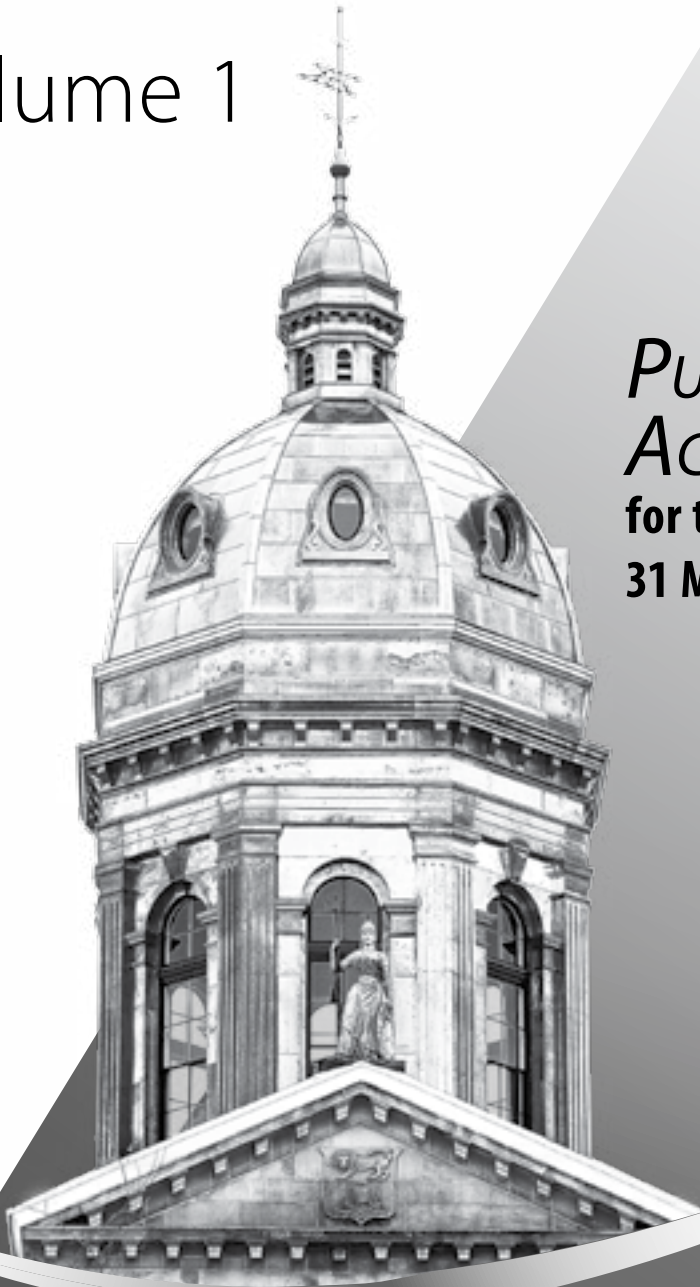


# Consolidated Financial Statements

Volume 1



*PUBLIC  
ACCOUNTS*  
for the fiscal year ended  
31 March 2016

Printed by Authority  
of the Legislature  
Fredericton, N.B.

New  Nouveau  
Brunswick

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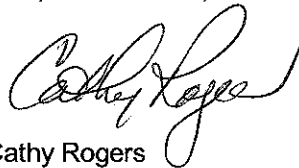


To Her Honour,

**The Honourable Jocelyne Roy Vienneau**  
**Lieutenant-Governor of the Province of New Brunswick**

The undersigned has the honour to submit the Public Accounts of the Province of New Brunswick for the fiscal year ended 31 March 2016.

I am, Your Honour,



Cathy Rogers  
Minister of Finance

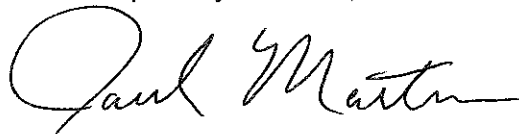
Fredericton, New Brunswick  
September 2016

**The Honourable Cathy Rogers**  
**Minister of Finance**

Madam:

The undersigned has the honour to present to you the Public Accounts of the Province of New Brunswick for the fiscal year ended 31 March 2016.

Respectfully submitted,



Paul Martin, FCPA, FCA  
Comptroller

Fredericton, New Brunswick  
September 2016



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## INTRODUCTION VOLUME I

The Public Accounts of the Province of New Brunswick are presented in two volumes.

**This volume contains the audited consolidated financial statements of the Provincial Reporting Entity as described in Note 1 to the consolidated financial statements. They include a Consolidated Statement of Financial Position, a Consolidated Statement of Operations, a Consolidated Statement of Cash Flow, a Consolidated Statement of Change in Net Debt and a Consolidated Statement of Change in Accumulated Deficit. This volume also contains the Independent Auditor's Report, Statement of Responsibility, management's comments on the Results for the Year, Major Variance Analysis and a discussion of the Indicators of Financial Health of the Province.**

Volume II contains unaudited supplementary information to the consolidated financial statements presented in Volume I. It presents summary statements for revenue and expenditure as well as five-year comparative statements. This volume also contains detailed information on Supplementary Appropriations, Funded Debt, statements of the General Sinking Fund and revenue and expenditure by government department.

In addition, the Government includes the following lists on the Office of the Comptroller web site at [www.gnb.ca/finance](http://www.gnb.ca/finance):

- Salary information of government employees and employees of certain government organizations in excess of \$60,000. Salary information is for the calendar year and is reported under the department where the employee worked at 31 December;
- Travel and other employee expenses in excess of \$12,000 paid during the year to government employees, separated by department;
- Payments made to suppliers during the year in excess of \$25,000 separated by department as well as a global listing including payments made by all departments;
- Loans disbursed to recipients during the year in excess of \$25,000 separated by department.





## STATEMENT OF RESPONSIBILITY

The consolidated financial statements of the Province of New Brunswick are prepared each year by the Comptroller as required under section 14 of the *Financial Administration Act*. The Results for the Year, Major Variance Analysis and Indicators of Financial Health commentaries are prepared jointly by the Department of Finance and the Office of the Comptroller. The consolidated financial statements include a Consolidated Statement of Financial Position, a Consolidated Statement of Operations, a Consolidated Statement of Cash Flow, a Consolidated Statement of Change in Net Debt and a Consolidated Statement of Change in Accumulated Deficit.

Financial statement integrity and objectivity are the responsibility of the Government. To help fulfil this responsibility, systems of internal control have been established to provide reasonable assurance that transactions are properly authorized, executed and reported. The statements are prepared in accordance with the accounting policies described in Note 1 to the Consolidated Financial Statements.

On behalf of the Government:

A handwritten signature in black ink, appearing to read 'Cathy Rogers'.

