

Chapter 2

Comments on the Province's Financial Position

Contents

Introduction	9
Indicators of the Province's financial condition	9
Comments on components of the Province's financial statements	17

Comments on the Province's Financial Position

Introduction

2.1 The Province's 2009 Public Accounts contain sections called "Indicators of Financial Health," "Results for the Year," and "Major Variance Analysis." These sections contain important information which is useful in assessing the Province's financial position. We are pleased to see the government continuing to provide, and even expanding upon, information which helps the reader understand its financial operations.

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 ten years. These are the same charts we included in our 2008 Report. These charts are similar to those in the Public Accounts except they are for a longer time period (ten versus six years) and they include a chart showing changes in Net Debt and GDP (Exhibit 2.2) which does not appear in the Public Accounts. 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 In May 2009, the Public Sector Accounting Board (PSAB) of the CICA issued SORP-4, a statement of recommended practice, building on the CICA research report and using many of the same indicators of financial condition.

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. In future years we will be using the guidance provided in SORP-4.

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. The five indicators 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*

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 deficit of \$192.3 million and an increase in net debt for the year of \$438.6 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 ten years show that the Province of New Brunswick's financial condition has improved or remained relatively stable in sustainability, flexibility and vulnerability. Over the last two years, the indicators of sustainability have been unfavourable.**

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

2.9 It is now well understood by the general public that increases in the cost of servicing the public debt will eventually impact the

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

quantity and quality of programs and services to which the public has access.

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.

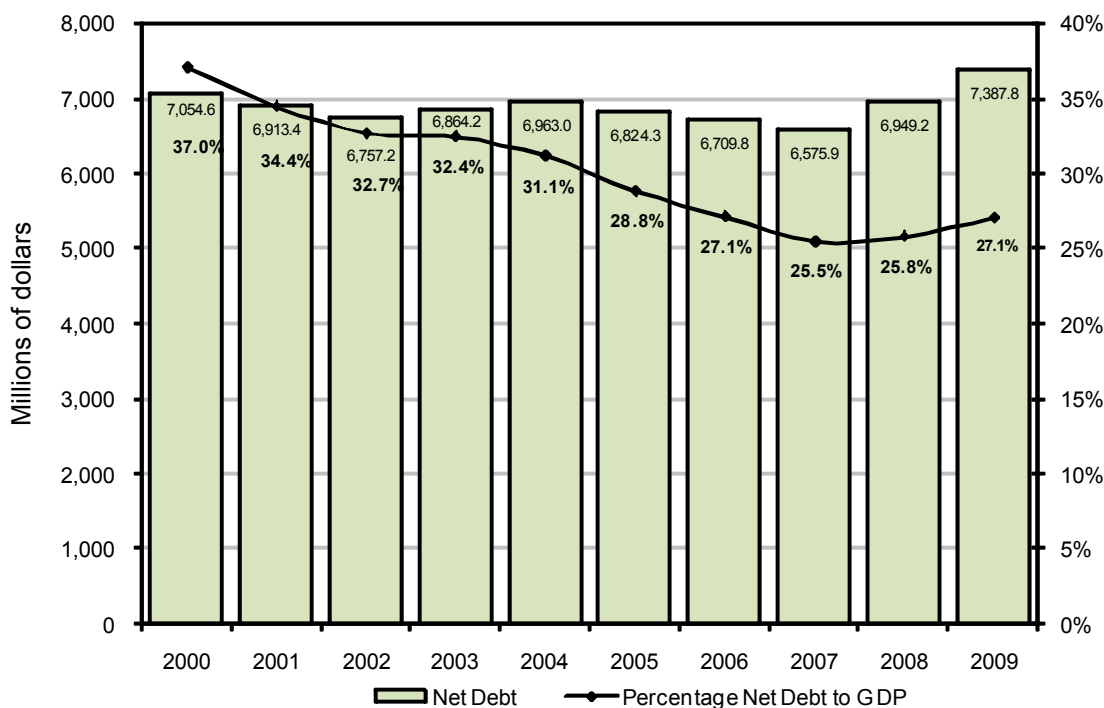
2.12 Gross Domestic Product (GDP) is the total value of all goods and services produced in the Province during a specific period. GDP is often used to measure the growth of the economy.

***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 2009 indicate that net debt stands at \$7.39 billion - \$333.2 million higher than its level ten 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 ten years – showing the Province's increasing ability to sustain existing programs and services. In the past two years, 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, and a downturn in the economy.

Exhibit 2.1 Net debt as a percentage of GDP¹ for the last ten years

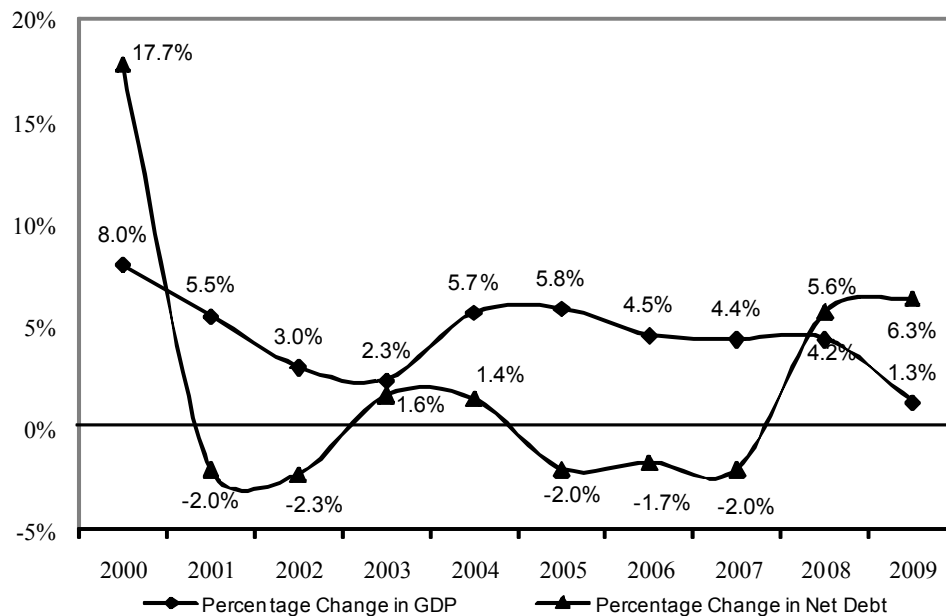


Change in net debt and GDP as a measure of sustainability

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 experienced economic growth in excess of growth in the net debt (favourable) every year from 2001 to 2007. In 2009 there was a small increase in percentage for GDP, but a large increase in percentage for Net Debt. This was due to the economic recession, increase in pension expense due to poor returns, and increased spending by government.

