



Treasury Board and Department of Finance

Economic, Strategic Program
Review and Fiscal Update

First Quarter 2018–2019

**Economic, Strategic Program Review and Fiscal Update
First Quarter 2018–2019**

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

July 2018

Translation:

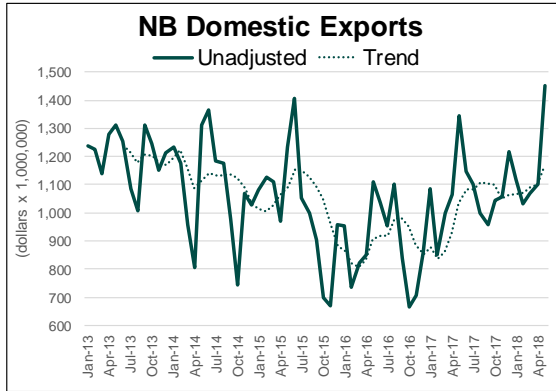
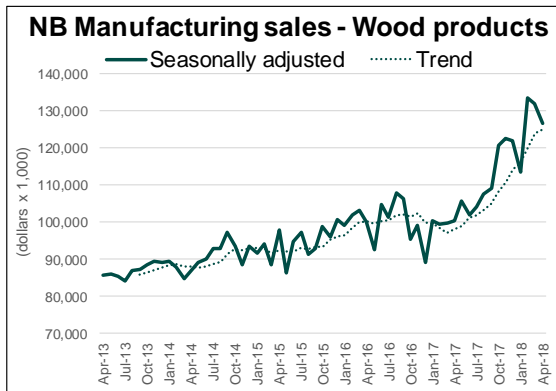
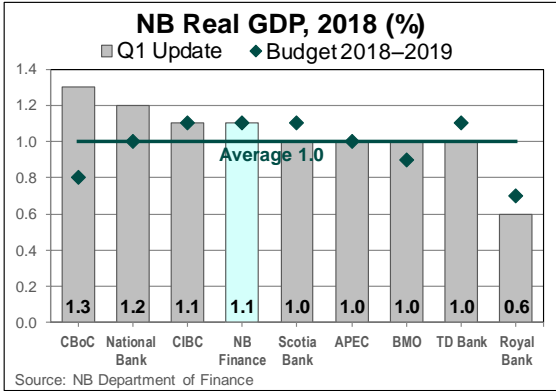
Translation Bureau, Service New Brunswick

ISBN 978-1-4605-1882-3



Think Recycling!

2018 Economic Update



	2016	2017	2018 ^F
Real GDP	1.2	1.9	1.1
Household Final Consumption Expenditures	2.7	3.2 [*]	2.4
Primary Household Income	3.9	2.8 [*]	2.5
Employment	-0.1	0.4	0.2
Unemployment Rate (%)	9.5	8.1	8.2
Consumer Price Index	2.2	2.3	2.0

