

REPORT OF THE

Auditor General of New Brunswick

Volume III
Financial Audit

2018

AUDITOR GENERAL
OF NEW BRUNSWICK



VÉRIFICATEUR GÉNÉRAL
DU NOUVEAU-BRUNSWICK



Speaker of the Legislative Assembly
Province of New Brunswick

Sir

As required under Section 15 (1) of the *Auditor General Act* I am submitting Volume III of my 2018 Report to the Legislative Assembly.

Respectfully submitted,

A handwritten signature in black ink that reads "Kim MacPherson". The signature is written in a cursive, flowing style.

Kim MacPherson, FCPA, CA, ICD.D
Auditor General

Fredericton, N. B.
January 2019

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Chapter 1

Introductory Comments by the Auditor General

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Introductory Comments by the Auditor General

Introduction

1.1 This volume of our Report deals with matters arising from financial audits of the Province and its Crown agencies for the year ended March 31, 2018.

1.2 On August 13, 2018, I was pleased to issue an unqualified audit opinion on the 2018 consolidated financial statements of the Province of New Brunswick. An unqualified opinion also referred to as a “clean audit opinion” indicates the Province’s consolidated financial statements are prepared in accordance with Canadian Public Sector Accounting Standards.

1.3 I was also pleased government released these audited financial statements in advance of the September 2018 election, as I had previously encouraged in my past two reports. The audited results are important to allow New Brunswickers to judge how the government has managed public money and resources.

Auditor General’s comments on the Province’s year end results

1.4 I am encouraged by the signs of recent fiscal progress for the year ended March 31, 2018, including:

- an annual surplus of \$67 million, the first surplus in a decade; and
- an increase in Net Debt of \$106 million, the slowest rate of increase since 2007.

Recent progress is encouraging, however, action is still required

1.5 Although I am encouraged by this recent progress, I remain concerned with the Province's overall long-term fiscal situation. A note of caution is required as the small fiscal 2018 surplus was largely driven by increases in provincial tax revenue in a period when expenses also increased.

1.6 I again encourage the Province to set and achieve targets for debt control and reduction. We present information about debt in Chapter 2 of this report.

Future Government interference in NB Power operations may have serious consequences

1.7 Any future government interference in the NB Power Corporation may impact future accounting. Any interference in operations, through directing and/or overriding the regulatory process impacts NB Power's authority and ability to self-sustain operations. The impact on future accounting of NB Power on the Province's books is significant and needs to be understood by elected officials.

1.8 We present the history of interference by past governments and resulting potential impacts in Chapter 3.

Current state of the Province's IT systems

1.9 For the past six years, I have reported the Province has outdated IT systems. The Province is in the process of obtaining a new system to replace these outdated ones. We discuss the risks, and the process to obtain the new system in Chapter 3.

Understanding the Province's employee benefits

1.10 In Chapter 4, we present information for new members of the Legislative Assembly, plan members and New Brunswickers regarding the Province's employee benefit plans. This information is helpful in understanding the impacts of recent changes in pension plans and retirement allowance benefits.

The Province's short-term financial condition slightly improved

1.11 The Province's financial condition has improved slightly in the short-term due to a small surplus realized in 2018. Long-term trends, however, remain mostly unfavorable and unchanged. We present our full analysis of sustainability, flexibility and vulnerability indicator trends in Chapter 5.

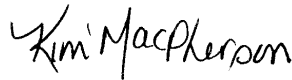
This report presents work performed as at November 2018

1.12 This report presents work performed as at November 2018. We acknowledge changes may have occurred after this date which are not reflected in this material. We will note any such changes in future reports.

Acknowledgements

1.13 My Office is grateful for the continuing cooperation we receive from government departments and agencies during the course of our financial audit work.

1.14 I want to thank all staff from my Office for their hard work and dedication. It is a small group of professionals committed to fulfilling the mandate of the Office and producing a quality report to the Legislative Assembly. The report I am presenting today is a reflection of a team effort where each member of the staff has greatly contributed.



Kim MacPherson, FCPA, CA, ICD.D
Auditor General

Chapter 2

New Brunswick's Year End Financial Results

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New Brunswick's Year End Financial Results

Chapter Summary

First Surplus in A Decade

- Annual surplus was \$67 million
- Revenues of \$9.34 billion exceeded expenses of \$9.27 billion
- Improvement from budgeted deficit of \$192 million and prior year deficit of \$117 million

Debt Reaches New Historic High

- Debt is now \$17 billion
- In simple terms, if \$100 million a year was repaid, it would take 170 years to repay the debt
- Annual servicing (interest) cost is \$667 million

Why Was There a Surplus?

- Revenues were higher by \$328 million largely due to increases in provincial tax revenue and transfers from Federal government
- Expenses increased \$253 million, but were \$109 million under budget

Why did Net Debt Increase In A Surplus Year?

- Capital Assets increased \$168 million, offsetting the surplus
- Net Debt increased \$106 million in 2018
- 2018 Net Debt increase was the smallest annual rate of increase since 2007
- As of the time of this report, government had no targets to reduce Net Debt

How Does New Brunswick Compare to Other Provinces?

- Among comparable provinces, New Brunswick has the:
 - highest Net Debt per capita - \$18,300 per New Brunswicker
 - highest Net Debt as a percentage of GDP

What's the State of the Province's Financial Condition?

- Three of the twelve short-term indicators improved since 2017
- All twelve long term indicators remain unchanged
- All indicators are presented in Chapter 5.

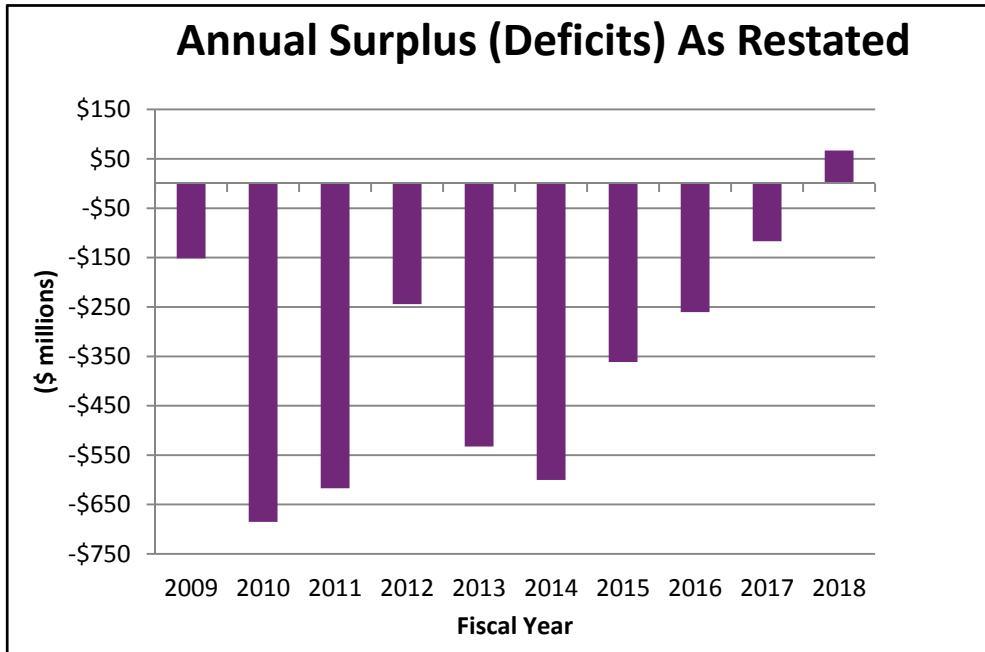
This Year's Financial Results

First Surplus in a Decade

2.1 For the first time in a decade, the Province of New Brunswick recorded an annual surplus of \$67 million. The Province's March 31, 2018 audited consolidated financial statements reported government spent less than it earned during the year.

