

Chapter 2

Comments on the Province's Financial Position

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Comments on the Province's Financial Position

Sixth Consecutive Deficit

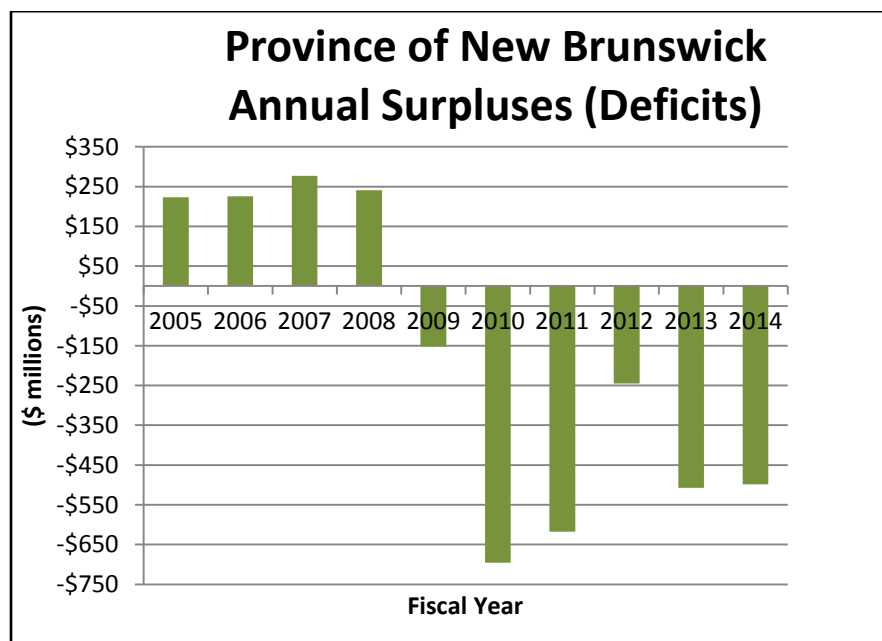
2.1 The Province's 31 March 2014 audited consolidated financial statements reported a deficit of \$498.7 million and an increase in Net Debt for the fiscal year of \$510.6 million. The Province now has a Net Debt of \$11.6 billion.

2.2 The \$498.7 million annual deficit was higher than the budgeted deficit of \$478.7 million and was lower than the prior year deficit of \$507.5 million.

Action is Required

2.3 This represents the sixth 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

Exhibit 2.2 - Annual Surpluses (Deficits) Data

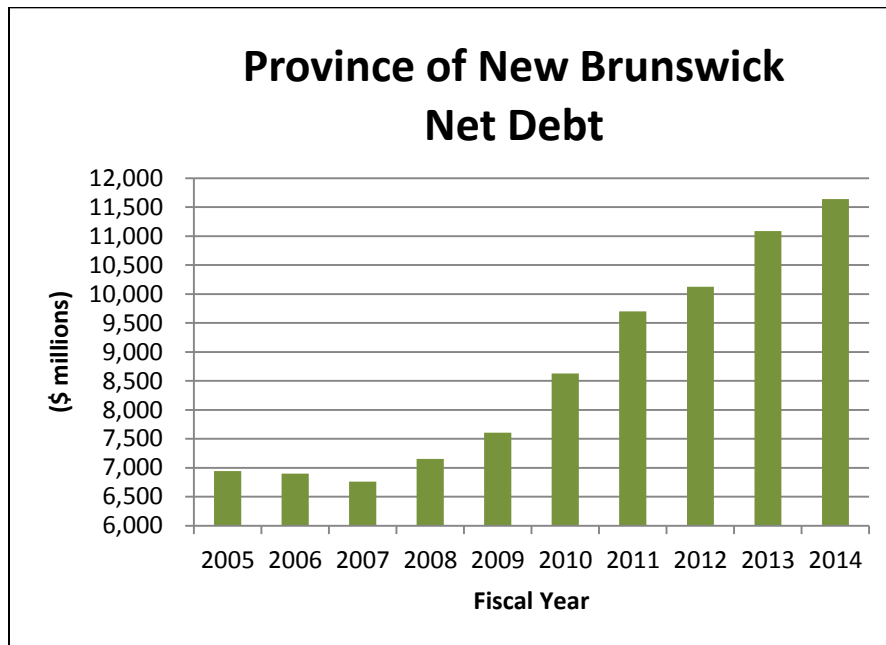
Annual Surpluses (Deficits)										
(\$ millions)										
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
As restated	223.2	225.3	277.3	241.1	(152.0)	(695.9)	(617.2)	(244.8)	(507.5)	n/a
As originally recorded	242.2	243.6	236.8	86.7	(192.3)	(737.9)	(633.0)	(260.6)	(507.7)	(498.7)

2.4 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 18 of the Province's 31 March 2014 consolidated financial statements.

Continued Growth in Net Debt

2.5 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

Exhibit 2.4 - Net Debt Data

Net Debt										
(\$ millions)										
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
As restated	6,943.0	6,900.6	6,761.4	7,151.6	7,608.0	8,628.9	9,700.4	10,125.8	11,084.6	n/a
As originally recorded	6,836.0	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

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

- For the year ended 31 March 2014, Net Debt increased by \$510.6 million to \$11.6 billion (net of a \$46 million adjustment to opening net debt and accumulated deficit relating to the amalgamation of the New Brunswick Power Group of Companies, New Brunswick Electric Finance Corporation and the New Brunswick System Operator).
- In the eight years since 2006, Net Debt has increased \$4.7 billion.
- The 2014-2015 Main Estimates budgets for an increase in Net Debt of \$530.7 million for the year ended 31 March 2015.
- Based on 2014-2015 Main Estimates, Net Debt of the Province could be in excess of \$12 billion for the year ended 31 March 2015.

New Brunswick's credit ratings

2.7 This continued increase in Net Debt represents a very disturbing trend. An even higher demand will exist on future revenue to pay past expenses. Such continued negative trends impacted the Standard & Poor's decision to downgrade the Province's credit rating from AA- to A+ in 2012. This downgrade results in more expensive borrowing costs and may constrain future borrowing capacity of the Province.

2.8 Exhibit 2.5 shows the Province's credit rating as determined by various credit rating agencies. All three ratings remained unchanged from previous years in 2014. The rating agencies noted stable trends, however showed concern by the deterioration in fiscal outlook and the budgeted higher deficit going forward. Even with stable ratings the Province's borrowing capacity may be negatively affected with New Brunswick's

increased debt burden.

2.9 Exhibit 2.6 shows the most recent credit ratings for other provinces compared to New Brunswick. These provinces are consistently rated in the good credit quality range; however, according to Moody's Investors Services, "the continued accumulation of debt and difficulty in returning to balanced budgets is increasing negative credit pressure for some provinces" and therefore could negatively affect these ratings in the future.

Exhibit 2.5 - New Brunswick's Credit Ratings

Year	Dominion Bond Rating Services (DBRS)	Moody's Investors Services	Standard & Poor's
2014	A (high)	Aa2	A+
2013	A (high)	Aa2	A+
2012	A (high)	Aa2	A+
2011	A (high)	Aa2	AA-
2010	A (high)	Aa2	AA-

Exhibit 2.6 - Credit Ratings of Other Provinces

Province	Dominion Bond Rating Services (DBRS)	Moody's Investors Services	Standard & Poor's
Saskatchewan	AA	Aaa	AAA
Manitoba	A (high)	Aa1	AA
Nova Scotia	A (high)	Aa2	A+
New Brunswick	A (high)	Aa2	A+
Newfoundland and Labrador	A	Aa2	A+

Balanced budget commitment

2.10 The new *Fiscal Transparency and Accountability Act* includes objectives to balance the budget, decrease Net Debt and Net Debt to GDP ratio and provide quarterly financial updates.

2.11 Noted in both the *Fiscal Transparency and Accountability Act* and the 2014-2015 budget speech is a multi-year fiscal plan which outlines a target to return to a balanced budget by 2017-2018. Given the September 2014 change in government it is uncertain whether this legislation will remain in force. The recently elected Liberal Government indicated in its election platform a return to a balanced budget within

six years. We are hopeful the commitment to returning to a balanced budget state in the near term will continue. However, the achievement of these goals will require increased fiscal diligence.

2.12 The *Fiscal Transparency and Accountability Act* expects the Net Debt to GDP ratio will be at or below 35% by March 2019. For the fiscal year ended 31 March 2014 New Brunswick's Net Debt as a percentage of GDP was 36.7% (Exhibit 2.14). The Province will need to increase efforts to meet this requirement.

Net Debt growth through budget deficits

2.13 Exhibit 2.7 shows the annual budgeted surplus/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 surplus/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 2.7 - Annual Budgeted Surplus/Deficit.