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 ten 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

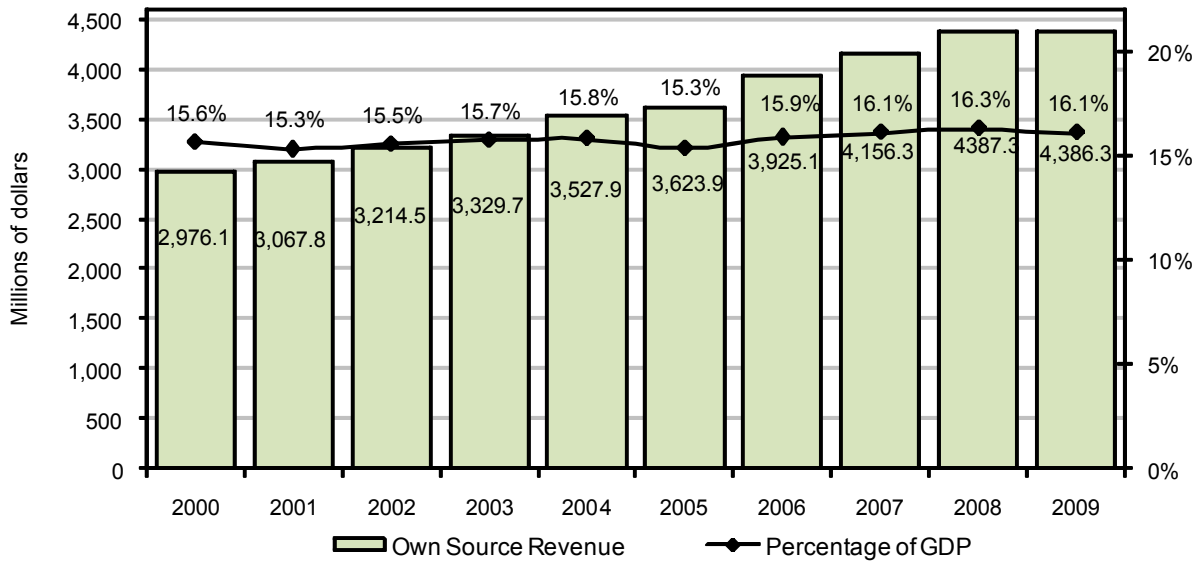
2.18 Funding for programs and services is provided by either revenue or borrowing during the year. It is a useful measure of flexibility to know to what extent the Province is able to raise revenue from existing and potential sources should new commitments arise.

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 ten 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 ten years. This exhibit shows that the dollars extracted by the Province from the New Brunswick economy as a percent of GDP remained relatively stable over the past ten years.

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

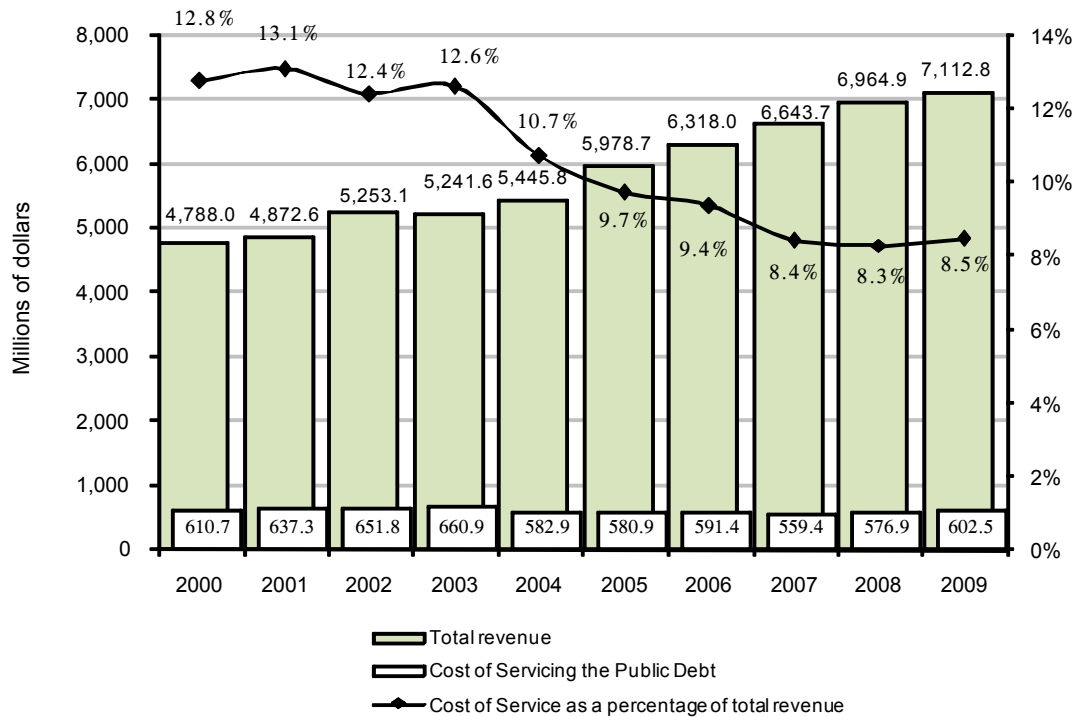
2.21 One of the most publicized factors which affects the flexibility of governments is the cost of servicing the public debt.

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.

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

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 2.4 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 2009 compared to 2008 by \$25.6 million to \$602.5 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 8.5%. 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 ten 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

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

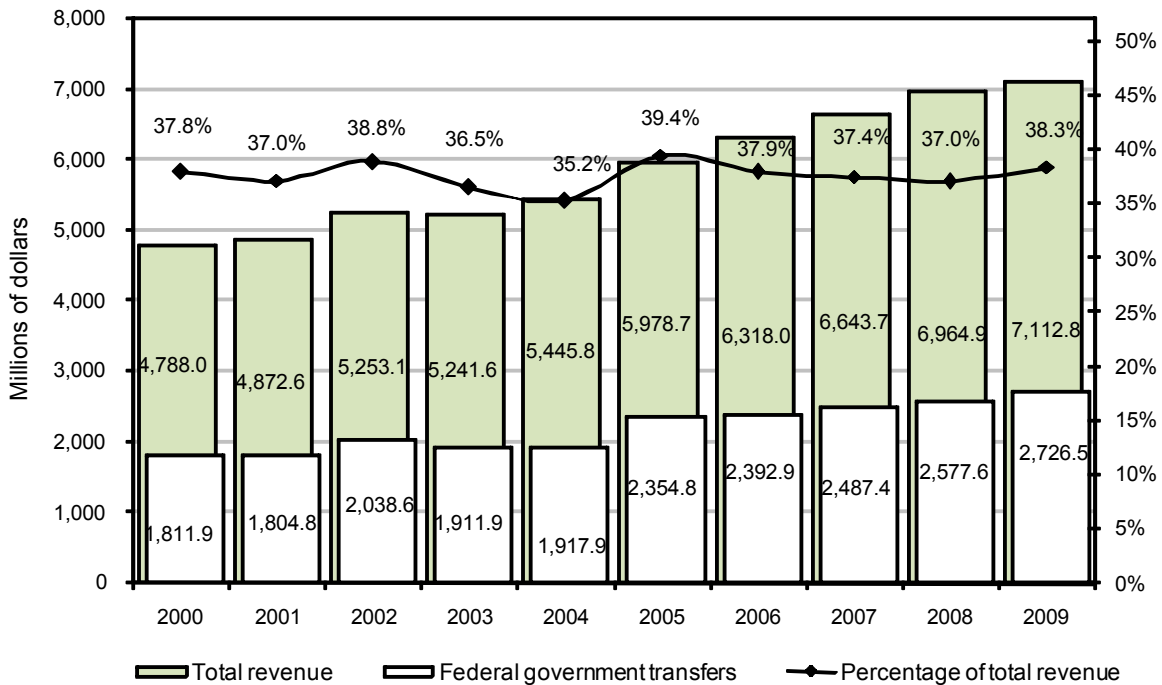
1. Indicators of Government Financial Condition, 1997 published by the Canadian Institute of Chartered Accountants.