Cathy Rogers  
Minister of Finance

September 2016

## RESULTS FOR THE YEAR

### General Comments

The Province budgeted a deficit of \$476.8 million for the March 31, 2016 fiscal year. This included a \$150.0 million contingency reserve, intended to protect the Province against potential revenue weakness. Given the numerous factors that impact the economy and revenues which are beyond the Province's control, the government demonstrated prudence in introducing a contingency reserve in the budget in order to protect the Province from unforeseen circumstances. During the year, the reserve was not required and the budgeted deficit was reduced to \$326.8 million.

The Province's summary financial statements, contained in this volume of Public Accounts, report a deficit for the fiscal year ended 31 March 2016 of \$260.5 million. This represents a decrease of \$66.3 million from the budgeted deficit of \$326.8 million. The difference is the result of higher than budgeted revenues of \$78.3 million, and higher than budgeted expenses of \$12.0 million.

Revenues were \$78.3 million higher than budget. Other Provincial Revenue increased \$149.3 million due to the inclusion of nursing homes within the provincial reporting entity, the recording of school raised funds (which started in 2015), and higher than budgeted revenues from the New Brunswick Lottery and Gaming Corporation and the Regional Health Authorities. These increases were partially offset by lower than budgeted revenue of \$73.3 million from the New Brunswick Power Corporation.

Expenses were \$12.0 million higher than budget. The major over-expenditures were in Social Development, mainly due to the inclusion of nursing homes within the provincial reporting entity; in Health due to higher costs in the Regional Health Authorities and the Medicare program; and in Protection Services, mainly due to Disaster Financial Assistance funding associated with various storm events. These increases were offset by a number of under expenditures, particularly in Economic Development and Central Government.

A more detailed discussion of major variances can be found in the major variance section that follows.

### Summary Financial Information

(millions)

<b>Consolidated Statement of Financial Position</b>		
	<b>2016</b>	<b>2015</b>
Financial Assets	\$ 8,584.2	\$ 8,187.8
Liabilities	(22,243.8)	(21,306.0)
<b>Net Debt</b>	<b>(13,659.6)</b>	<b>(13,118.2)</b>
Tangible Capital Assets	8,738.5	8,585.7
Other Non Financial Assets	219.0	234.2
Total Non Financial Assets	8,957.5	8,819.9
<b>Accumulated Deficit</b>	<b>\$ (4,702.1)</b>	<b>\$ (4,298.3)</b>

<b>Consolidated Statement of Operations</b>		
	<b>2016</b>	<b>2015</b>
Revenue – Provincial Sources	\$ 5,433.5	\$ 5,429.4
Revenue – Federal Sources	2,952.7	3,009.8
Total Revenue	8,386.2	8,439.2
Expenses	8,646.7	8,800.6
<b>Surplus / (Deficit)</b>	<b>\$ (260.5)</b>	<b>\$ (361.4)</b>

<b>Consolidated Statement of Change in Net Debt</b>		
	<b>2016</b>	<b>2015</b>
Opening Net Debt	\$ (13,118.2)	\$ (12,415.1)
Increase in Net Debt From Operations	(541.4)	(703.1)
<b>Ending Net Debt</b>	<b>\$ (13,659.6)</b>	<b>\$ (13,118.2)</b>

## Revenue

Revenues of the Province for the past ten years, as restated, are shown in the table below. The consolidation of nursing homes was accounted for retroactively to opening 2015 net debt and accumulated deficit balances. As such, the impact of the accounting change is only reflected in the 2015 and 2016 numbers below.

(\$ millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Provincial Sources</b>	4,221.5	4,467.1	4,462.0	4,178.7	4,609.8	4,928.8	4,784.6	4,896.2	5,429.4	<b>5,433.5</b>
<b>Federal Sources</b>	2,530.9	2,720.6	2,763.6	2,940.8	2,930.3	2,874.2	3,000.5	2,877.9	3,009.8	<b>2,952.7</b>
<b>Total Revenue</b>	<b>6,752.4</b>	<b>7,187.7</b>	<b>7,225.6</b>	<b>7,119.5</b>	<b>7,540.1</b>	<b>7,803.0</b>	<b>7,785.1</b>	<b>7,774.1</b>	<b>8,439.2</b>	<b>8,386.2</b>

Average annual revenue growth over the ten-year period is 2.8%. In 2016, year-over-year revenue decreased by 0.6%. Increased revenue from Taxes, Other Provincial Revenue and Unconditional Grants was more than offset by decreased revenue from the New Brunswick Power Corporation and lower Conditional Grants, due in part to one-time revenue received in 2015.

## Expense

Expenses of the Province for the past ten years, as restated, are shown in the table below. The consolidation of nursing homes and the change in accounting policy for pensions were accounted for retroactively to opening 2015 net debt and accumulated deficit balances. As such, the impacts of the accounting changes are only reflected in the 2015 and 2016 numbers below.

(\$ millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Total Expense</b>	6,475.1	6,946.6	7,377.6	7,815.4	8,157.3	8,047.8	8,318.3	8,374.5	8,800.6	<b>8,646.7</b>

Average annual expense growth over the ten-year period is 3.5%. In 2016, expenses decreased by \$153.9 million year-over-year, a 1.7% decrease. This was due in large part to a one-time expense associated with the reform of the Teachers' Pension Plan in 2015, as well as decreased expenses in Economic Development, Transportation and Infrastructure, and Resources. These decreases were partially offset by increased expenses in other areas, including Health and Central Government.

## Surplus / (Deficit)

Surpluses (or Deficits) of the Province for the past ten years, as restated, are shown in the table below.

(\$ millions)

