

2012-2013 Budget

Rebuilding New Brunswick Together

Blaine Higgs
Minister of Finance

Budget 2012-2013

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Introduction

Mr. Speaker, I rise in the House today to table our government's second budget that builds on the foundation of streamlining the size and cost of government operations that began in our first budget last March. This budget continues to reflect a balanced approach as it outlines our vision for rebuilding New Brunswick through changes to the culture and structure of government.

This government believes that responsible management of the province's finances is paramount. But within this context, we must provide the environment for sustainably growing the economy to create and maintain high-quality jobs across the province. We must also strive to instill a culture of healthy, growing communities and an enhanced quality of life for all New Brunswickers. These are our priorities as a government.

Mr. Speaker, responsible fiscal management requires making difficult choices and changing the way public services have traditionally been delivered. We are operating in a fiscal and economic environment that demands leadership and accountability. Decisions cannot be put off waiting for conditions to improve. In simple terms, our revenue is not enough to pay for all of the public services in the same manner as we currently provide them.

It is critical that we strategically plan revenues and spending not only for 2012-2013, but over a multi-year horizon. As our actions clearly demonstrate, we are putting the future of the province and an enhanced quality of life for New Brunswickers and their families first, while living within our means.

Mr. Speaker, citizen engagement has been a key element of our first 18 months in office. The purpose of our pre-budget consultations has been two-fold: raising awareness about the challenges facing the province, and consulting New Brunswickers on how to return to fiscal balance.

In our recent pre-budget consultations, we received ideas on the Taxpayers FIRST website on how to raise revenue and deliver public services in a more efficient and effective manner. At our 10 public and stakeholders meetings around the province, engaged citizens, unions, the public service, business and stakeholders provided valuable and focused input. And many New Brunswickers have provided input through other means. What we heard from this and last year's consultations, is that government should:

- Become smaller, reduce costs and be more efficient;
- Increase revenue; and
- Focus on the *needs* of New Brunswickers as opposed to the *wants*.

I want to take this opportunity to thank all those who submitted their ideas or attended our meetings held throughout the province. Their contributions are valued and I hope they will continue to send in ideas not just during our pre-budget consultations but all-year round.

Mr. Speaker, receiving the ideas is only part of the equation. It is even more important that we demonstrate that government is listening to New Brunswickers by acting on their suggestions in a timely and meaningful way. A number of the suggestions we received have been implemented, while others have been, or will be examined.

Among the action items we have initiated to trim costs are placing controls on the wage bill, reducing the number of government employees through attrition and implementing hiring restrictions. We reduced the size of Cabinet, the number of departments and the number of senior executives, and the number of ridings in the next election. We have lowered and continue to lower BlackBerry, travel and technology costs, and reduced non-essential government operations during the Christmas holiday.

At the local governance level, we are establishing 12 multi-purpose regional service commissions to reduce duplication and foster co-operation between neighbouring communities.

To increase citizen engagement, transparency and accountability we have released regular quarterly economic and fiscal updates that include departmental spending reports with a grading system to indicate whether each department is on budget. We will continue to focus on the systems and capability necessary to meet our monthly reporting initiative for enhancing department accountability and accuracy. We have introduced multi-year budgeting in the province's finances with the 2012-2013 capital estimates and today's plan.

To return fairness to the tax system, we reduced taxes on small business, reversed tax decreases to the wealthiest New Brunswickers and held the line on corporate taxes. To help grow the economy, we created Invest NB, are focusing economic development on growing six priority industrial sectors and have released an energy blueprint.

As elected members of the Legislative Assembly, it is important that we show leadership in responsibly managing the province's fiscal affairs. Our actions taken to date include:

- Freezing MLA wages for the third consecutive year;
- Implementing a rollback of MLA pensions; and
- Reviewing all Legislative offices under Government Renewal.

Mr. Speaker, these actions undertaken since October 2010 are only the beginning. The budget we table today reflects what we have heard from New Brunswickers and business, and what we have learned through the most inclusive and comprehensive internal operational review in over 40 years. It focuses on increasing accountability and efficiency and implementing better business practices and continuous performance improvement in government. It contains both revenue and spending measures that further address the fiscal situation by reducing the province's deficit and slowing the growth of net debt. Most importantly, it lays out a responsible plan to return to a balanced budget by 2014-2015.

Rebuilding New Brunswick Together

Mr. Speaker, today's budget reflects this government's plan to return to balanced budgets. The budget for 2012-2013 was developed in a very different way than previous provincial budgets as the focus was not on how much more money we could spend but how to provide quality, essential public services in the most efficient and affordable manner that gets the most out of each taxpayer dollar.

Our projected deficit for 2011-2012 at the end of the third quarter was \$471 million. We built today's budget by first examining the natural cost increases in the system, including inflation. We looked at what the demand was for certain social programs and how we would pay for what was needed. To this equation, we added the estimated cost of wages for public servants. After these calculations, it was evident we faced approximately \$220 million in cost pressures that were needed to be overcome in order to simply keep the deficit from increasing.

The Government Renewal process and other initiatives will reduce the cost of operations with savings and efficiencies estimated at \$226 million in 2012-2013. This is composed of a number of measures that will serve to reduce government spending while minimizing the impacts on the delivery of core services.

These reductions in 2012-2013 will be achieved through:

- Corporate savings of \$123 million through government efficiencies, more efficiently managing human resources and other departmental initiatives;
- Program delivery efficiency savings of \$55 million;
- Restructuring of departments and agencies to better align with government priorities will provide estimated savings of \$24 million;
- Administration of government savings of \$16 million; and
- Savings in other areas across government of \$8 million.

Mr. Speaker, in a novel approach for government, we will live within our means by funding new initiatives within current department budgets or with increased sources of revenue.

