

Chapter 2

Comments on the Province's Financial Position

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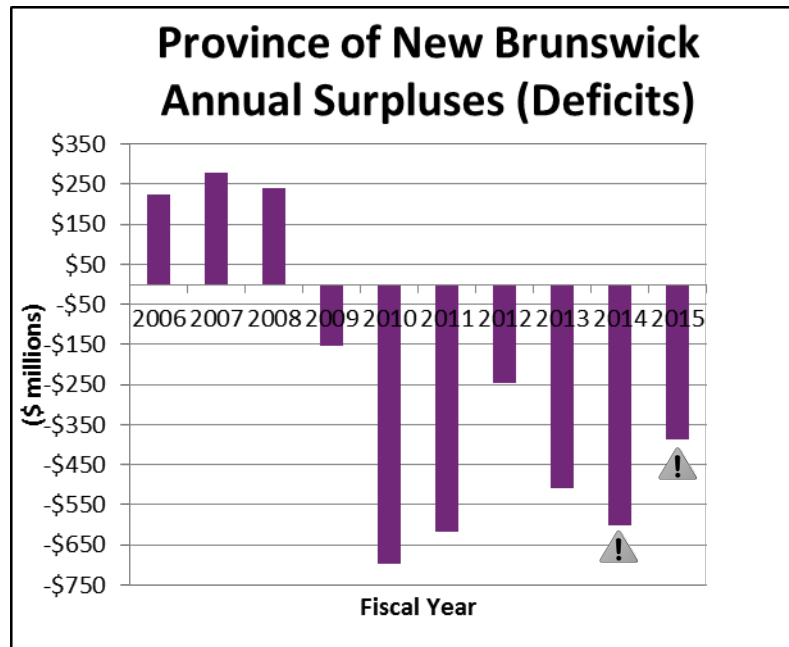
Comments on the Province's Financial Position

Seventh Consecutive Deficit

Action is Required

- 2.1** It should be noted that the numbers used in this chapter are from the Province's March 31, 2015 Public Accounts. The audit opinion connected with these financial statements expressed reservations that, had our concerns been addressed, may cause the numbers presented in this chapter to change for certain expenses, liabilities, the annual deficit and net debt. We are unable to quantify the impact of the possible changes as government has not provided the necessary information. Readers are cautioned that the numbers presented in this chapter may not be appropriate for their purposes.
- 2.2** The Province's March 31, 2015 audited consolidated financial statements reported a deficit of \$388.6 million and an increase in Net Debt for the fiscal year of \$610.6 million. The Province now has a Net Debt of \$12.4 billion.
- 2.3** The \$388.6 million annual deficit was lower than the budgeted deficit of \$391.1 million and was lower than the prior year deficit of \$600.4 million.
- 2.4** This represents the seventh consecutive annual deficit. To assist in financing these deficits, the Province has incurred additional debt. This trend is very concerning. Significant changes are required to improve the financial health of the Province.

Exhibit 2.1 - Annual Surpluses (Deficits)



As restated

⚠ The audit opinion for the Province of New Brunswick's March 31, 2015 financial statements expressed reservations which may impact expenses, liabilities, annual and cumulative deficit as well as Net Debt. Readers are cautioned the above information may not be appropriate for their purposes. The numbers impacted by the reservations have been marked with a caution symbol above.

Exhibit 2.2 - Annual Surpluses (Deficits) Data

| Annual Surpluses (Deficits) | | | | | | | | | | |
|-----------------------------|-------|-------|-------|---------|---------|---------|---------|---------|---------|---------|
| (\$ millions) | | | | | | | | | | |
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
| As restated | 225.3 | 277.3 | 241.1 | (152.0) | (695.9) | (617.2) | (244.8) | (507.5) | (600.4) | n/a |
| As originally recorded | 243.6 | 236.8 | 86.7 | (192.3) | (737.9) | (633.0) | (260.6) | (507.7) | (498.7) | (388.6) |

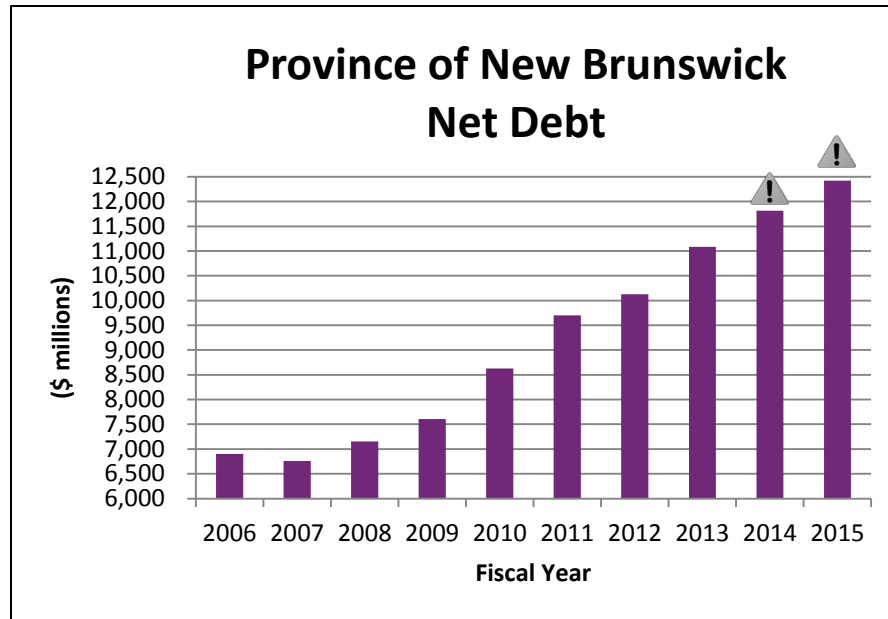
⚠ The audit opinion for the Province of New Brunswick's March 31, 2015 financial statements expressed reservations which may impact expenses, liabilities, annual and cumulative deficit as well as Net Debt. Readers are cautioned the above information may not be appropriate for their purposes. The numbers impacted by the reservations have been shaded above.

2.5 Exhibits 2.1 and 2.2 show the surplus or deficit for the past ten years. The preceding years' amounts have been restated as per Note 17 of the Province's March 31, 2015 consolidated financial statements.

Continued Growth in Net Debt

2.6 Net Debt is one of the most important measures of the financial position of the Province. Exhibits 2.3 and 2.4 show Net Debt for the past ten years. Net Debt measures the difference between a government's liabilities and financial assets. This difference provides a measurement of the future revenues required to pay for past transactions and events.

Exhibit 2.3 - Province of New Brunswick Net Debt



As restated

⚠ The audit opinion for the Province of New Brunswick's March 31, 2015 financial statements expressed reservations which may impact expenses, liabilities, annual and cumulative deficit as well as Net Debt. Readers are cautioned the above information may not be appropriate for their purposes. The numbers impacted by the reservations have been marked with a caution symbol above.

Exhibit 2.4 - Net Debt Data

| Net Debt (\$ millions) | | | | | | | | | | |
|---------------------------|---------|---------|---------|---------|---------|---------|----------|----------|----------|----------|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
| As restated | 6,900.6 | 6,761.4 | 7,151.6 | 7,608.0 | 8,628.9 | 9,700.4 | 10,125.8 | 11,084.6 | 11,811.3 | n/a |
| As originally recorded | 6,655.7 | 6,577.9 | 6,942.9 | 7,387.8 | 8,353.0 | 9,480.4 | 10,045.8 | 11,054.0 | 11,641.2 | 12,421.9 |

⚠ The audit opinion for the Province of New Brunswick's March 31, 2015 financial statements expressed reservations which may impact expenses, liabilities, annual and cumulative deficit as well as Net Debt. Readers are cautioned the above information may not be appropriate for their purposes. The numbers impacted by the reservations have been shaded above.

Net Debt growth through budget deficits

2.7 We would like to draw attention to the following facts:

- For the year ended 31 March 2015, Net Debt increased by \$610.6 million to \$12.4 billion.
- In the ten years reported in Exhibit 2.4, Net Debt has increased \$5.5 billion.
- The 2015-2016 Main Estimates budgets for an increase in Net Debt of \$585.5 million for the year ended 31 March 2016.
- Based on 2015-2016 Main Estimates, Net Debt of the Province could be in excess of \$13 billion for the year ended 31 March 2016.

2.8 Exhibit 2.5 shows the annual budgeted deficit for the Province for the last five years. Even though expenditure growth is slowing, budgeted deficits have been planned in the last five years which have contributed to Net Debt growth. In order to reduce Net Debt, the budgeted deficit needs improvement (i.e. through either increases to revenues, reductions to expenses, or a combination of both). If no other plan of action is taken, the deficit and Net Debt increases will continue.

Exhibit 2.5 - Annual Budgeted Deficit

| Annual Budgeted Deficit | | | | | |
|--------------------------------|-------------|-------------|-------------|-------------|-------------|
| (\$ millions) | | | | | |
| | 2011 | 2012 | 2013 | 2014 | 2015 |
| Budgeted Deficit | (748.8) | (448.8) | (182.9) | (478.7) | (391.1) |

Comparison to Other Provinces

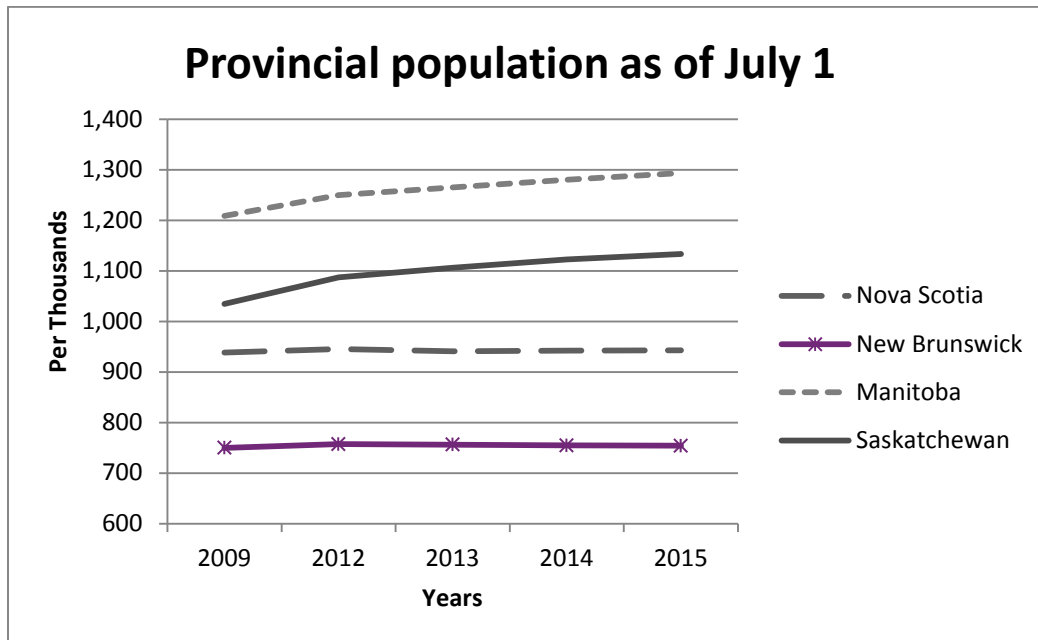
2.9 Another way to assess the significance of the size of the Province's Net Debt is to compare it to the Net Debt of other provinces in absolute amount, per capita and as a percentage of GDP. Provinces used in our comparison include, Newfoundland and Labrador, Nova Scotia, Manitoba and Saskatchewan. These provinces presented for comparison purposes were selected based on application of judgement where certain similarities in population or economic circumstances were considered. The provinces' application of accounting principles may differ upon comparing financial information, depending on particular circumstances. Population data for provinces used in our comparison is found in Exhibits 2.6

and 2.7.