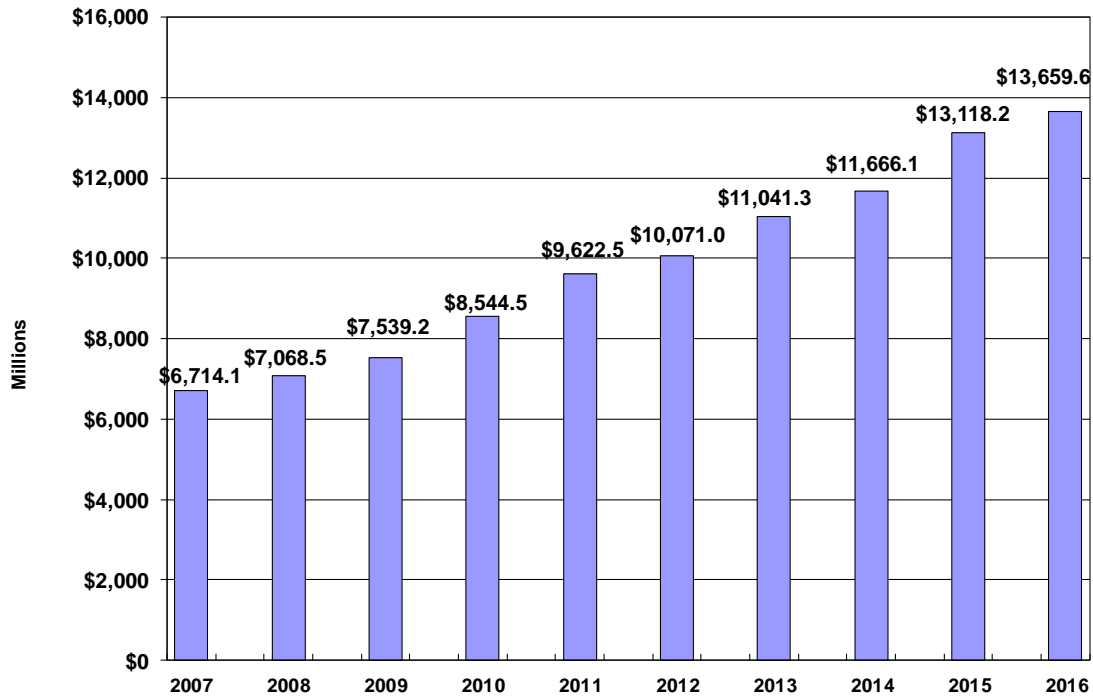
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Surplus/(Deficit)</b>	277.3	241.1	(152.0)	(695.9)	(617.2)	(244.8)	(533.2)	(600.4)	(361.4)	<b>(260.5)</b>

The deficit for the year ended 31 March 2016 was \$260.5 million, which is lower than the budgeted deficit of \$326.8 million. The lower deficit was a result of higher than budgeted revenue of \$78.3 million mainly due to the consolidation of nursing homes and higher personal income tax revenue, offset by lower than budgeted revenue from the New Brunswick Power Corporation. Expenses were higher than budgeted by just \$12.0 million due to a number of factors, including the consolidation of nursing homes.

## Net Debt

Net debt increased by \$541.4 million during the year ended 31 March 2016, an increase of \$105.9 million from the budgeted increase of \$435.5 million. The increase in net debt is related to the operating deficit and net capital asset transactions of highways, hospitals, schools and other buildings.

### Net Debt



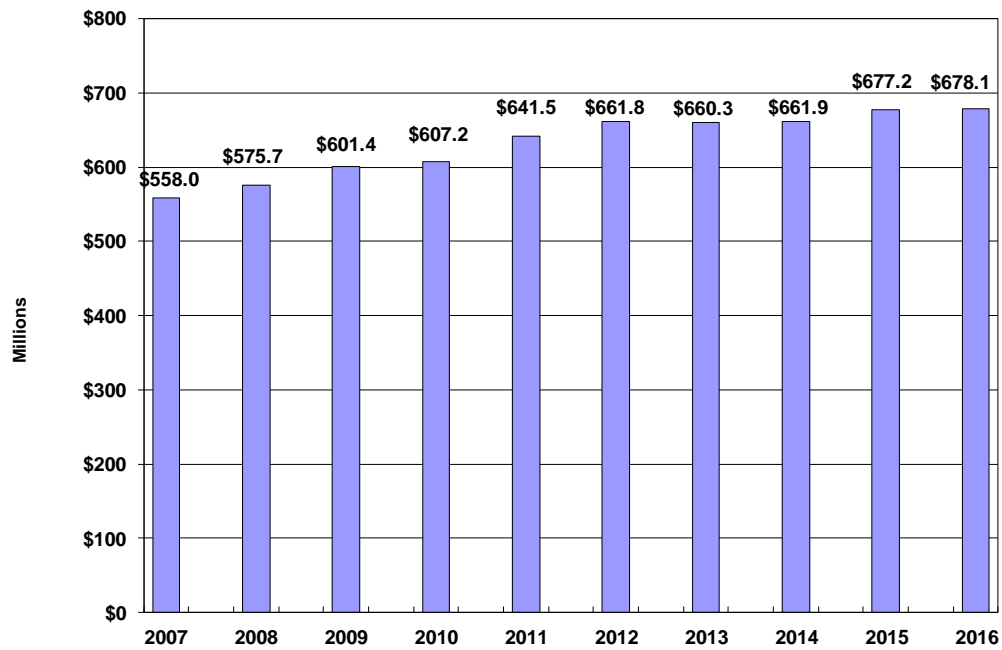
(\$ millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Net Debt	6,714.1	7,068.5	7,539.2	8,544.5	9,622.5	10,071.0	11,041.3	11,666.1	13,118.2	13,659.6

### Cost of Servicing the Public Debt

The Province's cost of servicing the Public Debt totaled \$678.1 million for the year ended 31 March 2016. This represents a slight increase of \$0.9 million from 2015, largely due to a higher level of debt which was partially offset by refinancing maturing debt at lower interest rates and the repayment of maturing debt from the sinking fund.

### Cost of Servicing the Public Debt



(\$ millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Cost of Servicing the Public Debt</b>	558.0	575.7	601.4	607.2	641.5	661.8	660.3	661.9	677.2	<b>678.1</b>

## MAJOR VARIANCE ANALYSIS

Explanations of major variances are described below. In this analysis, comparisons are made between the actual results for 2016 and either the 2016 budget or the actual results for 2015.

### REVENUE

#### Budget 2016 to Actual 2016 Comparison

<b>2016 Budget to Actual</b>				
(\$ millions)				
Item	Budget	Actual	Variance	% Variance
<b>Provincial Sources</b>				
Taxes	4,017.2	4,029.7	12.5	0.3
Licenses and Permits	151.7	153.8	2.1	1.4
Royalties	107.2	89.3	(17.9)	(16.7)
Income from Government Business Enterprises	258.0	189.1	(68.9)	(26.7)
Other Provincial Revenue	628.2	777.5	149.3	23.8
Sinking Fund Earnings	193.7	194.1	0.4	0.2
<b>Revenue from Provincial Sources</b>	<b>5,356.0</b>	<b>5,433.5</b>	<b>77.5</b>	<b>1.4</b>
<b>Federal Sources</b>				
Fiscal Equalization	1,668.9	1,668.0	(0.9)	(0.1)
Unconditional Grants	993.1	994.7	1.6	0.2
Conditional Grants	289.9	290.0	0.1	-
<b>Revenue from Federal Sources</b>	<b>2,951.9</b>	<b>2,952.7</b>	<b>0.8</b>	<b>-</b>
<b>Total Revenues</b>	<b>8,307.9</b>	<b>8,386.2</b>	<b>78.3</b>	<b>0.9</b>

#### Taxes

Taxes are up \$12.5 million from budget, primarily due to:

- Personal Income Tax is up \$67.6 million due to an underpayment for the 2014 taxation year and an improved forecast base.
- Gasoline and Motive Fuels Tax is up \$16.0 million due to an increase in sales volume.
- Tobacco Tax is up \$12.9 million due to higher than anticipated sales volume.
- Harmonized Sales Tax is down \$47.4 million reflecting overpayments for the 2009-2015 taxation years.
- Corporate Income Tax is down \$32.2 million reflecting an overpayment for the 2014 taxation year and lower in-year payments.
- Financial Corporation Capital Tax is down \$5.7 million due to a reduction in capital held by financial institutions.