Government will introduce new priority commitment investments of approximately \$105 million in 2012-2013. These strategic investments include:

- \$10.3 million for affordable housing;
- \$10 million for Invest NB to foster economic growth;
- \$9.8 million for nursing home renovation and replacements;
- \$6.4 million for pay equity;
- \$5 million in primary health care investments;
- \$3.6 million for Early Learning and Childcare to increase the number of childcare spaces, enhance childcare affordability for low income families and enhance the childcare subsidies for New Brunswick families;
- \$3 million for special care homes;

- \$2.5 million for inclusive education;
- \$2.5 million for immigrant funding;
- \$2.5 million for Elementary Literacy;
- \$2 million to foster innovation;
- \$1.2 million toward 231 new seats at the New Brunswick Community College and the Collège communautaire du Nouveau-Brunswick;
- \$1 million for the coordination and strategic development of downtowns and business parks;
- \$1 million for the Digital Media Development Program;
- \$808,000 for the enhancement of the Wellness Strategy; and
- \$668,000 for the NB Sports Plan.

Government will also introduce targeted revenue increases in natural resource taxes and royalties, and other areas, in the order of \$100 million to supplement revenue from a growing economy, as well as extraordinary capital revenue in 2012-2013 related to the Route One Gateway Project.

Taken together, the combination of diligence in spending decisions, priority commitments, cost and efficiency savings through Government Renewal and increased revenue has served to lower the projected deficit for 2012-2013 to \$182.9 million.

Mr. Speaker, the process for developing the estimates for 2013-2014 and 2014-2015 will be similar. Spending in these budgets will provide for a limited amount of growth in specific areas related to essential services, as well as contribute to new priority initiatives of government. We are confident of higher revenue from economic growth and that Government Renewal will continue to provide efficiency gains, and improved business practices will lessen the potential for any increases in taxes.

Government Renewal is not a one-year process. The continuous improvement road never ends. It is about changing the culture of government to one focused on core services, accountability through performance measures and indicators of success, and instituting effective business practices and continuous performance improvement. The initiatives for 2012-2013 in today's budget that I will outline this afternoon are only part of the process. Over the next several years, we will be examining many other programs and services of government for relevance to the needs of New Brunswickers and to providing more affordable solutions to program delivery.

I would like to tell you about some of the initiatives we are planning to examine in the near future.

In the area of duplication of services, we have determined that there are benefits to further consolidating enforcement and inspection services across the government, and the departments most heavily involved in these services are developing a reasonable implementation plan for moving towards more consolidation over the next couple of years.

The Department of Health and the Department of Environment and Local Government are cooperating on a realignment of duties in relation to the regulation of drinking water

management so that there is less duplication of effort and less confusion to system owners while still ensuring drinking water safety.

An example of administrative savings and efficiencies is the Department of Agriculture, Aquaculture and Fisheries continuing to find ways to integrate and streamline their activities following the merger of those two departments in late 2010. This is expected to bring savings of almost \$250,000 by 2013.

We are also looking at enhancing the scope and authority of the work of the Chief Information Officer. By taking a more strategic, coordinated and focused approach to information and technology services across government, we expect to find efficiencies of between 10 and 15 per cent over the next couple of years that could save up to \$15 million.

In service delivery, we are continuing to shift from e-learning centres to a mobile provision of basic computer skills training. The shift does involve the closure of several Community E-Learning Centres, but with the shift, we can serve more people and more communities at a much lower cost for government.

The health system has an initiative in place that is studying the cost per weighted case across New Brunswick's hospitals to identify specifically where costs are too high. They are setting costs per weighted case targets based on national averages and working collaboratively in a wide variety of ways to drive costs down.

The Department of Natural Resources is working on an initiative to reduce the department's footprint in terms of office space. The increasing use of technology will allow officers to work from their trucks instead of offices. This will also allow for the more efficient use of staff time, and will allow officers to be in the field where they can provide direct service to New Brunswickers. This is expected to save \$1.5 million by 2014-2015.

In the education field, the Department of Education and Early Childhood Development will work with the school districts and our communities to explore the utilization of our schools. Many of our schools are not full to capacity, and we will explore creative uses of that space, based on community need and capacity.

The Department has also identified other areas where efficiencies can be found, such as innovative approaches to student transportation, ways to effectively manage absenteeism, and innovative approaches to professional development that deliver training on-line or reduce significantly the time teachers have to leave their classroom.

For seniors, a "Home First" initiative is looking at what can be done to encourage and assist seniors to stay in their own homes as long as possible instead of moving into a special care or nursing home. We hope that this initiative will lead to more than \$5 million in annual operating savings and reduce the need for spending on new long-term care facilities.

The Department of Transportation and Infrastructure is undergoing Government Renewal initiatives to achieve operational efficiencies and cost savings in district management activities

and at the Vehicle Management Agency. The goal is to streamline and optimize operations, while maintaining or improving the level of service.

Mr. Speaker, I am confident as we examine these and other areas for process improvements, we will also find other opportunities to provide better, more affordable and efficient services to New Brunswickers.

Economic Update and Outlook

Mr. Speaker, I would now like to provide an update on the New Brunswick economy. While the provincial economy is facing challenges, there are also a number of positive developments. The Department of Finance estimates the provincial economy grew at a 1.2 per cent rate in 2011, slightly below the projection at budget last year as continued turmoil in international financial markets impacted global economies. Moderate growth in labour income in spite of a weak performance in employment supported stronger levels of consumer spending in the province.

The province's labour force experienced a difficult year in 2011 as gains in part-time jobs were not enough to offset full-time losses. Overall employment declined 4,100 on an annual basis, but trended upward in the final quarter of the year.

Exports increased 17 per cent in value terms in 2011 based on increased foreign shipments and prices of petroleum products, fertilizers and food products. Public and private investment levels declined in 2011, acting as a drag on economic growth.

Economic growth will continue to be modest in 2012 with the Department of Finance projecting an increase of 1.3 per cent, consistent with estimates from the private sector financial community.

Reduced levels of public sector capital spending along with the absence of any new major projects in the private sector will limit the contribution of capital investment to economic growth. As well, fiscal consolidation at all levels of government will serve to weaken overall economic growth. An improvement in the labour force will support continued consumer spending.

A modest increase in the United States housing activity should bode well for exporters of forest products while demand for energy products should increase foreign shipments of petroleum and natural gas commodities. The utilities sector should report strong growth in 2012 with the return to production of the Point Lepreau nuclear station in the latter half of the year, reducing the province's need to import replacement power.

Looking ahead to 2013, a stronger overall North American economy is expected to lead to economic growth of 2.1 per cent for New Brunswick.

