

Chapter 2

Comments on the Province's Financial Position

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Comments on the Province's Financial Position

Fifth Consecutive Deficit

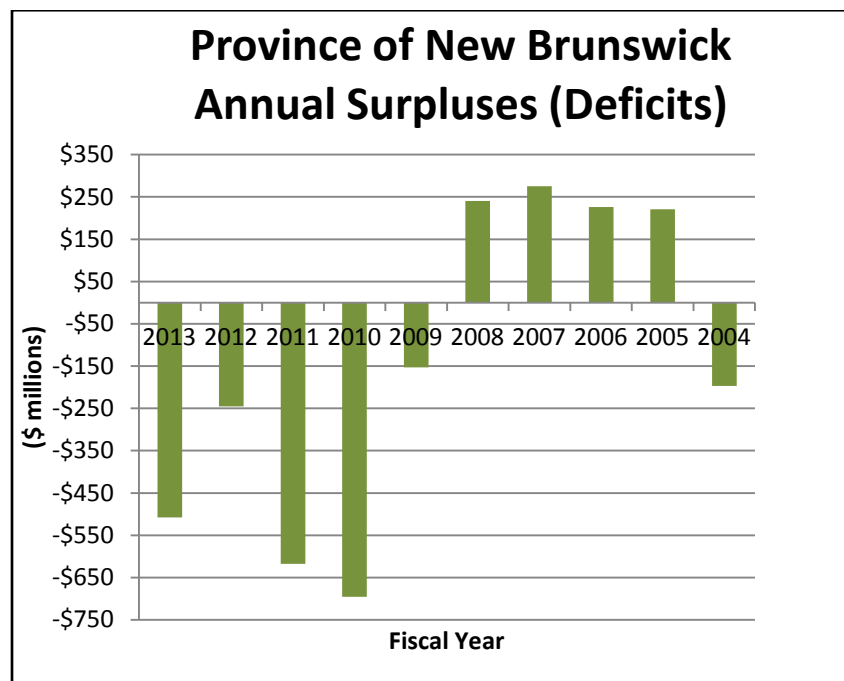
2.1 The Province's 31 March 2013 audited consolidated financial statements reported a deficit of \$507.7 million and an increase in Net Debt for the fiscal year of \$931.8 million. The Province now has a Net Debt of over \$11 billion.

2.2 The \$507.7 million annual deficit was higher than the budgeted deficit of \$182.9 million and was more than double that of the prior year deficit of \$245.3 million.

Significant Changes Required

2.3 This represents the fifth consecutive annual deficit. To assist in financing these deficits, the Province has incurred additional debt. This trend is very concerning. Significant changes are required to improve the financial health of the Province.

Exhibit 2.1 - Annual Surpluses (Deficits)



As restated

Exhibit 2.2 - Annual Surpluses (Deficits) Data

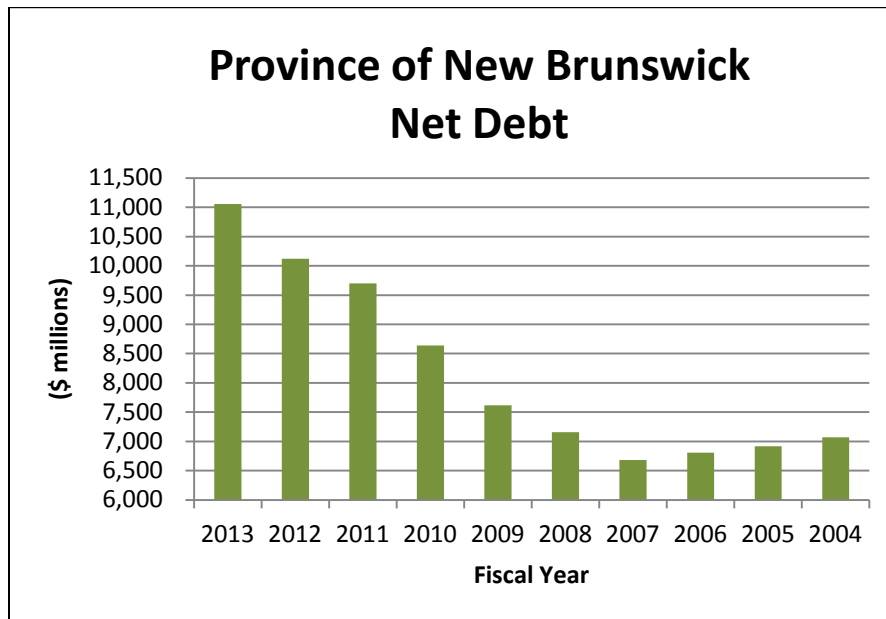
Annual Surpluses (Deficits)										
(\$ millions)										
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
As restated		(245.3)	(617.7)	(695.8)	(152.7)	240.3	275.2	226.3	220.5	(196.7)
As originally recorded	(507.7)	(260.6)	(633.0)	(737.9)	(192.3)	86.7	236.8	243.6	242.2	(103.2)

2.4 Exhibits 2.1 and 2.2 show the surplus or deficit for the past ten years. The preceding years' amounts have been restated as per Note 18 of the Province's 31 March 2013 consolidated financial statements.

Continued Growth in Net Debt

2.5 Net Debt is one of the most important measures of the financial position of the Province. Exhibits 2.3 and 2.4 show Net Debt for the past ten years.

Exhibit 2.3 - Net Debt



As restated

Exhibit 2.4 - Net Debt Data

Net Debt										
(\$ millions)										
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
As restated		10,122.2	9,697.5	8,636.7	7,615.9	7,158.8	6,767.7	6,904.9	6,948.2	7,067.2
As originally recorded	11,054.0	10,045.8	9,480.4	8,353.0	7,387.8	6,942.9	6,577.9	6,655.7	6,836.0	6,816.1

2.6 We would like to draw attention to the following facts:

- For the year ended 31 March 2013, Net Debt increased by \$931.8 million to \$11.1 billion.
- Net Debt has increased \$4.3 billion since 2007.
- The 2013-2014 Main Estimates budgets for an increase in Net Debt of \$594.4 million for the year ended 31 March 2014.
- Based on 2013-2014 Main Estimates, Net Debt of the Province could be in excess of \$11.6 billion for the year ended 31 March 2014.

2.7 This continued increase in Net Debt represents a very disturbing trend. An even higher demand will exist on future revenue to pay past expenses. Such continued negative trends impacted the Standard & Poor's decision to downgrade the Province's bond rating from AA- to A+ in 2012. This rating change will ultimately result in more expensive borrowing costs. As well, New Brunswick's increased borrowing may constrain future borrowing capacity and affect future provincial operations and delivery of services. The A+ rating remained unchanged in 2013.

Comparison to Other Similar Sized Provinces

2.8 Another 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 populations as New Brunswick in absolute amount, per capita and as a percentage of GDP. Comparable provinces include Nova Scotia, Manitoba and Saskatchewan.

