



Treasury Board and Department of Finance

Economic, Strategic Program
Review and Fiscal Update

Third Quarter 2017–2018

**Economic, Strategic Program Review and Fiscal Update
Third Quarter 2017–2018**

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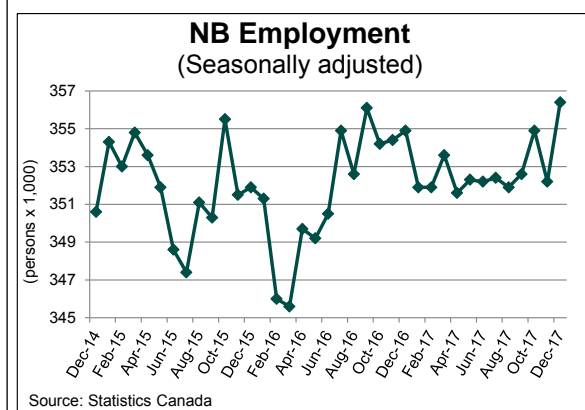
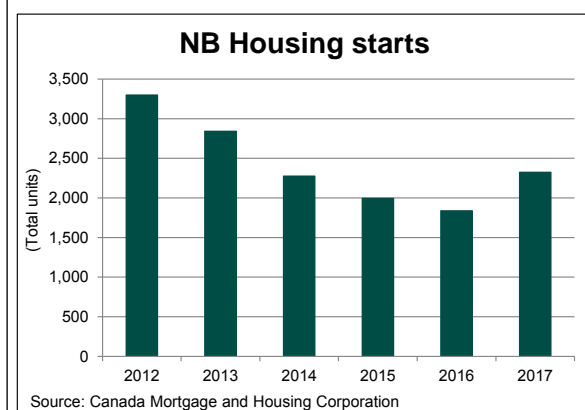
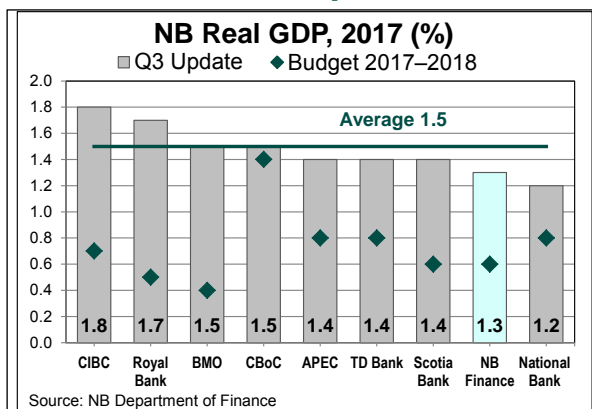
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Think Recycling!

2017 Economic Update



New Brunswick Economic Outlook			
	2015	2016	2017
Real GDP	2.4	1.2	1.3 ^F
Household Final Consumption Expenditures	1.8	2.7	3.2 ^F
Primary Household Income	1.0	3.9	2.5 ^F
Employment	-0.6	-0.1	0.4
Unemployment Rate (%)	9.8	9.5	8.1
Consumer Price Index	0.5	2.2	2.3 ^F

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

Based on data available as of January 19, 2018

- The International Monetary Fund (IMF) is projecting global economic growth of 3.6 per cent in 2017, unchanged since the release of the second quarter economic and fiscal update.

- Third quarter real GDP in the U.S. increased at an annualized rate of 3.2 per cent, the strongest pace of expansion since 2015. Despite the uptick in economic activity, the IMF is maintaining its growth forecast of 2.2 per cent for 2017.

- The Bank of Canada projects growth of 3.0 per cent for 2017 and reports that the Canadian economy is operating at close to capacity. After a strong performance in the first half of the year, economic growth moderated in the third quarter.

- The Department of Finance has upgraded its forecast for the provincial economy and is now projecting real GDP growth of 1.3 per cent for 2017. The consensus among private sector forecasters has also increased, with growth of 1.5 per cent.