Sustainably Growing the Economy and Enhancing Our Quality of Life

Mr. Speaker, highly qualified human resources and competitive, export-oriented companies are central to sustainably growing the economy and building a better quality of life for New Brunswickers. Our new economic development strategy will focus on working collaboratively with partners to make strategic and targeted investments to capitalize on New Brunswick's economic potential. This will include improving the literacy, education, and management capacity of our workforce; strengthening the innovation capacity of our companies; helping companies adopt technology and make capital investments; improving the efficiency of our regulatory environment; improving access to capital and cooperating more with our neighbours on economic development initiatives, and reinforcing export capacity.

A private sector working group will soon be presenting its recommendations for encouraging more private sector research and development, and improving innovation outcomes that will help shape the provincial strategy.

To ensure maximum return on investment, the strategy will provide focus as well as encourage collaboration with partners to reduce duplication and improve program accessibility for clients. Recognizing their potential to generate high paying jobs, existing linkages with other sectors of the economy, export-orientation and research and development intensity, the province has identified six growth sectors to target its resources:

- Aerospace and defence;
- Biosciences;
- Information and communication technologies;
- Industrial fabrication;
- Value-added food; and
- Value-added wood.

Rural and northern development challenges will be addressed and opportunities pursued through the efforts of partners including the Department of Economic Development and Invest NB. The Northern New Brunswick and Miramichi Regional Economic Development and Innovation funds will provide enhanced support to help realize positive outcomes for these important regions of the province.

Mr. Speaker, our vision with our economic development strategy is for a sustainable and diversified economy that will generate well-paying, permanent jobs, create vibrant, growing communities and improve the quality of life for New Brunswickers.

2011-2012 Fiscal Update

Mr. Speaker, I will now provide an update to the House on the situation for the current fiscal year. As stated in our Third Quarter Report, a deficit of \$471.1 million is projected for the current fiscal year. Based on these results, growth in expenses this year is projected to be lower than the previous year. This would be the first time in a very long time that year-over-year

expenses have gone down. As an example, over the last five years, health spending has grown by an average of seven per cent. This year, health spending is projected to grow by just three per cent. This too can be managed to further reduce growth while at the same time focusing on priority improvements financed within the current system.

The recent debate about the 3T MRI is a real example. We could work with the medical professions to firstly establish a governance model for all MRIs across the province. This would ensure that all necessary requirements would be met while at the same time getting our usage more in line with the national average. This could then permit funding from within budgeted spending levels for new technology to move forward.

Mr. Speaker, I am proud to say that departments are very serious about spending restraint and measures we instituted during the year to scrutinize spending to ensure it was managed responsibly were well accepted. We will be successful in meeting our original budget deficit objective of \$448.8 million by the time the final numbers for the fiscal year are released in the annual audited statements.

For 2011-2012, net debt is now projected to increase \$620.2 million to approximately \$10.1 billion, slightly below the budget estimate increase of \$630.3 million.

2012-2013 Fiscal Outlook

Mr. Speaker, I would now like to outline our plan for the upcoming fiscal year.

Steps taken by this government in our first budget reduced the projected deficit of \$1 billion by more than 50 per cent through a balanced approach of targeted revenue increases combined with restraint and efficiency measures and revenue improvements. Today's budget continues to implement measures to markedly lower the deficit, slow the growth of net debt and move towards a balanced budget.

We are projecting a deficit of \$182.9 million for 2012-2013.

Spending is projected at \$8.196 billion, a 1.3 per cent increase over 2011-2012 revised estimates. Savings and other efficiencies from corporate, departmental and other program initiatives have reduced originally projected spending levels by approximately \$226 million in 2012-2013.

Revenues are expected to increase 5.2 per cent over 2011-2012 revised estimates to \$8.013 billion. This includes extraordinary capital revenue relating to the federal government contribution to the Route One Gateway Project, as well as targeted revenue measures in the order of \$100 million.

Net debt is projected to increase \$738.9 million in 2012-2013. Almost one half of this is due to the Route One Gateway Project, reflecting an obligation of the previous Liberal government. Provincial net debt is expected to total \$10.8 billion by year-end 2012-2013.

Changing the Culture of Government

Mr. Speaker, in October 2010 we inherited a sizeable structural deficit. A number of factors contributed to this unprecedented financial challenge including the global economy, upheaval in financial markets, and increased spending and tax reductions without corresponding offsets. Federal transfers have flattened and growing demands and costs of social programs persist. We cannot continue with the status quo. Simply put, government operations have to become more efficient and effective and more closely aligned with the public's expectations and our ability to pay.

This government has acted decisively on the deteriorating fiscal situation and implemented the Government Renewal process announced in the 2011-2012 Budget. This process is leading the change to responsible management of the public purse and is the largest engagement of public servants in New Brunswick in over 40 years.

The Government Renewal process is centered on changing the culture of government to focus on core services, accountability through performance indicators of success and continuous performance improvement. It is providing the basis for a disciplined and responsible government that enables the provision of appropriate and affordable public services on a sustainable basis.

This broad review of government operations has a three-year mandate to provide direction for returning to a balanced budget by 2014-2015. Each department and agency, including the Legislative Assembly, has been scrutinized to prioritize, optimize and improve service delivery. Every program has been under the microscope with over 300 distinct proposals for improvements reviewed. Recommendations gathered from this process form the basis of the decisions taken in this budget. However, some projects will require additional time and the appropriate level of study, due diligence and planning to fully implement. These results will form the budgets in coming years as continuous improvement strategies will become living processes ingrained in government. It is important that savings and efficiencies are not just realized, but are maintained.

The work of Government Renewal has been largely done by bringing together dedicated groups of public servants, in areas where private sector specialized advice was not required. I want to thank all employees who gave, and will continue to give, their ideas, time, experience and talents in this disciplined and progressive exercise. Our public servants are uniquely positioned to provide the best advice on improving service delivery and finding savings. As part of this process, they have asked themselves not only how they can do their jobs more efficiently but how can services be provided at less cost.

Initiatives from the review of operations that form the basis for today's budget include:

- Finding corporate opportunities to drive savings and reduce the size of government;
- Implementing more efficient business practices;
- Aligning government priorities with accountability and performance management;
- Realigning government to focus on core services;

- Generating more revenue from the existing tax system and Crown assets in a fair and effective manner; and
- Returning to a balanced budget within three years.