2.9 In the next six exhibits data 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.

Exhibit 2.5 - Net Debt Comparison to Provinces of Similar Size

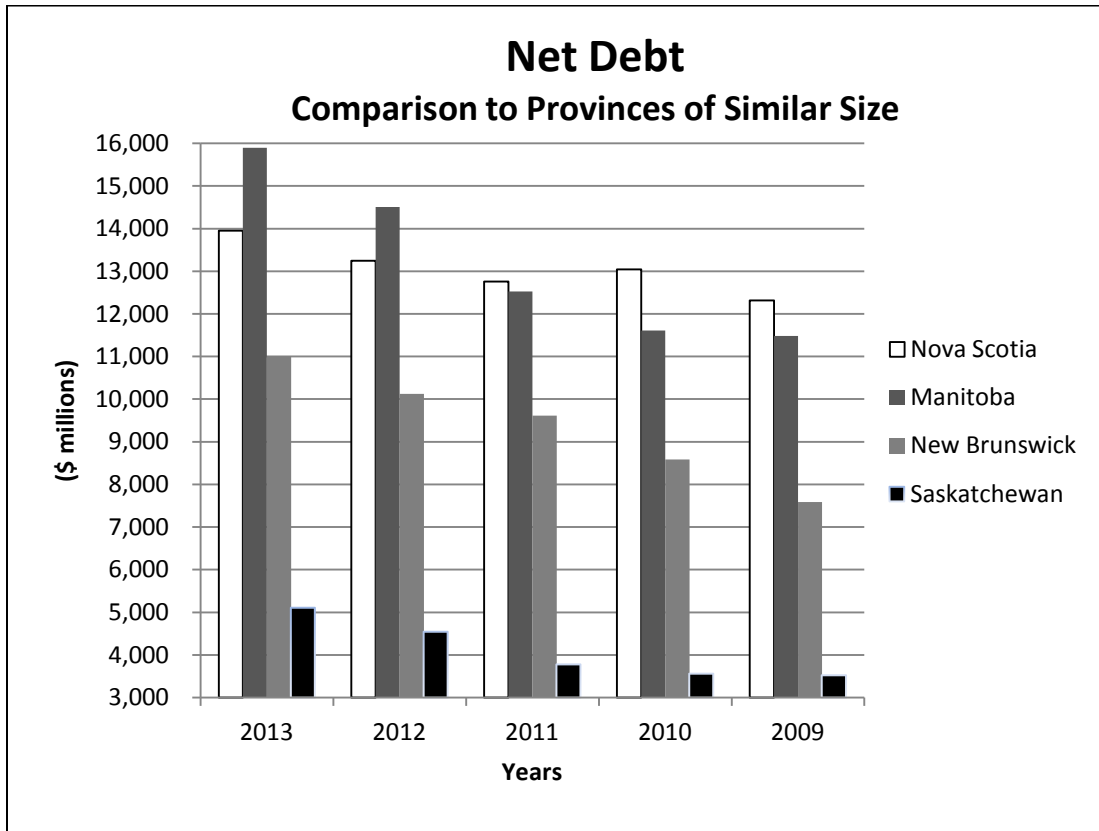


Exhibit 2.6 - Net Debt Comparison to Provinces of Similar Size (data)

Net Debt (\$ millions)							
Province	Increase 2009 to 2013	Increase 2012 to 2013	2013	2012	2011	2010	2009
New Brunswick	45%	9%	11,054	10,122	9,698	8,637	7,616
Saskatchewan	45%	12%	5,109	4,543	3,783	3,560	3,524
Manitoba	39%	9%	15,893	14,550	12,562	11,643	11,413
Nova Scotia	13%	4%	13,953	13,383	12,887	13,045	12,318

2.10 Exhibit 2.6 shows that over the last five years within this comparable group, New Brunswick has had one of the highest increases in Net Debt. New Brunswick's Net Debt has increased by 45% over the last five years. The magnitude of this increase is concerning. The rate of Net Debt growth has also increased in the past year. New Brunswick Net Debt grew 9% in fiscal 2013. The overall debt burden for

the Province remains at an elevated level. The 2013-2014 Main Estimates budgets an increase in Net Debt of approximately \$594 million. We are concerned at the long term implications and borrowing cost of the current debt load.

Exhibit 2.7 - Net Debt Per Capita

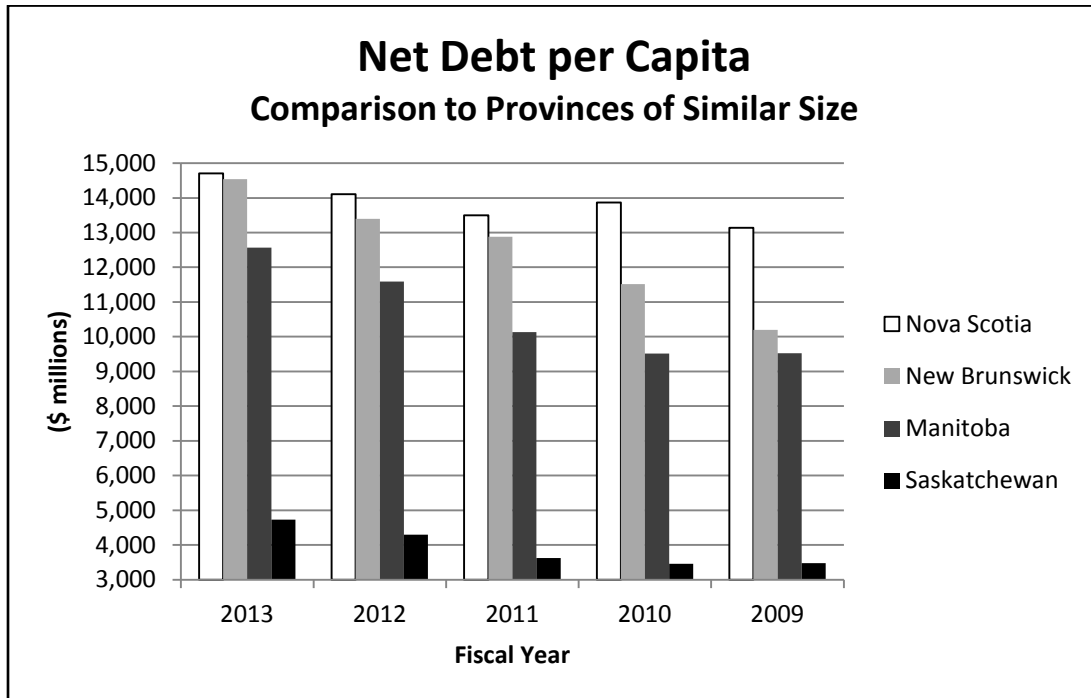


Exhibit 2.8 - Net Debt Per Capita (data)

Net Debt Per Capita*					
(\$)					
Province	2013	2012	2011	2010	2009
Nova Scotia	14,708	14,110	13,634	13,869	13,139
New Brunswick	14,623	13,400	12,880	11,516	10,197
Manitoba	12,544	11,624	10,166	9,544	9,466
Saskatchewan	4,731	4,295	3,622	3,458	3,476

* Using populations from Statistics Canada as of July 1 within the fiscal year (i.e. 2013 uses July 1, 2012 population). Numbers have been rounded for presentation purposes.

2.11 Information in Exhibit 2.8 shows that New Brunswick has the second highest Net Debt per capita in the comparable group. If the debt were to be eliminated by way of contributions from New Brunswickers, each would contribute \$14,623. Again,

this is an indicator that has increased significantly from 2009 at \$10,197 to 2013 at \$14,623.

2.12 For the year ended 31 March 2009, New Brunswick's Net Debt per capita was 77.6% of Nova Scotia's Net Debt per capita. By 31 March 2013 the percentage reached 99.4%.

Exhibit 2.9 - Net Debt as a Percentage of GDP

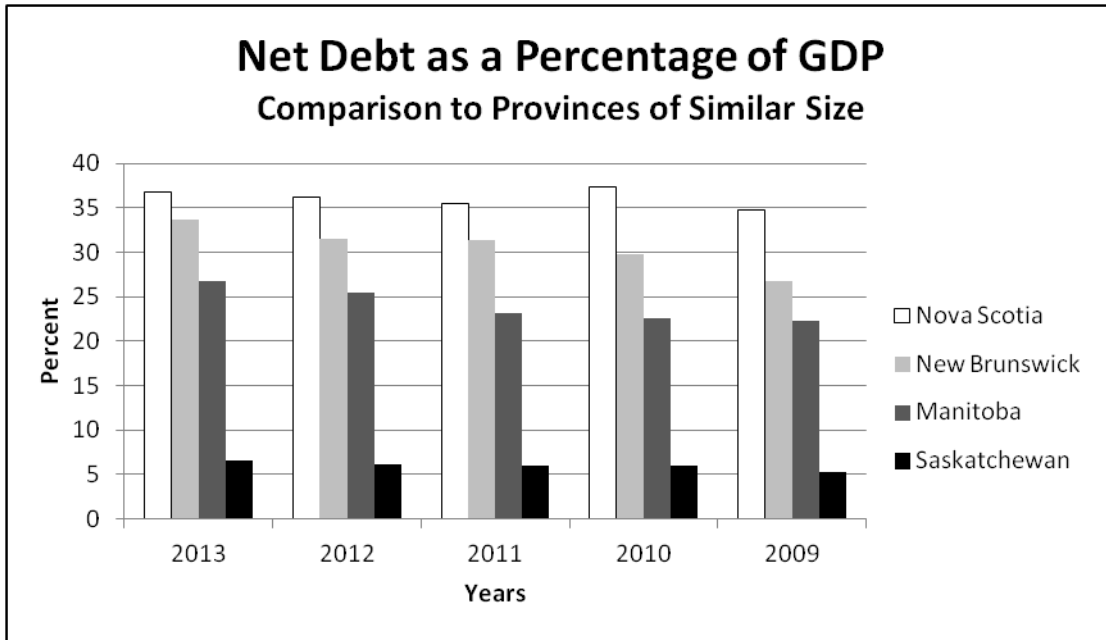


Exhibit 2.10 - Net Debt as a Percentage of GDP (data)