Annual Budgeted Surplus/(Deficit)					
(\$ millions)					
	2010	2011	2012	2013	2014
Budgeted Surplus/(Deficit)	(740.9)	(748.8)	(448.8)	(182.9)	(478.7)

Comparison to Other Provinces

2.14 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 similarities in population and 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 2.8 and 2.9.

2.15 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 2.8 - Provincial Population as of July 1, 2013

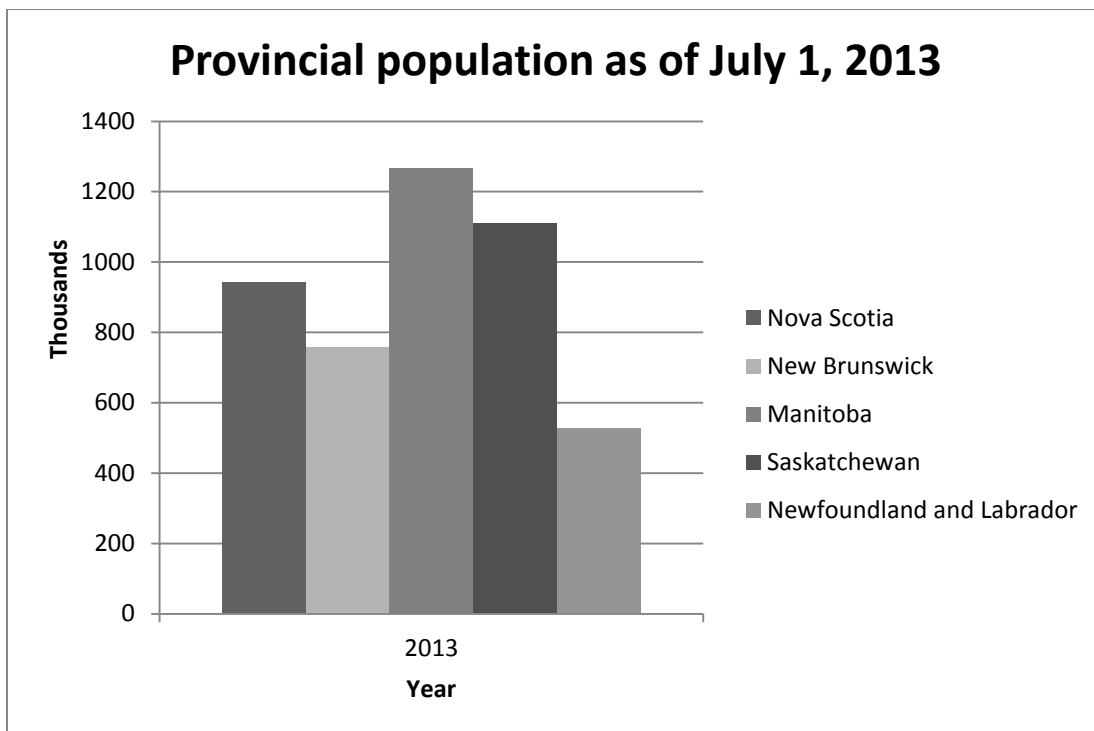


Exhibit 2.9 - Provincial Population as of July 1 Data

Provincial Population Data as of July 1			
Province	(thousands)		
	2009	2012	2013
Nova Scotia	938.2	945.1	940.8
New Brunswick	750.0	757.0	756.1
Manitoba	1,208.6	1,250.0	1,265.0
Saskatchewan	1,034.8	1,087.5	1,108.3
Newfoundland and Labrador	516.7	526.8	526.7

Exhibit 2.10 - Net Debt Comparison to Other Provinces

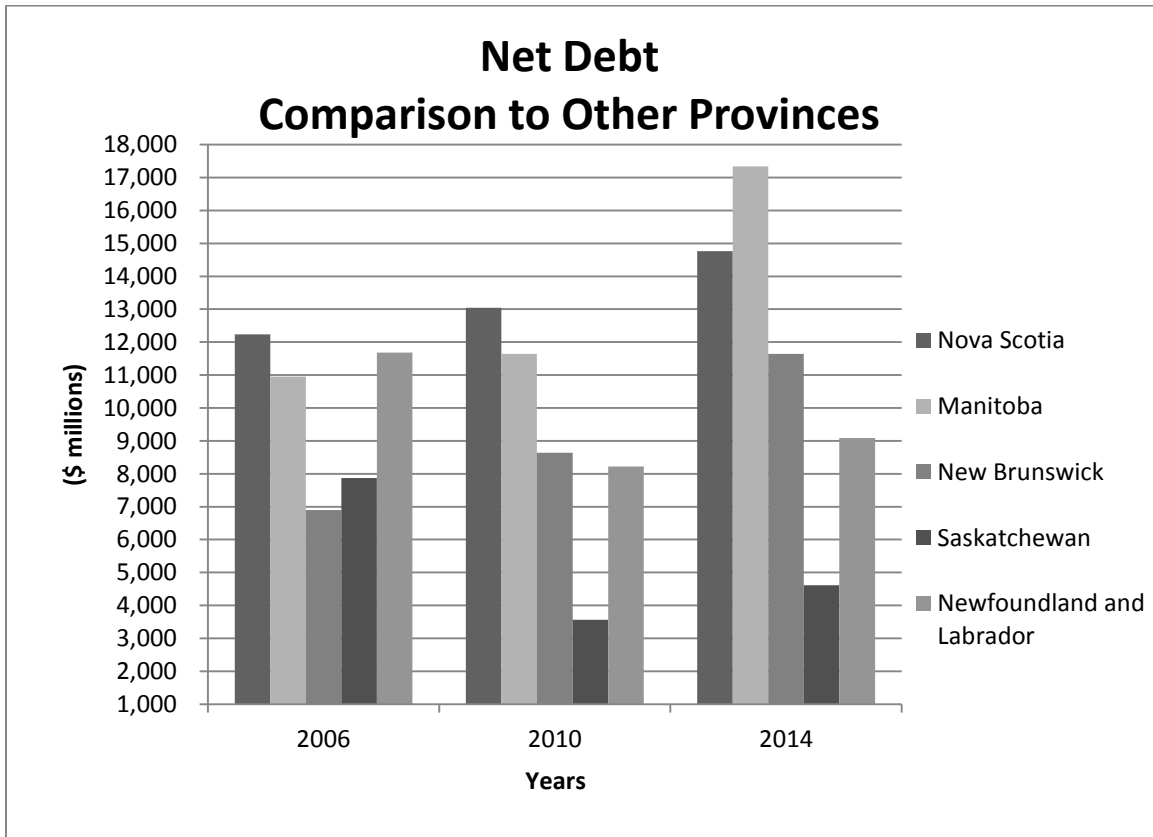


Exhibit 2.11 - Net Debt Comparison to Other Provinces Data

Net Debt Comparison to Other Provinces (\$ millions)				
Province	Increase (Decrease) 2006 to 2014	2006	2010	2014
New Brunswick	69%	6,901	8,629	11,641
Saskatchewan	(41%)	7,870	3,560	4,615
Manitoba	58%	10,952	11,643	17,344
Nova Scotia	21%	12,239	13,045	14,762
Newfoundland and Labrador	(22%)	11,680	8,220	9,085

2.16 Exhibits 2.10 and 2.11 show that over the last eight 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 69% over the last eight years. The magnitude of this increase is very concerning. The overall debt burden for the Province remains at an elevated level. The 2014-2015 Main Estimates budgets an increase in Net Debt of approximately \$530.7 million. The continued increase in Net Debt causes concern for the long term sustainability of the Province.

