

Chapter 2

Comments on the Province's Financial Position

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Comments on the Province's Financial Position

Introduction

2.1 The Province's 2008 Public Accounts contain for the first time a section called "Indicators of Financial Health." As well, the discussion found in "Results for the Year" and the "Major Variance Analysis" have been much improved over prior years. This is a positive initiative.

Indicators of the Province's financial condition

2.2 Nevertheless, we have included again this year charts which show trends in the Province's financial health over the past nine years. These are the same charts we included in our 2007 Report with the exception of the chart on foreign currency risk. We have not included this chart as the risk in 2008 and the prior three years appears to be relatively small. These charts are similar to those in the Public Accounts except they are for a longer time period (nine versus five years) and they include a chart showing changes in Net Debt and GDP (Exhibit 2.2) which does not appear in the Public Accounts. This chart had an unfavourable result for 2008. Continued use of these charts in our Report will depend on the future information provided in the Public Accounts.

Background

2.3 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."¹ This report continues to be supported by the CICA.

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

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 five can be considered meaningful in the context of the Province of New Brunswick. We have, over the years, focused on six indicators in order to present readers with a consistent analysis, however, as indicated earlier, we feel that the indicator related to foreign currency debt is no longer relevant. The remaining five indicators are:

- | | |
|-----------------------|---|
| <i>Sustainability</i> | · <i>Net debt as a percentage of gross domestic product (GDP)</i> |
| | · <i>Change in net debt and GDP</i> |
| <i>Flexibility</i> | · <i>Own source revenue as a percentage of GDP</i> |
| | · <i>Cost of servicing the public debt as a percentage of total revenue</i> |
| <i>Vulnerability</i> | · <i>Federal government transfers as a percentage of total revenue</i> |

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 \$86.7 million and an increase in net debt for the year of \$367.8 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 nine 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.¹

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

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.

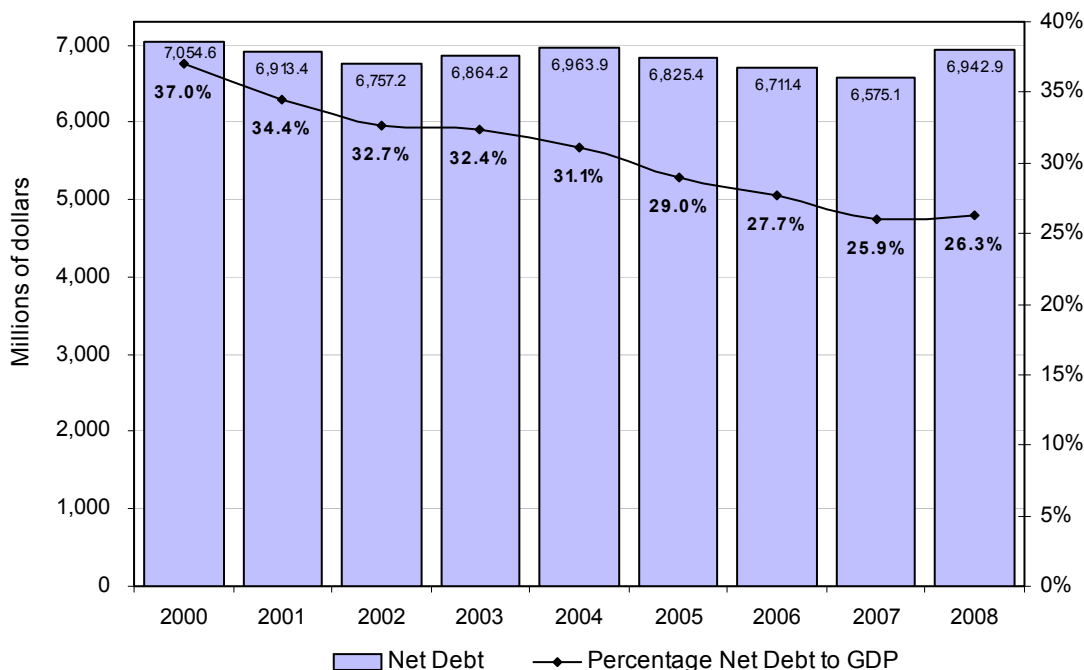
***Net debt as a percentage of
GDP as a measure of
sustainability***

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 2008 indicate that net debt stands at \$6,942.9 million - \$111.7 million less than its level nine 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) in eight of the last nine years – showing the Province's increasing ability to sustain existing programs and services. In 2008, net debt increased (unfavourable) because of heavy investment in capital infrastructure, largely related to the twinning of the Trans-Canada Highway between Woodstock and Grand Falls.

Exhibit 2.1

Net debt as a percentage of GDP¹ for the last nine years



Change in net debt and GDP as a measure of sustainability

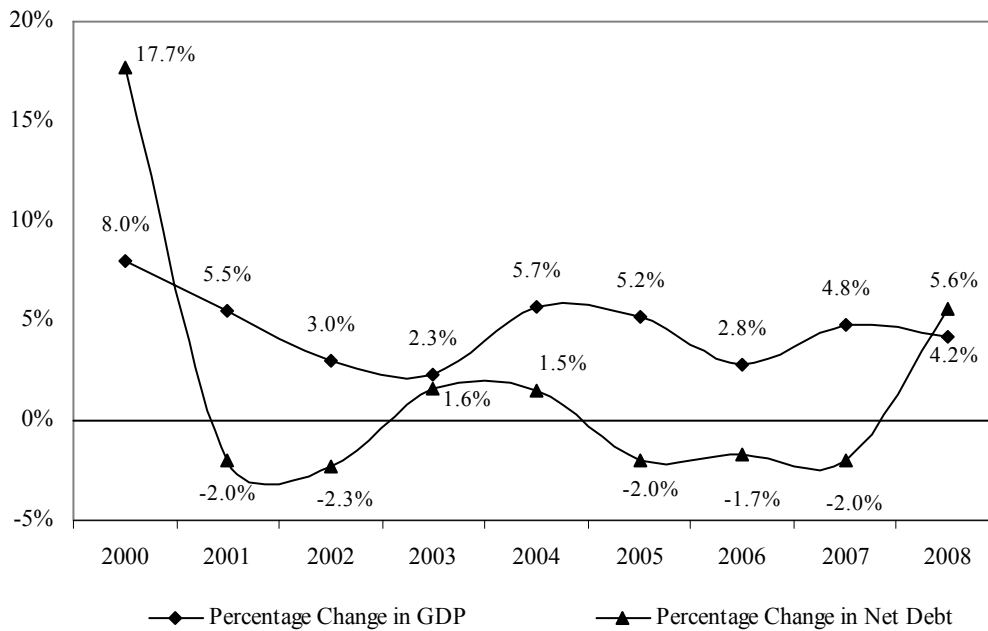
2.15 The Province can positively influence sustainability in two ways: by reducing net debt and by increasing growth in the economy. Though governments use various political, legislative and regulatory powers to stimulate the economy, the effect is neither guaranteed nor timely.

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 except for 2008. Growth in net debt was greater than economic growth in the year 2000 due to the effects of the Fredericton to Moncton highway and in 2008 due to the effects of the Woodstock to Grand Falls highway. Large capital investments can result in the growth of net debt exceeding the economic growth rate.

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 GDP¹ for the last nine 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.²

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.