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

Based on data available as of July 11, 2018

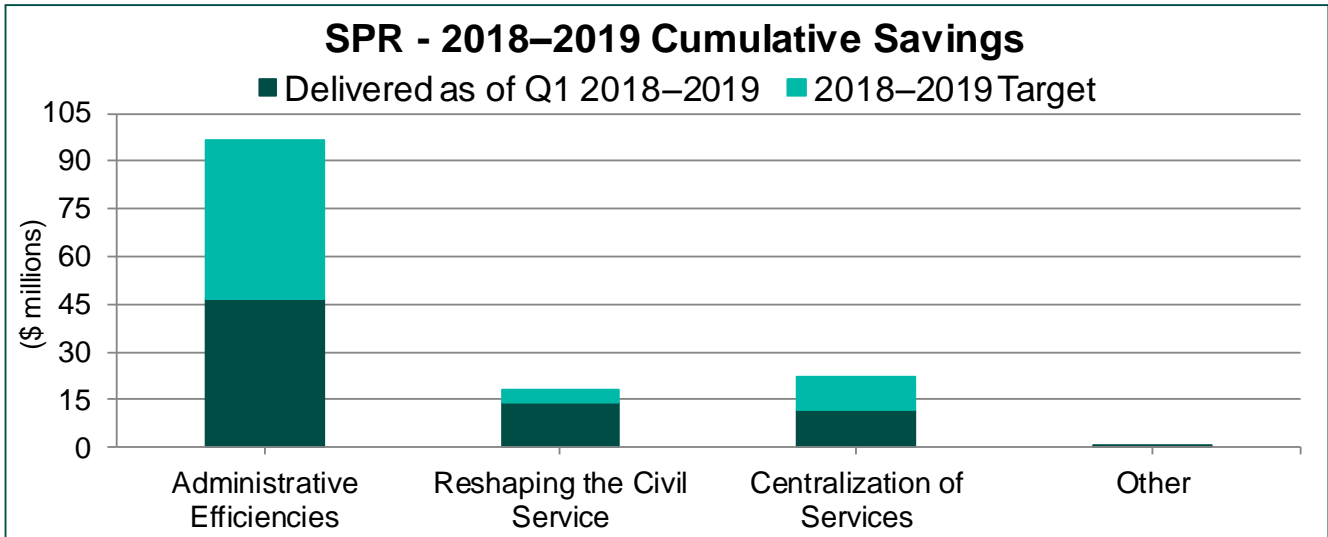
- The International Monetary Fund (IMF) is projecting global economic growth of 3.9 per cent in 2018. Favourable global financial conditions and U.S. fiscal policy changes will support growth.
- U.S. real GDP increased at an annual rate of 2.0 per cent in the first quarter of 2018, following a 2.9 per cent increase in the previous quarter. The IMF is projecting growth of 2.9 per cent.
- The Bank of Canada anticipates growth in Canada to moderate to 2.0 per cent in 2018 as slower growth in household spending offsets gains in business investment and exports.
- The Department of Finance projects real GDP growth for New Brunswick of 1.1 per cent for 2018, unchanged from the forecast in the 2018-2019 Budget. This is consistent with the 1.0 per cent growth rate consensus among private sector forecasters.
- Labour market conditions are improving for the province. Employment is up by 0.7 per cent on a year-to-date basis, with gains in both the goods- and service-producing sectors.
- Despite the trade uncertainty with the U.S., domestic exports in New Brunswick have increased 7.9 per cent compared to prior year levels. This is mainly driven by gains in energy products and basic and industrial chemical, plastic and rubber products.
- Manufacturing sales are up by 9.5 per cent on a year-to-date basis, caused by gains in both the non-durable goods industries and the durable goods industries. Wood product manufacturing remains a bright spot, posting growth of 27.4 per cent.
- Average weekly earnings are up 3.1 per cent, on a year-to-date basis – slightly above the national growth rate of 3.0 per cent.
- Consumer inflation in the province is 2.3 per cent on a year-to-date basis, slightly higher than the national rate of 2.2 per cent.

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 first quarter information, the projected cumulative savings by March 31, 2019, will be approximately \$221 million; additional savings will be realized as projects are implemented.
- Government is on track to deliver 82.4 per cent of the cumulative savings target of \$268 million for 2018–2019. 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 choose to maintain the benefit through negotiation of contract agreements.
 - Centralization of common services (\$14.4 million under): Mainly due to the double counting of procurement savings within other SPR initiatives.
 - Education and Early Childhood Development (\$8.1 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 First Quarter Projections (in \$ Thousands)

Savings Initiatives	Achieved to date 2018–2019	2018–2019 Target	2018–2019 Forecast	2020–2021 Target	2020–2021 Forecast
2015–2016 Savings	\$115,200	\$115,200	\$115,200	\$115,200	\$115,200
Administrative Efficiencies	\$46,602	\$96,706	\$63,550	\$102,145	\$102,145
Reshaping the Civil Service	\$14,026	\$20,959	\$23,278	\$24,959	\$24,959
Centralization of Services	\$11,801	\$34,525	\$18,446	\$52,125	\$52,125
Other	\$813	\$1,262	\$922	\$1,262	\$1,262
Total	\$188,442	\$268,652	\$221,396	\$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 \$41 million.
- Reshaping the Civil Service:** Projects include but are not limited to reforming Transportation and Infrastructure (\$10.3 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 (\$9.8 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).