Managing Public Expectations

Mr. Speaker, the public's expectation for government services is always high. That being said, a key process in returning to fiscal responsibility is engaging stakeholders to ensure alignment between providing quality public services we can afford and the expectations of taxpayers.

Both business and New Brunswickers themselves have told us it's time government took seriously the realities of improving and streamlining public service delivery. It cannot be "business as usual" in government operations. New Brunswickers have been clear about their priorities: they want quality, affordable health care and services for our seniors, they want the best available education for their children, they want a growing economy and job opportunities, and they want strong, vibrant communities.

As one emailer suggested to Dave@gnb.ca, the email we set up to allow employees to make suggestions directly to government, "Government needs to focus on the things that make the wheels turn."

Mr. Speaker, this government has a responsible plan to return to balanced budgets. However, to ensure we can live within our means and ability to pay, New Brunswickers need to be open to changes in the way public services are delivered. This will include changes to the process and locations where services are provided for health and senior care, education and other social programs.

The release of information from the 2011 Census indicated that while New Brunswick posted its strongest population growth in more than 30 years, it was only about half the national rate of increase. As well, there are areas in the northern part of the province continuing to exhibit population declines, while much of the south shows gains. Our population is also aging. This environment will have considerable policy implications for the costs and efficiencies of future service delivery and infrastructure investment. We need to continue the dialogue about population growth strategies for the province and what kind of growth and development is sustainable.

Managing expectations also means we only invest in new projects that are essential to the safety and security of New Brunswickers across the public buildings, schools, hospitals and transportation infrastructure that hundreds of thousands of us utilize on a daily basis.

It also means getting more value and higher returns from our Crown assets and natural resources such as minerals, agriculture, fish, forests and surplus land and infrastructure. This means that individual fees must cover the cost of providing specific services.

For its part, government must be open to ensuring it is delivering the right services at the right price and in the most effective way possible. Programs and spending decisions should be determined by what services New Brunswickers can afford today and expect in the future.

Corporate Initiatives to Reduce the Cost and Size of Government

Mr. Speaker, our citizen and business engagements have made it clear New Brunswickers favour a balanced approach of strategic revenue increases and reducing the size and cost of government as the avenue to return to fiscal balance.

Through the Government Renewal process and corporate initiatives, we have identified \$226 million in expenditure savings for 2012-2013.

Mr. Speaker, I will now provide further details on some of the measures in this budget to support these key initiatives.

Effectively Managing Human Resources

Mr. Speaker, there is a reason that the theme of this budget is “Rebuilding New Brunswick Together”. It is because we need employees and the public to continue to help us in finding efficiencies. Throughout 2011, I had the opportunity to meet with many employees and their union representatives and they were very helpful in identifying areas where money could be saved in the delivery of public services. We appreciate the input of employees and are building processes for tracking and evaluating ideas and delivering on valid suggestions. These collective efforts will result in a more efficient and cost effective public service.

There is ample evidence that a culture shift is occurring within the public service. This is not the same public service it was 20 years ago, or even one year ago. A senior public servant who has been in government for over 20 years recently said to me that she has recognized a significant change in the way people think about their work and what we are trying to accomplish within government. “We are more focused, more concerned with improvement both from a client service and an efficiency standpoint,” she said. “We are re-examining how costs can be contained and more importantly, how we can offer value for taxpayers’ dollars. There is a genuine excitement in the opportunity to participate in improvements that have been a long time coming, and about being part of a legacy initiative. Departments less and less ask government for more money to do things; instead they give suggestions about how money can be moved around to better address priorities.”

These are indeed encouraging words because we must continue to look for savings in every aspect of the public service. In order to achieve a balanced budget within the next three years, we must continue to work together to contain costs. We will look for efficiencies in all areas of service delivery with the goal of having a public service that is appropriate in both size and cost for New Brunswick. Where efficiencies are gained in the delivery of services, we will make every effort to find alternative employment for displaced employees. In essence, we need to have the right number of people in the right place at the right cost.

Mr. Speaker, we will take advantage of retirements and natural attrition to achieve savings. For each of the next three years, we anticipate 1,500 employees to leave the public service due to retirement and personal reasons. We will replace only those positions that are critical to the delivery of core government services, resulting in a net reduction in the size of the public service. We anticipate this reduction to save over \$86 million by 2014-2015.

The total wage bill for the public service is close to \$3 billion annually and represents one of government's largest expenses. In order to contain costs associated with salaries, we will continue to apply a number of wage restraint measures, including a two-year wage freeze for employees who have not yet participated and a freeze on upward reclassifications. The Christmas Holiday Leave Initiative that generated over \$1 million in wage savings in 2011 will be repeated in 2012. We will also be looking at changes to the current retirement allowance policy on a go forward basis, not to the current earned benefits of individuals.

We will increase our efforts to restrain wage bill costs by introducing other measures in today's budget including changes to the sick leave program. The number of sick days earned each year and the maximum number of sick leave days employees can accumulate need to become more closely aligned to the qualifying period for Long Term Disability benefits. Sick leave is a limited benefit provided to employees whereby salaries are continued if they are unable to work due to illness. It should not be considered as an entitlement to paid time off for other reasons. We will be launching a comprehensive attendance management program to carefully control and manage employee sick leave usage. It is anticipated that with a concerted effort throughout all parts of government, many millions of dollars could be saved and jobs protected.

We will also be changing the way worker's compensation benefits are paid to public sector employees to ensure compliance with the legislation that applies to other employers. Again, we will redouble our efforts to manage injured worker's claims and promote an "early return to work" philosophy.

Mr. Speaker, we invite all employees and public sector unions to work with us in achieving these cost reductions. We also expect Crown Corporations to follow our lead on these initiatives.

Mr. Speaker, I am pleased to announce we are honouring our commitment to reduce the wage gap between men and women in New Brunswick with the inclusion in this budget of \$6.4 million to address pay equity. With this allocation, we will provide pay adjustments to a number of female-dominated public sector groups, as well as workers in the private sector that have had job evaluations completed, such as childcare workers, home support workers and workers in transition houses. Workers in community residences will see pay adjustments beginning in 2013-2014.

