

# Chapter 2

## Comments on the Province's Financial Position

### Contents

Introduction . . . . .	13
Indicators of the Province's financial condition . . . . .	13
Comments on components of the Province's financial statements . . . . .	22
History of net debt since 31 March 1987 . . . . .	52

# Comments on the Province's Financial Position

## Introduction

2.1 This chapter covers three separate, but related, topics:

- Indicators of the Province's financial condition

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

- Comments on components of the Province's financial statements

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

- History of net debt

This section analyzes reported net debt over a twenty-year period. Its purpose is to increase awareness of changes in net debt as an important component of the Province's financial condition.

## Indicators of the Province's financial condition

### Background

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

---

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

**2.3** Some of the information presented below has been included in the discussion of the Results for the Year in volume 1 of the Public Accounts. We are pleased to see such analysis included in the Public Accounts. However not all of the indicators are presented there. For this reason, we will continue to present this section as we have in prior years.

## Scope

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

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

- Sustainability*
  - *Net debt as a percentage of gross domestic product (GDP)*
  - *Change in net debt and GDP*
- Flexibility*
  - *Own source revenue as a percentage of GDP*
  - *Cost of servicing the public debt as a percentage of total revenue*
- Vulnerability*
  - *Federal government transfers as a percentage of total revenue*
  - *Foreign currency debt as a percentage of total debt for provincial purposes*

## Financial results used in analyses

**2.6** In this section, our analyses are based on the current year financial statements as presented in the Public Accounts. These financial statements report an annual surplus of \$236.8 million and a decrease in net debt for the year of \$136.3 million. Prior year numbers used in our analyses may include restated figures obtained from the Office of the Comptroller.

## Results in brief

**2.7** In general, the indicators for the last eight years show that the Province of New Brunswick's financial condition has improved or remained relatively stable in sustainability, flexibility and vulnerability.

## Sustainability

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

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

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

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

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

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

**2.13** Net debt is an accounting measure of the extent to which total liabilities of the Province exceed financial assets. The financial statements for 2007 indicate that net debt stands at \$6,577.9 million - \$478.4 million less than its level eight years ago.

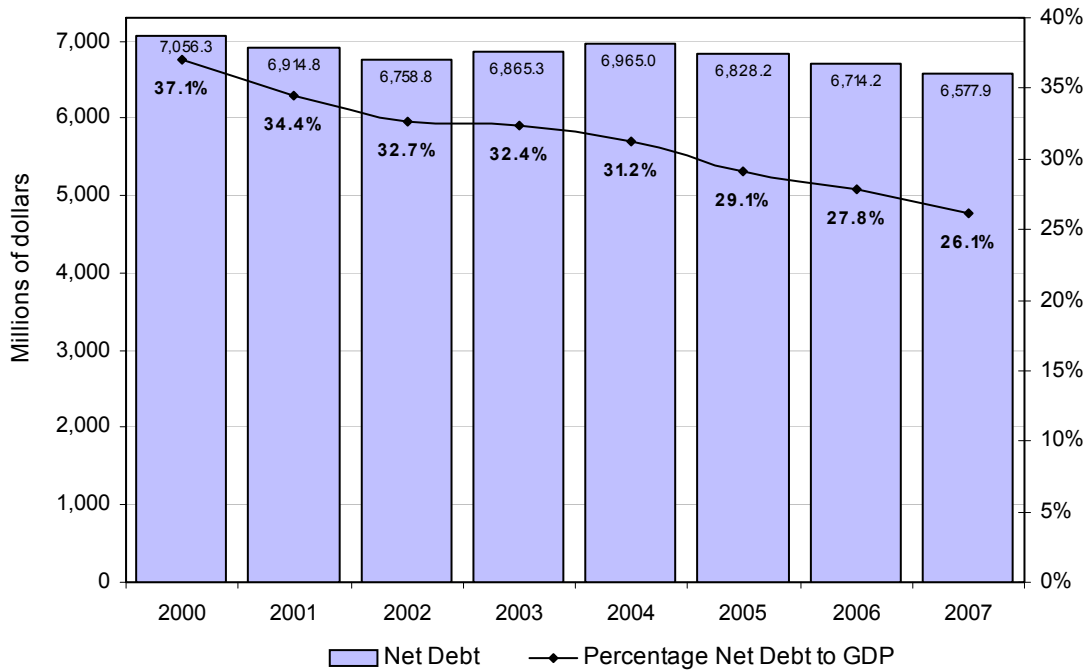
**2.14** The New Brunswick economy has also grown. Exhibit 2.1 shows that the Province's net debt to GDP ratio decreased (favourable) over the last eight years – showing the Province's increasing ability to sustain existing programs and services.

---

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

Exhibit 2.1

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



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

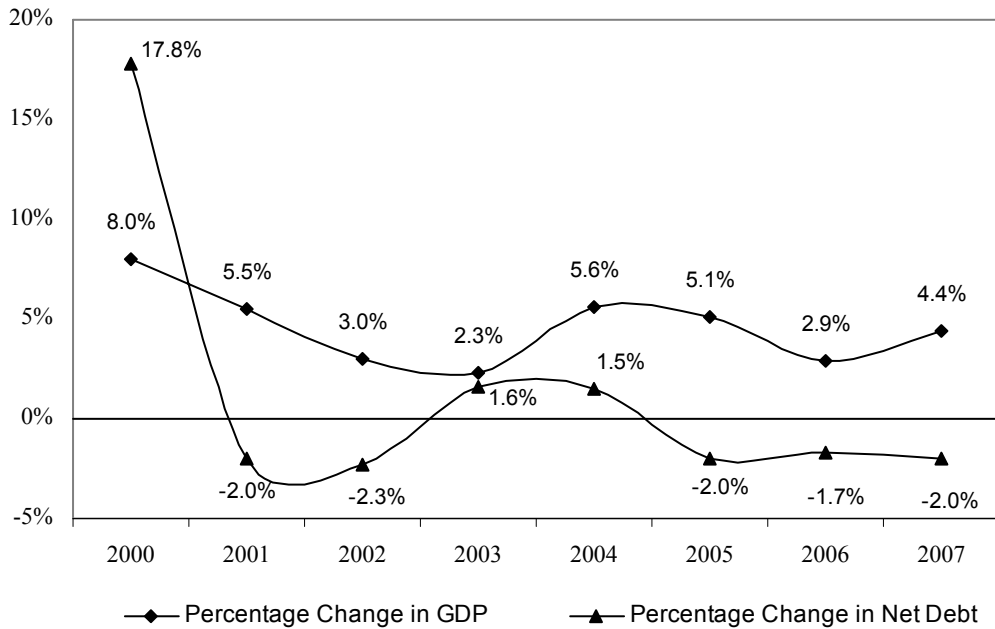
**2.15** The Province can positively influence sustainability in two ways: by reducing net debt and by increasing growth in the economy. Though governments use various political, legislative and regulatory powers to stimulate the economy, the effect is neither guaranteed nor timely.

**2.16** The rate of growth in the surplus or deficit and their impact on net debt is much more controllable. Exhibit 2.2 shows that the Province has experienced economic growth in excess of growth in the net debt (favourable) every year since 2001. Growth in net debt was greater than economic growth in the year 2000 due to the effects of the Fredericton to Moncton highway.

1. GDP is measured on a calendar year basis. The GDP used in our tables for each 31 March year end is the GDP for the calendar year ended during that fiscal year.

Exhibit 2.2

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



## Flexibility

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

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

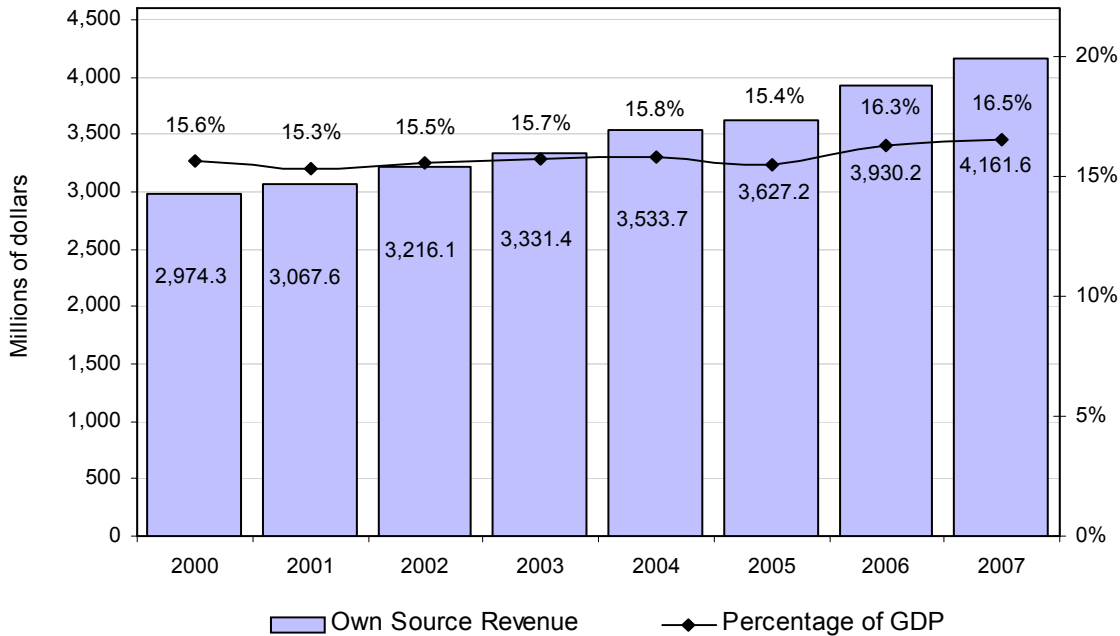
### *Own source revenue as a percentage of GDP as a measure of flexibility*

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

- 
1. GDP is measured on a calendar year basis. The GDP used in our tables for each 31 March year end is the GDP for the calendar year ended during that fiscal year.
  2. Indicators of Government Financial Condition, 1997 published by the Canadian Institute of Chartered Accountants.

Exhibit 2.3

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



**2.20** Exhibit 2.3 shows the extent to which the Province has removed dollars from the provincial economy through taxes and user fees/licenses during the last eight years. This exhibit shows that the dollars extracted by the Province from the New Brunswick economy as a percent of GDP remained relatively stable during the first six years of the eight-year period, but increased in 2006 and in 2007.

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

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

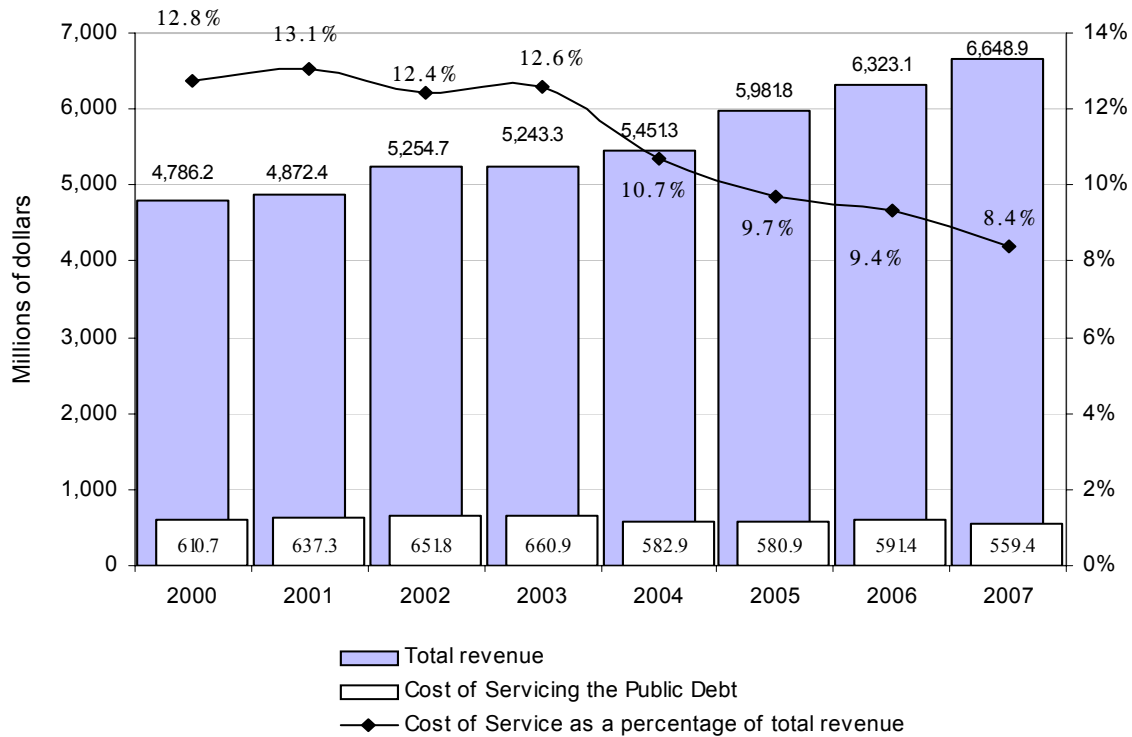
**2.22** The cost of servicing the public debt is comprised mainly of interest on the funded debt of the Province. It also includes foreign exchange paid on interest and maturities during the year, the amortization of foreign exchange gains and losses, and the amortization of discounts and premiums which were incurred on the issuance of provincial debt. It does not include principal repayments on the funded debt of the Province.