Net Debt as a Percentage of GDP (percent)						
Province	2013	2012	2011	2010	2009	% Increase from 2009 to 2013
Nova Scotia	36.7	36.2	35.5	37.4	34.8	5.5%
New Brunswick	33.9	31.5	31.3	29.8	26.7	26.9%
Manitoba	26.8	25.6	23.1	22.6	22.1	21.3%
Saskatchewan	6.6	6.1	5.9	6.0	5.3	24.5%

2.13 As shown in Exhibit 2.10, New Brunswick had the highest increase of Net Debt as a percentage of GDP from 2009 to 2013, and the second highest Net Debt as a percentage of GDP among comparable provinces for 2013. For the year ended 31 March 2009, New Brunswick's Net Debt as a percentage of GDP was 76.7% of Nova Scotia's; for the year ended 31 March

2013 it was 92.4%.

Net Debt Comparison Summary

2.14 New Brunswick's Net Debt performance compared to other provinces remains a significant concern. New Brunswick's increase in Net Debt of \$4.3 billion from 2007 indicates the need for continued efforts to address the level of Net Debt.

Comments on the Province's Financial Health

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

2.16 Starting in 2009, the Province began reporting some of these measures as part of the section called *Indicators of Financial Health* which is reported in Volume 1 of Public Accounts. As we commented last year, we are pleased to see the Province report this information, and we are also pleased to see that for 31 March 2013 the Province expanded the historical timeframe of information provided from nine years to ten years.

2.17 In this section, we report on twelve indicators of financial condition identified by the Public Sector Accounting Board (PSAB) in a Statement of Recommended Practice (SORP). This analysis is intended to give a broader view of the financial health of the Province as the analysis shows trends. The analysis expands on the information reported in the audited consolidated financial statements which only reflect the Province's fiscal status at a point in time.

Assumptions Used

2.18 We have not audited some of the numbers used in our indicator analysis; instead, we are using numbers the Province restated as per Note 18 of the Province's consolidated financial statements. The Province used these restated figures in its Management Discussion and Analysis in Volume 1 of Public Accounts. We have not audited the annualized numbers we obtained from the Province for the years 2004 to 2010. For the 2011- 2013 numbers, we audited the numbers in conjunction with our 2012-2013 audit work.

2.19 In some of the Exhibits that follow, we show five years of comparative figures instead of ten. For these cases, restated numbers for prior years are not

available because of changes in accounting policies.

**Summary of the
Province's Financial
Condition**

2.20 In Exhibit 2.11, 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 (five or ten year) trend, as well as a reference within this chapter of where we discuss the indicator in more detail.

Exhibit 2.11 - Summary of Indicators of Financial Condition

	Indicator	Purpose	Short-term Trend	Term	Long-term Trend	Page
Sustainability	Assets-to-liabilities	Measures extent that government finances its operations by issuing debt	Unfavourable ¹	5 year	Unfavourable	19
	Financial asset-to-liabilities	Measures whether future revenues will be needed to pay for past transactions	Unfavourable ¹	5 year	Unfavourable	20
	Net Debt-to-total annual revenue	Shows whether more time is needed to pay for past transactions	Unfavourable	10 year	Unfavourable	21
	Expense by function-to-total expenses	Shows the trend of government spending over time	Neutral	5 year	Neutral	22
	Net Debt-to-GDP	Shows the relationship between Net Debt and the activity in the economy	Unfavourable	10 year	Unfavourable	23
	Accumulated deficit-to-GDP	Measures the sum of the current and all prior year operating results relative to the growth in the economy	Unfavourable	5 year	Unfavourable	24
	Total expenses-to-GDP	Shows the trend of government spending over time in relation to the growth in the economy	Favourable	10 year	Unfavourable	25
Flexibility	Public debt charges-to-revenues	Measures extent that past borrowing decisions limits ability to meet current financial and service commitments	Neutral	10 year	Favourable	27
	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	Neutral	5 year	Neutral	28
	Own-source revenues-to-GDP	Measures extent income is taken out of the economy	Neutral	10 year	Neutral	29
Vulnerability	Government transfers-to-total revenues	Measures the dependence on another level of government	Unfavourable ²	10 year	Mixed	31
	Foreign currency debt-to-Net Debt	Measures the government's potential vulnerability to currency fluctuations	Favourable	10 year	Favourable	32

¹ last year was "Neutral"

² last year was "Favourable"

Conclusion

2.21 The long-term trends continue to show a number of unfavorable financial indicators. The long-term financial condition of the Province has remained relatively unchanged since the prior year. In addition, there have been signs of short term declines in certain areas. In particular, we note our assessment of three short-term indicators has weakened over the prior year. We are concerned with these signs of weakening short term indicators.

2.22 Although there are a few favourable financial indicators, we remain concerned about the level of Net Debt, now over \$11 billion and the fact Net Debt has increased by 63.3% since 2007. This pace of Net Debt growth is not sustainable in the long term, and significant changes are required to address this problem. It may eventually impact 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. We again this year encourage the Province to set targets for long term net debt control and reduction.

Sustainability Indicators

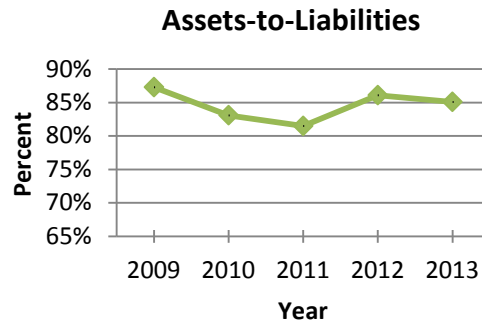
2.23 Sustainability indicates whether the Province can maintain programs and meet existing creditor requirements without increasing the debt burden on the economy.

Assets-to-Liabilities

2.24 The sustainability indicator assets-to-liabilities is presented in Exhibit 2.12.

Exhibit 2.12 - Comparison of Assets-to-Liabilities

Comparison of Assets-to-Liabilities			
Year ended	Total assets (\$ millions)	Total liabilities (\$ millions)	Total assets/total liabilities (percent)
2009	11,765.6	13,474.5	87.3%
2010	12,045.8	14,485.5	83.1%
2011	13,646.5	16,744.0	81.5%
2012	14,973.9	17,386.9	86.1%
2013	15,948.8	18,744.7	85.1%



As restated

* The 2009-2011 amounts are not restated for accounting changes relating to deferred capital contributions and capitalization of computer hardware and software systems.

2.25 An assets-to-liability indicator below 100% indicates a government has accumulated deficits and has been financing its operations by issuing debt. For the past five years, the Province's rate was less than 100%. The increases in 2012 and 2013 compared to previous years relates to increases in liabilities. The 2009-2011 trend was unfavourable due to continuous decline. Overall we have assessed the short-term and long-term trend as unfavourable.