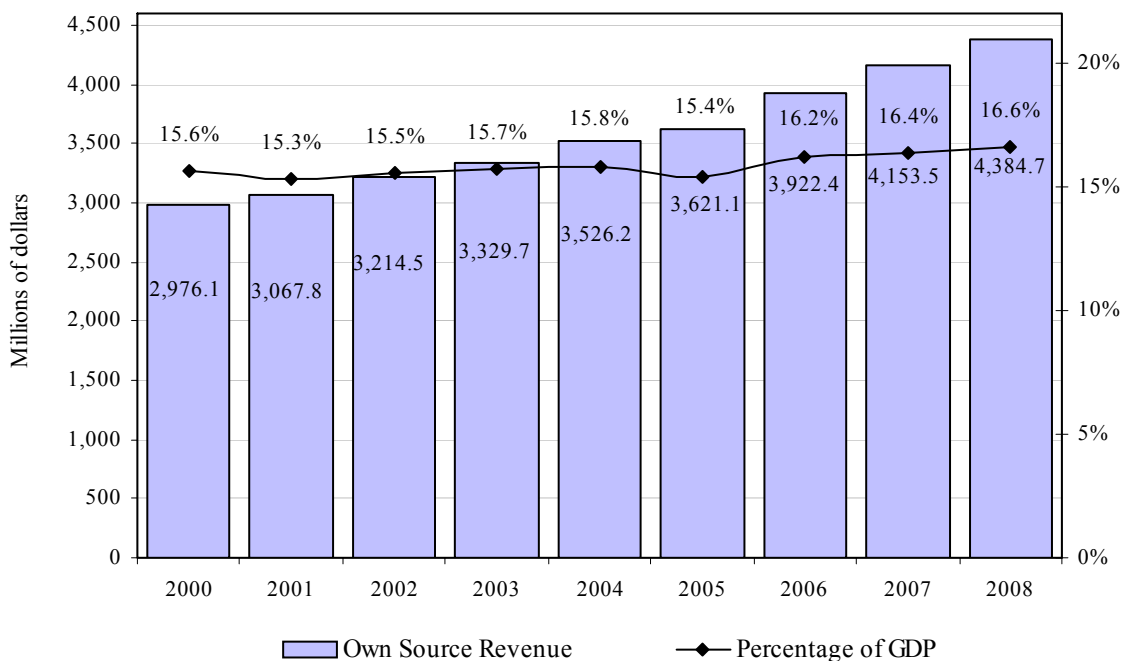
Own source revenue as a percentage of GDP as a measure of flexibility

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 GDP¹ for the last nine 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 nine 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 nine-year period, but increased in 2006, 2007 and 2008.

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.

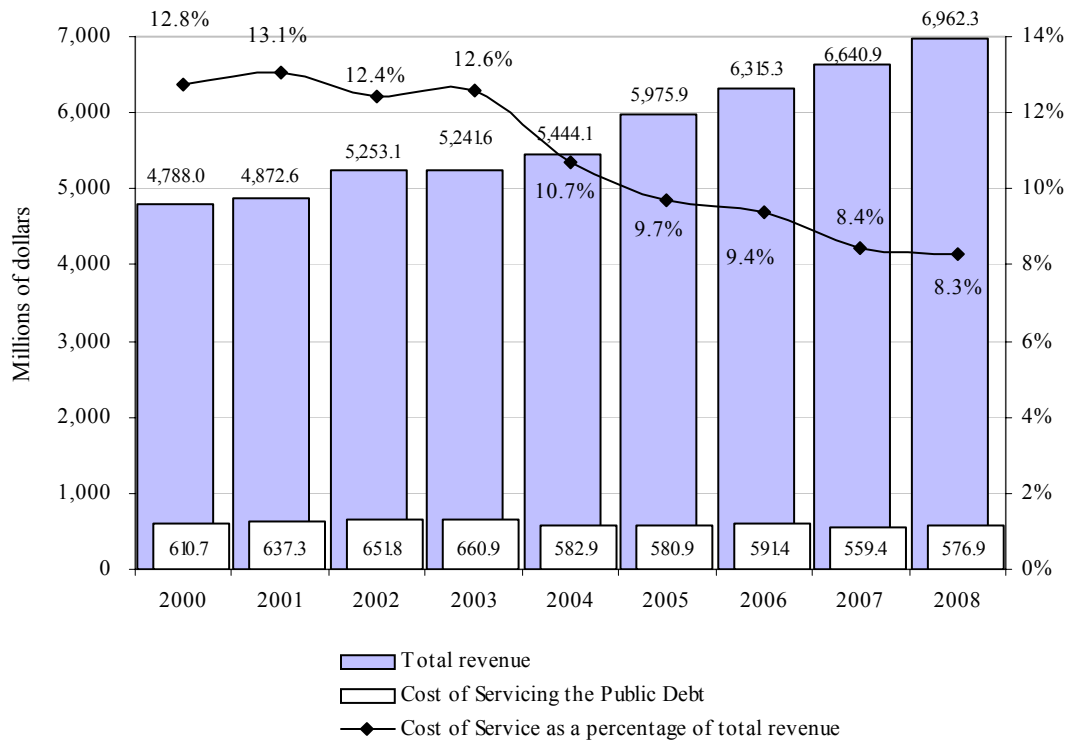
2.22 The cost of servicing the public debt is comprised mainly of interest on the funded debt of the Province. It also includes foreign exchange paid on interest and maturities during the year, the amortization of foreign exchange gains and losses, and the amortization of discounts and premiums which 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 nine years.

Exhibit 2.4

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



2.24 This exhibit shows the cost of servicing the public debt increased in 2008 compared to 2007 by \$17.5 million to \$576.9 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 8.3%. 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 nine 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.¹

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

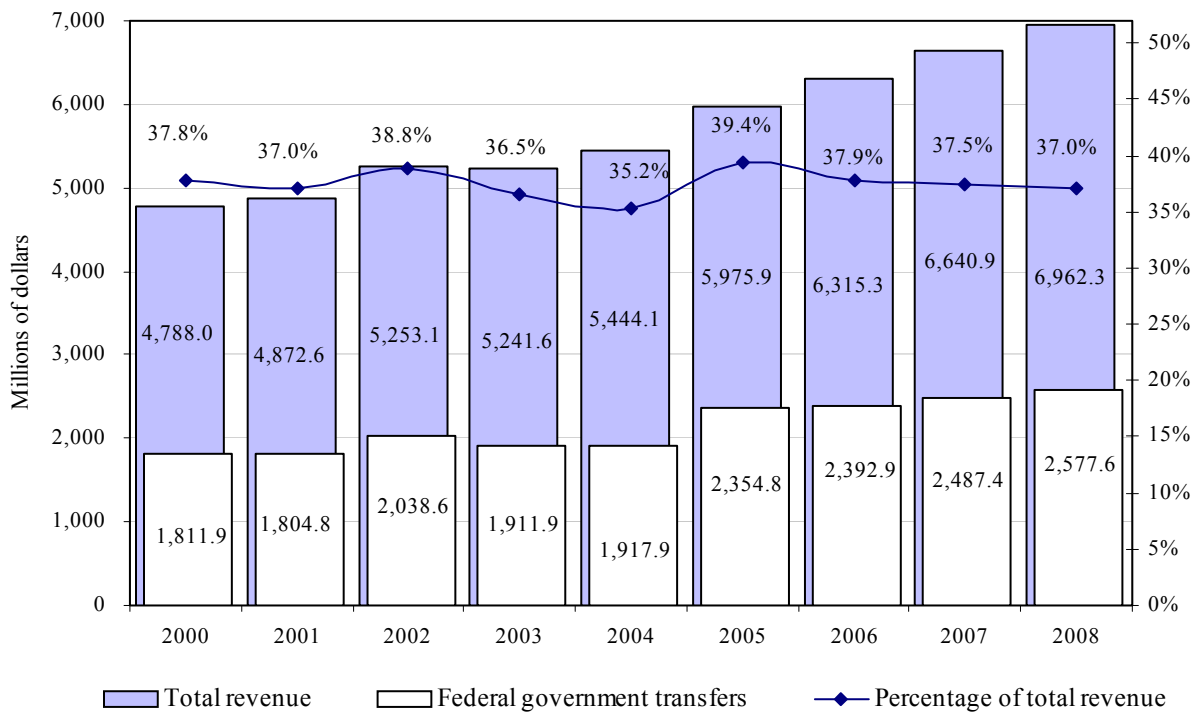
Federal government transfers as a percentage of total revenue as a measure of vulnerability

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

2.27 In 2008, 37% 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 nine 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 nine years. This exhibit shows that the trend over the past

nine years has been relatively stable. To maintain comparability, revenue from 2000 to 2007 has been restated to reflect current accounting policy.