2.10 In the next eight exhibits:

- information from the audited summary financial statements of the individual provinces is used;
- information about population is taken from the Statistics Canada website, and
- GDP figures are from the financial statement discussion and analysis attached to the individual provinces' audited summary financial statements.

Exhibit 2.6 - Provincial Population as of July 1



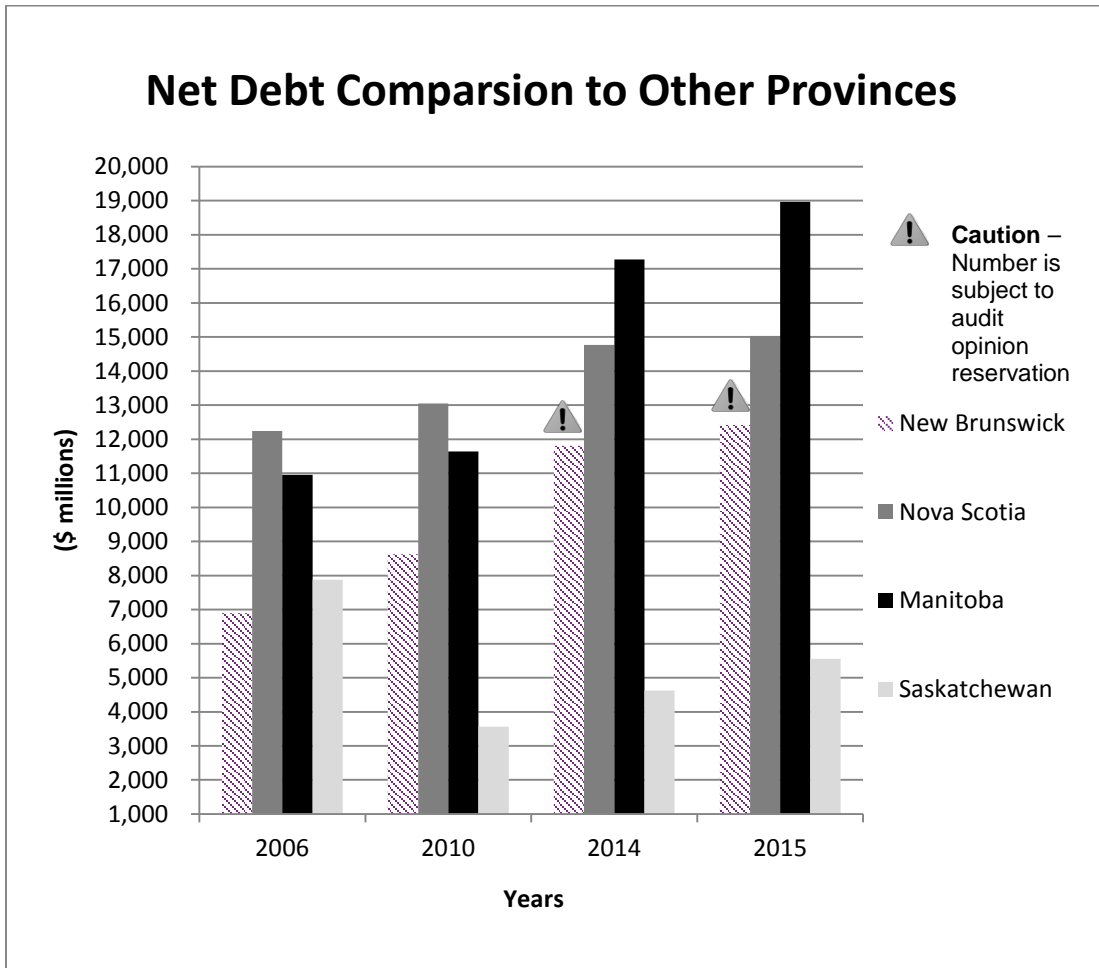
Source: Statistics Canada

<http://www5.statcan.gc.ca/cansim/a26?lang=eng&retrLang=eng&id=0510001&pattern=&csid=>

Exhibit 2.7 - Provincial Population as of July 1 Data

| Provincial Population Data as of July 1 | | | | | |
|---|-------------|---------|---------|---------|---------|
| Province | (thousands) | | | | |
| | 2009 | 2012 | 2013 | 2014 | 2015 |
| Nova Scotia | 935.9 | 944.5 | 944.8 | 943.0 | 942.4 |
| New Brunswick | 746.9 | 755.5 | 756.8 | 755.7 | 754.6 |
| Manitoba | 1,197.8 | 1,233.7 | 1,250.4 | 1,265.3 | 1,280.2 |
| Saskatchewan | 1,017.3 | 1,066.3 | 1,087.2 | 1,106.1 | 1,122.3 |


Exhibit 2.8 - Net Debt Comparison to Other Provinces



! The audit opinion for the Province of New Brunswick's March 31, 2015 financial statements expressed reservations which may impact expenses, liabilities, annual and cumulative deficit as well as Net Debt. Readers are cautioned the above information may not be appropriate for their purposes. The numbers impacted by the reservations have been marked with a caution symbol above.

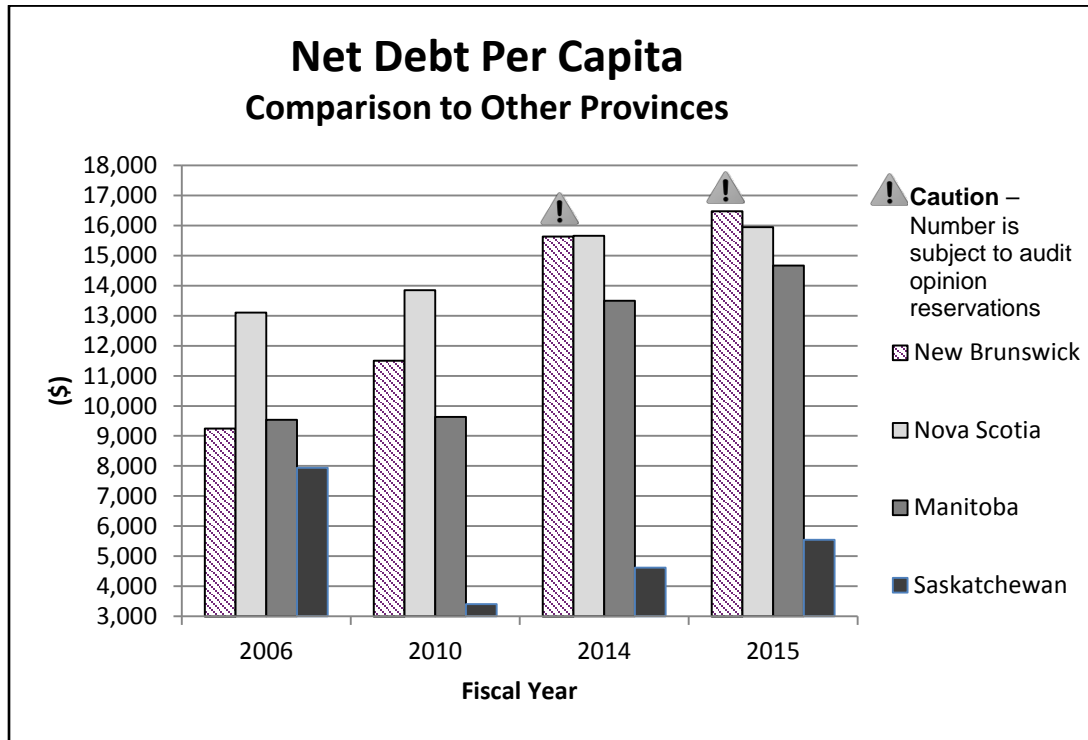
Exhibit 2.9 - Net Debt Comparison to Other Provinces Data

| Net Debt Comparison to Other Provinces (\$ millions) | | | | | |
|---|---|--------|--------|--------|--------|
| Province | Increase (Decrease) 2006 to 2015 | 2006 | 2010 | 2014 | 2015 |
| New Brunswick | 80% | 6,901 | 8,629 | 11,811 | 12,422 |
| Manitoba | 73% | 10,952 | 11,643 | 17,272 | 18,963 |
| Nova Scotia | 23% | 12,239 | 13,045 | 14,762 | 15,031 |
| Saskatchewan | (29%) | 7,870 | 3,560 | 4,620 | 5,550 |

 The audit opinion for the Province of New Brunswick's March 31, 2015 financial statements expressed reservations which may impact expenses, liabilities, annual and cumulative deficit as well as Net Debt. Readers are cautioned the above information may not be appropriate for their purposes. The numbers impacted by the reservations have been shaded above.

2.11 Exhibits 2.8 and 2.9 show that over the last ten years within this group, New Brunswick has had the highest increase in Net Debt. New Brunswick's rate of Net Debt growth has increased by 80% over the last ten years. The magnitude of this increase is significant. The overall debt burden for the Province remains at an elevated level. The 2015-2016 Main Estimates budgets an increase in Net Debt of approximately \$585.5 million. The continued increase in Net Debt causes concern for the long-term sustainability of the Province.

Exhibit 2.10 - Net Debt Per Capita Comparison to Other Provinces



! The audit opinion for the Province of New Brunswick's March 31, 2015 financial statements expressed reservations which may impact expenses, liabilities, annual and cumulative deficit as well as Net Debt. Readers are cautioned the above information may not be appropriate for their purposes. The numbers impacted by the reservations have been marked with a caution symbol above.