2.2 We are pleased the annual surplus improved \$259 million from the budgeted deficit of \$192 million. Prior to this, the last annual surplus was in 2008. The ten year history is presented in Exhibit 2.1 below.

Exhibit 2.1 - Annual Surplus (Deficits) As Restated

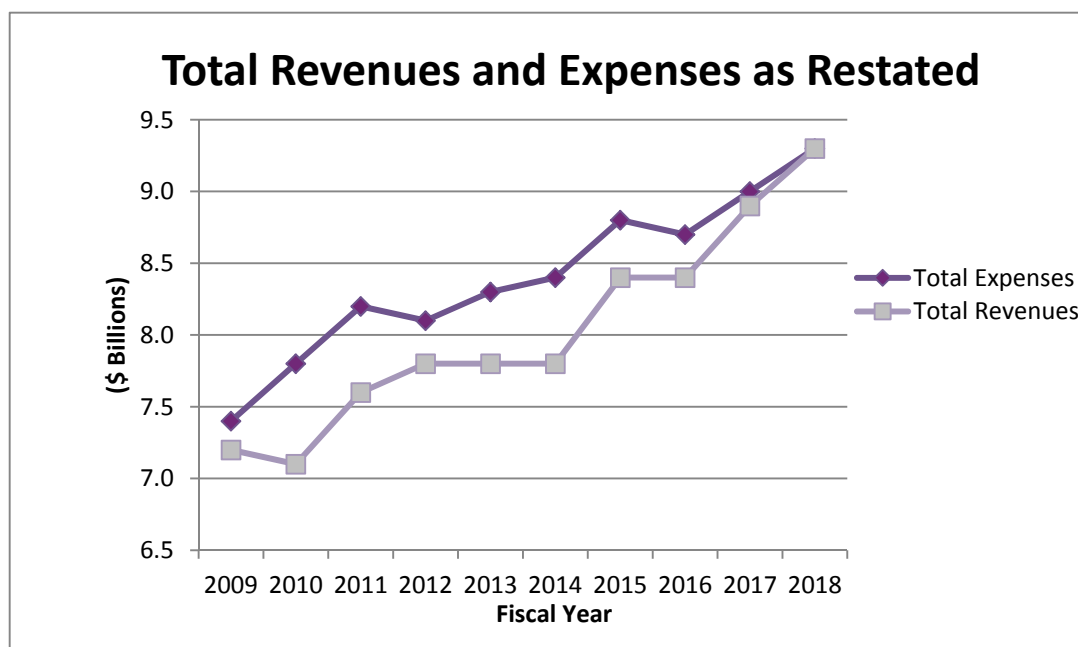


Source: As restated – refer to Appendix I – Exhibit A2.1 for supporting information.

Encouraging, but small compared to expenses

2.3 While these results are encouraging to the fiscal situation of the Province, the annual surplus is very small when compared to expenses of \$9.3 billion. As shown in Exhibit 2.2, revenues and expenses continued to grow in 2018.

Exhibit 2.2 - Total Revenues and Expenses as Restated



Source: As restated – refer to Appendix I – Exhibit A2.2 for supporting information.

2.4 During fiscal 2018, revenues grew slightly faster than expenses, resulting in the annual surplus.

Why Was There a Surplus?

2.5 Exhibit 2.3 shows at a summary level, the reasons for the change from a deficit in March 31, 2017 to a surplus in March 31, 2018.

Exhibit 2.3 - Analysis of Annual Surplus

Analysis of Annual Surplus		
What Happened Since Last Year?		Significant Reasons Why?
	(millions)	
Fiscal 2017 Deficit	\$(117.0)	
Increase in provincial revenue	+327.9	Increases and recoveries in Harmonized Sales Tax (+197M) and Corporate Income Tax (+111M), and other taxes (+17M), Other Provincial Revenue (+39M) offset by lower Personal Income Tax (-34M) and lower income from NB Power (-4M).
Increase in transfers from Federal government	+108.9	Increases in Conditional and Unconditional Grants (+57M), and Fiscal Equalization Payments (+52M).
Increase in expense	(252.8)	Expenses increased in Education and Training (+65M), Health (+95M), Social Development (+19), Economic Development (+44M) and Transportation & Infrastructure (+37M) offset by lower expenses in Service of the Public Debt (-7M).
Fiscal 2018 Surplus	\$ 67.0	

Source: AGNB prepared from New Brunswick Public Accounts Volume I for year ended March 31, 2018.

Why Did Government Project a Deficit?

2.6 Government projected there would be an annual deficit of \$115 million in its 3rd quarter budget estimate at December 31, 2017. This differs from the actual annual surplus of \$67 million.

2.7 Exhibit 2.4 below shows at a summary level, the reasons for the significant difference in estimate to actual.

Exhibit 2.4 - Analysis of 3rd Quarter Budget Projection Estimate

2018 (\$ millions)	3 rd Quarter Budget Projection	Actual Results	Difference	Significant Reasons Why? (unaudited)
Revenues	9,263	9,339	+ 76	<ul style="list-style-type: none"> higher tax revenue due to property taxes, insurance premium tax, and other tax income (+\$23M); earlier timing of revenue from Federal government for a shared economic development agreement (+\$20M); prior-year recoveries from universities, revenues in schools and a school lease buy-out (+\$23M); and higher number of out-of-province patients in Regional Health Authorities (+\$18M) these increases were offset by lower net income for NB Power (-\$22M)
Expenses	9,378	9,272	+ 106	<ul style="list-style-type: none"> slower timing of recognizing a significant local government grant (+22.8M); lower cost of servicing the public debt due to timing of new debt issues and more favourable interest rates (+16M); and actuarial changes to employee retirement benefit plans were lower than expected (+15M).
Surplus (Deficit)	(115)	67	+ 182	

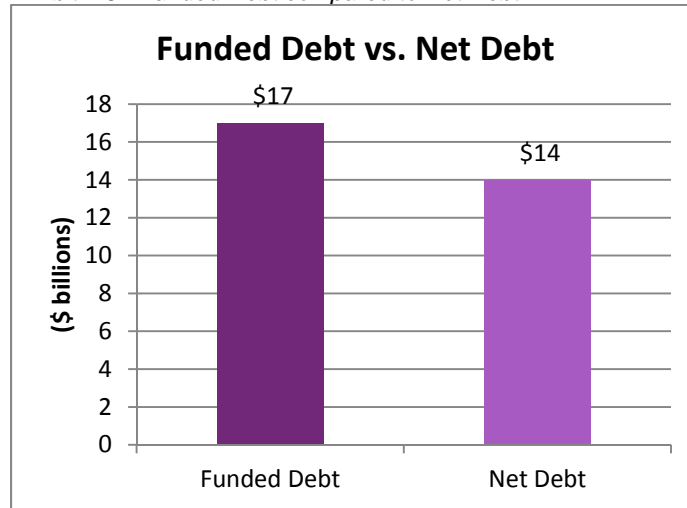
Source: AGNB prepared from information provided by Treasury Board and the Department of Finance.

