



Treasury Board and Department of Finance

Economic, Strategic Program
Review and Fiscal Update

Second Quarter 2016-2017

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

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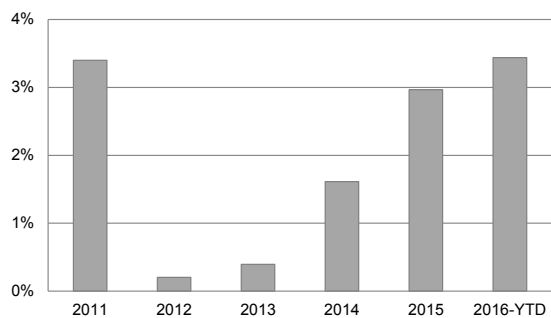
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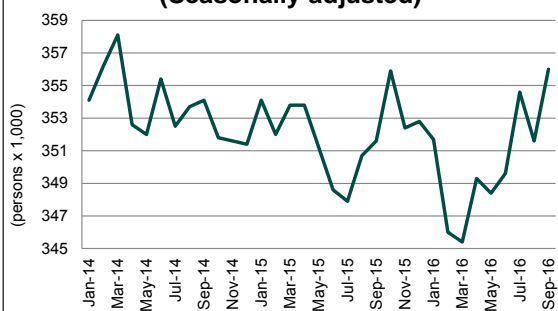
Think Recycling!

2016 Economic Update

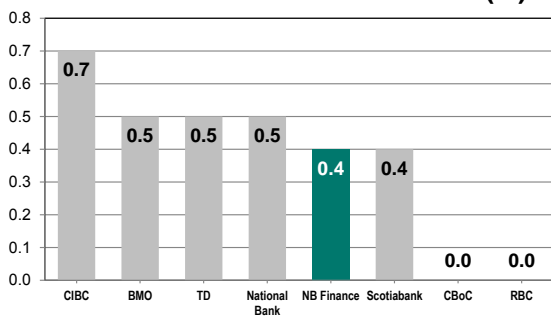
Wages and salaries, annual growth



Employment (Seasonally adjusted)



Real GDP - New Brunswick - 2016 (%)



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	2.4
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 October 21, 2016

- The International Monetary Fund (IMF) is forecasting global economic growth of 3.1 per cent in 2016, which is unchanged from its previous estimate. This reflects a more subdued outlook for advanced economies, following Brexit and weaker-than-expected growth in the U.S.

- U.S. real GDP increased at an annual rate of 1.4 per cent in the second quarter of 2016, while the IMF downgraded their forecast from 2.2 to 1.6 per cent growth for the year.

- The Bank of Canada lowered its Canadian growth outlook for 2016 from 1.3 per cent in July to 1.1 per cent in October, reflecting downward revisions to exports and real estate activity.

- 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.

- Some positive drivers include healthy income growth, retail sales and a supportive exchange rate. Strength has also been observed in the agriculture sector and fishing industry.

- Although exports (-15.7%) and manufacturing sales (-7.4%) remain below year-earlier levels, activity has improved marginally since the first quarter as the influence of the oil price shock has diminished. Wood product manufacturing and seafood product preparation and packaging remain bright spots, growing by 10.9 per cent and 19.8 per cent respectively.

- Three-quarters of the way through 2016, employment is down by 0.2 per cent on a year-to-date basis and marks an improvement since the last quarterly update.

- Population grew for the first time in four years with an increase of 0.3 per cent as of July 1st.

- Wages and salaries are up 3.5 per cent on a year-to-date basis, above the national growth rate of 1.7 per cent.

- Consumer spending remains solid with retail trade up 4.1 per cent on a year-to-date basis.

