

New Brunswick's Fiscal 2017–18 Mid-Year Update ... Bottom Line Improvement Continues

Budget Balances

FY17 Final: -\$119mn (-0.3% of GDP)

FY18 Budget: -\$192mn (-0.5% of GDP) Q1: -\$156mn **Q2: -\$135mn (-0.4% of GDP)**

FY19b: -\$117mn (-0.3% of GDP)

FY20b: -\$24mn (-0.1% of GDP)

FY21b: +\$ 21mn (+0.1% of GDP)

- New Brunswick's narrowing deficit for fiscal 2017–18 (FY18) now approaches the FY19 deficit target, assisting the Province's fiscal repair (side chart).
- Net debt, as defined by the Province, is expected to rise by just \$298 million during FY18, \$64 million less than the *Budget* estimate. New Brunswick's net debt burden is slowly declining, from a peak of 41.4% of GDP in March 2016 to an estimated 40.5% in March 2018.

REVENUE DETAILS

Relative to *Budget*, the \$56½ million improvement in the estimated FY18 deficit stems from strengthening receipts in Q1 and Q2 that raise projected revenues this year \$22½ million above *Budget* as spending drops \$34 million below plan.

Revenues in FY18 are now expected to advance 3.6%, building on the 6.0% increase in FY17 that was largely driven by tax hikes (p.2, table). Anchoring provincial receipts is the Province's return to positive output and employment growth. For calendar 2017, the government assumes 0.8% real GDP growth, but the average of private-sector forecasters is a more buoyant 1.4%. From January to October, a 1.8% y/y jump in full-time jobs is pushing up New Brunswick's total employment 0.5% as part-time positions fall by almost 7.0% y/y.

Projected tax receipts for FY18 are virtually unchanged, rising 5.3% above FY17. A \$55½ million in-year gain in corporate income tax receipts given a healthy national taxable earnings forecast is offset by a \$50 million correction in personal income due to a lower-than-expected yield in 2016 assessment data.

In other revenue categories, miscellaneous receipts are benefitting from HST-related recoveries and higher Regional Health Authority revenues. Conversely, NB Power, hampered by low water levels for its hydro-electricity power generation, now expects its FY18 income to be \$22 million less than *Budget*.

EXPENDITURE DETAILS

The planned 4.1% rise in FY18 for total expenditures is revised to 3.7%. The FY18 debt service is reduced by \$10 million owing to lower short-term interest expense, as indicated in the *Q1 Update*. Across several high-demand departments such as Health and Social Development, expense overruns in areas such as Disability Support and Nursing Home Services also are a frequent source of demand pressure in other Provinces.

CONTACTS

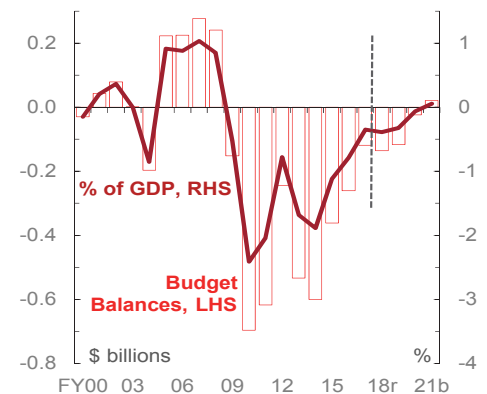
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New Brunswick's Budget Balances



Source: NB Finance, Statistics Canada; nom. GDP forecasts: Scotiabank Economics

New Brunswick's update of its *Strategic Program Review*

indicates \$176 million of savings achieved to date in FY18 under the *Review*. By FY21, expenditure reductions are expected to total \$296 million. Alongside \$293 million of revenue measures, the *Strategic Program Review* goal remains a total \$589 million bottom line improvement by FY21.

Cumulative efficiencies to the end of FY18 have been edged lower in Q1 and again in Q2 to \$203 million, though this revised saving is still 86½% of the total \$235 million in cost reductions initially planned for March 2018. The anticipated shortfall this year is partly the result of several large bargaining groups not exchanging their Retirement Allowance benefit for additional wage increases. As well, New Brunswick led the other provinces in its per capita share of Syrian refugees, causing more teachers to be hired to replace retiring teachers than originally planned.

New Brunswick, aided by its 660 MW Point Lepreau nuclear station, aims by 2020 to have up to 75% of its power generation either clean, renewable or non-emitting. Ongoing efforts include a 17¼ MW expansion of the Kent Hills wind power facility. NB Power's application for a 2.0% rate hike will be heard this February, following an average 1.77% rate hike for all customer classes on April 1, 2017. Small steady rate increases are part of the utility's longer-term financial plan to accommodate investments such as reinforcing Point Lepreau's performance. The additional revenue also allows some pay-down of debt in advance of the expenses anticipated for NB Power's recommended option of overhauling the 672 MW Mactaquac Dam to extend its service life beyond 2030.