- New Brunswick's economic performance exceeded expectations, with robust growth in exports, particularly throughout the first half of the year, as well as increased new home construction and consumer spending arising from employment and income growth.

- Total employment increased by 0.4 per cent in 2017. Growth in full-time employment of 1.8 per cent (+5,400 jobs) was sufficient to offset a 7.3 per cent decline (-4,000 jobs) in part-time employment. Both the goods-producing and services-producing sectors recorded job gains of 0.7 and 0.4 per cent respectively.

- Exports are up 19.1 per cent for the eleven-month period ending November. Growth has been driven mainly by refined petroleum products, which has recorded gains of 33.7 per cent. Other bright spots include seafood product and pulp mill exports.

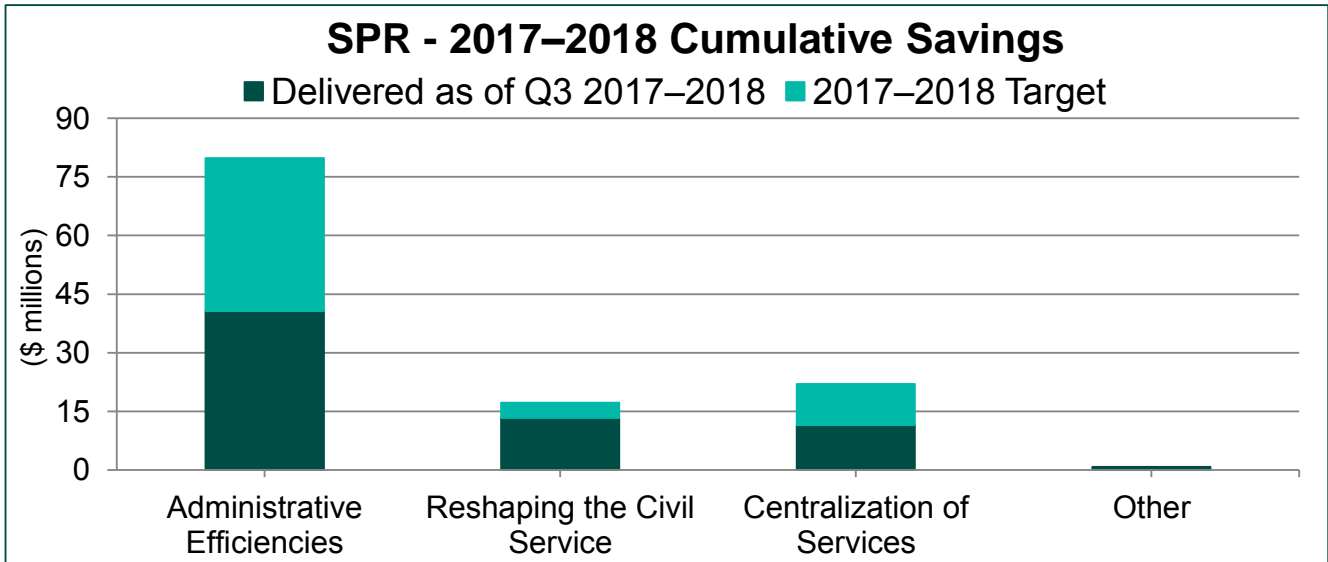
- Housing starts increased 26.4 per cent to 2,324 units in 2017, the first increase since 2010. Gains were most pronounced in Moncton and Saint John.
- Retail sales continue to record strong growth as evidenced by the 7.0 per cent gain registered at the end of October.

