

Chapter 2

Comments on the Province's Financial Position

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Comments on the Province's Financial Position

Background

2.1 For the past number of years, we included in our annual Report a ten-year historical trend analysis of the Province's financial condition by looking at measures of sustainability, flexibility and vulnerability.

2.2 Starting last year, the Province began reporting these measures as part of the section called *Indicators of Financial Health* which is attached to the audited financial statements. As we commented last year, we are pleased to see the Province report this information, and we are also pleased to see that in Volume 1 of the 31 March 2010 Public Accounts the Province expanded the historical timeframe of information provided from six years to seven years.

2.3 This year we are changing our approach to reporting these financial condition measures for two reasons. The first is because the Province is now reporting the same information and the second is that the Public Sector Accounting Board recently issued a new statement of recommended practice (SORP) on indicators of financial condition. Our analysis in this section is based on this new SORP. We are reporting on all the indicators identified in the SORP. We understand that the Province has carried out an assessment of all the indicators as part of its process of determining which indicators to report in the Public Accounts.

About the SORP

2.4 The SORP provides guidance to governments that choose to report supplementary information on their financial condition. It says, "*the main objective of reporting on financial condition is to expand on and explain information contained in financial statements by assessing a government's financial condition not only on the basis of its financial position and changes in financial position, but also in the context of its overall economic and fiscal environment.*"

2.5 The SORP says that the objectives of reporting on financial condition are to:

- help users identify current foreseeable risks and trends;
- enlighten users about a government's fiscal stewardship;
- offer insights into the short-term and long-term implications of policy decisions;
- illustrate a government's financial ability to maintain the level and quality of its services and to finance new programs;
- illustrate a government's ability to meet its financial obligations, both short-term and long-term;
- enhance an understanding of government policy and operating decisions; and
- provide a basis of comparison, where appropriate, with other similar jurisdictions.

2.6 The SORP indicates that “*an assessment of a government's financial condition needs to consider, at a minimum, the elements of sustainability, flexibility and vulnerability.*” It defines these elements as follows:

- “**Sustainability** is the degree to which a government can maintain its existing financial obligations both in respect of its service commitments to the public and financial commitments to creditors, employees and others without increasing the debt or tax burden relative to the economy within which it operates.”
- “**Flexibility** is the degree to which a government can change its debt or tax burden on the economy within which it operates to meet its existing financial obligations both in respect of its service commitments to the public and financial commitments to creditors, employees and others.”
- “**Vulnerability** is the degree to which a government is dependent on sources of funding outside its control or influence or is exposed to risks that could impair its ability to meet its existing financial obligations both in respect of its service commitments to

the public and financial commitments to creditors, employees and others.”

Summary of the Province's financial condition

2.7 The SORP lists a number of indicators that could be used to assess the elements of sustainability, flexibility and vulnerability. In our analysis that follows, we used information from the Province's financial statements to calculate these indicators and to assess the Province's financial condition.

2.8 In the table below, we summarize our analysis of financial indicators. We show the indicators for each element, the purpose of the indicator, the short-term (two year) and long-term (ten year) trend, as well as a reference within this chapter of where we discuss the indicator in more detail.

	Indicator	Purpose	Short-term Trend	Long-term Trend	Page
Sustainability	Assets-to-liabilities	Measures extent that government finances its operations by issuing debt	Unfavourable	Data not available	13
	Financial assets-to-liabilities	Measures whether future revenues will be needed to pay for past transactions	Unfavourable	Data not available	14
	Net debt-to-total annual revenue	Shows whether more time is needed to pay for past transactions	Unfavourable	Favourable	14
	Expense by function-to-total expenses	Shows the trend of government spending over time	Neutral	Data not available	15
	Net debt-to-GDP	Shows the relationship between net debt and the activity in the economy	Unfavourable	Mixed	16
	Accumulated deficit-to-GDP	Measures the sum of the current and all prior year operating results relative to the growth in the economy	Unfavourable	Data not available	17
	Total expenses-to-GDP	Shows the trend of government spending over time in relation to the growth in the economy	Unfavourable	Unfavourable	18
Flexibility	Public debt charges-to-revenues	Measures extent that past borrowing decisions limits ability to meet current financial and service commitments	Unfavourable	Favourable	19
	Net book value of capital assets-to-cost of capital assets	Measures the estimated useful lives of tangible capital assets available to provide products /services	Unfavourable	Data not available	20
	Own-source revenues-to-GDP	Measures extent income is taken out of the economy	Favourable with caution	Mixed	21
Vulnerability	Government transfers-to-total revenues	Measures the dependence on another level of government	Unfavourable	Unfavourable	23
	Foreign currency debt-to-net debt	Measures the government's potential vulnerability to currency fluctuations	Favourable	Favourable	24

Conclusion

2.9 In general over the last ten years, the financial indicators showed some favourable results. The short-term trend, however, shows that the financial condition of the Province has worsened. If the Province continues in this manner, the financial health of the

Province will continue to weaken. This will have an impact on the Province's ability to meet its existing financial obligations both in respect of its service commitments to the public and financial commitments to creditors, employees and others. This illustrates the immediate need for the Province to develop a plan to improve the financial health of the Province.

Sustainability

2.10 The SORP identifies seven possible indicators for sustainability. Four of them are described as government-specific indicators which are indicators about government finances derived from the government's own financial statements; and three of them are described as government-related indicators which are indicators about government finances derived from a combination of information from its financial statements and from the economy within which the government operates. We only tracked one of these seven indicators in the past. In addition, we tracked another indicator— comparing the change in net debt and the change in Gross Domestic Product (GDP). This indicator, comparing the change in net debt and the change in GDP, is not included in the SORP's list of sustainability indicators and so we have not included it in this analysis.

Government-specific sustainability indicators *Assets-to-liabilities*

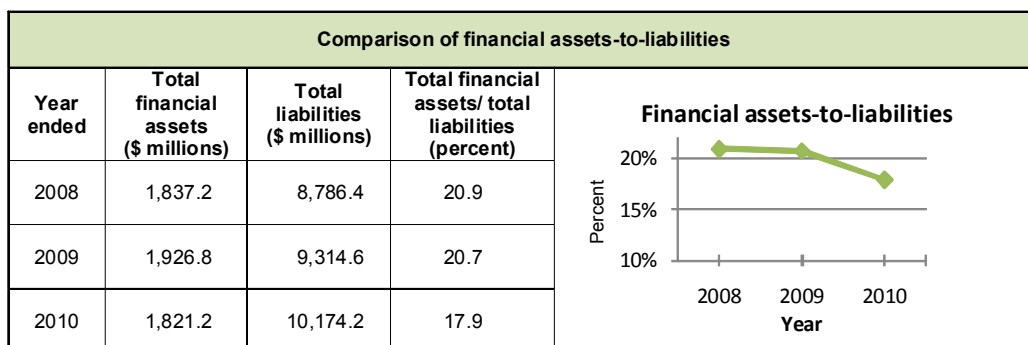
2.11 This is not one of the indicators we have tracked in the past. The following table only reports three years worth of comparative figures because of the impact of changes in accounting policies in previous years.

Comparison of assets-to-liabilities				
Year ended	Total assets (\$ millions)	Total liabilities (\$ millions)	Total assets/total liabilities (percent)	
2008	7,397.9	8,786.4	84.2	
2009	7,605.7	9,314.6	81.6	
2010	7,732.3	10,174.2	76.0	

2.12 The SORP indicates that for this indicator anything below 100% indicates that a government has accumulated deficits and has been financing its operations by issuing debt. For the past three years, the Province's rate was less than 100% and it has declined in both the year ended 31 March 2009 and the year ended 31 March 2010. This trend is unfavourable and has a negative impact on the sustainability indicator of the Province.

Financial assets-to-liabilities

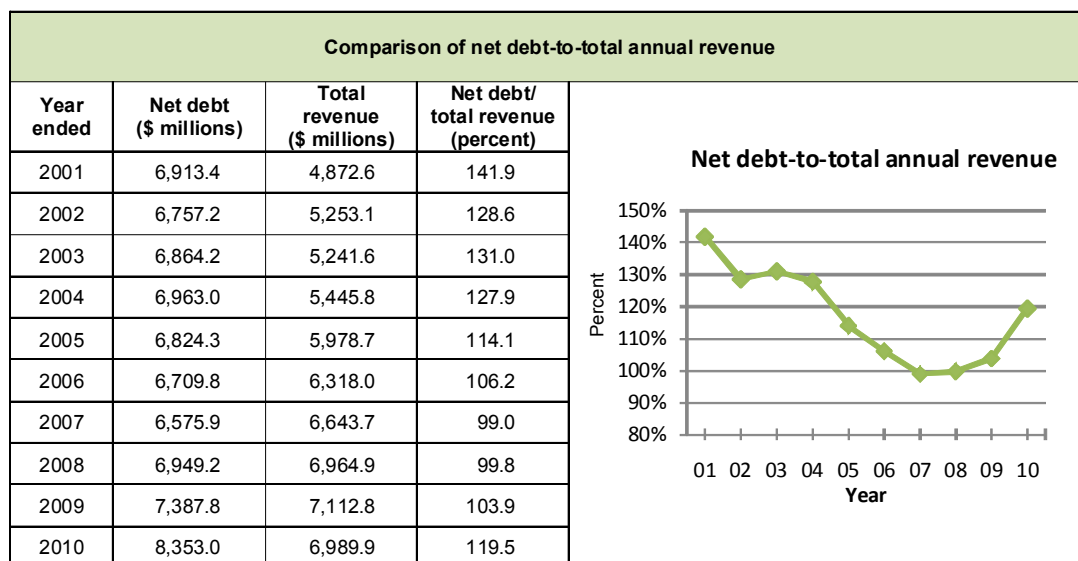
2.13 This is another indicator that we have not tracked in the past. The following table only reports three years worth of comparative figures because of the impact of changes in accounting policies in previous years.



2.14 When liabilities exceed financial assets the government is in a net debt position, and the implication is that future surpluses will be required to pay for past transactions and events. The Province's percentage declined significantly in the year ended 31 March 2010 because of the large increase in net debt incurred in that year. Once again, this trend is unfavourable and has a negative impact on the sustainability indicator of the Province.

Net debt-to-total annual revenue

2.15 Net debt-to-total annual revenue is another indicator that we have not tracked in the past, however, restated numbers exist for both net debt and total revenue. Thus, we can present ten years worth of comparative figures in the following table.

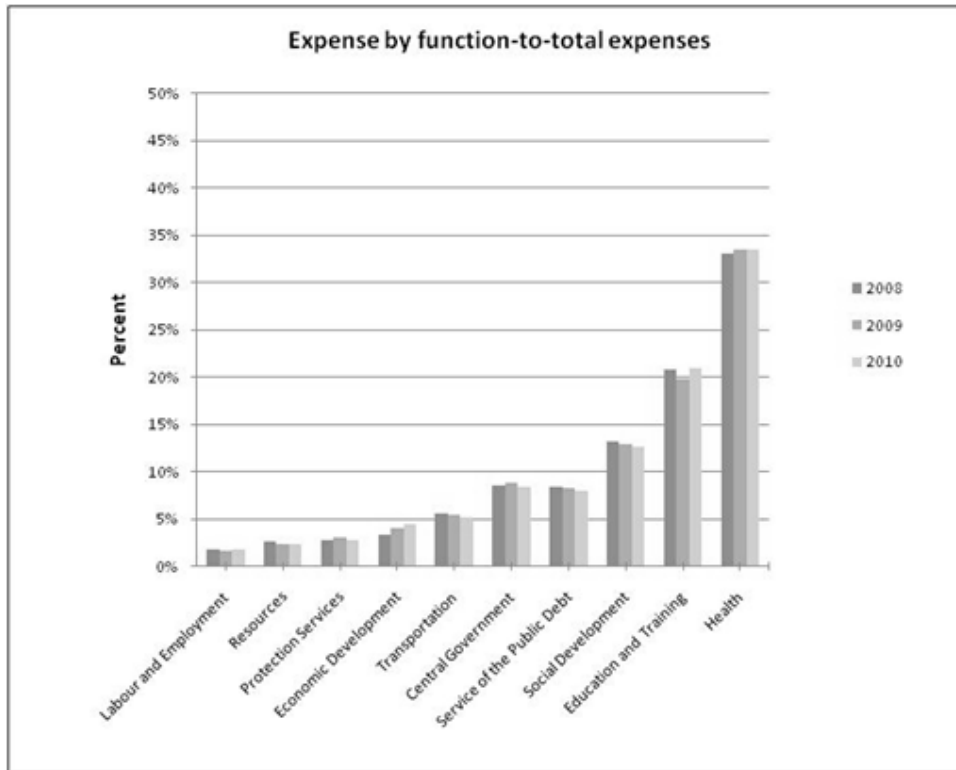


2.16 Net debt provides a measure of the future revenue required to pay for past transactions and events. A net debt-to-total revenue percentage that is increasing indicates that the Province will need more time to eliminate the net debt. During the past two years the Province's percentage has increased significantly, however, it is still less than the 141.9% in 2001. If the Province continues in same manner, the improvements made over the last 10 years will be lost. The short-term trend of this indicator is unfavourable, however, we have assessed the long-term trend as favourable.