2018–2019 Fiscal Update

Based on first quarter information, there is a projected deficit of \$187.4 million for 2018–2019. This is an improvement of \$1.3 million compared to the budgeted deficit of \$188.7 million.

First Quarter Fiscal Summary			
(\$ Millions)	2018–2019 Budget	2018–2019 1 st Quarter Projection	Variance from Budget
Revenue	9,427.3	9,505.7	78.5
Expense	9,616.0	9,693.1	77.1
Surplus (Deficit)	(188.7)	(187.4)	1.3

Net debt is projected to increase by \$385.4 million and is projected to reach \$14.5 billion by March 31, 2019.

Revenue:

Revenue is \$78.5 million higher than budget. The major variances include:

- Conditional Grants are up \$60.2 million mainly due to projected recoveries under the Disaster Financial Assistance program and the new Healthy Seniors Pilot Project.
- Personal Income Tax revenue is up \$20.0 million from budget due to a strengthened forecast base.
- Sale of Goods and Services is up \$5.0 million mainly due to increased projections of revenue from the Regional Health Authorities and Department of Health recovery levy, offset by various other accounts across departments.
- Special Operating Agencies revenue is down \$5.4 million mainly due to the timing of projects being completed.
- Capital Revenue is down \$4.1 million due to lower recoveries under the New Building Canada Fund.
- Tobacco Tax is down \$4.0 million due to lower volumes.
- Cannabis-related revenue is down \$3.9 million to reflect the October 17, 2018 legalization date. This includes reductions in the projected Cannabis Duty, revenues from the Cannabis Management Corporation, and the Cannabis Education and Awareness Fund.

Expense:

Total expenses are projected to be over budget by \$77.1 million. The major variances include the following:

- Justice and Public Safety is \$51.9 million over budget due to expenses incurred under the Disaster Financial Assistance program primarily associated with the 2018 spring flood. These expenses are offset to a large extent by recoveries from the federal government.
- Social Development is \$36.6 million over budget mainly due to increased expenses in the Aging Secretariat Program (offset by federal revenue from the Healthy Seniors Pilot Project) and the high costs of the Disability Support Services program.
- Special Purpose Accounts are over budget by \$15.2 million mainly due to the reallocation of various projects from the Capital Budget to the Climate Change Fund. This is partially offset by lower Capital Account expense.
- Other Agencies are \$4.9 million over budget mainly due to increased expenditures associated with several consolidated entities (offset by an increase in revenue).
- Post-Secondary Education, Training and Labour is \$4.2 million over budget mainly due to additional expenditures in the Student Financial Assistance program.
- Special Operating Agency Accounts are over budget by \$3.2 million due to additional expenditures associated with various federal-provincial programs.

- Amortization Expense is \$3.2 million under budget mainly due to implementation delays in various projects.
- Education and Early Childhood Development is \$5.0 million under budget mainly due to lower than expected expenses in the Early Childhood Development Program.
- Service of the Debt is \$10.0 million lower primarily due to higher interest income earned.
- General Government is under budget by \$15.5 million mainly due to lower than expected expenses in Supplementary Funding Provision and Pension and Employee Benefits.

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

	2018–2019 Budget	2018–2019 1st Quarter Projection	Variance from Budget
Revenue			
Ordinary Account.....	8,946,303	9,033,020	86,717
Capital Account.....	48,264	44,121	(4,143)
Special Purpose Account.....	117,289	118,526	1,237
Special Operating Agencies.....	124,198	118,848	(5,350)
Sinking Fund Earnings.....	191,200	191,200	0
Total Revenue.....	9,427,254	9,505,715	78,461
Expense			
Ordinary Account.....	8,773,358	8,840,815	67,457
Capital Account.....	153,502	147,967	(5,535)
Special Purpose Account.....	86,099	101,305	15,206
Special Operating Agencies.....	117,635	120,844	3,209
Amortization of Tangible Capital Assets.....	485,398	482,173	(3,225)
Total Expense.....	9,615,992	9,693,104	77,112
Surplus (Deficit).....	<u>(188,738)</u>	<u>(187,389)</u>	<u>1,349</u>