Exhibit 2.11 - Net Debt Per Capita Comparison to Other Provinces Data

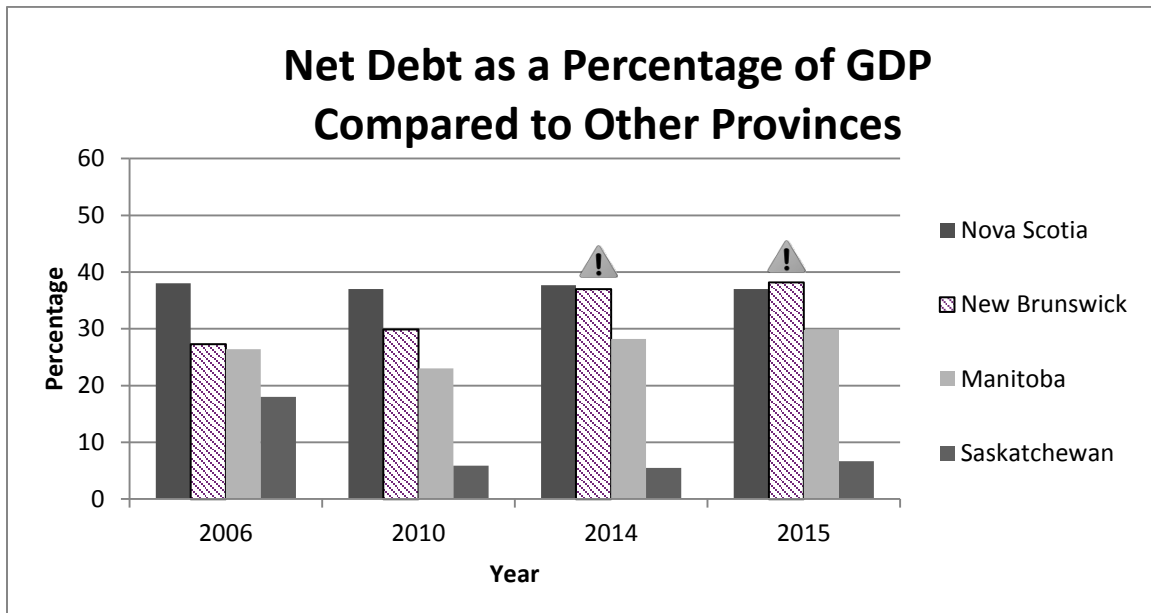
| Net Debt Per Capita Comparison to Other Provinces* | | | | |
|--|--------|--------|--------|--------|
| (\$) | | | | |
| Province | 2006 | 2010 | 2014 | 2015 |
| New Brunswick | 9,255 | 11,506 | 15,631 | 16,477 |
| Nova Scotia | 13,104 | 13,847 | 15,656 | 15,944 |
| Manitoba | 9,537 | 9,633 | 13,492 | 14,661 |
| Saskatchewan | 7,940 | 3,410 | 4,620 | 5,552 |

! The audit opinion for the Province of New Brunswick's March 31, 2015 financial statements expressed reservations which may impact expenses, liabilities, annual and cumulative deficit as well as Net Debt. Readers are cautioned the above information may not be appropriate for their purposes. The numbers impacted by the reservations have been shaded above.

*Amounts from provinces' 2015 financial statement discussion and analysis where available. For those provinces where this indicator was not published in the same format, information was obtained on population from Statistics Canada as of July 1 within the fiscal year. (i.e. 2015 was July 1 2014 population). Numbers have been rounded for presentation purposes.

2.12 Information in Exhibits 2.10 and 2.11 show that New Brunswick has the highest Net Debt per capita in the comparable group. If the debt were to be eliminated by way of contributions from New Brunswickers, each would contribute \$16,477. Again, this indicator has increased significantly from 2010 at \$11,506 to 2015 at \$16,477 (a 43.2% increase in five years).

Exhibit 2.12 - Net Debt as a Percentage of GDP Compared to Other Provinces



! The audit opinion for the Province of New Brunswick's March 31, 2015 financial statements expressed reservations which may impact expenses, liabilities, annual and cumulative deficit as well as Net Debt. Readers are cautioned the above information may not be appropriate for their purposes. The numbers impacted by the reservations have been marked with a caution symbol above.

Exhibit 2.13 - Net Debt as a Percentage of GDP Compared to Other Provinces Data

| Net Debt as a Percentage of GDP Compared to Other Provinces | | | | | |
|---|------|------|------|------|---|
| (percent) | | | | | |
| Province | 2006 | 2010 | 2014 | 2015 | % Increase (Decrease) from 2006 to 2015 |
| New Brunswick | 27.3 | 29.9 | 37.0 | 38.2 | 39.9% |
| Nova Scotia | 38.0 | 37.0 | 37.7 | 37.0 | (2.6%) |
| Manitoba | 26.4 | 23.0 | 28.2 | 29.8 | 12.9% |
| Saskatchewan | 17.5 | 5.9 | 5.5 | 6.7 | (61.7%) |

! The audit opinion for the Province of New Brunswick's March 31, 2015 financial statements expressed reservations which may impact expenses, liabilities, annual and cumulative deficit as well as Net Debt. Readers are cautioned the above information may not be appropriate for their purposes. The numbers impacted by the reservations have been shaded above.

- 2.13** As shown in Exhibits 2.12 and 2.13, New Brunswick had the highest increase of Net Debt as a percentage of GDP from 2006 to 2015, and the highest Net Debt as a percentage of GDP among comparable provinces for 2015. For the year ended March 31, 2006, New Brunswick's Net Debt as a percentage of GDP was 71.8% of Nova Scotia's; for the year ended March 31, 2015 it was 103.2%.
- Net Debt comparison summary**
- 2.14** New Brunswick's Net Debt performance compared to other provinces remains a significant concern. New Brunswick's increase in Net Debt of \$5.5 billion from 2006 indicates the need for continued efforts to address the level of Net Debt.
- Comments on the Province's Financial Health**
- 2.15** For the past number of years, we included in our annual report a historical trend analysis of the Province's financial condition by looking at measures of sustainability, flexibility and vulnerability.
- 2.16** Starting in 2009, the Province began reporting some of these measures as part of Volume 1 of Public Accounts (Indicators of Financial Health section). As we commented in previous years, we are pleased to see the Province report this historical information.
- 2.17** In this section, we report on twelve indicators of financial condition identified by the Public Sector Accounting Board (PSAB) in a Statement of Recommended Practice (SORP). This analysis is intended to give a broader view of the financial health of the Province as the analysis shows trends. The analysis expands on the information reported in the audited consolidated financial statements which only reflect the Province's fiscal status at a point in time.
- Assumptions Used**
- 2.18** We have not audited some of the numbers used in our indicator analysis; instead, we are using numbers the Province restated as per Note 17 of the Province's consolidated financial statements. The Province used these restated figures in its management discussion and analysis in Volume 1 of Public Accounts. We have not audited the annualized numbers we obtained from the Province for the years 2005 to 2010. For the 2011- 2015 numbers, we audited the numbers in conjunction with our annual audit work.

**Summary of the
Province's
Indicators of
Financial
Condition**

2.19 In some of the Exhibits that follow, we show five years of comparative figures instead of ten. For these cases, restated numbers for prior years are not available because of changes in accounting policies.

2.20 In Exhibit 2.14, we summarize our analysis of the Province's financial indicators. We show the indicators for each element, the purpose of the indicator, the short-term (two year) and long-term (five or ten year) trend, as well as a reference within this chapter of where we discuss the indicator in more detail.

Exhibit 2.14 - Summary of Indicators of Financial Condition

| | Indicator | Purpose | Short-term Trend | Term | Long-term Trend ¹ | Paragraph |
|----------------|--|--|---------------------------|---------|------------------------------|-----------|
| Sustainability | Assets-to-liabilities | Measures extent that government finances its operations by issuing debt | Unfavourable | 5 year | Unfavourable | 2.24 |
| | Financial asset-to-liabilities | Measures whether future revenues will be needed to pay for past transactions | Unfavourable | 5 year | Unfavourable | 2.26 |
| | Net Debt-to-total annual revenue | Shows whether more time is needed to pay for past transactions | Unfavourable | 10 year | Unfavourable | 2.28 |
| | Expense by function-to-total expenses | Shows the trend of government spending over time | Neutral | 5 year | Neutral | 2.30 |
| | Net Debt-to-GDP | Shows the relationship between Net Debt and the activity in the economy | Unfavourable | 10 year | Unfavourable | 2.33 |
| | Accumulated deficit-to-GDP | Measures the sum of the current and all prior year operating results relative to the growth in the economy | Unfavourable | 5 year | Unfavourable | 2.35 |
| | Total expenses-to-GDP | Shows the trend of government spending over time in relation to the growth in the economy | Unfavourable ² | 10 year | Unfavourable | 2.37 |
| Flexibility | Public debt charges-to-revenues | Measures extent that past borrowing decisions limits ability to meet current financial and service commitments | Neutral | 10 year | Favourable | 2.41 |
| | Net book value of capital assets-to-cost of capital assets | Measures the estimated useful lives of tangible capital assets available to provide products /services | Neutral | 5 year | Neutral | 2.45 |
| | Own-source revenues-to-GDP | Measures extent income is taken out of the economy | Unfavourable ² | 10 year | Neutral | 2.47 |
| Vulnerability | Government transfers-to-total revenues | Measures the dependence on another level of government | Favourable | 10 year | Mixed | 2.54 |
| | Foreign currency debt-to-Net Debt | Measures the government's potential vulnerability to currency fluctuations | Favourable | 10 year | Favourable | 2.57 |

¹Long-term trend assessments unchanged in Auditor General Annual Reports 2012-2015

²Last year was "Neutral"

Conclusion

2.21 The long-term and short-term trends continue to show a number of unfavourable sustainability indicators. Flexibility and vulnerability indicators show more positive results. Overall, the Province's long-term indicators of financial condition have remained unchanged since 2012. Ten of twelve of the Province's short term indicators of financial condition have not changed since the prior year. The other two indicators have declined to unfavourable from the prior year assessment of neutral.

2.22 However, we remain concerned about the sustainability indicator trends. The level of Net Debt, now \$12.4 billion and the increase of 80% since 2006 is undesirable. This pace of Net Debt growth is not sustainable in the long-term, and action is required to address this problem. It may eventually impact the Province's ability to meet its existing financial obligations both in respect of its service commitments to the public and financial commitments to creditors, employees and others. We again this year, in addition to addressing the annual deficit, encourage the Province to set and achieve targets for long-term Net Debt control and reduction.