#### Royalties

Royalties are down \$17.9 million from budget due to lower than anticipated potash production and the subsequent shutdown of the Picadilly potash mine, and less forest timber being harvested than anticipated.

#### Income from Government Business Enterprises

Income from Government Business Enterprises is down \$68.9 million primarily as a result of \$73.3 million less revenue than budgeted from the New Brunswick Power Corporation. The net income of the New Brunswick Power Corporation was less than budgeted due to reduced output at the Point Lepreau

Generating Station caused by unplanned outages, higher natural gas prices and reduced revenue due to mild winter weather.

#### Other Provincial Revenue

Other Provincial Revenue is up \$149.3 million from budget due to the inclusion of nursing homes within the provincial reporting entity (\$84.0 million); higher than anticipated revenues from the New Brunswick Lotteries and Gaming Corporation of \$20.8 million, due in part to extraordinary ticket lottery sales; the recording of school raised funds, which started in 2015 (\$18.3 million) and higher than budgeted revenue from the Regional Health Authorities (\$13.6 million). There were also other miscellaneous revenue increases across various departments and agencies.

#### **Actual 2015 to Actual 2016 Comparison**

<b>2015 Actual to 2016 Actual</b>				
<b>(\$ millions)</b>				
<b>Item</b>	<b>2015 Actual</b>	<b>2016 Actual</b>	<b>Change</b>	<b>% Change</b>
<b>Provincial Sources</b>				
Taxes	3,983.1	4,029.7	46.6	1.2
Licenses and Permits	149.4	153.8	4.4	2.9
Royalties	97.5	89.3	(8.2)	(8.4)
Income from Government Business Enterprises	270.9	189.1	(81.8)	(30.2)
Other Provincial Revenue	732.6	777.5	44.9	6.1
Sinking Fund Earnings	195.9	194.1	(1.8)	(0.9)
<b>Revenue from Provincial Sources</b>	<b>5,429.4</b>	<b>5,433.5</b>	<b>4.1</b>	<b>0.1</b>
<b>Federal Sources</b>				
Fiscal Equalization Payments	1,666.0	1,668.0	2.0	0.1
Unconditional Grants	955.8	994.7	38.9	4.1
Conditional Grants	388.0	290.0	(98.0)	(25.3)
<b>Revenue from Federal Sources</b>	<b>3,009.8</b>	<b>2,952.7</b>	<b>(57.1)</b>	<b>(1.9)</b>
<b>Total Revenues</b>	<b>8,439.2</b>	<b>8,386.2</b>	<b>(53.0)</b>	<b>(0.6)</b>

#### Taxes

Taxes are up \$46.6 million over the previous fiscal year, mainly due to:

- Personal Income Tax is up \$130.9 million due to higher in-year payments from the federal government and prior year adjustments.
- Gasoline and Motive Fuels Tax is up \$41.4 million due to tax measures announced in the 2015-16 budget and increased sales volume.
- Provincial Real Property Tax is up \$13.6 million due to an increase in the assessment base.
- Tobacco Tax is up \$5.3 million due to an increase in sales volume.
- Harmonized Sales Tax is down \$104.1 million reflecting prior year adjustments offset by an improvement to in-year payments.
- Metallic Minerals Tax is down \$21.8 million due to an audit assessment in 2014-15 on past mining activities.
- Corporate Income Tax is down \$12.3 million reflecting a reduction in New Brunswick's projected corporate taxable income upon which New Brunswick's payments are based.
- Financial Corporation Capital Tax is down \$8.1 million due to a reduction in capital held by financial institutions.

#### Royalties

Royalties are down \$8.2 million to due lower than anticipated potash production and the subsequent shutdown of the Picadilly potash mine.

### Income From Government Business Enterprises

Income from Government Business Enterprises is down \$81.8 million year-over-year largely as a result of lower revenue from the New Brunswick Power Corporation. The Corporation's net income decreased due to unplanned outages and improvement initiatives at the Point Lepreau Generating Station, reduced revenue due to mild winter weather and lower nuclear investment fund earnings.

### Other Provincial Revenue

Other Provincial Revenue is up \$44.9 million mainly due to higher overall revenue from the New Brunswick Lotteries and Gaming Corporation of \$17.2 million, particularly from extraordinary ticket lottery sales. The Regional Health Authorities had higher revenue of \$6.4 million; school districts had increased revenue of \$5.3 million, and increased funding of \$3.6 million for First Nations education. In addition, there are other miscellaneous revenue increases across various departments and agencies.

### Unconditional Grants

Unconditional Grants are up \$38.9 million due to legislated growth for the Canada Health Transfer and the Canada Social Transfer.

### Conditional Grants

Conditional Grants are down \$98.0 million mainly due to one-time funding in 2014-15 related to New Brunswick joining the Cooperative Capital Markets Regulatory System, lower federal recoveries for Disaster Financial Assistance, and lower federal capital recoveries.

## **EXPENSES**

### **Budget 2016 to Actual 2016 Comparison**

<b>2016 Budget to Actual</b>				
<b>(\$ millions)</b>				
<b>Item</b>	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>% Variance</b>
Education and Training	1,840.2	1,846.3	6.1	0.3
Health	2,864.9	2,899.0	34.1	1.2
Social Development	1,130.3	1,196.4	66.1	5.8
Protection Services	258.0	281.3	23.3	9.0
Economic Development	266.7	204.0	(62.7)	(23.5)
Labour and Employment	133.1	135.0	1.9	1.4
Resources	194.2	185.3	(8.9)	(4.6)
Transportation and Infrastructure	624.1	636.0	11.9	1.9
Central Government	638.2	585.3	(52.9)	(8.3)
Service of the Public Debt	685.0	678.1	(6.9)	(1.0)
<b>Total Expenses</b>	<b>8,634.7</b>	<b>8,646.7</b>	<b>12.0</b>	<b>0.1</b>

*Items in the table are reported by functional area. See the related schedule in the consolidated financial statements for additional details.*

### Education and Training

Education and Training expenses were \$6.1 million higher than budget mainly due to increased expenses in the School District Projects Special Purpose Account offset by lower than budgeted expenses in General Government related to the accrual for teachers' summer pay.

