004</b> | <b>2003</b> | <b>2002</b> | <b>2001</b> | <b>2000</b> |
|--------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Expenditure (\$ millions)      | 6,203.0     | 5,848.8     | 5,568.2     | 5,370.6     | 5,072.9     | 4,719.2     | 4,830.1     |
| Increase (decrease)            | 354.2       | 280.6       | 197.6       | 297.7       | 353.7       | (110.9)     | 179.5       |
| Percentage increase (decrease) | 6.1%        | 5.0%        | 3.7%        | 5.9%        | 7.5%        | (2.3%)      | 3.9%        |

**3.138** The following table compares expenditure growth to GDP growth and revenue growth:

|  | <b>2006</b> | <b>2005</b> | <b>2004</b> | <b>2003</b> | <b>2002</b> | <b>2001</b> | <b>2000</b> |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>Expenditure growth</b>                          | 6.1%        | 5.0%        | 3.7%        | 5.9%        | 7.5%        | (2.3%)      | 3.9%        |
| GDP growth (GDP is for the previous calendar year) | 3.3%        | 3.6%        | 4.9%        | 2.3%        | 3.0%        | 5.5%        | 8.0%        |
| Revenue growth                                     | 5.7%        | 9.8%        | 3.2%        | 0.2%        | 8.6%        | (0.1%)      | 7.8%        |