Strategic Program Review Update

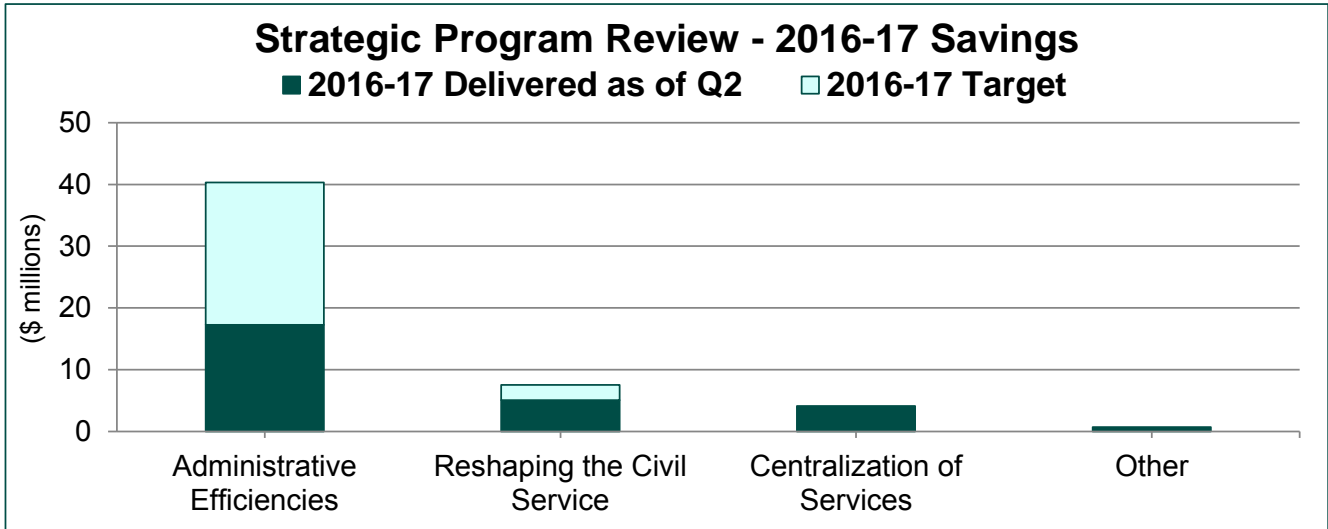
- Strategic Program Review (SPR) was an inclusive and transparent process with input sought from the public to help identify savings and revenues in order to eliminate the province's deficit. The review began by looking internally to government first through efforts such as reducing the number of deputy 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 second quarter information, the projected savings for 2016-17 will be approximately \$49 million; additional savings identified through Strategic Program Review will be seen as projects are implemented.
- Through continued efforts in administrative efficiencies and centralization of services, additional savings of \$5.2 million were found in the second quarter versus the first quarter of 2016-17.
- 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 Second Quarter Projections (\$ 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	\$17,234	\$40,317	\$36,580	\$102,145	\$102,145
Reshaping the Civil Service	\$5,046	\$7,544	\$7,534	\$24,959	\$24,959
Centralization of Services	\$3,814	\$4,124	\$4,124	\$52,125	\$52,125
Other	\$715	\$639	\$715	\$1,262	\$1,262
Total	\$142,809	\$52,624	\$48,953	\$295,691	\$295,691



- Administrative Efficiencies:** Projects include but are not limited to administration of Municipal Tax Warrant (\$2.0 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). General administrative efficiencies such as rationalization of phone lines, computers and subscriptions, as well as continuous process improvement efforts, have resulted in savings of \$11.5 million.
- Reshaping the Civil Service:** Projects include but are not limited to reforming Transportation and Infrastructure (\$2.6 million) and rightsizing the civil service, including combining positions and eliminating unneeded positions (\$2.4 million).
- Centralization of Services:** Projects include but are not limited to centralization of common services at Service New Brunswick (\$3.1 million), Land Registry centralization (\$400,000) and Human Resources centralization (\$300,000).
- Other:** 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 second quarter information, there is a projected deficit of \$331.6 million for 2016-17. This is an improvement of \$15.5 million compared to the budgeted deficit of \$347.0 million. If the contingency reserve is not required, the deficit will be \$231.6 million.