CHANGE IN NET DEBT
Thousands
\$

	2018–2019 Budget	2018–2019 1st Quarter Projection	Variance from Budget
Net Debt - Beginning of Year.....	(14,099,847)	(14,099,847)	0
Changes in Year			
Surplus (Deficit).....	(188,738)	(187,389)	1,349
Investments in Tangible Capital Assets.....	(668,993)	(680,199)	(11,206)
Amortization of Tangible Capital Assets.....	<u>485,398</u>	<u>482,173</u>	<u>(3,225)</u>
(Increase) Decrease in Net Debt.....	(372,333)	(385,415)	(13,082)
Net Debt - End of Year.....	<u>(14,472,180)</u>	<u>(14,485,262)</u>	<u>(13,082)</u>

APPENDIX A

ORDINARY ACCOUNT REVENUE BY SOURCE

Thousands

\$

	2018–2019 Budget	2018–2019 1 st Quarter Projection	Variance from Budget
Taxes			
Personal Income Tax.....	1,682,000	1,702,000	20,000
Corporate Income Tax.....	311,800	311,800	0
Metallic Minerals Tax.....	1,900	1,900	0
Provincial Real Property Tax.....	514,750	514,750	0
Harmonized Sales Tax: net of credit.....	1,492,500	1,492,500	0
Gasoline and Motive Fuels Tax.....	248,600	248,600	0
Tobacco Tax.....	156,000	152,000	(4,000)
Pari-Mutuel Tax.....	500	500	0
Insurance Premium Tax.....	57,600	59,600	2,000
Real Property Transfer Tax.....	25,000	28,000	3,000
Financial Corporation Capital Tax.....	27,000	27,000	0
Cannabis Duty.....	6,000	3,600	(2,400)
Penalties and Interest.....	13,000	13,000	0
Subtotal - Taxes.....	4,536,650	4,555,250	18,600
Return on Investment.....	264,235	263,451	(784)
Licences and Permits.....	158,479	160,900	2,421
Sale of Goods and Services.....	448,125	453,155	5,030
Royalties.....	69,730	69,730	0
Agency Revenues.....	160,900	161,100	200
Fines and Penalties.....	6,804	6,804	0
Miscellaneous.....	91,578	92,598	1,020
Total - Own Source Revenue.....	5,736,501	5,762,988	26,487
Unconditional Grants – Canada			
Fiscal Equalization Payments.....	1,873,898	1,873,898	0
Canada Health Transfer.....	791,900	791,900	0
Canada Social Transfer.....	290,600	290,600	0
Other.....	1,866	1,866	0
Subtotal - Unconditional Grants – Canada.....	2,958,264	2,958,264	0
Conditional Grants – Canada.....	266,466	326,696	60,230
Total - Grants from Canada.....	3,224,730	3,284,960	60,230
Subtotal.....	8,961,231	9,047,948	86,717
Inter-account Transactions.....	(14,928)	(14,928)	0
Ordinary Account Revenue.....	8,946,303	9,033,020	86,717