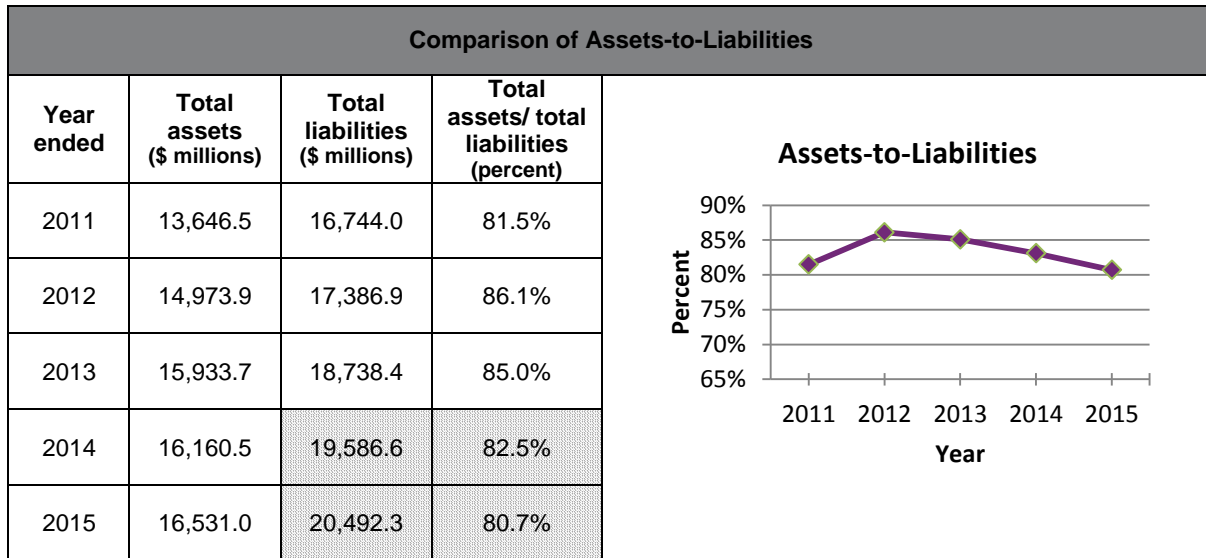
Sustainability Indicators

2.23 Sustainability indicates whether the Province can maintain programs and meet existing creditor requirements without increasing the debt burden on the economy.


Assets-to-Liabilities

2.24 The sustainability indicator assets-to-liabilities is presented in Exhibit 2.15.

Exhibit 2.15 - Comparison of Assets-to-Liabilities



As restated

 The audit opinion for the Province of New Brunswick's March 31, 2015 financial statements expressed reservations which may impact expenses, liabilities, annual and cumulative deficit as well as Net Debt. Readers are cautioned the above information may not be appropriate for their purposes. The numbers impacted by the reservations have been shaded above.

2.25 An assets-to-liability indicator below 100% indicates a government has accumulated deficits and has been financing its operations by issuing debt. For the past five years, the Province's rate was less than 100%. Recent trends are negative due to continuous decline in this ratio. Overall we have assessed the short-term and long-term trend as unfavourable.

Financial Assets-to-Liabilities

2.26 Another sustainability indicator, financial assets-to-liabilities, is presented in Exhibit 2.16.

Exhibit 2.16 - Comparison of Financial Assets-to-Liabilities

| Comparison of Financial Assets-to-Liabilities | | | |
|---|--------------------------------------|---------------------------------|---|
| Year ended | Total financial assets (\$ millions) | Total liabilities (\$ millions) | Total financial assets/ total liabilities (percent) |
| 2011 | 7,128.3 | 16,744.0 | 42.6% |
| 2012 | 7,264.7 | 17,386.9 | 41.8% |
| 2013 | 7,653.8 | 18,738.4 | 40.8% |
| 2014 | 7,775.3 | 19,586.6 | 39.7% |
| 2015 | 8,070.4 | 20,492.3 | 39.4% |

| Year | Percent |
|------|---------|
| 2011 | 42.6% |
| 2012 | 41.8% |
| 2013 | 40.8% |
| 2014 | 39.7% |
| 2015 | 39.4% |

As restated

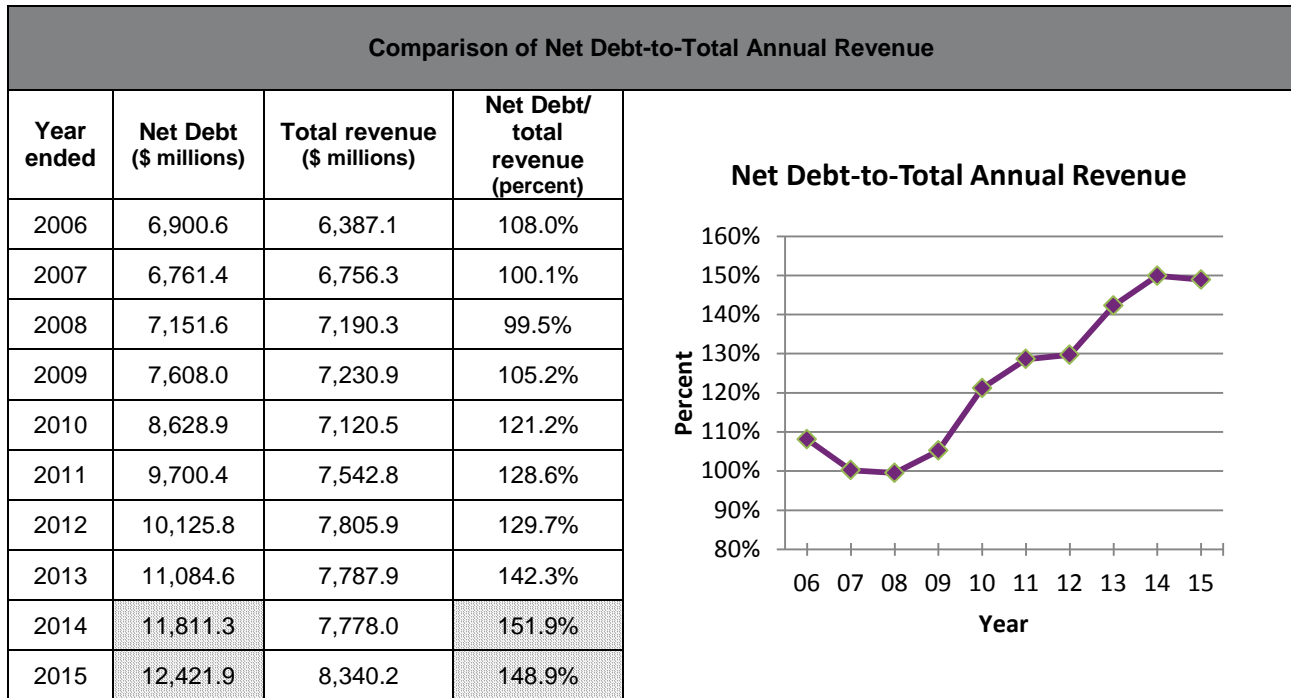
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2.27 When liabilities exceed financial assets the government is in a Net Debt position, and the implication is that future surpluses will be required to pay for past transactions and events. The Province's percentage overall decreased from 2011 to 2015. We have assessed the short term and long-term trend as unfavourable.

Net Debt-to-Total Annual Revenue

2.28 Net Debt-to-total annual revenue is another indicator of sustainability and is presented in Exhibit 2.17.

Exhibit 2.17 - Comparison of Net Debt-to-Total Annual Revenue



The audit opinion for the Province of New Brunswick's March 31, 2015 financial statements expressed reservations which may impact expenses, liabilities, annual and cumulative deficit as well as Net Debt. Readers are cautioned the above information may not be appropriate for their purposes. The numbers impacted by the reservations have been shaded above.

2.29 Net Debt provides a measure of the future revenue required to pay for past transactions and events. A Net Debt-to-total revenue percentage that is increasing indicates that the Province will need more time to eliminate the Net Debt. The Province's percentage has been increasing between 2009 and 2014. The increase in 2013 attributed mainly to the annual deficit and the net capital asset transactions of highways, hospitals, schools and other buildings. Overall, we have assessed this trend as unfavourable.

Expense by Function-to-Total Expenses

2.30 Exhibit 2.18 presents expense by function-to-total expenses.

Exhibit 2.18 - Comparison of Expense by Function-to-Total Expenses

| Comparison of Expense by Function-to-Total Expenses | | | | | | | | | | |
|---|----------------|------------|----------------|------------|----------------|------------|----------------|------------|----------------|------------|
| | 2011 | | 2012 | | 2013 | | 2014 | | 2015 | |
| | (\$ millions) | (%) | (\$ millions) | (%) | (\$ millions) | (%) | (\$ millions) | (%) | (\$ millions) | (%) |
| Health | 2,687.0 | 32.9 | 2,730.0 | 33.9 | 2,786.1 | 33.6 | 2,789.9 | 33.3 | 2,838.6 | 32.5 |
| Education and Training | 1,723.6 | 21.1 | 1,749.3 | 21.7 | 1,787.6 | 21.5 | 1,836.1 | 21.9 | 2,083.7 | 23.9 |
| Social Development | 1,037.5 | 12.7 | 1,029.8 | 12.8 | 1,052.8 | 12.7 | 1,076.6 | 12.8 | 1,115.4 | 12.8 |
| Service of the Public Debt | 641.4 | 7.9 | 661.8 | 8.2 | 660.3 | 8.0 | 661.9 | 7.9 | 675.2 | 7.7 |
| Transportation and Infrastructure | 402.6 | 4.9 | 527.6 | 6.6 | 547.7 | 6.6 | 577.9 | 6.9 | 649.7 | 7.4 |
| Central Government | 722.0 | 8.8 | 542.2 | 6.7 | 636.6 | 7.7 | 637.1 | 7.6 | 538.3 | 6.2 |
| Protection Services | 260.8 | 3.2 | 229.9 | 2.9 | 237.3 | 2.9 | 235.2 | 2.8 | 268.7 | 3.1 |
| Economic Development | 328.4 | 4.0 | 257.2 | 3.2 | 269.1 | 3.2 | 231.4 | 2.8 | 239.3 | 2.7 |
| Resources | 215.1 | 2.6 | 214.5 | 2.7 | 217.4 | 2.6 | 214.0 | 2.6 | 197.3 | 2.3 |
| Labour and Employment | 141.6 | 1.7 | 108.4 | 1.3 | 100.5 | 1.2 | 118.3 | 1.4 | 122.6 | 1.4 |
| Total | 8,160.0 | 100 | 8,050.7 | 100 | 8,295.4 | 100 | 8,378.4 | 100 | 8,728.8 | 100 |

The audit opinion for the Province of New Brunswick's March 31, 2015 financial statements expressed reservations which may impact expenses, liabilities, annual and cumulative deficit as well as Net Debt. Readers are cautioned the above information may not be appropriate for their purposes. The numbers impacted by the reservations have been shaded above.