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

2.27 In 2009, 38.3% 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 ten 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 ten years. This exhibit shows that the trend over the past ten 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 ten years, the indicators of sustainability, flexibility and vulnerability show that the Province of New Brunswick's financial condition has improved or remained relatively stable. Over the last two years, the indicators of sustainability have been unfavourable.

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	2009	Impact on Financial Condition of the Province	
		2 year trend	10 year trend
<i>Sustainability</i>			
Net debt as a percentage of GDP	27.1%	Unfavourable	Favourable
Change in net debt and GDP	6.3%/1.3%	Unfavourable	Mixed
<i>Flexibility</i>			
Own source revenue as a percentage of GDP	16.1%	No significant change	No significant change
Cost of servicing the public debt as a percentage of total revenue	8.5%	No significant change	Favourable
<i>Vulnerability</i>			
Federal government transfers as a percentage of total revenue	38.3%	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 2009. 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.

2.34 We would like to highlight three points that are included in the following section. They are areas that we feel could be better managed. They are:

- collection of receivables;

- **management of the increasing liability for injured workers; and**
- **growth of allowances for doubtful accounts.**

2.35 These items are discussed in more detail through this chapter.

Statement of Financial Position

2.36 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

2.37 For the purposes of the following tables, the 2008 figures reflect those published in the 2009 Public Accounts Volume 1. These numbers have been restated from last year. The main reason for the restatement is due to the consolidation of more Crown agencies including Kings Landing, New Brunswick Legal Aid Services Commission, Fundy Linen and Ambulance NB.

2.38 Years prior to 2008 have not been restated for those consolidated entities as the effect would be immaterial.

Receivables and advances

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

	(\$ millions)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
General receivables	227.2	207.4	185.4	168.6	153.5	231.2	200.1	197.8	174.8	156.7
Receivables from Canada	182.0	205.0	169.7	164.0	141.6	132.3	121.5	122.8	119.5	106.9
Guarantee payouts	94.7	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	23.5	23.1	33.6	62.0	67.5					
Subtotal	527.4	510.8	434.5	444.7	415.0	402.7	361.6	357.2	326.5	291.8
Interest receivable	52.1	45.5	37.1	33.4	26.3	30.8	30.3	25.6	24.1	27.1
Subtotal	579.5	556.3	471.6	478.1	441.3	433.5	391.9	382.8	350.6	318.9
Consolidated entities	43.2	51.4	51.2	48.3	43.3	42.8	47.4	N/A	N/A	N/A
Total	622.7	607.7	522.8	526.4	484.6	476.3	439.3	382.8	350.6	318.9
Less: Allowance for doubtful accounts	244.0	201.3	155.7	140.7	132.9	118.5	113.3	97.7	87.4	77.5
Receivables and advances	378.7	406.4	367.1	385.7	351.7	357.8	326.0	285.1	263.2	241.4

2.40 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)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Total before allowance	622.7	607.7	522.8	526.4	484.6	476.3	439.3	382.8	350.6	318.9
Less: Receivables from Canada	182.0	205.0	169.7	164.0	141.6	132.3	121.5	122.8	119.5	106.9
Less: Consolidated entities	43.2	51.4	51.2	48.3	43.3	42.8	47.4	N/A	N/A	N/A
Less: Advances of grants	13.0	12.7	21.9	51.5	55.2					
Net amount	384.5	338.6	280.0	262.6	244.5	301.2	270.4	260.0	231.1	212.0
Allowance for doubtful accounts	244.0	201.3	155.7	140.7	132.9	118.5	113.3	97.7	87.4	77.5
Allowance percentage	63.5%	59.5%	55.6%	53.6%	54.4%	39.3%	41.9%	37.6%	37.8%	36.6%

2.41 In the year ended 31 March 2009:

- the Province reported \$622.7 million in receivables and advances, which is about 2.5% higher than the 31 March 2008 balance;
- \$43.2 million of the \$622.7 million was receivable by and managed by the consolidated entities;

- another \$182.0 million was due from the federal government and so there should not be any doubt about its collection;
- another \$13.0 million were advances on operating grants for April 2009;
- this left \$384.5 million in receivables that the Province has to actively manage to ensure collection; and
- the collection of 63.5% of these amounts, or \$244.0 million, is considered to be in doubt.

2.42 At the year ended 31 March 2000, the percentage of doubtful accounts was 36.6%. The percentage has been steadily increasing since that time.

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

- The amount of receivables for guarantee payouts is about six times higher, rising from \$15.9 million at 31 March 2000 to \$94.7 million at 31 March 2009.
- Amounts due from Canada should not normally require active management as noted above. However, as we noted in our 2008 Report, funding under the official languages program was not being claimed from Canada on a timely basis. Subsequent to our report to the Department of Education, they prepared the necessary claims and the receivable decreased by almost \$20 million from last year. Subsequent to 31 March 2009, more of the receivable from Canada has been collected.

2.44 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 63.5%, 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)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Gasoline and motive fuel tax	17.7	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	911.0	855.1	791.4	411.0	395.3	384.0	374.3	359.9	342.4	323.8
Royalties and stumpage on timber	10.8	5.1	22.0	24.3	21.8	28.0	18.2	18.4	22.7	19.1
Sales tax	154.5	60.5	87.0	87.9	32.7	107.7	85.4	68.9	68.9	69.5
Tobacco tax	21.7	8.5	8.4	8.5	10.2	11.3	9.0	7.4	5.3	4.4
Other	7.2	5.3	2.5	2.5	2.9	0.3	0.1	0.1	0.1	0.2
Subtotal	1,122.9	954.2	1,046.6	554.9	488.9	553.2	507.0	471.9	460.9	431.6
Allowance for doubtful accounts	56.5	55.1	77.0	85.4	80.7	86.6	89.5	89.5	84.5	83.9
Total	1,066.4	899.1	969.6	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, 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.