Summary

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

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

Exhibit 2.6
Summary of financial indicators

Financial Indicator	2008	Impact on Financial Condition of the Province	
		2 year trend	9 year trend
<i>Sustainability</i>			
Net debt as a percentage of GDP	26.3%	No significant change	Favourable
Change in net debt and GDP	5.6%/4.2%	Unfavourable	Favourable
<i>Flexibility</i>			
Own source revenue as a percentage of GDP	16.6%	No significant change	No significant change
Cost of servicing the public debt as a percentage of total revenue	8.3%	Favourable	Favourable
<i>Vulnerability</i>			
Federal government transfers as a percentage of total revenue	37.0%	No significant change	No significant change

Comments on components of the Province's financial statements

2.32 In this section we have examined various components of the Province's financial statements for the year ended 31 March 2008. We have broken this into three areas:

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

2.33 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

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

- Cash net of short term borrowing
- 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

Cash net of short term borrowing

2.35 The following table shows the change in the Province's cash net of short term borrowings for the last nine years.

	(\$ millions)								
	2008	2007	2006	2005	2004	2003	2002	2001	2000
Cash net of short term borrowing (short term borrowing net of cash)	(283.0)	249.2	56.0	148.3	9.8	(26.8)	(352.3)	(484.8)	(455.5)

2.36 This table shows that the cash position of the Province can fluctuate on an annual basis and that even when the Province reports a surplus, the cash position of the Province can be negative, as in 2008.

Receivables and advances

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

	(\$ millions)								
	2008	2007	2006	2005	2004	2003	2002	2001	2000
General receivables	207.4	185.4	168.6	153.5	231.2	200.1	197.8	174.8	156.7
Receivables from Canada	204.9	169.7	164.0	141.6	132.3	121.5	122.8	119.5	106.9
Guarantee payouts	75.3	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	23.1	33.6	62.0	67.5					
Subtotal	510.7	434.5	444.7	415.0	402.7	361.6	357.2	326.5	291.8
Interest receivable	45.5	37.1	33.4	26.3	30.8	30.3	25.6	24.1	27.1
Subtotal	556.2	471.6	478.1	441.3	433.5	391.9	382.8	350.6	318.9
Consolidated entities	47.9	51.2	48.3	43.3	42.8	47.4	N/A	N/A	N/A
Total	604.1	522.8	526.4	484.6	476.3	439.3	382.8	350.6	318.9
Allowance for doubtful accounts	201.2	155.7	140.7	132.9	118.5	113.3	97.7	87.4	77.5
Receivables and advances	402.9	367.1	385.7	351.7	357.8	326.0	285.1	263.2	241.4

2.38 Not all of these receivables should 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 should require active management to ensure collection, and compares that value to the value of the accounts that are considered doubtful.

	(\$ millions)								
	2008	2007	2006	2005	2004	2003	2002	2001	2000
Total before allowance	604.1	522.8	526.4	484.6	476.3	439.3	382.8	350.6	318.9
Receivables from Canada	204.9	169.7	164.0	141.6	132.3	121.5	122.8	119.5	106.9
Consolidated entities	47.9	51.2	48.3	43.3	42.8	47.4	N/A	N/A	N/A
Advances of grants	12.7	21.9	51.5	55.2					
Net amount	338.6	280.0	262.6	244.5	301.2	270.4	260.0	231.1	212.0
Allowance for doubtful accounts	201.2	155.7	140.7	132.9	118.5	113.3	97.7	87.4	77.5
Allowance percentage	59.4%	55.6%	53.6%	54.4%	39.3%	41.9%	37.6%	37.8%	36.6%

2.39 In the year ended 31 March 2008:

- the Province reported \$604.1 million in receivables and advances, which is about 16% higher than the 31 March 2007 balance;
- \$47.9 million of the \$604.1 million was receivable by and managed by the consolidated entities;

- another \$204.9 million was due from the federal government and so there should not be any doubt about its collection;
- another \$12.7 million were advances on operating grants for April 2008;
- this left \$338.6 million in receivables that the Province has to actively manage to ensure collection; and
- the collection of 59.4% of these amounts, or \$201.2 million, is considered to be in doubt.

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

2.41 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 \$75.3 million at 31 March 2008.
- Amounts due from Canada should not normally require active management as noted above. However, the amount receivable from Canada under the Official Languages program was \$6.6 million at 31 March 2000 and it was \$55.5 million at 31 March 2008. This raises questions about whether this funding is being received on a timely basis. This receivable from Canada under the Official Languages program is commented on in more detail in chapter five of this Report.
- 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.

2.42 This analysis indicates that there is need to improve the management of the general accounts receivable of the Province. An allowance for doubtful accounts of 59.4%, a rate that has been growing, significant guarantee payouts and questions about the timeliness of collections all point to opportunities for improvement.

Taxes receivable

2.43 The following table breaks down the taxes receivable by the Province.

	(\$ millions)									
	2008	2007	2006	2005	2004	2003	2002	2001	2000	
Gasoline and motive fuel tax	19.6	22.8	20.7	26.0	21.9	20.0	17.2	21.5	14.6	
Metallic minerals tax	0.1	112.5	--	--	--	--	--	--	--	
Real property tax	855.1	791.4	411.0	395.3	384.0	374.3	359.9	342.4	323.8	
Royalties and stumpage on timber	5.1	22.0	24.3	21.8	28.0	18.2	18.4	22.7	19.1	
Sales tax	60.5	87.0	87.9	32.7	107.7	85.4	68.9	68.9	69.5	
Tobacco tax	8.5	8.4	8.5	10.2	11.3	9.0	7.4	5.3	4.4	
Other	5.3	2.5	2.5	2.9	0.3	0.1	0.1	0.1	0.2	
Subtotal	954.2	1,046.6	554.9	488.9	553.2	507.0	471.9	460.9	431.6	
Allowance for doubtful accounts	55.1	77.0	85.4	80.7	86.6	89.5	89.5	84.5	83.9	
Total	899.1	969.6	469.5	408.2	466.6	417.5	382.4	376.4	347.7	

2.44 To analyze the taxes receivable, we compared the outstanding receivable balance at the end of the year with the tax revenue for the year, for certain tax types. Note that the real property tax amounts were adjusted in 2008 to include the municipal portion of the receivable and the 2007 amount has been comparatively restated. However, amounts prior to 2007 do not include the municipal portion.

Tax Revenue	(\$ millions)									
	2008	2007	2006	2005	2004	2003	2002	2001	2000	
Gasoline and motive fuel tax	198.1	215.2	232.1	239.7	234.9	222.1	184.3	186.5	185.5	
Real property tax	352.3	345.6	335.2	328.3	298.2	295.0	288.6	274.7	258.1	
Forest royalties	45.8	58.8	56.9	60.2	62.9	53.1	54.6	58.3	54.5	
Tobacco tax	79.9	81.9	90.5	96.5	101.4	91.9	69.7	49.8	47.8	
Metallic minerals tax	119.7	120.2	10.5	2.8	2.2	5.7	2.3	3.3	3.9	

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

	2008	2007	2006	2005	2004	2003	2002	2001	2000
Gasoline and motive fuel tax	9.9%	10.6%	8.9%	10.8%	9.3%	9.0%	9.3%	11.5%	7.9%
Real property tax	242.7%	229.0%	122.6%	120.4%	128.8%	126.9%	124.7%	124.6%	125.5%
Forest royalties	11.1%	37.4%	42.7%	36.2%	44.5%	34.3%	33.7%	38.9%	35.0%
Tobacco tax	10.6%	10.3%	9.4%	10.6%	11.1%	9.8%	10.6%	10.6%	9.2%
Metallic minerals tax	0.1%	93.6%							

2.46 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. Also, because the Province assumes the risk of collection for the municipal portion of property tax, they also record the municipal receivable which is offset by a payable to the municipalities rather than revenues. 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 1/12th 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 over the last two years due to increases in zinc prices. At 31 March, all metallic minerals receivables had been collected.