APPENDIX B

ORDINARY ACCOUNT EXPENSE

Thousands

\$

DEPARTMENT	2018–2019 Budget	2018–2019 1st Quarter Projection	Variance from Budget	%
Agriculture, Aquaculture and Fisheries.....	37,196	38,696	1,500	4.0%
Education and Early Childhood Development.....	1,258,007	1,253,007	(5,000)	-0.4%
Energy and Resource Development.....	101,820	102,820	1,000	1.0%
Environment and Local Government.....	142,035	142,505	470	0.3%
Executive Council Office.....	12,546	12,521	(25)	-0.2%
Finance.....	10,797	10,797	0	0.0%
General Government.....	792,547	777,055	(15,492)	-2.0%
Health.....	2,753,351	2,753,351	0	0.0%
Justice and Public Safety.....	231,885	283,749	51,864	22.4%
Legislative Assembly.....	30,717	30,717	0	0.0%
Office of the Attorney General.....	20,256	20,256	0	0.0%
Office of the Premier.....	1,598	1,598	0	0.0%
Opportunities New Brunswick.....	47,186	45,492	(1,694)	-3.6%
Other Agencies.....	386,108	390,997	4,889	1.3%
Post-Secondary Education, Training and Labour.....	644,758	649,006	4,248	0.7%
Regional Development Corporation.....	70,148	70,148	0	0.0%
Service of the Public Debt.....	675,000	665,000	(10,000)	-1.5%
Social Development.....	1,194,547	1,231,147	36,600	3.1%
Tourism, Heritage and Culture.....	62,633	62,693	60	0.1%
Transportation and Infrastructure.....	307,404	307,404	0	0.0%
Treasury Board.....	16,342	16,267	(75)	-0.5%
Subtotal.....	8,796,881	8,865,226	68,345	0.8%
Investment in Tangible Capital Assets.....	(7,195)	(8,083)	(888)	12.3%
Inter-account Transactions.....	(16,328)	(16,328)	0	0.0%
Ordinary Account Expense.....	8,773,358	8,840,815	67,457	0.8%

APPENDIX C

CAPITAL EXPENDITURES

Thousands

\$

	2018–2019 Budget	2018–2019 1 st Quarter Projection	Variance from Budget
Regular Capital Investments			
Agriculture, Aquaculture and Fisheries.....	1,800	1,800	0
Education and Early Childhood Development.....	59,387	60,008	621
Energy and Resource Development.....	4,220	3,020	(1,200)
Environment and Local Government.....	1,000	1,000	0
Health.....	96,892	108,606	11,714
Justice and Public Safety.....	3,215	3,215	0
Legislative Assembly.....	50	50	0
Post-Secondary Education, Training and Labour.....	6,251	6,251	0
Regional Development Corporation.....	28,255	28,255	0
Tourism, Heritage and Culture.....	2,100	4,600	2,500
Transportation and Infrastructure.....	374,348	390,670	16,322
Regular Capital Investments.....	577,518	607,475	29,957
Strategic Infrastructure Initiative			
Agriculture, Aquaculture and Fisheries.....	500	500	0
Education and Early Childhood Development.....	40,166	31,403	(8,763)
Regional Development Corporation.....	49,200	53,231	4,031
Tourism, Heritage and Culture.....	7,995	8,435	440
Transportation and Infrastructure.....	32,022	31,717	(305)
Energy Retrofit and Renewable Energy.....	20,250	0	(20,250)
Strategic Infrastructure Initiative.....	150,133	125,286	(24,847)
Canada 150			
Centennial Building.....	10,000	15,500	5,500
Memramcook Institute.....	10,000	10,000	0
Ministers Island.....	2,495	2,495	0
NB Museum.....	6,000	3,900	(2,100)
Canada 150 Investments.....	28,495	31,895	3,400
Nursing Homes (Not-for-profit).....	12,000	12,000	0
Recoveries			
Transportation and Infrastructure.....	41,690	37,405	(4,285)
Other Departments.....	5,464	6,022	558
Recoveries.....	47,154	43,427	(3,727)
Total - Capital Expenditures.....	815,300	820,083	4,783
Investments in Tangible Capital Assets.....	(661,798)	(672,116)	(10,318)
Capital Account Expense.....	153,502	147,967	(5,535)

Note: A number of capital projects, including Energy Retrofit and Renewable Energy, are reported under the Climate Change Fund.

APPENDIX D

CLIMATE CHANGE FUND
Thousands
\$

	2018–2019 Budget	2018–2019 1st Quarter Projection	Variance from Budget
Revenue			
Revenue.....	37,400	37,400	0
Expenditures			
Climate Change Secretariat.....	1,601	1,601	0
Energy Retrofit and Renewable Energy.....	20,250	20,250	0
Low Income Energy Efficiency Program.....	2,000	2,000	0
Regional Development Corporation projects.....	6,603	6,969	366
Transportation and Infrastructure projects.....	3,140	3,140	0
Total - Expenditures	33,594	33,960	366
Funds available for future year investments.....	3,806	3,440	(366)

The 2018–19 Budget has been restated to include expenditures that were contained in the Capital Budget.