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.
- Based on third quarter information, the projected cumulative savings by March 31, 2018, will be approximately \$203 million; additional savings will be realized as projects are implemented.
- Government is on track to deliver 86.4 per cent of the cumulative savings target of \$235 million for 2017–2018. The major variances include:
 - Retirement Allowance elimination for bargaining groups (\$18 million under): Government does not have the constitutional power to unilaterally remove this benefit. Instead, government's bargaining mandate includes provisions to offer additional wage increases in exchange for the elimination of this benefit. Several unions have accepted this offer; however some large bargaining groups chose to maintain the benefit through negotiation of contract agreements.
 - Centralization of common services (\$9 million under): Mainly due to the double counting of procurement savings within other SPR initiatives.
 - Education and Early Childhood Development (\$3.5 million under): New Brunswick welcomed the largest per capita share of Syrian refugees of any province in the country and, as a result, we have a larger student population than projected and more teachers have been hired to replace retirements than originally planned.
- By 2020, the Strategic Program Review is expected to yield \$296 million in expenditure reductions and \$293 million in revenue measures, for a grand total of \$589 million.

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

Savings Initiatives	Achieved to date 2017–2018	2017–2018 Target	2017–2018 Forecast	2020–2021 Target	2020–2021 Forecast
2015–2016 Savings	\$115,200	\$115,200	\$115,200	\$115,200	\$115,200
Administrative Efficiencies	\$40,680	\$79,770	\$56,566	\$102,145	\$102,145
Reshaping the Civil Service	\$13,338	\$17,199	\$18,598	\$24,959	\$24,959
Centralization of Services	\$11,503	\$22,090	\$12,032	\$52,125	\$52,125
Other	\$784	\$743	\$743	\$1,262	\$1,262
Total	\$181,505	\$235,002	\$203,139	\$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 \$35 million.
- **Reshaping the Civil Service:** Projects include but are not limited to reforming Transportation and Infrastructure (\$9.8 million) and rightsizing the civil service, including combining positions and eliminating unneeded positions (\$3.6 million).
- **Centralization of Services:** Projects include but are not limited to centralization of common services at Service New Brunswick (\$9.7 million), consolidation of Lab Services (\$600,000), 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).

2017–2018 Fiscal Update

Based on third quarter information, there is a projected deficit of \$115.2 million for 2017–2018. This is an improvement of \$76.7 million compared to the budgeted deficit of \$191.9 million.

Third Quarter Fiscal Summary			
(\$ Millions)	2017–2018 Budget	2017–2018 3 rd Quarter Projection	Variance from Budget
Revenue	9,188.7	9,263.0	74.3
Expense	9,380.6	9,378.2	(2.4)
Surplus (Deficit)	(191.9)	(115.2)	76.7

Net debt is projected to increase by \$272.9 million, an improvement of \$89.2 million from the budget projection.

Revenue:

Revenue is \$74.3 million higher than budget. The major variances include:

- Corporate Income Tax is up \$102.9 million due to a significant increase in the national corporate taxable income forecast on which payments are based and an anticipated large positive prior-year adjustment for 2016 reflecting actual assessments.
- Miscellaneous Revenue is up \$42.0 million mainly due to recoveries related to HST, increased revenue from the Regional Health Authorities and various other accounts across departments.
- Harmonized Sales Tax is up \$31.4 million reflecting official federal estimates received in December 2017.
- Conditional Grants are up \$8.6 million due to higher recoveries for federal employment programs and the new Multilateral Early Learning and Child Care Framework.
- Sale of Goods and Services is up \$6.7 million mainly due to a higher than anticipated Department of Health recovery levy and increased revenue from the Regional Health Authorities, offset by various other accounts across departments.
- Lotteries and Gaming Revenues are up \$5.4 million as a result of stronger than anticipated revenues from the video lottery program.
- Licences and Permits are up \$5.4 million mainly due to increased revenue projected under the *Motor Vehicle Act*.
- Personal Income Tax is down \$76.0 million due to a weakened income tax yield in 2016, which impacts the prior year as well as in-year revenue.
- Return on Investment is down \$26.3 million mainly due to lower net income being projected by the New Brunswick Power Corporation and New Brunswick Liquor Corporation. New Brunswick Power Corporation is projecting net income to be lower by \$22.0 million mainly due to low water levels for hydro-electric power generation. New Brunswick Liquor Corporation is projecting net income to be down by \$3.9 million due to the implementation of the everyday best beer buy for select beer products.
- Special Operating Agencies are down \$18.1 million as a result of project delays in the Building Canada Clean Water and Wastewater Program.
- Tobacco Tax is down \$7.0 million due to a higher than anticipated decrease in volume.
- Provincial Real Property Tax is down \$5.0 million due to the tax base being lower than forecasted.