This is just the beginning of our investment in pay equity to conform to the current legislative requirements which end in the 2017-2018 fiscal year.

Lowering Procurement Costs

Mr. Speaker, the government spends approximately \$1.5 billion on procurement of various goods and services annually. A thorough examination of our procurement methods under

Government Renewal indicated that significant savings could be achieved through measures such as:

- Combining and aggregating purchase volumes;
- Rationalizing and standardizing product choices and specifications; and
- Entering into multi-year purchase agreements.

Today's budget includes estimated procurement savings of \$14 million for 2012-2013, growing to an estimated \$70 million annually by 2014-2015.

Improving the Collection of Receivables

Mr. Speaker, we feel, as most New Brunswickers do, that all citizens and businesses should contribute their fair share to pay for the services that people require. However, not all amounts due to the government are received on a timely basis, leading to a shortfall in revenue that costs every New Brunswick taxpayer and may lead to taxes or fees having to be raised to pay for essential services.

Government will continue to intensify its efforts to collaborate with the Canada Revenue Agency and law enforcement agencies to collect unpaid balances. As we move toward a more efficient system of program and service delivery, we must also ensure we are diligent in collecting all monies owed to the province. Departments will make every effort to collect amounts due to the province in a timely manner, as well as work with debtors in developing repayment arrangements.

Over the years the avoidance or evasion of paying fair and legally applied taxes has cost the province hundreds of millions of dollars in revenue and contributed to the current financial situation. Smuggling of alcohol and tobacco products from other provinces or countries to be sold free of New Brunswick taxes are two examples. We have all heard of the "underground economy" that does not pay its fair share of taxes and, according to some studies, could be worth as much as two and one-half per cent of total provincial Gross Domestic Product. To put this in context, this equates to \$630 million or approximately the size of the province's deficit in 2010-2011. The construction industry is another example, as who among us has not heard of someone getting residential renovations or a deck built "under the table"? Personal or business income and sales taxes that are unreported or underreported do not contribute their fair share of tax to provincial coffers.

Moving forward, we will be taking further steps to address these issues. In the meantime, we are asking all citizens to do what is right to support our province.

Realigning Government Operations

Mr. Speaker, the Government Renewal process has clearly indicated that many functions across the public sector can be streamlined, improved and aligned to better manage resources. In November, Management Board was created to integrate all budgeting, human resources, information management and accountability functions. Earlier this month, the Premier

announced a further corporate structural reorganization to better align the provision of services both internally to public sector employees and externally to the public with government priorities.

These reorganizations will allow the government to provide a new dynamic in government administration. The number of departments has fallen from 23 to 17 and the number of senior bureaucrats has been reduced. Under the new structure, departments will have a clear focus and be aligned with government priorities, thus reducing duplication and inefficiency in decision making and program delivery.

Savings of \$24.1 million are estimated for 2012-2013 from these structural realignments and the more efficient use of resources.

Finding Efficiencies in Program Delivery

Finding cost and efficiency improvements in the delivery of programs and services are important government initiatives. This budget includes \$55.1 million in program delivery savings across a number of departments.

These initiatives include:

- Cost per weighted case savings across the health system of \$2.5 million;
- Rationalizing the number of school districts from 14 to seven will save \$2.4 million in administrative costs;
- Finding operational efficiencies in nursing homes will result in savings of \$1.5 million;
- Reducing unconditional grant funding to municipalities for 2012 by two per cent, providing savings of \$1.4 million;
- Establishing a new accountability framework in the Department of Education and Early Childhood Development to ensure continual improvement in both cost savings and service delivery will save an estimated \$1 million; and
- Effective March 31, 2013, the agreement providing supplemental funding to Horse Racing New Brunswick Inc. in support of the harness racing industry will be terminated, resulting in savings of an estimated \$600,000 beginning in 2013-2014.

Details of these and other program savings will be provided when departmental estimates are debated in the coming months.

Performance Excellence in Government

Mr. Speaker, we believe that every branch of government is accountable to taxpayers. Accountability requires a government commitment to not only provide appropriate and affordable services to citizens on a sustainable basis, but also the capacity to provide meaningful measures of the performance of public sector services, infrastructure and initiatives. In today's budget, we are already recognizing significant returns in the efficiency and effectiveness of departments and agencies by focusing on strategic priorities and process improvement targets.

A key component of Government Renewal is ensuring departments and agencies are provided with a clear vision of overall government direction, goals and targets. Under the Performance Excellence Process, we are developing a sustainable management ethic which focuses on:

- Articulating strategy;
- Aligning performance processes and success indicators;
- Developing leaders; and
- Creating a culture of continuous improvement within all parts of government.

These processes will not only improve citizen and employee satisfaction with public services but will increase efficiency and generate cost savings. It is our goal that every branch of government is held accountable to taxpayers.

The applications of the balanced scorecard strategy and continuous improvement tools and methods to public sector operations will ensure that departments and agencies are effectively aligned with government objectives and goals. Monthly reporting practices will be adopted and developed through this process. Pilot departments are currently developing and implementing these methodologies. These practices can then be improved and standardized for broader government adoption. Savings identified through the Performance Excellence Process will grow as it matures and is rolled out across government.

Mr. Speaker, we must all share in the responsibility of making government accountable and effective. Those who provide public services are as responsible as those who use the services. Indicators of success and outcomes must be regularly reviewed for progress and analysis. If the results are not what we hoped, we must be ready to act quickly and decisively to realign programs to meet our desired goals and priorities.

In support of Government Renewal, the Premier's Panel on Accountability and Responsible Government will provide advice across government in business practices designed to preserve or enhance services and suggest efficiency opportunities. Since the Panel was appointed in January, they have engaged key departments to review a number of government processes including the Government Renewal initiative, productivity improvement and some basic management processes. Taking a close look at the existing accountability structure, the Panel is assessing how reporting mechanisms can be implemented to drive performance excellence. By engaging the public service in ambitious service delivery targets, the Panel and government share the goal that taxpayers can expect a higher level of service quality for less.

I look forward to working with the Panel and hearing their ideas.

