

# engage NB

## STRATEGIC PROGRAM REVIEW

*A public discussion about addressing  
our fiscal challenges in New Brunswick*

**We want your input on government programs and services for the future.**

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*A public discussion about addressing  
our fiscal challenges in New Brunswick*

Province of New Brunswick  
PO 6000, Fredericton NB E3B 5H1

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## Message from the Minister Responsible for Strategic Program Review

It will not come as a surprise to New Brunswickers that our provincial government has been spending beyond its means and that we face a serious fiscal challenge. In *Moving New Brunswick Forward*, our government sought a mandate within that context. We pledged to improve the government's financial position by \$90 million in our first budget and by at least \$250 million in our second budget, for a total of at least \$340 million.

Despite the previous government's efforts, the provincial government continues to face a \$400 million structural deficit. But solving this problem is more complex than finding \$400 million.

Service reductions and tax increases have negative impacts on the economy, which means to get a net improvement of \$400 million, more than that amount must be found to offset consequential revenue losses. For instance, if we don't fill 20 government positions that open up through attrition, that might save \$1 million in salaries, but some of that saving is offset by the loss of income and sales taxes generated through those salaries.

At the same time, we have made commitments to strategic investments which we believe are critical to ensuring the ongoing growth of New Brunswick's economy and the sustainability of our social programs. New money must be found for these priority investments so we can help create jobs and make our province more affordable for families.

And it is critical that we do this soon. Our province's debt has nearly doubled in the past eight years and this cannot continue.

Our government is committed to job creation, and we hope to be able to solve some of this challenge through economic growth.

We believe we need to improve the province's financial position by between \$500 million and \$600 million.

We will look for opportunities to eliminate waste. We will look for opportunities to do things better and more efficiently. We will also have to reduce services and increase revenues. To do so, we will be looking at how services are delivered in other jurisdictions of similar size and scale to New Brunswick and ensure we are not living beyond our means. And we will be listening to New Brunswickers, civil servants, experts, and our stakeholders for creative solutions.

The challenges we face affect all New Brunswickers. That is why we need to work together to realign the role of government in society and find innovative solutions that are transformational and not just try to do the same things over and over. This is your opportunity to be part of the process to move New Brunswick forward.

We are at an important time in our province. New Brunswick is facing some major fiscal challenges, our demographics are changing and the needs of our communities are changing.

None of these issues happened overnight. We cannot continue down the same path. This work will not be easy. Tough decisions will have to be made to allow us to have the strong foundation we need to invest in the future. Our government is committed to making those tough decisions. We want to do it together with the support and ideas of New Brunswickers.

This discussion paper serves as a starting point for the engagement process. It is meant to ensure participants have a common understanding of the challenges facing the province.

I look forward to hearing your ideas on how we can address the challenges before us.

Sincerely,



Hon. Victor Boudreau

## About the Review

Strategic Program Review is being undertaken with a goal of re-engineering government such that it has a financial framework that is sustainable. This must be done in such a way that an environment exists that spurs job creation and services exist that support New Brunswick being the best place to raise a family.

At the same time, New Brunswick has high levels of debt that must be repaid. In the past eight years, our net debt has jumped from 26% of GDP to 38% of GDP; if it continues to grow at this pace, it will become increasingly difficult for our province to make its debt and interest payments and money will need to be diverted to servicing our debt rather than program spending.

We must find ways to close the gap between revenue and expenditures and we must ensure that future revenue and spending growth trends are aligned. We cannot simply make decisions for the short term.

We must also take a close look at government— a comprehensive analysis of programs, services, structure, and delivery mechanisms to ensure we are in line with the needs of our communities. And we must seek opportunities to innovate how government works so that we can deliver better services at lower costs. This is how we will return to sustainable balanced budgets and have a public service that meets the needs of New Brunswickers.

This will mean improving our government's financial position by between \$500 million and \$600 million. We will aim to do this through a combination of reduced government spending, increased government revenue measures and economic growth, and innovation in the business of government.

Consultation with stakeholders, employees and the public will play an important part of this review. By working together, we will be able to find the best solutions to meet the challenges before us.

Work will begin right away and we will take steps at every opportunity to improve the province's fiscal position, including in the 2015-16 budget to be tabled this March. It is our goal to have final decisions made in time for the 2016-17 budget. It is important to note that not all changes would be immediate. In some cases, changes may be phased in over time. In other cases, full savings may not be achieved right away.

## The New Brunswick Economy

Only five of the last 30 years saw no growth in the provincial economy; but three of those years have occurred since 2009. In the past three decades, economic growth in New Brunswick averaged 2% on an annual basis, however for the last five years (2009-2013) growth only averaged 0.1%.