Expense:

Total expenses are projected to be under budget by \$2.4 million. The major variances include the following:

- Special Operating Agency Accounts are under budget by \$26.8 million mainly due to project delays in the Building Canada Clean Water and Wastewater Program.

- Service of the Debt is \$18.0 million lower as a result of lower than forecasted interest rates and refinancing a capital lease.
- Capital Account Expense is \$17.3 million lower than budget mainly due to lower expenses in the Regional Development Corporation.
- Education & Early Childhood Development is \$4.1 million lower than budget mainly due to lower costs in the School Districts.
- Environment and Local Government is \$3.7 million over budget mainly due to unanticipated expenses related to municipal and rural community property tax assessment adjustments.
- Justice and Public Safety is \$4.3 million over budget mainly due to additional expenses under the Disaster Financial Assistance program due to the 2017 ice storm. These expenses are partially offset by increased recoveries from the federal government.
- Transportation and Infrastructure is projecting to be \$5.0 million over budget in the Winter Maintenance program due to anticipated weather.
- Energy and Resource Development is \$6.3 million over budget mainly due to the purchase of LiDar mapping data, higher royalty payments to First Nations and increased fire suppression costs. These expenses are partially offset by additional revenues.
- Post-Secondary Education, Training and Labour is \$7.0 million over budget mainly due to additional expenditures in employment programs resulting from an expected increase in federal funding.
- Health is \$7.7 million over budget mainly due to higher than expected expenses under the Medicare program, partially offset by under-expenditures in other programs.
- Social Development is \$12.6 million over budget mainly due to increased costs in the Housing Services Program (partially offset by lower expenses in the Special Purpose Account), and higher expenses in the Disability Support and Nursing Home Services programs.
- The Regional Development Corporation is \$18.3 million over budget mainly due to accelerated project funding for various initiatives.
- General Government is over budget by \$18.3 million mainly due to an increase in the liability for injured workers.

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

	2017–2018 Budget	2017–2018 2nd Quarter Projection	2017–2018 3rd Quarter Projection	Variance from Budget
Revenue				
Ordinary Account.....	8,749,709	8,773,749	8,844,074	94,365
Capital Account.....	34,663	31,633	32,868	(1,795)
Special Purpose Account.....	79,505	78,858	79,375	(130)
Special Operating Agencies.....	135,916	138,003	117,772	(18,144)
Sinking Fund Earnings.....	188,900	188,900	188,900	0
Total Revenue.....	9,188,693	9,211,143	9,262,989	74,296
Expense				
Ordinary Account.....	8,523,323	8,522,173	8,573,350	50,027
Capital Account.....	163,698	143,443	146,409	(17,289)
Special Purpose Account.....	94,666	86,813	86,238	(8,428)
Special Operating Agencies.....	138,149	135,434	111,378	(26,771)
Amortization of Tangible Capital Assets.....	460,802	458,649	460,840	38
Total Expense.....	9,380,638	9,346,512	9,378,215	(2,423)
Surplus (Deficit).....	<u>(191,945)</u>	<u>(135,369)</u>	<u>(115,226)</u>	<u>76,719</u>