Expense by function-to-total expenses

2.17 Expense by function-to-total expenses is another indicator that we have not tracked in the past. The following table only reports three years worth of comparative figures because of the impact of changes in accounting policies in previous years.

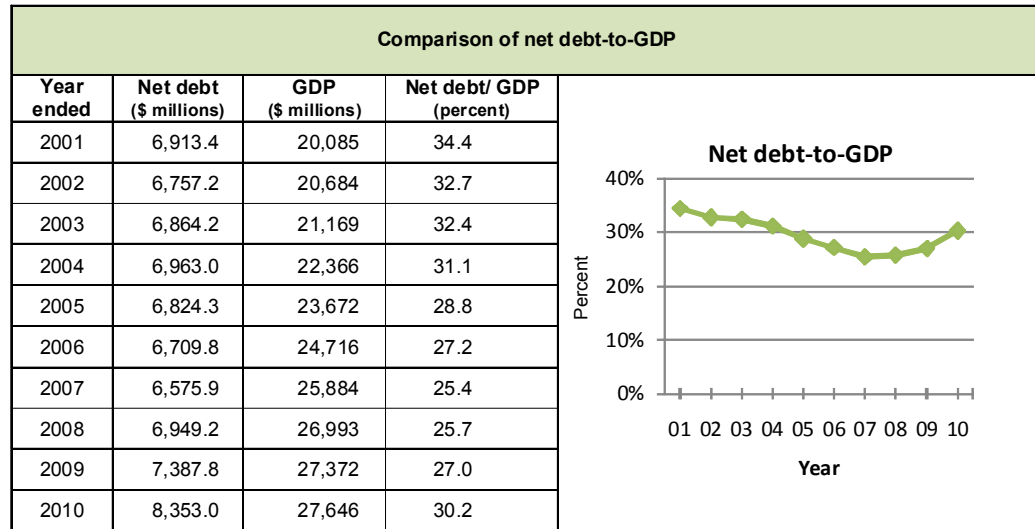
Comparison of expense by function-to-total expenses						
	2010		2009		2008	
	(\$ millions)	(percent)	(\$ millions)	(percent)	(\$ millions)	(percent)
Labour and Employment	141.5	1.7	123.5	1.7	119.1	1.7
Resources	183.6	2.4	173.2	2.3	178.4	2.6
Protection Services	209.4	2.7	223.8	3.1	187.5	2.7
Economic Development	344.6	4.5	293.7	4.0	230.4	3.4
Transportation	400.5	5.2	399.8	5.5	380.3	5.5
Central Government	651.5	8.4	648.4	8.9	589.3	8.6
Service of the Public Debt	616.6	8.0	602.5	8.2	576.9	8.4
Social Development	973.4	12.6	941.8	12.9	903.1	13.2
Education and Training	1,621.7	21.0	1,452.7	19.9	1,430.9	20.8
Health	2,585.0	33.5	2,445.7	33.5	2,272.3	33.1
Total	7,727.8	100.0	7,305.1	100.0	6,868.2	100.0



2.18 It is not easy to identify any significant trends from three years of data when comparing expenses by function to total expenses. It is important to remember, however, that both the years ended 31 March 2009 and 31 March 2010 reported deficits. This means that while individual expense trends may have remained steady, it was achieved by incurring a total level of expenses that was in excess of revenue generated in those years. We have assessed this indicator as neutral.

Government-related sustainability indicators
Net debt-to-GDP

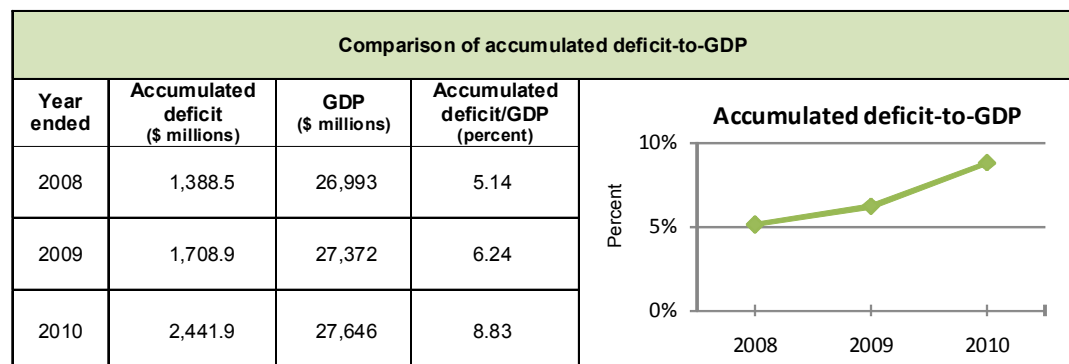
2.19 Net debt-to-GDP is an indicator that we have been tracking and for which we have ten years of data. This indicator is also reported by the Province in Volume 1 of its Public Accounts.



2.20 This indicator compares the Province's net debt, the difference between its liabilities and its financial assets, to its GDP. This ratio declined from 31 March 2001 to 31 March 2007 indicating that over that time period the level of the Province's debt became less onerous on the economy. The ratio has increased each of the past three years because the rate of growth of net debt has exceeded the rate of growth in GDP over that time period. While the current ratio of net debt-to-GDP is still below the level of the ratio for the years ended 31 March 2001 until 31 March 2004, the current growth trajectory is concerning. The short-term trend for this indicator is unfavourable, but we have assessed the long-term trend as mixed.

Accumulated deficit-to-GDP

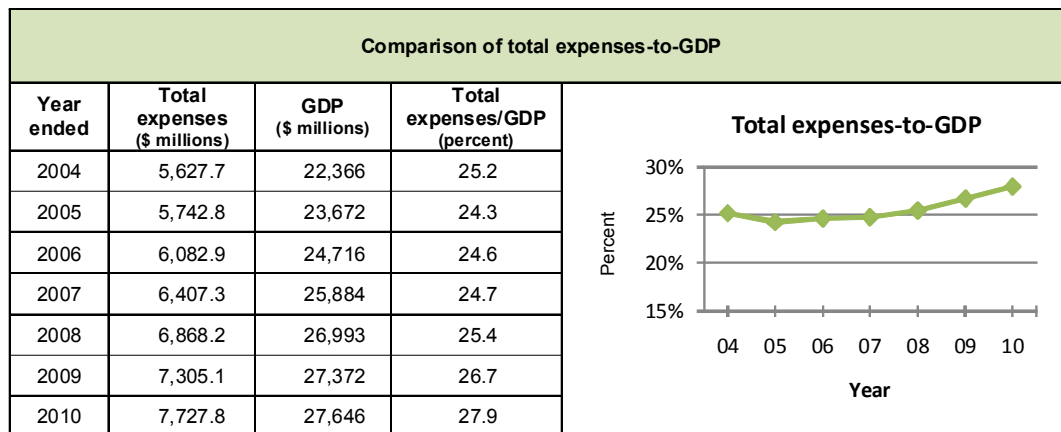
2.21 Accumulated deficit-to-GDP is another new indicator. The following table only reports three years worth of comparative figures because of the impact of changes in accounting policies in previous years.



2.22 The accumulated deficit is the extent to which annual revenues have been insufficient to cover the annual costs of providing services. The information above shows that the accumulated deficit is increasing faster than the growth of the economy. This represents an unfavourable trend.

Total expenses-to-GDP

2.23 While the total expenses-to-GDP is a new indicator, seven years worth of restated expense figures are available.



2.24 This indicates that after five years of holding government expenses to about 25% of GDP, the past two years have seen the ratio increase. This represents an unfavourable trend.

Summary of sustainability indicators

2.25 In previous years we only reported two sustainability indicators. This year, in accordance with the SORP, we have increased the number of indicators to seven. We are able to assess the short-term two-year trend for all seven indicators:

Two-year trend for sustainability indicators	
Sustainability indicator	Two-year trend
Assets-to-liabilities	Unfavourable
Financial assets-to-liabilities	Unfavourable
Net debt-to-total annual revenue	Unfavourable
Expense by function-to-total expenses	Neutral
Net debt-to-GDP	Unfavourable
Accumulated deficit-to-GDP	Unfavourable
Total expenses-to-GDP	Unfavourable

2.26 We can also assess long-term trends for three of the indicators. For two of these indicators (net debt-to-total annual revenue and net debt-to-GDP) the long-term trend is over ten years, while for one indicator (total expenses-to-GDP) the long-term trend is over seven years.

Long-term trend for sustainability indicators	
Sustainability indicator	Long-term trend
Net debt-to-total annual revenue	Favourable
Net debt-to-GDP	Mixed
Total expenses-to-GDP	Unfavourable

2.27 While one of these indicators is still favourable when looking at the ten year change, it has turned unfavourable in the short term. This puts the long-term favourable trend at risk for the next couple of years. We have assessed the long-term trend for the net debt to GDP indicator as mixed. Even though the 31 March 2001 percentage is higher than the 31 March 2010 percentage, the percentage has been steadily increasing over the last three years.

Flexibility

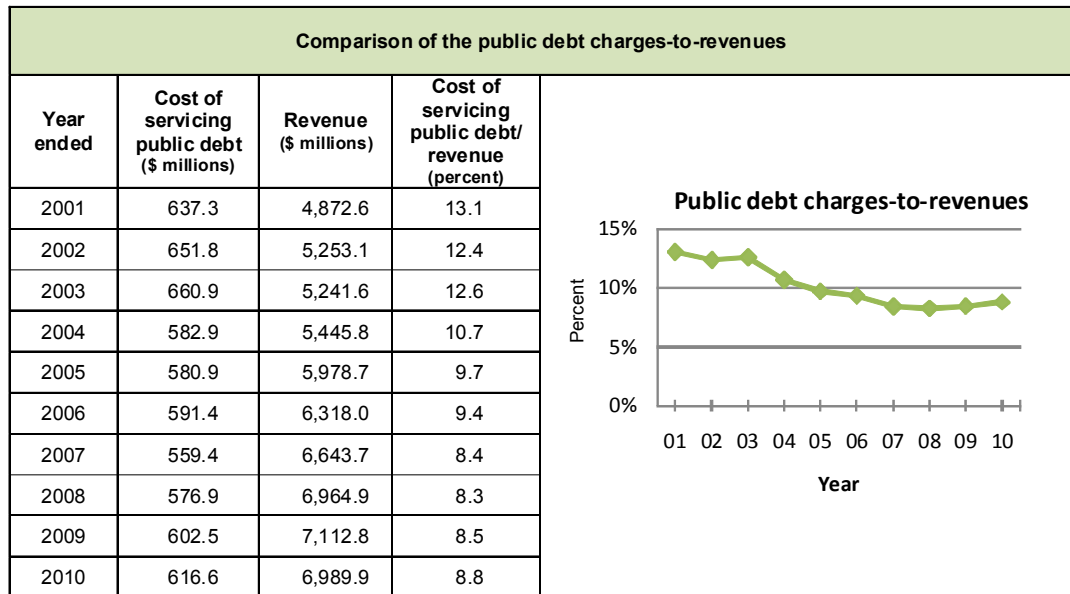
2.28 The SORP identifies three possible indicators for flexibility. Two of them are government specific indicators, and one is a government related indicator. We have tracked two of these three indicators in the past – public debt charges-to-revenues and own-source revenues-to-GDP.

Government-specific flexibility indicators *Public debt charges-to-revenues*

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

2.30 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.

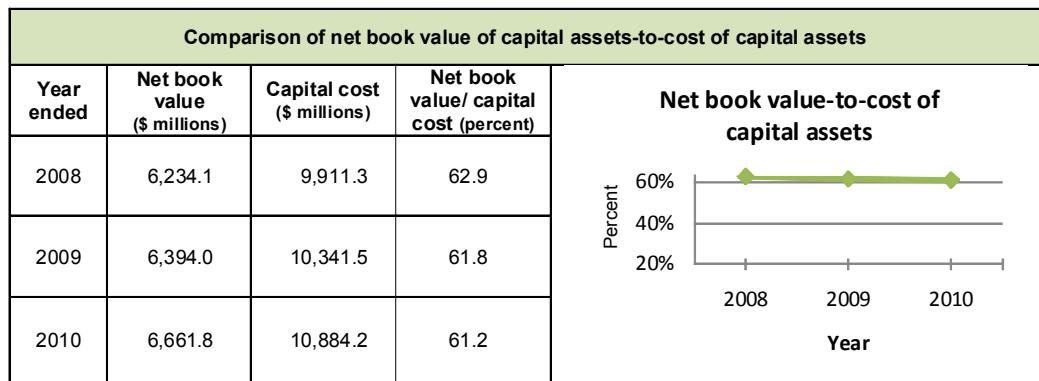
2.31 We have reported on this indicator in our past Reports and are able to show 10 years of data. This indicator is also reported by the Province in Volume 1 of the Public Accounts.



2.32 This table shows that the cost of servicing the public debt as a percentage of the Province's total revenues is significantly lower in the year ended 31 March 2010 than it was in the year ended 31 March 2001. After seven years of a generally downward trend, however, this indicator has increased two years in a row.

Net book value of capital assets-to-cost of capital assets

2.33 Comparing the net book value of capital assets to the cost of capital assets is a new indicator. The following table only reports three years worth of comparative figures because of the impact of changes in accounting policies in previous years.