Financial Assets-to-Liabilities

2.26 Another sustainability indicator, financial assets-to-liabilities, is presented in Exhibit 2.13.

Exhibit 2.13 - Comparison of Financial Assets-to-Liabilities

Comparison of Financial Assets-to-Liabilities			
Year ended	Total financial assets (\$ millions)	Total liabilities (\$ millions)	Total financial assets/ total liabilities (percent)
2009	6,086.7	13,474.5	45.2%
2010	6,014.1	14,485.5	41.5%
2011	7,128.3	16,744.0	42.6%
2012	7,264.7	17,386.9	41.8%
2013	7,690.7	18,744.7	41.0%

Financial Assets-to-Liabilities

Year	Percent
2009	45.2%
2010	41.5%
2011	42.6%
2012	41.8%
2013	41.0%

As restated

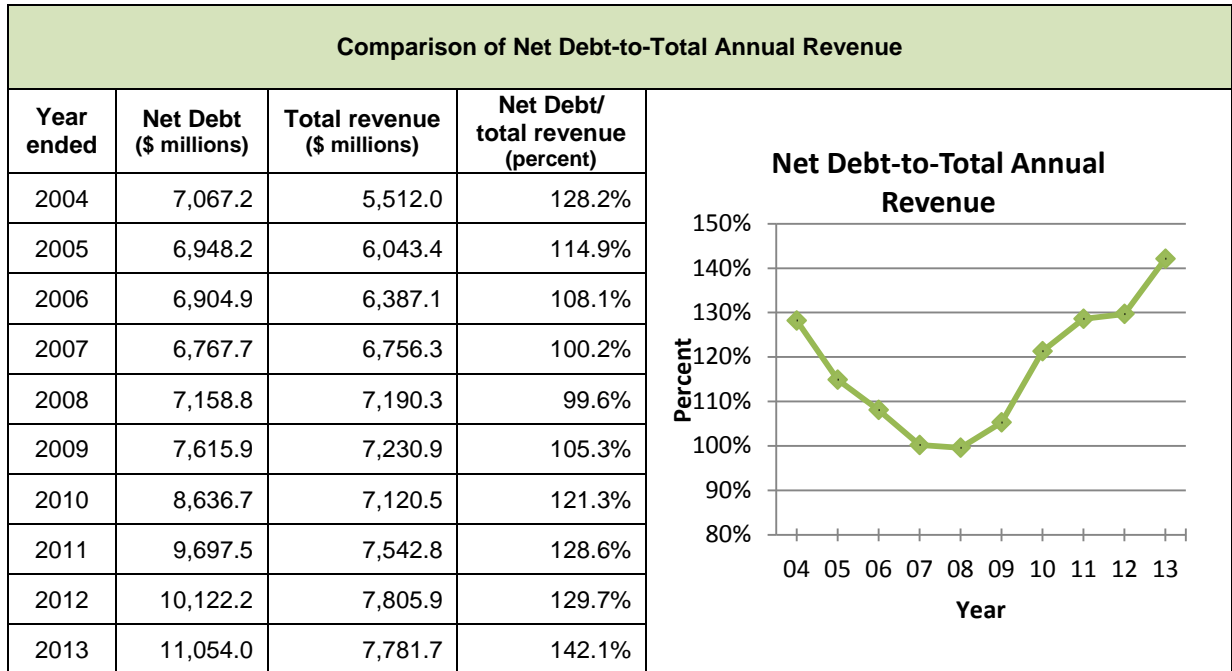
* The 2009-2011 amounts are not restated for accounting changes relating to deferred capital contributions and capitalization of computer hardware and software systems.

2.27 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 has decreased slightly since 2011. We have assessed the short term and long term trend as unfavourable.

Net Debt-to-Total Annual Revenue

2.28 Net Debt-to-total annual revenue is another indicator of sustainability and is presented in Exhibit 2.14.

Exhibit 2.14 - Comparison of Net Debt-to-Total Annual Revenue



2.29 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. The Province's percentage has been increasing over the past six years, most significantly in 2013 due to a continued increase in Net Debt and declining revenue. The improvements made from 2004-2008 have now been lost. We have assessed this trend as unfavourable.

Expense by Function-to-Total Expenses

2.30 Exhibit 2.15 presents expense by function-to-total expenses.

Exhibit 2.15 - Comparison of Expense by Function-to-Total Expenses

Comparison of Expense by Function-to-Total Expenses										
	2013		2012		2011		2010		2009	
	(\$ millions)	(%)	(\$ millions)	(%)	(\$ millions)	(%)	(\$ millions)	(%)	(\$ millions)	(%)
Labour and Employment	100.5	1.2	108.4	1.3	141.7	1.7	141.5	1.8	124.4	1.7
Resources	210.1	2.5	214.6	2.7	215.1	2.7	205.8	2.6	204.2	2.8
Protection Services	237.3	2.9	229.9	2.9	260.9	3.2	219.7	2.8	233.9	3.1
Economic Development	270.6	3.3	257.3	3.2	328.4	4.0	343.7	4.4	286.3	3.9
Transportation and Infrastructure	547.7	6.7	527.7	6.6	402.7	4.9	381.4	4.9	380.7	5.2
Central Government	633.8	7.6	542.3	6.7	722.0	8.8	682.9	8.7	684.9	9.2
Service of the Public Debt	660.3	7.9	661.8	8.2	641.5	7.9	616.6	7.9	602.5	8.2
Social Development	1,055.6	12.7	1,029.9	12.8	1,037.5	12.8	997.1	12.8	961.0	13.0
Education and Training	1,787.6	21.6	1,749.3	21.7	1,723.7	21.1	1,632.0	20.9	1,457.0	19.7
Health	2,785.9	33.6	2,730.0	33.9	2,687.0	32.9	2,595.6	33.2	2,448.7	33.2
Total	8,289.4	100.0	8,051.2	100.0	8,160.5	100.0	7,816.3	100.0	7,383.6	100.0

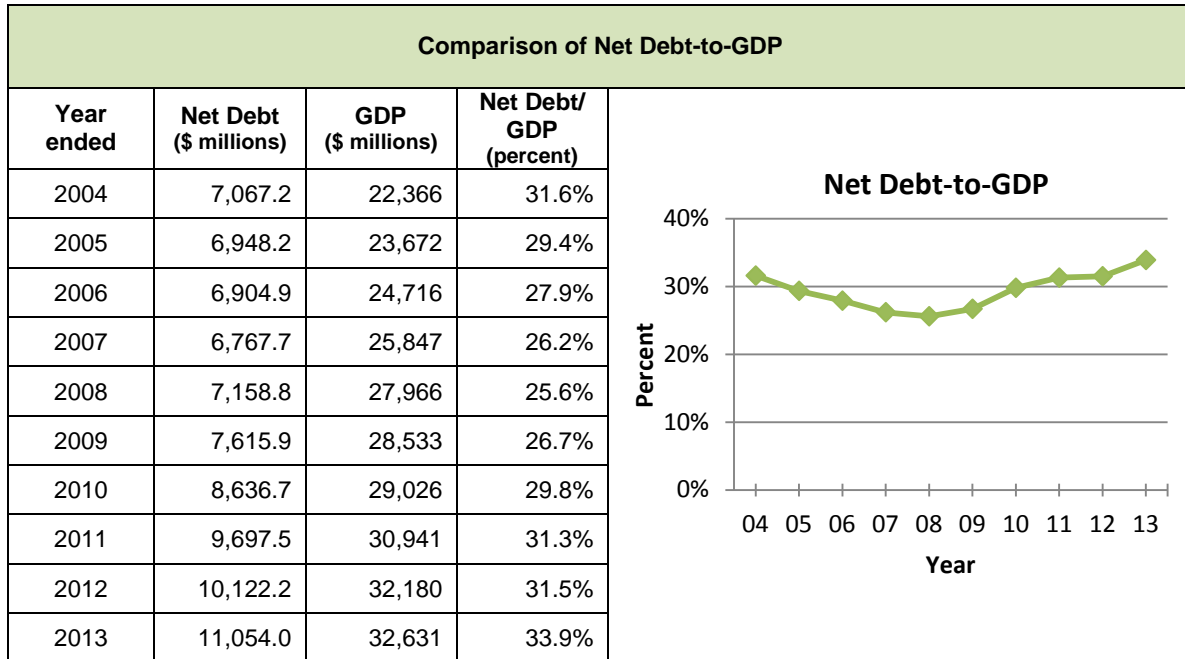
2.31 The years ended 31 March 2009 to 31 March 2013 reported deficits. This means that while individual expense trends may have remained steady, this was achieved by incurring a total level of expenses that was in excess of revenue generated in those years. Education and Training and Health's allocation of expenses consume over 50% of the total expenses, consistent with prior years.