CHANGE IN NET DEBT
Thousands
\$

	2017–2018 Budget	2017–2018 2 nd Quarter Projection	2017–2018 3 rd Quarter Projection	Variance from Budget
Net Debt - Beginning of Year.....	(13,997,406)	(13,826,996)	(13,826,996)	170,410
Changes in Year				
Surplus (Deficit).....	(191,945)	(135,369)	(115,226)	76,719
Investments in Tangible Capital Assets.....	(630,925)	(621,237)	(618,465)	12,460
Amortization of Tangible Capital Assets.....	<u>460,802</u>	<u>458,649</u>	<u>460,840</u>	<u>38</u>
(Increase) Decrease in Net Debt.....	(362,068)	(297,957)	(272,851)	89,217
Net Debt - End of Year.....	<u>(14,359,474)</u>	<u>(14,124,953)</u>	<u>(14,099,847)</u>	<u>259,627</u>

At second quarter, Net Debt - Beginning of Year was updated to reflect the ending net debt that was published in the 2016-2017 Consolidated Financial Statements (Public Accounts Volume I).

APPENDIX A

ORDINARY ACCOUNT REVENUE BY SOURCE

Thousands

\$

	2017-2018 Budget	2017-2018 2 nd Quarter Projection	2017-2018 3 rd Quarter Projection	Variance from Budget
Taxes				
Personal Income Tax.....	1,681,000	1,631,000	1,605,000	(76,000)
Corporate Income Tax.....	334,400	390,000	437,300	102,900
Metallic Minerals Tax.....	1,000	1,900	2,500	1,500
Provincial Real Property Tax.....	515,000	510,000	510,000	(5,000)
Harmonized Sales Tax: net of credit.....	1,418,600	1,418,600	1,450,000	31,400
Gasoline and Motive Fuels Tax.....	286,000	286,000	286,000	0
Tobacco Tax.....	164,000	160,000	157,000	(7,000)
Pari-Mutuel Tax.....	420	420	470	50
Insurance Premium Tax.....	55,600	55,600	55,900	300
Real Property Transfer Tax.....	23,000	25,000	27,000	4,000
Financial Corporation Capital Tax.....	27,000	27,000	27,000	0
Penalties and Interest.....	13,000	12,000	13,000	0
Subtotal - Taxes.....	4,519,020	4,517,520	4,571,170	52,150
Return on Investment.....	282,686	253,919	256,376	(26,310)
Licences and Permits.....	151,838	156,913	157,201	5,363
Sale of Goods and Services.....	432,158	436,355	438,865	6,707
Lotteries and Gaming Revenues.....	152,457	155,816	157,863	5,406
Royalties.....	70,280	69,730	74,100	3,820
Fines and Penalties.....	8,215	7,519	6,905	(1,310)
Miscellaneous.....	82,379	121,071	124,393	42,014
Total - Own Source Revenue.....	5,699,033	5,718,843	5,786,873	87,840
Unconditional Grants – Canada				
Fiscal Equalization Payments.....	1,760,300	1,760,300	1,760,300	0
Canada Health Transfer.....	768,400	770,500	770,453	2,053
Canada Social Transfer.....	284,400	285,100	285,131	731
Other.....	1,866	1,866	1,866	0
Subtotal - Unconditional Grants – Canada.....	2,814,966	2,817,766	2,817,750	2,784
Conditional Grants – Canada.....	246,938	253,211	255,510	8,572
Total - Grants from Canada.....	3,061,904	3,070,977	3,073,260	11,356
Subtotal.....	8,760,937	8,789,820	8,860,133	99,196
Inter-account Transactions.....	(11,228)	(16,071)	(16,059)	(4,831)
Ordinary Account Revenue.....	8,749,709	8,773,749	8,844,074	94,365