2.47 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)								
	2008	2007	2006	2005	2004	2003	2002	2001	2000
Taxes receivable	954.2	1,046.6	554.9	488.9	553.2	507.0	471.9	460.9	431.6
Allowance for doubtful accounts	55.1	77.0	85.4	80.7	86.6	89.5	89.5	84.5	83.9
Percentage	5.8%	7.4%	15.4%	16.5%	15.7%	17.7%	19.0%	18.3%	19.4%

2.48 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

2.49 The following table breaks down the loans receivable by the Province.

	(\$ millions)								
	2008	2007	2006	2005	2004	2003	2002	2001	2000
Business New Brunswick	218.9	196.1	200.2	206.7	201.8	239.0	228.0	224.2	215.8
Education and/or Training and Employment Development	336.4	296.0	258.3	0.2	0.2	0.2	0.2	0.2	0.2
Energy Efficiency and Conservation Agency of New Brunswick	3.6	2.3	0.2	-	-	-	-	-	-
Environment and/or Local Government	7.7	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	4.0
Social Development	34.0	34.8	34.5	33.6	32.7	31.8	30.9	31.3	24.9
Finance	-	-	1.0	1.6	1.6	1.9	1.7	1.9	2.3
Public Safety	10.0	10.2	10.4	10.7	10.9	11.2	11.4	11.6	12.2
Regional Development Corporation	11.4	7.3	3.6	5.3	3.8	3.6	3.2	3.2	3.0
Supply and Services	-	-	-	-	-	-	-	0.5	0.5
Subtotal	626.0	560.6	512.9	262.7	255.6	292.3	280.1	277.6	263.6
Allowance for doubtful accounts	229.3	207.2	192.9	142.6	129.3	143.9	133.7	124.7	122.3
Total	396.7	353.4	320.0	120.1	126.3	148.4	146.4	152.9	141.3

2.50 During the year ended 31 March 2006, the Province took over responsibility for loans to students. Since 31 March 2006 the student loans receivable have increased by over 30%. We consider this increase alarming, however, we understand that mechanisms are currently being put in place to better manage those student loans that are in default. As a result, repayments should increase, and the balance of loans outstanding may not have as high a growth rate in the future. We will continue to monitor the balance of these loans closely. The following table analyzes the loan balance for the past three years; and estimates the 2009 balance based on budget figures from Main Estimates.

	\$ millions			
	Budget 2009	2008	2007	2006
Opening Balance	336.4	296.0	258.3	0.0
Student Loan Advances	70.5	64.5	61.7	270.1
Repayments	27.9	26.3	20.2	10.1
Other	-	2.2	(3.8)	(1.7)
Closing Balance	379.0	336.4	296.0	258.3

2.51 The increase in the Regional Development Corporation loan balance was due to a loan issued to l'Office de stabilisation de la Fédération des caisses populaires acadiennes for \$4.0 million during the year ended 31 March 2008.

2.52 Some of the loans receivable that are not collectible should be written off. For example, 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.

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

	(\$ millions)									
	2008	2007	2006	2005	2004	2003	2002	2001	2000	
Loans	626.0	560.6	512.9	262.7	255.6	292.3	280.1	277.6	263.6	
Allowance for doubtful accounts	229.3	207.2	192.9	142.6	129.3	143.9	133.7	124.7	122.3	
Percentage	36.6%	37.0%	37.6%	54.3%	50.6%	49.2%	47.7%	44.9%	46.4%	

2.54 The reduction in the percentage in 2006 is caused by the addition of the student loan program to the Province's loan portfolio; however, it has remained consistent for the past three years.

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

	2008	2007	2006	2005	2004	2003	2002	2001	2000
<i>Agricultural Development Act</i>	68.2%	69.0%	72.4%	73.2%	71.0%	69.0%	66.3%	48.0%	37.5%
<i>Economic Development Act</i>	62.1%	64.9%	65.1%	56.8%	46.0%	45.0%	41.7%	37.2%	30.5%
<i>Fisheries Development Act</i>	71.8%	71.9%	73.8%	71.6%	76.8%	74.3%	74.3%	77.9%	82.2%
Provincial Holdings Ltd.	75.6%	80.6%	73.3%	44.6%	34.3%	30.9%	25.9%	18.8%	32.5%
Loans to students	19.4%	18.6%	15.9%	100%	100%	100%	100%	100%	100%
Local Government loans	5.2%	3.0%	100%	100%	100%	100%	100%	100%	100%
La Fondation du quotidien francophone	100%	100%	100%	100%	100%	100%	100%	100%	100%
<i>New Brunswick Housing Act</i>	14.1%	6.9%	7.0%	6.3%	7.6%	7.9%	8.1%	9.2%	10.8%
DRIE agreements	N/A	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%	100%

2.56 The four largest categories of loans, which represent 93.8% of all loans and advances outstanding at 31 March 2008, are:

- Loans to students 53.7%

- *Economic Development Act* loans 28.2%
- *Fisheries Development Act* loans 6.4%
- *New Brunswick Housing Act* loans 5.4%

Accounts payable and accrued expenses

2.57 The following table provides the history of the accounts payable and accrued expenses balance over the past nine years.

	(\$ millions)								
	2008	2007	2006	2005	2004	2003	2002	2001	2000
Accounts payable	446.3	446.8	417.4	388.2	372.4	300.5	375.6	255.0	275.9
Due to Canada	207.4	228.9	249.9	211.4	186.2	34.8	10.3	9.5	16.2
Accrued interest	214.7	227.0	236.8	244.2	231.0	229.5	164.2	164.3	166.5
Employee benefits	640.8	609.2	599.6	575.4	542.2	419.5	404.1	403.9	352.5
Other	487.5	440.0	137.6	201.1	148.5	268.1	182.7	210.4	219.0
	1,996.7	1,951.9	1,641.3	1,620.3	1,480.3	1,252.4	1,136.9	1,043.1	1,030.1

2.58 The largest component of the due to Canada account relates to overpayments by Canada to the Province under federal government transfers. Approximately \$166.7 million of the \$207.4 million payable in 2008 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.

2.59 Note that the large increase in Other in 2007 and 2008 relates to the recording of a payable due to municipalities which is the offset to the municipal portion of property taxes receivable. Amounts prior to 2007 have not been restated.

2.60 Two components of the accrued employee benefit expenses are:

	(\$ millions)								
	2008	2007	2006	2005	2004	2003	2002	2001	2000
Liability for injured workers	126.8	105.8	103.3	95.7	89.6	83.2	68.9	55.7	42.3
Retirement allowances	307.7	303.1	289.4	272.3	264.0	247.6	232.4	230.7	224.9

2.61 The difference in the growth of these two accrued expenditures is noticeable. The liability for injured workers has increased 199.8% over an eight-year period, while the liability for accrued retirement allowances has only increased 36.8%. 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

2.62 The following table provides the history of the allowance for losses balance over the past nine years.

	(\$ millions)								
	2008	2007	2006	2005	2004	2003	2002	2001	2000
Allowance for losses	103.1	95.8	84.0	83.3	104.2	74.2	68.7	30.9	16.2

2.63 This allowance at 31 March 2008 was over six times its balance at 31 March 2000. The components of the allowance are:

	(\$ millions)								
	2008	2007	2006	2005	2004	2003	2002	2001	2000
Business New Brunswick	43.7	68.8	60.5	36.2	40.0	19.9	19.1	12.2	14.7
Education	-	-	-	30.7	35.1	30.1	25.4	18.5	1.3
Other	36.0	0.2	0.2	0.2	0.7	0.2	0.2	0.2	0.2
Property tax appeals	23.4	26.8	23.3	16.2	28.4	24.0	24.0	-	-

2.64 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 decreased in 2008 due to the payout of a loan guarantee. The increase in Other is due to an increase in provision for loss in Central Government.

All allowances

2.65 The Province has various allowances for losses. If we look at them in total we get a comprehensive picture of the allowances:

	(\$ millions)								
	2008	2007	2006	2005	2004	2003	2002	2001	2000
Allowance for losses	103.1	95.8	84.0	83.3	104.2	74.2	68.7	30.9	16.2
Allowance for doubtful accounts (Loans and advances)	229.3	207.2	192.9	142.6	129.3	143.9	133.7	124.7	122.3
Allowance for doubtful accounts (Taxes receivable)	55.1	77.0	85.4	80.7	86.6	89.5	89.5	84.5	83.9
Allowance for doubtful accounts (Accounts and interest receivable)	201.2	155.7	140.7	132.9	118.5	113.3	97.7	87.4	77.8
Total all allowances	588.7	535.7	503.0	439.5	438.6	420.9	389.6	327.5	300.2

2.66 These numbers are concerning. As at 31 March 2008, the Province expects to lose \$588.7 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 \$5.9 million to the Province.