2.8 Overall, actual revenue varied by only 0.8%, and actual expenses by 1.1%, from the 3rd quarter budget projection estimate. In our view, these are relatively small variances given the magnitude of total revenue and expense amounts in excess of \$9 billion and the uncertainty in the remaining three months of the fiscal year.

How Do Funded Debt and Net Debt Differ?

2.9 Funded Debt and Net Debt are the two forms of debt presented in the Province's consolidated financial statements.

Exhibit 2.5 - Funded Debt compared to Net Debt



Source: Refer to Appendix I – Exhibits A2.3 and A2.4 for supporting information.

2.10 Funded Debt is the total long-term debenture debt the Province is legally bound to repay and has borrowed. This excludes \$4.4 billion borrowed on behalf of NB Power.

2.11 This differs from Net Debt, which is a mathematical accounting calculation presented as total liabilities less financial assets.

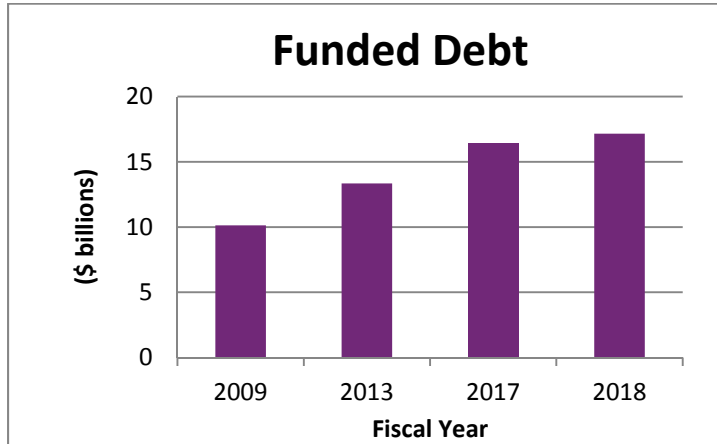
2.12 Net Debt is often seen as a key performance indicator in the public sector because it offers insight into the financial health of the Province. It provides information about future revenue requirements to meet past spending.¹

¹ <https://www.frascanada.ca/-/media/frascanada/psab/news/psab-statement-of-principles-a-revised-reporting-model-for-the-canadian-public-sector-may-2018-en.pdf?la=en&hash=D42895384A8D7F01CDB4FC0C7AF0EC7683ED62D>

Funded Debt Reaches New Historic High

2.13 New Brunswick's Funded Debt for provincial purposes ("Funded Debt") was \$17 billion at March 31, 2018, a historic new high. It has increased \$7 billion over the past 10 years as shown in Exhibit 2.6.

Exhibit 2.6 - Funded Debt



Source: Refer to Appendix I – Exhibit A2.3 for supporting information.

No plan to reduce debt

2.14 Government has no plan to address this elevated level of Funded Debt.

2.15 Funded Debt is similar to household debt in which many New Brunswickers have. The Province must make interest payments on its outstanding balance, and repay principal as debenture debt matures. The Province's outstanding balance consists mostly of bonds issued in the financial market.



2.16 To put the balance in simple terms, if the Province repaid \$100 million per year, it would take 170 years to repay \$17 billion. This does not include the annual cost of interest, also known as servicing the public debt.

Annual cost – Servicing the debt

2.17 In the last fiscal year, service of this debt, including paying interest, was \$667 million. This is an annual cost, and does not reduce the principal amount outstanding.

2.18 If this interest cost was a department, its budget would be larger than the Department of Transportation and Infrastructure.

What happens when interest rates increase?

2.19 If the interest rate goes up by 1%, the Province estimates in three years, the annual interest expense could increase by \$60 million. Such an increase would further restrict government program spending.

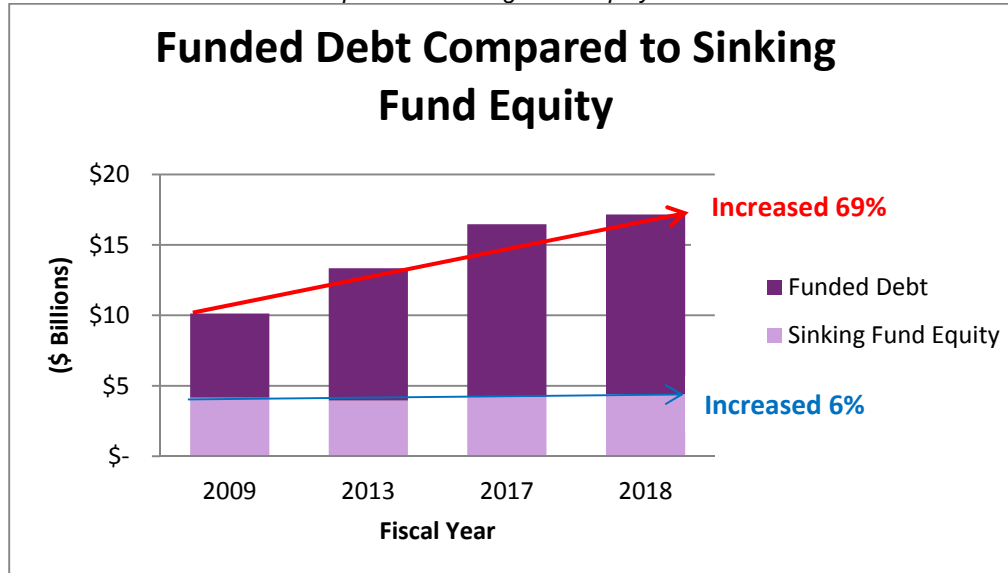
How is Funded Debt Repaid?

Sinking fund equity assets are available

2.20 The Province annually contributes to a fund intended to repay funded debt when it matures. The asset balance of the fund at March 31, 2018 was \$4.4 billion. The consolidated financial statements present this fund as Sinking Fund Equity (separate from the Funded Debt balance).

2.21 The Sinking Fund Equity has increased over the past 10 years however, not at a rate consistent with Funded Debt. Exhibit 2.7 shows the change in the balances.

Exhibit 2.7 - Funded Debt Compared to Sinking Fund Equity



Source: Refer to Appendix I – Exhibit A2.3 for supporting information.

2.22 The increase of 69% in Funded Debt is much higher than the increase of 6% in the fund used to repay the debt balance as it matures.

2.23 This is due to the *Provincial Loans Act* requiring only annual installments paid at a minimum rate of 1% of the outstanding Funded Debt principal balance into the sinking fund. This is calculated based on the amount of the outstanding principal on each bond issue at each annual anniversary date.