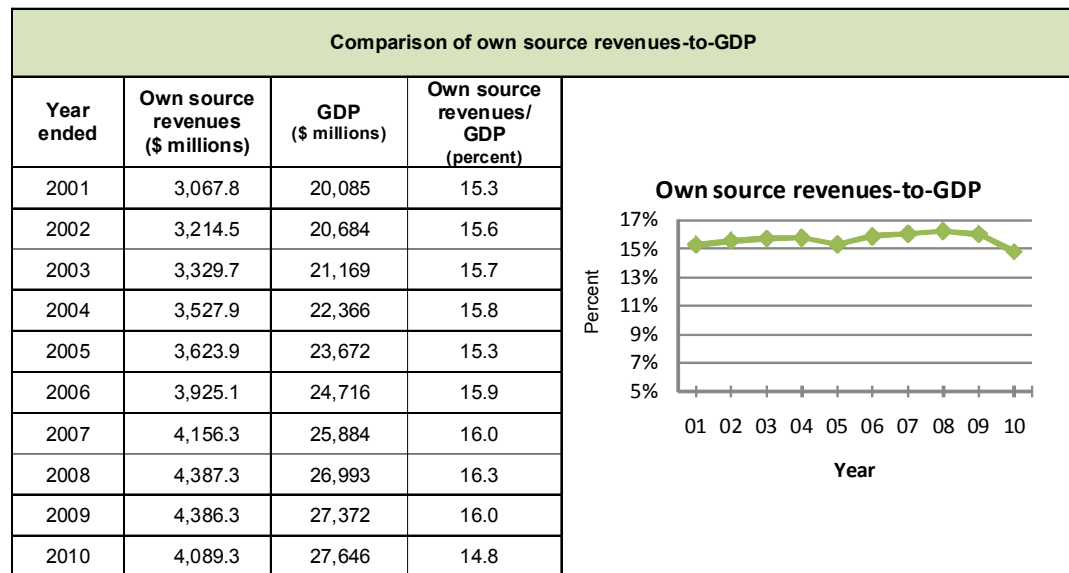


2.34 This indicates that the Province's inventory of capital assets as at 31 March 2010 has 61.2% of its average useful life remaining. This roughly means that on average any Provincial assets that were

originally expected to be useable for ten years still had just over six years of remaining useful life at 31 March 2010, and assets with original useful lives of twenty years were still considered useable for just over twelve years on average, and so forth for longer lived assets. While the percentage indicates that on average the Province's capital assets are in good shape, the percentage has decreased in each of the past two years indicating that the pool of capital assets is aging slightly. This represents an unfavourable trend.

Government-related flexibility indicator
Own source revenues-to-GDP

2.35 The own source revenues-to-GDP indicator measures the extent to which the Province is raising its revenue through extracting it from the provincial economy. We have tracked this indicator in the past and it is reported by the Province in Volume 1 of the Public Accounts.



2.36 This indicator has improved two years in a row, indicating that the Province is extracting less of provincial GDP for the purposes of financing government programs. While this indicates more flexibility, the decrease needs to be considered with caution for two reasons.

2.37 First, one significant reason that own source revenues have decreased recently is because the net results of the Electric Finance Corporation (EFC) have been worse over the past two years.

- For the year ended 31 March 2008, EFC made a profit of \$104.5 million.

- For the year ended 31 March 2009, EFC's profit was \$34.4 million.
- For the year ended 31 March 2010, EFC reported a **loss** of \$212.2 million.

2.38 Therefore a significant portion of the reduction in own source revenues was not as a result of lower fees or taxes.

2.39 The second reason to be cautious about the improvement in this flexibility indicator is that for both the year ended 31 March 2009 and the year ended 31 March 2010, the Province incurred deficits which means it did not generate enough revenue in either of those years to finance its expenses.

Summary of flexibility indicators

2.40 In previous years we only reported two flexibility indicators. This year, in accordance with the SORP, we have increased the number of indicators to three. We are able to assess the short-term two-year trend for all three indicators:

Two-year trend for flexibility indicators	
Flexibility indicator	Two-year trend
Public debt charges-to-revenues	Unfavourable
Net book value of capital assets-to-cost of capital assets	Unfavourable
Own source revenues-to-GDP	Favourable but with the noted caution

2.41 We have judged the two-year trend for the flexibility indicator own source revenue-to-GDP to be favourable, but with the cautions we discussed in the previous section.

2.42 We can also assess longer term trends for two of the indicators.

Long-term trend for flexibility indicators	
Flexibility indicator	Long-term trend
Public debt charges-to-revenues	Favourable
Own source revenues-to-GDP	Mixed

2.43 The cost of servicing the public debt as a percentage of revenues is significantly lower than it was in the year ended 31 March 2001, resulting in a favourable long-term trend. While own

source revenue as a percentage of GDP was lower in the year ended 31 March 2010 than it was in the year ended 31 March 2001, the decrease may have been because of the reduction in EFC's revenue and the extent of the deficit incurred in the year ended 31 March 2010. Therefore, we have judged the long-term trend to be mixed.

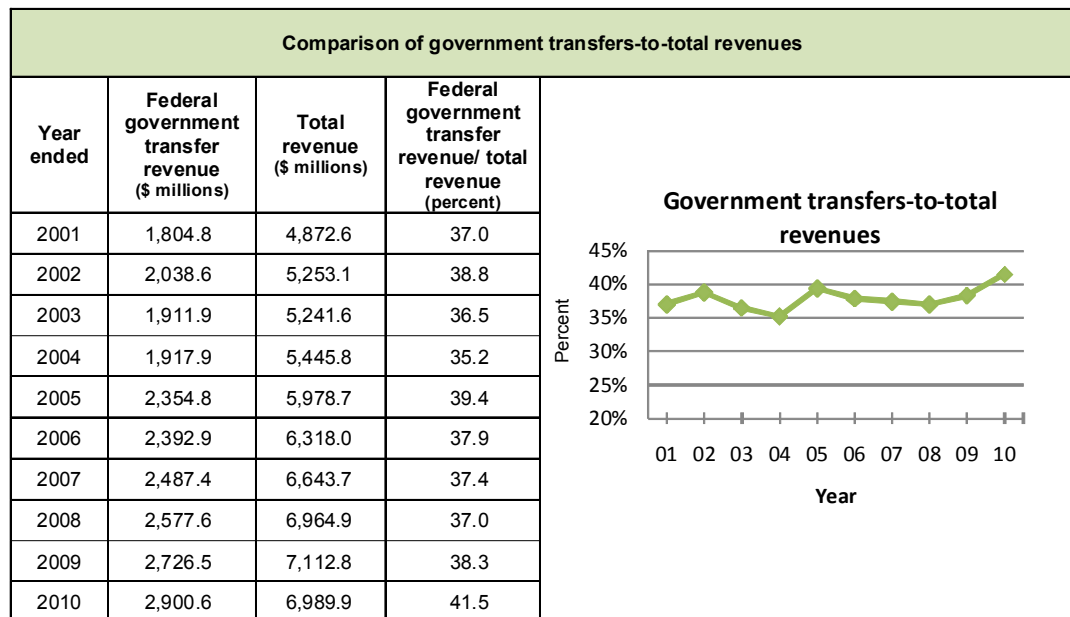
Vulnerability

Government-specific vulnerability indicators *Government transfers-to-total revenues*

2.44 The SORP identifies two possible indicators for vulnerability, and they are both government specific indicators. We have tracked one of these indicators in the past.

2.45 By comparing the proportion of total revenue that comes from the federal government to the total revenue of the Province, we get a measure of the degree to which the Province is dependent on the federal government. If that dependence increases, the Province is more vulnerable to funding decisions made by the federal government. This indicator highlights the degree to which one indicator can be impacted by another indicator. For example, if the Province were in a position to reduce its dependence on the federal government by generating more own source revenue, the Province's vulnerability position might improve, but its sustainability position might become worse.

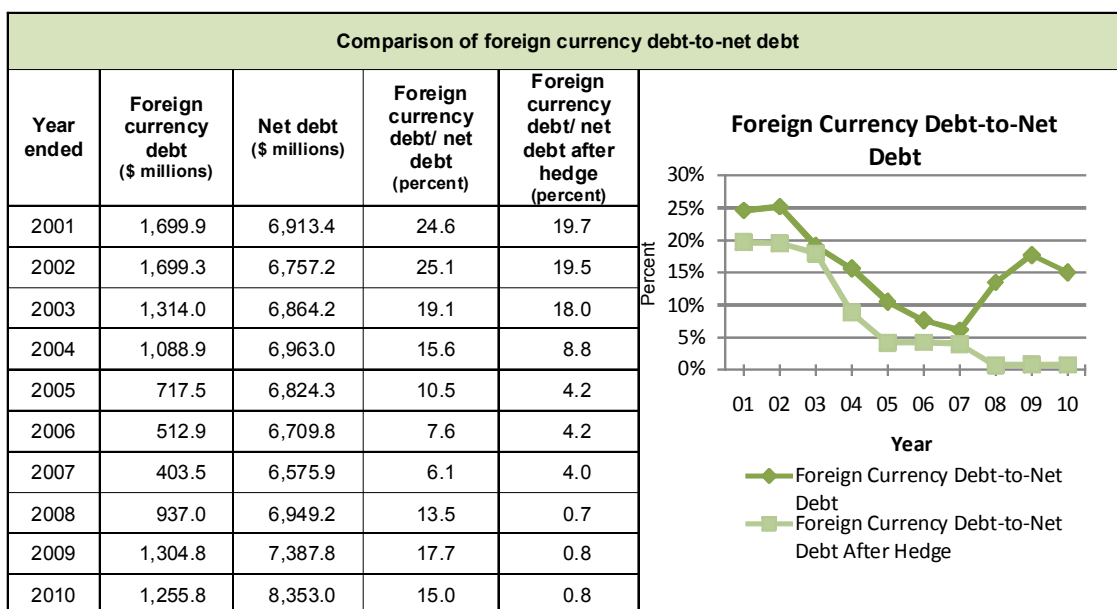
2.46 We have tracked this indicator in the past and are able to present 10 years of data. This indicator is also reported by the Province in Volume 1 of the Public Accounts.



2.47 The table above shows that the Province's reliance on federal government transfers has been steadily increasing. The increase in the year ended 31 March 2010 may have been compounded by the fact that total revenue decreased because of the loss incurred by EFC, however, it is likely that the percentage would have increased regardless of that loss. This represents an unfavourable trend.

Foreign currency debt-to-net debt

2.48 Comparing the foreign currency debt to net debt is another new indicator. In the past, we compared the foreign currency debt to TOTAL debt rather than net debt. We stopped reporting this indicator after 2007 because the Province was managing its foreign exchange risk to a low level. The table below shows the results for the indicator.



2.49 The above information shows that the Province's foreign currency debt has increased over the last four years. The risk of exposure to foreign currency fluctuations, however, is offset by the Province's hedging strategy. The Province uses several alternatives to reduce (hedge) risk associated with debt repayable in foreign currencies:

- purchasing assets denominated in foreign currencies for the Province's sinking fund;
- entering into debt swap agreements which allows repayment of the debt in Canadian dollars; and

- entering into forward contracts (which allows the Province to purchase foreign currency at a stipulated price on a specified future date).

2.50 From the table above, we can see the risk of exposure to foreign currency fluctuations is very low at less than 1% for the last three years. Because of the effectiveness of the Province's hedging strategy, we assess this indicator as favourable.

Summary of vulnerability indicators

2.51 In previous years we only reported one vulnerability indicator. This year, in accordance with the SORP, we have increased the number of indicators to two. We are able to assess the short-term two-year trend for both indicators:

Two-year trend for vulnerability indicators	
Vulnerability indicator	Two-year trend
Government transfers-to-total revenues	Unfavourable
Foreign currency debt-to-net debt	Favourable

2.52 We can also assess longer term trends for the two indicators.

Long-term trend for vulnerability indicators	
Vulnerability indicator	Long-term trend
Government transfers-to-total revenues	Unfavourable
Foreign currency debt-to-net debt	Favourable

2.53 In summary, the Province's vulnerability exposure is mixed. Over the last few years the Province's reliance on federal revenue has increased. The Province is doing a good job, however, at limiting its exposure to fluctuations in foreign currency.

Comments on components of the Province's financial statements

Statement of Operations Deficit

2.54 For the year ended 31 March 2010, the Province reported a deficit of \$737.9 million. This is an increase of \$545.6 million from the \$192.3 million deficit reported for the year ended 31 March 2009.

2.55 The following three tables list, at different levels of detail, the main reasons for the change in the deficit from 31 March 2009 to 31 March 2010.