Exhibit 2.12 - Net Debt Per Capita Comparison to Other Provinces

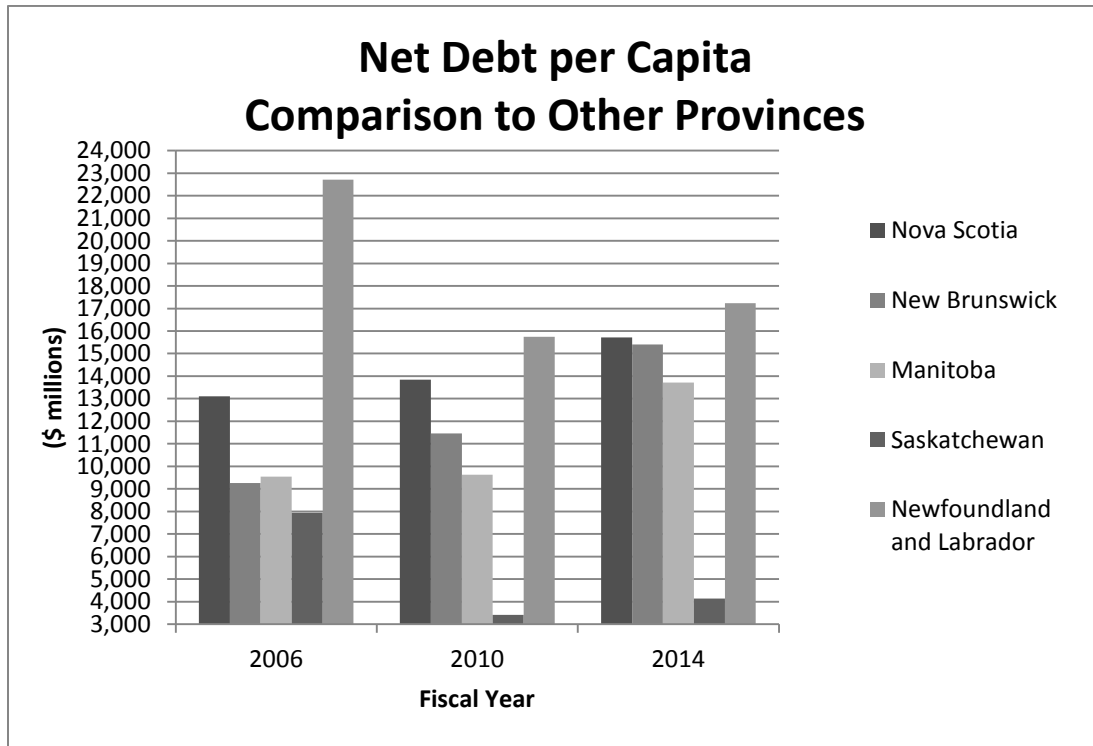


Exhibit 2.13 - Net Debt Per Capita Comparison to Other Provinces Data

Net Debt Per Capita Comparison to Other Provinces*			
(\$)			
Province	2006	2010	2014
Nova Scotia	13,104	13,847	15,712
New Brunswick	9,255	11,459	15,400
Manitoba	9,537	9,633	13,711
Saskatchewan	7,940	3,410	4,130
Newfoundland and Labrador	22,716	15,748	17,240

*Amounts from provinces' 2014 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. 2014 was July 1 2013 population). Numbers have been rounded for presentation purposes.

2.17 Information in Exhibits 2.12 and 2.13 show that New Brunswick has the third 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 \$15,400. Again, this indicator has increased significantly from 2010 at \$11,459 to 2014 at \$15,400 (a 34.4% increase in four years).

Exhibit 2.14 - Net Debt as a Percentage of GDP Compared to Other Provinces

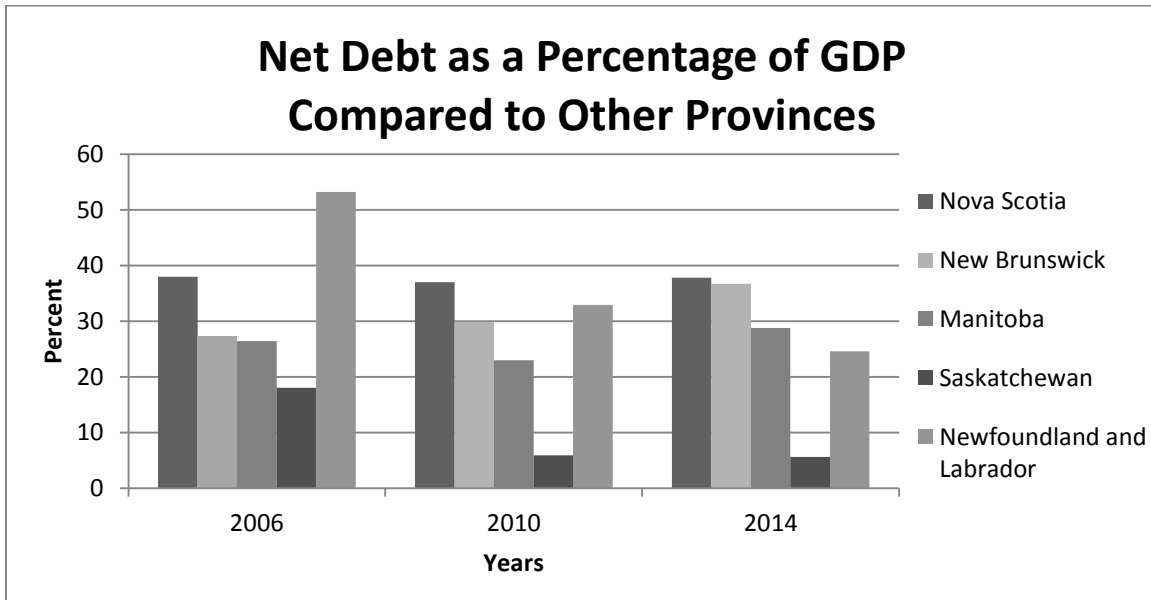
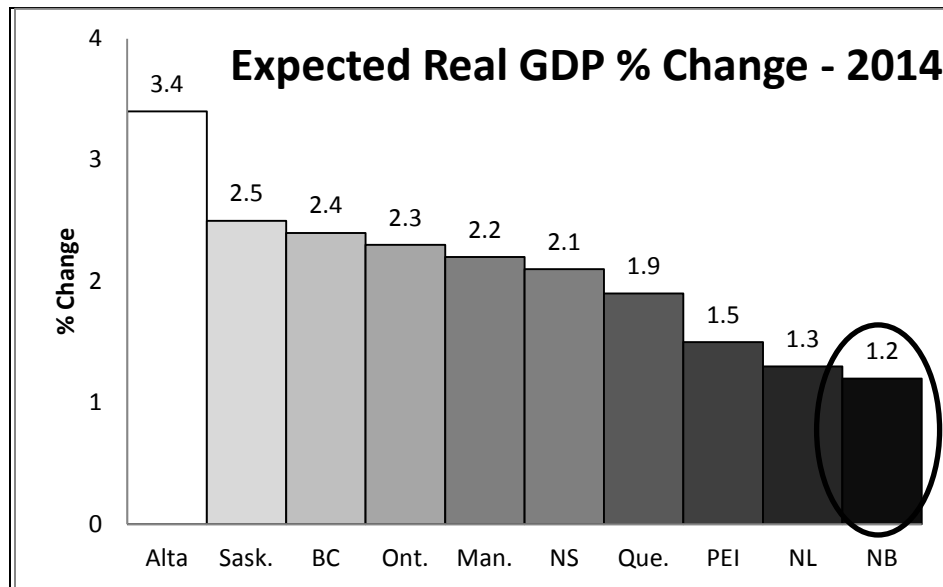


Exhibit 2.15 - Net Debt as a Percentage of GDP Compared to Other Provinces Data

Net Debt as a Percentage of GDP Compared to Other Provinces				
(percent)				
Province	2006	2010	2014	% Increase (Decrease) from 2006 to 2014
Nova Scotia	38.0	37.0	37.8	(0.5%)
New Brunswick	27.3	29.9	36.7	34.4%
Manitoba	26.4	23.0	28.8	9.1%
Saskatchewan	18.0	5.90	5.6	(68.9%)
Newfoundland and Labrador	53.2	32.9	24.6	(53.8%)

2.18 As shown in Exhibits 2.14 and 2.15, New Brunswick had the highest increase of Net Debt as a percentage of GDP from 2006 to 2014, and the second highest Net Debt as a percentage of GDP among comparable provinces for 2014. For the year ended 31 March 2006, New Brunswick's Net Debt as a percentage of GDP was 71.8% of Nova Scotia's; for the year ended 31 March 2014 it was 97.1%.

Exhibit 2.16 - Expected Real GDP % Change - 2014



*Source: 2014-2015 Economic Outlook (Published by Department of Finance, Province of New Brunswick)

Department of Finance indicates poor economic outlook for New Brunswick

2.19 According to New Brunswick's 2014-2015 Economic Outlook published by the Department of Finance as shown in Exhibit 2.16, New Brunswick is expected to have the lowest real GDP growth of all of the Canadian provinces in 2014. This unfavourable forecast of economic activity is a significant concern given the Province's troubling fiscal challenges.

Net Debt comparison summary

2.20 New Brunswick's Net Debt performance compared to other provinces remains a significant concern. New Brunswick's increase in Net Debt of \$4.7 billion from 2006 indicates the need for continued efforts to address the level of Net Debt.

Comments on the Province's Financial Health

2.21 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.

2.22 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.

2.23 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

2.24 We have not audited some of the numbers used in our indicator analysis; instead, we are using numbers the Province restated as per Note 18 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- 2014 numbers, we audited the numbers in conjunction with our 2013-2014 audit work.

2.25 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.