Safe and Secure Pensions

Mr. Speaker, our government's vision is that New Brunswickers should have the opportunity for a safe and secure retirement. To help accomplish this, we need to ensure that pension plans, both private and public, are sustainable, affordable and transparent. We must also provide assurance to pension contributors that the long-term integrity, due diligence and rigour necessary in the business and financial operations of the system are maintained at a high level.

With this in mind the Task Force on Protecting Pensions will report to us on how to put the appropriate rules and regulations in place for the long-term sustainability of existing pension plans, both public and private. We will seek ways to expand the coverage of affordable, sustainable pension plans in New Brunswick to residents now without adequate pension plan coverage. The Task Force is anticipated to report to government during this session.

We are now, and will continue to work to develop an approach that is fair to both employees and the taxpayer. Our goal is to ensure that employee benefits that have been earned to date will not be negatively affected by future changes while we separate pension reform from the collective bargaining process.

Increasing Revenues in a Responsible Manner

Mr. Speaker, maintaining a stable, competitive tax system is an important tool for growing the province's economy and increasing the tax base. This government remains committed to providing the fiscal environment to maintain a diversified economy that is essential for business to grow and create high quality jobs. In the longer-term, only a healthy, growing economy will support a vibrant tax base that will ensure sustainable public services in the future.

The province faces a fiscal situation where additional revenue is essential to help pay for the services we provide now and that we will need in the future. The government will continue its efforts to grow the economy and control the cost of delivering government services. Additionally, new revenue measures to address the shortfall must not act as a barrier to sustainably growing the economy.

As with last year's budget, the fiscal situation requires tax measures to help meet fiscal needs in a way that permits the province to maintain the competitiveness of New Brunswick's tax system. Revenue measures included in this budget are intended to address changes that are required to improve the fairness of the tax system and correct inequities, as well as increase revenues.

In order to provide additional revenue, effective June 1, 2012, the Real Property Transfer Tax will be increased from 0.25 per cent to 0.5 per cent, raising an estimated \$7 million annually.

Effective April 1, 2012, the Financial Corporation Capital Tax will be increased from three per cent to four per cent, providing an estimated \$5 million annually.

New Brunswick's Dividend Tax Credit for dividends from corporations subject to the general Corporate Income Tax rate will be reviewed.

Mr. Speaker, the government maintains a large selection of land, buildings, infrastructure, automobiles and heavy equipment and other Crown assets. The Government Renewal process included a review of the management and volume of Crown assets. This review delineated several immediate opportunities across departments for increased revenues through the sale of assets surplus to current or future program requirements and recommended they be sold at fair market prices. This budget contains projected revenue of \$10 million from Crown asset sales in 2012-2013. Over the coming months, the government will also examine the business cases for

other divestiture opportunities such as the viability of owning and operating the government aircraft and an intensive review of government vehicles and related policies.

This government continues to strive towards a level of cost-recovery associated with the delivery of fee related programs and services. Fees are designed to offset the costs of delivering non-core services to specific New Brunswick residents and businesses. By adhering to a policy that requires fees to be reviewed on a regular basis, and where possible, adjusted according to a multi-year approach, departments are achieving greater efficiency within the fee adjustment process.

Mr. Speaker, mineral exploration and mining play a significant role in the provincial economy. These natural resources are important to sustaining and growing the economy and creating jobs across the province. New Brunswick must provide an environment that encourages exploration, development and added value. Government must also ensure that our natural resource revenue potential is returning maximum benefits to New Brunswickers.

Over the past several months, our government has been reviewing the royalty structure in New Brunswick with the objective of ensuring appropriate resource taxation within a consistent framework and maximizing revenues for the benefit of all New Brunswickers. Government is currently working on developing a royalty system that will see the province receive its fair share of profits from the development of our natural resources.

Mr. Speaker, as I have said on a number of occasions, we have to look at every opportunity to not only sustain the services we have today, which are so important to all New Brunswickers, but to make sure we can afford them into the future.

That is why we believe we owe it to future generations to see if opportunities exist and whether there is potential in an expanded oil and natural gas industry in our province. More specifically, we must see if there can be a commercial industry of extracting natural gas from shale.

While we are still at the research stage in this regard, I can assure you that there already is a great deal of work being done. If it is determined that we have a commercially viable industry, we will be prepared in all aspects whether we are speaking about environmental protection or maximizing revenue from an expanded industry. To that end, I want to advise the House that my colleague, the Minister of Natural Resources, will in the weeks ahead be discussing these issues in more detail. As the Minister has said many times, the development of a commercial industry, if one indeed exists, would be several years away.

Improving the Property Tax System

Mr. Speaker, we have taken the first steps toward improving the local governance system with the release of our action plan in December of last year. Reforming the property tax system is an important component of that plan. Just last month, we announced our Regional Service Commission model. And today I am pleased to announce that phase one of the property tax reform plan consisting of a four-year phase-in of property tax changes will be implemented beginning in the 2013 property tax year. Phase one of the plan is a major step forward in

delivering on a platform commitment to make the property tax system fairer and more effective for the long-term. Some of the areas that will be addressed in the plan include:

- More equitable treatment of all property types ensuring local services are paid for in a fairer manner;
- A gradual reduction of the provincial residential property tax rate on apartments, second homes and cottages to make it more in line with most other jurisdictions; and
- A gradual reduction in the provincial business property tax rate which is currently among the highest in Canada.

Details of these and other important steps toward improving the fairness of the property tax system will be released in a white paper to be made available in the next several months.

Returning to Balanced Budgets by 2014-2015

Mr. Speaker, initiatives undertaken in this budget will not only help realign the province's fiscal position today but into the future. In fact, savings will grow as we implement measures across government.

Our work is not done, however. Government Renewal is about fostering a culture of doing things more efficiently and effectively, and of looking at how we can do business differently. We must strive for continuous improvement, each and every year.

In our platform, the government committed to a deficit reduction plan. Last year, we committed to a three-year plan to return to budget balance. With today's budget, we have taken major strides in achieving these objectives. It is government's intention to return to balance in 2014-2015 as originally stated. In addition to our 2012-2013 deficit of \$183 million, the following table outlines our plan to return to a balanced budget.

