



**2017-2018
Pre-Budget
Consultation**

Department of Finance

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Think Recycling!

Pre-budget consultation 2017-2018

Your government listens to New Brunswickers. Earlier this year, government released its multi-year plan to return balance to our finances. This plan was built by New Brunswickers through an extensive engagement process known as the Strategic Program Review.

Our plan will balance the budget by the year 2020-2021. This timeline strikes the balance New Brunswickers want between fiscal responsibility and investments in jobs, education and health care. To reach balance sooner would mean deep cuts that New Brunswick does not need and New Brunswickers will not accept.

It was through a dialogue that took place over the course of more than a year that our plan took shape. New Brunswickers clearly understood the need to restore balance to our finances. There was agreement on the need to get back to balance, but we were faced with a major choice: increase the Harmonized Sales Tax or make deep cuts in education and health care. Faced with these choices, New Brunswickers made their opinion clear that protecting education and health care was a priority.

Our government is proud of the level of engagement we have had with New Brunswickers. The development of our multi-year fiscal plan could not have been accomplished without their active participation. Right from the beginning, our government toured the province and heard from New Brunswickers from all walks of life. The development of the 2016-2017 Budget saw several rounds of engagement designed to identify and prioritize our options.

Over 3,000 people attended our dialogue sessions, including over 1,800 as our budget was being prepared and more than 9,000 ideas were submitted online, by email or by mail.

With the active participation of New Brunswickers, we developed a plan through Strategic Program Review which was announced in our last budget. Many of the hard decisions have been made. A number of measures have been implemented, but there are additional initiatives to be implemented and there is still a lot of work to do if we are to keep our plan on track.

We recognize the importance of maintaining an ongoing dialogue with New Brunswickers on the important issues facing our province.

This year's pre-budget consultation is about continuing the conversation. Although there is a multi-year fiscal plan in place, the work is not over yet. It will take continued diligence and hard work to ensure that we meet our fiscal objectives, while investing responsibly in priority areas such as education, health care and jobs.

Economic conditions improving

In recent years, the economic story has been pretty bleak. There was little economic growth and population declines were becoming increasingly common.

Weak labour markets have meant job declines in six of the last seven years. We saw a widening of the income gap between New Brunswick and Canada and retail sales fell in 2012 for only the second time in 20 years.

Fortunately, the story has started to change. In 2015, economic growth reached its highest level since 2004 and well above the average growth observed between 2011 and 2014.

“In New Brunswick, real GDP increased 2.3%, the largest gain since 2004...”

Statistics Canada –November, 2016

Statistics Canada reported widespread strength with 16 out of 20 major industrial categories displaying growth. Gains were observed in our primary and manufacturing sectors with healthy growth in the forest sector, as well as the food, wood product manufacturing and petroleum products manufacturing sectors.

We have also seen a reversal of recent population trends with four consecutive quarters of population growth. Immigration, supported by the arrival of Syrian refugees, reached an all-time high this year. The level of net interprovincial migration, while still negative, reached a four-year best.

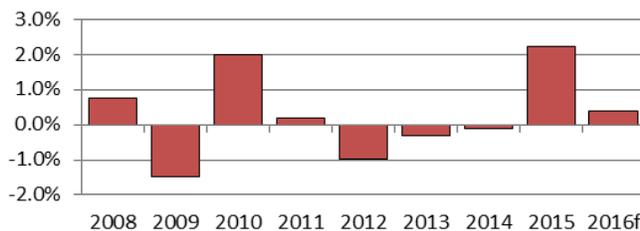
Looking at the year-to-date trends also shows some momentum for the New Brunswick economy in 2016.

After a slow start to the year, our labour market shows upward growth over the last six months. In September, employment reached a 30-month high with an employment level of 356,000, a mark not seen since March of 2014.

New Brunswick has also seen healthy income gains over the course of 2016. Over the last six months, the province has consistently been among the growth leaders in average weekly earnings, taking the top growth spot in May and June. On a year-to-date basis, average weekly earnings in New Brunswick has grown by 2.6 per cent compared to just 0.4 per cent for Canada.

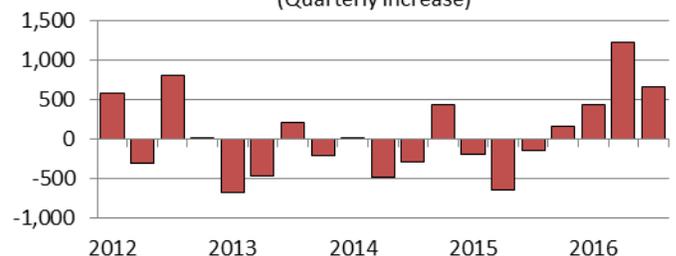
Notwithstanding the gains our economy is showing, economic challenges remain. Growth has slowed in both the U.S. and in Canada, while the closure of the potash mine in Sussex last winter will hamper economic growth over the next couple of years. Our aging population will remain a challenge to our economic growth prospects over the longer-term.