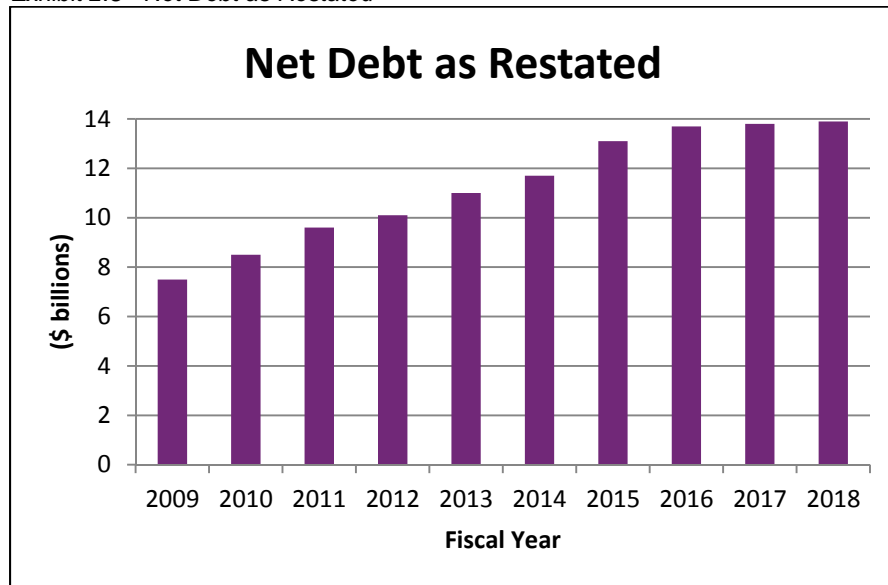
Why Did Net Debt Increase in a Surplus Year?

2.24 Net Debt increased by \$106 million, the slowest rate in over a decade at 0.7%. The last time Net Debt increased at a slower rate was 2007.

2.25 As of March 31, 2018, New Brunswick has \$13.9 billion in Net Debt. Since 2009, Net Debt has increased almost \$7 billion.

2.26 Exhibit 2.8 shows the increase in Net Debt over the last ten years.

Exhibit 2.8 - Net Debt as Restated

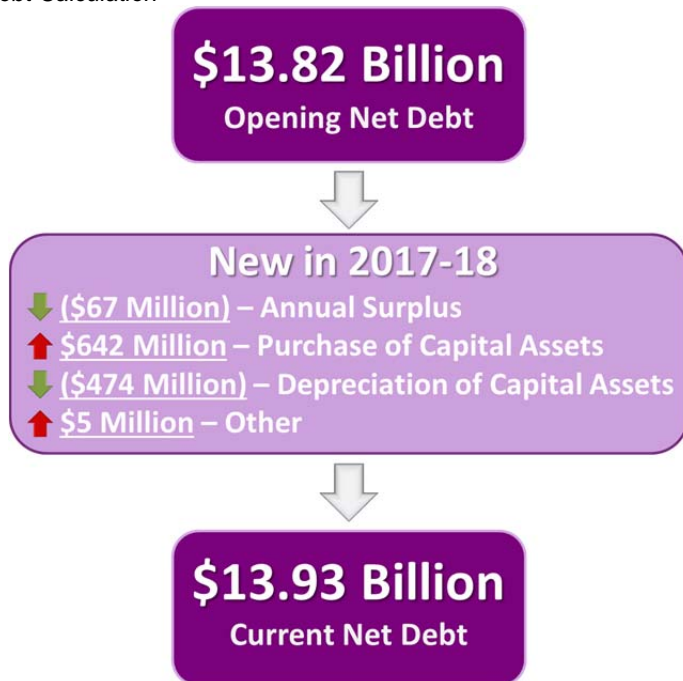


Source: As restated – refer to Appendix I – Exhibit A2.4 for supporting information.

2.27 Annual surplus is a component of the Net Debt calculation, however, adjustments are also made for the purchase and decline of capital assets (e.g. roads, buildings and equipment) and other smaller items.

2.28 Exhibit 2.9 details amounts included in the calculation of Net Debt for the year ended March 31, 2018.

Exhibit 2.9 - Net Debt Calculation



Source: AGNB prepared information using 2018 Public Accounts

- 2.29** Action is required to address this increasing Net Debt and we again encourage government to set targets to eliminate annual deficits and reduce Net Debt. At the time of writing this report no targets have been set.
- 2.30** As we have reported repeatedly, this trend is not sustainable. If this continues, eventually governments will not be able to provide the same level of programs and services such as health care, education, roads, schools and hospitals.
- 2.31** As Net Debt increases, an even higher demand will exist on future generations to pay for past expenses.
- 2.32** New Brunswick's ability to reduce Net Debt is more limited than other Provinces given challenges such as an aging and declining population, high unemployment rates and slow economic growth.

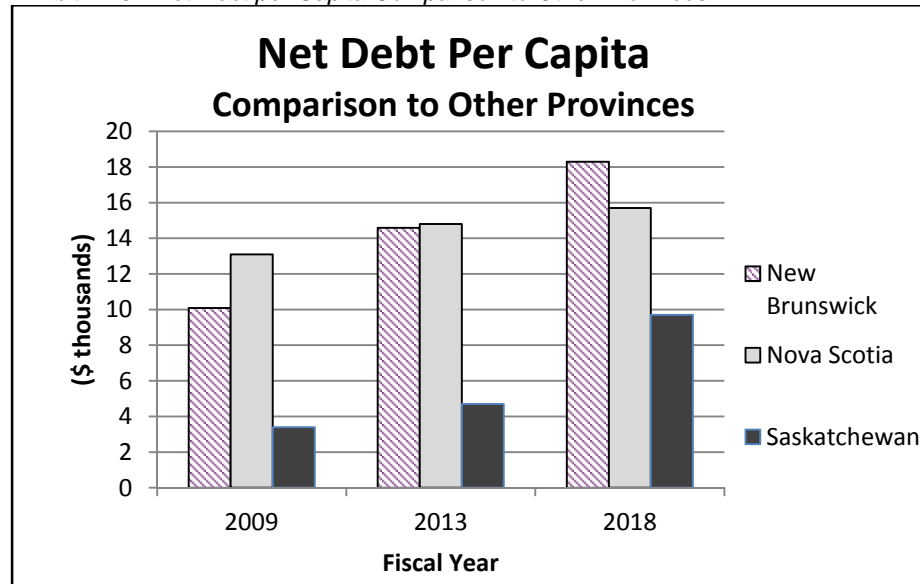
How Does New Brunswick Compare to Other Provinces?

Net Debt per capita higher than other provinces with similar populations

- 2.33** The Net Debt per capita (*per New Brunswicker*) is higher than other provinces with similar populations or economies. Per capita includes all members of the population such as adults and children.
- 2.34** A comparison of Net Debt per capita to Nova Scotia

and Saskatchewan is presented in Exhibit 2.10 below.

Exhibit 2.10 - Net Debt per Capita Comparison to Other Provinces



Source: As restated – refer to Appendix I – Exhibit A2.7 for supporting information.