### Health

Health expenses were \$34.1 million higher than budget mainly due to over-expenditures in the Department of Health, including expenses related to the Regional Health Authorities as well as the



Medicare program. These over expenditures were partially offset by lower than anticipated costs in corporate and pharmaceutical programs.

#### Social Development

Social Development expenses were \$66.1 million higher than budget mainly due to the inclusion of nursing homes within the provincial reporting entity.

#### Protection Services

Protection Services were \$23.3 million higher than budget due to higher expenses in the Department of Public Safety resulting from Disaster Financial Assistance funding associated with various storm and flood events.

#### Economic Development

Economic Development expenses were \$62.7 million lower than budget mainly due to lower than expected financial assistance in Opportunities New Brunswick. This was mainly due to lower than expected Strategic Assistance expenses, lower than expected expenses in the Regional Development Corporation due to project timing changes, and decreased provision expense.

#### Labour and Employment

Labour and Employment expenses were \$1.9 million higher than budget primarily due to increased demand under the Employment Services, Workforce Expansion, and Training and Skills Development programs.

#### Resources

Resources expenses were \$8.9 million less than budget mainly due to lower than anticipated demand under the Agristability Program, as well as increased investments in tangible capital assets in the Department of Natural Resources.

#### Transportation and Infrastructure

Transportation expenses were \$11.9 million higher than budget mainly due to higher Transportation and Infrastructure expenses related to the Winter Maintenance program, as well as increased provision expense.

#### Central Government

Central Government expenses were \$52.9 million lower than budget mainly due to lower than anticipated expenses in General Government associated with the Retirement Allowance benefit.

**Actual 2015 to Actual 2016 Comparison**

<b>2015 Actual to 2016 Actual</b>				
<b>(\$ millions)</b>				
<b>Item</b>	<b>2015 Actual</b>	<b>2016 Actual</b>	<b>Change</b>	<b>% Change</b>
Education and Training	2,083.7	1,846.3	(237.4)	(11.4)
Health	2,830.9	2,899.0	68.1	2.4
Social Development	1,182.3	1,196.4	14.1	1.2
Protection Services	268.7	281.3	12.6	4.7
Economic Development	247.6	204.0	(43.6)	(17.6)
Labour and Employment	122.6	135.0	12.4	10.1
Resources	197.3	185.3	(12.0)	(6.1)
Transportation and Infrastructure	649.7	636.0	(13.7)	(2.1)
Central Government	540.6	585.3	44.7	8.3
Service of the Public Debt	677.2	678.1	0.9	0.1
<b>Total Expenses</b>	<b>8,800.6</b>	<b>8,646.7</b>	<b>(153.9)</b>	<b>(1.7)</b>

*Items in the table are reported by functional area. See the related schedule in the consolidated financial statements for additional details.*

Education and Training

Education and Training expenses were \$237.4 million lower than the previous fiscal year. This was mainly due to a one-time expense associated with the reform of the Teachers' Pension Plan in 2015.

Health

Health expenses were \$68.1 million higher than the previous fiscal year mainly due to an increase in expenses in the Regional Health Authorities associated with wages and inflation, as well as an increase in payments under the Medicare and Drug programs.

Social Development

Social Development expenses were \$14.1 million higher than the previous fiscal year mainly due to the opening of new nursing homes and higher service delivery costs, specifically related to Youth Engagement Services and Disability Support Services.

Protection Services

Protection Services were \$12.6 million higher than the previous fiscal year due to higher expenses in the Department of Public Safety resulting from Disaster Financial Assistance funding associated with various storm and flood events. This increase was partially offset by a decrease in provision expense.

Economic Development

Economic Development expenses were \$43.6 million lower than the previous fiscal year primarily due to decreased expenses in the Regional Development Corporation related to the acceleration of project funding in 2015, as well as lower provision expense.

Labour and Employment

Labour and Employment expenses were \$12.4 million higher than the previous fiscal year due to increased clients served under employment programs, as well as the expansion of Advocate Services and setup of the Workers' Compensation Appeals Tribunal.

Resources

Resources expenses were \$12.0 million lower than the previous fiscal year mainly due to expenses associated with the Energy Efficiency and Conservation Agency of New Brunswick in 2015.

Transportation and Infrastructure

Transportation and Infrastructure expenses were \$13.7 million lower than the previous year mainly due to lower winter maintenance costs and provision expense. This was partially offset by increased amortization expense.

Central Government

Central Government expenses were \$44.7 million higher than the previous year. This was mainly due to increased expense in Service New Brunswick, General Government, and provision expense.

## INDICATORS OF FINANCIAL HEALTH

This section provides indicators of progress in the Province's financial condition using information provided in the Province's consolidated financial statements as well as other standard socio-economic indicators such as nominal Gross Domestic Product (GDP) data from Statistics Canada.

The analysis of financial indicators is a reporting practice recommended by the Public Sector Accounting Board, and provides results in a manner that improves transparency and provides a clearer understanding of recent trends in the Province's financial health. Trends over the last ten years (2007 to 2016) are evaluated using the criteria of sustainability, flexibility and vulnerability. Though many potential indicators are available, those found to be the most relevant, measurable and transparent to users of government financial information are included. Similar data series are also widely used by banks and other financial institutions, investors and credit-rating agencies.

In evaluating a government's financial health, it should be acknowledged that governments have exposure to a number of variables that are beyond their direct scope of control, but still can exert major influences on financial results and indicators. These include but are not limited to:

- Changing global economic conditions such as energy prices, commodity prices, investment valuation and inflation;
- Changes to international financial conditions that impact interest rates, currency fluctuations or availability of credit;
- Changes to federal transfers or programs;
- Emergencies such as floods, forest fires and pandemics;
- Developments affecting agencies such as the New Brunswick Power Corporation that are reflected in the Province's financial statements and;
- Changes in public sector accounting standards.