<u>Plan to Return to a Balanced Budget</u>		
	(\$ millions)	
	<u>2013-2014</u>	<u>2014-2015</u>
Revenue	8,045	8,243
Expense	<u>8,144</u>	<u>8,237</u>
Projected Surplus (Deficit)	(99)	6
	<u>2013-2014</u>	<u>2014-2015</u>
Previous Year's Surplus (Deficit)	(183)	(99)
Revenue Growth	32	198
Expense Growth (Savings)		
Increased Demand for Health and Social Services,		
Inflation, Wages and Benefits	111	230
Priority Commitments	68	30
Government Renewal Savings	<u>(231)</u>	<u>(167)</u>
Projected Surplus (Deficit)	(99)	6

Mr. Speaker, our three-year projections reflect modest growth in total revenue. They also include a spending plan that reflects decisions in today's budget that help curtail our base level of spending, and growth, into the future.

Do we have more work to do? Yes, we certainly do. Government will need to be diligent to help foster growth in the economy, to implement our plan, and to manage spending closely in order to achieve the plan. And government will need to continue to consider further measures over the next few years.

Conclusion

Mr. Speaker, the grim fiscal situation our government inherited has resulted in a process of difficult decisions being made to start our province on the path to fiscal sustainability. New Brunswick business and citizens have advised us to return to balance by generating additional revenues through a combination of sustainable economic growth policies, raising fees or taxes where fair and efficient, and reducing expenditures and increasing efficiency.

Today's budget continues this process by changing the culture of government to providing the efficient, affordable services that our citizens pay taxes to receive. It contains a balance of revenue and spending measures to achieve this goal, but is only the first step in our three-year plan to return to sustainable balanced budgets.

Focusing the culture of government on core services and raising accountability through continuous performance improvement and publicly available indicators of success are our goals. But we also need to change the culture of public expectations and how services are delivered. It is important we keep the lines of communication open so that New Brunswickers can see that government is receptive to meeting their needs and expectations. But we must also demonstrate we are acting on the ideas and suggestions we receive to produce substantive change.

Mr. Speaker, today we are putting a plan forward that continues to reflect our belief in people and the balanced approach to fiscal sustainability. We, as politicians, must also live up to the high standards of performance that we require and are expecting from others.

In this budget you do not see the arbitrary short-sighted decisions that we have seen from many past governments. To ensure our plan works in a methodical and constructive manner, all individuals must ask themselves: "What can I do to help?" or "How can I modify my demands or my behaviour to make a positive difference?"

Together we can and will achieve our goals.

Thank you, Mr. Speaker.

APPENDIX: SUMMARY BUDGET INFORMATION

COMPARATIVE STATEMENT OF SURPLUS OR DEFICIT

Thousands

\$

	Year Ending March 31		
	2012 Estimate	2012 Revised	2013 Estimate
Revenue			
Ordinary Account.....	7,247,130	7,217,335	7,422,001
Capital Account.....	215	693	232,822
Special Purpose Account.....	60,678	62,434	63,512
Special Operating Agency Account (net).....	83,548	77,758	73,726
Sinking Fund Earnings.....	228,600	225,000	221,000
Amortization of Deferred Capital Contributions.....	36,408	36,859	-
Total Revenue	7,656,579	7,620,079	8,013,061
Expense			
Ordinary Account.....	7,553,213	7,536,889	7,662,367
Capital Account.....	70,510	75,842	52,800
Special Purpose Account.....	67,728	67,159	70,794
Special Operating Agency Account (net).....	85,965	77,231	71,086
Amortization of Tangible Capital Assets.....	327,985	334,095	338,920
Total Expense	8,105,401	8,091,216	8,195,967
Surplus (Deficit)	(448,822)	(471,137)	(182,906)

COMPARATIVE STATEMENT OF CHANGE IN NET DEBT
Thousands
\$

	Year Ending March 31		
	2012 Estimate	2012 Revised	2013 Estimate
Surplus (Deficit).....	(448,822)	(471,137)	(182,906)
Acquisition of Tangible Capital Assets.....	(522,406)	(496,878)	(894,960)
Amortization of Tangible Capital Assets.....	327,985	334,095	338,920
Revenue Received to Acquire Tangible Capital Assets.....	49,395	50,538	-
Amortization of Deferred Capital Contributions.....	<u>(36,408)</u>	<u>(36,859)</u>	<u>-</u>
(Increase) Decrease in Net Debt.....	<u>(630,256)</u>	<u>(620,241)</u>	<u>(738,946)</u>

TOTAL REVENUE
2012-2013
Thousands
\$

<u>DEPARTMENT</u>	<u>ORDINARY ACCOUNT</u>	<u>CAPITAL ACCOUNT</u>	<u>SPECIAL PURPOSE ACCOUNT</u>	<u>SPECIAL OPERATING AGENCY ACCOUNT (NET)</u>	<u>TOTAL</u>
Agriculture, Aquaculture and Fisheries	9,962	-	-	-	9,962
Culture, Tourism and Healthy Living	4,025	-	1,289	4,030	9,344
Economic Development	11,326	20	-	61,235	72,581
Education and Early Childhood Development	29,284	-	22,561	-	51,845
Energy	387	-	-	-	387
Environment and Local Government	5,653	-	10,941	-	16,594
Executive Council Office	-	-	-	-	-
Finance	6,291,822	-	56	-	6,291,878
Government Services	56	-	10	-	66
Health	36,939	-	1,105	-	38,044
Invest New Brunswick	914	-	-	-	914
Justice and Attorney General	51,571	-	949	-	52,520
Legislative Assembly	495	-	-	-	495
Natural Resources	134,431	540	3,017	-	137,988
Other Agencies	489,916	-	-	-	489,916
Post-Secondary Education, Training and Labour	143,487	-	2,403	1,108	146,998
Public Safety	140,352	-	8,758	6,553	155,663
Social Development	65,277	50	11,117	-	76,444
Transportation and Infrastructure	6,104	232,212	1,306	800	240,422
Sub-total	7,422,001	232,822	63,512	73,726	7,792,061
Sinking Fund Earnings					221,000
TOTAL REVENUE					<u><u>8,013,061</u></u>