1. GDP is measured on a calendar year basis. The GDP used in our tables for each 31 March year end is the GDP for the calendar year ended during that fiscal year.

**2.23** Exhibit 2.4 shows debt servicing costs as compared to total provincial revenue for the last eight years.

*Exhibit 2.4*

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



**2.24** This exhibit shows the cost of servicing the public debt decreased in 2007 compared to 2006 by \$32.0 million to \$559.4 million. It also shows that the Province has decreased its overall “interest-bite” percentage from its 2000 level of 12.8% to its current level of 8.4%. This is a significant decrease, attributable mainly to the strengthening of the Canadian dollar against its U.S. counterpart, and also to a general lowering of interest rates. The exhibit indicates that, on a percentage basis, the Province has more of its total revenues available for current needs today than it did eight years ago.

## Vulnerability

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

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



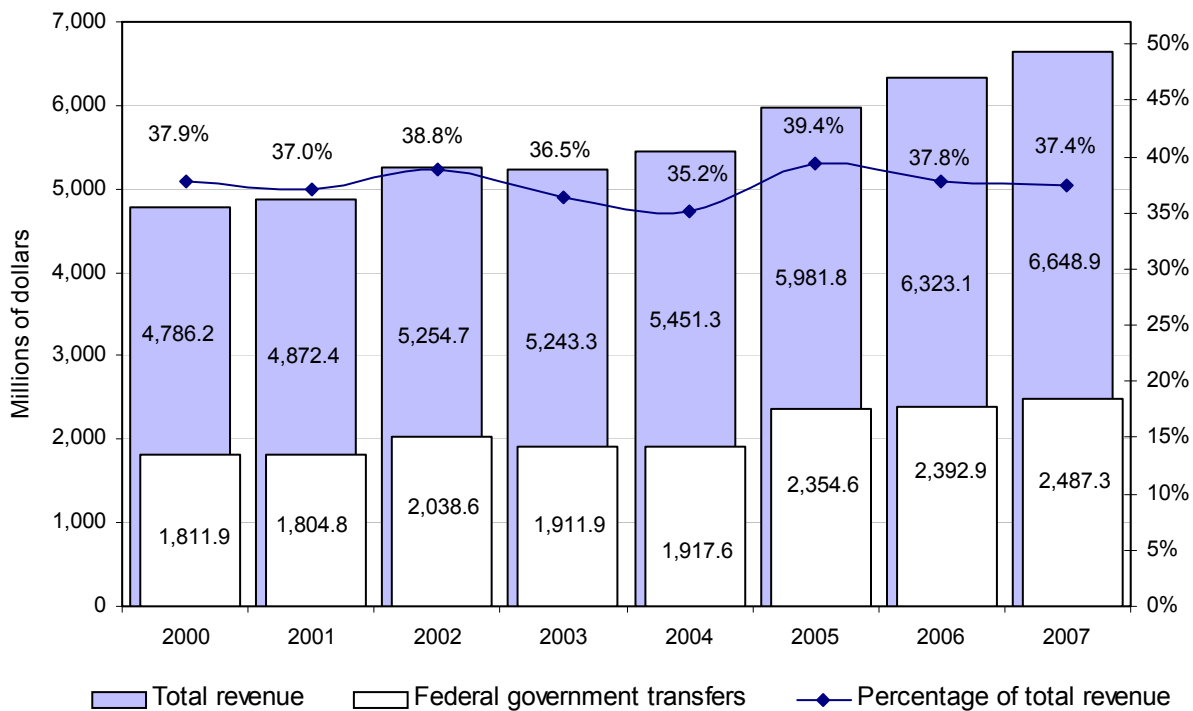
**2.26** Funding for programs and services can only come from two sources: revenue or borrowing.

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

**2.27** In 2007, 37.4% of the Province's total revenue came from federal transfers. This is significant because revenue from federal sources is not considered to be as controllable as revenue generated in the Province.

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

*Exhibit 2.5  
Federal government transfers as a percentage of total revenue for the last eight years*



**2.29** Increasing New Brunswick's reliance on federal transfers will leave the Province more vulnerable to variables outside of its own control. Exhibit 2.5 details the Province's reliance on federal transfers over the last eight years. This exhibit shows that the trend

over the past eight years has been relatively stable. To maintain comparability, revenue from 2000 to 2006 has been restated to reflect current accounting policy.

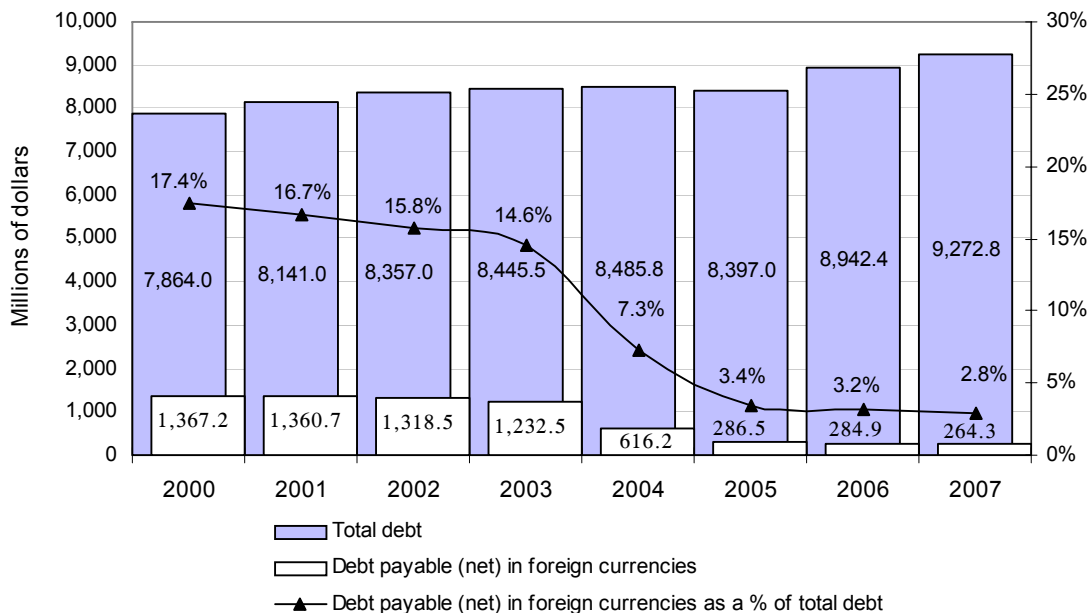
***Foreign currency debt as a percentage of total debt for provincial purposes as a measure of vulnerability***

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

**2.31** Exhibit 2.6 shows the relationship of foreign currency debt to total debt for provincial purposes over the last eight years. The Province has several alternatives to reduce (hedge) the risk associated with debt repayable in foreign currencies:

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

*Exhibit 2.6  
Exposure to foreign currency risk for the last eight years*



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

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

## Summary

**2.34** In general, over the last eight years, the indicators of sustainability, flexibility and vulnerability show that the Province of New Brunswick's financial condition has improved or remained relatively stable.

**2.35** The following exhibit provides a summary of the financial indicators and their impact on the financial condition of the Province.

Exhibit 2.7

Financial Indicator	2007	Impact on Financial Condition of the Province	
		2-year trend	8-year trend
<i>Sustainability</i>			
Net debt as a percentage of GDP (Exhibit 2.1)	26.1%	Favourable	Favourable
Change in net debt and GDP (Exhibit 2.2)	-2.0%/4.4%	Favourable	Favourable
<i>Flexibility</i>			
Own source revenue as a percentage of GDP (Exhibit 2.3)	16.5%	Unfavourable	No significant change
Cost of servicing the public debt as a percentage of total revenue (Exhibit 2.4)	8.4%	Favourable	Favourable
<i>Vulnerability</i>			
Federal government transfers as a percentage of total revenue (Exhibit 2.5)	37.4%	No significant change	No significant change
Foreign currency debt as a percentage of total debt (Exhibit 2.6)	2.8%	No significant change	Favourable

Note: Less than 1% change is considered insignificant.

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

**2.36** In this section we have examined various components of the Province's financial statements for the year ended 31 March 2007. We have broken this into three areas:

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

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

## Statement of Financial Position

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

- Receivables and advances
- Taxes receivable
- Loans
- Accounts payable and accrued expenses
- Allowance for losses
- All allowances
- Obligations under capital leases
- Pension liability (surplus)
- Funded debt for provincial purposes
- Tangible capital assets
- Net debt

## Receivables and advances

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

	(\$ millions)							
	2007	2006	2005	2004	2003	2002	2001	2000
General receivables	185.4	168.6	153.5	231.2	200.1	197.8	174.8	156.7
Receivables from Canada	169.7	164.0	141.6	132.3	121.5	122.8	119.5	106.9
Guarantee payouts	45.8	50.1	52.4	32.0	32.7	26.8	21.6	15.9
Other receivables				7.2	7.3	9.8	10.6	12.3
Advances	106.5	126.1	125.9					
Subtotal	507.4	508.8	473.4	402.7	361.6	357.2	326.5	291.8
Interest receivable	37.1	33.4	26.3	30.8	30.3	25.6	24.1	27.1
Subtotal	544.5	542.2	499.7	433.5	391.9	382.8	350.6	318.9
Consolidated entities	51.2	48.3	43.3	42.8	47.4	N/A	N/A	N/A
Total	595.7	590.5	543.0	476.3	439.3	382.8	350.6	318.9
Allowance for doubtful accounts	155.7	140.7	132.9	118.5	113.3	97.7	87.4	77.5
Receivables and advances	440.0	449.8	410.1	357.8	326.0	285.1	263.2	241.4

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

the Province that require active management to ensure collection, and compares that value to the value of the accounts that are considered doubtful.

	(\$ millions)							
	2007	2006	2005	2004	2003	2002	2001	2000
Total before allowance	595.7	590.5	543.0	476.3	439.3	382.8	350.6	318.9
Receivables from Canada	169.7	164.0	141.6	132.3	121.5	122.8	119.5	106.9
Consolidated entities	51.2	48.3	43.3	42.8	47.4	N/A	N/A	N/A
Advances of grants	21.9	51.5	55.2					
Net amount	352.9	326.7	302.9	301.2	270.4	260.0	231.1	212.0
Allowance for doubtful accounts	155.7	140.7	132.9	118.5	113.3	97.7	87.4	77.5
Allowance percentage	44.1%	43.1%	43.9%	39.3%	41.9%	37.6%	37.8%	36.6%

**2.41** In the year ended 31 March 2007:

- the Province reported \$595.7 million in receivables and advances, which is about 1% higher than the 31 March 2006 balance;
- \$51.2 million of the \$595.7 million was receivable by and managed by the consolidated entities;
- another \$169.7 million was due from the federal government and so there should not be any doubt about its collection;
- another \$21.9 million were advances on operating grants for April 2007;
- this left \$352.9 million in receivables that the Province has to actively manage to ensure collection; and
- the collection of 44.1% of these amounts, or \$155.7 million, is considered to be in doubt.

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

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

- The amount of receivables for guarantee payouts has risen from \$15.9 million at 31 March 2000 to \$45.8 million at 31 March 2007.

- The amount receivable from Canada under the Official Languages program was \$6.6 million at 31 March 2000 and it was \$39.6 million at 31 March 2007. This raises questions about whether this funding is being received on a timely basis.
- The receivables of consolidated entities were included in the receivables numbers beginning in the fiscal year ended 31 March 2003, however no information is provided about the gross amount of their receivables and their level of doubtful accounts.