### Sustainability

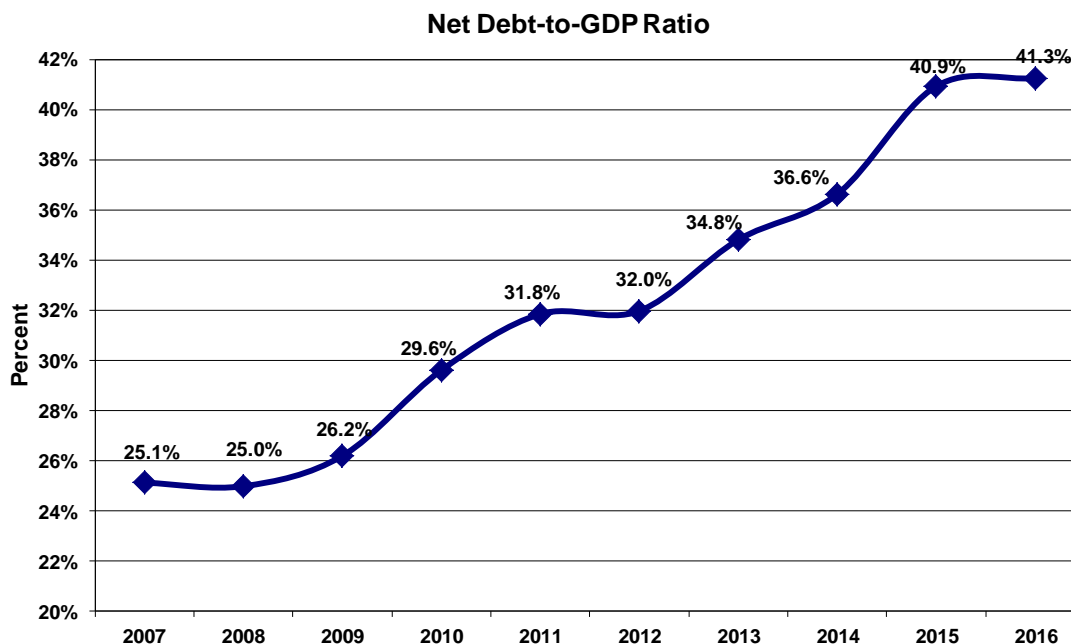
Sustainability is the degree to which a government can maintain its existing financial obligations both in respect of its service commitments to the public and financial commitments to creditors, employees and others without increasing the debt or tax burden relative to the economy within which it operates. It is measured in this analysis by:

- Net debt as a proportion of GDP;
- Net debt per capita.

### Net Debt as a Proportion of GDP:

Net debt is an indication of the extent to which Provincial government liabilities exceed financial assets. The net debt-to-GDP ratio shows the relationship between net debt and the economy. If the ratio is declining, growth in the economy is exceeding growth in net debt, resulting in improved sustainability. Conversely, an increasing net debt-to-GDP ratio indicates net debt is increasing faster than growth in the economy and serving to reduce the provincial government's financial sustainability.

Over the last ten years the Province's ratio of net debt-to-GDP increased from 25.1% to 41.3%. Beginning in 2008, the ratio has trended upwards related to weakened economic circumstances, operating deficits, capital spending, and other factors. In 2012, the ratio stabilized but has increased since due to the above noted factors. The inclusion of nursing homes within the provincial reporting entity and a change in accounting policy related to pensions were both implemented retroactively to the opening 2015 net debt balance. As such, only the 2015 and 2016 net debt numbers were restated, having a major impact on the ratio for those years.

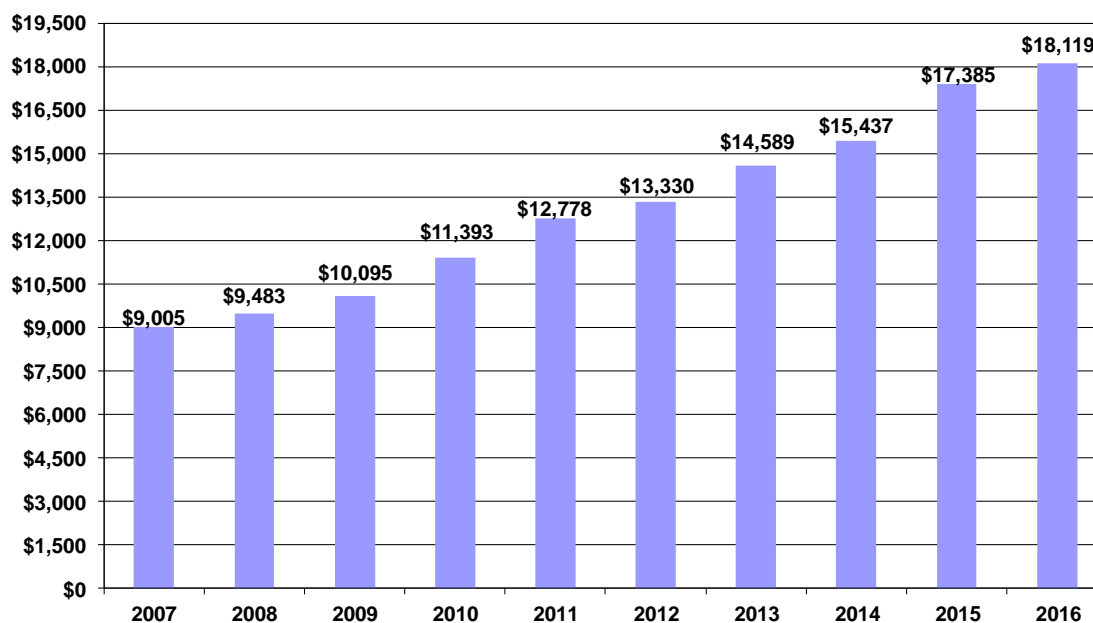


<b>Net Debt-to-GDP Ratio</b>			
<b>Fiscal Year Ending</b>	<b>Net Debt</b>	<b>GDP</b>	<b>Net Debt/GDP</b>
	(\$ millions)	(\$ millions)	(%)
<b>2007</b>	6,714.1	26,718	25.1
<b>2008</b>	7,068.5	28,287	25.0
<b>2009</b>	7,539.2	28,779	26.2
<b>2010</b>	8,544.5	28,857	29.6
<b>2011</b>	9,622.5	30,213	31.8
<b>2012</b>	10,071.0	31,500	32.0
<b>2013</b>	11,041.3	31,723	34.8
<b>2014</b>	11,666.1	31,857	36.6
<b>2015</b>	13,118.2	32,056	40.9
<b>2016</b>	<b>13,659.6</b>	<b>33,114</b>	<b>41.3</b>

#### **Net Debt per Capita:**

Net debt per capita is a statement of the net debt attributable to each New Brunswick resident. A decrease in net debt per capita suggests the debt burden has improved while an increase implies the debt burden has increased. Over the past ten years the net debt per capita has been trending upwards reflecting weakened economic circumstances, operating deficits, capital spending and other factors including population declines in recent years. The inclusion of nursing homes within the provincial reporting entity and a change in accounting policy related to pensions were both implemented retroactively to the opening 2015 net debt balance. As such, only the 2015 and 2016 net debt numbers were restated, having a major impact on net debt per capita in those years.