A carbon pricing plan is expected this Fall. The government is aiming for a framework that minimizes the impact on consumers, incents large industrial emitters to trim their greenhouse gas emissions and establishes a climate change fund to help address the effects of climate change.

OUTLOOK

New Brunswick's current government opted for a gradual deficit elimination process through FY21 in order to invest in health and education and in re-invigorating the provincial economy after the province's real GDP growth stalled from 2011 to 2014. Within this strategy, the unexpected progress in narrowing the FY17 and FY18 deficits towards \$100 million is a welcome development, helping to restrain the near-term run-up in net debt. Looking forward, the government's commitment to rebalancing the books is underscored by the salary freeze adopted for all Members of the Legislature and Cabinet Ministers, retroactively for 2015 and 2016, and going forward until 2021, a total 13-year stretch since 2008. The freeze is applied to the reduced salaries of the Premier and the Cabinet after the cuts in 2015 of 15% and 10%, respectively.

New Brunswick's Budget Arithmetic

\$ millions except where noted

	FY17	FY18	
	Final	Budget	Q2
Personal Income Tax	1,642	1,681	1,631
Corporate Income Tax	328	334	390
Harmonized Sales Tax	1,254	1,419	1,419
Other Taxes	1,066	1,084	1,078
Total Taxes	4,291	4,519	4,518
Resource Royalties	80	70	70
Other Revenues	4,519	4,599	4,624
Total Revenue	8,890	9,189	9,211
Program Spending	8,336	8,680	8,656
Debt Service*	673	701	691
Total Expenditure	9,009	9,381	9,347
Budget Balance	-119	-192	-135
Memo Items, %			
Program Spending / GDP	24.4	24.9	24.8
Budget Balance / GDP	-0.3	-0.5	-0.4
Debt Service*/ Revenue	7.6	7.6	7.5
Annual Change, %			
Personal Income Tax	-0.8	2.4	-0.7
Harmonized Sales Tax	10.3	13.1	13.1
Total Taxes	6.5	5.3	5.3
Total Revenue	6.0	3.4	3.6
Program Spending	4.6	4.1	3.8
Total Expenditure	4.2	4.1	3.7

* Excluding government enterprises' debt service. Source: NB Finance; Statistics Canada; nominal GDP forecasts: Scotiabank Economics.

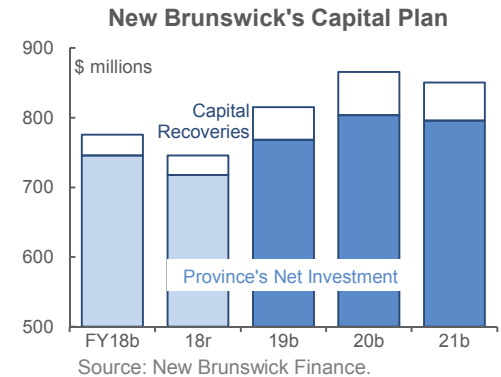
Appendix — New Brunswick's 2018-19 Capital Estimates

Capital expenditures in FY18 are now expected to be almost 4.0% (\$30 million) less than *Budget* at \$746 million. The Province's recently released *Capital Estimates* indicate a 9.3% rise in FY19 to \$815 million, followed by a 6.2% hike in FY20 to \$866 million before levelling out at \$850 million in FY21 (side chart).

Importantly, this plan leverages anticipated federal funding. Revenue recoveries, largely from Ottawa, are expected to jump from \$28 million in FY18 to \$47 million in FY19. In FY20 and 21, hefty recoveries of \$62 million and \$55 million are expected. They lower New Brunswick's anticipated net capital cost to \$718 million in FY18, \$768 million in FY19 and an average of \$800 million annually for FY20-FY21.

In Education, mid-life upgrades are proceeding at selected schools, with the next generation of upgrades being planned and prioritized. Nursing homes will receive increased attention. For non-profit facilities, investment will rise from \$12 million in FY19 to \$31 million by FY21, with additional capacity achieved through public-private partnerships that are not included in these capital estimates.

With respect to the government's commitment to invest in jobs, a noted change this year is stepped-up investment in tourism infrastructure, capitalizing on Canada's competitive dollar. Regular and strategic capital outlays for tourism accelerate from \$10 million in FY19 to \$27 million in FY20. Strategic transportation infrastructure initiatives include the Province joining NB Power to launch eCharge Network, a series of public vehicle-charging stations around the Province.



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