**2.44** This analysis indicates that there is need to improve the management of the general accounts receivable of the Province. A doubtful collection rate of 44.1%, a rate that has been growing, significant guarantee payouts and questions about the timeliness of collections all point to opportunities for improvement.

### *Taxes receivable*

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

	(\$ millions)							
	2007	2006	2005	2004	2003	2002	2001	2000
Gasoline and motive fuel tax	22.8	20.7	26.0	21.9	20.0	17.2	21.5	14.6
Metallic minerals tax	101.9	--	--	--	--	--	--	--
Real property tax	406.2	411.0	395.3	384.0	374.3	359.9	342.4	323.8
Royalties and stumpage on timber	22.0	24.3	21.8	28.0	18.2	18.4	22.7	19.1
Sales tax	87.0	87.9	32.7	107.7	85.4	68.9	68.9	69.5
Tobacco tax	8.4	8.5	10.2	11.3	9.0	7.4	5.3	4.4
Other	13.1	2.5	2.9	0.3	0.1	0.1	0.1	0.2
Subtotal	661.4	554.9	488.9	553.2	507.0	471.9	460.9	431.6
Allowance for doubtful accounts	77.0	85.4	80.7	86.6	89.5	89.5	84.5	83.9
Total	584.4	469.5	408.2	466.6	417.5	382.4	376.4	347.7

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

Tax Revenue	(\$ millions)							
	2007	2006	2005	2004	2003	2002	2001	2000
Gasoline and motive fuel tax	215.2	232.1	239.7	234.9	222.1	184.3	186.5	185.5
Real property tax	351.5	341.0	334.1	303.9	295.0	288.6	274.7	258.1
Forest royalties	58.8	56.9	60.2	62.9	53.1	54.6	58.3	54.5
Tobacco tax	81.9	90.5	96.5	101.4	91.9	69.7	49.8	47.8
Metallic minerals tax	120.2	10.5	2.8	2.2	5.7	2.3	3.3	3.9

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

	2007	2006	2005	2004	2003	2002	2001	2000
Gasoline and motive fuel tax	10.6%	8.9%	10.8%	9.3%	9.0%	9.3%	11.5%	7.9%
Real property tax	115.6%	120.5%	118.3%	126.4%	126.9%	124.7%	124.6%	125.5%
Forest royalties	37.4%	42.7%	36.2%	44.5%	34.3%	33.7%	38.9%	35.0%
Tobacco tax	10.3%	9.4%	10.6%	11.1%	9.8%	10.6%	10.6%	9.2%
Metallic minerals tax	84.8%							

**2.48** Some observations:

- Because the property tax bills for a calendar year are sent out before 31 March, but are not due until after 31 March, the financial statements will always report a large balance of property taxes receivable. This makes it difficult to assess the collection position of property taxes.
- Assuming that gasoline and tobacco taxes are due each month, it would be reasonable for approximately 1/12<sup>th</sup> of the revenue for the year for those taxes to be outstanding at the end of the year. This would represent 8.3%.
- The metallic minerals tax has become an important revenue source due to increases in zinc prices. The full amount of this receivable was collected shortly after year end.

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

	(\$ millions)							
	2007	2006	2005	2004	2003	2002	2001	2000
Taxes receivable	661.4	554.9	488.9	553.2	507.0	471.9	460.9	431.6
Allowance for doubtful accounts	77.0	85.4	80.7	86.6	89.5	89.5	84.5	83.9
Percentage	11.6%	15.4%	16.5%	15.7%	17.7%	19.0%	18.3%	19.4%

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

### Loans

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

	(\$ millions)							
	2007	2006	2005	2004	2003	2002	2001	2000
Business New Brunswick	196.1	200.2	206.7	201.8	239.0	228.0	224.2	215.8
Education and/or Training and Employment Development	296.0	258.3	0.2	0.2	0.2	0.2	0.2	0.2
Energy Efficiency and Conservation Agency of New Brunswick	2.3	0.2						
Environment and/or Local Government	9.9	0.7	0.6	0.6	0.6	0.7	0.7	0.7
Executive Council	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Family and Community Services	34.8	34.5	33.6	32.7	31.8	30.9	31.3	24.9
Finance	0.0	1.0	1.6	1.6	1.9	1.7	1.9	2.3
Public Safety	10.2	10.4	10.7	10.9	11.2	11.4	11.6	12.2
Regional Development Corporation	7.3	3.6	5.3	3.8	3.6	3.2	3.2	3.0
Supply and Services							0.5	0.5
Subtotal	560.6	512.9	262.7	255.6	292.3	280.1	277.6	263.6
Allowance for doubtful accounts	207.2	192.9	142.6	129.3	143.9	133.7	124.7	122.3
Total	353.4	320.0	120.1	126.3	148.4	146.4	152.9	141.3

**2.52** During the year ended 31 March 2006, the Province took over responsibility for loans to students. The amount receivable at 31 March 2006 was \$258 million, and \$296 million for 2007. This change essentially doubled the size of the loans receivable by the Province and makes it difficult to compare to years prior to 2006.

**2.53** During the year ended 31 March 2007, the Department of Local Government issued a loan to the city of Saint John for \$9.2 million.



**2.54** Some of the loans receivable should be written off. The Executive Council loan to La Fondation du quotidien francophone has a 100% allowance against it and its structure is essentially the same as a grant. The Public Safety loans include \$9.5 million for unsatisfied judgments, which are old loans and have a 100% allowance recorded against them. These two items total \$13.5 million that the Province knows it will not collect and so they should be written off.

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

	(\$ millions)							
	2007	2006	2005	2004	2003	2002	2001	2000
Loans	560.6	512.9	262.7	255.6	292.3	280.1	277.6	263.6
Allowance for doubtful accounts	207.2	192.9	142.6	129.3	143.9	133.7	124.7	122.3
Percentage	37.0%	37.6%	54.3%	50.6%	49.2%	47.7%	44.9%	46.4%

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

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

	2007	2006	2005	2004	2003	2002	2001	2000
<i>Agricultural Development Act</i>	69.0%	72.4%	73.2%	71.0%	69.0%	66.3%	48.0%	37.5%
<i>Economic Development Act</i>	64.9%	65.1%	56.8%	46.0%	45.0%	41.7%	37.2%	30.5%
<i>Fisheries Development Act</i>	71.9%	73.8%	71.6%	76.8%	74.3%	74.3%	77.9%	82.2%
Provincial Holdings Ltd.	80.6%	73.3%	44.6%	34.3%	30.9%	25.9%	18.8%	32.5%
Loans to students	18.6%	15.9%	100%	100%	100%	100%	100%	100%
Local Government loans	2.6%	100%	100%	100%	100%	100%	100%	100%
La Fondation du quotidien francophone	100%	100%	100%	100%	100%	100%	100%	100%
<i>New Brunswick Housing Act</i>	6.9%	7.0%	6.3%	7.6%	7.9%	8.1%	9.2%	10.8%
DRIE agreements	N/A	N/A	0.0%	54.5%	42.9%	35.3%	31.6%	26.1%
Unsatisfied judgments	100%	100%	100%	100%	100%	100%	100%	100%

**2.58** The four largest categories of loans, which represent 92.0% of all loans and advances outstanding at 31 March 2007, are:

- Loans to students 52.8%
- *Economic Development Act* loans 26.0%
- *Fisheries Development Act* loans 7.0%
- *New Brunswick Housing Act* loans 6.2%

**2.59** Two of these loan categories have had increases in the rate of uncollectible accounts. The percentage of uncollectible loans under the *Economic Development Act* has significantly increased from 30.5% to 64.9% from 31 March 2000 to 31 March 2007. The percentage of uncollectible loans to students has increased from 15.9% to 18.6% from 31 March 2006 to 31 March 2007.

**2.60** Two of these loan categories have had decreases in the rate of uncollectible accounts. The percentage of uncollectible loans under the *Fisheries Development Act* has decreased from 82.2% to 71.9% from 31 March 2000 to 31 March 2007. The percentage of uncollectible loans under the *New Brunswick Housing Act* has decreased from 10.8% to 6.9%. The allowance for doubtful accounts for these two categories of loans should be reviewed.

### *Accounts payable and accrued expenses*

**2.61** The following table provides the history of the accounts payable and accrued expenses balance over the past eight years.

	(\$ millions)							
	2007	2006	2005	2004	2003	2002	2001	2000
Accounts payable	446.8	417.4	388.2	372.4	300.5	375.6	255.0	275.9
Due to Canada	228.9	249.9	211.4	186.2	34.8	10.3	9.5	16.2
Accrued interest	227.0	236.8	244.2	231.0	229.5	164.2	164.3	166.5
Employee benefits	609.2	599.6	575.4	542.2	419.5	404.1	403.9	352.5
Other	127.7	137.6	201.1	148.5	268.1	182.7	210.4	219.0
	1,639.6	1,641.3	1,620.3	1,480.3	1,252.4	1,136.9	1,043.1	1,030.1

**2.62** The largest component of the due to Canada account relates to overpayments by Canada to the Province under federal government transfers. Approximately \$187.5 million of the \$228.9 million payable in 2007 relates to overpayments by Canada under equalization. This demonstrates how payments from Ottawa based on estimates are subject to large changes as estimated amounts become final.

**2.63** Two components of the accrued employee benefit expenses are:

	(\$ millions)							
	2007	2006	2005	2004	2003	2002	2001	2000
Liability for injured workers	105.8	103.3	95.7	89.6	83.2	68.9	55.7	42.3
Retirement allowances	303.1	289.4	272.3	264.0	247.6	232.4	230.7	224.9

**2.64** The accrued retirement allowance amounts for fiscal years prior to 2007 have been restated to reflect the recording of the retirement allowances of Regional Health Authorities which the Province recorded as a change in accounting policy.

**2.65** The difference in the growth of these two accrued expenditures is noticeable. The liability for injured workers has increased 150.1% over a seven-year period, while the liability for accrued retirement allowances has only increased 34.8%. Both of the liabilities are related to the Province's work force, however one is growing at a significant rate while the other is growing at a slower rate.

#### *Allowance for losses*

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

	(\$ millions)							
	2007	2006	2005	2004	2003	2002	2001	2000
Allowance for losses	95.8	84.0	83.3	104.2	74.2	68.7	30.9	16.2

**2.67** This allowance at 31 March 2007 was over five times its balance at 31 March 2000. The components of the allowance are:

	(\$ millions)							
	2007	2006	2005	2004	2003	2002	2001	2000
Business New Brunswick	68.8	60.5	36.2	40.0	19.9	19.1	12.2	14.7
Education	0	0	30.7	35.1	30.1	25.4	18.5	1.3
Other	0.2	0.2	0.2	0.7	0.2	0.2	0.2	0.2
Property tax appeals	26.8	23.3	16.2	28.4	24.0	24.0	-	-

**2.68** This table shows the 31 March 2005 balance for Education disappeared as a result of the change in the method of providing student loans from guarantees to direct loans. The Business New Brunswick allowance for losses on loan guarantees has been increasing over the past six years.

**2.69** In 2007 the allowance for property tax appeals was added to this schedule and the amounts from prior years were added based on our best estimate. In prior years these amounts were shown as accrued liabilities or as allowance against property tax receivables.

### *All allowances*

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

All Allowances	(\$ millions)							
	2007	2006	2005	2004	2003	2002	2001	2000
Allowance for losses	95.8	84.0	83.3	104.2	74.2	68.7	30.9	16.2
Allowance for doubtful accounts (Loans and advances)	207.2	192.9	142.6	129.3	143.9	133.7	124.7	122.3
Allowance for doubtful accounts (Taxes receivable)	77.0	85.4	80.7	86.6	89.5	89.5	84.5	83.9
Allowance for doubtful accounts (Accounts and interest receivable)	155.7	140.7	132.9	118.5	113.3	97.7	87.4	77.5
Total all allowances	535.7	503.0	439.5	410.2	396.9	365.6	327.5	299.9

**2.71** These numbers are concerning. As at 31 March 2007, the Province expects to lose \$535.7 million of the various amounts it is owed or that it guarantees. This would seem to be symptomatic of a flaw in the collection function. It also seems that there is a significant opportunity here. Every one percent of these doubtful accounts that the Province could collect would represent \$5.4 million to the Province.

**2.72** Last year we reported there is at least one mechanism to help do this that would be inexpensive and has been successful in other provinces, that is a collection service that is offered by the Canada Revenue Agency. In August 2007 an Order-in-Council gave approval to the Minister of Finance to enter into a Memorandum of Understanding with the Government of Canada to take advantage of this service. Many of the Province's credit and loan programs need to be reviewed to determine if any changes should be implemented.