2.32 The allocation of expenses upon comparing 2012 was relatively stable, however, the impact of New Brunswick's growing Net Debt will need to be closely monitored in the future as the interest burden on it consumes resources that would otherwise be used to deliver services. We have assessed this indicator as neutral.

Net Debt-to-GDP

2.33 The sustainability indicator, Net Debt-to-GDP is presented in the Exhibit 2.16. The Province also reports this indicator in Volume 1 of the Public Accounts.

Exhibit 2.16 - Comparison of Net Debt-to-GDP

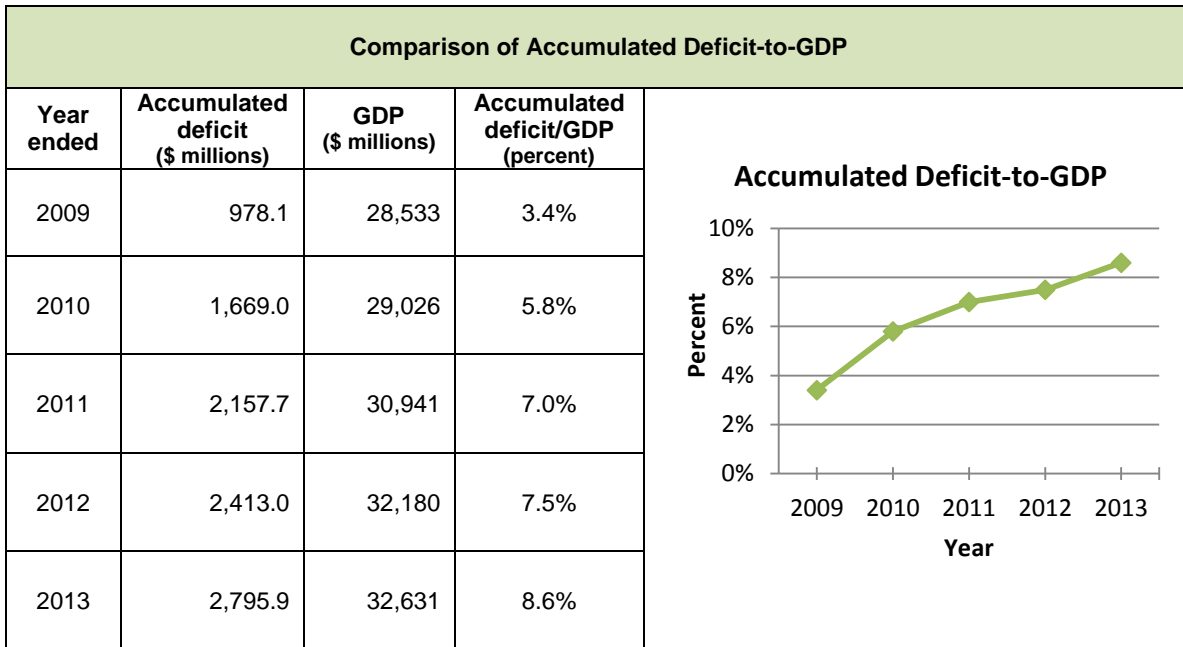


2.34 This indicator compares the Province's Net Debt, the difference between its liabilities and its financial assets, to its GDP. This ratio declined from 2004 to 2008 indicating that over that time period the level of the Province's debt became less onerous on the economy. The ratio increased from 2009 to 2013 because the rate of growth of Net Debt exceeded the rate of growth in GDP over that time period. In 2013, the change in the ratio resulted in this indicator being at its highest point since 2004. This means the Net Debt of the Province is increasing faster than the growth in the economy thus becoming more of a burden on the economy. We have assessed the trend as unfavourable.

Accumulated Deficit-to-GDP

2.35 In the Exhibit 2.17, we present the sustainability indicator accumulated deficit-to-GDP.

Exhibit 2.17 - Comparison of Accumulated Deficit-to-GDP

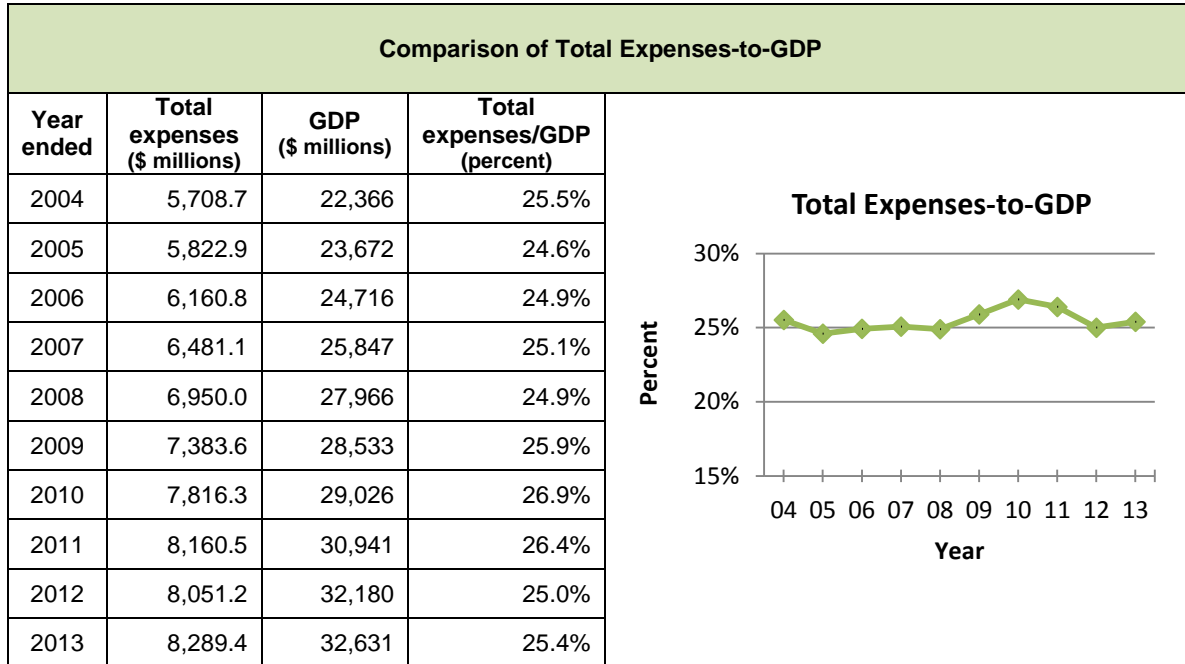


2.36 The accumulated deficit is the extent to which annual revenues have been insufficient to cover the annual costs of providing services. The information above shows that from 2009 to 2013, the accumulated deficit has increased faster than the growth of the economy. This represents an unfavourable trend as the deficit increased faster than the economy was expanding.

Total Expenses-to-GDP

2.37 Exhibit 2.18 presents the total expenses-to-GDP indicator.

Exhibit 2.18 - Comparison of Total Expenses-to-GDP



2.38 Exhibit 2.18 indicates that for five of the last ten years government expenses were held to about 25% of GDP, however, from 2009 to 2011 the percentage was higher. This represents an unfavourable long-term trend as expenses are growing faster than the economy is expanding. The ratio has decreased in 2012 and 2013, therefore we assess the short-term trend as favourable.