Analysis of deficit increase	
	(millions)
2009 deficit	\$192.3
Decrease in revenue	122.9
Increase in expense	422.7
2010 deficit	\$737.9

Analysis of deficit increase	
	(millions)
2009 deficit	\$192.3
Decrease in provincial source revenue	297.0
Increase in federal source revenue	(174.1)
Increase in expense	422.7
2010 deficit	\$737.9

Analysis of deficit increase	
	(millions)
2009 deficit	\$192.3
Decrease in earnings of New Brunswick Electric Finance Corporation	246.6
Increase in the MPHEC grant expense	166.4
Increase in health expense	139.3
Increase in economic development expense	56.7
Decrease in royalty revenue	39.9
Increase in social development expense	31.8
Increase in labour and employment expense	17.1
Decrease in sinking fund earnings	17.0
Increase in service of the public debt expense	14.1
Increase in other central government expense	15.9
Decrease in tax revenues	8.9
Increase in resources expense	6.2
Increase in pension expense for the public service plan and the teachers' plan	4.7
Decrease in other investment income	4.1
Increase in transportation expense	0.7
Increase in other provincial revenue	(7.1)
Increase in revenue from licenses and permits	(12.4)
Decrease in protection services expense	(14.4)
Decrease in other education expense	(15.8)
Increase in conditional grants revenue	(31.4)
Increase in unconditional grants revenue	(37.1)
Increase in fiscal equalization revenue	(105.6)
2010 deficit	\$737.9

2.56 The Results for the year and Major variance analysis contained in volume 1 of the Public Accounts explains the reasons for the variances. Some specific items to notice are:

- The government's past manipulation of the timing of the regular operating grant paid to the Maritime Provinces' Higher Education Commission (MPHEC) continues to make it difficult to interpret results. According to the Statement of Operations, the expense for Education and Training increased by \$169.7 million, however \$166.4 of that increase was for the grant paid to MPHEC. This

increase in the MPHEC grant was artificial because the 31 March 2009 grant to the MPHEC was artificially low due to manipulation in the past.

- The pension expense for the two large plans, the Public Service Superannuation Plan and the Teachers' Pension Plan increased only slightly over the previous year. The Province's \$740.9 million budgeted deficit for the year ended 31 March 2010 included an estimated expense for those two pension plans of approximately \$425 million. The actual expense for the plans was \$257 million, \$168 million below budget. Despite this significant decrease in the pension expense the actual deficit for the year was only \$3 million below budget.
- The main negative impact on the 31 March 2010 results that was not included in the fiscal update section of the 2010-2011 budget was the large increase in the loss of the New Brunswick Electric Finance Corporation which was substantially caused by writing down the value of the Dalhousie Generating Station by \$161 million.
- Revenue from Provincial Sources decreased \$297 million while revenue from Federal Sources increased by \$174.1 million. This resulted in federal source revenue being more than 40% of total revenue for the first time since 1999. Even after removing the effect of the write down of the Dalhousie Generating Station, federal revenue was over 40% of total revenue.

2.57 The following table shows the surplus or deficit for the past seven years as originally recorded and as restated. Most of the restated amounts are due to the consolidation of additional Crown corporations. Only seven years data is available for this comparison because prior to the year ended 31 March 2005 the Province fully expensed tangible capital assets in the year of their acquisition. Starting in the year ended 31 March 2005 the Province records its tangible capital assets on its Statement of Financial Position and records an annual amortization expense on the Statement of Operations. The 31 March 2005 financial statements included restated numbers for the year ended 31 March 2004.

Annual surpluses (deficits)							
(\$ millions)							
	2010	2009	2008	2007	2006	2005	2004
As originally recorded	(737.9)	(192.3)	86.7	236.8	243.6	242.2	(103.2)
As restated	(737.9)	(192.3)	96.7	236.4	235.1	235.8	(181.9)

2.58 After four years of surpluses, the Province has incurred two straight years of deficits.

2.59 The \$737.9 million deficit was \$3 million lower than the originally budgeted deficit for the year. The following table provides a comparison of budgeted results to actual results for the past ten years. For the purposes of this comparison we have omitted transfers to and from the Fiscal Stabilization Fund that were made in the years ended 31 March 2001, 2002 and 2003 since those transfers did not represent real transactions. As the table shows, it is not the norm for the Province's actual results to be as close to budget as was achieved in the year ended 31 March 2010. The table also shows that in seven of the past ten years the actual results have been better than the budget results.

Budget to actual comparison										
(\$ millions)										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Budgeted surplus (deficit)	(740.9)	19.0	37.1	22.2	98.9	54.3	(101.0)	(58.6)	34.8	21.3
Actual surplus (deficit)	(737.9)	(192.3)	86.7	236.8	243.6	242.2	(103.2)	(109.4)	143.8	181.8
Actual results better (worse) than budget	3.0	(211.3)	49.6	214.6	144.7	187.9	(2.2)	(50.8)	109.0	160.5
(percentage)										
% variance from budget	0.4	1,112.1	133.7	966.7	146.3	346	2.2	86.7	313.2	753.5

Change in net debt

2.60 For the year ended 31 March 2010, the Province reported an increase in net debt of \$965.2 million, \$526.6 million higher than the increase in net debt recorded in the year ended 31 March 2009.

2.61 The following table lists the main reasons for the higher increase in net debt for 31 March 2010 as compared to 31 March 2009.

Analysis of net debt increase	
	(millions)
2009 Increase in net debt	\$438.6
Increase in annual deficit	545.6
Increase in other comprehensive income of government enterprises	(133.0)
Increase in acquisition of tangible capital assets	118.5
Increase in amortization of tangible capital assets	(11.2)
Increase in amortization of deferred contributions	3.6
Decrease in loss on disposal of tangible capital assets	0.6
Increase in revenue received to acquire tangible capital assets	(34.2)
Decrease in net change in supplies inventories	4.7
Decrease in net change in prepaid expenses	32.0
2010 Increase in net debt	\$965.2

Revenue

2.62 The revenue areas we have analyzed are:

- total revenue;
- revenue from provincial sources;
- taxes on consumption;
- taxes on property;
- taxes on income;
- other provincial source revenue; and
- New Brunswick Electric Finance Corporation.

Total revenue

2.63 Total revenue for the past ten years, and the change in total revenue has been:

Total revenue										
(\$ millions)										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Total revenue	6,989.9	7,112.8	6,964.9	6,643.7	6,318.0	5,978.7	5,445.8	5,241.6	5,253.1	4,872.6
Increase (decrease)	(122.9)	147.9	321.2	325.7	339.3	532.9	204.2	(11.5)	380.5	
% Change	(1.7%)	2.1%	4.8%	5.2%	5.7%	9.8%	3.9%	(0.2%)	7.8%	

2.64 The breakdown of total revenue between provincial sources and federal sources has been:

Total revenue by major source										
(\$ millions)										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Provincial sources	4,089.3	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
Federal sources	2,900.6	2,726.5	2,577.6	2,487.4	2,392.9	2,354.8	1,917.9	1,911.9	2,038.6	1,804.8
Total	6,989.9	7,112.8	6,964.9	6,643.7	6,318.0	5,978.7	5,445.8	5,241.6	5,253.1	4,872.6
(percentage)										
Provincial sources	58.5%	61.7%	63.0%	62.6%	62.1%	60.6%	64.8%	63.5%	61.2%	63.0%
Federal sources	41.5%	38.3%	37.0%	37.4%	37.9%	39.4%	35.2%	36.5%	38.8%	37.0%

2.65 Federal source revenue was more than 40% of the Province's total revenue for the first time since 1999. In the year ended 31 March 2004, federal source revenue was 35.2% of total revenue, in the year ended 31 March 2010 it was 6.3 percentage points higher at 41.5%, a 17.9% increase.

Revenue from provincial sources

2.66 The following table compares provincial source revenue to GDP for the past ten years. The GDP numbers are for the previous calendar year.

Provincial source revenue compared to GDP										
(\$ millions)										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Provincial sources	4,089.3	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	27,646	27,372	26,993	25,884	24,716	23,672	22,366	21,169	20,684	20,085
(percentage)										
Provincial source revenue as a % of GDP	14.8%	16.0%	16.3%	16.1%	15.9%	15.3%	15.8%	15.7%	15.5%	15.3%
Percentage growth in provincial source revenue	(6.8%)	0.0%	5.6%	5.9%	8.3%	2.7%	6.0%	3.6%	4.8%	3.1%
Percentage growth in GDP	1.0%	1.4%	4.3%	4.7%	4.4%	5.8%	5.7%	2.3%	3.0%	5.5%

2.67 In six of the past ten years, provincial source revenue has increased at a rate that exceeds the rate of growth of the GDP, however for each of the past two years the rate of growth of GDP exceeded the rate of growth of provincial source revenue. For the year ended 31 March 2010 provincial source revenue was 14.8% of GDP, a decrease of 1.2 percentage points from the year ended 31 March 2009.

2.68 The following table provides the history of the main categories of provincial revenue for the past ten years. Shading indicates that the revenue in that category was higher than in the previous year. An increase in tax revenue in a given category may be caused by more than one factor, for example even if tax rates are unchanged or decreased it is possible that more taxable activity resulted in higher tax revenue.

Provincial source revenue by main category										
(\$ millions)										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Taxes on consumption	1,233.3	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
Taxes on property	411.9	385.3	352.3	345.6	335.2	328.3	298.2	295.0	288.6	274.7
Taxes on income	1,528.3	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
Other taxes	70.4	68.7	85.5	86.6	90.8	94.7	103.4	85.0	81.9	69.2
Licenses and permits	129.0	116.6	114.5	109.7	106.7	96.9	99.8	98.2	96.5	102.0
Royalties	39.6	79.5	63.8	68.7	67.8	70.7	70.4	60.0	61.1	66.5
Investment income	106.6	357.3	417.3	308.6	409.6	283.7	252.7	175.0	244.7	156.4
Other provincial revenue	353.8	346.7	361.4	323.2	302.8	292.6	275.8	271.9	205.0	197.5
Sinking fund earnings	216.4	233.4	230.7	231.8	226.4	221.6	222.5	243.0	230.9	220.0
Total	4,089.3	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

2.69 The following table provides the history of the main categories of provincial revenue for the past ten years as a percentage of total revenue. Shading indicates that the percentage of total revenue for that category was higher than in the previous year.

Provincial source revenue by main category (percentage)										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Taxes on consumption	17.6%	19.1%	16.1%	17.6%	18.4%	17.7%	20.9%	20.0%	17.4%	18.3%
Taxes on property	5.9%	5.4%	5.1%	5.2%	5.3%	5.5%	5.5%	5.6%	5.5%	5.6%
Taxes on income	21.9%	20.2%	23.6%	22.8%	19.4%	19.7%	19.6%	20.1%	20.8%	22.4%
Other taxes	1.0%	1.0%	1.2%	1.3%	1.4%	1.6%	1.9%	1.6%	1.6%	1.4%
Licenses and permits	1.8%	1.6%	1.6%	1.7%	1.7%	1.6%	1.8%	1.9%	1.8%	2.1%
Royalties	0.6%	1.1%	0.9%	1.0%	1.1%	1.2%	1.3%	1.1%	1.2%	1.4%
Investment income	1.5%	5.0%	6.0%	4.6%	6.5%	4.7%	4.6%	3.3%	4.7%	3.2%
Other provincial revenue	5.1%	5.0%	5.2%	4.9%	4.7%	4.9%	5.1%	5.3%	3.8%	4.1%
Sinking fund earnings	3.1%	3.3%	3.3%	3.5%	3.6%	3.7%	4.1%	4.6%	4.4%	4.5%
Total	58.5%	61.7%	63.0%	62.6%	62.1%	60.6%	64.8%	63.5%	61.2%	63.0%

Taxes on consumption

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

Taxes on consumption (\$ millions)										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Harmonized sales tax	932.5	1,060.8	841.0	872.1	838.7	723.0	803.1	736.0	659.6	653.2
Gasoline and motive fuels tax	198.1	195.1	198.1	215.2	232.1	239.7	234.9	222.1	184.3	186.5
Tobacco tax	102.6	103.7	79.9	81.9	90.5	96.5	101.4	91.9	69.7	49.8
Other	0.1	0.1	0.1	-	0.1	0.1	0.1	0.1	0.1	0.1
Total	1,233.3	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

2.71 Tobacco tax increased substantially in the year ended 31 March 2009 and remained high in the year ended 31 March 2010 due to settlements with manufacturers.

2.72 Harmonized sales tax (HST) substantially increased in the year ended 31 March 2009 because of a large prior period adjustment

which also resulted in the tax revenue being lower in the year ended 31 March 2010. Over the ten year period, HST revenue has increased at an annualized rate of 4.0% per year. The ratio of harmonized sales tax revenue to GDP over the past ten years, where the GDP numbers are for the previous calendar year is as follows:

Harmonized sales tax (\$ millions)										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Harmonized sales tax	932.5	1,060.8	841.0	872.1	838.7	723.0	803.1	736.0	659.6	653.2
GDP	27,646	27,372	26,993	25,884	24,716	23,672	22,366	21,169	20,684	20,085
(percentage)										
Ratio	3.4%	3.9%	3.1%	3.4%	3.4%	3.1%	3.6%	3.5%	3.2%	3.3%

2.73 The ratio of HST to GDP for the year ended 31 March 2010 was 3.4% which is equal to the average of the ratio for the past ten years.

Taxes on property

2.74 The following table provides a history of provincial real property tax revenue for the past ten years, including the annual percentage increases. Provincial real property tax revenue has increased at an annualized rate of 4.6% over this time period. The table also provides the ratio of provincial real property tax revenue to GDP over the past ten years, where the GDP numbers are for the previous calendar year.