Second Quarter Fiscal Summary			
(\$ Thousands)	2016-17 Budget	2016-17 2nd Quarter Projection	Variance from Budget
Revenue	8,718,765	8,744,623	25,858
Expense	8,965,789	8,976,181	10,392
Contingency Reserve*	(100,000)	(100,000)	0
Surplus (Deficit)	(347,024)	(331,558)	15,466
*With the improvement to the revenue outlook, the contingency reserve has been restored to its budgeted level.			

Net debt is projected to increase by \$445.8 million, a decrease of \$22.7 million from budget. Net debt is projected to reach \$14,105 million by March 31, 2017. If the contingency reserve is not required, the net debt will be \$14,005 million.

Revenue:

Revenue is \$25.9 million higher than budget. The major variances include:

- Conditional Grants are up \$49.8 million due to higher recoveries for various federally funded programs including the Disaster Financial Assistance program.
- Special Operating Agency revenue is up \$14.1 million because of new federal funding for the Post-Secondary Institutions Strategic Investment Fund and the Clean Water and Wastewater Fund.
- Miscellaneous Revenue is up \$13.1 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.
- Tobacco Tax is up \$5.0 million due to both value and volume of sales being higher than anticipated at budget.
- Return on Investment is down \$49.2 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.
- Provincial Real Property Tax is down \$8.7 million mainly due to the tax base being lower than forecasted.

- Personal Income Tax is down \$5.0 million from budget primarily due to the impact of elimination of the federal Universal Child Care Benefit on provincial income tax revenue.

Expense:

Total expenses are projected to be \$10.4 million higher than budget. The major variances include the following:

- General Government (\$20.4 million under): Primarily due to lower than expected expenses in the Legislated Pension Plans, Benefit Accruals, Subsidies, and Supplementary Allowances Programs associated with retirement allowance benefits.
- Health (\$10.0 million over): Mainly due to higher than expected expenses under the Medicare program, partially offset by under-expenditures in other programs.
- Justice and Public Safety (\$2.7 million over): Mainly 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 (\$2.0 million over): Opportunities New Brunswick is estimated to be over by \$2.0 million due to successful business development initiatives.
- Post-Secondary Education, Training and Labour (\$3.0 million over): Mainly due to additional expenditures in employment programs related to increased federal funding and in the Maritime Provinces Higher Education Commission.
- Social Development (\$7.4 million over): Mainly due to increased costs in the Housing Services program associated with the new federal-provincial Social Infrastructure Fund Agreement. These increased costs were partially offset by savings in the Long-Term Care program.
- Transportation and Infrastructure (\$2.4 million over): Mainly due to higher than expected costs associated with the Radio Communications project, WorkSafe NB and Summer Maintenance.
- Capital Account (\$13.6 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 (\$18.9 million over): Mainly due to costs associated with the federal-provincial Clean Water and Wastewater Fund and the Post-Secondary Institutions Strategic Investment Fund in the Regional Development Corporation, as well as increased costs under the Vehicle Management Agency of the Department of Transportation and Infrastructure.

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

	2016-2017 Budget	2016-2017 1st Quarter Projection	2016-2017 2nd Quarter Projection	Variance from Budget
Revenue				
Ordinary Account.....	8,354,502	8,334,551	8,362,531	8,029
Capital Account.....	32,680	37,452	36,458	3,778
Special Purpose Account.....	76,101	75,744	76,031	(70)
Special Operating Agencies.....	65,282	87,209	79,403	14,121
Sinking Fund Earnings.....	190,200	190,200	190,200	0
Total Revenue.....	8,718,765	8,725,156	8,744,623	25,858
Expense				
Ordinary Account.....	8,261,450	8,260,958	8,263,372	1,922
Capital Account.....	122,649	117,584	109,089	(13,560)
Special Purpose Account.....	87,265	87,892	88,539	1,274
Special Operating Agencies.....	59,239	84,976	78,132	18,893
Amortization of Tangible Capital Assets.....	435,186	436,125	437,049	1,863
Total Expense.....	8,965,789	8,987,535	8,976,181	10,392
Contingency Reserve	(100,000)	(80,000)	(100,000)	0
Surplus (Deficit).....	<u>(347,024)</u>	<u>(342,379)</u>	<u>(331,558)</u>	<u>15,466</u>

If the contingency reserve is not required, the deficit based on second quarter projections will be \$231.6 million.