2.67 In 2006, 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 (CRA). 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. In the summer of 2008, an agreement was signed and plans are in place for the Department of Post-Secondary Education and Labour to send defaulted student loans to CRA for set-off. Many of the Province's other credit and loan programs need to be reviewed to determine if any changes should be implemented.

Obligations under capital leases

2.68 The following table provides the history of the obligations under capital leases balance over the past nine years.

	(\$ millions)								
	2008	2007	2006	2005	2004	2003	2002	2001	2000
Capital leases	798.9	817.1	834.1	849.4	865.8	873.7	871.9	900.0	900.7

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

	(\$ millions)								
	2008	2007	2006	2005	2004	2003	2002	2001	2000
Fredericton to Moncton highway lease	775.2	792.4	808.4	823.0	837.0	843.8	844.6	871.8	872.0

2.70 Over the past eight years, the Province has paid \$96.8 million against the outstanding principal owing on the Fredericton to Moncton highway lease.

Pension liability (surplus)

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

	(\$ millions)								
	2008	2007	2006	2005	2004	2003	2002	2001	2000
Pension liability (surplus)	(244.7)	(126.4)	30.2	156.7	271.5	362.1	372.6	442.6	596.0

2.72 Over the long run, the pension liability (surplus) can only be accurate if the assumptions used to calculate it reflect actual economic and demographic conditions. The accounting adjustments row in the table below is a barometer of how far the long term assumptions used to date differ from the estimated current position of the plans. While the table above shows an orderly improvement in the pension liability from a deficit to a surplus position, the accounting adjustment row below shows much more volatility.

2.73 There has been a steady decline in the outstanding pension liability from 2000 to 2006 with a surplus reported in 2007 and 2008 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)								
	2008	2007	2006	2005	2004	2003	2002	2001	2000
Estimated accrued benefits liability	8,289.3	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	8,024.1	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	265.2	(165.0)	(124.8)	197.9	294.4	1,057.4	158.0	(68.4)	(680.9)
Accounting adjustments	(509.9)	38.6	155.0	(41.2)	(22.9)	(695.3)	214.6	511.0	1,276.9
Pension liability (surplus)	(244.7)	(126.4)	30.2	156.7	271.5	362.1	372.6	442.6	596.0

2.74 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 nine 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.

2.75 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. In 2008, the situation reversed again with the estimated liability exceeding the market value by \$265.2 million.

2.76 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 2008, the estimated accrued benefits exceeds the market value by \$265.2 million, however, the pension surplus reported on the Province's financial statements was \$244.7 million.

2.77 The 2009 pension expense could be further affected by poor market conditions. The New Brunswick Investment Management Corporation has indicated that to the end of September 2008, the pension fund assets they manage have dropped in value by over 6%. The effect that such a drop or similar drops in value could have on pension expense for the Public Service and Teachers' plans for 2009 is illustrated below.

Public Service and Teachers' Pension Plans
Pension Expense Estimate for 2009 (\$ millions)

	5% Asset Decrease	6% Asset Decrease	7% Asset Decrease
2009 Estimated Expense	\$143	\$147	\$153
2008 Pension Expense	88	88	88
Expense Increase	\$55	\$59	\$65

2.78 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)								
	2008	2007	2006	2005	2004	2003	2002	2001	2000
Pension expense	154.5	101.1	109.9	108.4	124.2	90.4	(0.7)	(51.1)	(9.1)
Employer contributions	272.8	257.7	236.4	223.2	214.8	100.9	69.1	102.3	167.6
Reduction in pension liability	118.3	156.6	126.5	114.8	90.6	10.5	69.8	153.4	176.7

2.79 The pension expense has risen dramatically over the years and had a 50% increase in 2008 from 2007. This has been caused mostly by returns on the pension plan assets being less than what the actuary for the largest plans estimated they should be. The Province has increased its contribution to offset at least partly the difference. In the short run, the table shows that increasing provincial contributions cannot offset lower than anticipated returns.

Funded debt for provincial purposes

2.80 The following table provides the history of the funded debt for provincial purposes balance over the past nine years.

	(\$ millions)								
	2008	2007	2006	2005	2004	2003	2002	2001	2000
Funded debt for provincial purposes	9,461.7	9,272.8	8,942.4	8,397.0	8,485.8	8,418.7	8,004.7	7,656.2	7,408.5

2.81 The Province's funded debt for provincial purposes at 31 March 2008 is \$2,053.2 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 is lower than it was nine years ago. 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 nine years.

	(\$ millions)								
	2008	2007	2006	2005	2004	2003	2002	2001	2000
Sinking fund book value	4,161.9	3,968.2	3,984.0	3,773.8	3,716.2	3,543.0	3,358.8	3,130.2	2,925.5

2.82 So, while the Province's funded debt for provincial purposes increased by \$2,053.2 from 31 March 2000 until 31 March 2008, \$1,236.4 million of those borrowings were put aside in the Province's sinking fund. In fact, the Province's funded debt for provincial purposes net of the sinking fund dropped in 2008 for the first time as shown below. This resulted from lower borrowing than in 2007 together with a steady return on the sinking fund's investments.

	(\$ millions)								
	2008	2007	2006	2005	2004	2003	2002	2001	2000
Funded debt for provincial purposes	9,461.7	9,272.8	8,942.4	8,397.0	8,485.8	8,418.7	8,004.7	7,656.2	7,408.5
Sinking fund book value	4,161.9	3,968.2	3,984.0	3,773.8	3,716.2	3,543.0	3,358.8	3,130.2	2,925.5
Funded debt for provincial purposes net of sinking fund	5,299.8	5,304.6	4,958.4	4,623.2	4,769.6	4,875.7	4,645.9	4,526.0	4,483.0

2.83 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 nine years.

Tangible capital assets

2.84 The following table provides the history of the tangible capital asset balance over the past five years.

	(\$ millions)				
	2008	2007	2006	2005	2004
Tangible capital assets	6,212.2	5,645.5	5,518.9	5,404.0	5,294.9
Deferred capital contributions	(818.3)	(680.2)	(659.8)	(657.3)	(644.9)
Provincial investment in tangible capital assets	5,393.9	4,965.3	4,859.1	4,746.7	4,650.0

2.85 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 four years.

	(\$ millions)			
	2008	2007	2006	2005
Opening balance	680.2	659.8	657.3	644.9
Funds received to acquire tangible capital assets	165.4	43.5	24.9	34.3
Amortization of deferred capital contributions	(27.1)	(23.1)	(22.4)	(21.9)
Ending balance	818.5	680.2	659.8	657.3

2.86 Below is an analysis of the change in the tangible capital asset balance for the past four years:

	(\$ millions)			
	2008	2007	2006	2005
Opening balance	5,645.5	5,518.9	5,404.0	5,294.9
Acquisitions	820.0	365.0	342.2	326.7
Amortization of tangible capital assets	(251.3)	(238.1)	(226.9)	(215.3)
Loss on disposal of tangible capital assets	(2.0)	(0.3)	(0.4)	(2.3)
Ending balance	6,212.2	5,645.5	5,518.9	5,404.0

2.87 Below is the annual investment in tangible capital assets from 2005 to 2008. It shows that the large majority of our infrastructure projects have been funded by the provincial government in that timeframe. However, the amount and percent of federal funding for infrastructure projects significantly increased in 2008.

	(\$ millions)			
	2008	2007	2006	2005
Provincial investment	654.6	321.5	317.3	292.4
Federal investment	165.4	43.5	24.9	34.3
Total investment	820.0	365.0	342.2	326.7
Provincially funded	79.8%	88.1%	92.7%	89.5%

Net debt

2.88 Net debt is an important measure of the financial position of the Province.

2.89 Since 2000, net debt has been reduced by \$111.7 million. It is confusing that net debt rose during 2008 at the same time as the Province recorded an \$86.7 million surplus. While there are many reasons for this, the single largest reason is the increase in investment in tangible capital assets. The largest portion of this was a payment of over \$540 million relating to a design-build contract for the Trans-Canada Highway.