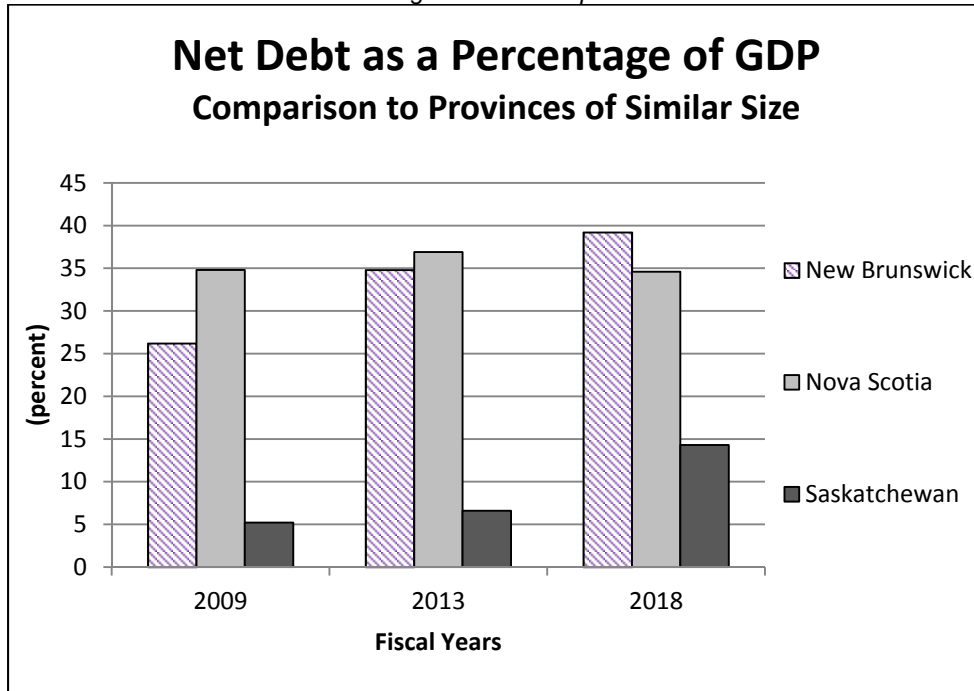
2.35 Net Debt per capita at March 31, 2018 was \$18,300 and is expected to grow to \$19,000 by 2019, based on the government’s approved budget.

2.36 New Brunswick also had the highest Net Debt as a percentage of Gross Domestic Product (GDP)² among comparable provinces, which indicates high Net Debt and low activity in the economy.

2.37 A comparison of Net Debt as a percentage of GDP to Nova Scotia and Saskatchewan is presented in Exhibit 2.11.

² Gross Domestic Product (GDP) measures the value of all final goods and services produced in an economy in a given period of time.

Exhibit 2.11 - Net Debt as a Percentage of GDP Compared to Provinces of Similar Size



Source: As restated – refer to Appendix I – Exhibit A2.8 for supporting information.

2.38 New Brunswick's Net Debt as a percentage of GDP has increased from 26% in 2009 to 39% in 2018. This increase was greater than Nova Scotia and Saskatchewan as presented in Exhibit 2.11.

Where is there more information on the Province's Financial Condition?

See chapter 5

2.39 A full analysis of indicators of financial condition is presented in Chapter 5. These include indicators of sustainability, flexibility and vulnerability.

Appendix I

Supplementary Information

This appendix contains supporting data for exhibits presented in Chapter 2.

Exhibit A2.1 - Annual Surplus (Deficit) Data

Annual Surplus (Deficit) Data										
(\$ millions)										
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
As restated	(151.6)	(695.2)	(617.0)	(244.3)	(532.7)	(600.3)	(361.4)	(260.5)	(117.0)	67.0
As originally recorded	(192.3)	(737.9)	(633.0)	(260.6)	(507.7)	(498.7)	(388.6)	(260.5)	(118.9)	67.0

Source: Prepared by AGNB based on applicable years' Public Accounts with restatements where identified in Public Accounts

Note: Prior years' amounts have been restated to comply with the requirements of adopting new accounting standards or to improve financial statement presentation.

The impacts of the 2016 consolidation of nursing home financial results into the Province's financial statements has not been included in the restated amounts for the years prior to 2015 in the exhibits as this information is not available. Significant variances to data presented in this chapter may have occurred for 2014 and earlier years as a result of this accounting change.

Exhibit A2.2 - Revenue and Expense Data

Revenue and Expense Data										
(\$ billions)										
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Revenues	7.2	7.1	7.6	7.8	7.8	7.8	8.4	8.4	8.9	9.3
Total Expenses	7.4	7.8	8.2	8.1	8.3	8.4	8.8	8.7	9.0	9.3

Source: Prepared by AGNB based on applicable years' Public Accounts with restatements where identified in Public Accounts

Exhibit A2.3 - Funded Debt Data

Funded Debt Data (\$ millions)					
	2009	2013	2017	2018	% Increase 2009-2018
Funded Debt	14,304.7	18,023.2	20,891.3	21,572.7	50.8%
NB Power (NB Electric Finance Corporation)	(4,177.1)	(4,685.4)	(4,422.7)	(4,412.3)	5.6%
Funded Debt for Provincial Purposes	10,127.6	13,337.8	16,468.6	17,160.4	69.4%
Year over year increase	n/a	3,210.2	3,130.8	691.8	n/a
Sinking Fund Equity	4,159.9	3,955.8	4,212.7	4,418.5	6.2%
Year over year increase	n/a	(204.1)	256.9	205.8	n/a

Source: Prepared by AGNB based on applicable years' Public Accounts with restatements where identified in Public Accounts

Exhibit A2.4 - Net Debt Data

Net Debt Data (\$ billions)										
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
As restated	7.5	8.5	9.6	10.1	11.0	11.7	13.1	13.7	13.8	n/a
As originally recorded	7.4	8.4	9.5	10.0	11.1	11.6	12.4	13.7	13.8	13.9
% Growth Rate in Net Debt from the Prior Year	5.6%	13.3%	12.9%	5.2%	8.9%	6.4%	12.0%	4.6%	0.7%	0.7%

Source: Prepared by AGNB based on applicable years' Public Accounts with restatements where identified in Public Accounts

Exhibit A2.5 - Provincial Population Data as of July 1

Provincial Population Data as of July 1					
Province	(thousands)				
	2014	2015	2016	2017	2018
Nova Scotia	943.0	942.2	941.5	948.6	953.9
New Brunswick	755.7	754.7	753.9	757.4	759.7
Saskatchewan	1,104.8	1,120.6	1,131.2	1,148.6	1,163.9

Source: Statistics Canada Table 17-10-0005-01 Population estimates on July 1st, by age and sex

Exhibit A2.6 - Net Debt Comparison to Other Provinces Data

Net Debt Comparison to Other Provinces				
(\$ billions)				
Province	Increase 2009 to 2018	2009	2013	2018
Nova Scotia	22.0%	12.3	13.9	15.0
New Brunswick	85.3%	7.5	11.0	13.9
Saskatchewan	222.9%	3.5	5.1	11.3

Source: Amounts from Provinces' published Financial Statement discussion and analysis

Exhibit A2.7 - Net Debt per Capita Comparison to Other Provinces' Data

Net Debt per Capita Comparison to Other Provinces Data			
(\$ Thousands)			
Province	2009	2013	2018
New Brunswick	10.1	14.6	18.3
Nova Scotia	13.1	14.8	15.7
Saskatchewan	3.4	4.7	9.7

Source: Amounts from Provinces' published Financial Statement discussion and analysis

Exhibit A2.8 - Net Debt as a Percentage of GDP Compared to Other Provinces Data

Net Debt as a Percentage of GDP Compared to Other Provinces Data				
(percent)				
Province	2009	2013	2018	% Increase (Decrease) from 2009 to 2018
New Brunswick	26.2	34.8	39.2	49.6%
Nova Scotia	34.8	36.9	34.6	(-0.6%)
Saskatchewan	5.2	6.6	14.3	175.0%

Source: Amounts from Provinces' published Financial Statement discussion and analysis

Note: Provinces used in our comparison include Nova Scotia and Saskatchewan. These provinces presented for comparison purposes were selected based on application of judgment where certain similarities in population or economic circumstances were considered. The provinces' application of accounting principles may differ upon comparing financial information, as circumstances may not be similar across provinces. Population data for provinces used in our comparison is found in Exhibit A2.5.

