

Treasury Board

Economic, Strategic Program
Review and Fiscal Update

First Quarter 2016-2017

**Economic, Strategic Program Review and Fiscal Update
First Quarter 2016-2017**

Published by:

Treasury Board and Department of Finance
Government of New Brunswick
P.O. Box 6000
Fredericton, New Brunswick
E3B 5H1
Canada

Internet: www.gnb.ca/finance

August 2016

Translation:

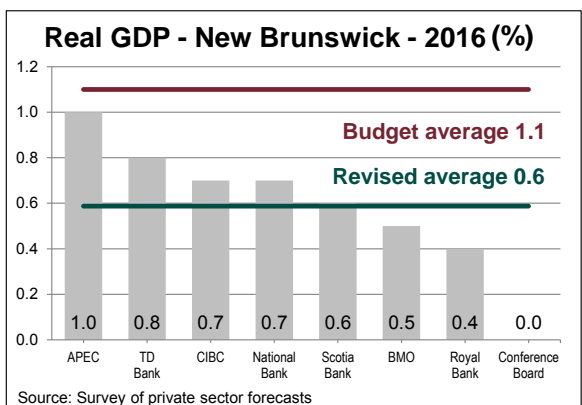
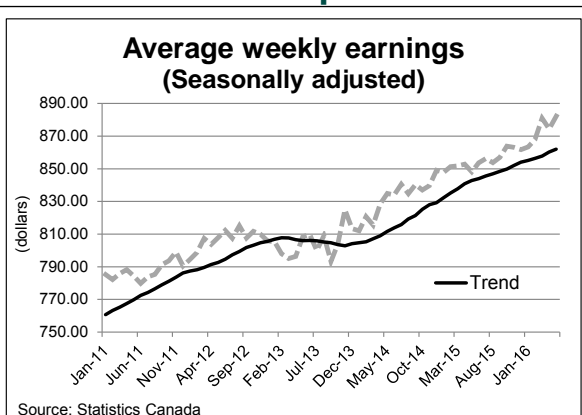
Translation Bureau, Service New Brunswick

ISBN 978-1-4605-0516-8



Think Recycling!

2016 Economic Update



New Brunswick Economic Outlook			
	2014	2015	2016F
Real GDP	-0.3	1.9	0.4
Household Final Consumption Expenditures	3.5	2.0	2.1
Primary Household Income	2.1	2.2	2.2
Employment	-0.2	-0.6	-0.4
Unemployment Rate (%)	9.9	9.8	9.9
Consumer Price Index	1.5	0.5	2.1

Sources: Statistics Canada, NB Department of Finance
F = Forecast
% change unless otherwise indicated

Based on data available as of August 5, 2016

- The International Monetary Fund (IMF) is forecasting global economic growth of 3.1 per cent in 2016. This is a downgrade from projected growth of 3.4 per cent at the time of Budget 2016-17.

- U.S. real GDP increased at an annual rate of 1.2 per cent in the second quarter of 2016, which represents an improvement over first quarter. Average growth has been below both the year-earlier average and the mark of 2.2 per cent projected by the IMF.

- The Bank of Canada lowered its Canadian growth outlook for 2016 from 1.7 per cent to 1.3 per cent, reflecting downward revisions to investment and exports.

- The Department of Finance projects real GDP growth for New Brunswick of 0.4 per cent for 2016. This is unchanged from budget and is consistent with the consensus among private sector forecasters.

- Positive drivers year-to-date include healthy income growth, strong retail sales and a supportive exchange rate.

- Exports (-20.4%) and manufacturing sales (-9.5%) have declined largely as a result of weak commodity prices. Wood products manufacturing and seafood product preparation and packaging remain bright spots, growing by 10.8 per cent and 23.0 per cent respectively.

- On a year-to-date basis, employment is down by 0.6 per cent. Weakness was observed primarily in the services-producing (-0.9%) sector.

- Despite weak employment conditions, average weekly earnings are up 2.9 per cent on a year-to-date basis – above the national growth rate of 0.4 per cent.