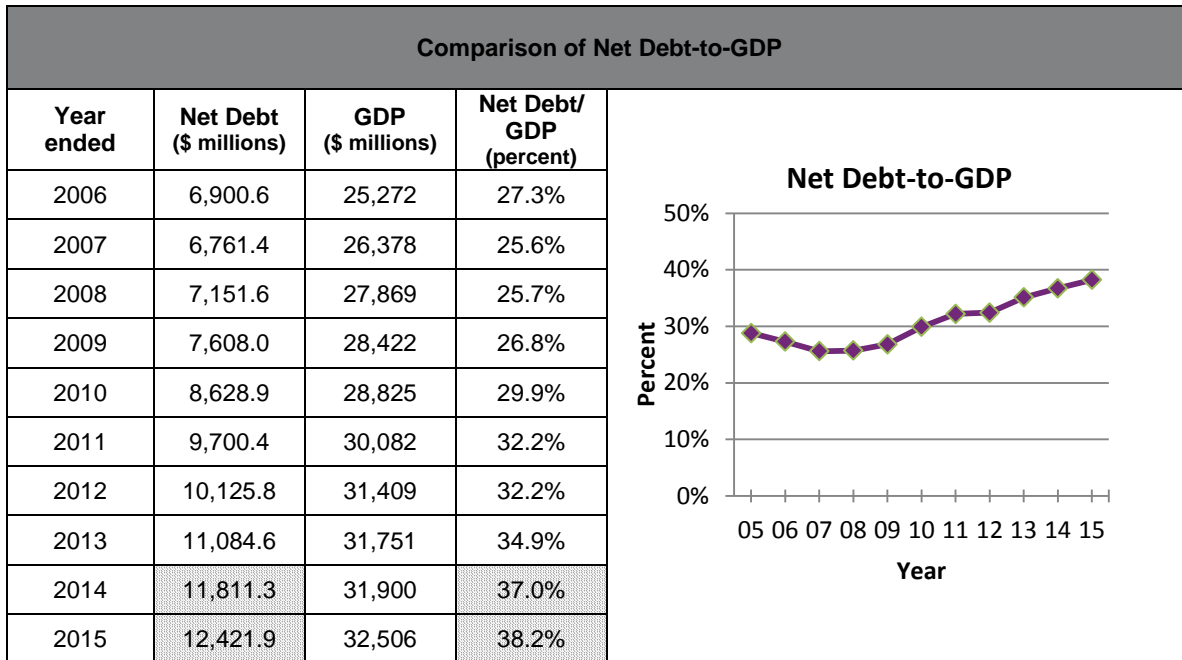
2.31 The years ended March 31, 2011 to March 31, 2015 reported deficits. This means that during 2011-2015 while individual expense trends may have remained steady, this result was achieved by incurring a total level of expenses that was in excess of revenue generated in those years. Education and Training and Health's allocation of expenses consume over 56.4% of the total expenses, consistent with prior years.

2.32 The allocation of expenses upon comparing 2015 was relatively stable, however, the impact of continuing deficits and New Brunswick's growing Net Debt will need to be closely monitored in the future as the related interest burden on it consumes resources that would otherwise be used to deliver services. We have assessed this indicator as neutral.

Net Debt-to-GDP

2.33 The sustainability indicator, Net Debt-to-GDP is presented in the Exhibit 2.19.

Exhibit 2.19 - Comparison of Net Debt-to-GDP



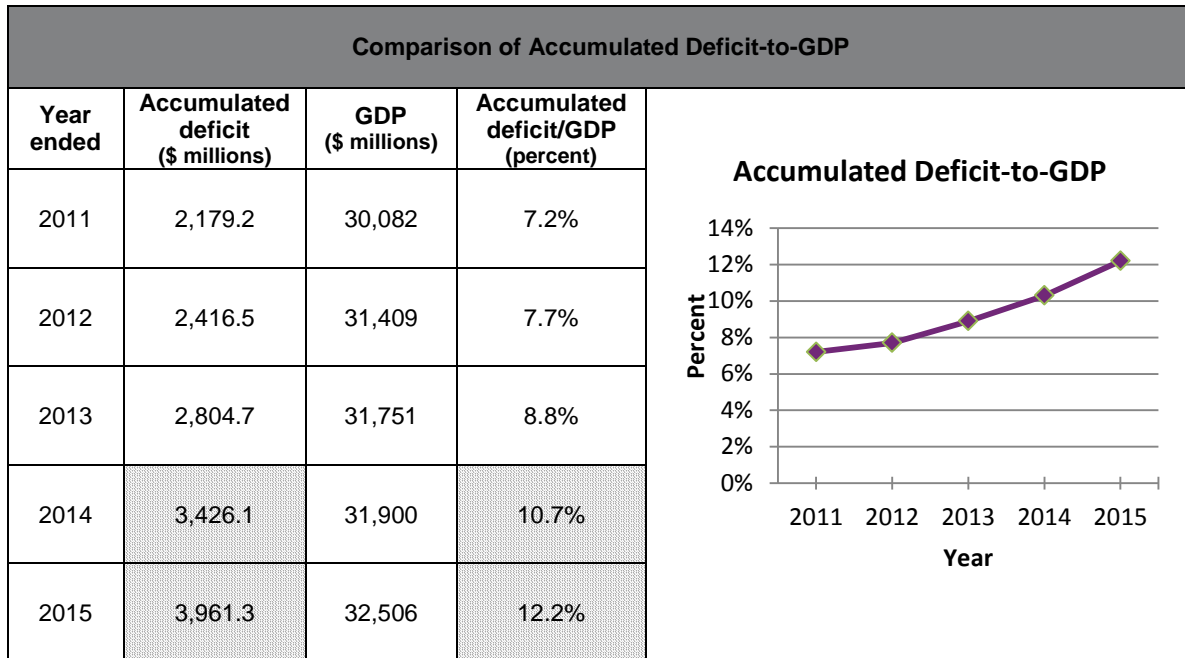
The audit opinion for the Province of New Brunswick's March 31, 2015 financial statements expressed reservations which may impact expenses, liabilities, annual and cumulative deficit as well as Net Debt. Readers are cautioned the above information may not be appropriate for their purposes. The numbers impacted by the reservations have been shaded above.

2.34 This indicator compares the Province's Net Debt, the difference between its liabilities and its financial assets, to its GDP. This ratio declined from 2006 to 2007 indicating that over that time period the level of the Province's debt became less onerous on the economy. The ratio increased from 2008 to 2015 because the rate of growth of Net Debt exceeded the rate of growth in GDP over that time period. In 2015, the ratio reached its highest level in ten years. This means the Net Debt of the Province is increasing faster than the growth in the economy. We have assessed the trend as unfavourable.

Accumulated Deficit-to-GDP

2.35 In the Exhibit 2.20, we present the sustainability indicator accumulated deficit-to-GDP.

Exhibit 2.20 - Comparison of Accumulated Deficit-to-GDP



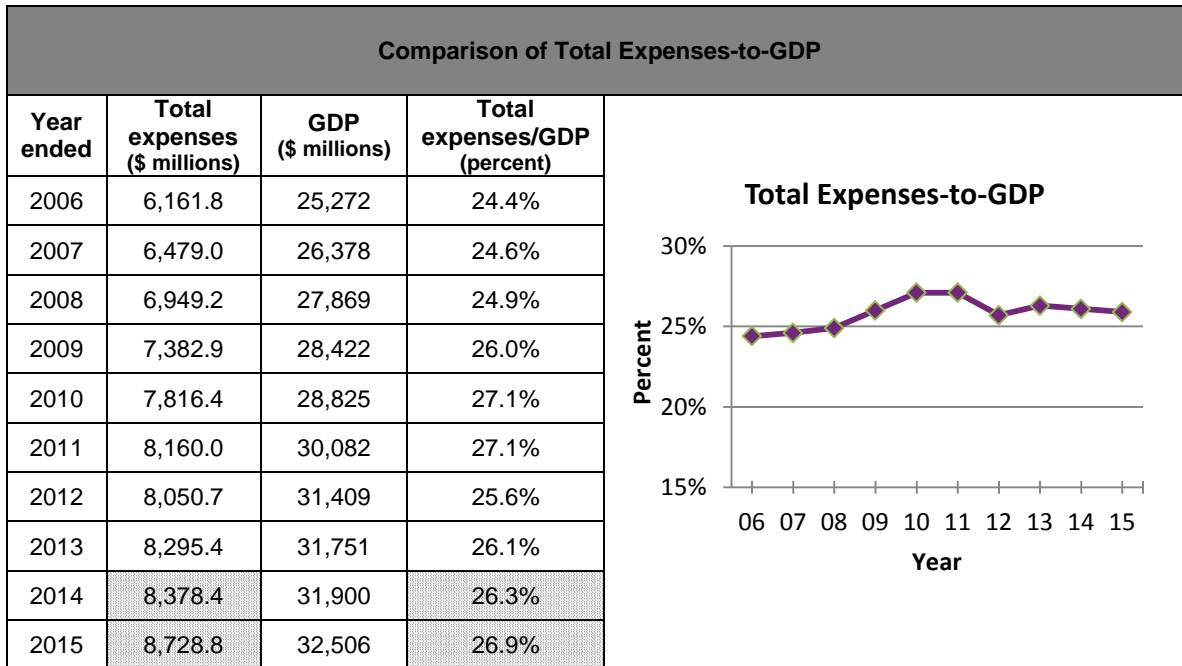
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2.36 The accumulated deficit is the extent to which annual revenues have been insufficient to cover the annual costs of providing services. The information above shows that from 2011 to 2015, the accumulated deficit has increased faster than the growth of the economy. This represents an unfavourable trend.

Total Expenses-to-GDP

2.37 Exhibit 2.21 presents the total expenses-to-GDP indicator.

Exhibit 2.21 - Comparison of Total Expenses-to-GDP



The audit opinion for the Province of New Brunswick's March 31, 2015 financial statements expressed reservations which may impact expenses, liabilities, annual and cumulative deficit as well as Net Debt. Readers are cautioned the above information may not be appropriate for their purposes. The numbers impacted by the reservations have been shaded above.