### *Obligations under capital leases*

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

	(\$ millions)							
	2007	2006	2005	2004	2003	2002	2001	2000
Capital leases	817.1	834.1	849.4	865.8	873.7	871.9	900.0	900.7

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

	(\$ millions)							
	2007	2006	2005	2004	2003	2002	2001	2000
Fredericton to Moncton highway lease	792.4	808.4	823.0	837.0	843.8	844.6	871.8	872.0

2.75 Over the past seven years, the Province has paid \$79.6 million against the outstanding principal owing on the Fredericton to Moncton highway lease.

**Pension liability (surplus)**

2.76 The following table provides the history of the Province's pension liability balance over the past eight years.

	(\$ millions)							
	2007	2006	2005	2004	2003	2002	2001	2000
Pension liability (surplus)	(126.4)	30.2	156.7	271.5	362.1	372.6	442.6	596.0

2.77 This reports a steady decline in the outstanding pension liability over the previous six years with a surplus reported in 2007 using estimates that are appropriate for accounting purposes. This picture is the result of the way that pensions are accounted for. Pension accounting rules include measures that help to remove much of the underlying volatility primarily in the market value of the plans' assets. The pension liability actually includes the following components:

	(\$ millions)							
	2007	2006	2005	2004	2003	2002	2001	2000
Estimated accrued benefits liability	7,865.5	7,324.5	6,719.6	6,380.9	5,983.7	5,603.1	5,339.0	5,138.2
Market value of pension plan assets	8,030.5	7,449.3	6,521.7	6,086.5	4,926.3	5,445.1	5,407.4	5,819.1
Subtotal	(165.0)	(124.8)	197.9	294.4	1,057.4	158.0	(68.4)	(680.9)
Accounting adjustments	38.6	155.0	(41.2)	(22.9)	(695.3)	214.6	511.0	1,276.9
Pension liability	(126.4)	30.2	156.7	271.5	362.1	372.6	442.6	596.0

**2.78** This table shows a steady increase in the estimated accrued benefits earned by members of the Province's various pension plans. However, the market value of the pension plan assets fluctuates significantly. Over the eight year ends reported in the table, the plan assets were at a low of \$4,926.3 million at 31 March 2003, and at a high of \$8,030.5 million at 31 March 2007.

**2.79** The table also reports the difference between the market value of the plans' assets and the estimated accrued benefit liabilities of the plans at each year end. At 31 March 2000, the market value of the assets actually exceeded the estimated liability for benefits earned by plan members by \$680.9 million. By 31 March 2003, that situation had reversed, and the value of the estimated liabilities exceeded the market value of the plans' assets by \$1,057.4 million. By 31 March 2006, the situation had again reversed such that the market value of assets once again exceeded the estimated liability by \$124.8 million. This trend continued for the year ended 31 March 2007 which reported that the market value of assets exceeded the estimated liability by \$165.0 million.

**2.80** The accounting rules for pensions for governments allow adjustments that reduce the effects of large changes in the components of the pension liability, such as market returns on assets. For example, even though the assets of the Province's pension plans exceeded the estimated benefit obligations at 31 March 2000 by \$680.9 million, the Province's financial statements actually reported a pension liability of \$596.0 million. Similarly, at 31 March 2003 the value of the plans' estimated accrued benefits exceeded the market value of the plans' assets by \$1,057.4 million, however, the pension liability reported on the Province's financial statements was \$362.1 million. As at 31 March 2007, the market value of the plans' assets exceeds the estimated accrued benefits by \$165.0 million, however, the pension surplus reported on the Province's financial statements was \$126.4 million.

**2.81** The annual change in the pension liability is not all caused by market returns on assets and accounting adjustments. The Province is also making contributions to the pension funds to reduce the pension liability. The following table compares the pension expense for the year with the contributions to the plans made by the Province.

	(\$ millions)							
	2007	2006	2005	2004	2003	2002	2001	2000
Pension expense	101.1	109.9	108.4	124.2	90.4	(0.7)	(51.1)	(9.1)
Employer contributions	257.7	236.4	223.2	214.8	100.9	69.1	102.3	167.6
Reduction in pension liability	156.6	126.5	114.8	90.6	10.5	69.8	153.4	176.7

***Funded debt for provincial purposes***

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

	(\$ millions)							
	2007	2006	2005	2004	2003	2002	2001	2000
Funded debt for provincial purposes	9,272.8	8,942.4	8,397.0	8,485.8	8,418.7	8,004.7	7,656.2	7,408.5

**2.83** The Province's funded debt for provincial purposes at 31 March 2007 is \$1,864.3 million higher than it was at 31 March 2000. This could be confusing to some readers of the financial statements because it seems inconsistent with the fact that net debt has dropped over that period. The primary reason for this is the Province's sinking fund. The following table reports the book value of the Province's sinking fund for the past eight years.

	(\$ millions)							
	2007	2006	2005	2004	2003	2002	2001	2000
Sinking fund book value	3,968.2	3,984.0	3,773.8	3,716.2	3,543.0	3,358.8	3,130.2	2,925.5

**2.84** So, while the Province's funded debt for provincial purposes increased by \$1,864.3 from 31 March 2000 until 31 March 2007, \$1,042.7 million of those borrowings were put aside in the Province's sinking fund.

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

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

**2.87** The increase in funded debt for provincial purposes that occurred during the fiscal year ended 31 March 2007 is especially confusing at first look since the Province recorded a surplus and reduction of net debt in 2007. Despite this, funded debt for provincial purposes increased \$330.4 million, while the sinking fund actually decreased by \$15.8 million. However, a quick look at the statement of financial position reveals that cash net of short-term borrowing increased by \$193.2 million, and, as the previous section reported, the Province's pension liability was paid down by \$156.6 million during the fiscal year ended 31 March 2007. These two items illustrate why funded debt for provincial purposes increased.

### ***Tangible capital assets***

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

	(\$ millions)			
	2007	2006	2005	2004
Tangible capital assets	5,645.5	5,518.9	5,404.0	5,294.9
Deferred capital contributions	(680.2)	(659.8)	(657.3)	(644.9)
Provincial investment in tangible capital assets	4,965.3	4,859.1	4,746.7	4,650.0

**2.89** The following table is an analysis of the change in deferred capital contribution from the federal government for the acquisition of tangible capital assets for the past three years.

	(\$ millions)		
	2007	2006	2005
Opening balance	659.8	657.3	644.9
Funds received to acquire tangible capital assets	43.5	24.9	34.3
Amortization of deferred capital contributions	(23.1)	(22.4)	(21.9)
Ending balance	680.2	659.8	657.3

**2.90** Below is an analysis of the change in the tangible capital asset balance for the past three years:

	(\$ millions)		
	2007	2006	2005
Opening balance	5,518.9	5,404.0	5,294.9
Acquisitions	365.0	342.2	326.7
Amortization of tangible capital assets	(238.1)	(226.9)	(215.3)
Loss on disposal of tangible capital assets	(0.3)	(0.4)	(2.3)
Ending balance	5,645.5	5,518.9	5,404.0



**2.91** Below is the annual investment in tangible capital assets from 2005 to 2007. It shows that the large majority of our infrastructure projects have been funded by the provincial government in that timeframe. Approximately 10% was federally funded on average in the last three years.

	(\$ millions)		
	2007	2006	2005
Provincial investment	321.5	317.3	292.4
Federal investment	43.5	24.9	34.3
Total investment	365.0	342.2	326.7
Provincially funded	88.1%	92.7%	89.5%

### Net debt

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

	(\$ millions)							
	2007	2006	2005	2004	2003	2002	2001	2000
Net debt	6,577.9	6,714.2	6,828.2	6,965.0	6,865.3	6,758.8	6,914.8	7,056.3

**2.93** Over this seven-year period, net debt has been reduced by \$478.4 million. The Province's net debt per capita for the past eight years is:

	2007	2006	2005	2004	2003	2002	2001	2000
Net debt (\$ millions)	6,577.9	6,714.2	6,828.2	6,965.0	6,865.3	6,758.8	6,914.8	7,056.3
Population	749,000	749,000	752,000	752,000	751,000	750,000	750,000	750,000
Net debt per capita	\$8,782	\$8,964	\$9,080	\$9,262	\$9,142	\$9,012	\$9,220	\$9,408

**2.94** At 31 March 2000, the share of the Province's net debt for each citizen of the Province was \$9,408. By 31 March 2007 that share had reduced to \$8,782.

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

	2007	2006	2005	2004	2003	2002	2001	2000
Net debt (\$ millions)	6,577.9	6,714.2	6,828.2	6,965.0	6,865.3	6,758.8	6,914.8	7,056.3
GDP (GDP is for the previous calendar year)	25,221	24,162	23,487	22,346	21,169	20,684	20,085	19,041
Net debt as a percentage of GDP	26.1%	27.8%	29.1%	31.2%	32.4%	32.7%	34.4%	37.1%

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

(\$ millions)	
<b>Net debt</b>	<b>2007</b>
Saskatchewan	6,446
New Brunswick	6,578
Manitoba	10,403
Nova Scotia	12,357

Net debt per capita	2007
Saskatchewan	\$7,390
New Brunswick	\$8,782
Manitoba	\$8,833
Nova Scotia	\$13,245

Net debt as a percentage of GDP	2007
Saskatchewan	16.0%
Manitoba	23.6%
New Brunswick	26.1%
Nova Scotia	36.0%

### Items reported in the notes

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

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

### Contingent liabilities

**2.98** The Province has a number of guaranteed loans. Guaranteed loans, net of the recorded allowance for losses for the past eight years were:

	(\$ millions)							
	2007	2006	2005	2004	2003	2002	2001	2000
Guaranteed loans	654.5	598.7	736.0	684.9	583.2	518.3	486.6	396.8

**2.99** This reports a significant increase in the value of guarantees issued by the Province over the five year period from 31 March 2000 until 31 March 2005, and then a significant decrease in 2006. The large decrease in 2006 was caused by the change in student loans from guarantees to loans receivable. The guarantees have again increased in 2007 to a balance of \$654.5 million net of recorded allowance for losses.

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

	(\$ millions)							
	2007	2006	2005	2004	2003	2002	2001	2000
<i>Adult Education and Training Act</i>	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
<i>Agricultural Development Act</i>	0.6	0.4	0.4	0.1	0.2	0.2	0.9	0.8
<i>Economic Development Act</i>	128.5	123.5	103.8	124.8	47.4	33.8	35.9	43.7
<i>Employment Development Act</i>	4.5	4.5	3.9	5.3	4.3	3.6	2.0	2.3
<i>Fisheries Development Act</i>	16.6	20.8	5.0	6.5	10.4	5.9	3.3	4.3
<i>Livestock Incentives Act</i>	0.9	0.9	0.9	1.5	1.6	1.5	1.7	0.5
<i>Nursing Homes Act</i>	8.7	9.4	10.3	10.6	10.6	10.7	10.6	11.0
<i>Regional Development Corporation Act</i>	3.3	3.5	3.3	3.4	3.7	3.5	4.0	3.9
<i>Youth Assistance Act</i>	0	0	209.1	186.8	168.2	136.6	107.9	0
New Brunswick Municipal Finance Corporation	560.1	496.1	466.6	421.4	386.7	366.9	350.9	346.2
Subtotal	723.5	659.4	803.6	760.7	633.4	563.0	517.5	413.0
Allowance for losses	69.0	60.7	67.6	75.8	50.2	44.7	30.9	16.2
Contingent liability	654.5	598.7	736.0	684.9	583.2	518.3	486.6	396.8

**2.101** This table reports that there has been a significant increase in the guarantees issued under the *Economic Development Act*. At 31 March 2000, the value of these guarantees was \$43.7 million. That declined to \$33.8 million by 31 March 2002, and since then has increased to a value of \$128.5 million at 31 March 2007. Also, guarantees under the *Fisheries Development Act* increased from \$4.3 million at 31 March 2000 to \$20.8 million at 31 March 2006. For 31 March 2007 they decreased to \$16.6 million which still represents a significant eight-year increase of \$12.3 million.

**2.102** The table also reports a significant increase in the value of guarantees made by the New Brunswick Municipal Finance Corporation during the fiscal year ended 31 March 2007.

**2.103** In 2007 the Province reported, for the first time, its guarantee of the deposits of credit unions and caisse populaires. As

of 31 December 2006, total deposits guaranteed amounted to \$2,740.4 million. Given the significance of the amount, the risk associated with the guarantee must be managed.