Provincial real property tax (\$ millions, or percentage)										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Real property tax revenue	411.9	385.3	352.3	345.6	335.2	328.3	298.2	295.0	288.6	274.7
% increase	6.9%	9.4%	1.9%	3.1%	2.1%	10.1%	1.1%	2.2%	5.1%	
GDP	27,646	27,372	26,993	25,884	24,716	23,672	22,366	21,169	20,684	20,085
Ratio	1.5%	1.4%	1.3%	1.3%	1.4%	1.4%	1.3%	1.4%	1.4%	1.4%

Taxes on income

2.75 The following table provides the history of revenue from taxes on income over the past ten years. The table also provides the ratio of taxes on income to GDP over the past ten years, where the GDP numbers are for the previous calendar year. Revenue from taxes

on income has increased at an annualized rate of 3.8% over this time period.

Taxes on income (\$ millions)										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Personal income tax	1,295.5	1,323.0	1,256.4	1,175.1	1,063.6	1,000.2	952.3	910.9	909.9	910.0
Corporate income tax	200.3	111.4	266.6	217.6	150.3	173.1	111.1	134.9	179.9	178.6
Metallic minerals tax	32.5	4.7	119.7	120.2	10.5	2.8	2.2	5.7	2.3	3.3
Total of taxes on income	1,528.3	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
GDP	27,646	27,372	26,993	25,884	24,716	23,672	22,366	21,169	20,684	20,085
(percentage)										
Ratio	5.53%	5.26%	6.09%	5.84%	4.95%	4.97%	4.76%	4.97%	5.28%	5.44%

2.76 The following table compares the growth in personal income tax revenue to the growth in total personal income and per capita income. The 2010 income growth rates were not available at the time of writing this Report and are not included in the table.

Personal income tax revenue (percentage)										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Personal income tax growth	(2.1%)	5.3%	6.9%	10.5%	6.3%	5.0%	4.5%	0.1%	0.0%	1.1%
Per capita income growth	-	4.0%	5.1%	4.3%	3.6%	4.8%	3.5%	2.5%	2.5%	4.8%
Growth in personal income	-	4.2%	5.1%	3.9%	3.5%	4.8%	3.5%	2.5%	2.4%	4.8%
Personal income tax revenue as % of total personal income	-	5.7%	5.6%	5.5%	5.2%	5.0%	5.0%	5.0%	5.1%	5.4%

2.77 In our 2009 Report, we noted that personal income tax revenue growth surpassed the growth percentages for personal income up to 2008. This same trend continued for 2009. Given the negative growth in personal income tax in 2010, it would be interesting to compare this change in revenue to the personal income growth rates when available.

2.78 Further analysis of the personal income tax revenue shows that prior years' adjustments can have an impact on the amount of revenue recorded in any given year.

2.79 The components of personal income tax over the past ten years are:

Components of personal income tax revenue (\$ millions)										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Current year estimate	1,241.3	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	54.2	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	1,295.5	1,323.0	1,256.4	1,175.1	1,063.6	1,000.2	952.3	910.9	909.9	910.0

2.80 The 2010 prior year adjustment was the second largest in the ten year period. The extra funds transferred in 2010 partially offset the reduction in current year payments.

Other provincial source revenue

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

Other types of provincial revenue (\$ millions)										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Insurance premium tax	42.4	41.2	40.7	40.1	39.4	39.7	42.2	34.3	30.3	28.2
Financial corporation capital tax	12.7	7.4	7.3	5.8	9.5	10.6	9.8	8.3	9.2	7.0
Large corporation capital tax	9.2	13.5	31.2	34.7	36.3	39.5	47.3	38.7	39.0	30.6
Motor vehicle licenses	104.2	95.0	91.5	89.3	86.3	76.2	73.7	74.0	74.0	76.0
Forest royalties	28.8	40.4	45.8	58.8	56.9	60.2	62.9	53.1	54.6	58.3
Mining royalties	10.8	39.1	18.0	9.9	10.9	10.5	7.5	6.9	6.5	8.2
Lottery revenue	115.9	120.6	117.0	113.0	111.2	118.1	116.7	109.1	89.2	89.7
NB Liquor Corporation	157.9	152.7	144.9	131.5	126.1	122.6	118.6	110.1	106.8	103.0
Sinking fund earnings	216.4	233.4	230.7	231.8	226.4	221.6	222.5	243.0	230.9	220.0

2.82 Some specific notable items about the revenue numbers provided in the previous table include:

- The large corporation capital tax reduced for the sixth year in a row.
- Motor vehicle license revenue increased by about 9.7% in the year ended 31 March 2010.
- Revenue from forestry royalties again declined significantly and is now less than half of what it was at its peak in the year ended 31 March 2004.
- Mining royalties also declined significantly, however the revenue earned in the year ended 31 March 2009 was unusually high.
- Profits from NB Liquor increased in the year ended 31 March 2010, as they have done in every year in the above table.
- Sinking fund earnings declined by \$17.0 million, which when coupled with the increase in service of the public debt expense of \$14.1 million resulted in the Province's net cost of servicing the public debt increasing by \$31.1 million or 8.4%.

2.83 The ten year average annual growth rate of each of the other provincial sources of revenue listed above is provided in the following table. The table also compares the ten year annual growth rate to the ten year annual growth rate for the period ending 31 March 2009.

Ten-year annualized growth rate for other provincial revenues (percentage)		
Revenue source	Annualized growth rate for the ten years ended 31 March 2010	Annualized growth rate for the ten years ended 31 March 2009
Financial corporation capital tax	6.8%	(1.6%)
NB Liquor Corporation	4.9%	4.7%
Insurance premium tax	4.6%	5.3%
Motor vehicle licenses	3.6%	2.9%
Mining royalties	3.1%	19.3%
Lottery revenue	2.9%	3.8%
Sinking fund earnings	(0.2%)	1.5%
Forest royalties	(7.5%)	(3.3%)
Large corporation capital tax	(12.5%)	(7.8%)

NB Electric Finance Corporation

2.84 NB Electric Finance Corporation's results for the past ten years are provided in the following table:

NB Electric Finance Corporation net earnings (loss)										
(\$ millions)										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
NB Electric Finance Corporation	(212.2)	34.4	104.5	18.7	131.6	7.8	(18.0)	(77.4)	19.0	(78.0)

2.85 The NB Electric Finance Corporation, which includes the results of NB Power Holding Corporation (NB Power), reported a large loss in the year ended 31 March 2010. Of this loss, \$161.0 million was caused by NB Power's write down of the Dalhousie Generating Station. NB Power's results are difficult to interpret because of:

- their continued recognition of regulatory assets for certain normal period costs and replacement power costs associated with the refurbishment of the Point Lepreau Generating Station, and for the benefits from the lawsuit settlement with PDVSA; and
- their mark-to-market accounting for the PDVSA long term receivable which the Notes to the Combined Financial Statements of NBPower describe as temporary and which will reverse when all the related fuel shipments have been received.

2.86 The following table provides information about NBPower's earnings for the past four years:

NB Power				
(\$ millions)				
	2010	2009	2008	2007
Net earnings (loss) per financial statements	(117)	70	89	21
Net earnings (loss) before special payments in lieu of income taxes	(170)	104	138	29
Net earnings (loss) before special payments in lieu of income taxes adjusted to remove the effects of regulatory accounting	(317)	(282)	211	29
Net earnings (loss) before special payments in lieu of income taxes adjusted to remove the effects of regulatory accounting and the effects of temporary mark-to-market adjustments on long term receivable	(366)	(137)	118	29
Net earnings (loss) before special payments in lieu of income taxes adjusted to remove the effects of regulatory accounting, the effects of temporary mark-to-market adjustments on long term receivable, and the write down on the Dalhousie Generating Station	(205)	(137)	118	29

2.87 NB Power's net earnings show surpluses in the years ended 31 March 2007 through 2009, and if one removes the write down of the Dalhousie Generating Station the net earnings for the year ended 31 March 2010 would also be positive. The adjusted earnings figure at the bottom of the preceding table reflects steadily worsening results since the year ended 31 March 2008, which is what would be expected with the extra costs incurred during the refurbishment shut down of the Point Lepreau Generating Station. The year ended 31 March 2007 provides a good base year comparison because the Point Lepreau Generating Station was operational; there was no long term receivable to mark to market; and NB Power was not recording regulatory assets.

2.88 The above adjustments may be simplistic; however the analysis helps to minimize the noise created by the more complex accounting adjustments recorded by NB Power, thereby allowing the reader to understand the operational changes that occur from year to year.

2.89 The next table shows the reasons why NB Power's adjusted earnings have changed over the past three years.

NB Power			
(\$ millions)			
	2010	2009	2008
Net earnings (loss) before special payments in lieu of income taxes adjusted to remove the effects of regulatory accounting, the effects of temporary mark-to-market adjustments on long term receivable, and the write down on the Dalhousie Generating Station – previous year	(137)	118	29
More (less) revenue from sales of power	-	3	72
More (less) transmission revenue	2	2	3
More (less) miscellaneous revenue	(14)	(26)	32
(More) less expense for fuel and purchased power	(18)	(284)	(25)
(More) less expense for transmission	(4)	3	-
(More) less expense for operations, maintenance and administration	(32)	(18)	(8)
(More) less expense for amortization and decommissioning	(13)	30	4
(More) less taxes	3	-	6
(More) less finance charges	8	35	5
Net earnings (loss) before special payments in lieu of income taxes adjusted to remove the effects of regulatory accounting, the effects of temporary mark-to-market adjustments on long term receivable, and the write down on the Dalhousie Generating Station – current year	(205)	(137)	118

2.90 This table provides information about the year to year changes in NB Power's core results:

- The year ended 31 March 2008 was a significant improvement over the year ended 31 March 2007 primarily because increases in revenue from sales of power and miscellaneous sources were significantly higher than the increased cost of fuel.
- The year ended 31 March 2009 resulted in worse results than the year ended 31 March 2008 because the Point Lepreau Generating Station was taken off line, resulting in higher costs for replacement fuel.
- The year ended 31 March 2010 resulted in worse results than the year ended 31 March 2009 for a number of smaller reasons; fuel costs increased but sales of power did not change, miscellaneous revenue declined for the second year in a row, and the cost of operations maintenance and administration increased by 7.8%.

2.91 While the accounting that NB Power uses for rate regulated assets is consistent with Generally Accepted Accounting Principles, the reader needs to understand what the assets represent. Most of the regulatory asset represents the right of NB Power to collect revenue from rate payers in the future to cover the normal period costs and replacement power costs associated with the refurbishment of the Point Lepreau Generating Station. This right was given to NB Power when the government enacted section 143.1 of the Electricity Act; the right was not conferred on NB Power by the Energy and Utilities Board as part of the rate setting process. The asset is the right to collect from future ratepayers the amount needed to recover costs that have been spent and that do not represent future service capacity. Ratepayers will receive no future service benefit from this regulatory asset. Normally such a situation would be considered to be a deficit.

2.92 As part of our audit work we confirmed that NB Power and their auditors assessed the ability of NB Power to be able to charge rates in the future at a sufficient level to fully collect the amount of the regulatory asset. We were especially concerned about this because much of the public perception that arose from the transaction that was proposed in October 2009 between the Province and Hydro-Quebec was that power rate increases needed to be minimized, and in the case of industrial customers, rates needed to be reduced. As part of our work we had the opportunity to review NB Power's model of its future financial results; this model covers multiple years into the future. The model forecasts better results than we expected it to, but we found that the forecast held up even when various assumptions were changed. Of course, the forecast is dependent on the Point Lepreau Generating Station successfully being returned to service. Our review of NB Power's model was completed before the most recent announcement that the station will not be brought back on-line before 2012.

2.93 Essentially NB Power's model forecasts that the corporation can recover its regulatory asset and generate healthy surpluses thereby allowing it to reduce its debt, while at the same time requiring minimal rate increases for the foreseeable future.

Expenses

2.94 The main items of expenses we have analyzed are:

- total expenses;
- interest expense;
- amortization expense;
- pension expense; and

- total expenditure.

Total expenses

2.95 The following two tables report the Province's expenses for the past seven years by function as listed in the Province's Statement of Operations. The first table shows the amount of expense by function and the second table shows the percentage of total expenses represented by each function.

Total expenses by function							
(\$ millions)							
	2010	2009	2008	2007	2006	2005	2004
Education and training	1,621.7	1,452.0	1,430.9	1,305.5	1,309.7	1,189.0	1,168.1
Health	2,585.0	2,445.7	2,272.3	2,110.7	1,958.2	1,837.4	1,788.9
Social development	973.4	941.6	903.1	818.0	769.6	724.7	710.9
Protection services	209.4	223.8	187.5	235.1	162.3	152.0	145.3
Economic development	344.6	287.9	230.4	207.0	182.4	184.8	168.3
Labour and employment	141.5	124.4	119.1	120.4	117.4	117.5	121.5
Resources	183.6	177.4	178.4	193.0	160.1	166.8	159.0
Transportation	400.5	399.8	380.3	347.5	336.3	310.5	307.5
Central government	651.5	650.0	589.3	510.7	495.5	479.1	475.0
Service of the public debt	616.6	602.5	576.9	559.4	591.4	580.9	582.9
Total	7,727.8	7,305.1	6,868.2	6,407.3	6,082.9	5,742.7	5,627.4

Total expenses by function							
(percent)							
	2010	2009	2008	2007	2006	2005	2004
Education and training	21.0	19.9	20.8	20.4	21.5	20.7	20.8
Health	33.4	33.5	33.1	32.9	32.2	32.0	31.8
Social development	12.6	12.9	13.2	12.8	12.7	12.6	12.6
Protection services	2.7	3.1	2.7	3.7	2.7	2.7	2.6
Economic development	4.5	3.9	3.4	3.2	3.0	3.2	3.0
Labour and employment	1.8	1.7	1.7	1.9	1.9	2.1	2.1
Resources	2.4	2.4	2.6	3.0	2.6	2.9	2.8
Transportation	5.2	5.5	5.5	5.4	5.5	5.4	5.5
Central government	8.4	8.9	8.6	8.0	8.2	8.3	8.4
Service of the public debt	8.0	8.2	8.4	8.7	9.7	10.1	10.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

2.96 While the preceding table provides a picture of the proportion of total expenses that goes to each functional area, it can mask trends because the percentages can stay the same even if total expenses significantly increased. Another way to analyze the expenses is to compare them as a percentage of total revenue, as is done in the following table.

