

# Chapter 12

## The Province's Future Financial Commitments

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## The Province's Future Financial Commitments

### How Much Has Government Committed to Future Spending?

*\$5.5 billion of committed spending in the future*

**12.1** The Province's consolidated financial statements state it has committed \$5.5 billion in future spending. This is the result of commitments by past and present governments where agreements or contracts have been signed.

**12.2** This means the Province will be spending these amounts over future years. This \$5.5 billion had no impact on the 2019 annual surplus.

**12.3** Future government commitments are reflected in the *notes* to the financial statements and are *not* recorded as expenses in the financial statements.

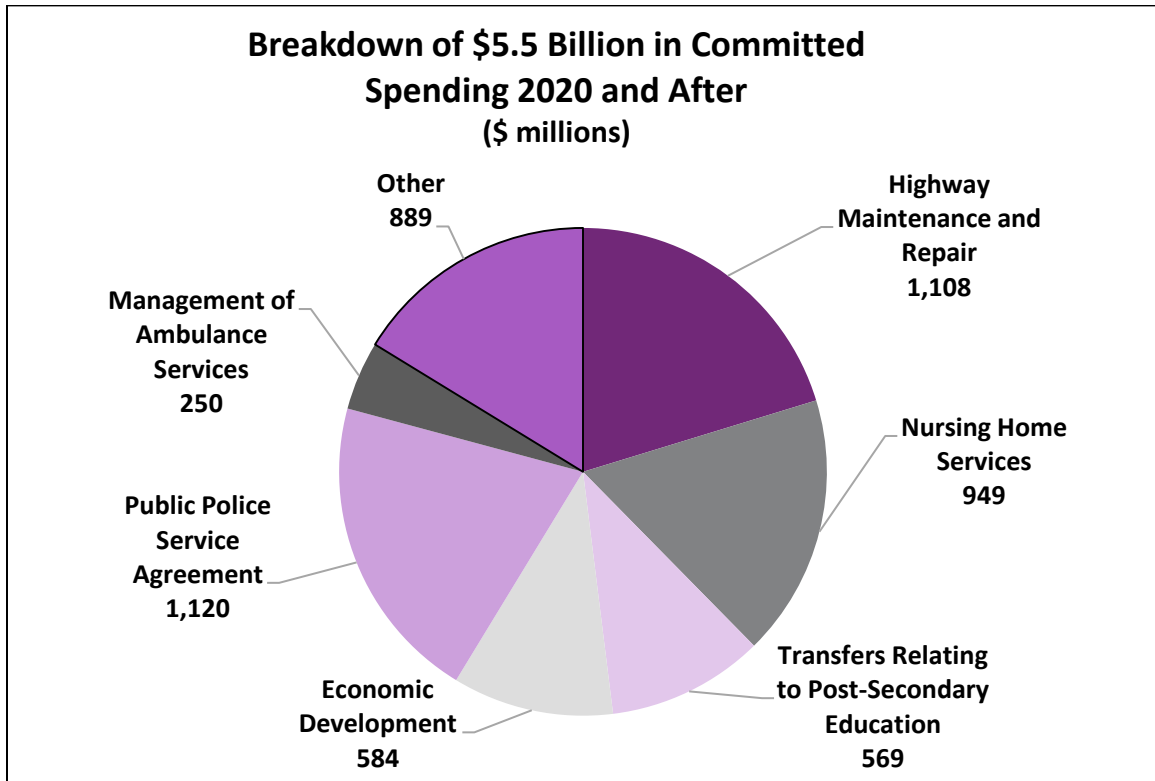
*Users should consult "Commitments" note in financial statements*

**12.4** Users should refer to the "Commitments" financial statement note presenting future spending contractual obligations. This note is often overlooked, but it is a very important part of the picture of the Province's financial situation.

*Examples of committed spending*

**12.5** Exhibit 12.1 provides a breakdown of committed spending in the future.

Exhibit 12.1 - Breakdown of \$5.5 Billion in Committed Spending 2020 and After



Source: Prepared by AGNB from Note 14 (b) in the Province of New Brunswick Volume 1 Consolidated Financial Statements for the fiscal year 2019.