### **Commitments**

**2.104** The following table reports the Province's outstanding commitments for the past eight years.

	(\$ millions)							
<b>Commitments</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
Operating leases	409.5	436.4	407.8	392.0	398.5	369.8	308.9	329.7
Nursing home debt funding	121.5	111.8	84.1	84.8	86.3	81.0	78.6	68.2
Authorized capital projects	1,470.3	1,572.0	708.1	206.4	751.1	838.0	36.6	36.5

**2.105** The significant increase in authorized capital projects in 2002 and 2003 were due to NB Power's capital projects. The value of authorized capital projects increased significantly in the year ended 31 March 2006 and has remained comparatively high for the year ended 31 March 2007. As these commitments are met, they will put pressure on the Province's net debt position. The notes to the financial statements do not provide any details about the nature of these significant commitments, nor is there any explanation in the results for the year discussion that accompanies the financial statements.

**2.106** Both the operating lease commitments and the nursing home funded debt commitments have steadily increased from 31 March 2001 to 31 March 2006. Nursing home funded debt continued to increase while operating lease commitments declined in 2007.

### **Foreign exchange fluctuations**

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

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

	(\$ millions)							
	2007	2006	2005	2004	2003	2002	2001	2000
Unrealized foreign exchange losses (gains)	(48.9)	(48.7)	(39.9)	(22.8)	59.7	159.2	182.8	110.1

### *Market value of sinking fund investments*

**2.109** The Province does not disclose the market value of its sinking fund investments in its summary financial statements. However, it does produce separate financial statements for the sinking fund which do report the market value of the sinking fund investments. These financial statements are included in Volume 2 of the Province's Public Accounts. The following table reports the book value and market value of the provincial portion of the sinking fund for the years ended 31 March 2000 until 31 March 2006.

	(\$ millions)						
Sinking fund	2006	2005	2004	2003	2002	2001	2000
Book value – provincial portion	3,984.0	3,773.8	3,716.2	3,543.0	3,358.8	3,130.2	2,925.5
Book value – NB Power portion	336.4	391.6	363.7	351.3	327.4	297.3	295.1
Total book value	4,320.4	4,165.4	4,079.9	3,894.3	3,686.2	3,427.5	3,220.6
Market value	4,636.4	4,583.3	4,575.9	4,255.3	3,913.0	3,703.3	3,448.4
Excess of market value over book value	316.0	417.9	496.0	361.0	226.8	275.8	227.8

**2.110** This shows that at 31 March 2006, the sinking fund had a market value that was significantly higher than its recorded book value.

### **Statement of Operations**

#### *Surplus*

**2.111** For the year ended 31 March 2007, the Province reported a surplus of \$236.8 million.

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

	(\$ millions)			
Surplus (Deficit)	2007	2006	2005	2004
As originally recorded	236.8	243.6	242.2	(103.2)
As restated	236.8	235.0	233.7	(181.9)

**Change in net debt**

**2.113** For the year ended 31 March 2007, the Province reported a reduction in net debt of \$136.3 million.

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

(Increase) Decrease in net debt	(\$ millions)						
	2007	2006	2005	2004	2003	2002	2001
As originally recorded	136.3	122.6	131.5	(103.2)	(109.4)	143.8	181.8
As restated	136.3	114.0	136.8	(99.7)	(106.5)	156.0	141.5

**Revenue**

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

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

## Total revenue

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

Revenue	(\$ millions)							
	2007	2006	2005	2004	2003	2002	2001	2000
Provincial sources	4,161.6	3,930.2	3,627.2	3,533.7	3,331.4	3,216.1	3,067.7	2,974.3
Federal sources	2,487.3	2,392.9	2,354.6	1,917.6	1,911.9	2,038.6	1,804.8	1,811.9
Total	6,648.9	6,323.1	5,981.8	5,451.3	5,243.3	5,254.7	4,872.4	4,786.2

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

Revenue	2007	2006	2005	2004	2003	2002	2001
(\$ millions)							
Provincial sources	231.4	303.0	93.5	202.3	115.3	148.5	93.4
Federal sources	94.4	38.3	437.0	5.7	(126.7)	233.8	(7.1)
Total	325.8	341.3	530.5	208.0	(11.4)	382.3	86.3
%							
Provincial sources	5.9	8.4	2.6	6.1	3.6	4.8	3.1
Federal sources	3.9	1.6	22.8	0.3	(6.2)	13.0	(0.4)
Total	5.2	5.7	9.7	4.0	(0.2)	7.8	1.8

**2.118** Provincial source revenue has increased 40.7% since the year ended 31 March 2000, while federal source revenue has increased 37.5%. The following table reports the share of annual revenue that is made up of each primary source.

Revenue	2007	2006	2005	2004	2003	2002	2001	2000
Provincial sources	62.6%	62.2%	60.6%	64.8%	63.5%	61.2%	63.0%	62.1%
Federal sources	37.4%	37.8%	39.4%	35.2%	36.5%	38.8%	37.0%	37.9%

**2.119** Over these eight years, the provincial source revenue has been as high as 64.8% of total revenue and as low as 60.6%. Currently it is at 62.6%, similar to the 62.1% level in 2000.

Revenue from provincial sources

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

Revenue	(\$ millions)						
	2007	2006	2005	2004	2003	2002	2001
Provincial sources	4,161.6	3,930.2	3,627.2	3,533.7	3,331.4	3,216.1	3,067.7
GDP (GDP is for the previous calendar year)	25,221	24,162	23,487	22,346	21,169	20,684	20,085
Provincial source revenue as a % of GDP	16.5%	16.3%	15.4%	15.8%	15.7%	15.5%	15.3%
Percentage growth in provincial source revenue	5.9%	8.4%	2.6%	6.1%	3.6%	4.8%	3.1%
Percentage growth in GDP	4.4%	2.9%	5.1%	5.6%	2.3%	3.0%	5.5%

**2.121** In five of the past seven years, provincial source revenue has increased at a rate that exceeds the rate of growth of the GDP. The result is that in 2007, provincial source revenue was 16.5% of GDP, compared to 15.3% in 2001.

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

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

Provincial source revenue	(\$ millions)							
	2007	2006	2005	2004	2003	2002	2001	2000
Taxes on consumption	1,169.2	1,161.4	1,059.3	1,139.5	1,050.1	913.7	889.6	824.1
Taxes on property	351.5	341.0	334.1	303.9	295.0	288.6	274.7	258.1
Taxes on income	1,512.9	1,224.4	1,176.1	1,065.6	1,051.5	1,092.1	1,091.9	1,045.2
Other taxes	86.6	90.8	94.7	103.4	85.0	81.9	69.2	65.8
Licenses and permits	116.4	113.8	103.0	104.1	103.0	101.6	106.6	105.4
Royalties	68.7	67.8	70.7	70.4	60.0	61.1	66.5	62.5
Investment income	308.5	409.6	283.7	252.7	176.7	246.3	156.4	211.3
Other provincial revenue	315.9	295.0	284.0	271.6	267.1	199.9	192.8	198.2
Sinking fund earnings	231.8	226.4	221.6	222.5	243.0	230.9	220.0	203.7
Total	4,161.5	3,930.2	3,627.2	3,533.7	3,331.4	3,216.1	3,067.7	2,974.3

## Taxes on consumption

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

Taxes on consumption	(\$ millions)							
	2007	2006	2005	2004	2003	2002	2001	2000
Gasoline and Motive Fuels Tax	215.2	232.1	239.7	234.9	222.1	184.3	186.5	185.5
Harmonized Sales Tax	872.1	838.7	723.0	803.1	736.0	659.6	653.2	590.7
Tobacco Tax	81.9	90.5	96.5	101.4	91.9	69.7	49.8	47.8
Other	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total	1,169.2	1,161.4	1,059.3	1,139.5	1,050.1	913.7	889.6	824.1
Increase (decrease)	7.8	102.1	(80.2)	89.4	136.4	24.1	65.5	10.1
Percentage increase (decrease)	0.7%	9.6%	(7.0%)	8.5%	14.9%	2.7%	7.9%	1.2%
Total as a percentage of GDP	4.6%	4.8%	4.5%	5.1%	5.0%	4.4%	4.4%	4.3%

**2.125** Over this eight-year period, the major change in Gasoline and Motive Fuels Tax was in 2003 which was due to tax increases. The decrease in this revenue source in 2007 was the result of a reduction in the tax rate. Also, over this eight-year period there has



been a steady increase in harmonized sales tax except for 2005. This decrease was due to prior-year adjustments related to harmonized sales tax revenue. The year ended 31 March 2003 was also the first year that a full year's interest expense was recorded on the debt issued for the Fredericton to Moncton highway. If we use the gasoline tax revenue for 2002 as a base year, we can compare the approximate extra revenue generated by the tax increase to the interest on the highway debt:

	(\$ millions)					
	2007	2006	2005	2004	2003	2002
Extra Gasoline and Motive Fuels Tax	30.9	47.8	55.4	50.6	37.8	0
Interest on highway debt	55.4	56.5	57.5	58.1	55.8	22.5

**2.126** The ratio of harmonized sales tax revenue to GDP over the past eight years is as follows:

	(\$ millions)							
	2007	2006	2005	2004	2003	2002	2001	2000
Harmonized Sales Tax	872.1	838.7	723.0	803.1	736.0	659.6	653.2	590.7
GDP (GDP is for the previous calendar year)	25,221	24,162	23,487	22,346	21,169	20,684	20,085	19,041
Ratio	3.5%	3.5%	3.1%	3.6%	3.5%	3.2%	3.3%	3.1%

Taxes on income

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

	(\$ millions)							
Taxes on income	2007	2006	2005	2004	2003	2002	2001	2000
Corporate income tax	217.6	150.3	173.1	111.1	134.9	179.9	178.6	141.0
Metallic minerals tax	120.2	10.5	2.8	2.2	5.7	2.3	3.3	3.9
Personal income tax	1,175.1	1,063.6	1,000.2	952.3	910.9	909.9	910.0	900.3
Total	1,512.9	1,224.4	1,176.1	1,065.6	1,051.5	1,092.1	1,091.9	1,045.2
Total as a percentage of GDP (GDP is for the previous calendar year)	6.0%	5.1%	5.0%	4.8%	5.0%	5.3%	5.4%	5.5%

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

	(\$ millions)							
	2007	2006	2005	2004	2003	2002	2001	2000
Corporate Income Tax	217.6	150.3	173.1	111.1	134.9	179.9	178.6	141.0
Corporation profits before taxes (previous calendar year)	2,750	2,324	2,468	1,953	1,832	1,904	1,846	1,769
Percentage	7.9%	6.5%	7.0%	5.7%	7.4%	9.4%	9.7%	8.0%

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

	2007	2006	2005	2004	2003	2002	2001
Personal Income Tax	10.5%	6.3%	5.0%	4.5%	0.1%	0.0%	1.1%

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

	2006	2005	2004	2003	2002	2001	2000
Increase in per capita income	4.2%	3.4%	4.0%	3.5%	2.5%	2.5%	4.8%
Increase in wage component of GDP	4.0%	3.5%	4.0%	5.5%	4.3%	0.5%	6.1%
Increase in wage, interest and unincorporated business component of GDP	3.8%	3.8%	3.8%	5.0%	2.4%	0.7%	5.5%

**2.131** This is confusing because while per capita income has grown at a reasonably consistent rate over the past four years, personal income taxes collected by the Province have grown more significantly in the past three years. It is hard to understand why the growth in personal income tax is larger than the growth in the wage component of GDP. This is true even when the growth in the wage component of GDP is added to the growth in the interest and investment component and the income from non-incorporated businesses.

**2.132** Further analysis of the personal income tax revenue source shows that prior years' adjustments have a significant impact on the amount of revenue recorded in any given year.

**2.133** The components of personal income tax revenue over the past seven years are:

Personal Income Taxes	(\$ millions)						
	2007	2006	2005	2004	2003	2002	2001
Current year estimate	1,097.3	1,029.6	979.2	939.1	903.6	881.2	893.5
Prior year adjustment	77.8	34.0	21.1	13.2	7.4	28.7	17.4
Other	0.0	0.0	(0.1)	0.0	(0.1)	0.0	(0.9)
Total	1,175.1	1,063.6	1,000.2	952.3	910.9	909.9	910.0

**2.134** Even after taking into account the effect of prior year adjustments, the increases in personal income tax revenue in recent years are significantly above what the economic data would suggest.