Expenses as a percentage of total revenue, by function (percent)							
	2010	2009	2008	2007	2006	2005	2004
Education and training	23.2	20.4	20.5	19.7	20.7	19.9	21.5
Health	37.0	34.3	32.6	31.8	31.0	30.7	32.9
Social development	13.9	13.2	13.0	12.3	12.2	12.1	13.1
Protection services	3.0	3.1	2.7	3.5	2.6	2.5	2.7
Economic development	4.9	4.0	3.3	3.1	2.9	3.1	3.1
Labour and employment	2.0	1.7	1.7	1.8	1.9	2.0	2.2
Resources	2.6	2.5	2.6	2.9	2.5	2.8	2.9
Transportation	5.8	5.7	5.5	5.2	5.3	5.2	5.6
Central government	9.4	9.3	8.4	7.7	7.8	8.0	8.6
Service of the public debt	8.8	8.5	8.3	8.4	9.4	9.7	10.7
Total	110.6	102.7	98.6	96.4	96.3	96.1	103.3

2.97 This shows that the Province has reduced the proportion of revenue earned that is spent on the resource sector function over this time period, and has maintained the level of expenses for the transportation function. The proportion of revenue used for health expenses continues to rise, and after three years of reductions in the service of the public debt the cost of debt service has now increased two years in a row. The rate of growth for education expenses for the year ended 31 March 2010 was artificially high because of the Province's manipulation of the grant payment to the Maritime Provinces' Higher Education Commission.

2.98 The following table shows the average annual growth rate of each of the Province's expense functions since the year ended 31 March 2004. It also shows the one year growth rate for the year ended 31 March 2010 and 31 March 2009.

Growth of expenses by function (percent)			
Average annual growth rate	Function	2010 growth rate	2009 growth rate
5.6	Education and training	11.7	1.5
6.3	Health	5.7	7.6
5.4	Social development	3.4	4.3
6.3	Protection services	(6.4)	19.4
12.7	Economic development	19.7	25.0
2.6	Labour and employment	13.7	4.5
2.4	Resources	3.5	(0.6)
4.5	Transportation	0.2	5.1
5.4	Central government	(0.2)	10.3
0.9	Service of the public debt	2.3	4.4
5.4	Total	5.8	6.4

2.99 This table shows that the Province's expenses have been growing at a significant rate. The 5.7% rate of growth of health expenses for the year ended 31 March 2010 is particularly concerning since health expenses represent the largest part of the Province's expenses at over thirty-three percent. While it was positive that the rate of growth of health expenses decreased in the year ended 31 March 2010, and was in fact below the average annual growth rate for the period since 31 March 2004, a 5.7% rate of growth cannot be sustained.

2.100 The rate of growth for education expenses for the year ended 31 March 2010 was artificially high because of the Province's manipulation of the grant payment to the Maritime Provinces' Higher Education Commission in prior years. The decrease in the rate of growth for protection services in the year ended 31 March 2010 reflects the fact that there was extra spending in the year ended 31 March 2009 in the Disaster Financial Assistance program as a result of flood damages.

2.101 While the average annual rate of growth for service of the public debt expense appears to be manageable at 0.9%, it is concerning that the expense grew by 4.4% in the year ended 31 March 2009 and by 2.3% in the year ended 31 March 2010. The

2.3% increase is compounded by the fact that sinking fund earnings decreased by 7% in the year ended 31 March 2010.

2.102 The growth rates for expenses are compared to the growth rates for GDP and revenue in the following table. The GDP numbers are for the previous calendar year.

Comparison of growth rates (percent)							
Average annual rate		2010	2009	2008	2007	2006	2005
5.4	Rate of expense growth	5.8	6.4	7.2	5.3	5.9	2.0
3.6	Rate of GDP growth	1.0	1.4	4.3	4.7	4.4	5.8
4.3	Rate of revenue growth	(1.7)	2.1	4.8	5.2	5.7	9.8

2.103 Over the six year time frame shown in the preceding table, and in each of the past five years, the average annual rate of growth of expenses has exceeded the average annual rate of growth of both GDP and revenue. This has resulted in the deterioration of the Province's net results from operations over that time frame from a surplus for the year ended 31 March 2006 of \$243.6 million to a deficit of \$737.9 million for the year ended 31 March 2010.

Interest expense

2.104 The Notes to the Province's Financial Statements provide details about debt charges. The following table provides a comparison of the past ten years.

Components of interest expense										
(\$ millions)										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Interest	813.3	778.5	744.6	732.4	737.1	749.8	758.8	791.2	809.7	843.2
Interest on Fredericton to Moncton highway capital lease	51.7	53.0	54.3	55.4	56.5	57.5	58.1	55.8	22.5	-
Interest on other capital leases	2.0	2.0	2.1	2.2	2.2	2.3	2.3	2.4	2.4	2.5
Foreign exchange expense	(20.0)	(6.6)	(16.7)	(30.8)	(7.8)	(21.7)	(40.3)	35.4	56.6	44.5
Amortization of discounts and premiums	5.7	8.1	8.1	7.3	7.4	7.1	7.4	7.9	7.5	7.9
Other expenses	9.4	1.8	1.9	2.1	1.7	1.9	2.1	3.3	1.8	1.2
Subtotal	862.1	836.8	794.3	768.6	797.1	796.9	788.4	896.0	900.5	899.3
Interest recovery – Electric Finance Corporation	(245.5)	(234.3)	(217.4)	(209.2)	(205.7)	(216.0)	(205.5)	(235.1)	(248.7)	(262.0)
Service of the public debt	616.6	602.5	576.9	559.4	591.4	580.9	582.9	660.9	651.8	637.3
Less sinking fund earnings	(216.4)	(233.4)	(230.7)	(231.8)	(226.4)	(221.6)	(222.5)	(243.0)	(230.9)	(220.0)
Subtotal	400.2	369.1	346.2	327.6	365.0	359.3	360.4	417.9	420.9	417.3
Net pension interest	118.2	20.6	(9.1)	0.4	30.9	17.6	85.4	27.9	3.5	-53.6
Interest on student loans	2.3	9.1	13.6	11.6	6.8	-	-	-	-	-
Total	520.7	398.8	350.7	339.6	402.7	376.9	445.8	445.8	424.4	363.7

2.105 The highlighted subtotal in the previous table deducts sinking fund earnings from service of the public debt. This is the best indicator of the Province's net interest costs. This net number reached a low of \$327.6 million in the year ended 31 March 2007. In the year ended 31 March 2010 it was \$400.2 million, an increase of \$72.6 million or 22.2%. This highlights the impact that increasing deficits have; the deficit problem is compounded by the fact that Province has to cover higher interest costs as well as higher program costs. By contrast, the table shows that the net interest cost decreased from \$417.3 million at 31 March 2001 to \$327.6 million at 31 March 2007, providing \$79.7 million of spending room.

2.106 The table also shows that the Province has benefited from favourable adjustments to the foreign exchange expense each of the past seven years, with a significant positive adjustment of \$20.0 million in the year ended 31 March 2010.

2.107 One other item of note in the previous table is the increase in the Other expenses component from \$1.8 million to \$9.4 million.

This was the result of legal and consulting services obtained by the Province relating to issues around the option to sell N.B. Power.

Amortization expense

2.108 The Province started reporting its tangible capital assets on its Statement of Financial Position in the year ended 31 March 2005. The assets are expensed over their useful lives through an amortization charge recorded on the Statement of Operations. The amortization expense for the past five years has been:

Amortization expense (\$ millions)						
	2010	2009	2008	2007	2006	2005
Amortization expense	291.1	279.9	253.3	238.1	227.4	215.3

2.109 Over this time period the average annualized rate of growth has been 6.2%.

Pension expense

2.110 The following table provides details of the Province's total pension expense for the past ten years:

Components of pension expense (\$ millions)										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Employer's share of pension benefits earned	131.6	146.1	133.8	126.1	117.0	124.1	96.1	90.6	82.9	89.9
Net Interest expense (revenue)	118.2	20.6	(9.1)	0.4	30.9	17.6	85.4	27.9	3.5	(53.6)
Plan amendments	-	-	-	5.9	-	-	-	-	-	-
Amortization of adjustments	87.1	159.7	30.3	(31.2)	(40.3)	(31.8)	(55.3)	(26.1)	(80.6)	(94.5)
Change in valuation adjustment	(15.5)	(3.3)	(0.5)	(0.1)	2.3	(1.5)	(2.0)	(2.0)	(6.5)	7.1
Total	321.4	323.1	154.5	101.1	109.9	108.4	124.2	90.4	(0.7)	(51.1)

2.111 This table highlights the significant increase in the annual pension expense over the ten year period. In the year ended 31 March 2001, the pension expense was a credit of \$51.1 million; this had the same effect on the Province's Statement of Operations in that year as a revenue item of \$51.1 million. In the year ended 31 March 2010 the pension expense was \$321.4 million, an increase of \$372.5 million.

2.112 The employer's share of pension benefits earned has increased at an annualized rate of 4.3% per year. This is the expense the Province incurs to provide pension benefits earned by employees during the year. It is the fundamental number that the pension expense is based on. The net interest component of the pension expense depends primarily on the rate of return earned on pension fund assets. These returns are volatile, as illustrated in the following table which reports the rates of return for the New Brunswick Investment Management Corporation (NBIMC) since it diversified the pension funds on 31 March 1997. NBIMC manages the trust funds for the *Public Service Superannuation Act* (PSSA) plan, the *Teachers' Pension Act* (Teachers') plan and the *Provincial Court Act* and *Provincial Court Judges' Pension Act* (Judges') plan.

NBIMC rates of return (percentage)	
2010	19.94
2009	(18.34)
2008	0.79
2007	8.68
2006	15.87
2005	8.51
2004	25.27
2003	(6.95)
2002	3.45
2001	(5.23)
2000	20.57
1999	(0.62)
1998	18.68
Average annualized	6.22

2.113 The returns earned by NBIMC have ranged from a high of 25.27% in the year ended 31 March 2004 to a low of (18.34)% in the year ended 31 March 2009. Over the thirteen fiscal years the average annual rate of return of NBIMC has been 6.22% which is below the 7.12% rate of return the Province assumes will be earned on the plan assets over the long term. In the year ended 31 March 2009, the Province reduced its assumed long term rate of return to 6.86%, however in the year ended 31 March 2010 the Province increased its assumed long term rate of return to 7.12%.

2.114 A comparison of actual pension expense to budgeted pension expense for the year ended 31 March 2010 is provided in the following table:

Pension expense budget to actual comparison (\$ millions)		
Budget category	Budget	Actual
CUPE hospital pension plan	10.3	12.3
Part-time and seasonal plans	8.3	8.5
Non-teaching school board plans	5.9	(0.5)
Ombudsman's plan	0.2	0.2
Judges' superannuation plan	2.8	2.4
Members' plans	6.6	6.2
Public service superannuation plan	222.5	125.8
Teachers' pension plan	201.1	131.2
Subtotal	457.7	286.1
Pension expense not specifically identified in the budget		35.3
Total actual pension expense		321.4

2.115 The previous table shows that the Province's actual expense of \$286.1 million for pension plans specifically identified in the 2009-2010 Main Estimates was \$171.6 million below the budget of \$457.7 million for these plans. The primary reasons for this were the Province changing its assumptions for the two largest plans and the 19.94% rate of return earned on the pension funds by NBIMC. The higher than expected rate of return was responsible for about one half of the pension expense reduction, and the change in assumptions on the two largest pension plans was responsible for the other half. These changes included a move to a more aggressive assumed rate of return of 7.12% and an assumed two year wage freeze on salaries.

2.116 The Province has incurred two straight years of volatile pension fund investment returns on its two largest plans. The rate of return for the year ended 31 March 2009 was negative 18.34%, while the rate of return for the year ended 31 March 2010 was positive 19.94%. For pension expense purposes however, these rates of return need to be compared to the assumed rate of return of 7.12%. On this basis the return for the year ended 31 March 2009 was 25.46% below

the assumed rate, while the return for the year ended 31 March 2010 was 12.82% above the assumed rate.

Total expenditure

2.117 Before the Province adopted 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. The following table reports expenditures for the past seven years, as well as the rate of growth for expenditures, GDP and revenue. The GDP numbers are for the previous calendar year.