2.38 Exhibit 2.21 indicates from 2006 to 2008, government expenses were held to about 25% of GDP, however, this percentage has increased over time. In 2015, the percentage increased slightly from 26.3% in 2014 to 26.9%. Overall, this represents an unfavourable trend as expenses are growing faster than the economy is expanding. We have assessed the short term and long-term trends as unfavourable.

Exhibit 2.22 - Sustainability Indicator Trends

| Sustainability Indicator Trends | | |
|---------------------------------------|------------------|-----------------|
| Sustainability indicator | Short-term trend | Long-term trend |
| Assets-to-liabilities | Unfavourable | Unfavourable |
| Financial assets-to-liabilities | Unfavourable | Unfavourable |
| Net Debt-to-total annual revenue | Unfavourable | Unfavourable |
| Expense by function-to-total expenses | Neutral | Neutral |
| Net Debt-to-GDP | Unfavourable | Unfavourable |
| Accumulated deficit-to-GDP | Unfavourable | Unfavourable |
| Total expenses-to-GDP | Unfavourable | Unfavourable |

Summary of Sustainability Indicators

2.39 Exhibit 2.22 presents a summary of the Province's sustainability indicators. We note six of seven sustainability indicators are unfavourable in the long-term, and six of seven are unfavourable in the short term, and therefore our overall assessment of these trends remains unfavourable. This negative sustainability trend should be of concern to New Brunswickers.

Flexibility Indicators

2.40 Flexibility is the degree to which the government can change its debt or tax burden on the economy to maintain programs and meet existing creditor requirements.

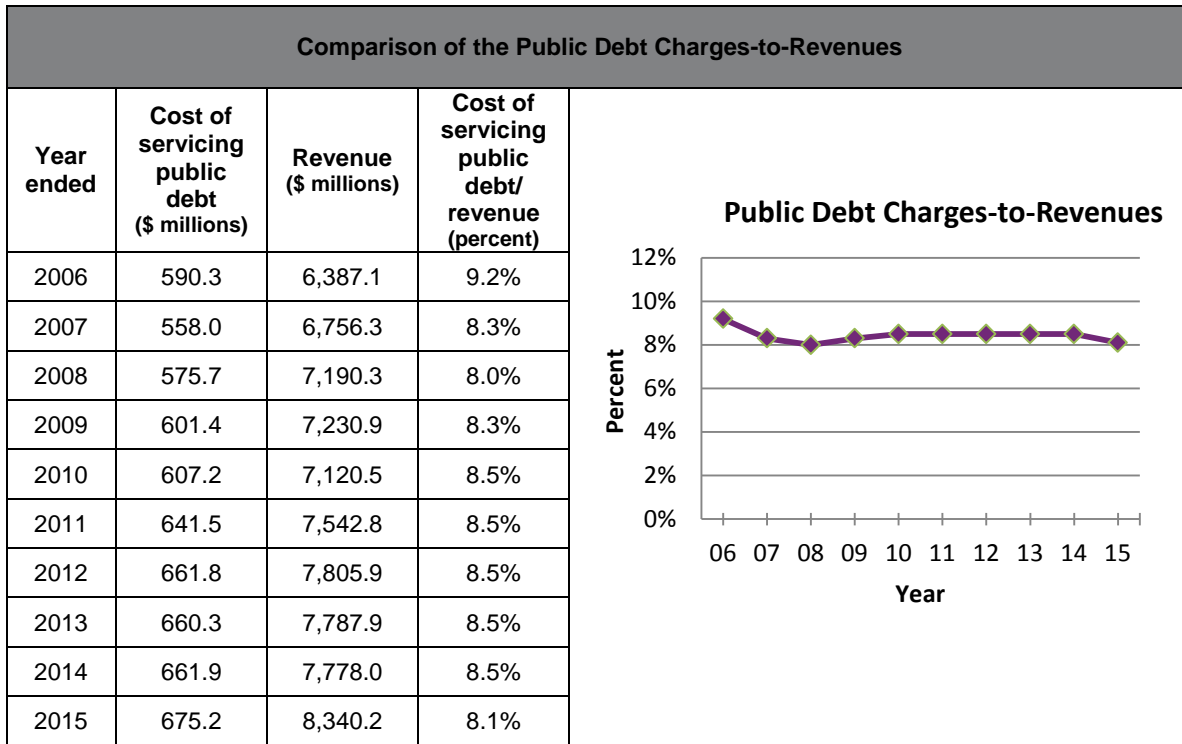
Public Debt Charges-to-Revenues

2.41 One of the most publicized factors which affect the flexibility of governments is the cost of servicing the public debt. This is considered to be an indicator of flexibility, since the Province's first payment commitment is to service its debt, leaving no flexibility in the timing of these payments.

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

2.43 In Exhibit 2.23, we present the public debt charges-to-revenues.

Exhibit 2.23 - Comparison of the Public Debt Charges-to-Revenues



2.44 Exhibit 2.23 shows that the cost of servicing the public debt as a percentage of the Province's total revenues is significantly lower in the year ended March 31, 2015 than it was in the year ended March 31, 2006. This means the Province is spending proportionately less of its current year revenue to cover debt charges resulting in more current year revenue available to cover services to the public. For the period 2010 to 2014, the ratio has remained the same and has decreased slightly to 8.1% in 2015; we are assessing the short-term trend as neutral. We are assessing the long-term trend as favourable as the current year's ratio is less than the ratio in 2006. Although we are assessing this indicator as favourable, caution is needed when looking at this indicator. The cost of servicing the Province's debt is increasing in a time when interest rates have declined and the Province's debt is increasing significantly.

Net Book Value of Capital Assets-to-Cost of Capital Assets

2.45 We present the net book value of capital assets-to-cost of capital assets in the Exhibit 2.24.

Exhibit 2.24 - Comparison of Net Book Value of Capital Assets-to-Cost of Capital Assets

| Comparison of Net Book Value of Capital Assets-to-Cost of Capital Assets | | | |
|--|------------------------------|----------------------------|--|
| Year ended | Net book value (\$ millions) | Capital cost (\$ millions) | Net book value/ capital cost (percent) |
| 2011 | 7,241.7 | 11,733.2 | 61.7% |
| 2012 | 7,452.5 | 12,221.3 | 61.0% |
| 2013 | 7,977.6 | 13,065.3 | 61.1% |
| 2014 | 8,018.5 | 13,451.2 | 59.6% |
| 2015 | 8,148.9 | 13,891.5 | 58.7% |

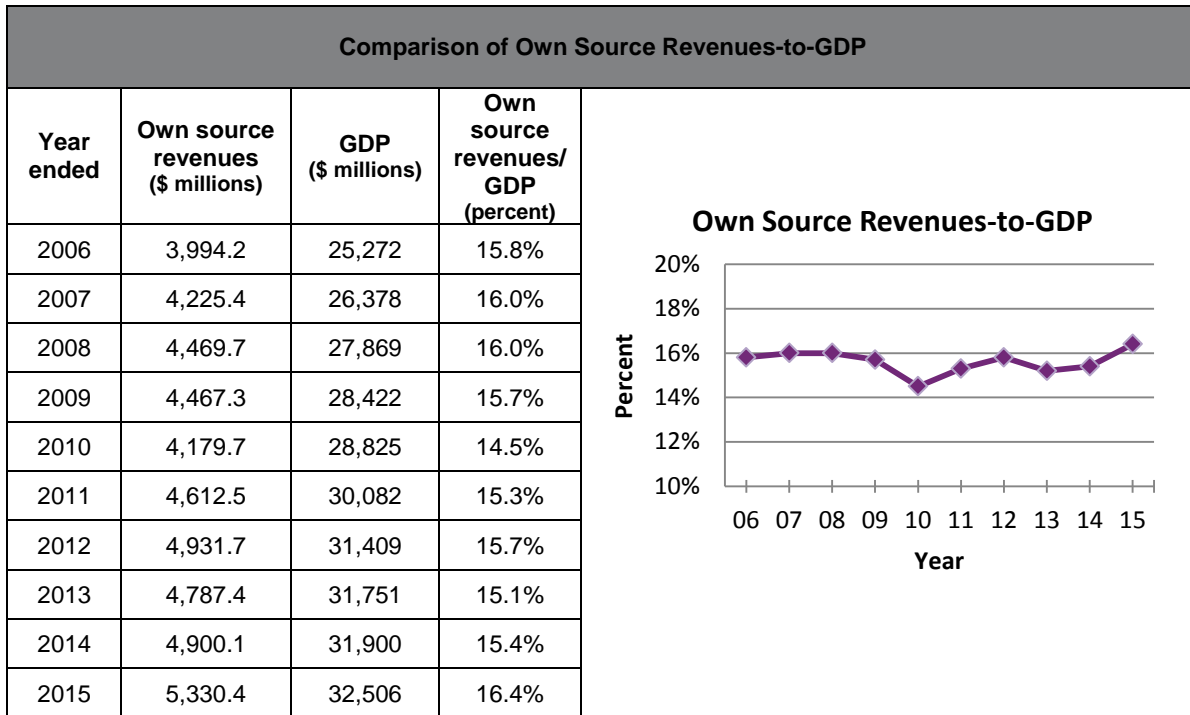
| Year | Percent |
|------|---------|
| 2011 | 61.7% |
| 2012 | 61.0% |
| 2013 | 61.1% |
| 2014 | 59.6% |
| 2015 | 58.7% |

2.46 This data indicates that the Province's inventory of capital assets as at March 31, 2015 has 58.7% of its average useful life remaining. This roughly means that on average any provincial assets that were originally expected to be useable for ten years still had just under six years of remaining useful life at March 31, 2015, and assets with original useful lives of twenty years were still considered useable for just under twelve years on average. As the ratios have remained relatively the same over the past five years, we are assessing the short-term and long-term trends as neutral.

***Own Source
Revenues-to-GDP***

2.47 We present own source revenues-to-GDP in Exhibit 2.25.

Exhibit 2.25 - Comparison of Own Source Revenues-to-GDP



2.48 The own source revenues-to-GDP indicator measures the extent to which the Province is raising its revenue through extracting it from the provincial economy. If the ratio increases, more of the Province’s revenue is generated from the provincial economy. For example, an increase in this ratio could result if the Province increased taxes. If the ratio decreases, less of the Province’s revenue is generated from the provincial economy. A decreasing ratio increases the Province’s ability to raise taxes, thus, making the Province more flexible in how it can generate revenue. Generally, this ratio has stayed the same over the long-term and we have assessed this indicator as neutral. In the short term this ratio is increasing and we have assessed this trend as unfavourable.

2.49 There was a decrease in the year 2010 mostly as a result of a large loss by the then New Brunswick Electric Finance Corporation (EFC) (now amalgamated with New Brunswick Power Corporation). In that year, the reduction in own source revenue was not as a result of lower fees or taxes.