2.90 One way to assess the significance of the size of our net debt is to compare it to the net debt of 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)		
Net debt	2008	2007
Saskatchewan	5,950	6,446
New Brunswick	6,943	6,575
Manitoba	10,188	10,465
Nova Scotia	12,115	12,357

Net debt per capita	2008	2007
Saskatchewan	\$5,969	\$6,528
New Brunswick	\$9,257	\$8,769
Manitoba	\$8,585	\$8,880
Nova Scotia	\$12,971	\$13,216

Net debt as a percentage of GDP	2008	2007
Saskatchewan	11.6%	14.0%
Manitoba	21.3%	23.4%
New Brunswick	26.3%	25.9%
Nova Scotia	36.0%	39.0%

Items reported in the notes

2.91 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

2.92 The Province has guaranteed certain debt of external entities. Guarantees, net of the recorded allowance for losses for the past nine years were:

	(\$ millions)								
	2008	2007	2006	2005	2004	2003	2002	2001	2000
<i>Agricultural Development Act</i>	0.6	0.6	0.4	0.4	0.1	0.2	0.2	0.9	0.8
<i>Economic Development Act</i>	83.4	113.8	108.6	102.1	122.5	44.8	28.9	29.9	36.4
<i>Employment Development Act</i>	4.4	4.5	4.5	3.9	5.3	4.3	3.6	2.0	2.3
<i>Fisheries Development Act</i>	14.8	16.6	20.8	5.0	6.5	10.4	5.9	3.3	4.3
<i>Livestock Incentives Act</i>	0.8	0.9	0.9	0.9	1.5	1.6	1.5	1.7	0.5
<i>Nursing Homes Act</i>	8.1	8.7	9.4	10.3	10.6	10.6	10.7	10.6	11.0
New Brunswick Credit Union Deposit Insurance Corporation	2,816.5	2,800.0	2,700.0	2,600.0	2,500.0	2,300.0	2,100.0	1,900.0	1,800.0
New Brunswick Municipal Finance Corporation	569.5	560.1	496.1	466.6	421.4	386.7	366.9	350.9	346.2
Provincial Holdings Ltd.	29.0	14.7	14.9	1.7	2.3	2.6	4.9	6.0	7.3
<i>Regional Development Corporation Act</i>	4.6	3.6	3.8	3.6	3.7	4.0	3.8	4.3	4.2
<i>Youth Assistance Act</i>	-	-	-	209.1	186.8	168.2	136.6	107.9	-
Subtotal	3,531.7	3,523.5	3,359.4	3,403.6	3,260.7	2,933.4	2,663.0	2,417.5	2,213.0
Allowance for losses	49.9	69.0	60.7	67.6	75.8	50.2	44.7	30.9	16.2
Contingent liability for guaranteed loans	3,481.8	3,454.5	3,298.7	3,336.0	3,184.9	2,883.2	2,618.3	2,386.6	2,196.8

2.93 The large decrease in 2006 was caused by the change in student loans from guarantees to loans receivable.

2.94 In 2007 the Province reported, for the first time, its guarantee of the deposits of credit unions and caisse populaires. As of 31 December 2007, total deposits guaranteed amounted to \$2,893.1 million. Given the significance of the amount, the risk associated with the guarantee must be managed. NBCUDIC guarantees the repayment of deposits with New Brunswick credit unions and caisse populaires. NBCUDIC is included in the Province's reporting entity through the consolidation method. Prior to 2006, there was a maximum of \$100,000 insured for each account, however, at 31 March 2008 there was no maximum limit in place.

2.95 The decrease under the Economic Development Act was due to the payout of a loan guarantee.

Commitments

2.96 The following table reports the Province's outstanding commitments for the past nine years.

Commitments	(\$ millions)								
	2008	2007	2006	2005	2004	2003	2002	2001	2000
Operating leases	422.5	409.5	436.4	407.8	392.0	398.5	369.8	308.9	329.7
Nursing home debt funding	169.2	121.5	111.8	84.4	84.8	86.3	81.0	78.6	68.2
Authorized capital projects	684.0	1,470.3	1,572.0	708.1	206.4	751.1	838.0	36.6	36.5

2.97 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 decreased in 2008 due to the completion of some projects. As these commitments are met, they will put pressure on the Province's net debt position. The notes to the financial statements provide details about the nature of these significant commitments, however, there is no explanation in the results for the year discussion that accompanies the financial statements.

2.98 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 increased significantly due to guarantees for construction of new facilities.

Foreign exchange fluctuations

2.99 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.

2.100 The following table reports the Province's unrealized foreign exchange gains or losses for the past nine years:

	(\$ millions)								
	2008	2007	2006	2005	2004	2003	2002	2001	2000
Unrealized foreign exchange losses (gains)	(87.7)	(48.9)	(48.7)	(39.9)	(22.8)	59.7	159.2	182.8	110.1

Market value of sinking fund investments

2.101 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 2007.

	(\$ millions)							
Sinking Fund	2007	2006	2005	2004	2003	2002	2001	2000
Book value - provincial portion	3,968.2	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	300.6	336.4	391.6	363.7	351.3	327.4	297.3	295.1
Total book value	4,268.8	4,320.4	4,165.4	4,079.9	3,894.3	3,686.2	3,427.5	3,220.6
Market value	4,577.3	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	308.5	316.0	417.9	496.0	361.0	226.8	275.8	227.8

2.102 This shows that at 31 March 2007, the sinking fund had a market value that was significantly higher than its recorded book value.

Statement of Operations Surplus

2.103 For the year ended 31 March 2008, the Province reported a surplus of \$86.7 million.

2.104 The following table shows the surplus for the past five years as originally recorded and as restated.

	(\$ millions)				
Surplus (Deficit)	2008	2007	2006	2005	2004
As originally recorded	86.7	236.8	243.6	242.2	(103.2)
As restated	86.7	236.8	235.0	233.7	(181.9)

Change in net debt

2.105 For the year ended 31 March 2008, the Province reported an increase in net debt of \$367.8 million.

Revenue

2.106 In Chapter 3, we report that there is an incorrect accounting treatment with respect to provincial rebate programs. These programs are netted against personal income tax revenue. By applying the correct accounting treatment, Personal Income Tax revenue would be higher, and expenses would be higher by \$18.7 million (2007 - \$11.0 million). The netting affects several of the following tables - those that report "provincial source revenue" and "personal income tax revenue." As the amount of the rebate programs is growing, netting makes it appear that taxes are growing at a slower rate. Netting also makes the rate of growth of expenses appear lower than it actually is.

2.107 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

2.108 Provincial source revenue has increased 47.4% since the year ended 31 March 2000, while federal source revenue has increased 42.3%. The following table reports the share of annual revenue that is made up of each primary source.

Revenue	2008	2007	2006	2005	2004	2003	2002	2001	2000
Provincial sources	63.0%	62.5%	62.1%	60.6%	64.8%	63.5%	61.2%	63.0%	62.2%
Federal sources	37.0%	37.5%	37.9%	39.4%	35.2%	36.5%	38.8%	37.0%	37.8%

2.109 Over the past nine years, there has been no significant change in the composition of revenue.

Revenue from provincial sources

2.110 The following table compares the provincial source revenue to GDP.

	(\$ millions)							
	2008	2007	2006	2005	2004	2003	2002	2001
Provincial source revenue	4,384.7	4,153.5	3,922.4	3,621.1	3,526.2	3,329.7	3,214.5	3,067.8
GDP (GDP is for the previous calendar year)	26,410	25,346	24,190	23,534	22,366	21,169	20,684	20,085
Provincial source revenue as a % of GDP	16.6%	16.4%	16.2%	15.4%	15.8%	15.7%	15.5%	15.3%
Percentage growth in provincial source revenue	5.6%	5.9%	8.3%	2.7%	5.9%	3.6%	4.8%	3.1%
Percentage growth in GDP	4.2%	4.8%	2.8%	5.2%	5.7%	2.3%	3.0%	5.5%

2.111 In six of the past eight years, provincial source revenue has increased at a rate that exceeds the rate of growth of the GDP. The result is that in 2008, provincial source revenue was 16.6% of GDP, compared to 15.3% in 2001.