CHANGE IN NET DEBT
Thousands
\$

	2016-2017 Budget	2016-2017 1 st Quarter Projection	2016-2017 2 nd Quarter Projection	Variance from Budget
Net Debt - Beginning of Year.....	(12,989,898)	(12,989,898)	(13,659,580)	(669,682)
Changes in Year				
Surplus (Deficit).....	(347,024)	(342,379)	(331,558)	15,466
Investments in Tangible Capital Assets.....	(556,661)	(566,083)	(551,292)	5,369
Amortization of Tangible Capital Assets.....	435,186	436,125	437,049	1,863
(Increase) Decrease in Net Debt.....	(468,499)	(472,337)	(445,801)	22,698
Net Debt - End of Year.....	<u>(13,458,397)</u>	<u>(13,462,235)</u>	<u>(14,105,381)</u>	<u>(646,984)</u>

If the contingency reserve is not required, the net debt based on second quarter projections will be \$14,005 million.

At second quarter, Net Debt - Beginning of Year has been updated to reflect the ending net debt that was published in the 2015-2016 Consolidated Financial Statements (Public Accounts Volume I).

APPENDIX A

ORDINARY ACCOUNT REVENUE BY SOURCE

Thousands

\$

	2016-2017 Budget	2016-2017 1 st Quarter Projection	2016-2017 2 nd Quarter Projection	Variance from Budget
Taxes				
Personal Income Tax.....	1,632,000	1,632,000	1,627,000	(5,000)
Corporate Income Tax.....	276,200	276,200	279,600	3,400
Metallic Minerals Tax.....	0	200	200	200
Provincial Real Property Tax.....	514,688	509,688	506,000	(8,688)
Harmonized Sales Tax: net of credit.....	1,335,600	1,335,600	1,335,600	0
Gasoline and Motive Fuels Tax.....	288,000	288,000	288,000	0
Tobacco Tax.....	153,500	155,000	158,500	5,000
Pari-Mutuel Tax.....	420	420	420	0
Insurance Premium Tax.....	54,000	54,000	54,000	0
Real Property Transfer Tax.....	23,000	23,000	23,000	0
Financial Corporation Capital Tax.....	27,000	27,000	27,000	0
Penalties and Interest.....	13,000	13,000	11,000	(2,000)
Subtotal - Taxes.....	4,317,408	4,314,108	4,310,320	(7,088)
Return on Investment.....	303,686	254,376	254,481	(49,205)
Licences and Permits.....	150,604	150,613	150,306	(298)
Sale of Goods and Services.....	334,610	327,710	330,914	(3,696)
Lottery and Gaming Revenues.....	144,800	150,800	150,800	6,000
Royalties.....	70,430	70,430	70,035	(395)
Fines and Penalties.....	10,724	10,740	10,740	16
Miscellaneous.....	72,362	82,326	85,495	13,133
Total - Own Source Revenue.....	5,404,624	5,361,103	5,363,091	(41,533)
Unconditional Grants – Canada				
Fiscal Equalization Payments.....	1,708,400	1,708,400	1,708,400	0
Canada Health Transfer.....	753,900	753,900	753,500	(400)
Canada Social Transfer.....	279,000	279,000	278,700	(300)
Other.....	1,866	1,866	1,866	0
Subtotal - Unconditional Grants – Canada.....	2,743,166	2,743,166	2,742,466	(700)
Conditional Grants – Canada.....	216,936	240,003	266,695	49,759
Total – Grants from Canada.....	2,960,102	2,983,169	3,009,161	49,059
Subtotal.....	8,364,726	8,344,272	8,372,252	7,526
Inter-account Transactions.....	(10,224)	(9,721)	(9,721)	503
Ordinary Account Revenue.....	8,354,502	8,334,551	8,362,531	8,029