**2.135** This is apparently not unique to New Brunswick. In the federal government's 2007 Budget Plan, they include a discussion in their Fiscal Outlook about the "Income Elasticity of Personal Income Tax Revenues" which says in part:

*The income elasticity of personal income tax (PIT) revenues measures the percentage change in PIT revenues resulting from a 1-per-cent change in personal income. It is a key element of the PIT revenue forecast.*

*PIT revenues usually grow slightly faster than personal income, reflecting the progressive nature of the income tax system, under which marginal tax rates rise as taxable income rises.*

*In 2006-07, the underlying elasticity is estimated to be about 1.8, well above the elasticity assumption of 1.2 used by most economists. The unusually high elasticity in 2006-07 may be due to a variety of factors, including strong overall real income gains and a concentration of income growth among higher-income earners (who face a higher effective tax rate). It is also possible that current estimates of personal income growth may be somewhat underestimated. Which of these factors is at play in 2006-07 will only be determined two years from now, when detailed data on tax assessments for 2006 is available.*

Other provincial source revenues

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

	(\$ millions)							
	2007	2006	2005	2004	2003	2002	2001	2000
Insurance Premium Tax	40.1	39.4	39.7	42.2	34.3	30.3	28.2	25.9
Large Corporation Capital Tax	34.7	36.3	39.5	47.3	38.7	39.0	30.6	28.1
Motor vehicle licenses	96.0	93.4	82.3	78.0	78.8	79.1	80.6	78.8
Forest royalties	58.8	56.9	60.2	62.9	53.1	54.6	58.3	54.5
Lottery revenues	113.0	111.2	118.1	116.7	109.1	89.2	89.7	86.3
NB Electric Finance Corporation	18.7	131.6	7.8	(18.0)	(77.4)	19.0	(78.0)	17.0
NB Liquor Corporation	131.5	126.1	122.6	118.6	110.1	106.8	103.0	100.8
Sinking fund earnings	231.8	226.4	221.6	222.5	243.0	230.9	220.0	203.7

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

Revenue source	Seven year annual average growth rate
Insurance Premium Tax	6.4%
Lottery revenues	3.9%
NB Liquor Corporation	3.9%
Large Corporation Capital Tax	3.1%
Motor vehicle licenses	2.9%
Sinking fund earnings	1.9%
Forest royalties	1.1%

**2.138** While the Large Corporation Capital Tax has had a seven-year annual growth rate of 3.1%, it has actually declined three years in a row.

Revenue from federal sources

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

	(\$ millions)						
<b>Federal source revenue</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
Canada Health and Social Transfer	706.9	696.3	607.3	545.2	498.9	494.9	404.0
Health Reform Transfer	0	0	35.3	0	0	0	0
Fiscal Equalization Payments	1,450.8	1,348.0	1,395.5	1,089.3	1,146.9	1,321.3	1,150.5
Other unconditional grants	1.9	1.9	1.7	1.9	1.9	1.9	1.9
Conditional grants	304.6	324.3	292.8	259.9	243.8	200.6	194.8
Harmonization Transitional Payment							34.0
Amortization of deferred contributions	23.2	22.4	22.0	21.3	20.4	19.9	19.6
<b>Total</b>	<b>2,487.4</b>	<b>2,392.9</b>	<b>2,354.6</b>	<b>1,917.6</b>	<b>1,911.9</b>	<b>2,038.6</b>	<b>1,804.8</b>
Increase (decrease)	94.5	38.3	437.0	5.7	(126.7)	233.8	(7.1)
Percentage increase (decrease)	3.9%	1.6%	22.8%	0.3%	(6.2%)	13.0%	(0.4%)

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

### *Expenses*

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

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

### Total expenses

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

**2.143** The following table reports the Province's expenses for the past four years.

Expenses	2007		2006		2005		2004	
	\$ millions	%	\$ millions	%	\$ millions	%	\$ millions	%
Education and training	1,305.5	20.4	1,309.7	21.5	1,189.0	20.7	1,168.1	20.7
Health	2,110.2	32.9	1,957.8	32.2	1,837.0	32.0	1,788.5	31.7
Family and Community Services	824.0	12.9	775.4	12.7	730.5	12.7	716.6	12.7
Protection services	233.6	3.6	161.2	2.6	151.2	2.6	145.2	2.6
Economic Development	205.6	3.2	181.2	3.1	183.6	3.2	167.0	3.0
Labour and employment	120.4	1.9	117.4	1.9	117.5	2.0	121.5	2.2
Resource sector	193.0	3.0	160.1	2.6	166.8	2.9	159.0	2.8
Transportation	347.5	5.4	336.3	5.5	310.5	5.4	307.5	5.5
Central government	512.9	8.0	497.6	8.2	481.1	8.4	476.9	8.5
Service of the Public Debt	559.4	8.7	591.4	9.7	580.9	10.1	582.9	10.3
Total	6,412.1	100.0	6,088.1	100.0	5,748.1	100.0	5,633.2	100.0

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

Expenses	2007		2006		2005	
	\$ millions	%	\$ millions	%	\$ millions	%
Education and training	(4.2)	(0.3)	120.7	10.2	20.9	1.8
Health	152.4	7.8	120.8	6.6	48.5	2.7
Family and Community Services	48.6	6.3	44.9	6.1	13.9	1.9
Protection services	72.4	44.9	10.0	6.6	6.0	4.1
Economic Development	24.4	13.5	(2.4)	(1.3)	16.6	9.9
Labour and employment	3.0	2.6	(0.1)	(0.1)	(4.0)	(3.3)
Resource sector	32.9	20.5	(6.7)	(4.0)	7.8	4.9
Transportation	11.2	3.3	25.8	8.3	3.0	1.0
Central government	15.3	3.1	16.5	3.4	4.2	0.9
Service of the Public Debt	(32.0)	(5.4)	10.5	1.8	(2.0)	(0.3)
Total	324.0	5.3	340.0	5.9	114.9	2.0
Rate of Growth of GDP		4.4		2.9		5.1

**2.145** The large increase in protection services was primarily the result of \$60 million for credit union stabilization and support.

**2.146** The large increase in resource sector expenses was primarily the result of a contribution of \$26.6 million to the clean up of the Saint John Harbour.

**2.147** In 2005 the rate of growth of expenses was less than the rate of growth of GDP, while in 2006 and 2007, it was greater.

**2.148** The notes to the financial statements also provide a detail of the expenses by what is referred to as primary classification:

Primary	2007		2006		2005		2004	
	\$ millions	%	\$ millions	%	\$ millions	%	\$ millions	%
Personal services	2,053.3	32.0	1,994.3	32.8	1,966.6	34.2	1,916.9	34.0
Other services	1,335.9	20.8	1,195.0	19.6	1,044.3	18.2	980.3	17.4
Materials and supplies	148.6	2.3	127.3	2.1	124.7	2.2	113.5	2.0
Property and equipment	102.9	1.6	88.8	1.5	73.3	1.3	69.4	1.2
Contributions, grants and subsidies to or on behalf of:								
Municipalities and Local Service Districts	166.2	2.6	151.2	2.5	143.7	2.5	145.1	2.6
Individuals	1,016.4	15.9	971.0	15.8	943.2	16.4	894.0	15.9
Nursing homes	169.1	2.6	144.6	2.4	131.8	2.3	125.1	2.2
Other	517.5	8.1	497.8	8.2	471.7	8.2	435.2	7.7
Debt and other charges	664.2	10.4	691.2	11.4	633.4	11.0	663.3	11.8
Amortization	238.0	3.7	226.9	3.7	215.4	3.7	290.4	5.2
Total	6,412.1	100.0	6,088.1	100.0	5,748.1	100.0	5,633.2	100.0

Expenses by department

**2.149** The following table provides a four or two-year comparison of the departments or categories with the ten largest expenses during the year ended 31 March 2007. The Department of Education and the Department of Training and Employment Development have a two-year comparison due to departmental reorganizations.

	2007		2006		2005		2004	
	\$ millions	%	\$ millions	%	\$ millions	%	\$ millions	%
Regional Health Authorities	1,444.9	22.5	1,284.9	21.1	1,192.7	20.7	1,106.9	19.6
Family and Community Services	817.8	12.8	761.4	12.5	724.3	12.6	710.5	12.6
Health and Wellness	603.3	9.4	615.6	10.1	593.6	10.3	550.4	9.8
Service of the Public Debt	559.4	8.7	591.4	9.7	580.9	10.1	582.9	10.3
MPHEC	215.8	3.4	258.5	4.2	185.2	3.2	179.7	3.2
Amortization	238.1	3.7	226.9	3.7	215.4	3.7	290.4	5.2
Transportation	209.9	3.3	204.1	3.4	182.2	3.2	179.1	3.2
Public Safety	119.4	1.9	112.1	1.8	105.0	1.8	99.8	1.8
Education	850.4	13.3	817.0	13.4				
Training and Employment Development	293.2	4.6	289.8	4.8				

## Interest expense

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

	(\$ millions)							
	2007	2006	2005	2004	2003	2002	2001	2000
Interest	739.7	744.5	756.9	766.2	799.1	817.2	851.1	833.4
Interest on Fredericton to Moncton highway capital lease	55.4	56.5	57.5	58.1	55.8	22.5	0	0
Interest on other capital leases	2.2	2.2	2.3	2.3	2.4	2.4	2.5	2.5
Foreign exchange expense	(30.8)	(7.8)	(21.7)	(40.3)	35.4	56.6	44.5	27.2
Other expenses	2.1	1.7	1.9	2.1	3.3	1.8	1.2	8.5
Subtotal	768.6	797.1	796.9	788.4	896.0	900.5	899.3	871.6
Interest recovery – Electric Finance Corporation	(209.2)	(205.7)	(216.0)	(205.5)	(235.1)	(248.7)	(262.0)	(260.9)
Service of the public debt	559.4	591.4	580.9	582.9	660.9	651.8	637.3	610.7
Less sinking fund earnings	(231.8)	(226.4)	(221.6)	(222.5)	(243.0)	(230.9)	(220.0)	(203.7)
Subtotal	327.6	365.0	359.3	360.4	417.9	420.9	417.3	407.0
Pension interest charged	0.4	30.9	17.6	85.4	27.9	3.5	(53.6)	(9.1)
Interest on student loans	11.6	6.8	0	0	0	0	0	0
Total	339.6	402.7	376.9	445.8	445.8	424.4	363.7	397.9

**2.151** The subtotal that deducts sinking fund earnings from service of the public debt is the best indicator of net interest costs. It reached a high of \$420.9 million in 2002 and an eight-year low of \$327.6 million in 2007.

## Provision expense

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

	(\$ millions)							
	2007	2006	2005	2004	2003	2002	2001	2000
Provision expense	69.9	59.7	77.5	71.2	33.0	43.2	65.3	46.5

## Expenditure

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



<b>Expenditure</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
Expenditure (\$ millions)	6,548.2	6,211.6	5,857.3	5,576.7	5,379.2	5,081.3
Increase (\$ millions)	336.6	354.3	280.6	197.5	297.9	353.6
Percentage increase	5.4%	6.0%	5.0%	3.7%	5.9%	7.5%

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

	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
<b>Expenditure growth</b>	5.4%	6.0%	5.0%	3.7%	5.9%	7.5%
GDP growth (GDP is for the previous calendar year)	4.4%	2.9%	5.1%	5.6%	2.3%	3.0%
Revenue growth	5.2%	5.7%	9.7%	4.0%	(0.2%)	7.8%

**2.155** In 2007, like in 2006, expenditure growth exceeded both GDP growth and revenue growth.

## History of net debt since 31 March 1987

**2.156** At 31 March 2007, the net debt of the Province of New Brunswick was \$6,577.9 million, which was 26.1% of the Province's Gross Domestic Product. Net debt, as its name implies, means that the Province owes more money than it has; it is the difference between the Province's liabilities and its financial assets.

**2.157** The Province had total liabilities as at 31 March 2007 of \$8,204.7 million and total financial assets of \$1,626.8 million resulting in net debt of \$6,577.9 million.