	(\$ millions)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Gasoline and motive fuel tax	195.1	198.1	215.2	232.1	239.7	234.9	222.1	184.3	186.5	185.5
Real property tax	385.3	352.3	345.6	335.2	328.3	298.2	295.0	288.6	274.7	258.1
Forest royalties	40.4	45.8	58.8	56.9	60.2	62.9	53.1	54.6	58.3	54.5
Tobacco tax	103.7	79.9	81.9	90.5	96.5	101.4	91.9	69.7	49.8	47.8
Metallic minerals tax	4.7	119.7	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.

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Gasoline and motive fuel tax	9.1%	9.9%	10.6%	8.9%	10.8%	9.3%	9.0%	9.3%	11.5%	7.9%
Real property tax	236.4%	242.7%	229.0%	122.6%	120.4%	128.8%	126.9%	124.7%	124.6%	125.5%
Forest royalties	26.7%	11.1%	37.4%	42.7%	36.2%	44.5%	34.3%	33.7%	38.9%	35.0%
Tobacco tax	20.9%	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%							

2.48 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. 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 amount receivable for tobacco tax is higher than normal because of a court settlement with manufacturers; \$12.8 million was outstanding at 31 March 2009.

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)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Taxes receivable	1,122.9	954.2	1,046.6	554.9	488.9	553.2	507.0	471.9	460.9	431.6
Allowance for doubtful accounts	56.5	55.1	77.0	85.4	80.7	86.6	89.5	89.5	84.5	83.9
Percentage	5.0%	5.8%	7.4%	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)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Business New Brunswick	291.5	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	369.2	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	7.3	3.6	2.3	0.2	-	-	-	-	-	-
Environment and/or Local Government	5.8	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	4.0
Social Development	35.5	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	9.7	10.0	10.2	10.4	10.7	10.9	11.2	11.4	11.6	12.2
Regional Development Corporation	13.8	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	736.8	626.0	560.6	512.9	262.7	255.6	292.3	280.1	277.6	263.6
Allowance for doubtful accounts	297.9	229.3	207.2	192.9	142.6	129.3	143.9	133.7	124.7	122.3
Total	438.9	396.7	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. Since 31 March 2006 the student loans receivable have increased by over 40%. We are concerned by this increase, however, we understand that mechanisms are now 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 four years, and estimates the 2010 balance based on budget figures from Main Estimates.

	\$ millions				
	Budget 2010	2009	2008	2007	2006
Opening Balance	369.2	336.4	296.0	258.3	0.0
Student Loan Advances	68.4	62.8	64.5	61.7	270.1
Repayments	30.8	31.3	26.3	20.2	10.1
Other	-	1.3	2.2	(3.8)	(1.7)
Closing Balance	406.8	369.2	336.4	296.0	258.3

2.53 The increase in the Regional Development Corporation loan balance in 2008 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.

2.54 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.

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

	(\$ millions)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Loans	736.8	626.0	560.6	512.9	262.7	255.6	292.3	280.1	277.6	263.6
Allowance for doubtful accounts	297.9	229.3	207.2	192.9	142.6	129.3	143.9	133.7	124.7	122.3
Percentage	40.4%	36.6%	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:

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
<i>Agricultural Development Act</i>	46.3%	68.2%	69.0%	72.4%	73.2%	71.0%	69.0%	66.3%	48.0%	37.5%
<i>Economic Development Act</i>	66.8%	62.1%	64.9%	65.1%	56.8%	46.0%	45.0%	41.7%	37.2%	30.5%
<i>Fisheries Development Act</i>	75.8%	71.8%	71.9%	73.8%	71.6%	76.8%	74.3%	74.3%	77.9%	82.2%
Provincial Holdings Ltd.	100.0%	75.6%	80.6%	73.3%	44.6%	34.3%	30.9%	25.9%	18.8%	32.5%
Loans to students	20.1%	19.4%	18.6%	15.9%	100%	100%	100%	100%	100%	100%
Local Government loans	6.9%	5.2%	3.0%	100%	100%	100%	100%	100%	100%	100%
La Fondation du quotidien francophone	100.0%	100%	100%	100%	100%	100%	100%	100%	100%	100%
<i>New Brunswick Housing Act</i>	13.2%	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	N/A	0.0%	54.5%	42.9%	35.3%	31.6%	26.1%
Unsatisfied judgments	100.0%	100%	100%	100%	100%	100%	100%	100%	100%	100%

2.58 The four largest categories of loans, which represent 93.2% of all loans outstanding at 31 March 2009, are:

- Loans to students 50.1%
- *Economic Development Act* loans 33.4%
- *Fisheries Development Act* loans 4.9%
- *New Brunswick Housing Act* loans 4.8%

Accounts payable and accrued expenses

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

	(\$ millions)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Accounts payable	458.2	452.4	446.8	417.4	388.2	372.4	300.5	375.6	255.0	275.9
Due to Canada	184.6	207.4	228.9	249.9	211.4	186.2	34.8	10.3	9.5	16.2
Accrued interest	205.6	215.2	227.0	236.8	244.2	231.0	229.5	164.2	164.3	166.5
Employee benefits	718.0	641.4	609.2	599.6	575.4	542.2	419.5	404.1	403.9	352.5
Other	519.9	487.5	440.0	137.6	201.1	148.5	268.1	182.7	210.4	219.0
	2,086.3	2,003.9	1,951.9	1,641.3	1,620.3	1,480.3	1,252.4	1,136.9	1,043.1	1,030.1

2.60 The largest component of the due to Canada account relates to overpayments by Canada to the Province under federal government transfers. Approximately \$145.8 million of the \$184.6 million payable in 2009 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.

2.61 Note that the large increase in Other from 2007 and on 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.

2.62 Two components of the accrued employee benefit expenses are:

	(\$ millions)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Liability for injured workers	135.6	126.8	105.8	103.3	95.7	89.6	83.2	68.9	55.7	42.3
Retirement allowances	311.6	308.3	303.1	289.4	272.3	264.0	247.6	232.4	230.7	224.9

2.63 The difference in the growth of these two accrued expenditures is noticeable. The liability for injured workers has increased 220.6% over a nine-year period, while the liability for accrued retirement allowances has only increased 38.6%. 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

2.64 The following table provides the history of the allowance for losses balance over the past ten years.

	(\$ millions)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Allowance for losses	101.8	103.1	95.8	84.0	83.3	104.2	74.2	68.7	30.9	16.2

2.65 This allowance at 31 March 2009 was over six times its balance at 31 March 2000. The components of the allowance are:

	(\$ millions)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Business New Brunswick	46.4	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	32.0	36.0	0.2	0.2	0.2	0.7	0.2	0.2	0.2	0.2
Property tax appeals	23.4	23.4	26.8	23.3	16.2	28.4	24.0	24.0	-	-

2.66 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 in 2008 is due to an increase in provision for loss in Central Government.