We face demographic pressures resulting from an aging population and migration outflows that are pushing our economic growth potential below our long-term historical average growth rate.

Looking forward, improvements in the Canadian and U.S. economies will support improved growth in New Brunswick, and, combined with a weaker Canadian dollar, are creating conditions to support export gains for the province. There are also potential major investment projects in the natural resource and energy sectors on the horizon that could stimulate economic growth.

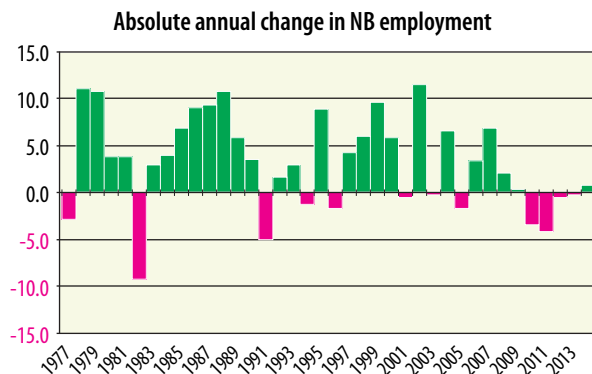
Our government has made job creation its number one priority and we have already undertaken steps to create the conditions for economic growth which we believe will get our province back on track for job growth. However, the economy alone is unlikely to ever right our fiscal ship.

## Income Growth and the Labour Market

Overall economic weakness and a challenging labour market have had an effect on income in the province. Despite the overall improvement in the economy, income growth remains weak.

For much of the 1999-2008 period, income grew in the 4.5%-5% range. Since the recession in 2009, average growth is now closer to 2.5%.

As a result of lower income growth levels, government revenue has been impacted and the various tax changes that have been introduced in recent years have not been as effective in generating additional revenue as they would have under healthier economic conditions.



The provincial labour market has also struggled in recent years. We have never seen four consecutive years (2010-2013) of decline in employment before. Since hitting an all-time high in 2009, employment fell by 8,300 by 2013.

## Demographic Trends

Demographics are a key consideration to the economy and government revenues, as well as program design and delivery.

New Brunswick's population has declined for the last two years following five years of weak growth. The provincial population was estimated at 753,914 as of July 1, 2014, down 0.2% from the previous year. New Brunswick's share of the national population has also fallen over time, from 2.9% in 1971 to 2.1% in 2014.

In 2014, the median age of New Brunswickers was 44.3 years. That is nearly four years older than the national average of 40.4 years.

New Brunswick was tied with Nova Scotia for the oldest population in Canada in 2014. In both provinces, 18.3% of the population was aged 65 and over.

Last year, the natural population increase was pushed into negative territory for the first time as deaths slightly outnumbered births. In addition, outmigration to other provinces continues to impact our population.

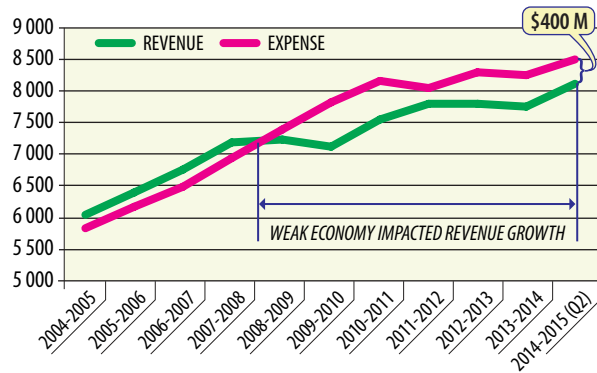
### **But what do these numbers mean?**

- We have a smaller tax base.
- We are experiencing an increase in long-term/senior care and health care costs.
- We are seeing a reduction in disposable earnings as baby boomers go from labour income to retirement income.
- We are seeing migration to the urban centres from rural areas.
- We are seeing outmigration of our skilled workers and youth to provinces with stronger economies.
- We are experiencing labour market challenges and shortages of qualified workers.
- Federal transfer payments are on a per capita basis so population has an impact on provincial revenue.

## New Brunswick's Fiscal Challenge

We are facing a \$400 million structural deficit. But in order to address the structural deficit while investing in programs that support job creation and families, the fiscal position of the province must be improved in the magnitude of \$500 million to \$600 million.

**The Fiscal Gap: in millions of dollars**



The economy by itself will not grow us out of that challenge. To return to sustainable budget balances, we need to address this gap through a combination of savings, revenues, and innovate to ensure future revenue and spending growth trends are aligned in order to return to sustainable balanced budgets.

Government must balance growing the economy and maintaining stability and competitiveness in the provincial tax system with addressing the significant fiscal challenge. Revenue and spending measures to fill the fiscal gap must be balanced against the needs for a growing economy, which will drive overall revenue growth.