Expenditure (\$ millions)							
	2010	2009	2008	2007	2006	2005	2004
Expenditure	8,024.5	7,457.2	7,484.5	6,529.9	6,206.1	5,852.0	5,570.9
(percentage)							
Expenditure	7.6	(0.4)	14.6	5.2	6.1	5.0	
GDP growth	1.0	1.4	4.3	4.7	4.4	5.8	
Revenue	(1.7)	2.1	4.8	5.2	5.7	9.8	

2.118 In the year ended 31 March 2009, expenditure growth was less than both GDP growth and revenue growth; however in the year ended 31 March 2010, expenditure growth was significantly higher. In four of the past six years, expenditure growth exceeded GDP growth, and in three of the past six years expenditure growth exceeded revenue growth.

Statement of Financial Position

2.119 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;
- all allowances;
- pension liability (surplus);
- funded debt for provincial purposes; and
- net debt.

Receivables and advances

2.120 The following table provides details of the Province's receivables and advances:

Receivables and advances										
(\$ millions)										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
General receivables	258.7	270.4	258.8	236.6	216.9	196.8	274.0	247.5	197.8	174.8
Receivables from Canada	204.5	182.0	205.0	169.7	164.0	141.6	132.3	121.5	122.8	119.5
Guarantee payouts	149.0	94.7	75.3	45.8	50.1	52.4	32.0	32.7	26.8	21.6
Advances	59.8	23.5	23.1	33.6	62.0	67.5	-	-	-	-
Other receivables	-	-	-	-	-	-	7.2	7.3	9.8	10.6
Interest receivable	61.0	52.1	45.5	37.1	33.4	26.3	30.8	30.3	25.6	24.1
Subtotal	733.0	622.7	607.7	522.8	526.4	484.6	476.3	439.3	382.8	350.6
Allowance for doubtful accounts	(306.0)	(244.0)	(201.3)	(155.7)	(140.7)	(132.9)	(118.5)	(113.3)	(97.7)	(87.4)
Total	427.0	378.7	406.4	367.1	385.7	351.7	357.8	326.0	285.1	263.2

2.121 The categories general receivables, advances and other receivables reflect some fluctuations because of changes in financial statement presentation over the years and because of the addition of details of certain consolidated entities that occurred during this time frame. In the year ended 31 March 2010 the Province stopped disclosing the receivables of consolidated entities separately.

2.122 The total amount of receivables and advances at 31 March 2010 was \$733.0 million, an increase of 17.7% over the amount owing at the end of the previous year.

2.123 The amount receivable from Canada increased by \$22.5 million during the year ended 31 March 2010. One component of the receivable from Canada is an amount receivable under the Official Languages in Education Program. We provided some details of this receivable in Volume 1 of our 2008 Report. This receivable is included in Schedule 2 to the Province's financial statements in the line called Education. For the year ended 31 March 2008 the Province indicated that \$63.8 million was receivable from Canada for Education. For the year ended 31 March 2010, the amount owing from Canada for Education is \$28.7 million. This is evidence that the Province is now managing this receivable more actively. A \$35.1 million reduction in this receivable would have resulted in interest cost savings to the Province of about \$1.75 million assuming a 5% interest rate.

2.124 The amount owing from Canada for Education decreased during the year ended 31 March 2010. However, the amount owing for Transportation increased by \$39.4 million, and the amount owing for Economic Development increased by \$12.3 million. The transportation receivable increase mainly related to federal government claim processing problems and receivables under the infrastructure stimulus program.

2.125 The Economic Development amount increased because of larger expenditures funded by Canada under the *Gas Tax Agreement* and new cost shared programs.

2.126 The amount owing for guarantees paid out increased to \$149.0 million at 31 March 2010 which is about seven times the amount owing at 31 March 2001. It is also \$54.3 million higher than the amount owing at 31 March 2009. This increase is mainly due to the \$50 million guarantee for Atcon.

2.127 The advances account also increased significantly at 31 March 2010. This was mainly due to a \$27.4 million advance to the Maritime Provinces' Higher Education Commission relating to the 2011 fiscal year.

2.128 The collectability of the amounts due from Canada should not be in question, although this receivable still needs to be managed in order to ensure they are collected as soon as possible.

2.129 The following table calculates the value of the accounts receivable and advances that need to be actively managed and compares that value to the value of the accounts that are considered doubtful.

Receivables and advances										
(\$ millions)										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Total accounts receivable and advances before allowance for doubtful accounts	733.0	622.7	607.7	522.8	526.4	484.6	476.3	439.3	382.8	350.6
Less: Receivables from Canada	(204.5)	(182.0)	(205.0)	(169.7)	(164.0)	(141.6)	(132.3)	(121.5)	(122.8)	(119.5)
Less advances of grants	(37.6)	(13.0)	(12.7)	(21.9)	(51.5)	(55.2)	-	-	-	-
Subtotal	490.9	427.7	390.0	331.2	310.9	287.8	344.0	317.8	260.0	231.1
Allowance for doubtful accounts	(306.0)	(244.0)	(201.3)	(155.7)	(140.7)	(132.9)	(118.5)	(113.3)	(97.7)	(87.4)
Allowance percentage	62.3%	57.0%	51.6%	47.0%	45.3%	46.2%	34.4%	35.7%	37.6%	37.8%

2.130 62.3% of the Province's receivables and advances (other than receivables from Canada or advances of grants) have been allowed for. This represents an increase of 5.3 percentage points over the previous year and 24.5 percentage points over the percentage considered doubtful in the year ended 31 March 2001.

2.131 We continue to believe that the growth in the amount of receivables and advances owing to the Province and the growth in the allowance percentage indicate that the Province needs to improve the management of these receivables.

Taxes receivable

2.132 The following table provides details of the amount of the Province's taxes receivable.

Taxes receivable (\$ millions)										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Real property taxes	961.0	911.0	855.1	791.4	411.0	395.3	384.0	374.3	359.9	342.4
Sales tax	97.4	154.5	60.5	87.0	87.9	32.7	107.7	85.4	68.9	68.9
Tobacco tax	23.8	21.7	8.5	8.4	8.5	10.2	11.3	9.0	7.4	5.3
Gasoline and motive fuel tax	17.2	17.7	19.6	22.8	20.7	26.0	21.9	20.0	17.2	21.5
Royalties and stumpage on timber	8.5	10.8	5.1	22.0	24.3	21.8	28.0	18.2	18.4	22.7
Metallic minerals tax	-	-	0.1	112.5	-	-	-	-	-	-
Other	4.1	7.2	5.3	2.5	2.5	2.9	0.3	0.1	0.1	0.1
Subtotal	1,112.0	1,122.9	954.2	1,046.6	554.9	488.9	553.2	507.0	471.9	460.9
Allowance for doubtful accounts	(61.8)	(56.5)	(55.1)	(77.0)	(85.4)	(80.7)	(86.6)	(89.5)	(89.5)	(84.5)
Total	1,050.2	1,066.4	899.1	969.6	469.5	408.2	466.6	417.5	382.4	376.4

2.133 The amount of revenue recorded by the Province in the related tax revenue accounts for some of the taxes receivable listed in the previous table was:

Tax revenue (\$ millions)										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Real property taxes	411.9	385.3	352.3	345.6	335.2	328.3	298.2	295.0	288.6	274.7
Tobacco tax	102.6	103.7	79.9	81.9	90.5	96.5	101.4	91.9	69.7	49.8
Gasoline and motive fuel tax	198.1	195.1	198.1	215.2	232.1	239.7	234.9	222.1	184.3	186.5
Royalties and stumpage on timber	28.8	40.4	45.8	58.8	56.9	60.2	62.9	53.1	54.6	58.3
Metallic minerals tax	32.5	4.7	119.7	120.2	10.5	2.8	2.2	5.7	2.3	3.3

2.134 The following table provides the ratio of outstanding taxes to the applicable tax revenue for the year:

Tax receivable as a percentage of tax revenue (percent)										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Real property taxes	233.3	236.4	242.7	229.0	122.6	120.4	128.8	126.9	124.7	124.6
Tobacco tax	23.2	20.9	10.6	10.3	9.4	10.6	11.1	9.8	10.6	10.6
Gasoline and motive fuel tax	8.7	9.1	9.9	10.6	8.9	10.8	9.3	9.0	9.3	11.5
Royalties and stumpage on timber	29.5	26.7	11.1	37.4	42.7	36.2	44.5	34.3	33.7	38.9
Metallic minerals tax	-	-	0.1	93.6	-	-	-	-	-	-

2.135 Some observations:

- The Province's receivable for real property taxes includes the municipal portion of property taxes that the Province collects on behalf of the municipalities; however the Province's real property tax revenue does not include the municipal portion of real property taxes. For this reason the Province's receivable is greater than its total revenue.
- Because real property tax bills are sent out before 31 March each year, but are not due until after 31 March, the financial statements always report a large balance of property taxes receivable. This makes it difficult to assess the collection position of property taxes based on the information contained in the Province's financial statements.
- Because gasoline and tobacco taxes are collected throughout the year, it would be reasonable for approximately 1/12th, or 8.3%, of the revenue for the year for those taxes to be receivable at the end of the year. The amount receivable for tobacco tax was significantly higher than 8.3% for both the year ended 31 March 2009 and the year ended 31 March 2010 because of settlements in those years with manufacturers.

2.136 The following table shows the percentage of taxes receivable for which the Province considers collection doubtful:

Tax receivable										
(\$ millions)										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Total taxes receivable	1,112.0	1,122.9	954.2	1,046.6	554.9	488.9	553.2	507.0	471.9	460.9
Allowance for doubtful accounts	61.8	56.5	55.1	77.0	85.4	80.7	86.6	89.5	89.5	84.5
(percentage)										
Percentage	5.6	5.0	5.8	7.4	15.4	16.5	15.7	17.7	19.0	18.3

2.137 Because of the timing of real property tax bills it is difficult to assess if the overall percentage of doubtful taxes receivable to total taxes receivable is reasonable. Also, because the Province started to include the municipal portion of real property taxes receivable in the year ended 31 March 2007, the overall percentage significantly declined. If we were able to adjust for the timing of real property tax bills, the percentages of doubtful accounts would be higher.

2.138 One area that needs to be watched is the change in the percentage of doubtful taxes receivable to total taxes receivable. This percentage increased in the year ended 31 March 2010 by 0.6%. On a total receivable of \$1,112.0 million this represents over six million dollars that may not be collected.

Loans

2.139 The following table provides details of the Province's loans receivable.

Loans receivable										
(\$ millions)										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Loans to students	391.0	369.2	336.4	296.0	258.3	0.2	0.2	0.2	0.2	0.2
<i>Economic Development Act</i>	303.6	246.3	169.8	146.0	135.5	135.8	124.1	155.7	144.0	138.8
<i>New Brunswick Housing Act</i>	35.9	35.5	34.0	34.8	34.5	33.6	32.7	31.8	30.9	28.4
Energy efficiency upgrade loans	11.1	7.3	3.6	2.3	0.2	-	-	-	-	-
<i>Fisheries Development Act</i>	35.2	36.4	40.1	39.2	40.1	42.6	48.8	54.4	56.9	58.0
<i>Agricultural Development Act</i>	11.2	5.4	4.4	4.2	18.1	21.3	21.7	20.3	18.1	17.3
Beaverbrook Art Gallery	6.6	6.6	4.5	4.5	1.0	1.0	-	-	-	-
Loans to municipalities	3.4	5.4	7.3	9.2	1.0	1.6	1.6	1.9	1.7	1.9
Fundy Trail Endowment Fund	3.3	3.1	2.9	2.8	2.6	4.0	3.8	3.6	3.2	3.2
Unsatisfied judgements	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5
L'Office de Stabilisation	4.1	4.1	4.0	-	-	-	-	-	-	-
La Fondation du quotidien francophone	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Provincial Holdings Ltd.	2.6	2.9	4.1	6.2	6.0	6.5	6.7	8.1	8.5	9.6
Other loans	0.9	1.1	1.4	1.9	2.1	2.6	2.5	2.8	3.1	6.7
Subtotal	822.4	736.8	626.0	560.6	512.9	262.7	255.6	292.3	280.1	277.6
Allowance for doubtful accounts	(313.3)	(297.9)	(229.3)	(207.2)	(192.9)	(142.6)	(129.3)	(143.9)	(133.7)	(124.7)
Total	509.1	438.9	396.7	353.4	320.0	120.1	126.3	148.4	146.4	152.9
(percent)										
Percentage of doubtful accounts	38.1	40.4	36.6	37.0	37.6	54.3	50.6	49.2	47.7	44.9

2.140 The rate of growth of loans to students decreased during the year ended 31 March 2010. Loans receivable under the *Economic Development Act*, the *Agriculture Development Act* and for energy efficiency upgrades all increased significantly.

2.141 Loans receivable for unsatisfied judgements and La Fondation du quotidien francophone that have been fully allowed for are still carried on the Province's Statement of Financial Position. We continue to recommend that these be written off for accounting purposes.

2.142 The reason that the percentage of loans receivable considered to be doubtful decreased substantially in the year ended 31 March

2006 was because that was the year the Province added the student loans to its loan portfolio. Since then the percentage of doubtful accounts has remained stable.