- Consumer spending has been robust to-date, with retail trade up 7.0 per cent on a year-to-date basis.

Strategic Program Review Update

- Strategic Program Review was an inclusive and transparent process with input sought from the public to help identify savings and revenues in order to eliminate the province's deficit. The review began by looking internally to government first through efforts such as reducing the number of deputy ministers by 30 per cent; centralizing some government services; and reducing travel costs. Over \$115 million in savings were found in the 2015-16 Budget.
- In the 2016-17 Budget, an additional \$181 million in savings to be achieved over the next five years was announced. Based on the first quarter information, the projected savings for 2016-17 will be over \$51 million; additional savings identified through Strategic Program Review will be seen as projects are implemented.
- Once fully realized the Strategic Program Review will yield \$296 million in expenditure reductions and \$293 million in revenue measures.

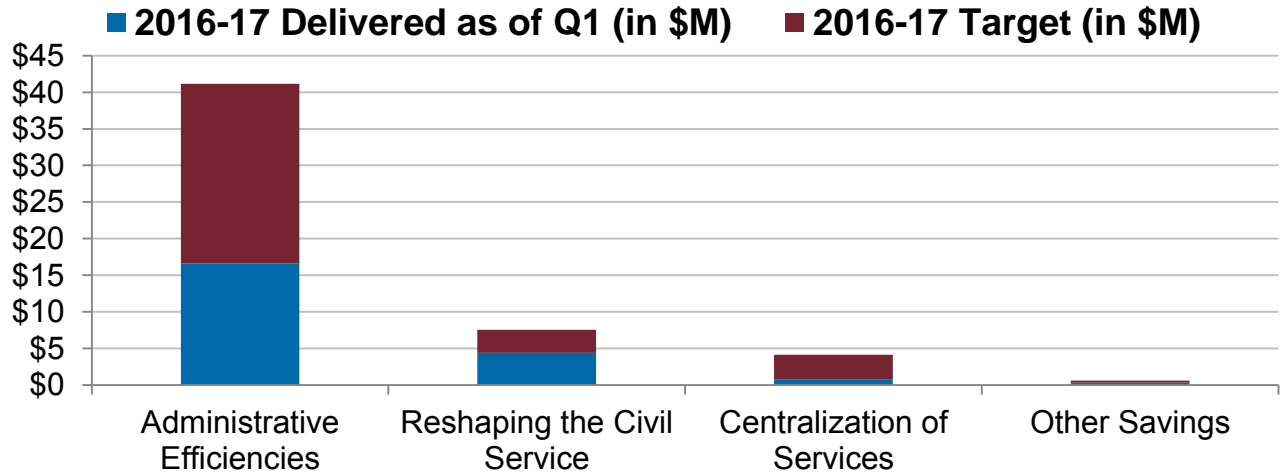
Strategic Program Review – by the numbers:

	<u>Savings</u>	<u>Revenue</u>
Announced in 2015-16 Budget	\$115 million	\$57 million
Announced in 2016-17 Budget	\$181 million	\$236 million
Total SPR savings/revenue achieved by 2020	\$296 million	\$293 million
Grand Total – SPR	\$589 million	

Strategic Program Review First Quarter Projections (in \$ Thousands)

Savings Initiatives	Achieved to date 2016-17	2016-17 Target	2016-17 Forecast	2020-21 Target	2020-21 Forecast
2015-16 Savings	\$115,200	\$ -	\$ -	\$115,200	\$115,200
Administrative Efficiencies	\$16,578	\$41,169	\$38,364	\$102,244	\$102,244
Reshaping the Civil Service	\$4,396	\$7,544	\$8,024	\$24,959	\$24,959
Centralization of Services	\$714	\$4,124	\$4,184	\$52,125	\$52,125
Other	\$715	\$639	\$715	\$1,262	\$1,262
Total	\$137,603	\$53,476	\$51,287	\$295,790	\$295,790