### Net Debt per Capita



Net Debt per Capita			
Fiscal Year Ending	Net Debt (\$ millions)	Population (July 1)	Net Debt per Capita (\$)
2007	6,714.1	745,609	9,005
2008	7,068.5	745,407	9,483
2009	7,539.2	746,855	10,095
2010	8,544.5	749,954	11,393
2011	9,622.5	753,044	12,778
2012	10,071.0	755,530	13,330
2013	11,041.3	756,836	14,589
2014	11,666.1	755,718	15,437
2015	13,118.2	754,578	17,385
2016	<b>13,659.6</b>	<b>753,871</b>	<b>18,119</b>

### Flexibility

Flexibility is the degree to which a government can change its debt or tax burden on the economy within which it operates to meet its existing financial obligations both in respect of its service commitments to the public and financial commitments to creditors, employees and others. It is measured in this analysis by:

- Own-source revenue as a proportion of GDP;
- Cost of servicing the public debt as a proportion of total revenue.

### Own-source Revenue as a Proportion of GDP:

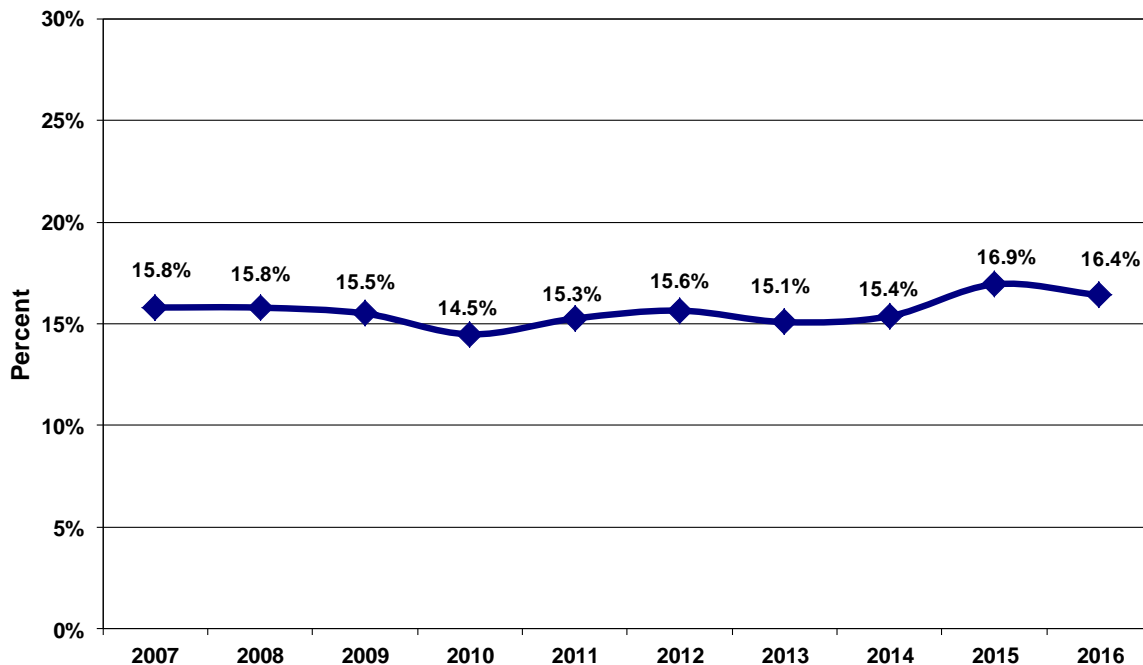
This ratio measures own-source revenues of the Provincial government as a percentage of the economy, as measured by nominal GDP. An increase in this ratio indicates that government own-source revenues are growing faster than the economy as a whole, reducing government's flexibility to increase revenues without slowing growth in the economy. A decrease in the ratio is indicative of the government taking less revenue out of the economy on a relative basis, which increases its flexibility.

Own-source revenue includes revenues from taxation, natural resources, fees, return on investment, lotteries, fines and penalties, etc., and is essentially all revenue minus federal transfers. While more controllable than federal transfers, as the Province can influence revenues through its own tax rates and fiscal policy, own-source revenue is vulnerable to, among other factors:

- Net income or revenue of outside agencies whose revenue can fluctuate significantly due to price, volume, accounting changes, weather, etc. (e.g. the New Brunswick Power Corporation)
- Variability in provincial revenues that are collected or estimated by the federal government such as personal and corporate income taxes and the Harmonized Sales Tax;
- Commodity tax revenues such as Metallic Minerals Tax that are vulnerable to world prices.

Own-source revenue as a proportion of GDP has been relatively stable, with an increase in this ratio the past few years.

**Own-source Revenue as a Proportion of GDP**



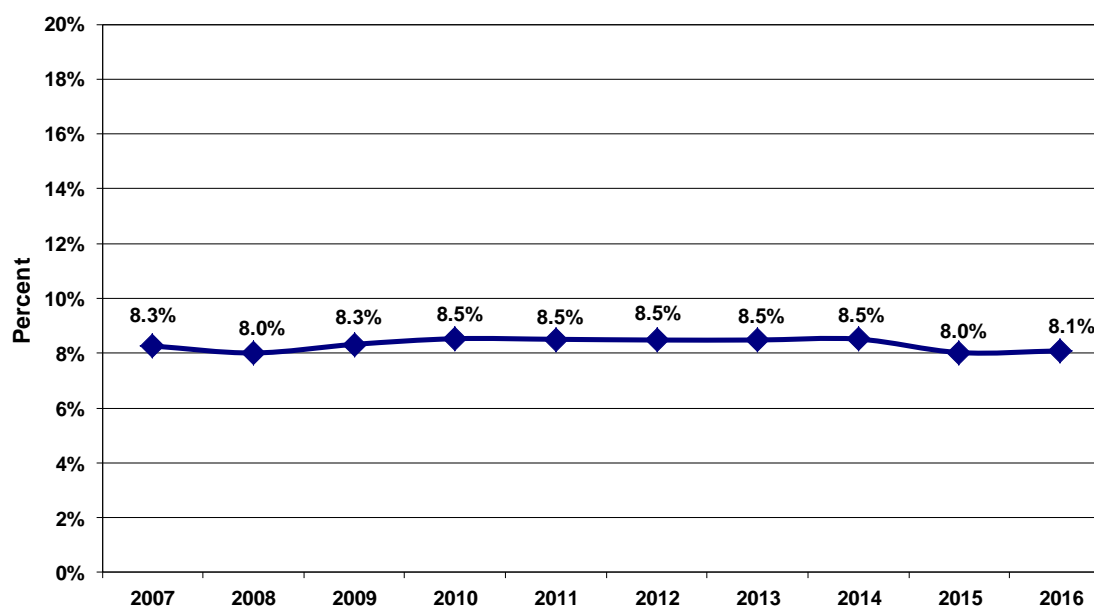
Own-source Revenue as a Proportion of GDP			
Fiscal Year Ending	Own-source Revenue	GDP	Own-source Revenue as a Proportion of GDP
	(\$ millions)	(\$ millions)	(%)
2007	4,221.5	26,718	15.8
2008	4,467.1	28,287	15.8
2009	4,462.0	28,779	15.5
2010	4,178.7	28,857	14.5
2011	4,609.8	30,213	15.3
2012	4,928.8	31,500	15.6
2013	4,784.6	31,723	15.1
2014	4,896.2	31,857	15.4
2015	5,429.4	32,056	16.9
2016	<b>5,433.5</b>	<b>33,114</b>	<b>16.4</b>

### Cost of Servicing the Public Debt as a Proportion of Total Revenue:

Debt service costs as a proportion of total revenue is an indicator of the Province's ability to satisfy existing credit requirements in the context of the government's overall revenue. Debt service costs can be impacted by variables outside the direct control of government, such as credit ratings, interest rates, financial markets and currency fluctuations. Investment in public infrastructure resulting in a change in the stock of debt can also influence borrowing requirements.