APPENDIX B

ORDINARY ACCOUNT EXPENSE

Thousands

\$

DEPARTMENT	2017-2018 Budget	2017-2018 2nd Quarter Projection	2017-2018 3rd Quarter Projection	Variance from Budget	%
Agriculture, Aquaculture and Fisheries.....	33,532	33,285	33,285	(247)	-0.7%
Education and Early Childhood Development.....	1,188,434	1,186,850	1,184,292	(4,142)	-0.3%
Energy and Resource Development.....	102,422	108,434	108,753	6,331	6.2%
Environment and Local Government.....	140,298	143,980	143,980	3,682	2.6%
Executive Council Office.....	11,938	11,938	11,938	0	0.0%
Finance.....	10,514	10,514	10,514	0	0.0%
General Government.....	792,395	765,550	810,740	18,345	2.3%
Health.....	2,657,185	2,664,626	2,664,889	7,704	0.3%
Justice and Public Safety.....	228,581	230,432	232,853	4,272	1.9%
Legislative Assembly.....	21,696	22,563	22,452	756	3.5%
Office of the Attorney General.....	18,293	18,293	18,293	0	0.0%
Office of the Premier.....	1,598	1,598	1,598	0	0.0%
Opportunities New Brunswick.....	45,421	45,215	45,410	(11)	0.0%
Other Agencies.....	369,188	371,135	365,394	(3,794)	-1.0%
Post-Secondary Education, Training and Labour.....	619,639	628,166	626,603	6,964	1.1%
Regional Development Corporation.....	64,355	64,355	82,680	18,325	28.5%
Service of the Public Debt.....	701,000	691,000	683,000	(18,000)	-2.6%
Social Development.....	1,168,418	1,183,294	1,181,018	12,600	1.1%
Tourism, Heritage and Culture.....	60,184	60,359	60,359	175	0.3%
Transportation and Infrastructure.....	302,109	302,109	307,109	5,000	1.7%
Treasury Board.....	16,417	16,167	16,124	(293)	-1.8%
Subtotal.....	8,553,617	8,559,863	8,611,284	57,667	0.7%
Investment in Tangible Capital Assets.....	(19,066)	(19,019)	(18,975)	91	-0.5%
Inter-account Transactions.....	(11,228)	(18,671)	(18,959)	(7,731)	68.9%
Ordinary Account Expense.....	8,523,323	8,522,173	8,573,350	50,027	0.6%

APPENDIX C

CAPITAL EXPENDITURES

Thousands

\$

	2017–2018 Budget	2017–2018 2 nd Quarter Projection	2017–2018 3 rd Quarter Projection	Variance from Budget
Regular Capital Investments				
Agriculture, Aquaculture and Fisheries.....	100	100	100	0
Education and Early Childhood Development.....	43,067	45,861	44,372	1,305
Energy and Resource Development.....	2,900	1,200	1,135	(1,765)
Health.....	95,808	92,170	92,267	(3,541)
Justice and Public Safety.....	114	114	114	0
Legislative Assembly.....	450	450	130	(320)
Post-Secondary Education, Training and Labour.....	5,695	5,695	5,495	(200)
Regional Development Corporation.....	14,100	14,100	14,100	0
Social Development.....	5,200	4,000	4,000	(1,200)
Tourism, Heritage and Culture.....	3,920	3,920	3,920	0
Transportation and Infrastructure.....	394,837	395,391	398,388	3,551
Regular Capital Investments.....	566,191	563,001	564,021	(2,170)
Strategic Infrastructure Initiative				
Agriculture, Aquaculture and Fisheries.....	500	500	500	0
Education and Early Childhood Development.....	40,540	37,628	38,689	(1,851)
Health.....	13,883	1,700	381	(13,502)
Regional Development Corporation.....	78,370	63,370	63,370	(15,000)
Tourism, Heritage and Culture.....	6,650	6,650	6,650	0
Transportation and Infrastructure.....	19,275	24,806	26,214	6,939
Energy Retrofit and Renewable Energy.....	20,250	20,250	20,250	0
Strategic Infrastructure Initiative.....	179,468	154,904	156,054	(23,414)
Recoveries.....	29,898	27,756	25,824	(4,074)
Total - Capital Expenditures.....	775,557	745,661	745,899	(29,658)
Investments in Tangible Capital Assets.....	(611,859)	(602,218)	(599,490)	12,369
Capital Account Expense.....	163,698	143,443	146,409	(17,289)