Strategic Program Review - Savings



- **Administrative Efficiencies:** Projects include but are not limited to administration of Municipal Tax Warrant (\$2 million), elimination of Municipal Fine Revenue Sharing (\$1.5 million), standardization of budget processes (\$1.4 million) and Vacant Bed Days policy compliance (\$800,000).
- **Reshaping the Civil Service:** Projects include but are not limited to reforming Transportation and Infrastructure (\$2 million), combining positions and eliminating unneeded positions (\$1.8 million).
- **Centralization of Services:** Projects include but are not limited to Human Resources centralization (\$300,000) and other centralization efforts (\$400,000).
- **Other Efficiencies:** Projects include but are not limited to Visitor Information Centre closures (\$195,000) and Off-Road Vehicle Enforcement (\$150,000).

2016-2017 Fiscal Update

Based on first quarter information, there is a projected deficit of \$342.4 million for 2016-2017. This is an improvement of \$4.6 million compared to the budgeted deficit of \$347.0 million. Both revenue and expenses have increased by over \$40 million due to additional funding received through various federal-provincial agreements. These items fully offset each other. As a result of lower projected Return on Investment, the contingency reserve has been lowered from \$100 million to \$80 million as of the first quarter.

Net debt is projected to increase by \$472.3 million, an increase of \$3.8 million from budget. Net debt is projected to reach \$13,462 million by March 31, 2017.

Revenue:

Revenue is \$6.4 million higher than budget. The major variances include:

- Conditional Grants are up \$23.1 million due to higher recoveries for various federally funded programs.
- Special Operating Agency revenue is up \$21.9 million because of new federal funding for the Post-Secondary Institutions Strategic Investment Fund, the Clean Water and Wastewater Fund, and the Public Transit Infrastructure Fund.
- Miscellaneous Revenue is up \$10.0 million mainly due to the realignment of revenue from Sale of Goods and Services, and various other accounts across departments.
- Lottery and Gaming Revenue is up \$6.0 million largely due to strong year-end results in 2015-16 resulting in higher than anticipated revenue for 2016-17.
- Return on Investment is down \$49.3 million primarily as a result of lower projected net income for NB Power. This is mainly due to lower export sales, loss of in-province industrial load and additional preventative maintenance investments for the Point Lepreau Nuclear Generating Station.
- Sale of Goods and Services is down \$6.9 million from budget which is mainly due to a realignment of revenue to Miscellaneous Revenue.
- Provincial Real Property Tax is down \$5.0 million due to the tax base being lower than forecasted.

Expense:

Total expenses were \$21.7 million higher than budget. The major variances include the following:

- General Government (\$15.6 million under): Primarily due to lower than expected expenses in the Legislated Pension Plans, Benefit Accruals, Subsidies, and Supplementary Allowances Programs associated with the retirement allowance benefit.

- Justice and Public Safety (\$6.0 million over): Due to higher than budgeted expenses under the Disaster Financial Assistance program associated with storm and flood events. These expenses are partially offset by increased recoveries from the federal government.
- Opportunities New Brunswick (\$5.8 million under): Mainly due to lower than anticipated expenses in the Financial Assistance and Business Development Services programs.
- Other Agencies (\$2.8 million under): Mainly due to lower than budgeted expenses in Consolidated Entities.
- Post-Secondary Education, Training and Labour (\$5.4 million over): Mainly due to costs associated with client driven programs in post-secondary education and additional expenditures in employment programs related to increased federal funding. These increases are partially offset by lower than budgeted expenses in other areas.
- Social Development (\$13.9 million over): Mainly due to increased costs in the Housing Services program associated with the new federal-provincial Social Infrastructure Fund Agreement.
- Capital Account (\$5.1 million under): Due to lower than expected Capital Account expense in the Department of Transportation and Infrastructure and the Regional Development Corporation.
- Special Operating Agency Account (\$25.7 million over): Mainly due to costs associated with the federal-provincial Clean Water and Wastewater Fund, the Public Transit Infrastructure Fund and the Post-Secondary Institutions Strategic Investment Fund in the Regional Development Corporation.