The last surplus reported was in 2007-08. The 2014-15 Second Quarter report projected a deficit for the seventh consecutive year.

***This is unsustainable.***

These deficits have led to a significant increase in the province's net debt and net debt-to-GDP ratio since reaching its most recent low in 2006-07. It is estimated the province's net debt will total approximately \$12.2 billion by the end of fiscal year 2014-15.

To put this in perspective, net debt for each New Brunswicker has increased 78% in the past seven years; from \$9,071 in 2006-07 to an estimated \$16,121 for 2014-15.

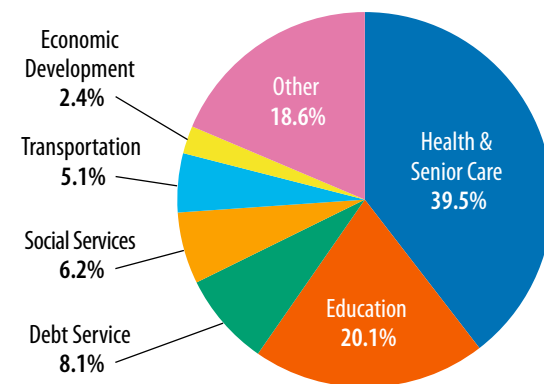
In addressing the fiscal challenge, both revenue and spending must be considered.

Approximately \$400 million in revenue measures have been implemented over the past four years, including increases to many taxation revenue sources and new resource royalty regimes.

While the province has no control over these, revenue from federal transfers has been relatively stable in recent years at 36-38% of total provincial revenue.

Government expenses increase by approximately 2% per year for such things as wages, capital amortization, interest on the debt, and general inflation in the delivery of programs and services.

**Where the money goes – 2014, Q2**



Government must now look at additional revenue sources and find efficiencies in our services if we are to address our financial situation in a meaningful, sustainable way.

## Moving New Brunswick Forward

A cultural shift in New Brunswick is required. We can't keep doing things the way we have been doing them and expect different results. We are facing a fiscal challenge and unless there is a genuine transformation, things will not improve. The role of government in society must be realigned to ensure that the focus is on priorities.

New Brunswickers are frustrated about the state of our economy and rightfully so. It is time to make changes and move our province forward. Government plans to do that by:

- Providing clear and focused leadership to enable the necessary conditions to create more **jobs** throughout our mandate.
- Moving decisively to **right our fiscal ship**, giving us the capacity to maintain the services our people expect and make the investments we need to grow our province.
- Once our budget is under control, make strategic investments in social programs to make New Brunswick **the best place to raise a family** and make life more affordable.

We will not achieve our aims through the same old way of doing things. That applies both to the day-to-day delivery of government services and to the approach to balance the budget. Year after year of cut-and-control is not good enough. We need to rethink how government works if we want it to be sustainable in the future.

As a government, we cannot do this alone. There is obviously a clear role for government, but there is also a role for the private sector, the social sector and individual New Brunswickers in coming together to find a new and better way to deliver the services we need at costs we can afford.

This will mean we have to look at reducing and eliminating some government programs. And it will mean we have to find new revenue measures. But that is how governments have always tackled these problems. We will look for every opportunity to embrace technology and innovate processes to make a **smarter government** that can deliver the same services but better, all the while leading technological development and adoption that will prepare for the economy of tomorrow.

## We want your input

The fiscal challenges affect all New Brunswickers.

As you consider the information in this discussion paper, you are invited to share your suggestions and comments on the questions below, or other aspects of how we can improve government to better serve the needs of New Brunswickers in a sustainable way.

There will be many ways that you can help to shape the solutions. In particular, we are hoping to hear from as many New Brunswickers as possible the answers to these questions:

1. What does a thriving New Brunswick look like to you 10 years from now?
2. Thinking of all of the things government spends money on to provide the residents of New Brunswick with services, what are three things that you think government could stop doing to save money?
3. With all of the financial challenges facing our province, what three things do you think government could do to raise money?

Once the comment period ends, government will consider each submission carefully. All input received will inform and guide any changes that will be brought forward for consideration.

The deadline for feedback is February 28, 2015.

You can provide suggestions [online](#), by email, mail, or attend one of the [public sessions](#).

### Here's how to contact us:

Strategic Program Review Secretariat  
Executive Council Office  
Government of New Brunswick  
PO 6000, Fredericton NB E3B 5H1

Email: [SPR@gnb.ca](mailto:SPR@gnb.ca) | Web: [www.gnb.ca/SPR](http://www.gnb.ca/SPR)

### Privacy notice:

*Submissions received will be considered by the Government of New Brunswick as part of the public consultation process. Your submission may be made available to the public, with the exception of your personal information, as part of reports developed in the review process.*