Summary of the Province's Indicators of Financial Condition

2.26 In Exhibit 2.17, 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 2.17 - Summary of Indicators of Financial Condition

	Indicator	Purpose	Short-term Trend	Term	Long-term Trend ³	Paragraph
Sustainability	Assets-to-liabilities	Measures extent that government finances its operations by issuing debt	Unfavourable	5 year	Unfavourable	2.30
	Financial asset-to-liabilities	Measures whether future revenues will be needed to pay for past transactions	Unfavourable	5 year	Unfavourable	2.32
	Net Debt-to-total annual revenue	Shows whether more time is needed to pay for past transactions	Unfavourable	10 year	Unfavourable	2.34
	Expense by function-to-total expenses	Shows the trend of government spending over time	Neutral	5 year	Neutral	2.36
	Net Debt-to-GDP	Shows the relationship between Net Debt and the activity in the economy	Unfavourable	10 year	Unfavourable	2.39
	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	2.41
	Total expenses-to-GDP	Shows the trend of government spending over time in relation to the growth in the economy	Neutral ¹	10 year	Unfavourable	2.43
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	2.47
	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	2.51
	Own-source revenues-to-GDP	Measures extent income is taken out of the economy	Neutral	10 year	Neutral	2.53
Vulnerability	Government transfers-to-total revenues	Measures the dependence on another level of government	Favourable ²	10 year	Mixed	2.60
	Foreign currency debt-to-Net Debt	Measures the government's potential vulnerability to currency fluctuations	Favourable	10 year	Favourable	2.63

¹ last year was "Favourable"

² last year was Unfavourable"

³ long term trend assessments unchanged in Auditor General Annual Reports 2012-2014

Conclusion

2.27 The long-term and short-term trends continue to show a number of unfavourable financial indicators. The Province's long-term indicators of financial condition have remained unchanged since 2012. The Province's short term indicators of financial condition have seen small changes since the prior year; the short term trend of total expenses-to-GDP has decreased from favourable to neutral, however, we were pleased to see the government transfers-to-total revenues indicator change from unfavourable to favourable in the current year. The majority of unfavourable short term and long term trends are found in the sustainability indicators, however, the favourable trends in the flexibility and vulnerability indicators do indicate improvements.

2.28 We remain concerned about the sustainability indicator trends. The level of Net Debt, now \$11.6 billion and the increase of 68.7% 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

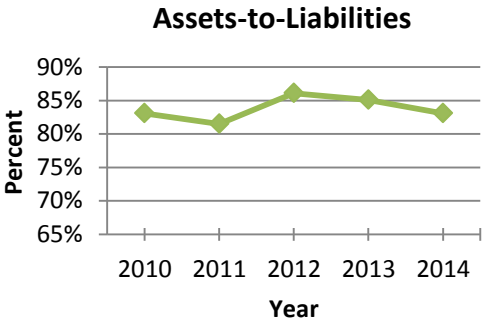
2.29 Sustainability indicates whether the Province can maintain programs and meet existing creditor requirements without increasing the debt burden on the economy.

Assets-to-Liabilities

2.30 The sustainability indicator assets-to-liabilities is presented in Exhibit 2.18.

Exhibit 2.18 - Comparison of Assets-to-Liabilities

Comparison of Assets-to-Liabilities			
Year ended	Total assets (\$ millions)	Total liabilities (\$ millions)	Total assets/total liabilities (percent)
2010	12,045.8	14,485.5	83.2%
2011	13,646.5	16,744.0	81.5%
2012	14,973.9	17,386.9	86.1%
2013	15,933.7	18,738.4	85.0%
2014	16,134.2	19,407.3	83.1%



Year	Percent
2010	83.2%
2011	81.5%
2012	86.1%
2013	85.0%
2014	83.1%

As restated

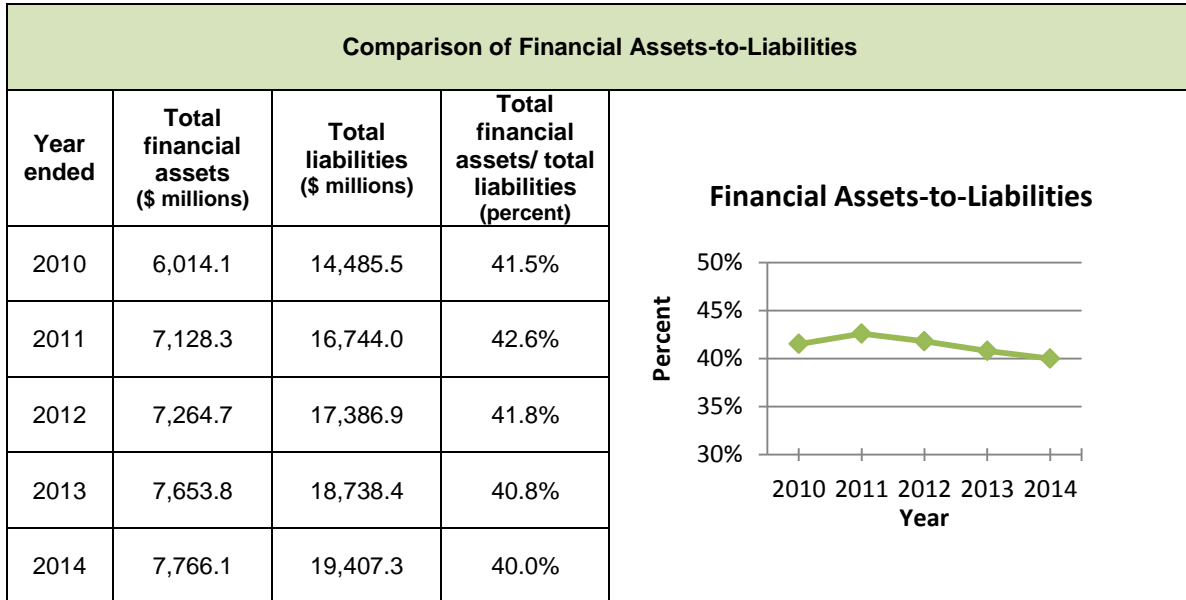
** The 2010-2011 amounts are not restated for accounting changes relating to deferred capital contributions and capitalization of computer hardware and software systems.*

2.31 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%. The increase in 2012 compared to previous years relates to an increase in liabilities. The 2010, 2011, 2013 and 2014 trends were unfavourable due to continuous decline. Overall we have assessed the short-term and long-term trend as unfavourable.

Financial Assets-to-Liabilities

2.32 Another sustainability indicator, financial assets-to-liabilities, is presented in Exhibit 2.19.

Exhibit 2.19 - Comparison of Financial Assets-to-Liabilities



As restated

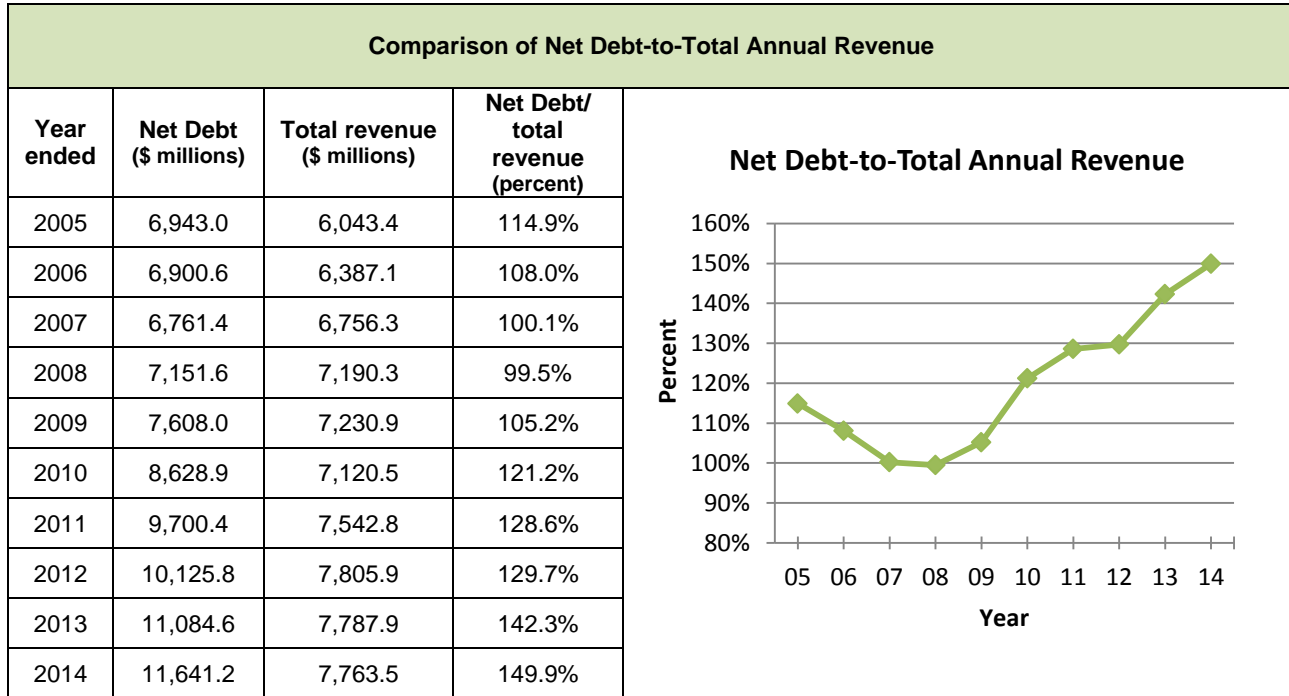
* The 2010-2011 amounts are not restated for accounting changes relating to deferred capital contributions and capitalization of computer hardware and software systems.