Exhibit 2.19 - Trends for Sustainability Indicators

Sustainability Indicator Trends		
Sustainability indicator	Short-term trend	Long-term trend
Assets-to-liabilities	Unfavourable	Unfavourable
Financial assets-to-liabilities	Unfavourable	Unfavourable
Net Debt-to-total annual revenue	Unfavourable	Unfavourable
Expense by function-to-total expenses	Neutral	Neutral
Net Debt-to-GDP	Unfavourable	Unfavourable
Accumulated deficit-to-GDP	Unfavourable	Unfavourable
Total expenses-to-GDP	Favourable	Unfavourable

Summary of Sustainability Indicators

2.39 Exhibit 2.19 presents a summary of the Province's sustainability indicators. While we are aware significant effort has been exercised in achieving the one favourable short term sustainability indicator, five of seven sustainability indicators are unfavourable in the short term, and therefore our overall assessment of the long-term trends remains unfavourable. This negative sustainability trend should be of concern to New Brunswickers.

Flexibility Indicators

2.40 Flexibility is the degree to which the government can change its debt or tax burden on the economy to maintain programs and meet existing creditor requirements.

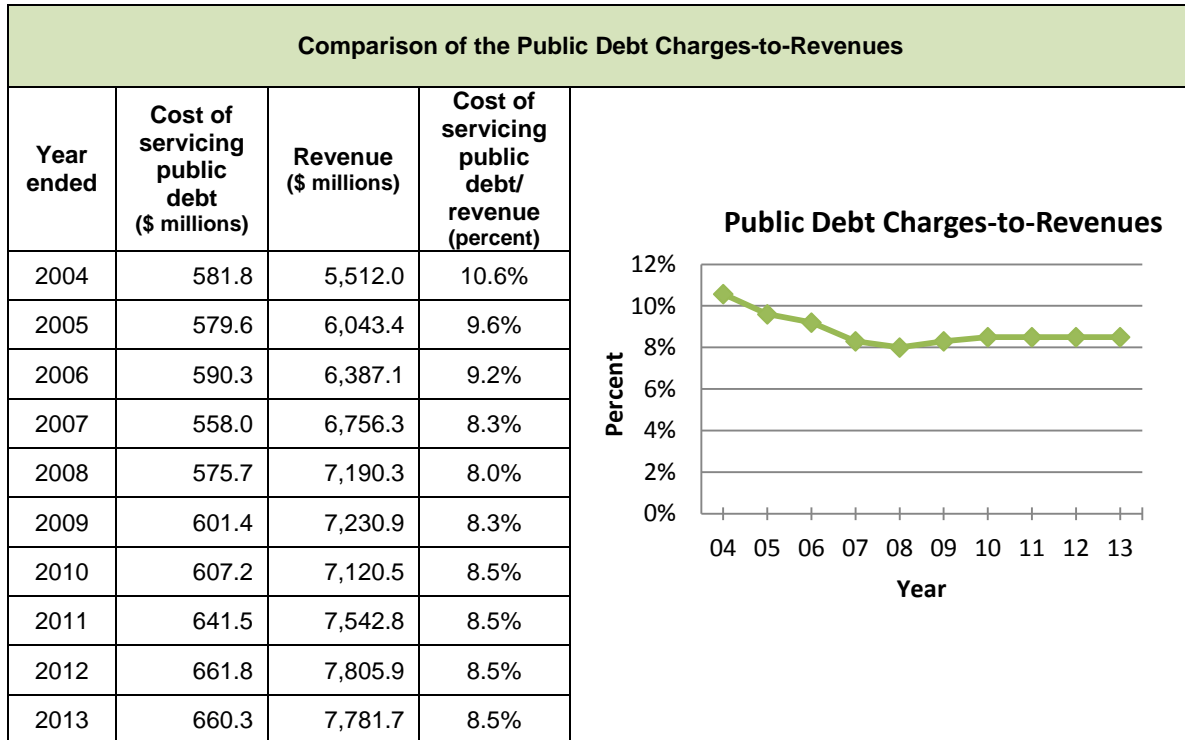
Public Debt Charges-to-Revenues

2.41 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 service its debt, leaving no flexibility in the timing of these payments.

2.42 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.

2.43 In Exhibit 2.20, we present the public debt charges-to-revenues. The Province also reports this indicator in Volume 1 of Public Accounts.

Exhibit 2.20 - Comparison of the Public Debt Charges-to-Revenues



2.44 Exhibit 2.20 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 2013 than it was in the year ended 31 March 2004. This means that the Province is spending proportionately less of its current year revenue to cover debt charges resulting in more current year revenue available to cover services to the public. For the past four years, the ratio has remained the same and we are assessing the short-term trend as neutral. We are assessing the long-term trend as favourable as the current year's ratio is less than the ratio in 2004. Although we are assessing this indicator as favourable, caution is needed when looking at this indicator. The cost of servicing the Province's debt is increasing in a time when interest rates have declined and the Province's debt is increasing significantly.

Net Book Value of Capital Assets-to-Cost of Capital Assets

2.45 We present the net book value of capital assets-to-cost of capital assets in the Exhibit 2.21.

Exhibit 2.21 - Comparison of Net Book Value of Capital Assets-to-Cost of Capital Assets

Comparison of Net Book Value of Capital Assets-to-Cost of Capital Assets			
Year ended	Net book value (\$ millions)	Capital cost (\$ millions)	Net book value/ capital cost (percent)
2009	6,394.0	10,341.5	61.8%
2010	6,706.0	10,959.3	61.2%
2011	7,241.7	11,733.2	61.7%
2012	7,452.5	12,221.3	61.0%
2013	7,977.6	13,065.3	61.1%

Net Book Value-to-Cost of Capital Assets

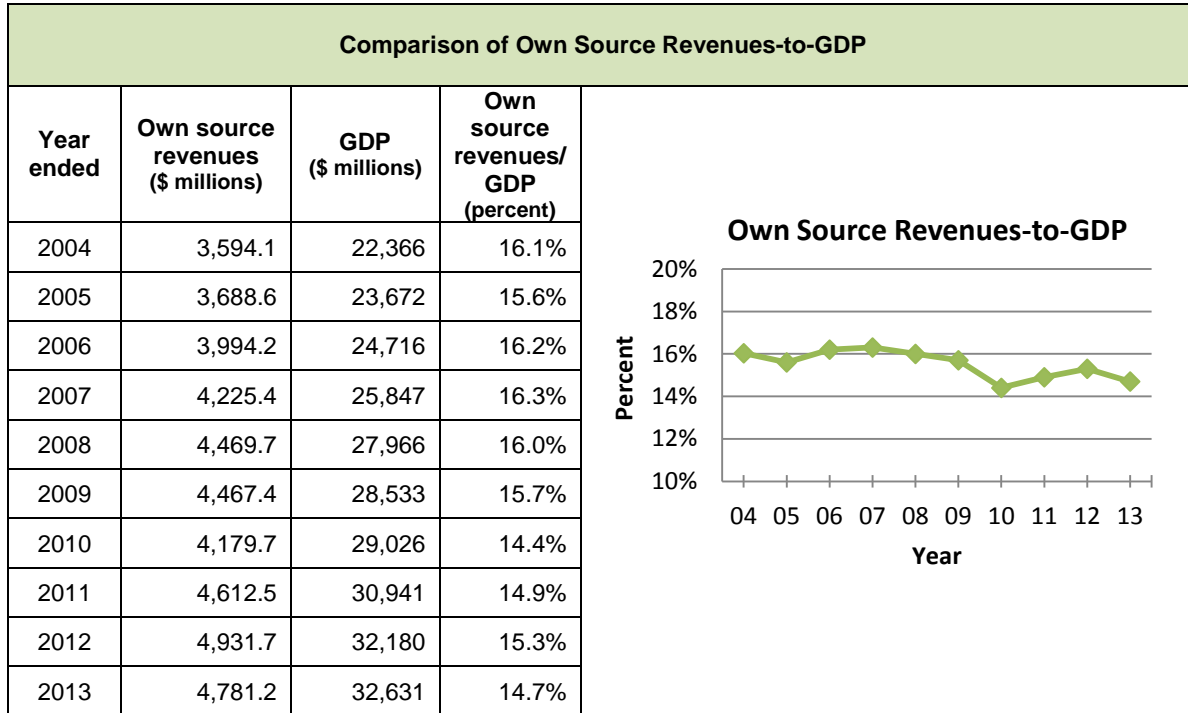
Year	Percent
2009	61.8%
2010	61.2%
2011	61.7%
2012	61.0%
2013	61.1%

2.46 This data indicates that the Province's inventory of capital assets as at 31 March 2013 has 61.1% 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 2013, and assets with original useful lives of twenty years were still considered useable for just over twelve years on average. As the ratios have remained relatively the same over the past five years, we are assessing the short-term and long-term trends as neutral.