**PROVINCE OF NEW BRUNSWICK
FISCAL UPDATE
Thousands
\$**

	2016-2017 Budget	2016-2017 1st Quarter Projection	Variance from Budget
Revenue			
Ordinary Account.....	8,354,502	8,334,551	(19,951)
Capital Account.....	32,680	37,452	4,772
Special Purpose Account.....	76,101	75,744	(357)
Special Operating Agencies.....	65,282	87,209	21,927
Sinking Fund Earnings.....	190,200	190,200	0
Total Revenue.....	8,718,765	8,725,156	6,391
Expense			
Ordinary Account.....	8,261,450	8,260,958	(492)
Capital Account.....	122,649	117,584	(5,065)
Special Purpose Account.....	87,265	87,892	627
Special Operating Agencies.....	59,239	84,976	25,737
Amortization of Tangible Capital Assets.....	435,186	436,125	939
Total Expense.....	8,965,789	8,987,535	21,746
Contingency Reserve	(100,000)	(80,000)	20,000
Surplus (Deficit).....	<u>(347,024)</u>	<u>(342,379)</u>	<u>4,645</u>

CHANGE IN NET DEBT
Thousands
\$

	2016-2017 Budget	2016-2017 1 st Quarter Projection	Variance from Budget
Net Debt - Beginning of Year.....	(12,989,898)	(12,989,898)	0
Changes in Year			
Surplus (Deficit).....	(347,024)	(342,379)	4,645
Investments in Tangible Capital Assets.....	(556,661)	(566,083)	(9,422)
Amortization of Tangible Capital Assets.....	<u>435,186</u>	<u>436,125</u>	<u>939</u>
(Increase) Decrease in Net Debt.....	(468,499)	(472,337)	(3,838)
Net Debt - End of Year.....	<u>(13,458,397)</u>	<u>(13,462,235)</u>	<u>(3,838)</u>

APPENDIX A

ORDINARY ACCOUNT REVENUE BY SOURCE

Thousands

\$

	2016-2017 Budget	2016-2017 1 st Quarter Projection	Variance from Budget
Taxes			
Personal Income Tax.....	1,632,000	1,632,000	0
Corporate Income Tax.....	276,200	276,200	0
Metallic Minerals Tax.....	0	200	200
Provincial Real Property Tax.....	514,688	509,688	(5,000)
Harmonized Sales Tax: net of credit.....	1,335,600	1,335,600	0
Gasoline and Motive Fuels Tax.....	288,000	288,000	0
Tobacco Tax.....	153,500	155,000	1,500
Pari-Mutuel Tax.....	420	420	0
Insurance Premium Tax.....	54,000	54,000	0
Real Property Transfer Tax.....	23,000	23,000	0
Financial Corporation Capital Tax.....	27,000	27,000	0
Penalties and Interest.....	13,000	13,000	0
Subtotal - Taxes.....	4,317,408	4,314,108	(3,300)
Return on Investment.....	303,686	254,376	(49,310)
Licences and Permits.....	150,604	150,613	9
Sale of Goods and Services.....	334,610	327,710	(6,900)
Lottery and Gaming Revenues.....	144,800	150,800	6,000
Royalties.....	70,430	70,430	0
Fines and Penalties.....	10,724	10,740	16
Miscellaneous.....	72,362	82,326	9,964
Total - Own Source Revenue.....	5,404,624	5,361,103	(43,521)
Unconditional Grants – Canada			
Fiscal Equalization Payments.....	1,708,400	1,708,400	0
Canada Health Transfer.....	753,900	753,900	0
Canada Social Transfer.....	279,000	279,000	0
Other.....	1,866	1,866	0
Subtotal - Unconditional Grants – Canada.....	2,743,166	2,743,166	0
Conditional Grants – Canada.....	216,936	240,003	23,067
Total - Grants from Canada.....	2,960,102	2,983,169	23,067
Subtotal.....	8,364,726	8,344,272	(20,454)
Inter-account Transactions.....	(10,224)	(9,721)	503
Ordinary Account Revenue.....	8,354,502	8,334,551	(19,951)