2.112 The following table reports the main categories of provincial source revenue and their history over the past nine years.

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

Provincial Source Revenue	(\$ millions)								
	2008	2007	2006	2005	2004	2003	2002	2001	2000
Taxes on consumption	1,119.1	1,169.2	1,161.4	1,059.3	1,139.5	1,050.1	913.7	889.6	824.1
Taxes on property	352.3	345.6	335.2	328.3	298.2	295.0	288.6	274.7	258.1
Taxes on income	1,642.7	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	85.5	86.6	90.8	94.7	103.4	85.0	81.9	69.2	65.8
Licenses and permits	114.5	109.7	106.7	96.9	99.8	98.2	96.5	102.0	100.3
Royalties	63.8	68.7	67.8	70.7	70.4	60.0	61.1	66.5	62.5
Investment income	417.2	308.6	409.6	283.7	252.7	176.7	246.3	156.4	211.3
Other provincial revenue	358.9	320.4	302.1	290.1	275.9	271.9	205.0	197.4	203.3
Sinking fund earnings	230.7	231.8	226.4	221.6	222.5	243.0	230.9	220.0	203.7
Total	4,384.7	4,153.5	3,924.4	3,621.4	3,528.0	3,331.4	3,216.1	3,067.7	2,974.3

Taxes on consumption

2.114 The following table reports the details of revenue from taxes on consumption over the past nine years.

Taxes on consumption	(\$ millions)								
	2008	2007	2006	2005	2004	2003	2002	2001	2000
Gasoline and Motive Fuels Tax	198.1	215.2	232.1	239.7	234.9	222.1	184.3	186.5	185.5
Harmonized Sales Tax	841.0	872.1	838.7	723.0	803.1	736.0	659.6	653.2	590.7
Tobacco Tax	79.9	81.9	90.5	96.5	101.4	91.9	69.7	49.8	47.8
Other	0.1	-	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total	1,119.1	1,169.2	1,161.4	1,059.3	1,139.5	1,050.1	913.7	889.6	824.1
Increase (decrease)	(50.1)	7.8	102.1	(80.2)	89.4	136.4	24.1	65.5	10.1
Percentage increase (decrease)	(4.3%)	0.7%	9.6%	(7.0%)	8.5%	14.9%	2.7%	7.9%	1.2%
Total as a percentage of GDP	4.3%	4.6%	4.8%	4.5%	5.1%	5.0%	4.4%	4.4%	4.3%

2.115 The ratio of harmonized sales tax revenue to GDP over the past nine years is as follows:

	(\$ millions)								
	2008	2007	2006	2005	2004	2003	2002	2001	2000
Harmonized Sales Tax	841.0	872.1	838.7	723.0	803.1	736.0	659.6	653.2	590.7
GDP (GDP is for the previous calendar year)	26,410	25,346	24,190	23,534	22,366	21,169	20,684	20,085	19,041
Ratio	3.2%	3.4%	3.5%	3.1%	3.6%	3.5%	3.2%	3.3%	3.1%

Taxes on income

2.116 The following table reports the details of revenue from taxes on income over the past nine years.

	(\$ millions)								
Taxes on income	2008	2007	2006	2005	2004	2003	2002	2001	2000
Corporate income tax	266.6	217.6	150.3	173.1	111.1	134.9	179.9	178.6	141.0
Metallic minerals tax	119.7	120.2	10.5	2.8	2.2	5.7	2.3	3.3	3.9
Personal income tax	1,256.4	1,175.1	1,063.6	1,000.2	952.3	910.9	909.9	910.0	900.3
Total	1,642.7	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)	6.2%	6.0%	5.1%	5.0%	4.8%	5.0%	5.3%	5.4%	5.5%

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

	(\$ millions)								
	2008	2007	2006	2005	2004	2003	2002	2001	2000
Corporate Income Taxes	266.6	217.6	150.3	173.1	111.1	134.9	179.9	178.6	141.0
Corporation profits before taxes (previous calendar year)	2,743	2,733	2,343	2,470	1,933	1,832	1,904	1,846	1,769
Percentage	9.7%	8.0%	6.4%	7.0%	5.7%	7.4%	9.4%	9.7%	8.0%

2.118 The percentage increases in personal income taxes over the past eight fiscal years have been:

	2008	2007	2006	2005	2004	2003	2002	2001
Personal Income Tax	6.9%	10.5%	6.3%	5.0%	4.5%	0.1%	0.0%	1.1%

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

	2007	2006	2005	2004	2003	2002	2001	2000
Increase in per capita income	4,8%	4,0%	3,5%	4,7%	3,4%	2,5%	2,5%	4,8%
Increase in wage component of GDP	5,0%	4,2%	4,4%	4,8%	5,5%	4,3%	0,5%	6,1%
Increase in wage, interest and unincorporated business component of GDP	4,8%	4,1%	3,7%	4,3%	5,0%	2,4%	0,7%	5,5%

2.120 This is confusing because while per capita income has grown at a reasonably consistent rate in recent years, personal income taxes collected by the Province have grown more significantly. 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.

2.121 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.

2.122 The components of personal income tax revenue over the past eight years are:

Personal Income Taxes	(\$ millions)							
	2008	2007	2006	2005	2004	2003	2002	2001
Current year estimate	1,221.6	1,097.3	1,029.6	979.2	939.1	903.6	881.2	893.5
Prior year adjustment	34.8	77.8	34.0	21.1	13.2	7.4	28.7	17.4
Other	-	-	-	(0.1)	-	(0.1)	-	(0.9)
Total	1,256.4	1,175.1	1,063.6	1,000.2	952.3	910.9	909.9	910.0

2.123 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.

Other provincial source revenues

2.124 The following table reports the details of certain other revenue from provincial sources over the past nine years.

	(\$ millions)								
	2008	2007	2006	2005	2004	2003	2002	2001	2000
Insurance Premium Tax	40.7	40.1	39.4	39.7	42.2	34.3	30.3	28.2	25.9
Large Corporation Capital Tax	31.2	34.7	36.3	39.5	47.3	38.7	39.0	30.6	28.1
Motor vehicle licenses	91.5	89.3	86.3	76.2	73.7	74.0	74.0	76.0	73.7
Forest royalties	45.8	58.8	56.9	60.2	62.9	53.1	54.6	58.3	54.5
Lottery revenue	117.0	113.0	111.2	118.1	116.7	109.1	89.2	89.7	86.3
NB Electric Finance Corporation	104.5	18.7	131.6	7.8	(18.0)	(77.4)	19.0	(78.0)	17.0
NB Liquor Corporation	144.9	131.5	126.1	122.6	118.6	110.1	106.8	103.0	100.8
Sinking fund earnings	230.7	231.8	226.4	221.6	222.5	243.0	230.9	220.0	203.7

2.125 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	Eight year annual average growth rate
Insurance Premium Tax	6.1%
Large Corporation Capital Tax	4.9%
NB Liquor Corporation	4.7%
Lottery revenues	4.1%
Motor vehicle licenses	2.9%
Sinking fund earnings	1.7%
Forest royalties	(1.5%)

2.126 While the Large Corporation Capital Tax has had an eight-year annual growth rate of 4.9%, it has actually declined four years in a row.

Revenue from federal sources

2.127 The following table reports the main categories of federal source revenue and their history over the past eight years.