The Province's proportion of debt service costs to revenue has been relatively stable. In 2015 and 2016 the ratio has dropped to a lower level signifying that debt service costs are a smaller proportion of Provincial revenues overall, allowing the Province more financial resources to provide essential programs and services.

### Cost of Servicing the Public Debt as a Proportion of Total Revenue





<b>Cost of Servicing the Public Debt as a Proportion of Total Revenue</b>			
<b>Fiscal Year Ending</b>	<b>Cost of Servicing the Public Debt</b>	<b>Total Revenue</b>	<b>Cost of Servicing the Public Debt as a Proportion of Total Revenue</b>
	(\$ millions)	(\$ millions)	(%)
<b>2007</b>	558.0	6,752.4	8.3
<b>2008</b>	575.7	7,187.7	8.0
<b>2009</b>	601.4	7,225.6	8.3
<b>2010</b>	607.2	7,119.5	8.5
<b>2011</b>	641.5	7,540.1	8.5
<b>2012</b>	661.8	7,803.0	8.5
<b>2013</b>	660.3	7,785.1	8.5
<b>2014</b>	661.9	7,774.1	8.5
<b>2015</b>	677.2	8,439.2	8.0
<b>2016</b>	<b>678.1</b>	<b>8,386.2</b>	<b>8.1</b>

### **Vulnerability**

Vulnerability is the degree to which a government is dependent on sources of funding outside its control or influence or is exposed to risks that could impair its 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. A common measurement of vulnerability is federal government transfers as a proportion of revenue.

#### **Federal Government Transfers as a Proportion of Total Revenue:**

Revenue from federal sources is comprised of conditional and unconditional grants from the federal government, including:

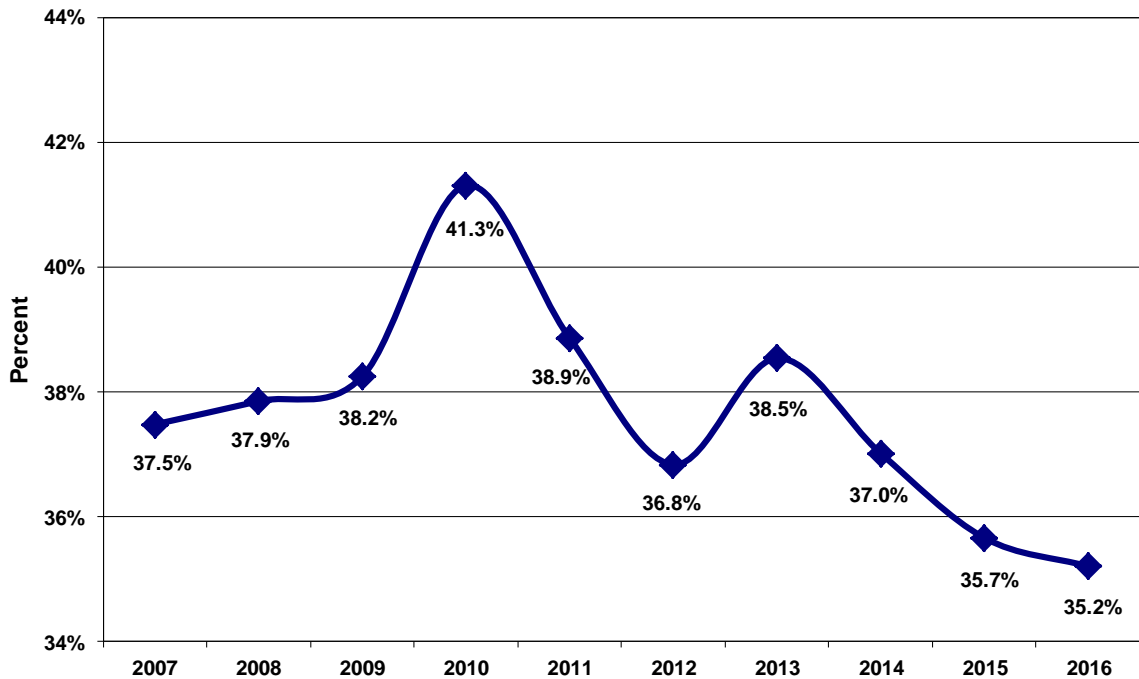
- Fiscal Equalization Program payments;
- The Canada Health Transfer and the Canada Social Transfer;
- Conditional grants or capital revenue in support of economic development, infrastructure, education and labour training and other areas.

Federal transfer payments can be affected by federal fiscal policy decisions, the normal annual estimate process that guides federal payments under the Equalization Program and Canada Health and Social Transfers, as well as timing and conditions related to conditional grants.

Comparing the level of federal transfers to total revenue provides an indication of the vulnerability of the Province. Generally, if the ratio is increasing, the Province is increasingly reliant on federal transfers, resulting in increased vulnerability. If the ratio is declining, vulnerability is diminished.

Federal government transfers as a proportion of total revenue reached a high of 41.3% in 2010. In that year, provincial-source revenues contracted as the effects of the economic slowdown hampered revenues and the NBEFC experienced a significant net loss. At the same time, federal stimulus funding supported federal-source revenue growth. Since then the ratio has declined to the current rate of 35.2%, its lowest level in the past decade.

### Federal Government Transfers as a Proportion of Total Revenue



Federal Government Transfers as a Proportion of Total Revenue			
Fiscal Year Ending	Federal Government Transfers	Total Revenue	Federal Government Transfers as a Proportion of Total Revenue
	(\$ millions)	(\$ millions)	(%)
2007	2,530.9	6,752.4	37.5
2008	2,720.6	7,187.7	37.9
2009	2,763.6	7,225.6	38.2
2010	2,940.8	7,119.5	41.3
2011	2,930.3	7,540.1	38.9
2012	2,874.2	7,803.0	36.8
2013	3,000.5	7,785.1	38.5
2014	2,877.9	7,774.1	37.0
2015	3,009.8	8,439.2	35.7
2016	<b>2,952.7</b>	<b>8,386.2</b>	<b>35.2</b>