2.33 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 has continuously decreased since 2011. We have assessed the short term and long term trend as unfavourable.

Net Debt-to-Total Annual Revenue

2.34 Net Debt-to-total annual revenue is another indicator of sustainability and is presented in Exhibit 2.20.

Exhibit 2.20 - Comparison of Net Debt-to-Total Annual Revenue



2.35 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 over the past six years, most significantly in 2013. The increase in 2013 attributed mainly to the annual deficit and the net capital asset transactions of highways, hospitals, schools and other buildings. Also contributing to the increase was the reduction in income from Government Business Enterprises, reflecting considerably lower net income for New Brunswick Power Corporation, and the reduction in tax revenues related to a weakened economy. The improvements made from 2005-2008 have now been lost. We have assessed this trend as unfavourable.

Expense by Function-to-Total Expenses

2.36 Exhibit 2.21 presents expense by function-to-total expenses.

Exhibit 2.21 - Comparison of Expense by Function-to-Total Expenses

Comparison of Expense by Function-to-Total Expenses										
	2010		2011		2012		2013		2014	
	(\$ millions)	(%)	(\$ millions)	(%)	(\$ millions)	(%)	(\$ millions)	(%)	(\$ millions)	(%)
Health	2,595.6	33.2	2,687.0	32.9	2,730.0	33.9	2,786.1	33.6	2,789.9	33.8
Education and Training	1,632.0	20.9	1,723.6	21.1	1,749.3	21.7	1,787.6	21.5	1,821.8	22.0
Social Development	997.2	12.8	1,037.5	12.7	1,029.8	12.8	1,052.8	12.7	1,076.6	13.0
Service of the Public Debt	616.6	7.9	641.4	7.9	661.8	8.2	660.3	8.0	661.9	8.0
Transportation and Infrastructure	381.4	4.9	402.6	4.9	527.6	6.6	547.7	6.6	577.9	7.0
Central Government	682.9	8.7	722.0	8.8	542.2	6.7	636.6	7.7	536.5	6.5
Protection Services	219.7	2.8	260.8	3.2	229.9	2.9	237.3	2.9	235.2	2.8
Economic Development	343.7	4.4	328.4	4.0	257.2	3.2	269.1	3.2	231.4	2.8
Resources	205.8	2.6	215.1	2.6	214.5	2.7	217.4	2.6	212.7	2.6
Labour and Employment	141.5	1.8	141.6	1.7	108.4	1.3	100.5	1.2	118.3	1.4
Total	7,816.4	100.0	8,160.0	100.0	8,050.7	100.0	8,295.4	100.0	8,262.2	100.0

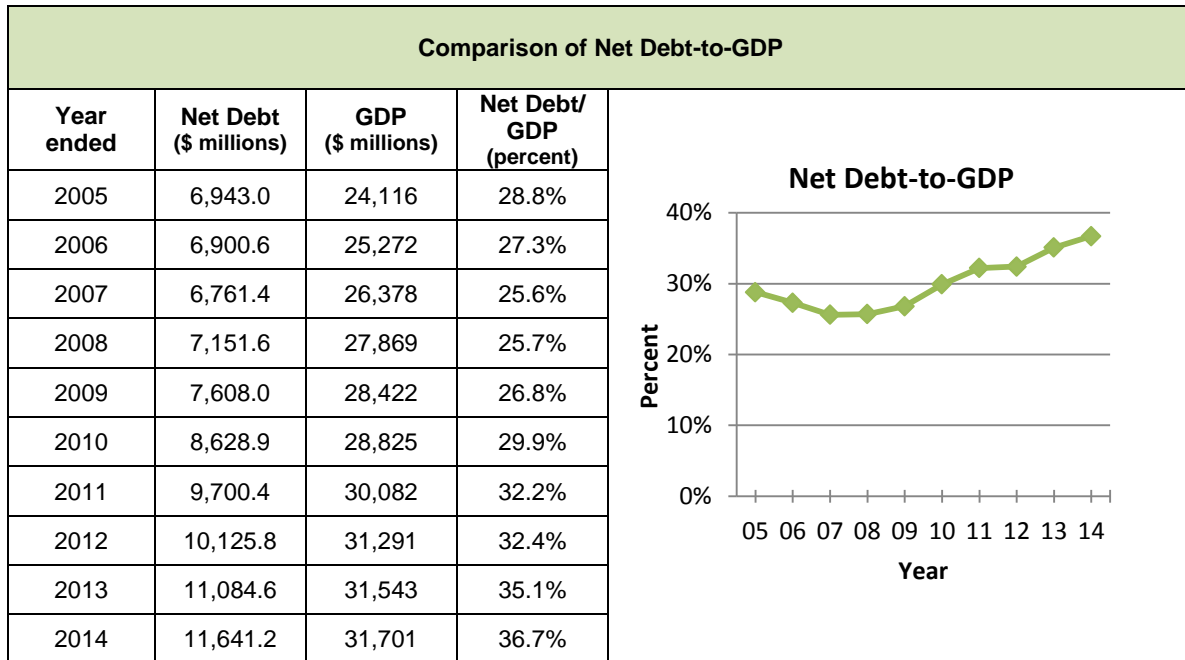
2.37 The years ended 31 March 2010 to 31 March 2014 reported deficits. This means that while individual expense trends may have remained steady, this was achieved by incurring a total level of expenses that was in excess of revenue generated in those years. Education and Training and Health's allocation of expenses consume over 55.8% of the total expenses, consistent with prior years.

2.38 The allocation of expenses upon comparing 2014 was relatively stable, however, the impact of 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

2.39 The sustainability indicator, Net Debt-to-GDP is presented in the Exhibit 2.22.

Exhibit 2.22 - Comparison of Net Debt-to-GDP

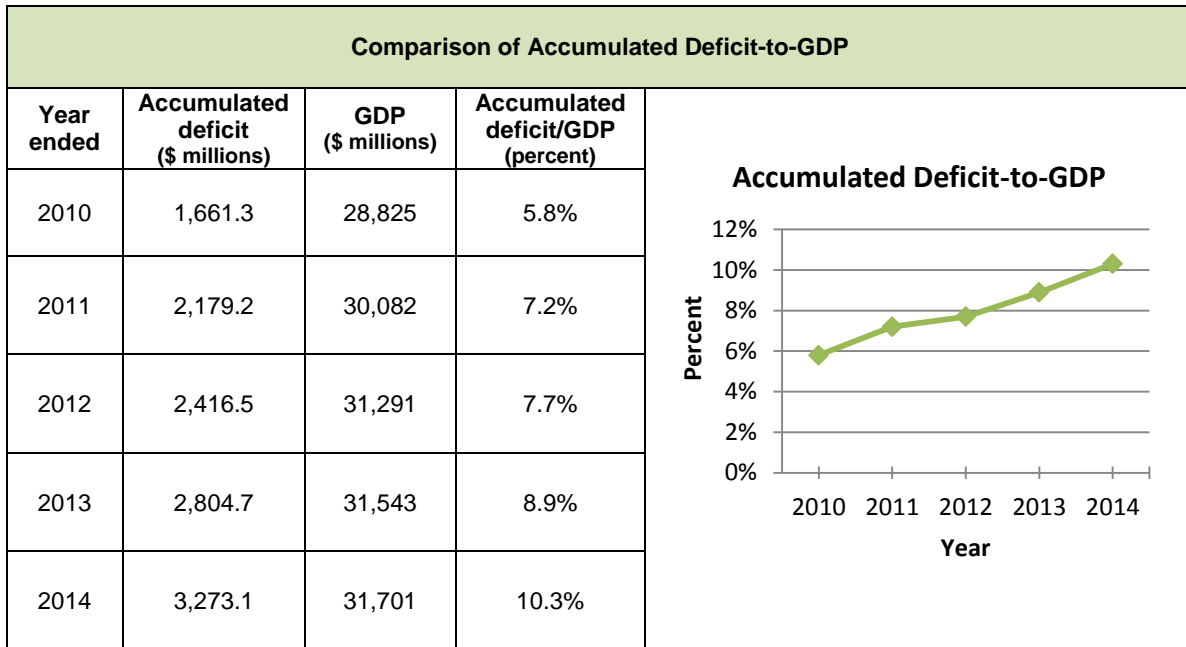


2.40 This indicator compares the Province's Net Debt, the difference between its liabilities and its financial assets, to its GDP. This ratio declined from 2005 to 2007 indicating that over that time period the level of the Province's debt became less onerous on the economy. The ratio increased from 2008 to 2014 because the rate of growth of Net Debt exceeded the rate of growth in GDP over that time period. In 2014, the ratio reached its highest level since 2005. 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