	(\$ millions)							
Federal source revenue	2008	2007	2006	2005	2004	2003	2002	2001
Canada Health and Social Transfer	737.4	706.9	696.3	607.3	545.2	498.9	494.9	404.0
Health Reform Transfer	-	-	-	35.3	-	-	-	-
Fiscal Equalization Payments	1,476.5	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	1.9	1.7	1.9	1.9	1.9	1.9
Conditional grants	334.7	304.6	324.3	292.8	259.9	243.8	200.6	194.8
Harmonization Transitional Payment	-	-	-	-	-	-	-	34.0
Amortization of deferred contributions	27.1	23.2	22.4	22.0	21.3	20.4	19.9	19.6
Total	2,577.6	2,487.4	2,392.9	2,354.6	1,917.6	1,911.9	2,038.6	1,804.8
Increase (decrease)	90.2	94.5	38.3	437.0	5.7	(126.7)	233.8	1,804.8
Percentage increase (decrease)	3.6%	3.9%	1.6%	22.8%	0.3%	(6.2%)	13.0%	(0.4%)

Expenses

2.128 The main items of expenses we have analyzed are:

- total expenses
- expenses by financial statement line
- interest expense
- provision expense
- expenditure

Total expenses

2.129 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. Five years' worth of comparative expense figures are available.

2.130 The following table reports the Province's expenses for the past five years.

Expenses	2008		2007		2006		2005		2004	
	\$ millions	%	\$ millions	%	\$ millions	%	\$ millions	%	\$ millions	%
Education and training	1,431.4	20.8	1,305.5	20.4	1,309.7	21.5	1,189.0	20.7	1,168.1	20.7
Health	2,283.4	33.2	2,110.2	33.0	1,957.8	32.2	1,837.0	32.0	1,788.5	31.8
Social Development	903.4	13.2	818.0	12.8	769.6	12.7	724.7	12.7	710.9	12.6
Protection services	187.2	2.7	233.8	3.6	161.3	2.7	151.3	2.6	145.3	2.6
Economic Development	229.2	3.4	205.6	3.2	181.2	3.1	183.6	3.2	167.0	3.0
Labour and employment	119.1	1.7	120.4	1.9	117.4	1.9	117.5	2.0	121.5	2.2
Resource sector	179.2	2.6	193.0	3.0	160.1	2.6	166.8	2.9	159.0	2.8
Transportation	380.4	5.5	347.5	5.4	336.3	5.5	310.5	5.4	307.5	5.5
Central government	585.4	8.5	510.7	8.0	495.5	8.1	479.1	8.4	475.0	8.4
Service of the Public Debt	576.9	8.4	559.4	8.7	591.4	9.7	580.9	10.1	582.9	10.4
Total	6,875.6	100.0	6,404.1	100.0	6,080.3	100.0	5,740.4	100.0	5,625.7	100.0

2.131 The following table shows the annual growth of the Province's expenses over the past four years:

Expenses	2008		2007		2006		2005	
	\$ millions	%	\$ millions	%	\$ millions	%	\$ millions	%
Education and training	125.9	9.6	(4.2)	(0.3)	120.7	10.2	20.9	1.8
Health	173.2	8.2	152.4	7.8	120.8	6.6	48.5	2.7
Social Development	85.4	10.4	48.4	6.3	44.9	6.1	13.8	1.9
Protection services	(46.6)	(19.9)	72.5	44.9	10.0	6.6	6.0	4.1
Economic Development	23.6	11.5	24.4	13.5	(2.4)	(1.3)	16.6	9.9
Labour and employment	(1.3)	(1.1)	3.0	2.6	(0.1)	(0.1)	(4.0)	(3.3)
Resource sector	(13.8)	(7.2)	32.9	20.5	(6.7)	(4.0)	7.8	4.9
Transportation	32.9	9.5	11.2	3.3	25.8	8.3	3.0	1.0
Central government	74.7	14.6	15.2	3.1	16.4	3.4	4.1	0.9
Service of the Public Debt	17.5	3.1	(32.0)	(5.4)	10.5	1.8	(2.0)	(0.3)
Total	471.5	7.4	323.8	5.3	339.9	5.9	114.7	2.0
Rate of Growth of GDP		4.2		4.8		2.8		5.2

2.132 The large increase in protection services in 2007 was primarily the result of a \$60 million estimate for credit union stabilization and support. This proved to be a very conservative estimate as only \$40 million was needed. The remaining \$20 million was subsequently recorded as a recovery in general government revenues.

2.133 The large increase in resource sector expenses in 2007 was primarily the result of a contribution of \$26.6 million towards the clean up of the Saint John Harbour.

2.134 Since 2006, the rate of growth of expenses was higher than the rate of growth of GDP.

Expenses by financial statement line items

2.135 The following table provides a three year comparison of the financial statement line items with the six largest expenses during the year ended 31 March 2008.

	2008		2007		2006	
	\$ millions	%	\$ millions	%	\$ millions	%
Regional Health Authorities	1,544.0	22.5	1,444.9	22.6	1,284.9	21.1
Education	896.4	13.0	850.4	13.3	817.0	13.4
Social Development	884.8	12.9	811.9	12.7	755.6	12.4
Health and Wellness	672.4	9.8	603.3	9.4	615.6	10.1
Service of the Public Debt	576.9	8.4	559.4	8.7	591.4	9.7
MPHEC	274.0	4.0	215.8	3.4	258.5	4.2

2.136 One notable observation from the above table is that the Regional Health Authorities have 22.5% of all expenses of the Province.

2.137 The increase in payments to Maritime Provinces Higher Education Commission (MPHEC) was due to the accelerated payments of operating grants. A payment of \$100 million was made to the universities that did not have to be paid in the 31 March 2008 year.

Interest expense

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

	(\$ millions)								
	2008	2007	2006	2005	2004	2003	2002	2001	2000
Interest	744.6	732.4	737.1	749.8	758.8	791.2	809.7	843.2	825.8
Interest on Fredericton to Moncton highway capital lease	54.3	55.4	56.5	57.5	58.1	55.8	22.5	0	0
Interest on other capital leases	2.1	2.2	2.2	2.3	2.3	2.4	2.4	2.5	2.5
Foreign exchange expense	(16.7)	(30.8)	(7.8)	(21.7)	(40.3)	35.4	56.6	44.5	27.2
Amortization of discounts and premiums	8.1	7.3	7.4	7.1	7.4	7.9	7.5	7.9	7.6
Other expenses	1.9	2.1	1.7	1.9	2.1	3.3	1.8	1.2	8.5
Subtotal	794.3	768.6	797.1	796.9	788.4	896.0	900.5	899.3	871.6
Interest recovery - Electric Finance Corporation	(217.4)	(209.2)	(205.7)	(216.0)	(205.5)	(235.1)	(248.7)	(262.0)	(260.9)
Service of the public debt	576.9	559.4	591.4	580.9	582.9	660.9	651.8	637.3	610.7
Less sinking fund earnings	(230.7)	(231.8)	(226.4)	(221.6)	(222.5)	(243.0)	(230.9)	(220.0)	(203.7)
Subtotal	346.2	327.6	365.0	359.3	360.4	417.9	420.9	417.3	407.0
Pension interest charged	(9.1)	0.4	30.9	17.6	85.4	27.9	3.5	(53.6)	(9.1)
Interest on student loans	13.6	11.6	6.8	0	0	0	0	0	0
Total	350.7	339.6	402.7	376.9	445.8	445.8	424.4	363.7	397.9

2.139 The subtotal that deducts sinking fund earnings from service of the public debt is the best indicator of net interest costs.

Provision expense

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

	(\$ millions)								
	2008	2007	2006	2005	2004	2003	2002	2001	2000
Provision expense	58.6	69.9	59.7	77.5	71.2	33.0	43.2	65.3	46.5

Expenditure

2.141 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:

Expenditure	(\$ millions)					
	2008	2007	2006	2005	2004	2003
Expenditure (\$ millions)	7,476.3	6,525.0	6,203.8	5,849.6	5,569.2	5,377.8
Increase (\$ millions)	951.3	321.2	354.2	280.4	191.4	298.1
Percentage increase	14.6%	5.2%	6.1%	5.0%	3.6%	5.9%

2.142 The following table compares expenditure growth to GDP growth and revenue growth:

	2008	2007	2006	2005	2004	2003
Expenditure growth	14.6%	5.2%	6.1%	5.0%	3.6%	5.9%
GDP growth (GDP is for the previous calendar year)	4.2%	4.8%	2.8%	5.2%	5.7%	2.3%
Revenue growth	4.8%	5.2%	5.7%	9.8%	3.9%	(0.2%)

2.143 In 2008, expenditure growth was greater than both GDP growth and revenue growth.