Own Source Revenues-to-GDP

2.47 We present own source revenues-to-GDP in Exhibit 2.22. The Province also reports this indicator in Volume 1 of Public Accounts.

Exhibit 2.22 - Comparison of Own Source Revenues-to-GDP



2.48 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. If the ratio increases, more of the Province's revenue is generated from the provincial economy. For example, an increase in this ratio could result if the Province increased taxes. If the ratio decreases, less of the Province's revenue is generated from the provincial economy. A decreasing ratio increases the Province's ability to raise taxes, thus, making the Province more flexible in how it can generate revenue. Generally, this ratio has stayed the same over the long-term and we have assessed this indicator as neutral.

2.49 There was a decrease in the year 2010 mostly as a result of a large loss by the New Brunswick Electric Finance Corporation (EFC). In that year, the reduction in own source revenue was not as a result of lower fees or taxes.

2.50 In 2013, own source revenue decreased by \$150.5 million. The most significant source of this decrease was EFC having a surplus of \$17.8 million

as reported in the Province's 2013 audited consolidated financial statements, compared to the surplus of \$145.0 million in 2012.

2.51 A note of caution should be taken when looking at this indicator for the last five years. The Province incurred deficits which means it did not generate enough revenue in any of those years to cover expenses.

Summary of Flexibility Indicators

Exhibit 2.23 - Trends for Flexibility Indicators

Trends for Flexibility Indicators		
Flexibility indicator	Short-term trend	Long-term trend
Public debt charges-to-revenues	Neutral	Favourable
Net book value of capital assets-to-cost of capital assets	Neutral	Neutral
Own source revenues-to-GDP	Neutral	Neutral

2.52 As summarized in Exhibit 2.23, our overall assessment on flexibility in the short term and long term is largely neutral. However caution should be used in interpreting these results as this was achieved in a period where the Province incurred its fifth consecutive deficit and as the cost of servicing the Province's debt is increasing in a time when rates are decreasing and the Province's debt load is increasing.

Vulnerability Indicators

2.53 Vulnerability is the degree to which a government is dependent on sources of funding outside its control or influence.

Government Transfers-to-Total Revenues

2.54 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.

2.55 Exhibit 2.24 presents the comparison of government transfers-to-total revenues. The Province also reports this indicator in Volume 1 of Public Accounts.

Exhibit 2.24 - Comparison of Government Transfers-to-Total Revenues

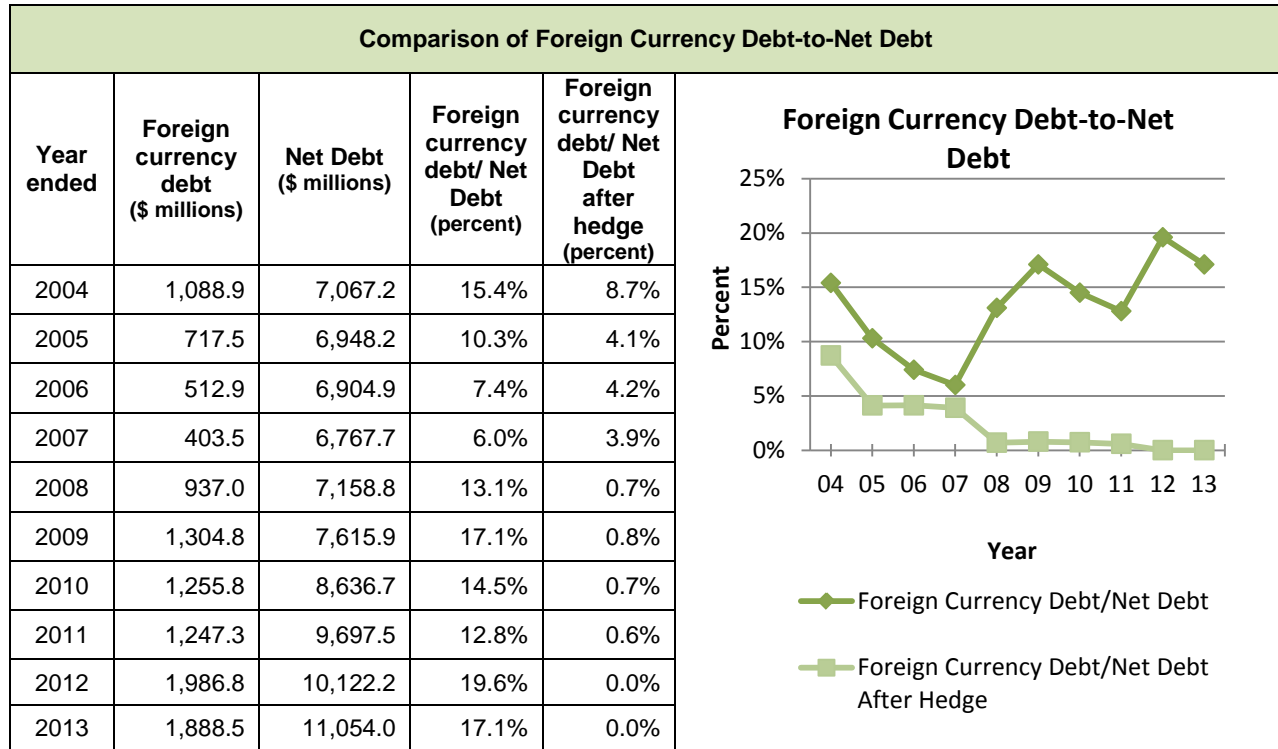
Comparison of Government Transfers-to-Total Revenues			
Year ended	Federal government transfer revenue (\$ millions)	Total revenue (\$ millions)	Federal government transfer revenue/ total revenue (percent)
2004	1,917.9	5,512.0	34.8%
2005	2,354.8	6,043.4	39.0%
2006	2,392.9	6,387.1	37.5%
2007	2,530.9	6,756.3	37.5%
2008	2,720.6	7,190.3	37.8%
2009	2,763.6	7,230.9	38.2%
2010	2,940.8	7,120.5	41.3%
2011	2,930.3	7,542.8	38.8%
2012	2,874.2	7,805.9	36.8%
2013	3,000.5	7,781.7	38.6%

2.56 Exhibit 2.24 shows that the Province's reliance on federal government transfers decreased from 2010 to 2012. For the 2013 year, revenues decreased in part due to a lower surplus of \$17.8 million in EFC as reported in the Province's 2013 audited consolidated financial statements, compared to \$145.0 million in the prior year. This increased reliance on federal transfers in 2013. Thus we are assessing the short-term trend as unfavourable and the long-term trend as mixed.

Foreign Currency Debt-to-Net Debt

2.57 The foreign currency debt-to-net debt indicator measures the Province's potential vulnerability to currency fluctuations and is presented in Exhibit 2.25.

Exhibit 2.25 - Comparison of Foreign Currency Debt-to-Net Debt



2.58 The above information shows that the Province’s foreign currency debt has increased over the years, however decreased in 2013. The risk of exposure to foreign currency fluctuations 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).

2.59 From Exhibit 2.25, we see the risk of exposure to foreign currency fluctuations has decreased significantly over time. Because of the effectiveness of the Province’s hedging strategy, we assess this indicator as favourable.