All allowances

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

	(\$ millions)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Allowance for losses	101.8	103.1	95.8	84.0	83.3	104.2	74.2	68.7	30.9	16.2
Allowance for doubtful accounts (Loans)	297.9	229.3	207.2	192.9	142.6	129.3	143.9	133.7	124.7	122.3
Allowance for doubtful accounts (Taxes receivable)	56.5	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)	244.0	201.3	155.7	140.7	132.9	118.5	113.3	97.7	87.4	77.8
Total all allowances	700.2	588.8	535.7	503.0	439.5	438.6	420.9	389.6	327.5	300.2

2.68 These numbers are concerning. As at 31 March 2009, the Province expects to lose \$700.2 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 \$7.0 million to the Province.

2.69 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 the Department of Post-Secondary Education, Training and Labour now sends defaulted student loans to CRA for set-off. We understand that some of the Province's other credit and loan programs are being considered for this arrangement.

Obligations under capital leases

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

	(\$ millions)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Capital leases	785.9	805.4	817.1	834.1	849.4	865.8	873.7	871.9	900.0	900.7

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

	(\$ millions)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Fredericton to Moncton highway lease	756.6	775.1	792.4	808.4	823.0	837.0	843.8	844.6	871.8	872.0

2.72 Over the past nine years, the Province has paid \$115.4 million against the outstanding principal owing on the Fredericton to Moncton highway lease.

Pension liability (surplus)

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

	(\$ millions)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Pension liability (surplus)	(210.2)	(244.7)	(126.4)	30.2	156.7	271.5	362.1	372.6	442.6	596.0

2.74 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.

2.75 There has been a steady decline in the outstanding pension liability from 2000 to 2006 with a surplus reported from 2007 to 2009 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)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Estimated accrued benefits liability	8,642.5	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	6,512.4	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	2,130.1	265.2	(165.0)	(124.8)	197.9	294.4	1,057.4	158.0	(68.4)	(680.9)
Accounting adjustments	(2,340.3)	(509.9)	38.6	155.0	(41.2)	(22.9)	(695.3)	214.6	511.0	1,276.9
Pension liability (surplus)	(210.2)	(244.7)	(126.4)	30.2	156.7	271.5	362.1	372.6	442.6	596.0

2.76 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. For the ten year ends reported in the table, the market value of the plan assets for the current year has the largest change experienced - a decline of \$1.5 billion.

2.77 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. This number fluctuates significantly from year to year. We saw an excess of assets over liability of \$680 million for 31 March 2000. At 31 March 2009 we had the largest deficiency of assets over liabilities of \$2.13 billion.

2.78 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. As at 31 March 2009, the estimated accrued benefits exceeds the market value by \$2.13 billion, however, the pension surplus reported on the Province's financial statements was \$210.2 million.

2.79 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)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Pension expense	323.1	154.5	101.1	109.9	108.4	124.2	90.4	(0.7)	(51.1)	(9.1)
Employer contributions	288.6	272.8	257.7	236.4	223.2	214.8	100.9	69.1	102.3	167.6
Reduction (increase) in pension liability	(34.5)	118.3	156.6	126.5	114.8	90.6	10.5	69.8	153.4	176.7

2.80 The pension expense has risen dramatically over the years and had a 50% increase in 2008 from 2007 and more than doubled in 2009. The pension expense for 2009 was higher than anticipated due to significant losses on pension fund assets because of the economic downturn. In the short run, the table shows that increasing provincial contributions cannot offset lower than anticipated returns.

Funded debt for provincial purposes

2.81 The following table provides the history of the funded debt for provincial purposes, sinking fund book value and funded debt for provincial purposes net of sinking fund balance over the past ten years.

2.82 The Province's funded debt for provincial purposes at 31 March 2009 exceeded \$10 billion.

2.83 The table shows significant increases over the past ten years for funded debt, but only moderate increases in the sinking fund. The sinking fund actually decreased in value at 31 March 2009 over the prior year value.

	(\$ millions)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Funded debt for provincial purposes	10,127.6	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	4,159.9	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	5,967.7	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

2.84 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 ten years.

Tangible capital assets

2.85 The following table provides the history of the tangible capital asset balance over the past six years.

	(\$ millions)					
	2009	2008	2007	2006	2005	2004
Tangible capital assets	6,394.0	6,234.1	5,645.5	5,518.9	5,404.0	5,294.9
Deferred capital contributions	(852.2)	(818.3)	(680.2)	(659.8)	(657.3)	(644.9)
Provincial investment in tangible capital assets	5,541.8	5,415.8	4,965.3	4,859.1	4,746.7	4,650.0

2.86 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 five years.

	(\$ millions)				
	2009	2008	2007	2006	2005
Opening balance	818.3	680.2	659.8	657.3	644.9
Funds received to acquire tangible capital assets	64.9	165.3	43.5	24.9	34.3
Amortization of deferred capital contributions	(31.0)	(27.2)	(23.1)	(22.4)	(21.9)
Ending balance	852.2	818.3	680.2	659.8	657.3

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

	(\$ millions)			
	2009	2008	2007	2006
Opening balance	6,234.1	5,651.5	5,523.4	5,408.8
Acquisitions	440.7	837.7	367.1	342.4
Amortization of tangible capital assets	(279.9)	(253.3)	(238.7)	(227.4)
Loss on disposal of tangible capital assets	(0.9)	(1.8)	(0.3)	(0.4)
Ending balance	6,394.0	6,234.1	5,651.5	5,523.4

2.88 Below is the annual investment in tangible capital assets from 2005 to 2009. It shows that the large majority of our infrastructure projects have been funded by the provincial government in that timeframe. The amount and percent of federal funding for infrastructure projects varies significantly from year to year.

	(\$ millions)				
	2009	2008	2007	2006	2005
Provincial investment	375.9	672.4	321.5	317.3	292.4
Federal investment	64.9	165.3	43.5	24.9	34.3
Total investment	440.8	837.7	365.0	342.2	326.7
Provincially funded	85.3%	80.3%	88.1%	92.7%	89.5%

Net debt

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

2.90 At 31 March 2009, net debt reached an all-time high of \$7.39 billion.

2.91 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	2009	2008	2007
Saskatchewan	3,848	6,049	6,446
New Brunswick	7,388	6,949	6,575
Manitoba	11,498	10,599	10,465
Nova Scotia	12,324	12,115	12,357

Net debt per capita	2009	2008	2007
Saskatchewan	\$3,787	\$6,051	\$6,528
Manitoba	\$9,518	\$8,881	\$8,880
New Brunswick	\$9,864	\$9,299	\$8,769
Nova Scotia	\$13,138	\$12,943	\$13,216

Net debt as a percentage of GDP	2009	2008	2007
Saskatchewan	6.0%	11.7%	14.0%
Manitoba	22.4%	22.0%	23.4%
New Brunswick	27.1%	25.8%	25.9%
Nova Scotia	36.0%	37.0%	39.0%