In the previous four exhibits:

- information from the audited summary financial statements of the individual provinces is used;
- information about population is taken from the Statistics Canada website, and
- GDP figures are from the financial statement discussion and analysis attached to the individual provinces' audited summary financial statements.

Chapter 3

Understanding Key Financial Audit Issues

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Understanding Key Financial Audit Issues

Chapter Summary

Unqualified audit opinion in most audits

- The Province had an unqualified audit opinion
- Most Crown Agencies had an unqualified audit opinion
- Key issues in our financial audits are found in this chapter

Little progress on centralizing accounts receivable collection since 2011

- The Province is owed more than \$2.8 billion
- SNB collections branch has no clear mandate for the collection of all accounts receivable
- No timeline for completion of centralization of accounts receivable
- Collecting receivables should be a priority
- Disaster financial assistance receivable now at \$61 million for past storms and flood damages

Many of the Province's key IT systems are out of date

- Systems are out-of-date
- Province is in the process of obtaining a new system to replace many systems

Future government interference in NB Power rate setting process may have serious consequences

- History of past governments imposing rate caps or freezes impacts NB Power's authority to carry on as a business and self-sustain operations
- Respect for the independent rate setting regulatory process must exist in substance and form
- There may be significant impact in the Province's consolidated financial statements in future

Government spending announcements impact financial statements at different times

- Timing of announcements and expense differs
- The financial statements disclose \$4.7 billion in committed spending for future expense

Government Interference in NB Power Rate Setting Process

What Happens When Government Interferes in the NB Power Rate Setting Process?

Future government interference may jeopardize accounting

3.1 Future government interference in the New Brunswick Power Corporation's (NB Power) rate setting process may jeopardize the accounting method used to record NB Power in the Province's consolidated financial statements. This could result in a significant impact on the Province's financial condition, such as increased Net Debt.

3.2 Currently, the accounting method used records only the Province's equity investment in NB Power, which includes annual net earnings or loss and other adjustments. This means the following significant NB Power amounts are excluded from the Province's consolidated financial statements:

- \$4.4 billion of debt;
- \$4.3 billion of capital assets;
- \$900 million in rate regulatory balances ("regulatory assets");
- all other assets and liabilities; and
- revenue and expenses on a line by line basis.

3.3 A change in accounting method would likely result in a change to the way the Province records NB Power in the consolidated financial statements.

Why Would the Accounting Method Used to Record NB Power Change?

Accounting for NB Power is complex

3.4 Explaining the different accounting methods for recording NB Power in the Province's consolidated financial statements is very complex. In the paragraphs that follow, we attempt to present this information in a simplified manner. See paragraph 3.22 for more detailed technical information.

3.5 In simple terms (for accounting purposes) NB Power is seen as an independent business separate from government. This means NB Power has the financial and

operational authority to carry on as a business. It also means NB Power is able to self-sustain its operations by meeting its liabilities (e.g. debt) from revenue generated from non-government sources (e.g. ratepayers).

NB Power must be independent and self-sustaining to continue with current accounting treatment

3.6 If conditions change and NB Power is no longer independent from government or able to self-sustain its operations from non-government revenue sources, NB Power would no longer be considered a separate business for accounting purposes. This means the accounting method used to combine NB Power with the Province would change. This may have a significant impact on the Province's financial statements.

3.7 Assessing whether or not NB Power remains independent from government and can self-sustain its operations is complex and requires professional judgement. The substance of the relationship is on a scale or continuum. This requires review each year to determine if the cumulative impact of government interference has reached an extent such that NB Power is no longer independent or self-sustaining.

Future government interference may change accounting treatment

3.8 In summary:

- The more governments interfere in NB Power's business, the less independent NB Power is from government; and
- The more governments interfere in the rate setting process, the less revenue NB Power may generate from non-government sources. This could affect NB Power's ability to meet its existing liabilities or repay its debt, making it less able to sustain its operations.

How Have Past Governments Interfered?

Past governments have interfered in rate setting process

3.9 Past governments have interfered in the rate setting process by imposing rate increases or freezes. Recently, during the 2018 provincial election campaign period, an election promise was made to freeze rates in future years.

EUB process bypassed

3.10 Past governments were able to interfere in the rate setting process by changing legislation and/or directing NB Power operations. This bypassed the legislated independent rate regulation process of the Energy and Utilities Board (EUB). See paragraph 3.39 for more

information on the EUB.

Five examples of government inference

3.11 Five recent occasions where government interfered in NB Power operations are described below.

- In 2006, Cabinet overturned a decision by the EUB and reduced an average power rate increase of 9.64% to 6.57%.
- In 2008, the government directed NB Power "*barring unforeseen circumstances, the maximum average power rate increase for each of the next three years through 2010 will not surpass three per cent.*"
- In 2010, the government committed to implementing a three-year electricity rate freeze for NB Power ratepayers. NB Power implemented the freeze in October 2010.
- A new Electricity Act that came into effect in 2013, which allowed NB Power to change rates up to 2% annually for two years without applying to the EUB.
- In March 2018, the Premier indicated he would consider overruling a 'weather tax' proposal by NB Power through legislation if approved by the EUB.

Annual assessment

3.12 As part of the annual audit process, the impact of government actions is assessed to determine, if cumulatively, NB Power should no longer be considered an independent, self-sustaining business. In 2018 the Comptroller prepared the assessment and AGNB audited the assessment.

Concluded NB Power independent and self-sustaining in 2018

3.13 We concluded, at the time, NB Power was still independent, and self-sustaining. No change was needed to the accounting method used to record NB Power in the Province's consolidated financial statements for March 31, 2018.

3.14 Given these recent examples of past governments' interference, we will continue to audit this significant conclusion annually.

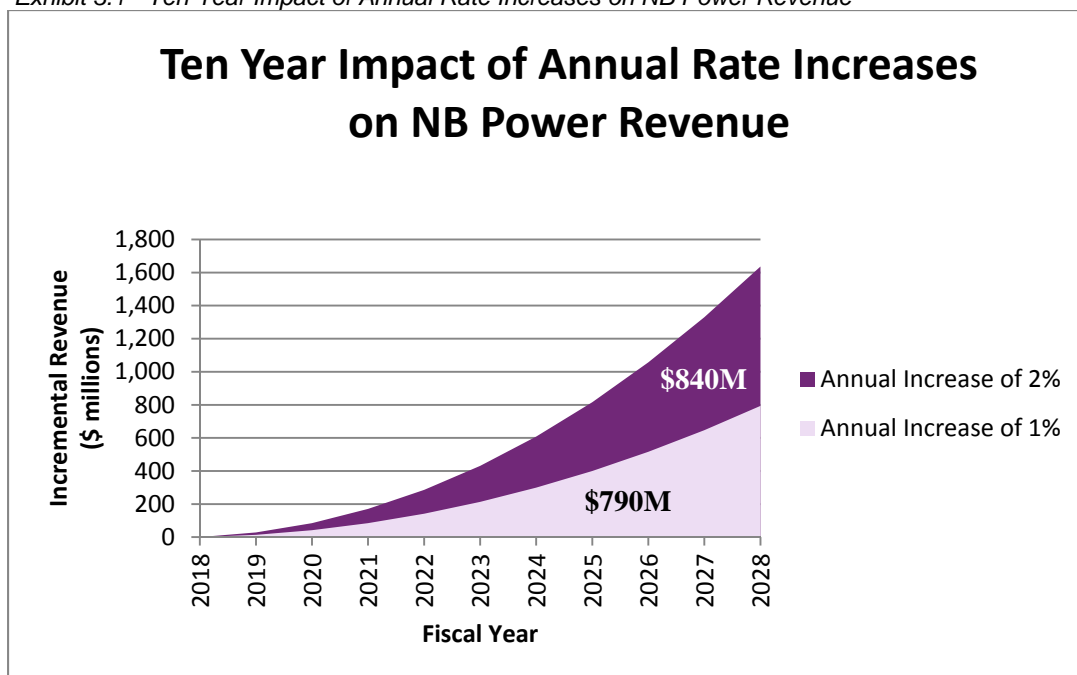
What Happens When a Lower Power Rate Increase Is Imposed?