2.41 In the Exhibit 2.23, we present the sustainability indicator accumulated deficit-to-GDP.

Exhibit 2.23 - Comparison of Accumulated Deficit-to-GDP

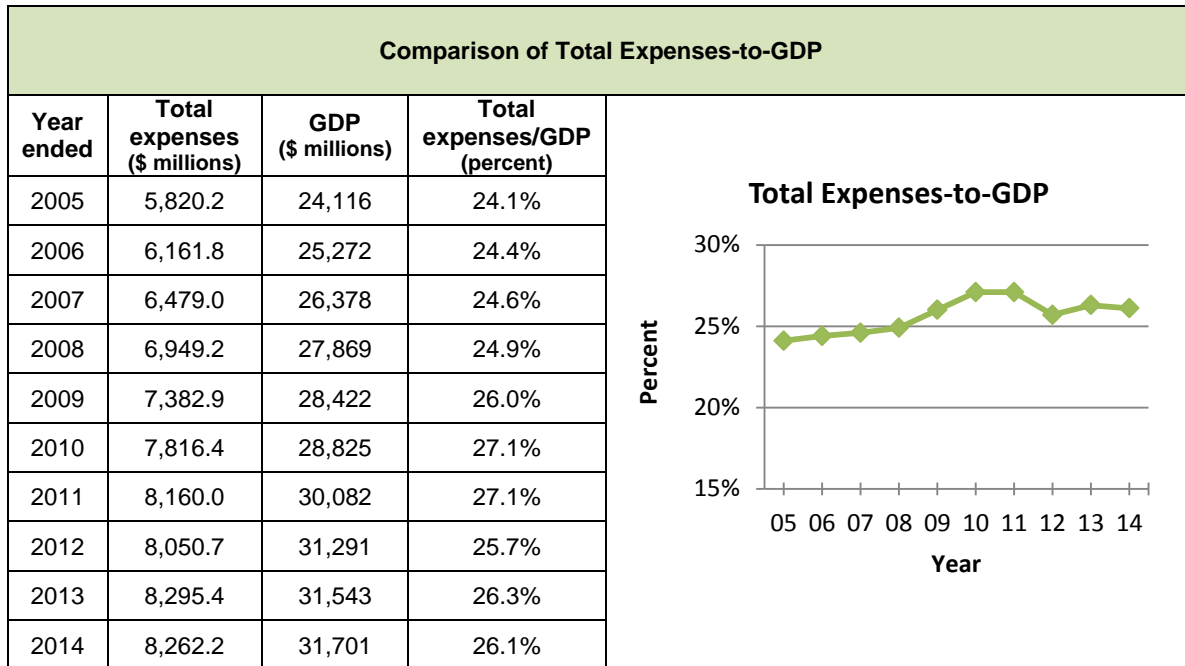


2.42 The accumulated deficit is the extent to which annual revenues have been insufficient to cover the annual costs of providing services. The information above shows that from 2010 to 2014, the accumulated deficit has increased faster than the growth of the economy. This represents an unfavourable trend.

Total Expenses-to-GDP

2.43 Exhibit 2.24 presents the total expenses-to-GDP indicator.

Exhibit 2.24 - Comparison of Total Expenses-to-GDP



2.44 Exhibit 2.24 indicates from 2005 to 2008, government expenses were held to about 25% of GDP, however, this percentage has increased and from 2009 to 2014 the percentage averaged 26.4%. This represents an unfavourable long-term trend as expenses are growing faster than the economy is expanding. Although the ratio did decrease in 2012, the following two years show an increase from 2012. We assess the short term trend as neutral and long term trend as unfavourable.

Exhibit 2.25 - 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	Neutral	Unfavourable

Summary of Sustainability Indicators

2.45 Exhibit 2.25 presents a summary of the Province's sustainability indicators. We note six of seven sustainability indicators are unfavourable in the long term, and five 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

2.46 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

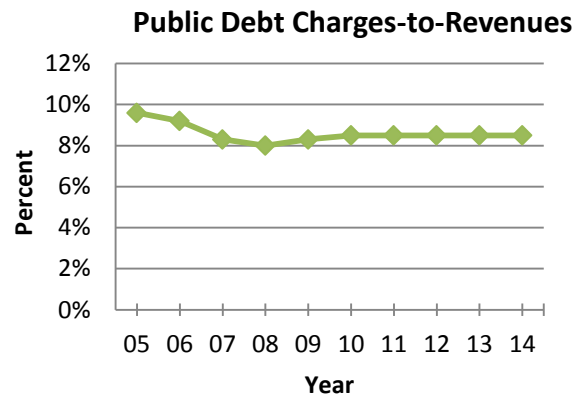
2.47 One of the most publicized factors which affect the flexibility of governments is the cost of servicing the public debt. This is considered to be an indicator of flexibility, since the Province's first payment commitment is to service its debt, leaving no flexibility in the timing of these payments.

2.48 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.

2.49 In Exhibit 2.26, we present the public debt charges-to-revenues.

Exhibit 2.26 - Comparison of the Public Debt Charges-to-Revenues

Comparison of the Public Debt Charges-to-Revenues			
Year ended	Cost of servicing public debt (\$ millions)	Revenue (\$ millions)	Cost of servicing public debt/revenue (percent)
2005	579.6	6,043.4	9.6%
2006	590.3	6,387.1	9.2%
2007	558.0	6,756.3	8.3%
2008	575.7	7,190.3	8.0%
2009	601.4	7,230.9	8.3%
2010	607.2	7,120.5	8.5%
2011	641.5	7,542.8	8.5%
2012	661.8	7,805.9	8.5%
2013	660.3	7,787.9	8.5%
2014	661.9	7,763.5	8.5%



2.50 Exhibit 2.26 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 31 March 2014 than it was in the year ended 31 March 2005. This means that 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 past five years, the ratio has remained the same and 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 2005. 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

2.51 We present the net book value of capital assets-to-cost of capital assets in the Exhibit 2.27.

Exhibit 2.27 - 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)
2010	6,706.0	10,959.3	61.2%
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%

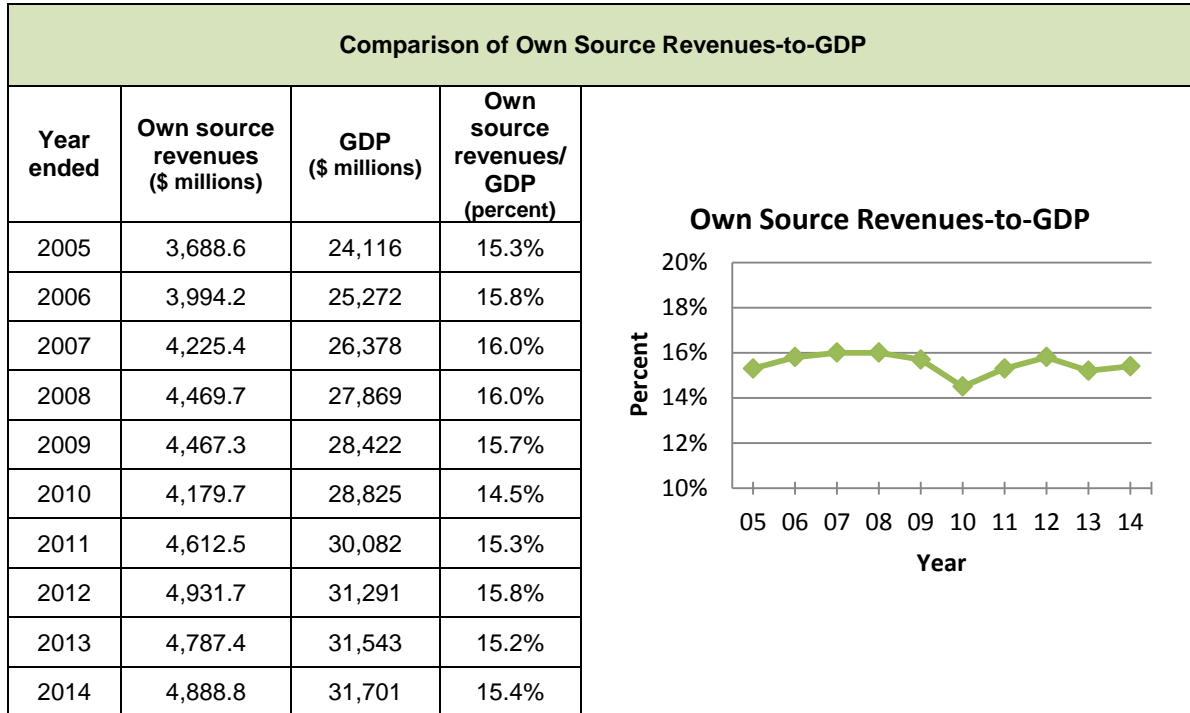
Year	Percent
2010	61.2%
2011	61.7%
2012	61.0%
2013	61.1%
2014	59.6%

2.52 This data indicates that the Province's inventory of capital assets as at 31 March 2014 has 59.6% 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 31 March 2014, 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

2.53 We present own source revenues-to-GDP in Exhibit 2.28.

Exhibit 2.28 - Comparison of Own Source Revenues-to-GDP



2.54 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.