Real GDP growth highest in more than 10 years



Source: Statistics Canada, Department of Finance

Population gains in 4 straight quarters
(Quarterly increase)



Source: Statistics Canada

Improving fiscal prospects

Just as we have seen improvement in our economy, our fiscal situation is also improving.

We have managed prudently and we are seeing the results.

Our first budget planned for a deficit of \$326.8 million and with the recent release of our public accounts, the deficit came in at \$260.5 million, an improvement of over \$60 million from the budget projection.

This was a welcome change after several years of missed financial targets.

For 2016-2017 we are working diligently to meet or exceed our budget target. And we are on track with our fiscal plan.

Simply put, we have effectively managed our finances, but we need to remain focused on meeting or exceeding the targets we have set if we are to achieve our fiscal objectives.

Notwithstanding the progress we have made, our government recognizes that there remains a lot of work to be done.

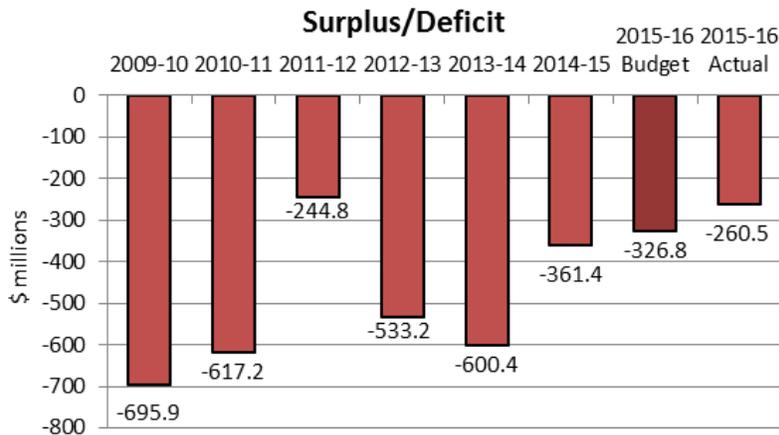
Our major financial indicators have trended in the wrong direction over the last several years.

The province has incurred large deficits in each of the last eight years, net debt has doubled since 2006-2007, and the province saw its credit rating downgraded in 2012.

“The trends on all ratings are stable based on DBRS’s belief that the province’s fiscal recovery plan as articulated in the province’s February 2016 budget is achievable...”

Dominion Bond Rating Service – April, 2016

Despite the recent progress we have made in our economy and our finances, we recognize that we need to stay on the path we have laid out in our last budget.



Sources: Department of Finance and Treasury Board

The fiscal plan

Budget 2016-2017 outlines a plan to return to budget balance by 2020-2021. This plan was developed with the active engagement of New Brunswickers from all walks of life. Many options were considered and, based on what we heard, a number of choices were put to New Brunswickers in advance of our budget.

This plan is a reflection of the choices we have collectively made. It strikes a balance between expenditure reductions and revenue measures.

With this plan, we have begun the necessary work of implementing the measures identified through the Strategic Program Review. However, it will take continued strong fiscal management and discipline if we are to achieve the goal of returning to balance by 2020-2021.

To this end, there are a number of initiatives that are now underway as we take on the task of executing the plan to return to balance.

Expenditure measures undertaken or underway include:

- Consolidation of contact centres
- Reduction to the number of government departments
- Centralized Human Resources
- Reduction in the size of management

Revenue measures include:

- Increased the provincial portion of the HST from 8% to 10%
- Introduced an HST credit to protect low- to middle-income New Brunswickers
- Increased Corporate Income Tax rate from 12% to 14%
- Raised tobacco taxes

Multi-Year Plan				
\$ millions	2017-2018	2018-2019	2019-2020	2020-2021
Revenue	8,916	9,089	9,287	9,491
Expense	9,108	9,206	9,311	9,470
Contingency Reserve	(75)	(50)	(25)	-
Surplus (Deficit)	(267)	(167)	(49)	21