When governments interfere, NB Power's revenue is impacted

3.15 In paragraph 3.11, we cited certain examples where government imposed a lower rate increase than approved by the EUB. In the paragraphs that follow, we will show the impact of these decisions on NB Power's revenue not only in the current year, but in future years as rate changes have a compounding effect.

3.16 Exhibit 3.1 shows a simple example of the incremental effect of increases in power rates over 10 years.

Exhibit 3.1 - Ten Year Impact of Annual Rate Increases on NB Power Revenue



Source: AGNB prepared information. Calculated using NB Power's 2018 in-province revenue of \$1.4 billion as a base year.

3.17 Exhibit 3.1 shows if the EUB approved an annual rate increase of 2% each year over the next 10 years, NB Power would earn \$1.6 billion in additional revenue. This is \$840 million higher than if only a 1% rate increase was approved over the same period.

3.18 The example in Exhibit 3.1 shows the compounding effect in the future if government overrules a rate decision by the EUB to obtain a lower rate for rate payers. This is one example of how government interference impacts NB Power's ability to remain independent and self-sustaining.

How Is NB Power Accounted for in the Province's Financial Statements?

3.19 The Province's consolidated financial statements include the results of:

- Government departments,
- Government organizations (Crown agencies and other organizations controlled by the government), for example Service New Brunswick; and
- Government Business Enterprises (GBE's) (Government corporations which are self-sustaining), for example NB Power.

Not all accounting is presented the same

3.20 Depending on the type of organization, a different accounting framework is appropriate. For example, all departments and most Crown agencies use Public Sector Accounting Standards (PSAS) to report their financial results, while Government Business Enterprises (GBE) use International Financial Reporting Standards (IFRS).

3.21 Since NB Power has been classified as a GBE, it therefore uses International Financial Reporting Standards to present its financial results.

Why Is NB Power Classified as a GBE?

What are the criteria of a GBE?

3.22 To be classified as a Government Business Enterprise (GBE), there are four criteria in which NB Power must annually meet including:

- a separate entity with power to contract in its own name;
- sells goods and services outside of the government as its main activity;
- delegated the financial and operational authority to carry on as a business; and
- it can self-sustain its operations by being able to meet its liabilities (e.g. debt) from revenue received from sources outside of the government.

Two criteria are a concern

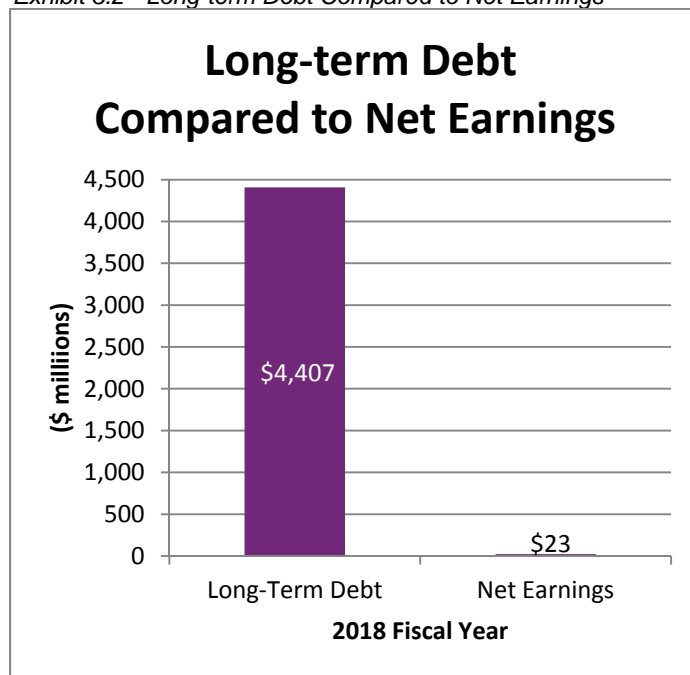
3.23 The last two criteria remain an annual concern for NB Power due to:

- past governments interference in the entity rate setting process indicating a lack of independence or delegation; and
- continuing elevated debt level with nominal

annual net earnings, indicating NB Power may not be able to self-sustain operations in the long-term.

3.24 Exhibit 3.2 illustrates NB Power’s elevated long-term debt compared to annual net earnings, showing the disparity between the amounts.

Exhibit 3.2 - Long-term Debt Compared to Net Earnings



Source: NB Power Corporation Financial Statements fiscal 2018.

How Does the Province Present NB Power Now?

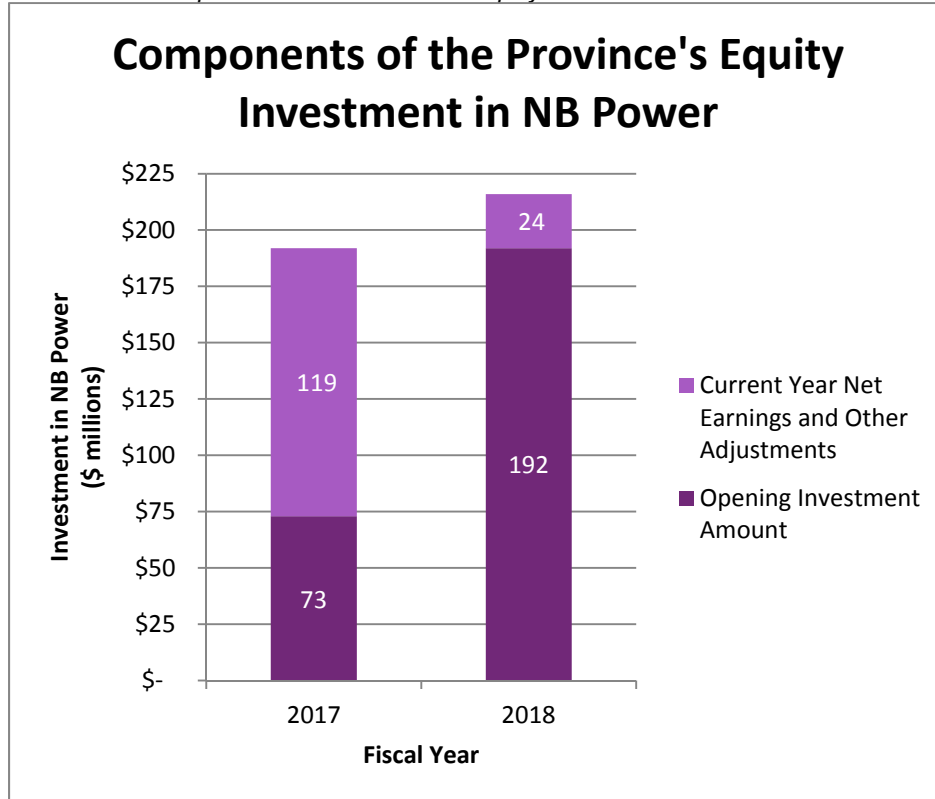
3.25 Each year NB Power’s earnings or loss is included in the Province’s consolidated financial statements as revenue. There are also other adjustments for NB Power’s change in Other Comprehensive Income¹ and deferred