2.50 In 2015, own source revenue increased by \$430.3 million. The most significant source of this increase was an increase in taxes of \$392.2 million relating to personal and corporate income taxes, increase in Provincial Real Property

Tax as a result of an increase in assessment base, increase in Harmonized Sales Tax due to prior year adjustments and higher in-year payments, and an increase in Metallic Minerals Tax due to audits of previous year mining activities.

2.51 A note of caution should be taken when looking at this indicator for the last six years. The Province incurred deficits which means expenses were higher than the revenue generated.

Exhibit 2.26 - Flexibility Indicator Trends

| Flexibility Indicator Trends | | |
|--|------------------|-----------------|
| Flexibility indicator | Short-term trend | Long-term trend |
| Public debt charges-to-revenues | Neutral | Favourable |
| Net book value of capital assets-to-cost of capital assets | Neutral | Neutral |
| Own source revenues-to-GDP | Unfavourable | Neutral |

Summary of Flexibility Indicators

2.52 As summarized in Exhibit 2.26, our overall assessment on flexibility in the short term and long-term is largely neutral. However, caution should be used in interpreting these results. This result was achieved in a period where the Province incurred its seventh consecutive deficit and the cost of servicing the Province's debt was increasing (i.e. in a period when interest rates are generally decreasing and the Province's debt load is increasing).

Vulnerability Indicators

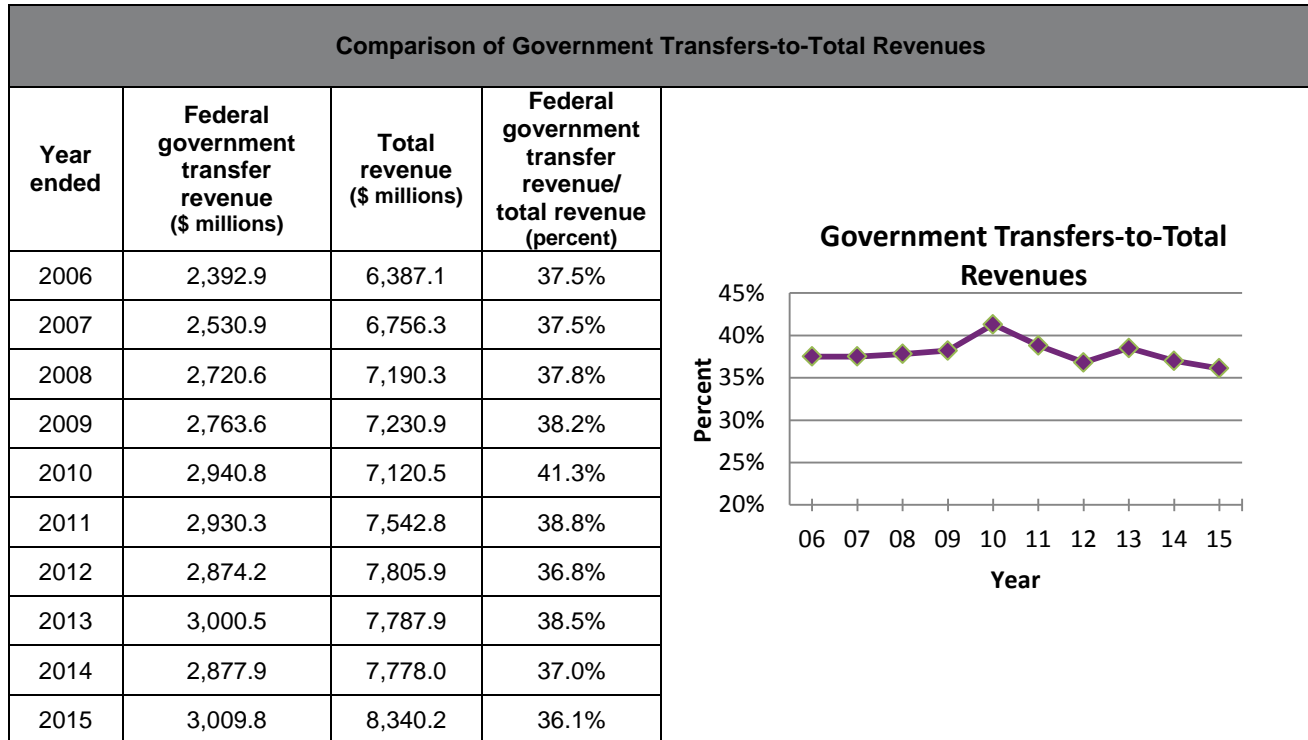
2.53 Vulnerability is the degree to which a government is dependent on sources of funding outside its control or influence.

Government Transfers-to-Total Revenues

2.54 By comparing the proportion of total revenue that comes from the federal government to the total revenue of the Province, we get a measure of the degree to which the Province is dependent on the federal government. If that dependence increases, the Province is more vulnerable to funding decisions made by the federal government.

2.55 Exhibit 2.27 presents the comparison of government transfers-to-total revenues.

Exhibit 2.27 - Comparison of Government Transfers-to-Total Revenues

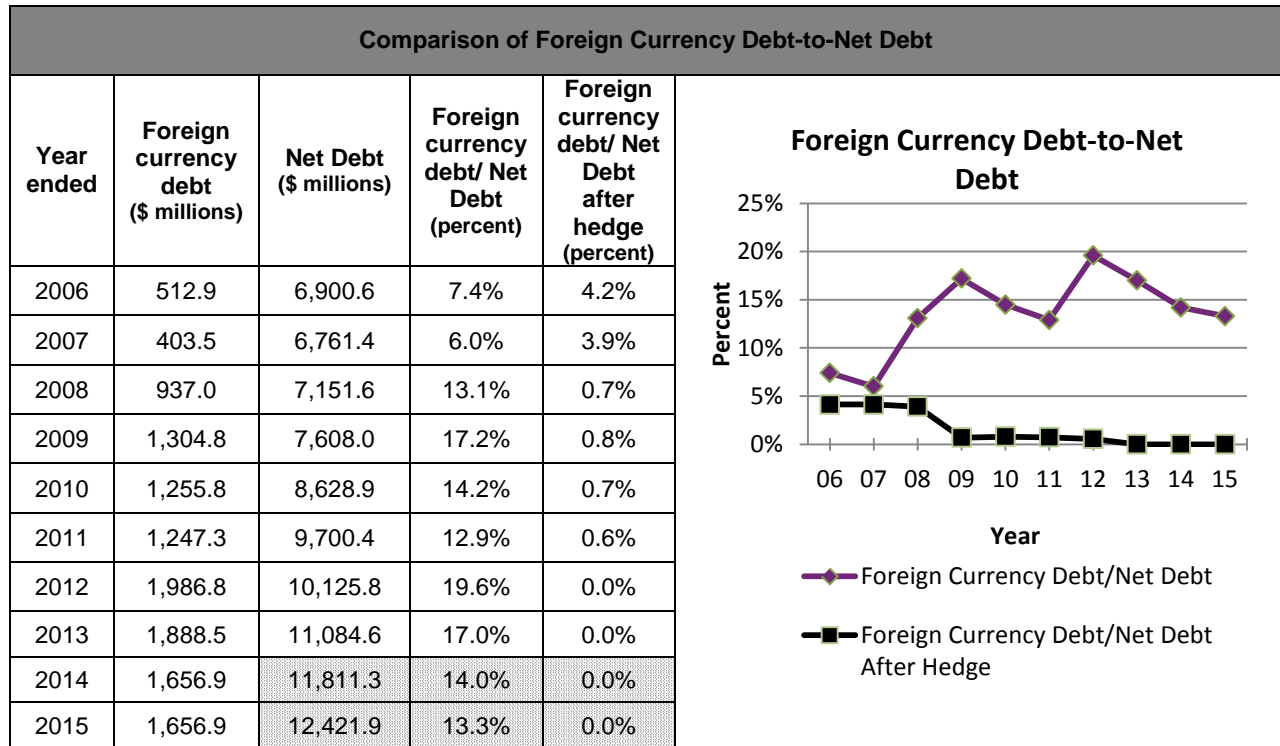


2.56 Exhibit 2.27 shows the Province’s reliance on federal government transfers decreased from 2010 to 2012, and increased after 2012. However, revenues decreased in part in 2014 due to a one-time capital revenue received in 2013 related to the Route One Gateway Project. The reliance on federal transfers decreased in 2015 and has remained relatively consistent with prior years. Thus we are assessing the short-term trend as favourable and the long-term trend as mixed.

Foreign Currency Debt-to-Net Debt

2.57 The foreign currency debt-to-net debt indicator measures the Province’s potential vulnerability to currency fluctuations and is presented in Exhibit 2.28.

Exhibit 2.28 - Comparison of Foreign Currency Debt-to-Net Debt



The audit opinion for the Province of New Brunswick's March 31, 2015 financial statements expressed reservations which may impact expenses, liabilities, annual and cumulative deficit as well as Net Debt. Readers are cautioned the above information may not be appropriate for their purposes. The numbers impacted by the reservations have been shaded above.

2.58 The above information shows that the Province's foreign currency debt has increased from 2007 to 2012; however foreign currency debt decreased between 2013 and 2015. The risk of exposure to foreign currency fluctuations is offset by the Province's hedging strategy. The Province uses several alternatives to reduce (hedge) risk associated with debt repayable in foreign currencies:

- purchasing assets denominated in foreign currencies for the Province's sinking fund;
- entering into swap agreements which allows repayment of the debt and interest payments 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).

2.59 From Exhibit 2.28, we see the risk of exposure to foreign currency fluctuations has decreased significantly over time. Because of the effectiveness of the Province's hedging

strategy, we assess this indicator as favourable.

Exhibit 2.29 - Vulnerability Indicator Trends

| Vulnerability Indicator Trends | | |
|--|------------------|-----------------|
| Vulnerability indicator | Short-term trend | Long-term trend |
| Government transfers-to-total revenues | Favourable | Mixed |
| Foreign currency debt-to-net debt | Favourable | Favourable |

Summary of Vulnerability Indicators

2.60 As summarized in Exhibit 2.29, the Province's vulnerability exposure is mixed. In years when EFC (now amalgamated with NB Power) generated income through its investment in NB Power, the Province's reliance on federal revenue lessened and this indicator improves. As well, there is reliance on the federal government in certain years to assist in funding major infrastructure projects. Also of note is that the Province is effectively managing and controlling its exposure to fluctuations in foreign currency.