APPENDIX B

ORDINARY ACCOUNT EXPENSE

Thousands

\$

DEPARTMENT	2016-2017 Budget*	2016-2017 1st Quarter Projection	2016-2017 2nd Quarter Projection	Variance from Budget	%
Agriculture, Aquaculture and Fisheries.....	37,209	36,970	36,970	(239)	-0.6%
Education and Early Childhood Development.....	1,137,886	1,137,886	1,137,886	0	0.0%
Energy and Resource Development.....	100,016	99,676	99,676	(340)	-0.3%
Environment and Local Government.....	138,481	138,481	138,861	380	0.3%
Executive Council Office.....	11,950	11,900	11,900	(50)	-0.4%
Finance.....	12,503	12,503	12,503	0	0.0%
General Government.....	782,018	766,376	761,664	(20,354)	-2.6%
Health.....	2,580,772	2,580,772	2,590,754	9,982	0.4%
Justice and Public Safety.....	224,141	230,111	226,800	2,659	1.2%
Legislative Assembly.....	26,030	26,430	26,456	426	1.6%
Office of the Attorney General.....	17,641	17,816	17,991	350	2.0%
Office of the Premier.....	1,598	1,598	1,598	0	0.0%
Opportunities New Brunswick.....	46,492	40,682	48,482	1,990	4.3%
Other Agencies.....	263,594	260,814	260,836	(2,758)	-1.0%
Post-Secondary Education, Training and Labour.....	609,985	615,421	612,985	3,000	0.5%
Regional Development Corporation.....	79,922	79,922	79,922	0	0.0%
Service of the Public Debt.....	700,000	700,000	700,000	0	0.0%
Social Development.....	1,164,423	1,178,327	1,171,794	7,371	0.6%
Tourism, Heritage and Culture.....	51,514	52,014	52,504	990	1.9%
Transportation and Infrastructure.....	292,900	294,450	295,250	2,350	0.8%
Treasury Board.....	15,809	15,762	15,718	(91)	-0.6%
Subtotal.....	8,294,884	8,297,911	8,300,550	5,666	0.1 %
Investment in Tangible Capital Assets.....	(23,210)	(27,232)	(27,457)	(4,247)	18.3 %
Inter-account Transactions.....	(10,224)	(9,721)	(9,721)	503	-4.9 %
Ordinary Account Expense.....	8,261,450	8,260,958	8,263,372	1,922	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	2016-2017 2 nd Quarter Projection	Variance from Budget
Regular Capital Investments				
Agriculture, Aquaculture and Fisheries.....	500	531	531	31
Education and Early Childhood Development.....	65,022	62,308	57,234	(7,788)
Environment and Local Government.....	1,000	1,000	1,000	0
Health.....	70,100	63,806	61,582	(8,518)
Justice and Public Safety.....	0	33	33	33
Legislative Assembly.....	450	450	321	(129)
Post-Secondary Education, Training and Labour.....	5,895	5,895	5,895	0
Regional Development Corporation.....	2,707	2,707	2,707	0
Service New Brunswick.....	3,411	3,411	3,411	0
Tourism, Heritage and Culture.....	1,000	1,000	1,000	0
Transportation and Infrastructure.....	367,250	376,448	372,953	5,703
Regular Capital Investments.....	517,335	517,589	506,667	(10,668)
Strategic Infrastructure Initiative				
Agriculture, Aquaculture and Fisheries.....	1,000	1,000	1,000	0
Education and Early Childhood Development.....	41,085	43,935	39,135	(1,950)
Health.....	2,000	528	528	(1,472)
Legislative Assembly.....	335	361	464	129
Regional Development Corporation.....	44,500	43,100	37,479	(7,021)
Tourism, Heritage and Culture.....	1,295	1,295	1,295	0
Transportation and Infrastructure.....	35,210	35,287	33,016	(2,194)
Energy Retrofit and Renewable Energy.....	13,340	13,340	13,340	0
Strategic Infrastructure Initiative.....	138,765	138,846	126,257	(12,508)
Total - Capital Expenditures.....	656,100	656,435	632,924	(23,176)
Investments in Tangible Capital Assets.....	(533,451)	(538,851)	(523,835)	9,616
Capital Account Expense.....	122,649	117,584	109,089	(13,560)

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