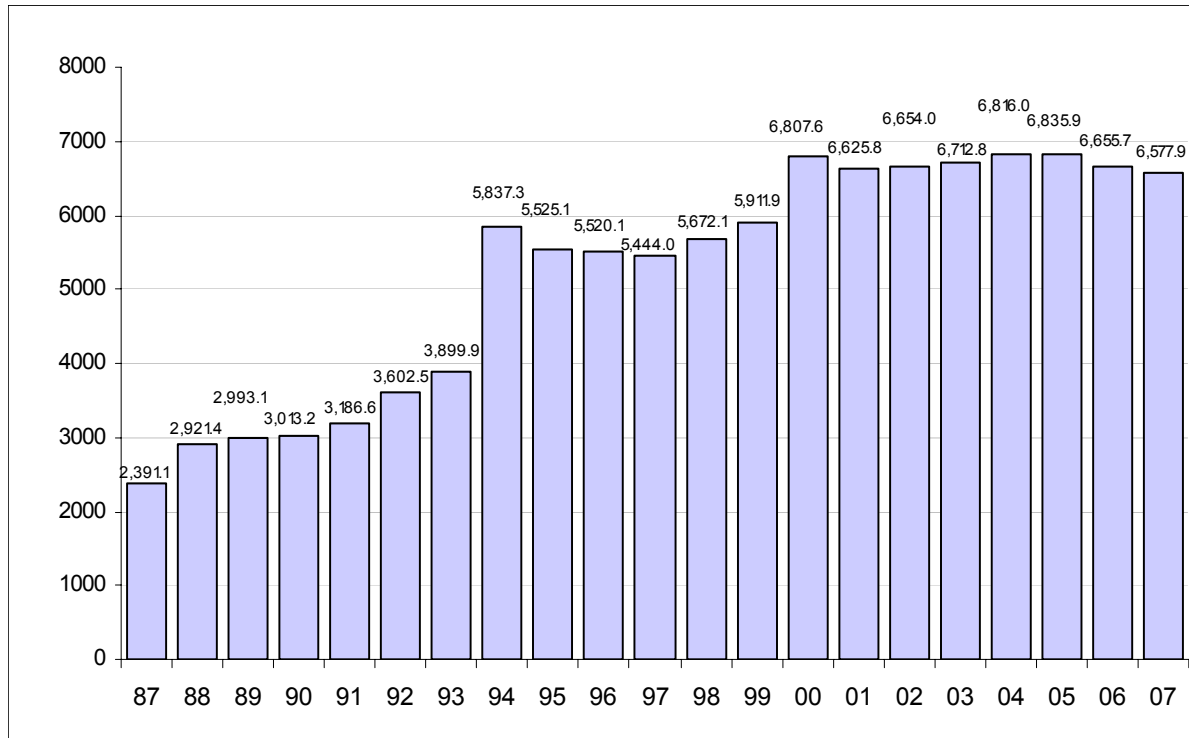
**2.158** In our opinion, net debt is important and it needs to be properly managed. The annual change in net debt is a measure of performance that is as important as the annual surplus or deficit. This section is intended to provide a focus on net debt and how it has accumulated over the past twenty years.

## History of net debt

**2.159** At 31 March 1987, the Province's net debt was reported as \$2,391.1 million. The following table and graph show the net debt as originally reported at 31 March of each year from 1987 to 2007.

Year	Net Debt (\$ millions)
1987	2,391.1
1988	2,921.4
1989	2,993.1
1990	3,013.2
1991	3,186.6
1992	3,602.5
1993	3,899.9
1994	5,837.3
1995	5,525.1
1996	5,520.1
1997	5,444.0
1998	5,672.1
1999	5,911.9
2000	6,807.6
2001	6,625.8
2002	6,654.0
2003	6,712.8
2004	6,816.0
2005	6,835.9
2006	6,655.7
2007	6,577.9

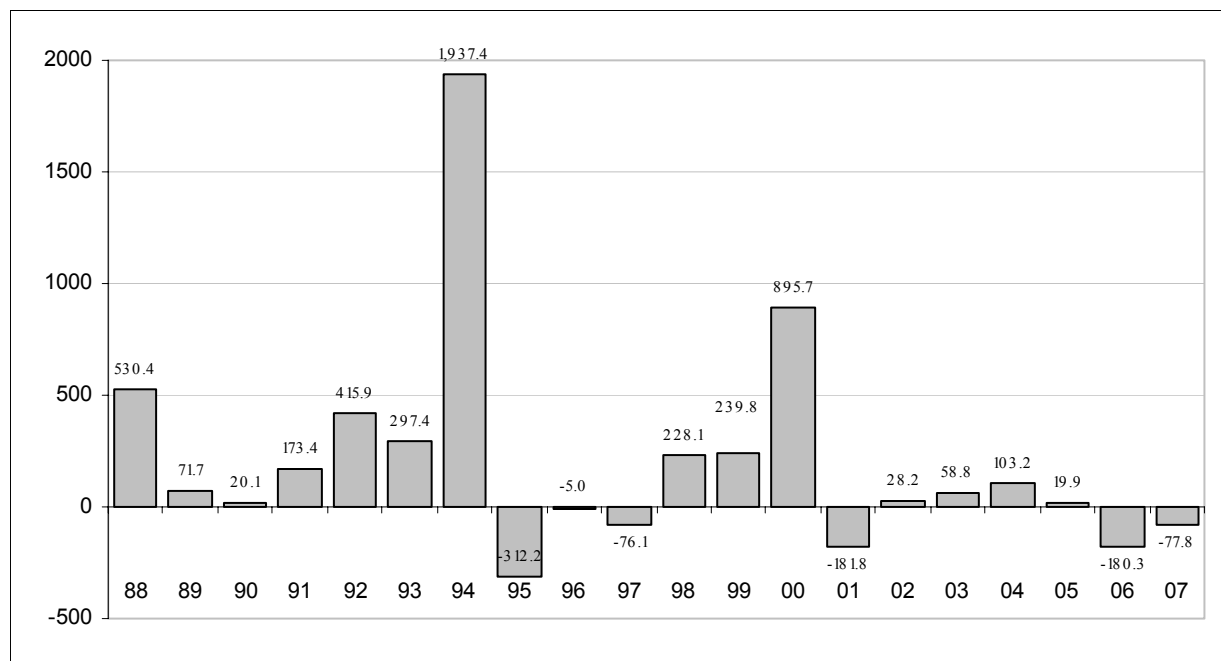
Year	Net Debt (\$ millions)
1987	2,391.1
1988	2,921.4
1989	2,993.1
1990	3,013.2
1991	3,186.6
1992	3,602.5
1993	3,899.9
1994	5,837.3
1995	5,525.1
1996	5,520.1
1997	5,444.0
1998	5,672.1
1999	5,911.9
2000	6,807.6
2001	6,625.8
2002	6,654.0
2003	6,712.8
2004	6,816.0
2005	6,835.9
2006	6,655.7
2007	6,577.9



**2.160** Based on these end-of-year numbers, the following table and graph show the change in net debt in each year as originally reported.

Year	Increase (decrease) in Net Debt (\$ millions)
1988	530.4
1989	71.7
1990	20.1
1991	173.4
1992	415.9
1993	297.4
1994	1,937.4
1995	(312.2)
1996	(5.0)
1997	(76.1)

Year	Increase (decrease) in Net Debt (\$ millions)
1998	228.1
1999	239.8
2000	895.7
2001	(181.8)
2002	28.2
2003	58.8
2004	103.2
2005	19.9
2006	(180.3)
2007	(77.8)



**2.161** In any given year, however, some of the change in net debt may have resulted from changes in accounting policies to comply with Canadian Generally Accepted Accounting Principles for governments. In such years, only a portion of the change in net debt was caused by events that happened during the year. The following table divides the change in net debt for each year between the

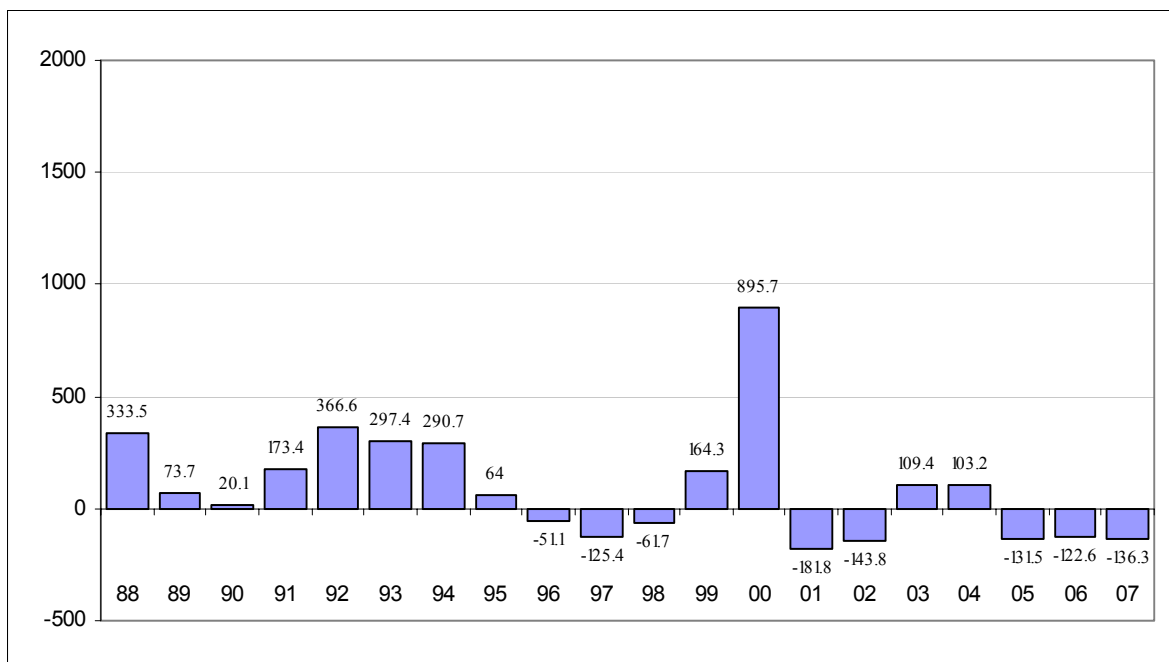
in-year change and the amount of the change that affected previous years.

**2.162** The in-year change in net debt is the portion of the change in net debt that was under the direct control of the government of the day. The prior years' change in net debt is the portion that resulted from applying new accounting policies to earlier years as required by generally accepted accounting policies.

Year	Increase (decrease) in net debt (\$ millions)	Change related to previous years	In-year change as originally reported
1988	530.4	196.9	333.5
1989	71.7	(2.0)	73.7
1990	20.1	0.0	20.1
1991	173.4	0.0	173.4
1992	415.9	49.3	366.6
1993	297.4	0.0	297.4
1994	1,937.4	1,646.7	290.7
1995	(312.2)	(376.2)	64.0
1996	(5.0)	46.1	(51.1)
1997	(76.1)	49.3	(125.4)
1998	228.1	289.8	(61.7)
1999	239.8	75.5	164.3
2000	895.7	0.0	895.7
2001	(181.8)	0.0	(181.8)
2002	28.2	172.0	(143.8)
2003	58.8	(50.6)	109.4
2004	103.2	0.0	103.2
2005	19.9	151.4	(131.5)
2006	(180.3)	(57.7)	(122.6)
2007	(77.8)	58.5	(136.3)
<b>Total</b>	<b>4,186.8</b>	<b>2,249.0</b>	<b>1,937.8</b>

**2.163** The large increase in net debt in 2000 was a result of the recognition of the capital lease liability for the Fredericton to Moncton highway, none of which was attributed to prior years for accounting purposes.

**2.164** Graphically the in-year change in net debt looks like this:



**2.165** Therefore, of the \$4,186.8 million increase in net debt as it was originally reported over the past twenty years, \$2,249.0 million was recorded as adjustments to previous years because of changes in accounting policies.