Source: Department of Finance

Where the money comes from: 2016-2017

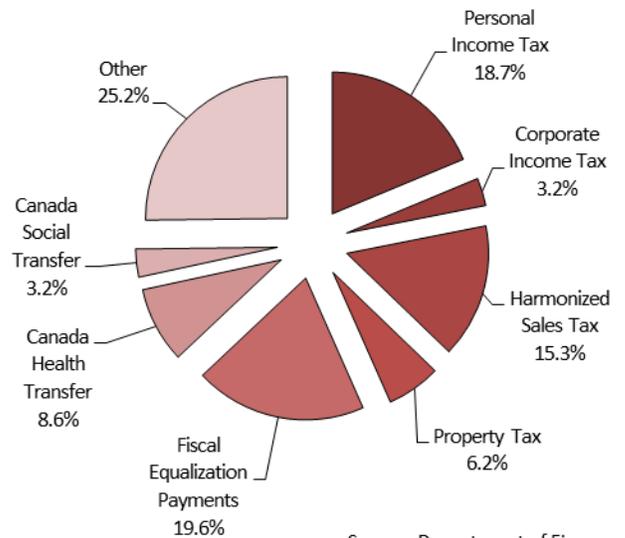
It is important to know where the revenue that finances our public services comes from.

Own-source revenue represents almost 65 per cent of government revenues. This includes provincial taxes, royalties, sales of goods and services and return on investment from Crown corporations such as NB Power and NB Liquor.

Personal income tax, Harmonized Sales Tax, provincial real property tax, corporate income tax and gasoline and motive fuel taxes generate the most revenue used to fund government services.

Federal transfers are another important source of revenue for the province, comprising the remaining 35 per cent. The federal Equalization Program is our largest revenue source, with other major sources including the Canada Health Transfer and the Canada Social Transfer.

We also maximize the amount we invest by leveraging the conditional grants provided by the federal government for priority areas such as labour market funding and infrastructure.



Source: Department of Finance

Where the money goes: 2016-2017

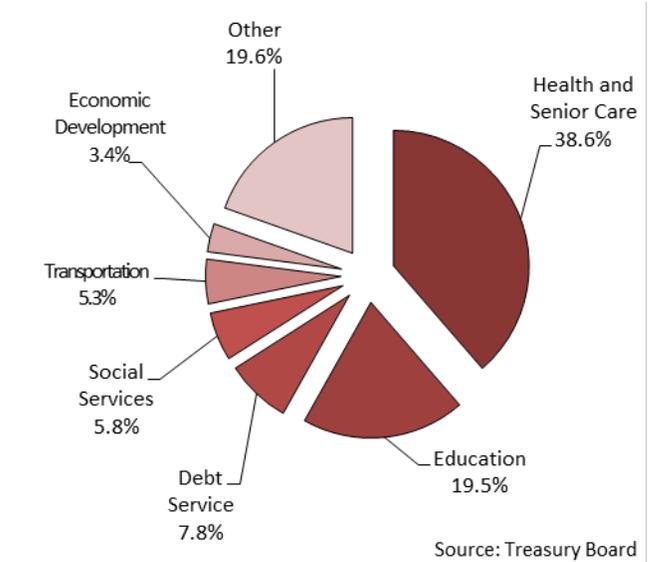
Exercising discipline in our spending and focusing our investments plays an equally important role in returning balance to our finances.

Health and education represent the two largest expenditure areas for the province. Combined they represent approximately 58 per cent of our spending. Adding in our spending on social services, almost two out of every three dollars are spent on Health and Senior Care, Education and Social Services.

A return to balance will also help us reduce our cost of servicing the public debt and use the savings to deliver the services New Brunswickers deem important.

Imagine what could be done if we can reduce our debt servicing costs which, at \$700 million for 2016-2017, is one of our largest expenditure items.

Getting back to balance and reducing our debt servicing costs can also protect our finances in the event that we move from the low interest environment that we currently find ourselves in.



Considerations for 2017-2018 and beyond

Although a plan is now in place, ongoing engagement and feedback will play an important role in not only ensuring we understand the priorities of New Brunswickers, but ensuring that we are successful in meeting our fiscal objectives.

We recognize that circumstances may change over time and that we may also need to make necessary adjustments to the plan to address changing priorities. For example, the province has little direct control over the economy and revenue. Furthermore, developments such as the potash mine closure in Sussex cannot be anticipated.

This is why it is important to maintain an ongoing dialogue with New Brunswickers.

As we consider the 2017-2018 Budget there are certain questions that come to mind, that we would value the input of New Brunswickers:

- Should the plan to return to balance by 2020-2021 be accelerated, slowed down or maintained as currently outlined? If the timing of the plan is changed, how should it be changed and why?
- Are there new or other priorities that should be invested in? If so, how should they be paid for?
- With the ongoing focus on the need to address the effects of climate change, how should revenue raised from a carbon price be put back into the economy?

Feedback and Suggestions

Online at:

<http://www.gnb.ca/finance>

Written submissions by mail:

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Deadline is December 8, 2016