2.55 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.

2.56 In 2014, own source revenue increased by \$101.4 million. The most significant source of this increase was an increase of taxes of \$53.2 million relating to

personal and corporate income tax increases. The next significant source of this increase relates to a \$42.9 million increase in investment income from New Brunswick Power Corporation.

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

Exhibit 2.29 - 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	Neutral	Neutral

Summary of Flexibility Indicators

2.58 As summarized in Exhibit 2.29, 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 sixth 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

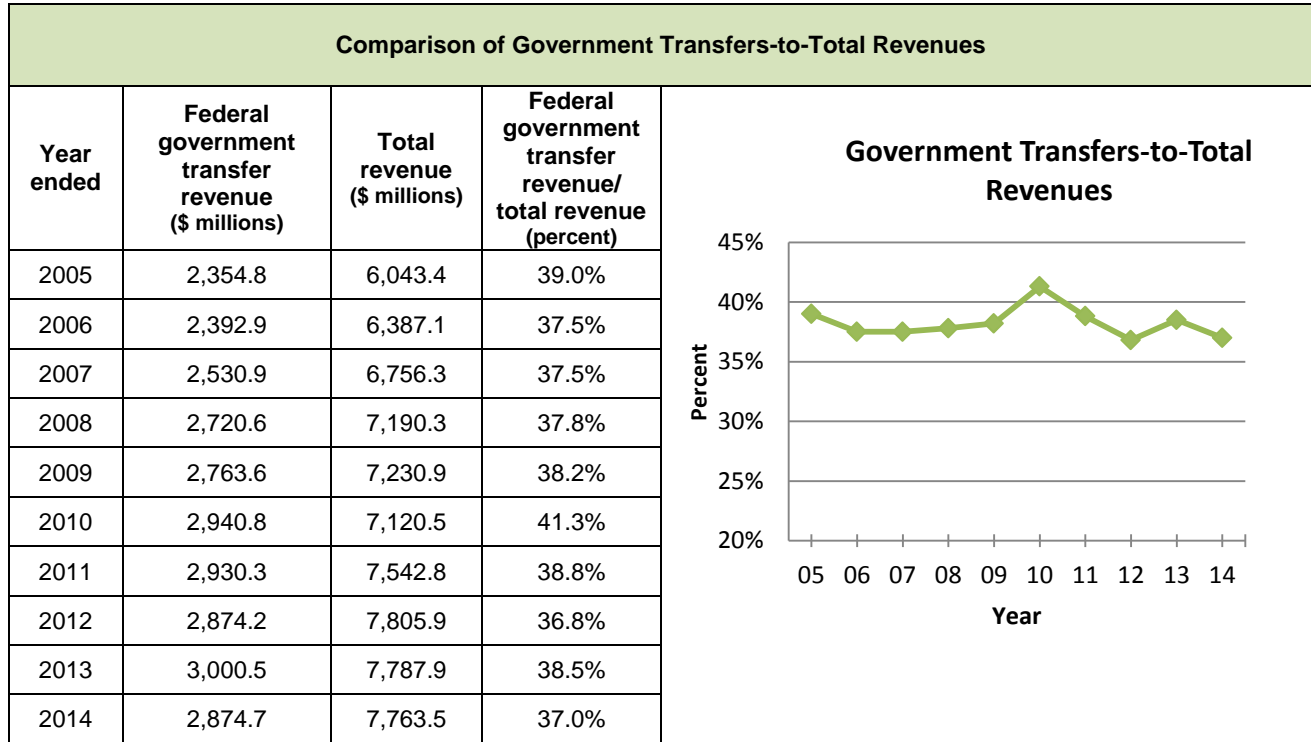
2.59 Vulnerability is the degree to which a government is dependent on sources of funding outside its control or influence.

Government Transfers-to-Total Revenues

2.60 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.

2.61 Exhibit 2.30 presents the comparison of government transfers-to-total revenues.

Exhibit 2.30 - Comparison of Government Transfers-to-Total Revenues

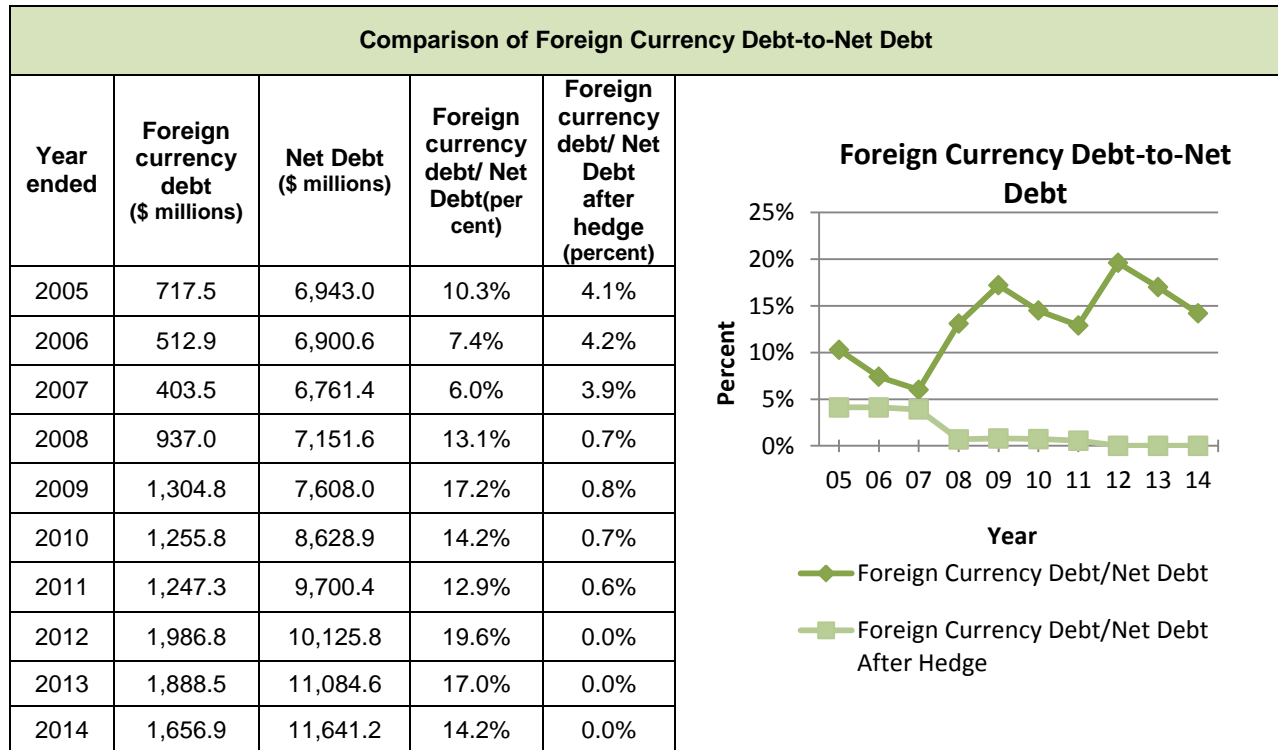


2.62 Exhibit 2.30 shows the Province's reliance on federal government transfers decreased from 2010 to 2012, and increased after 2012. However, revenues decreased in part in 2014 due to a one-time capital revenue received in 2013 related to the Route One Gateway Project. The reliance on federal transfers decreased in 2014 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

2.63 The foreign currency debt-to-net debt indicator measures the Province's potential vulnerability to currency fluctuations and is presented in Exhibit 2.31.

Exhibit 2.31 - Comparison of Foreign Currency Debt-to-Net Debt



2.64 The above information shows that the Province’s foreign currency debt has increased from 2007 to 2012; however foreign currency debt decreased in 2013 and 2014. 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).