### Highway Maintenance and Repair In-depth

***\$1.1 billion in future maintenance and highway commitments***

**12.6** The Province is committed to \$1.1 billion in future highway maintenance relating to three highways constructed using a public-private partnership model, also known as a “P3”. This is for the maintenance and repair (sometimes referred to as “rehabilitation”) of three highways:

- Fredericton-Moncton Highway (“F-MH”);
- Trans-Canada Highway from the Quebec border to Longs Creek (“TCH”); and
- Route 1 Gateway (“R1G”).

**12.7** Exhibit 12.2 shows the total future commitments for each highway, as well as the amount of payments made during the 2019 fiscal year.

Exhibit 12.2 - P3 Highway Maintenance and Repair Breakdown at March 31, 2019

**P3 Highway Maintenance and Repair  
Breakdown (\$ millions)**

Highway	Service Provider	Future Commitments		Fiscal Year 2019 Payment Breakdown		
		Agreement Length	Total Remaining Balance	Maintenance	Repair	Total
Fredericton-Moncton Highway	MRDC Operations Corporation	1998-2028	96	5	6	11
Trans-Canada Highway from the Quebec border to Longs Creek	Brun-Way Highways Operations Inc.	2005-2033	401	7	17	24
Route 1 Gateway	Transfield Dexter Gateway Services Limited	2010-2040	611	8	15	23
<b>Total</b>			<b>1,108</b>	<b>20</b>	<b>38</b>	<b>58</b>

Source: Prepared by AGNB

***Future Fredericton-Moncton Highway costs uncertain***

**12.8** A 30-year agreement was established in 1998 for the operation, management and maintenance of the F-MH. A fixed price for payments was established for the first 20 years. This fixed payment element of the agreement expired in January 2018, and currently the Province is negotiating the remaining 10 years.

**12.9** The financial statement impact of this is undeterminable, as the outcome of these ongoing negotiations is unknown.

**12.10** The amount currently disclosed as the future commitment for the remaining life of the contract in Exhibit 12.2 is the amount paid in the final year of the first 20-years of the 30-year agreement. This amount will continue to be paid to MRDC Operations Corporation until an agreement on the remaining 10 years is reached, and a revised amount is known.

## Outdated *Financial Administration Act*

**Past recommendations made to update the Financial Administration Act**    **12.11**    Over the past two years, we have made multiple recommendations to the Executive Council, the Department of Finance and Treasury Board, and the OOC on the need for the *Financial Administration Act* (FAA) to be updated.

**The FAA is out of date**    **12.12**    The FAA is out-of-date and does not align with current accounting standards or governance best practices, such as the Legislature approving an appropriation before the contract is signed. This includes appropriations for multi-year contracts, such as those included in the \$5.5 billion commitments amount.

**Past recommendations**    **12.13**    A summary of past recommendations is included below.

### **June 2018 – Chapter 4:**

4.33 We recommend Treasury Board prepare and submit Supplementary Estimates or Special Warrants before departments overspend their approved budgets.

4.34 We recommend Treasury Board pursue legislative amendments to the *Financial Administration Act* to align with current accounting practices.

### **June 2019 – Chapter 5:**

5.54 We recommend the Executive Council Office/Treasury Board Secretariat ensures the need for an appropriation in advance of expending provincial funds as per the *Financial Administration Act*

5.85 We recommend Treasury Board Secretariat/provincial Comptroller review and update the *Financial Administration Act* to:

- modernize the Act with respect to payments, accruals and conformance with Public Sector Accounting Standards;
- increase clarity for key financial officers processing payments throughout government to know if proper budget authority exists; and
- provide budget appropriations for multi-year agreements at the time in which funds are legally committed.

- No detailed timeline for implementation*** **12.14** In general, the Executive Council, Department of Finance and Treasury Board and OOC agreed with the recommendations.
- OOC should take the lead*** **12.15** In our view, the OOC should take the lead in bringing forward/promoting these legislation changes to the Executive Council and Treasury Board and develop a detailed timeline for implementation.
- Recommendation*** **12.16** **We recommend the OOC take the lead in promoting change to the *Financial Administration Act*. We recommend in particular the OOC focus on changes recommended in past Auditor General reports and develop a timeline for completion.**