Items reported in the notes

2.92 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

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

	(\$ millions)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
<i>Agricultural Development Act</i>	1.8	0.6	0.6	0.4	0.4	0.1	0.2	0.2	0.9	0.8
<i>Economic Development Act</i>	98.2	83.4	113.8	108.6	102.1	122.5	44.8	28.9	29.9	36.4
<i>Employment Development Act</i>	4.1	4.4	4.5	4.5	3.9	5.3	4.3	3.6	2.0	2.3
<i>Fisheries Development Act</i>	12.4	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	0.8	0.9	0.9	0.9	1.5	1.6	1.5	1.7	0.5
<i>Nursing Homes Act</i>	7.6	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	3,000.0	2,900.0	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	612.9	569.5	560.1	496.1	466.6	421.4	386.7	366.9	350.9	346.2
Provincial Holdings Ltd.	12.6	29.0	14.7	14.9	1.7	2.3	2.6	4.9	6.0	7.3
<i>Regional Development Corporation Act</i>	3.9	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	3,754.3	3,615.2	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	40.6	49.9	69.0	60.7	67.6	75.8	50.2	44.7	30.9	16.2
Contingent liability for guaranteed loans	3,713.7	3,565.3	3,454.5	3,298.7	3,336.0	3,184.9	2,883.2	2,618.3	2,386.6	2,196.8

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

2.95 In 2007 the Province reported, for the first time, its guarantee of the deposits of credit unions and caisses populaires. As of 31 December 2008, total deposits guaranteed amounted to \$3,050.7 million. Given the significance of the amount, the risk associated with the guarantee must be managed. NBCUDIC guarantees the repayment of individual deposits with New Brunswick credit unions and caisses populaires up to a maximum of \$250,000. NBCUDIC is included in the Province's reporting entity through the consolidation method.

Commitments

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

	(\$ millions)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Operating leases	479.4	422.5	409.5	436.4	407.8	392.0	398.5	369.8	308.9	329.7
Nursing home debt funding	171.5	168.7	121.5	111.8	84.4	84.8	86.3	81.0	78.6	68.2
Authorized capital projects	587.1	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.

2.98 The operating lease commitments and the nursing home funded debt have steadily increased since 31 March 2001. Nursing home commitments include 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 ten years:

	(\$ millions)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Unrealized foreign exchange losses (gains)	(38.2)	(87.8)	(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 2009.

	(\$ millions)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Book value - provincial portion	4,159.9	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
Book value - NB Power portion	415.4	309.4	300.6	336.4	391.6	363.7	351.3	327.4	297.3	295.1
Total book value	4,575.3	4,471.3	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	4,845.4	4,765.7	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	270.1	294.4	308.5	316.0	417.9	496.0	361.0	226.8	275.8	227.8

2.102 This shows that at 31 March 2009, the sinking fund had a market value that was higher than its recorded book value.

Statement of Operations Deficit

2.103 For the year ended 31 March 2009, the Province reported a deficit of \$192.3 million.

2.104 The following table shows the surplus or deficit for the past six years as originally recorded and as restated. Most of the restated amounts are due to the consolidation of additional Crown corporations.

	(\$ millions)					
	2009	2008	2007	2006	2005	2004
As originally recorded	(192.3)	86.7	236.8	243.6	242.2	(103.2)
As restated	(192.3)	96.7	236.4	235.1	235.8	(181.9)

Change in net debt

2.105 For the year ended 31 March 2009, the Province reported an increase in net debt of \$438.6 million.

Revenue

2.106 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

2.107 Provincial source revenue has increased 47.4% since the year ended 31 March 2000, while federal source revenue has increased 51.1%. The following table reports the share of annual revenue that is made up of each primary source.

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Provincial sources	61.7%	63.0%	62.5%	62.1%	60.6%	64.8%	63.5%	61.2%	63.0%	62.2%
Federal sources	38.3%	37.0%	37.5%	37.9%	39.4%	35.2%	36.5%	38.8%	37.0%	37.8%

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

Revenue from provincial sources

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

	(\$ millions)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Provincial source revenue	4,386.3	4,387.3	4,156.3	3,925.1	3,623.9	3,527.9	3,329.7	3,214.5	3,067.8	
GDP (GDP is for the previous calendar year)	27,288	26,947	25,825	24,748	23,672	22,366	21,169	20,684	20,085	
Provincial source revenue as a % of GDP	16.1%	16.3%	16.1%	15.9%	15.3%	15.8%	15.7%	15.5%	15.3%	
Percentage growth in provincial source revenue	0.0%	5.6%	5.8%	8.4%	2.7%	6.0%	3.6%	4.8%	3.1%	
Percentage growth in GDP	1.3%	4.3%	4.4%	4.5%	5.8%	5.7%	2.3%	3.0%	5.5%	

2.110 In six of the past nine years, provincial source revenue has increased at a rate that exceeds the rate of growth of the GDP. The result is that in 2009, provincial source revenue was 16.1% of GDP, compared to 15.3% in 2001.

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

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

Provincial Source Revenue	(\$ millions)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Taxes on consumption	1,359.7	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	385.3	352.3	345.6	335.2	328.3	298.2	295.0	288.6	274.7	258.1
Taxes on income	1,439.1	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	68.7	85.5	86.6	90.8	94.7	103.4	85.0	81.9	69.2	65.8
Licenses and permits	116.6	114.5	109.7	106.7	96.9	99.8	98.2	96.5	102.0	100.3
Royalties	79.5	63.8	68.7	67.8	70.7	70.4	60.0	61.1	66.5	62.5
Investment income	357.3	417.3	308.6	409.6	283.7	252.7	176.7	246.3	156.4	211.3
Other provincial revenue	346.7	361.4	323.2	302.8	292.6	275.8	271.9	205.0	197.4	203.3
Sinking fund earnings	233.4	230.7	231.8	226.4	221.6	222.5	243.0	230.9	220.0	203.7
Total	4,386.3	4,387.3	4,156.3	3,925.1	3,623.9	3,527.9	3,331.4	3,216.1	3,067.7	2,974.3

2.113 In 2009, the significant increase in property tax revenue was the result of increased assessment values and the temporary discontinuance of the Forestry Industry Investment Tax Credit.

Taxes on consumption

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

Taxes on consumption	(\$ millions)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Gasoline and Motive Fuels Tax	195.1	198.1	215.2	232.1	239.7	234.9	222.1	184.3	186.5	185.5
Harmonized Sales Tax	1,060.8	841.0	872.1	838.7	723.0	803.1	736.0	659.6	653.2	590.7
Tobacco Tax	103.7	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	0.1
Total	1,359.7	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)	240.6	(50.1)	7.8	102.1	(80.2)	89.4	136.4	24.1	65.5	10.1
Percentage increase (decrease)	21.5%	(4.3%)	0.7%	9.6%	(7.0%)	8.5%	14.9%	2.7%	7.9%	1.2%
Total as a percentage of GDP	5.0%	4.2%	4.5%	4.7%	4.5%	5.1%	5.0%	4.4%	4.4%	4.3%

2.115 Both harmonized sales tax and tobacco tax revenues saw substantial increases in 2009. Increased HST revenues resulted from an increased share of the national revenue pool as well as a large prior period adjustment. Tobacco tax revenues increased in 2009 due to a settlement with manufacturers.