2.143 The following table provides details of the allowance for doubtful accounts for each significant loan type:

Allowance for doubtful loans receivable (percent)										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Loans to students	20.6	20.1	19.4	18.6	15.9	0.2	0.2	0.2	0.2	0.2
<i>Economic Development Act</i>	57.7	66.8	62.1	64.9	65.1	56.8	46.0	45.0	41.7	37.2
<i>New Brunswick Housing Act</i>	10.6	13.2	14.1	6.9	7.0	6.3	7.6	7.9	8.1	9.2
Energy efficiency upgrade loans	4.5	6.8	5.6	4.3	0.0	N/A	N/A	N/A	N/A	N/A
<i>Fisheries Development Act</i>	74.1	75.8	71.8	71.9	73.8	71.6	76.8	74.3	74.3	77.9
<i>Agricultural Development Act</i>	29.5	46.3	68.2	69.0	72.4	73.2	71.0	69.0	66.3	48.0

2.144 The allowance for *Economic Development Act* loans as a percentage of those loans outstanding dropped due to several large new loans being made to established companies which were felt to be fully collectable. The *Agricultural Development Act* allowance percentage dropped in 2010, due to a large loan to the New Brunswick Agricultural Insurance Commission which was felt to be collectable.

Accounts payable and accrued expenses

2.145 The following table provides the history of the Province's accounts payable and accrued expenses over the past ten years.

Accounts payable and accrued expenses (\$ millions)										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Accounts payable	465.2	448.2	452.4	446.8	417.4	388.2	372.4	300.5	375.6	255.0
Due to Canada	163.0	184.6	207.4	228.9	249.9	211.4	186.2	34.8	10.3	9.5
Accrued interest	191.0	205.6	215.2	227.0	236.8	244.2	231.0	229.5	164.2	164.3
Employee benefits	706.4	718.0	641.4	609.2	599.6	575.4	542.2	419.5	404.1	403.9
Municipal property taxes due to municipalities	385.8	364.3	338.7	312.3	-	-	-	-	-	-
Other	188.9	165.6	148.8	127.7	137.6	201.1	148.5	268.1	182.7	210.4
Total	2,100.3	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

2.146 Two components of the accrued employee benefit expense are:

Accrued employee benefits (\$ millions)										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Liability for injured workers	133.9	135.6	126.8	105.8	103.3	95.7	89.6	83.2	68.9	55.7
Retirement allowances	315.0	311.6	308.3	303.1	289.4	272.3	264.0	247.6	232.4	230.7

2.147 The liability for injured workers reduced during the year ended 31 March 2010, the only in-year reduction in the years analyzed in the preceding table. However, the ten year annualized growth rate for this liability still remains high at 10.2%. We have been concerned with the growth of this liability for some time, so we are pleased to see the pause in its growth.

2.148 The retirement allowance liability has been growing at an annualized rate of 3.5% over the past ten years, although over the past three years its annualized growth has been about one percent.

2.149 The retirement allowance is calculated each year by adding on to the prior year balance the estimated future payments to employees earned during the year and subtracting the payments to employees made during the year. The estimated cost in the last few years was between \$37 and \$40 million per year. The actual payments to employees ranged from \$24 to \$36 million per year over the same period.

All allowances

2.150 The following table accumulates all of the different allowances for losses accounts to provide a comprehensive picture of all allowances.

All allowances (\$ millions)										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Allowance for losses	95.5	101.8	103.1	95.8	84.0	83.3	104.2	74.2	68.7	30.9
Allowance for doubtful loans receivable	313.3	297.9	229.3	207.2	192.9	142.6	129.3	143.9	133.7	124.7
Allowance for doubtful taxes receivable	61.8	56.5	55.1	77.0	85.4	80.7	86.6	89.5	89.5	84.5
Allowance for doubtful receivables and advances	306.0	244.0	201.3	155.7	140.7	132.9	118.5	113.3	97.7	87.4
	776.6	700.2	588.8	535.7	503.0	439.5	438.6	420.9	389.6	327.5

2.151 The value of the total of all of the Province's allowances continues to be concerning. It reached \$776.6 million at 31 March 2010, an increase of 10.9% over the balance at 31 March 2009. The average annual rate of growth for the period itemized in the previous table is 10.1%. If the Province could collect one percent of these doubtful accounts, it would represent \$7.8 million in extra cash.

Pension liability (surplus)

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

Pension liability (surplus)										
(\$ millions)										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Pension liability (surplus)	(196.6)	(210.2)	(244.7)	(126.4)	30.2	156.7	271.5	362.1	372.6	442.6

2.153 The value of the pension liability or surplus is calculated by comparing the market value of plan assets to the actuarial estimate of accrued benefit obligations owing to present and future pensioners. From this difference an adjustment is made for accounting purposes that reduces the volatility in plan experience. The following table provides the details of these three components of the pension liability or surplus:

Components of the pension liability (surplus)										
(\$ millions)										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Estimated accrued benefit obligations	8,570.2	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
Value of plan assets	7,703.1	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
Subtotal	867.1	2,130.1	265.2	(165.0)	(124.8)	197.9	294.4	1,057.4	158.0	(68.4)
Accounting adjustments	(1,063.7)	(2,340.3)	(509.9)	38.6	155.0	(41.2)	(22.9)	(695.3)	214.6	511.0
Pension liability (surplus)	(196.6)	(210.2)	(244.7)	(126.4)	30.2	156.7	271.5	362.1	372.6	442.6

2.154 The previous table shows that while the Province's pension position for accounting purposes has been a surplus for the past four years, the value of the total estimated accrued benefit obligations has actually exceeded the total value of plan assets for the past three years. The Province's pension position before accounting adjustments improved significantly in the year ended 31 March 2010 for two reasons. First, returns of pension plan assets were significantly above the assumed rate of return; and second, the Province made changes to its assumed rate of return and to its

assumed future salary increases thereby reducing the present value of the accrued benefit obligation. A reduction in the value of the estimated accrued benefit obligations is something that did not occur in any other year listed in the table.

2.155 The accounting adjustment row in the table provides some information about how actual pension plan experience has compared to assumed plan performance. A negative amount for accounting adjustments (in brackets) represents experience in the past that was worse than assumed experience.

2.156 The following table compares the annual pension expense to the amount of contributions made by the Province to the various pension plans.

Pension expense and contributions										
(\$ millions)										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Pension expense	321.4	323.1	154.5	101.1	109.9	108.4	124.2	90.4	(0.7)	(51.1)
Employer contributions	307.8	288.6	272.8	257.7	236.4	223.2	214.8	100.9	69.1	102.3
Reduction (increase) in pension liability	(13.6)	(34.5)	118.3	156.6	126.5	114.8	90.6	10.5	69.8	153.4

2.157 The previous table shows that for each of the past two years, the Province has not made enough contributions to its various pension plans to cover the annual pension expense, whereas in the previous eight years the amount of contributions exceeded the amount of the pension expense.

2.158 Recent changes to the compensation arrangements for Members of the Legislative Assembly have had an impact on the Province's pension expense and pension liability for members. The following table provides information about both the pension expense and pension liability for pension benefits of Members of the Legislative Assembly:

Pension plans for Members of the Legislative Assembly										
(\$ millions)										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Pension expense	6.2	5.1	4.2	4.0	4.9	3.7	3.6	3.5	3.3	3.2
Pension liability	50.5	46.6	43.6	41.8	40.2	37.6	36.3	35.3	34.1	33.2

2.159 The annual pension expense for Members of the Legislative Assembly has been growing at an annualized rate of 7.6% over the past ten years, while the pension liability has been growing at an annualized rate of 4.8%.

Funded debt for provincial purposes

2.160 The following table provides the history of the Province's funded debt for provincial purposes; the sinking fund book value; and, the difference between the two for the past ten years.

Funded debt for provincial purposes and sinking fund										
(\$ millions)										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Funded debt for provincial purposes	10,470.2	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
Sinking fund book value	4,192.9	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
Funded debt for provincial purposes net of sinking fund	6,277.3	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

2.161 The net amount reported in the table has grown at an annualized rate of 3.7%, however the annualized growth between 31 March 2001 and 31 March 2005 was 0.5% while the annualized growth between 31 March 2005 and 31 March 2010 was 6.3%.

Net debt

2.162 Net debt is one of the most important measures of the financial position of the Province. For the year ended 31 March 2010, net debt increased by \$965.2 million.

2.163 One way to assess the significance of the size of the Province's net debt is to compare it to the net debt of provinces with similar population size as New Brunswick, in absolute amount, per capita, and as a percentage of GDP.

2.164 In the next two tables, net debt is taken from the audited summary financial statements of the individual provinces, information about population is taken from the Statistics Canada website, and GDP figures are from the financial statement discussion and analysis attached to the individual provinces' audited summary financial statements.

Net debt (\$ millions)			
Province	2010	2009	2008
Saskatchewan	3,560	3,524	5,873
New Brunswick	8,353	7,388	6,949
Manitoba	11,794	11,468	10,550
Nova Scotia	13,106	12,318	12,115

2.165 For the year ended 31 March 2008, New Brunswick's net debt was 57.4% of Nova Scotia's net debt. By 31 March 2010 the percentage reached 63.7%.

Net debt per capita (\$ millions)			
Province	2010	2009	2008
Saskatchewan	3,405	3,424	5,793
Manitoba	9,547	9,403	8,752
New Brunswick	11,119	9,857	9,301
Nova Scotia	13,906	13,146	12,934

2.166 For the year ended 31 March 2008, New Brunswick's net debt per capita was 72.0% of Nova Scotia's per capita net debt. By 31 March 2010 the percentage reached 80%.

Net debt as a percentage of GDP (percent)			
Province	2010	2009	2008
Saskatchewan	6.3	5.5	11.4
Manitoba	23.5	22.8	21.7
New Brunswick	30.2	27.0	25.7
Nova Scotia	38.7	36.0	36.8

2.167 For the year ended 31 March 2008, New Brunswick's net debt as a percentage of GDP was 69.8% of Nova Scotia's; for the year ended 31 March 2010 it was 78%.

Items reported in the notes

2.168 There are some economic events that accounting rules do not require to be reported immediately, although they are required to be reported in the notes to the financial statements. The reader of the Province's financial statements should be aware of these items. The main ones are:

- contingent liabilities; and
- market value of sinking fund investments.

Contingent liabilities

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

Contingent liabilities (\$ millions)										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
New Brunswick Credit Union Deposit Insurance Corporation	3,148.0	3,050.7	2,900.0	2,800.0	2,700.0	2,600.0	2,500.0	2,300.0	2,100.0	1,900.0
New Brunswick Municipal Finance Corporation	687.1	612.9	569.5	560.1	496.1	466.6	421.4	386.7	366.9	350.9
<i>Economic Development Act</i>	102.5	98.2	83.4	113.8	108.6	102.1	122.5	44.8	28.9	29.9
Provincial Holdings Ltd	12.6	12.6	29.0	14.7	14.9	1.7	2.3	2.6	4.9	6.0
<i>Fisheries Development Act</i>	8.8	12.4	14.8	16.6	20.8	5.0	6.5	10.4	5.9	3.3
<i>Nursing Homes Act</i>	7.0	7.6	8.1	8.7	9.4	10.3	10.6	10.6	10.7	10.6
<i>Regional Development Corporation Act</i>	2.8	3.9	4.6	3.6	3.8	3.6	3.7	4.0	3.8	4.3
<i>Employment Development Act</i>	2.0	4.1	4.4	4.5	4.5	3.9	5.3	4.3	3.6	2.0
<i>Agriculture Development Act</i>	6.3	1.8	0.6	0.6	0.4	0.4	0.1	0.2	0.2	0.9
<i>Livestock Incentives Act</i>	0.6	0.8	0.8	0.9	0.9	0.9	1.5	1.6	1.5	1.7
<i>Youth Assistance Act</i>	-	-	-	-	-	209.1	186.8	168.2	136.6	107.9
Subtotal	3,977.7	3,805.0	3,615.2	3,523.5	3,359.4	3,403.6	3,260.7	2,933.4	2,663.0	2,417.5
Allowance for losses	39.9	40.6	49.9	69.0	60.7	67.6	75.8	50.2	44.7	30.9
Contingent liability for guaranteed debt	3,937.8	3,764.4	3,565.3	3,454.5	3,298.7	3,336.0	3,184.9	2,883.2	2,618.3	2,386.6

2.170 The guarantee under the *Youth Assistance Act* ceased after 31 March 2005 because of the change in student loans from guarantees to loans receivable.

2.171 The guarantees of the New Brunswick Municipal Finance Corporation have increased at an average annualized rate of 7.8% over the period reported in the previous table.

2.172 In addition to the contingent liabilities itemized in the previous table, the Province discloses other contingent liabilities. For example the financial statements indicate that the Province is involved in various legal proceedings and an amount totalling \$33.1 million has been accrued as the best estimate of the likely losses that

will be incurred by the Province. In the year ended 31 March 2009, \$19.1 million was accrued.

Market value of sinking fund investments

2.173 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 sinking fund for the past ten years.

Sinking fund investments										
(\$ millions)										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Book value – provincial portion	4,192.9	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
Book value – NBEFC portion	364.1	415.4	309.4	300.6	336.4	391.6	363.7	351.3	327.4	297.3
Total book value	4,557.0	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
Market value	4,538.5	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
Excess (deficiency) of market value over book value	(18.5)	270.1	294.4	308.5	316.0	417.9	496.0	361.0	226.8	275.8

2.174 The table indicates that in 2010 the book value of the Province's portion of the sinking fund decreased in amount by \$18.3 million from 2009. As well, the market value of the sinking fund investments was less than the book value, by \$18.5 million, for the first time in the ten year period.