**2.166** As the following table shows, the accounting changes made over the past twenty years have been significant, and make it difficult to compare year to year results. The accounting changes were:

Year and area	Description	Increase (decrease) net debt (\$ millions)
1988 Foreign exchange	The method of recording foreign currency denominated assets and liabilities, which had previously been recorded at the exchange rates in effect when such items were issued, was changed so that the items would be recorded at the exchange rate in effect at 31 March each year. The unrealized exchange gains or losses were amortized over the remaining outstanding term of the related instrument.	64.9
1988 Capital leases	Long term leases under which the Province assumes substantially all of the benefits and risks of ownership related to the leased property, which had previously been recorded as rentals, were recorded as capital leases and the present value was charged as a capital expenditure.	15.3

Year and area	Description	Increase (decrease) net debt (\$ millions)
1988 Loans to hospitals	Loans made to hospitals that were to be repaid through future grants from the Province were reclassified as capital expenditures.	21.7
1988 Land purchases	Purchases of farm lands as part of the Province's Land Lease Program that were recorded as loans and advances were charged to capital expenditures.	6.0
1988 Property held for resale	Properties held for resale were charged to capital expenditures if not sold within two years of acquisition.	4.7
1988 Advances to NB Housing	Certain loans and advances made to the New Brunswick Housing Corporation were charged as expenditures.	84.3
1989 Special purpose	Special purpose account balances were reclassified from liabilities to surpluses.	(2.0)
1992 Vehicles and equipment	The Province stopped capitalizing and amortizing the cost of vehicles and equipment. The cost was now to be recorded as a capital expenditure in the year of acquisition.	49.3
1994 Pensions	Effective 1 April 1993, the Province changed its accounting policy for recording its Accrued Pension Liability and the related Pension Expense to conform with the recommendations of the Public Sector Accounting and Auditing Board of the Canadian Institute of Chartered Accountants. This Accounting treatment reports the Accrued Pension Liability and Pension Expense based on actuarial valuations using the projected unit credit method for the Province's defined benefit plans. Previously, a Pension Liability was not recognized in the Province's Statement of Financial Position and Pension Expense was recorded in the amount of funding provided to the pension funds for the year.	1,646.7
1995 Government business enterprises (GBEs)	The Province included the following enterprises in its reporting entity through modified equity accounting: <ul style="list-style-type: none"> <li>• New Brunswick Liquor Corporation;</li> <li>• New Brunswick Municipal Finance Corporation;</li> <li>• New Brunswick Power Corporation;</li> <li>• Workplace Health, Safety and Compensation Commission.</li> </ul>	(376.2)
1996 Pensions	The Province had an actuarial valuation completed on the Members' Superannuation Plan. This was the final valuation required to complete the Province's adoption of full accrual accounting for its pension liability and pension related expenditure.	22.9
1996 GBEs	The Province changed its method of accounting for two organizations. Algonquin Properties Limited was changed from the modified equity method to consolidation. The Mental Health Commission of New Brunswick was changed from the transaction method to the consolidation method.	23.2

Year and area	Description	Increase (decrease) net debt (\$ millions)
1997 GBEs	<p>The Workplace Health, Safety and Compensation Commission started recording a liability for the estimated cost of future claims that are expected to result from latent occupational diseases. Previously, these costs were not recorded as liabilities.</p> <p>The Commission also started to include, as part of its benefits liability, the estimated liability for future administration costs of existing claims.</p> <p>The Province changed its method of accounting for New Brunswick school districts from the transaction method to the consolidation method, because, effective 1 March 1996, the Province dissolved publicly elected school boards, and made the school districts accountable to the Minister of Education.</p>	46.6
1997 Accounts receivable	The Province's 31 March 1996 financial statements overstated the value of Accounts Receivable from municipalities.	2.7
1998 Retirement allowance	The Province began recording the retirement allowance for government employees and employees of consolidated entities except employees of hospitals.	195.2
1998 Teacher's summer pay	The Province started to record an accrued liability for the portion of the summer pay of teachers that was earned at 31 March each year.	47.3
1998 Vacation pay	The Province started to record an accrued liability for its earned vacation pay obligations.	16.3
1998 Self insured workers compensation	The Province is self-insured for workers' compensation. In 1988 it began recording the actuarial value of this liability.	31.0
1999 Capital leases	The Province started recording real property leases as capital leases in accordance with PSAB rules. Previously real property leases were only considered capital if ownership of the real property transferred to the Province during the lease term or if the lease term was extremely long.	29.6
1999 GBEs	The accounting for Hospital Corporations' financial position and results of operations was changed to include them in the reporting entity using the equity method. In prior years, they were included using the transaction method.	45.9
2002 NB Power foreign exchange	NB Power Corporation changed its method of accounting for foreign exchange gains and losses. Previously the Corporation deferred any unrealized gains or losses on the translation of foreign currency denominated monetary assets and liabilities, and amortized those gains or losses to income over the remaining term of the related debt issue. The new accounting policy requires foreign exchange gains or losses to be recognized immediately.	172.0

Year and area	Description	Increase (decrease) net debt (\$ millions)
2003 NB Power decommissioning liability	During the year ended 31 March 2003, NB Power Corporation changed its method of accounting for asset retirement obligations, so as to be in compliance with the accounting standard set by the Canadian Institute of Chartered Accountants. This standard applies to the plant decommissioning and used nuclear fuel management liabilities recorded by the Corporation. The new standard requires the recognition of the net present value of these liabilities when incurred. Income and retained earnings for the Corporation from prior years were restated to reflect the new standard.	(44.0)
2003 GBEs	Effective with the year ended 31 March 2003, the Province no longer consolidated the Workplace Health, Safety and Compensation Commission due to revisions to the accounting recommendations issued by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.	(6.6)
2005 Inventory of supplies	Inventory of Supplies was reclassified to a non-financial asset.	40.2
2005 Recording of prepaid expenses	Prepaid Expenses were reclassified to non-financial assets.	111.2
2006 Reclassify advances	Certain items previously classified as prepaid expenses (a non-financial asset) were reclassified as advances as they represent advances to other entities for the next fiscal year.	(57.7)
2007 Retirement allowances of regional health authorities	The Province began recording the retirement allowance for employees of regional health authorities.	58.5

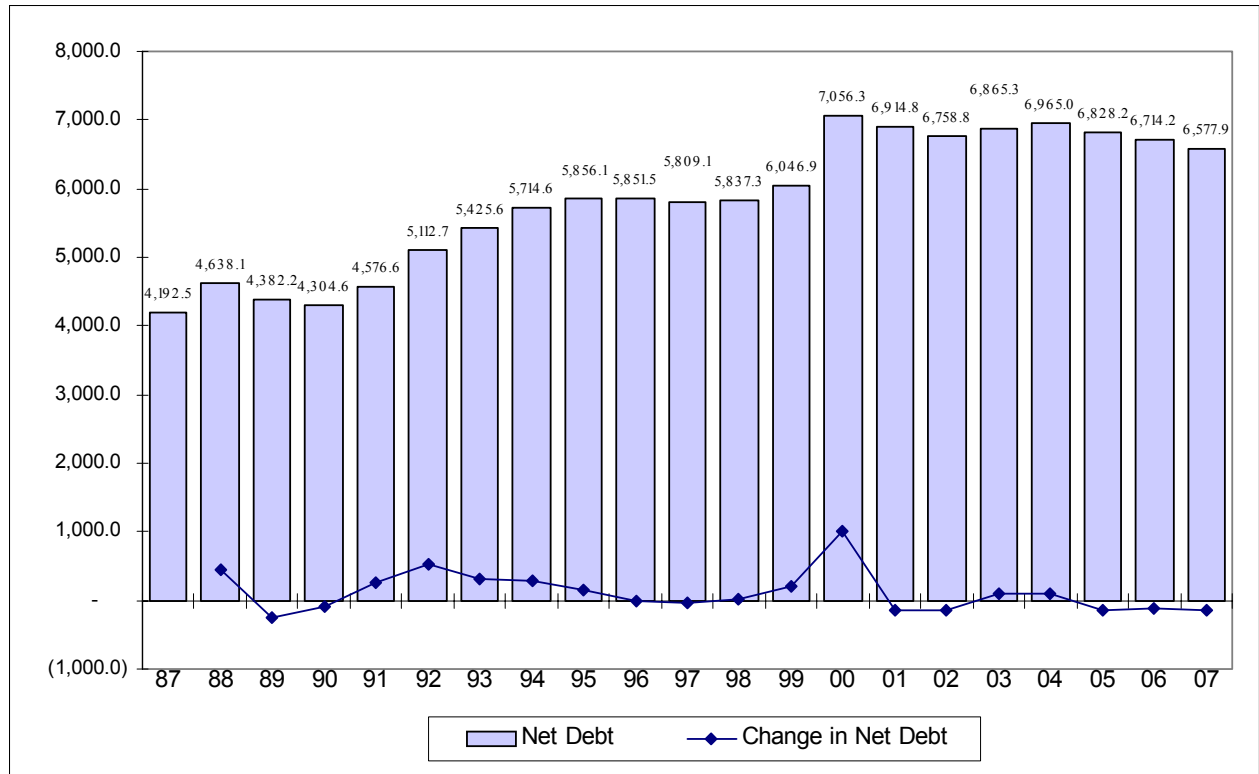
**2.167** These adjustments were recorded in the fiscal year indicated in the above table, however, many of them affected more than one previous year. Therefore in order to recalculate the increase or decrease in net debt in any given year using consistent accounting policies, each of these accounting changes would have to be reallocated to the appropriate years. In some cases, the adjustment required for each year can be reasonably accurately determined. In other cases, extrapolations or estimates are required. By making these adjustments to the results as originally reported in each year, we arrive at adjusted changes to net debt for each of the past twenty years, using consistent accounting policies, as shown in the following table.



Year	(\$ millions)				
	Opening	In Year Change As Originally Reported	Adjustments Increase (Decrease) Net Debt	Adjusted In Year Change	Adjusted Ending
Opening net debt 31 March 1987	2,391.1		1,801.4		4,192.5
1988		333.5	112.1	445.6	4,638.1
1989		73.7	(329.6)	(255.9)	4,382.2
1990		20.1	(97.7)	(77.6)	4,304.6
1991		173.4	98.6	272.0	4,576.6
1992		366.6	169.5	536.1	5,112.7
1993		297.4	15.5	312.9	5,425.6
1994		290.7	(1.7)	289.0	5,714.6
1995		64.0	77.5	141.5	5,856.1
1996		(51.1)	46.5	(4.6)	5,851.5
1997		(125.4)	83.0	(42.4)	5,809.1
1998		(61.7)	89.9	28.2	5,837.3
1999		164.3	45.3	209.6	6,046.9
2000		895.7	113.7	1,009.4	7,056.3
2001		(181.8)	40.3	(141.5)	6,914.8
2002		(143.8)	(12.2)	(156.0)	6,758.8
2003		109.4	(2.9)	106.5	6,865.3
2004		103.2	(3.5)	99.7	6,965.0
2005		(131.5)	(5.3)	(136.8)	6,828.2
2006		(122.6)	8.6	(114.0)	6,714.2
2007		(136.3)	0	(136.3)	6,577.9
Total	2,391.1	1,937.8	2,249.0	6,577.9	

**2.168** The above adjustments are based on information that is readily available. A more detailed analysis of each change in accounting might produce more refined numbers.

**2.169** These adjusted numbers can be graphically represented as:



**2.170** Comparing this graph and the first graph it becomes obvious that by using consistent accounting policies over the twenty year period, the increase in net debt that occurred between 1988 and 1995 was significantly lower than the increase produced by using the original unadjusted numbers. The graph also shows two periods of significant increase in the Province's net debt. The first was from 1990 until 1995 when net debt increased by \$1,500 million, using consistent accounting policies. The second was from 1998 until 2000 when net debt increased by \$1,200 million.

**2.171** Finally we have compared net debt to GDP for the past 21 years. In 1987 the net debt to GDP ratio was 40.1%. In 2007 it was 26.1%. The following table shows the ratio for each of the last 21 years; the ratio is shaded for years in which it increased.

Year	(\$ millions)		Ratio %	Year	(\$ millions)		Ratio %
	Net debt	GDP			Net debt	GDP	
1987	4,192.4	10,462	40.1	1998	5,837.2	16,845	34.7
1988	4,638.0	11,572	40.1	1999	6,046.8	17,633	34.3
1989	4,382.1	12,438	35.2	2000	7,056.3	19,041	37.1
1990	4,304.5	13,128	32.8	2001	6,914.8	20,085	34.4
1991	4,576.5	13,458	34.0	2002	6,758.8	20,684	32.7
1992	5,112.6	13,647	37.5	2003	6,865.3	21,169	32.4
1993	5,425.5	14,038	38.6	2004	6,965.0	22,346	31.2
1994	5,714.5	14,693	38.9	2005	6,828.2	23,487	29.1
1995	5,856.0	15,286	38.3	2006	6,714.1	24,162	27.8
1996	5,851.4	16,380	35.7	2007	6,577.9	25,221	26.1
1997	5,809.0	16,626	34.9				

**2.172** While this report shows that net debt has grown by over \$2.4 billion on an adjusted basis over the past twenty years, it has decreased since 31 March 2000, and the net debt to GDP ratio is much better than it was twenty years ago. It is important for the government to continue to plan and manage its net debt position into the future.