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

	(\$ millions)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Harmonized Sales Tax	1,060.8	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)	27,288	26,947	25,825	24,748	23,672	22,366	21,169	20,684	20,085	19,041
Ratio	3.9%	3.1%	3.4%	3.4%	3.1%	3.6%	3.5%	3.2%	3.3%	3.1%

Taxes on income

2.117 The following table reports the details of revenue from taxes on income over the past ten years. Metallic minerals tax is down due to a significant reduction in the average price of zinc triggered by the economic downturn.

	(\$ millions)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Corporate income tax	111.4	266.6	217.6	150.3	173.1	111.1	134.9	179.9	178.6	141.0
Metallic minerals tax	4.7	119.7	120.2	10.5	2.8	2.2	5.7	2.3	3.3	3.9
Personal income tax	1,323.0	1,256.4	1,175.1	1,063.6	1,000.2	952.3	910.9	909.9	910.0	900.3
Total	1,439.1	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)	5.3%	6.1%	5.9%	4.9%	5.0%	4.8%	5.0%	5.3%	5.4%	5.5%

2.118 The following table compares corporate income taxes to the component of GDP that is from corporation profits before taxes. Corporate income tax is down due to a large negative prior-period adjustment and reduced federal estimates.

	(\$ millions)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Corporate Income Taxes	111.4	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)	2,824	3,289	3,200	2,892	2,566	1,933	1,832	1,904	1,846	1,769
Percentage	3.9%	8.1%	6.8%	5.2%	6.7%	5.7%	7.4%	9.4%	9.7%	8.0%

2.119 The percentage increases in personal income taxes over the past nine fiscal years have been:

	2009	2008	2007	2006	2005	2004	2003	2002	2001
Personal Income Tax	5.3%	6.9%	10.5%	6.3%	5.0%	4.5%	0.1%	0.0%	1.1%

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

	2008	2007	2006	2005	2004	2003	2002	2001	2000
Increase in per capita income	4.3%	4.9%	4.0%	3.5%	4.8%	3.4%	2.5%	2.5%	4.8%
Increase in wage component of GDP	4.5%	4.9%	4.0%	3.8%	4.8%	5.5%	4.3%	0.5%	6.1%
Increase in wage, interest and unincorporated business component of GDP	3.8%	4.7%	4.0%	3.6%	4.8%	5.0%	2.4%	0.7%	5.5%

2.121 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. The growth in personal income tax continues to be 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.

2.122 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.

2.123 The components of personal income tax revenue over the past nine years are:

	(\$ millions)								
	2009	2008	2007	2006	2005	2004	2003	2002	2001
Current year estimate	1,284.3	1,221.6	1,097.3	1,029.6	979.2	939.1	903.6	881.2	893.5
Prior year adjustment	38.7	34.8	77.8	34.0	21.1	13.2	7.4	28.7	17.4
Other	-	-	-	-	(0.1)	-	(0.1)	-	(0.9)
Total	1,323.0	1,256.4	1,175.1	1,063.6	1,000.2	952.3	910.9	909.9	910.0

2.124 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

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

	(\$ millions)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Insurance Premium Tax	41.2	40.7	40.1	39.4	39.7	42.2	34.3	30.3	28.2	25.9
Large Corporation Capital Tax	13.5	31.2	34.7	36.3	39.5	47.3	38.7	39.0	30.6	28.1
Motor vehicle licenses	95.0	91.5	89.3	86.3	76.2	73.7	74.0	74.0	76.0	73.7
Forest royalties	40.4	45.8	58.8	56.9	60.2	62.9	53.1	54.6	58.3	54.5
Lottery revenue	120.6	117.0	113.0	111.2	118.1	116.7	109.1	89.2	89.7	86.3
NB Electric Finance Corporation	34.4	104.5	18.7	131.6	7.8	(18.0)	(77.4)	19.0	(78.0)	17.0
NB Liquor Corporation	152.7	144.9	131.5	126.1	122.6	118.6	110.1	106.8	103.0	100.8
Sinking fund earnings	233.4	230.7	231.8	226.4	221.6	222.5	243.0	230.9	220.0	203.7

2.126 For the year ended 31 March 2009, there was a significant decline in the large corporation capital tax and NB Electric Finance Corporation revenues. The large corporation capital tax is down consistent with the planned phase-out for this particular revenue source. NB Electric Finance Corporation's revenue is down due to one-time revenue generated in the previous fiscal year.

2.127 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	Nine year annual average growth rate
Insurance Premium Tax	5,6%
NB Liquor Corporation	4,8%
Lottery revenues	4,0%
Motor vehicle licenses	3,0%
Sinking fund earnings	1,6%
Forest royalties	(2,7%)
Large Corporation Capital Tax	(4,2%)

Revenue from federal sources

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

	(\$ millions)								
	2009	2008	2007	2006	2005	2004	2003	2002	2001
Canada Health and Social Transfer	764.4	737.4	706.9	696.3	607.3	545.2	498.9	494.9	404.0
Health Reform Transfer	-	-	-	-	35.3	-	-	-	-
Fiscal Equalization Payments	1,583.8	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	1.9	1.7	1.9	1.9	1.9	1.9
Conditional grants	345.5	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	30.9	27.1	23.2	22.4	22.0	21.3	20.4	19.9	19.6
Total	2,726.5	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)	148.9	90.2	94.5	38.3	437.0	5.7	(126.7)	233.8	1,804.8
Percentage increase (decrease)	5.8%	3.6%	3.9%	1.6%	22.8%	0.3%	(6.2%)	13.0%	(0.4%)

Expenses

2.129 The main items of expenses we have analyzed are:

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

Total expenses

2.130 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. Six years' worth of comparative expense figures are available.

2.131 The following table reports the Province's expenses for the past six years.

	2009		2008		2007		2006		2005		2004	
	\$ millions	%	\$ millions	%	\$ millions	%	\$ millions	%	\$ millions	%	\$ millions	%
Education and training	1,452.7	19.9	1,430.9	20.8	1,305.5	20.4	1,309.7	21.5	1,189.0	20.7	1,168.1	20.7
Health	2,445.7	33.5	2,272.3	33.2	2,110.7	32.9	1,958.2	32.2	1,837.4	32.0	1,788.9	31.8
Social Development	941.8	12.9	903.1	13.1	818.0	12.8	769.6	12.7	724.7	12.7	710.9	12.6
Protection services	223.8	3.0	187.5	2.7	235.1	3.7	162.3	2.7	152.0	2.6	145.3	2.6
Economic Development	293.7	4.0	230.4	3.4	207.0	3.2	182.4	3.1	184.8	3.2	168.3	3.0
Labour and employment	123.5	1.7	119.1	1.7	120.4	1.9	117.4	1.9	117.5	2.0	121.5	2.2
Resource sector	173.2	2.4	178.4	2.6	193.0	3.0	160.1	2.6	166.8	2.9	159.0	2.8
Transportation	399.8	5.5	380.3	5.5	347.5	5.4	336.3	5.5	310.5	5.4	307.5	5.5
Central government	648.4	8.9	589.3	8.6	510.7	8.0	495.5	8.1	479.1	8.4	475.0	8.4
Service of the Public Debt	602.5	8.2	576.9	8.4	559.4	8.7	591.4	9.7	580.9	10.1	582.9	10.4
Total	7,305.1	100.0	6,868.2	100.0	6,407.3	100.0	6,082.9	100.0	5,742.7	100.0	5,627.4	100.0