APPENDIX B

ORDINARY ACCOUNT EXPENSE

Thousands

\$

DEPARTMENT	2016-2017 Budget*	2016-2017 1st Quarter Projection	Variance from Budget	%
Agriculture, Aquaculture and Fisheries.....	37,209	36,970	(239)	-0.6%
Education and Early Childhood Development.....	1,137,886	1,137,886	0	0.0%
Energy and Resource Development.....	100,016	99,676	(340)	-0.3%
Environment and Local Government.....	138,481	138,481	0	0.0%
Executive Council Office.....	11,950	11,900	(50)	-0.4%
Finance.....	12,503	12,503	0	0.0%
General Government.....	782,359	766,717	(15,642)	-2.0%
Health.....	2,580,772	2,580,772	0	0.0%
Justice and Public Safety.....	224,141	230,111	5,970	2.7%
Legislative Assembly.....	26,030	26,430	400	1.5%
Office of the Attorney General.....	17,641	17,816	175	1.0%
Office of the Premier.....	1,598	1,598	0	0.0%
Opportunities New Brunswick.....	46,492	40,682	(5,810)	-12.5%
Other Agencies.....	263,594	260,814	(2,780)	-1.1%
Post-Secondary Education, Training and Labour.....	609,985	615,421	5,436	0.9%
Regional Development Corporation.....	79,922	79,922	0	0.0%
Service of the Public Debt.....	700,000	700,000	0	0.0%
Social Development.....	1,164,423	1,178,327	13,904	1.2%
Tourism, Heritage and Culture.....	51,514	52,014	500	1.0%
Transportation and Infrastructure.....	292,900	294,450	1,550	0.5%
Treasury Board.....	15,468	15,421	(47)	-0.3%
Subtotal.....	8,294,884	8,297,911	3,027	0.0 %
Investment in Tangible Capital Assets.....	(23,210)	(27,232)	(4,022)	17.3 %
Inter-account Transactions.....	(10,224)	(9,721)	503	-4.9 %
Ordinary Account Expense.....	8,261,450	8,260,958	(492)	0.0 %

*The 2016-2017 Budget has been restated to reflect government reorganization.

APPENDIX C

CAPITAL EXPENDITURES

Thousands

\$

	2016-2017 Budget*	2016-2017 1 st Quarter Projection	Variance from Budget
Regular Capital Investments			
Agriculture, Aquaculture and Fisheries.....	500	531	31
Education and Early Childhood Development.....	65,022	62,308	(2,714)
Environment and Local Government.....	1,000	1,000	0
Health.....	70,100	63,806	(6,294)
Justice and Public Safety.....	0	33	33
Legislative Assembly.....	450	450	0
Post-Secondary Education, Training and Labour.....	5,895	5,895	0
Regional Development Corporation.....	2,707	2,707	0
Service New Brunswick.....	3,411	3,411	0
Tourism, Heritage and Culture.....	1,000	1,000	0
Transportation and Infrastructure.....	367,250	376,448	9,198
Regular Capital Investments.....	517,335	517,589	254
Strategic Infrastructure Initiative			
Agriculture, Aquaculture and Fisheries.....	1,000	1,000	0
Education and Early Childhood Development.....	41,085	43,935	2,850
Health.....	2,000	528	(1,472)
Legislative Assembly.....	335	361	26
Regional Development Corporation.....	44,500	43,100	(1,400)
Tourism, Heritage and Culture.....	1,295	1,295	0
Transportation and Infrastructure.....	35,210	35,287	77
Energy Retrofit and Renewable Energy.....	13,340	13,340	0
Strategic Infrastructure Initiative.....	138,765	138,846	81
Total - Capital Expenditures.....	656,100	656,435	335
Investments in Tangible Capital Assets.....	(533,451)	(538,851)	(5,400)
Capital Account Expense.....	122,649	117,584	(5,065)

*The 2016-2017 Budget has been restated to reflect government reorganization.