Summary of Vulnerability Indicators

Exhibit 2.26 - Trends for Vulnerability Indicators

Trends for Vulnerability Indicators		
Vulnerability indicator	Short-term trend	Long-term trend
Government transfers-to-total revenues	Unfavourable	Mixed
Foreign currency debt-to-net debt	Favourable	Favourable

2.60 As summarized in Exhibit 2.26, the Province's vulnerability exposure is mixed. In years when EFC generates income through its investment in NB Power, the Province's reliance on federal revenue decreased and this indicator improves. Overall, the Province is doing a good job at managing and controlling its exposure to fluctuations in foreign currency.

Comments on Significant Trends Observed in the Province's Consolidated Financial Statements

Deficit

2.61 In this section, we discuss significant trends we have observed in the Province's consolidated financial statements. We have highlighted these trends to raise public awareness and to provide legislators with an independent assessment of the areas we believe should be a focus for the government.

2.62 For the year ended 31 March 2013, the Province reported a deficit of \$507.7 million. This is an increase of \$262.4 million from the \$245.3 million deficit reported for the year ended 31 March 2012.

2.63 Exhibit 2.27 shows, at a high level, the reasons for the change in the deficit from 31 March 2012 to 31 March 2013.

Exhibit 2.27 - Analysis of Deficit Increase

Analysis of Deficit Increase	
	(millions)
2012 Deficit	\$ 245.3
Decrease in provincial source revenue	150.5
Increase in federal source revenue	(126.3)
Increase in expense	238.2
2013 Deficit	\$ 507.7

- 2.64** Decreases in provincial source revenue are mainly attributable to a decrease in earnings of New Brunswick Electric Finance Corporation (EFC) of \$127.2 million as reported in the Province's 2013 audited consolidated financial statements.
- 2.65** There was a reduction of \$34.9 million in fiscal equalization payments, due to a narrowing of fiscal disparities between New Brunswick and the national average. There was also an increase of \$28.5 million in unconditional grant revenue primarily due to the legislated growth in the federal cash funding for the Canada Health Transfer and the Canada Social Transfer.
- 2.66** A change in the accounting policy for deferred capital contributions occurred during the 2013 year, where the recognition of transfer revenues is only deferred when and to the extent that the transfer gives rise to an obligation that meets the definition of a liability. As such, there was an overall increase in federal source revenue of \$126.3 million attributable to a one-time capital revenue related to Route One Gateway Project. Also, a decrease in the accumulated deficit of \$881.2 million has been reported as of March 31, 2013 regarding this change in accounting policy.
- 2.67** Total expenses have increased by \$238.2 million. This is attributable to an increase in expenses by most departments, the most significant being an increase of \$91.5 million by Central Government primarily due to increased pension expense as a result of updated actuarial information. The next significant is an increase of \$55.9 million by the Department of Health. The overall increase in expenses was offset by a decrease in expenses for Labour and Employment of \$7.9 million, Resources of \$4.5 million and Service of the Public Debt of \$1.5 million.
- 2.68** Exhibit 2.28 shows the one year growth rate and the average growth rate for the past three years.

Expenses

Exhibit 2.28 - Expense Trends by Function (percentage)

Expense Trends by Function				
Average growth rate	Function	2013 growth rate	2012 growth rate	2011 growth rate
3.1	Education and training	2.2	1.5	5.6
2.4	Health	2.0	1.6	3.5
2.3	Service of the public debt	(0.2)	3.2	4.0
2.0	Social development	2.5	(0.7)	4.1
13.5	Transportation and Infrastructure	3.8	(31.0)	5.6
3.4	Protection services	3.2	(11.9)	18.8
0.7	Resources	(2.1)	(0.2)	4.5
(0.8)	Central government	16.9	(24.9)	5.7
(10.2)	Labour and employment	(7.3)	(23.5)	0.1
(7.0)	Economic development	5.2	(21.7)	(4.5)
0.9	Total	2.6	(4.5)	4.7

2.69 Exhibit 2.28 shows the Province's expense growth rate has increased compared to 2012 by 2.6%. In fiscal 2013, seven out of ten functions showed an increase in growth rate. Three of ten function areas show a negative growth which implies cost reductions were realized. The average three year expense growth rate for 2013 was 0.9%. This is an improved result over the prior year three year expense growth rate which was 3.0%.

2.70 We noted the 2013 expense growth rate has slowed in Health and Education and training, the largest expense function areas, compared to the 2011 growth rate.

2.71 However, Exhibit 2.28 shows Central Government experienced the largest one year growth rate in 2013, primarily due to an increase in pension expense, with Protection Services experiencing the second largest growth. In comparing the three year average growth rate, Transportation and Infrastructure experienced the largest growth rate with Protection Services experiencing the second largest growth. These growth rates are concerning as they illustrate the inflexibility of these particular expenses in a period

where, as Exhibit 2.28 shows, government was attempting to reduce or restrain spending in other expense functions. It also illustrates that regardless of the current restraint efforts of government, past deficit financing continues to have a fiscal impact. Interest costs may grow if debt continues to increase or, upon refinancing, interest rates rise.

Revenue

2.72 Exhibit 2.29 shows the one year growth rate and the average growth rate of revenue for the past three years.

2.73 Total revenues have decreased by \$24.2 million. This is attributable to decreased revenue from provincial sources of \$150.5 million and an offsetting increase in revenue from federal sources of \$126.3 million.

Exhibit 2.29 - Revenue Trends by Source (percentage)

Revenue Trends by Source ¹				
Average growth rate	Source	2013 Growth Rate	2012 Growth Rate	2011 Growth Rate
2.8	Taxes	(0.9)	4.2	5.1
3.9	Licenses and Permits	4.2	3.3	4.2
13.0	Royalties	(3.6)	2.1	40.4
7.4	Other Provincial Revenue	2.0	15.3	4.9
0.7	Sinking Fund Earnings	(2.2)	0.9	3.3
(1.8)	Fiscal Equalization Payments	(2.1)	(1.8)	(1.6)
3.6	Unconditional Grants	3.3	3.9	3.7
9.3	Conditional Grants	35.3	(11.3)	3.9
4.9	Total¹	4.5	2.1	8.0

¹ Excludes income from government business enterprise. Figures used in calculation from: Province of New Brunswick, Public Accounts for the fiscal year ended 31 March 2013 (2013 and 2012 comparative revenue figures), page 8, Public Accounts for the fiscal year ended 31 March 2012 (2011 comparative revenue figure), page 8, and Public Accounts for the fiscal year ended 31 March 2011 (2010 comparative revenue figure), page 8.

2.74 Exhibit 2.29 shows the Province's 2013 revenue growth rate was 4.5% with an average growth rate of 4.9% (excluding income from Government Business Enterprises). The 2013 growth rate shows a notable increase in conditional grants relating to a one-time capital revenue for Route One Gateway Project.

**Other Provinces –
Revenue and Expense
Comparison**

2.75 Exhibit 2.30 shows the trend of gross revenues and gross expenses within comparable provinces. Data from other provinces is taken from the audited summary financial statements of the individual provinces.

Exhibit 2.30 - Revenue and Expense (Comparison to other provinces)

Revenue & Expense (Comparison to other provinces)								
(\$ millions)								
	Gross Revenues				Gross Expenses			
	2013	2012	2011	% Increase from 2011 to 2013	2013	2012	2011	% Increase from 2011 to 2013
New Brunswick	7,781.7	7,805.9	7,542.8	3.2%	8,289.4	8,051.2	8,160.5	1.6%
Nova Scotia	10,101.9	9,760.3	9,919.2	1.8%	10,404.4	10,019.3	9,333.8	11.5%
Saskatchewan	13,203.0	12,817.0	12,327.0	7.1%	14,285.0	13,711.0	13,310.9	7.3%
Manitoba	13,786.0	13,688.0	13,240.0	4.1%	14,366.0	14,689.0	13,419.0	7.1%

2.76 We note that over the last three years within this comparable group, New Brunswick shows the lowest increase in gross expenses of 1.6% compared to 7.1%-11.5% elsewhere. This would appear to be a reflection of government restraint measures intended to limit expense growth in various departments.