Comments on Significant Trends Observed in the Province's Consolidated Financial Statements Deficit

2.61 In this section, we discuss significant trends we have observed in the Province's consolidated financial statements. We have highlighted these trends to raise public awareness and to provide legislators with an independent assessment of the areas we believe should be a focus for the government.

2.62 For the year ended March 31, 2015, the Province reported a deficit of \$388.6 million. This is a decrease of \$211.8 million from the \$600.4 million deficit reported for the year ended March 31, 2014 (restated).

2.63 Exhibit 2.30 shows, at a high level, the reasons for the change in the deficit from March 31, 2014 to March 31, 2015.

Exhibit 2.30 - Analysis of Deficit Decrease

| Analysis of Deficit Decrease | |
|---------------------------------------|-------------------|
| | (millions) |
| 2014 Deficit (restated) | \$(600.4) |
| Increase in provincial source revenue | 430.3 |
| Increase in federal source revenue | 131.9 |
| Increase in expense | (350.4) |
| 2015 Deficit | \$ (388.6) |

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2.64 Increases in provincial source revenue are mainly attributable to an increase of \$179.1 million of Harmonized Sales tax and an increase of \$153.4 million of personal income tax, increase in Provincial Real Property Tax of \$33.1 million and Corporate income tax of \$15.3 million, and Metallic Minerals tax of \$14.9 million. Income from Government Business Enterprises (primarily due to New Brunswick Power Corporation) increased by \$22.8 million, as reported in the Province's 2015 audited consolidated financial statements. Other provincial revenue is up \$16.6 million mainly due to increased revenue for the Regional Health Authorities and the health recovery levy.

Expenses

2.65 Total expenses have increased by \$350.4 million. The most significant increase in expenses is \$247.6 million in Education and Training. This increase is mainly due to higher pension expense and additional investments and salaries in K-12 education. Significant increases were also noted in Transportation and Infrastructure (\$71.8 million), Health (\$48.7 million), and Social Development (\$38.8 million) during the year. The increase in Health was mainly the result of additional expenses for wages and inflation, an increase in payments under the Medicare program, and higher amortization expense. The increase in Transportation and Infrastructure was attributed to increased provision expense, amortization expense, Winter Maintenance costs, and the transfer of some provincial roads from Local Service Districts to a newly incorporated municipality. Social Development's increase in expenses was mainly due to increases in caseload of long-term care clients, Social

Assistance Reform and pay equity.

2.66 Exhibit 2.31 shows the one year and total annual growth rates between 2013 and 2015.

Exhibit 2.31 - Expense Trends by Function

| Expense Trends by Function | | | | | | | |
|-----------------------------------|----------------|----------------|----------------|------------------|------------------|------------------|-----------------------|
| Function | (\$ millions) | | | (% percentages) | | | |
| | 2013 Expenses | 2014 Expenses | 2015 Expenses | 2013 Growth Rate | 2014 Growth Rate | 2015 Growth Rate | Growth rate 2013-2015 |
| Education and Training | 1,787.6 | 1,836.1 | 2,083.7 | 2.2 | 2.7 | 13.5 | 5.5 |
| Health | 2,786.1 | 2,789.9 | 2,838.6 | 2.1 | 0.1 | 1.7 | 0.6 |
| Service of the Public Debt | 660.3 | 661.9 | 675.2 | (0.2) | 0.2 | 2.0 | 0.8 |
| Social Development | 1,052.8 | 1,076.6 | 1,115.4 | 2.2 | 2.3 | 3.6 | 2.0 |
| Transportation and Infrastructure | 547.7 | 577.9 | 649.7 | 3.8 | 5.5 | 12.4 | 6.2 |
| Protection Services | 237.3 | 235.2 | 268.7 | 3.2 | (0.9) | 14.2 | 4.4 |
| Resources | 217.4 | 214.0 | 197.3 | 1.3 | (1.6) | (7.8) | (3.1) |
| Central Government | 636.6 | 637.1 | 538.3 | 17.4 | 0.1 | (15.5) | (5.1) |
| Labour and Employment | 100.5 | 118.3 | 122.6 | (7.3) | 17.7 | 3.6 | 7.3 |
| Economic Development | 269.1 | 231.4 | 239.3 | 4.6 | (14.0) | 3.4 | (3.7) |
| Total | 8,295.4 | 8,378.4 | 8,728.8 | | | | |
| Total Annual Growth Rate | | | | 3.0 | 1.0 | 4.2 | 1.7 |

As restated

▣ The audit opinion for the Province of New Brunswick's March 31, 2015 financial statements expressed reservations which may impact expenses, liabilities, annual and cumulative deficit as well as Net Debt. Readers are cautioned the above information may not be appropriate for their purposes. The numbers impacted by the reservations have been shaded above.

2.67 Exhibit 2.31 shows the Province's 2015 one year expense growth rate is 4.2% compared to the 2014 growth rate 1.0%. In fiscal 2015, eight out of ten functions showed an increase in the one year growth rate. Two of ten function areas show a negative growth in 2015 which implies cost reductions were realized. The total expense growth rate between 2013 and 2015 was 1.7%.

2.68 We noted the largest 2015 expense growth rate decrease occurred in the Central Government and Resources areas.

2.69 However, Exhibit 2.31 shows Protection Services experiencing the largest one year growth rate in 2015 of 14.2%, primarily due to higher expenses in the Department of Public Safety resulting from Disaster Financial Assistance

funding associated with various flood events. Education and Training experienced the second highest growth rate due to changes in pensions as well as other factors.

Revenue

2.70 Exhibit 2.32 shows the one year growth rate and the total annual growth rate of revenue between 2013-2015.

2.71 Total revenues have increased by \$562.2 million. This is attributable to increased revenue from federal sources of \$131.9 million and increases in revenue from provincial sources of \$430.3 million.

Exhibit 2.32 - Revenue Trends by Source

| Revenue Trends by Source | | | | | | | |
|---------------------------------|---------------------|---------------------|---------------------|------------------|------------------|------------------|-----------------------|
| Source | (\$ millions) | | | (% percentages) | | | |
| | 2013 Revenue Amount | 2014 Revenue Amount | 2015 Revenue Amount | 2013 Growth Rate | 2014 Growth Rate | 2015 Growth Rate | Growth rate 2013-2015 |
| Provincial Sources | | | | | | | |
| Taxes | 3,542.1 | 3,595.3 | 3,987.5 | (0.9) | 1.5 | 10.9 | 4.2 |
| Licenses and Permits | 144.6 | 148.7 | 149.4 | 4.2 | 2.8 | 0.5 | 1.1 |
| Royalties | 86.1 | 90.9 | 97.5 | (3.6) | 5.6 | 7.3 | 4.4 |
| Other Provincial Revenue | 793.9 | 860.7 | 900.1 | (12.1) | 8.4 | 4.6 | 4.5 |
| Sinking Fund Earnings | 220.7 | 204.5 | 195.9 | (2.2) | (7.3) | (4.2) | (3.7) |
| Federal Sources | | | | | | | |
| Fiscal Equalization Payments | 1,597.7 | 1,562.0 | 1,666.0 | (2.1) | (2.2) | 6.7 | 1.4 |
| Unconditional Grants | 894.2 | 948.9 | 955.8 | 3.3 | 6.1 | 0.7 | 2.3 |
| Conditional Grants | 508.6 | 367.0 | 388.0 | 35.3 | (27.8) | 5.7 | (7.9) |
| Total | 7,787.9 | 7,778.0 | 8,340.2 | | | | |
| Total Annual Growth Rate | | | | (0.2) | (0.1) | 7.2 | 2.4 |

As restated

2.72 Exhibit 2.32 shows the Province's 2015 revenue growth rate was 7.2% with a growth rate of 2.4% between 2013 and 2015.

Other Provinces – Revenue and Expense Comparison **2.73** Exhibit 2.33 presents a revenue and expense comparison to certain other provinces.

Exhibit 2.33 - Revenue and Expense (Comparison to other provinces)

| Revenue and Expense (Comparison to other provinces) | | | | | | | | |
|---|----------------|----------|----------|-----------------------|----------------|----------|----------|-----------------------|
| (\$ millions) | | | | | | | | |
| | Gross Revenues | | | | Gross Expenses | | | |
| | 2013 | 2014 | 2015 | Growth rate 2013-2015 | 2013 | 2014 | 2015 | Growth Rate 2013-2015 |
| New Brunswick | 7,787.9 | 7,778.0 | 8,340.2 | 2.4% | 8,295.2 | 8,378.4 | 8,728.8 | 1.7% |
| Nova Scotia | 10,104.1 | 10,060.2 | 10,635.2 | 1.8% | 10,407.7 | 10,778.9 | 10,778.9 | 1.2% |
| Saskatchewan | 14,323.0 | 14,418.0 | 14,058.7 | (0.6)% | 14,285.0 | 13,829.0 | 13,996.8 | (0.7)% |
| Manitoba | 13,614.0 | 14,214.0 | 14,739.0 | 2.8% | 14,174.0 | 14,736.0 | 15,191.0 | 2.4% |

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2.74 We note since 2013 within this group, New Brunswick's 2013-2015 revenue growth rate was 2.4%. Two of three other provinces have experienced smaller revenue growth rates. We also note the New Brunswick 2013-2015 expense growth rate was 1.7%. New Brunswick has had the second highest growth rate in gross expenses during this time period.

Exhibit 2.34 – Comparison to Other Provinces – Deficit

| Deficit (Comparison to other provinces) | | | | |
|---|--------------------------|---------|---------|-----------------------------------|
| | (\$millions) | | | |
| | Annual Surplus (Deficit) | | | |
| | 2013 | 2014 | 2015 | Growth rate between 2013 and 2015 |
| New Brunswick | (507.5) | (600.4) | (388.6) | -7.8% |
| Nova Scotia | (301.6) | (676.9) | (143.7) | -17.5% |
| Saskatchewan | 37.0 | 589.0 | 62.0 | 22.5% |
| Manitoba | (560.0) | (522.0) | (452.0) | -6.4% |

The audit opinion for the Province of New Brunswick's March 31, 2015 financial statements expressed reservations which may impact expenses, liabilities, annual and cumulative deficit as well as Net Debt. Readers are cautioned the above information may not be appropriate for their purposes. The numbers impacted by the reservations have been shaded above.

2.75 As shown in Exhibit 2.34 in comparison to other provinces, New Brunswick has the second largest deficit in 2013, 2014 and 2015 and the second largest deficit growth rate in this same period. While much has been done to address government expense growth, action is needed still to address New Brunswick's structural deficit and continued net debt growth. Despite the increase in 2015, NB's revenues continue to fall short of its expenses for the seventh consecutive year.