COMPARATIVE STATEMENT OF ESTIMATED GROSS REVENUE BY SOURCE

Thousands

\$

Year Ending March 31

	2012 Estimate	2012 Revised	2013 Estimate
Taxes			
Personal Income Tax.....	1,279,000	1,226,000	1,317,400
Corporate Income Tax.....	243,600	225,600	223,600
Metallic Minerals Tax.....	39,000	48,000	40,000
Taxes on Property.....	448,000	448,000	469,400
Harmonized Sales Tax.....	1,083,800	1,124,600	1,135,400
Gasoline and Motive Fuels Tax.....	247,300	247,300	247,300
Tobacco Tax.....	145,300	150,000	150,000
Pari-Mutuel Tax.....	640	600	600
Insurance Premium Tax.....	43,154	43,336	43,746
Real Property Transfer Tax.....	6,400	6,400	13,600
Financial Corporation Capital Tax.....	14,000	20,000	23,125
Sub-total: Taxes	<u>3,550,194</u>	<u>3,539,836</u>	<u>3,664,171</u>
Return on Investment	438,370	416,513	300,581
Licences and Permits	122,167	129,765	135,124
Sale of Goods and Services	289,630	282,160	296,173
Royalties	85,920	87,655	121,670
Lotteries and Gaming Revenues	-	-	142,938
Fines and Penalties	8,956	8,234	8,233
Miscellaneous	<u>29,447</u>	<u>30,744</u>	<u>24,690</u>
TOTAL: OWN SOURCE REVENUE	<u>4,524,684</u>	<u>4,494,907</u>	<u>4,693,580</u>
Unconditional Grants – Canada			
Fiscal Equalization Payments.....	1,632,600	1,632,600	1,597,700
Canada Health Transfer.....	605,700	605,700	637,200
Canada Social Transfer.....	251,400	252,700	257,400
Wait Times Reduction Transfer.....	5,459	5,480	5,422
Other.....	1,938	1,938	1,866
Sub-total: Unconditional Grants – Canada	<u>2,497,097</u>	<u>2,498,418</u>	<u>2,499,588</u>
Conditional Grants – Canada	225,349	224,010	228,833
TOTAL: GRANTS FROM CANADA	<u>2,722,446</u>	<u>2,722,428</u>	<u>2,728,421</u>
TOTAL: GROSS ORDINARY REVENUE	<u><u>7,247,130</u></u>	<u><u>7,217,335</u></u>	<u><u>7,422,001</u></u>

TOTAL EXPENSE
2012-2013
Thousands
\$

<u>DEPARTMENT</u>	<u>ORDINARY ACCOUNT</u>	<u>CAPITAL ACCOUNT</u>	<u>SPECIAL PURPOSE ACCOUNT</u>	<u>SPECIAL OPERATING AGENCY ACCOUNT (NET)</u>	<u>TOTAL</u>
Agriculture, Aquaculture and Fisheries	39,983	200	-	-	40,183
Culture, Tourism and Healthy Living	51,272	750	1,265	4,075	57,362
Economic Development	105,401	4,585	-	73,750	183,736
Education and Early Childhood Development	1,071,133	-	22,561	-	1,093,694
Energy	2,920	-	-	-	2,920
Environment and Local Government	150,587	60	4,500	-	155,147
Executive Council Office	23,605	-	-	-	23,605
Finance	19,165	-	56	-	19,221
General Government	608,764	-	-	-	608,764
Government Services	59,457	-	15	-	59,472
Health	2,583,815	-	1,750	-	2,585,565
Invest New Brunswick	14,637	-	-	-	14,637
Justice and Attorney General	63,286	-	774	-	64,060
Legislative Assembly	26,173	-	-	-	26,173
Natural Resources	112,724	200	3,033	-	115,957
Office of the Premier	1,655	-	-	-	1,655
Post-Secondary Education, Training and Labour	588,302	7,500	2,373	2,808	600,983
Public Safety	142,290	-	10,698	6,565	159,553
Service of the Public Debt	672,000	-	-	-	672,000
Social Development	1,051,925	-	22,199	-	1,074,124
Transportation and Infrastructure	273,273	39,505	1,570	(16,112)	298,236
Sub-total	7,662,367	52,800	70,794	71,086	7,857,047
Amortization of Tangible Capital Assets					<u>338,920</u>
TOTAL EXPENSE					<u>8,195,967</u>

FISCAL RESPONSIBILITY AND BALANCED BUDGET ACT

Millions

\$

**2011-2012 to 2014-2015 Fiscal Period
Year Ending March 31**

	2012 Revised	2013 Estimate
Total Revenue.....	7,620.1	8,013.1
Add: Required Changes Under the Act.....	<u>0.0</u>	<u>0.0</u>
Adjusted Revenue.....	7,620.1	8,013.1
Total Expense.....	<u>8,091.2</u>	<u>8,196.0</u>
Adjusted Surplus (Deficit) for the Year.....	(471.1)	(182.9)
Cumulative Difference - Beginning of Year.....	0.0	(471.1)
Cumulative Difference - End of Year.....	<u>(471.1)</u>	<u>(654.0)</u>

Year Ending March 31

	2011	2012	2013
Net Debt.....	9,480.4	10,100.6	10,839.6
GDP (31 December).....	29,448	30,773	31,758
Ratio of Net Debt-to-GDP.....	32.2%	32.8%	34.1%

Note: Columns may not add due to rounding.

NEW BRUNSWICK ROAD IMPROVEMENT FUND

Thousands

\$

	<u>Year Ending March 31</u>		
	2012	2012	2013
	Estimate	Revised	Estimate
Revenue			
Gasoline and Motive Fuels Tax.....	247,300	247,300	247,300
Expenditures			
Transportation and Infrastructure			
Capital Account.....	293,150	285,292	733,617
Ordinary Account.....	189,171	173,472	157,654
Total Expenditures.....	<u>482,321</u>	<u>458,764</u>	<u>891,271</u>
Net Expenditures	235,021	211,464	643,971
Source of Funding for Net Expenditures			
Federal Capital Revenues.....	44,961	46,104	222,107
Provincial Contribution from Consolidated Fund.....	190,060	165,360	421,864
TOTAL	<u><u>235,021</u></u>	<u><u>211,464</u></u>	<u><u>643,971</u></u>