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

	2009		2008		2007		2006		2005	
	\$ millions	%	\$ millions	%	\$ millions	%	\$ millions	%	\$ millions	%
Education and training	21.8	1.5	125.4	9.6	(4.2)	(0.3)	120.7	10.2	20.9	1.8
Health	173.4	7.6	161.6	7.7	152.5	7.8	120.8	6.6	48.5	2.7
Social Development	38.7	4.3	85.1	10.4	48.4	6.3	44.9	6.2	13.8	1.9
Protection services	36.3	19.3	(47.6)	(20.2)	72.8	44.9	10.3	6.8	6.7	4.6
Economic Development	63.3	27.5	23.4	11.3	24.6	13.5	(2.4)	(1.3)	16.5	9.8
Labour and employment	4.4	3.7	(1.3)	(1.1)	3.0	2.6	(0.1)	(0.1)	(4.0)	(3.3)
Resource sector	(5.2)	(2.9)	(14.6)	(7.6)	32.9	20.5	(6.7)	(4.0)	7.8	4.9
Transportation	19.5	5.1	32.8	9.4	11.2	3.3	25.8	8.3	3.0	1.0
Central government	59.1	10.0	78.6	15.4	15.2	3.1	16.4	3.4	4.1	0.9
Service of the Public Debt	25.6	4.4	17.5	3.1	(32.0)	(5.4)	10.5	1.8	(2.0)	(0.3)
Total	436.9	6.4	460.9	7.2	324.4	5.3	340.2	5.9	115.3	2.0
Rate of Growth of GDP		1.3		4.3		4.4		4.5		5.8

2.133 For the year ended 31 March 2009 there were significant increases in health and economic development expenses. Several reasons contributed to the increase in health expenses including an increase in expenses of Hospital Services, Medicare, Ambulance Services and the Prescription Drug Program. The increase in economic development relates to an increase in Business New Brunswick's provision for loss expense.

2.134 Since 2006, the rate of growth of expenses was higher than the rate of growth of both GDP and revenues, as shown in the following table.

	2009	2008	2007	2006	2005
Expense growth	6.4%	7.2%	5.3%	5.9%	2.0%
GDP growth (GDP is for the previous calendar year)	1.3%	4.3%	4.4%	4.5%	5.8%
Revenue growth	2.1%	4.8%	5.1%	5.7%	9.8%

Expenses by financial statement line items

2.135 The following table provides a four year comparison of the financial statement line items with the five largest expenses during the year ended 31 March 2009.

	2009		2008		2007		2006	
	\$ millions	%	\$ millions	%	\$ millions	%	\$ millions	%
Regional Health Authorities	1,637.3	22.4	1,519.7	22.1	1,444.9	22.6	1,284.9	21.1
Education	966.1	13.2	896.1	13.0	850.4	13.3	817.0	13.4
Social Development	935.8	12.8	884.5	12.9	811.9	12.7	755.6	12.4
Health and Wellness	622.0	8.5	631.4	9.2	603.3	9.4	615.6	10.1
Service of the Public Debt	602.5	8.2	576.9	8.4	559.4	8.7	591.4	9.7

2.136 One notable observation from the above table is that the Regional Health Authorities have 22.4% of all expenses of the Province.

Interest expense

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

	(\$ millions)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Interest	778.5	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	53.0	54.3	55.4	56.5	57.5	58.1	55.8	22.5	-	-
Interest on other capital leases	2.0	2.1	2.2	2.2	2.3	2.3	2.4	2.4	2.5	2.5
Foreign exchange expense	(6.6)	(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	8.1	7.3	7.4	7.1	7.4	7.9	7.5	7.9	7.6
Other expenses	1.8	1.9	2.1	1.7	1.9	2.1	3.3	1.8	1.2	8.5
Subtotal	836.8	794.3	768.6	797.1	796.9	788.4	896.0	900.5	899.3	871.6
Interest recovery - Electric Finance Corporation	(234.3)	(217.4)	(209.2)	(205.7)	(216.0)	(205.5)	(235.1)	(248.7)	(262.0)	(260.9)
Service of the public debt	602.5	576.9	559.4	591.4	580.9	582.9	660.9	651.8	637.3	610.7
Less sinking fund earnings	(233.4)	(230.7)	(231.8)	(226.4)	(221.6)	(222.5)	(243.0)	(230.9)	(220.0)	(203.7)
Subtotal	369.1	346.2	327.6	365.0	359.3	360.4	417.9	420.9	417.3	407.0
Pension interest charged	20.6	(9.1)	0.4	30.9	17.6	85.4	27.9	3.5	(53.6)	(9.1)
Interest on student loans	9.1	13.6	11.6	6.8	-	-	-	-	-	-
Total	398.8	350.7	339.6	402.7	376.9	445.8	445.8	424.4	363.7	397.9

2.138 The subtotal that deducts sinking fund earnings from service of the public debt is the best indicator of net interest costs. This amount increased by 5.7% in the year ended 31 March 2008 and a further 6.6% in the year ended 31 March 2009. In the year ended 31 March 2009, the Province paid \$41.5 million more in net interest costs than two years earlier in the year ended 31 March 2007.

Provision expense

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

	(\$ millions)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Provision expense	116.1	88.5	72.8	73.8	33.9	71.2	33.0	43.2	65.3	46.5

2.140 The increase in the provision expense for 2009 is due to a \$60 million increase in allowance from *Economic Development Act* loans,

with an offsetting decrease in provision expense for Central Government of \$29 million.

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:

	(\$ millions)					
Expenditure	2009	2008	2007	2006	2005	2004
Expenditure (\$ millions)	7,457.2	7,484.5	6,528.2	6,206.4	5,851.2	5,570.9
Increase (decrease)(\$ millions)	(27.3)	956.3	321.8	355.2	280.3	191.4
Percentage increase (decrease)	(0.4%)	14.6%	5.2%	6.1%	5.0%	3.6%

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

	2009	2008	2007	2006	2005	2004
Expenditure growth	(3.9%)	18.9%	5.2%	6.1%	5.0%	3.6%
GDP growth (GDP is for the previous calendar year)	1.3%	4.3%	4.4%	4.5%	5.8%	5.7%
Revenue growth	2.1%	4.8%	5.1%	5.7%	9.8%	3.9%