2.65 From Exhibit 2.31, 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 2.32 - 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

2.66 As summarized in Exhibit 2.32, 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

2.67 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.

Deficit

2.68 For the year ended 31 March 2014, the Province reported a deficit of \$498.7 million. This is a decrease of \$8.8 million from the \$507.5 million deficit reported for the year ended 31 March 2013.

2.69 Exhibit 2.33 shows, at a high level, the reasons for the change in the deficit from 31 March 2013 to 31 March 2014.

Exhibit 2.33 - Analysis of Deficit Increase

Analysis of Deficit Increase	
	(millions)
2013 Deficit	\$(507.5)
Increase in provincial source revenue	101.4
Decrease in federal source revenue	(125.8)
Decrease in expense	33.2
2014 Deficit	\$(498.7)

2.70 Increases in provincial source revenue are mainly attributable to an increase of \$146.5 million of personal income tax and an increase of \$32.2 million of income from Government Business Enterprises (primarily due to New Brunswick Power Corporation), offset by a decrease in Harmonized Sales Tax revenue of \$107.8 million, as reported in the Province's 2014 audited consolidated financial statements.

2.71 Changes in federal source revenue are explained by the following:

- a decrease of \$35.7 million in fiscal equalization payments, due to a narrowing of fiscal disparities between New Brunswick and the national average;
- a decrease of \$144.8 million in conditional grants due to a one-time capital funding received in 2013 related to the Route One Gateway Projects and finally;
- an offset, however, is represented by an increase of \$54.7 million in unconditional grant revenue primarily due to the legislated growth in the federal cash funding for the Canada Health Transfer and the Canada Social Transfer, as well as positive adjustments related to population data.

2.72 Total expenses have decreased by \$33.2 million. The most significant decrease in expenses is \$100.1 million in Central Government. This decrease is in part due to a decrease in expense of \$56.4 million for the early retirement benefit plan upon comparison with the prior year, as the prior year figures contained a higher expense to account for mortality and discount rate

changes. This is offset by an adjustment of \$21.9 million in the current year for a one-time expense reduction to recognize the net pension asset of the New Brunswick Power Corporation at conversion to the Public Service Shared Risk Plan. Significant increases were noted in Education and Training (\$34.2 million) and Transportation and Infrastructure (\$30.2 million) during the year. The increase in Education and Training was mainly due to additional investments and salaries in K-12 education, where the increase in Transportation and Infrastructure was attributed to increased amortization and expenses in a number of the department's programs.

Expenses

2.73 Exhibit 2.34 shows the one year growth rate and the average growth rate for the past three years.

Exhibit 2.34 - Expense Trends by Function (percentage)

Expense Trends by Function				
Function	2012 Growth Rate (%)	2013 Growth Rate (%)	2014 Growth Rate (%)	Three year average growth rate (%)
Education and Training	1.5	2.2	1.9	1.9
Health	1.6	2.0	0.1	1.2
Service of the Public Debt	3.2	(0.2)	0.2	1.1
Social Development	(0.7)	2.5	2.3	1.4
Transportation and Infrastructure	31.0	3.8	5.5	13.4
Protection Services	(11.9)	3.2	(0.9)	(3.2)
Resources	(0.2)	(2.1)	(2.2)	(1.5)
Central Government	(24.9)	16.9	(15.7)	(7.9)
Labour and Employment	(23.5)	(7.3)	17.7	(4.4)
Economic Development	(21.7)	5.2	(14.0)	(10.2)
Total	(4.6)	2.6	(0.5)	(0.8)

2.74 Exhibit 2.34 shows the Province's one year expense growth rate has decreased compared to 2013 by 0.5%. In fiscal 2014, six out of ten functions showed an increase in the one year growth rate. Four of ten function areas show a negative growth which implies cost reductions were realized. The average three year expense growth rate for 2014 was (0.8%). This is an improved result over the prior year average three year

expense growth rate of 0.9%.

2.75 We noted the 2014 expense growth rate has slowed in the Health and Education and Training departments, the largest expense function areas, compared to the 2013 growth rate.

2.76 However, Exhibit 2.34 shows Labour and Employment experiencing the largest one year growth rate in 2014 of 17.7%, primarily due to increased uptake in the Workforce Expansion and Training Skills Development programs. However, the two significant negative one year growth rates (expense reductions) were in Central Government (15.7%) and Economic Development. (14.0%)

2.77 In comparing the three year average growth rate, Transportation and Infrastructure experienced the largest three year average growth rate of 13.4%. However, a positive trend exists where five departments show the three year average growth rate decreasing. These decreasing growth rates illustrate progress to reduce or restrain spending in expense functions. It should be noted that regardless of the current restraint efforts of government, as illustrated in Exhibit 2.34, the Province has experienced deficits and continued Net Debt growth.

Revenue

2.78 Exhibit 2.35 shows the one year growth rate and the average growth rate of revenue for the past three years.

2.79 Total revenues have decreased by \$24.4 million. This is attributable to decreased revenue from federal sources of \$125.8 million and an offsetting increase in revenue from provincial sources of \$101.4 million.

Exhibit 2.35 - Revenue Trends by Source

Revenue Trends by Source							
	(\$ millions)			(% percentages)			
Source	2012 Revenue Amount	2013 Revenue Amount	2014 Revenue Amount	2012 Growth Rate	2013 Growth Rate	2014 Growth Rate	Three year average growth rate
Provincial Sources							
Taxes	3,574.0	3,542.1	3,595.3	4.2	(0.9)	1.5	1.6
Licenses and Permits	138.8	144.6	148.7	3.3	4.2	2.8	3.4
Royalties	89.3	86.1	90.9	2.1	(3.6)	5.6	1.4
Other Provincial Revenue	903.6	793.9	849.4	24.3	(12.1)	7.0	6.4
Sinking Fund Earnings	225.6	220.7	204.5	0.9	(2.2)	(7.3)	(2.9)
Federal Sources							
Fiscal Equalization Payments	1,632.6	1,597.7	1,562.0	(1.8)	(2.1)	(2.2)	(2.0)
Unconditional Grants	865.7	894.2	948.9	3.9	3.3	6.1	4.4
Conditional Grants	375.9	508.6	363.8	(11.3)	35.3	(28.5)	(1.5)
Total	7,805.90	7,787.9	7,763.5	25.60	21.90	(15.0)	10.8
Average Growth Rate	-	-	-	3.2	2.7	(1.9)	1.4

2.80 Exhibit 2.35 shows the Province's 2014 revenue growth rate was negative 1.9% with a three year average growth rate of 1.4%. The 2014 growth rate shows a notable decrease in conditional grants revenue relating to one-time funding in 2013 for Route One Gateway Project of \$117 million.

2.81 We noted the 2014 negative growth in revenue is concerning especially given the 2014 expected unfavorable GDP growth in New Brunswick as forecasted by the Department of Finance. We also note the largest three year average growth percent of 6.4% (other provincial revenue) had only a modest impact on the Province's fiscal results due to the relatively small dollar value (\$849.4 million) in this revenue category.

Other Provinces – Revenue and Expense Comparison

2.82 Exhibit 2.36 shows the trend of gross revenues and gross expenses when compared to other provinces. Data from other provinces is taken from the audited summary financial statements of the individual provinces.

Exhibit 2.36 - Revenue and Expense (Comparison to other provinces)

Revenue and Expense (Comparison to other provinces) (\$ millions)								
	Gross Revenues				Gross Expenses			
	2012	2013	2014	% Increase from 2012 to 2014	2012	2013	2014	% Increase from 2012 to 2014
New Brunswick	7,805.9	7,787.9	7,763.5	(0.5%)	8,050.7	8,295.2	8,262.4	2.6%
Nova Scotia	9,760.3	10,104.1	10,035.1	2.8%	10,019.3	10,407.7	10,714.0	6.9%
Saskatchewan	12,817.0	14,323.0	14,418.0	12.5%	13,711.0	14,285.0	13,829.0	0.9%
Manitoba	13,688.0	13,614.0	14,214.0	3.8%	14,689.0	14,174.0	14,736.0	0.3%
Newfoundland and Labrador	8,812.0	7,505.5	7,487.5	(15.0%)	7,838.0	7,700.5	7,786.0	(0.5%)

2.83 We note that over the last three years within this group, New Brunswick has had a slight decrease in revenue of 0.5%. Three of four other provinces have experienced revenue increases. We also note over the last three years New Brunswick's expenses have increased only 2.6 %, however in the group reviewed this appears high (one province reduced expenses and two provinces growth rates were lower). Over the last three years we also note New Brunswick shows the second highest increase in gross expenses.

2.84 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. We look forward to seeing the new Net Debt reduction targets achieved or exceeded as work continues to address New Brunswick's fiscal challenges.