¹ Other comprehensive income is those revenues (gains) and expenses (losses) under International Financial Reporting Standards excluded from net income on the income statement because they have not yet been realized. Typically these include investments, and are realized when the investment is sold.

regulatory assets as a result of the Point Lepreau Nuclear Generating Station refurbishment². The total net earnings or loss from all past years is the Province’s equity investment balance in NB Power, and is recorded as an asset.

3.26 Exhibit 3.3 depicts these components of the Province’s equity investment in NB Power for fiscal years 2017 and 2018.

Exhibit 3.3 - Components of the Province’s Equity Investment in NB Power



Note: Refer to Paragraph 3.25 for description of current year net earnings and other adjustments.

Source: AGNB prepared from information from Public Accounts fiscal 2017 and 2018.

² The Province is recognizing a total amount of \$153.1 million in net income over the 27 year estimated useful life of the Point Lepreau Nuclear Generating Station for unrealized intercompany gains related to expenses deferred under the rate regulatory accounting practice used by the New Brunswick Power Group of Companies. The annual adjustment is \$5.7 million.

3.27 This differs from other Crown agencies following PSAS where every line of their financial statements are merged (consolidated) into the Province's accounts.

Debt as an example

3.28 For example, NB Power net earnings or loss are included each year in the Province's financial statements and form the Province's equity investment in NB Power. NB Power's debt of \$4.4 billion is excluded. In 2018, only NB Power's net earnings and other adjustments of \$24 million were included in the Province's annual results for a total equity investment of \$216 million.

What Would Happen If NB Power Was No Longer Considered a GBE?

3.29 If NB Power was no longer classified as a GBE for accounting purposes, all debts, assets, liabilities, revenue and expenses would be included in the Province's consolidated financial statements.

3.30 Amounts presented in NB Power's fiscal 2018 financial statements are shown in Exhibit 3.4 in condensed form.

Exhibit 3.4 - NB Power's Statement of Financial Position (Condensed)

(\$ billions)	Fiscal 2018
Property, Plant & Equipment	\$4.3
Regulatory Assets	0.9
Other Assets	1.7
Total Assets	\$6.9
Long Term Debt	\$4.4
Short-term Debt	0.9
Other Liabilities	1.3
Total Liabilities	6.6
Equity	0.3
Total Liabilities and Equity	\$6.9

Source: NB Power Corporation Financial Statements fiscal 2018.

3.31 None of the asset and liability amounts in Exhibit 3.4 are currently included in the Province's consolidated financial statements.

Rate regulatory asset of \$900 million is a significant concern if an accounting conversion is required

3.32 If the amounts presented in Exhibit 3.4 were consolidated into the Province's accounts, they would have to be converted from IFRS to PSAS, the accounting framework the Province uses as presented in Exhibit 3.5.

3.33 Converting includes adjusting for differences between the two accounting frameworks. For example, one known area of difference is the rate regulatory asset of \$900 million (deferred expenses mostly related to the refurbishment of the Point Lepreau Power Generating Station).

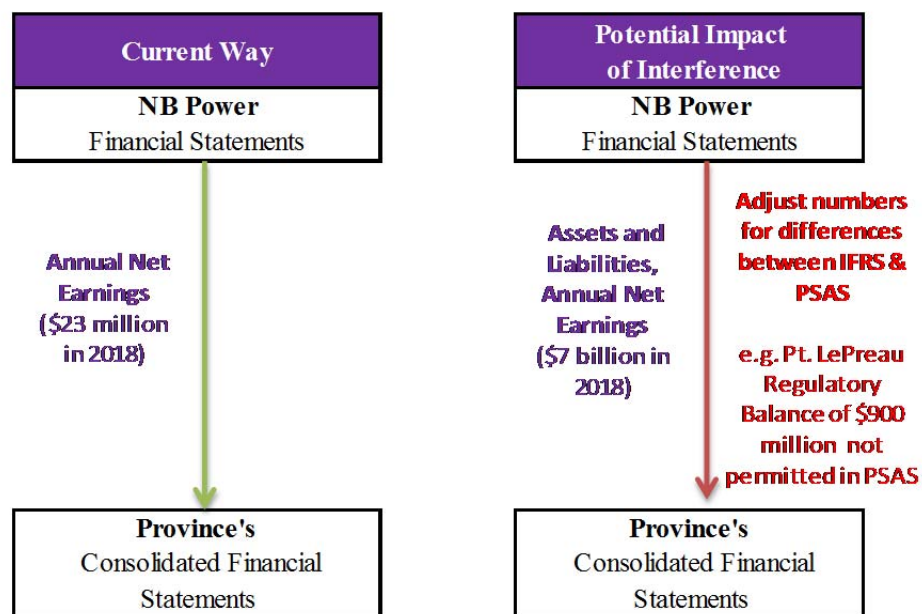
3.34 Currently, NB Power is permitted under International Financial Reporting Standards (IFRS) to record these regulatory assets. The assets are drawn down over the life of the capital asset. In the case of the Point Lepreau regulatory asset, it is drawn down over 27 years.

3.35 If the accounting framework changed from IFRS to Public Sector Accounting Standards (the standards the Province follows) the use of a rate regulatory accounting asset would not be permitted. This means when consolidating into the Province's financial statements the Comptroller would need to determine, and AGNB would need to audit, how this amount would be reported.

3.36 Exhibit 3.5 depicts the potential impact of government interfering in NB Power. Examples of government interference include:

- directing and impeding the legislated authority of the EUB to set rates of NB Power;
- directing the ongoing operations of NB Power; and
- impeding NB Power's ability to continue as a self-sustaining entity.

Exhibit 3.5 - Potential Impact of Government Interference in NB Power on the Province's Consolidated Financial Statements.



Source: AGNB prepared information.

Why Can NB Power Record Regulatory Assets but the Province Cannot?

Accounting standards differ for the Province and NB Power

3.37 Public Sector Accounting Standards (PSAS), the accounting standards the Province follows, do not permit the use of rate regulatory assets. NB Power, however, uses International Financial Reporting Standards (IFRS) which does permit the use of rate regulatory assets under certain conditions.

3.38 In order for NB Power to maintain its ability to record regulatory assets under IFRS, it must provide goods or services to customers at a price or rate that is subject to oversight and/or approval by an independent rate regulator. This process is referred to as 'rate regulation'.

The EUB regulates NB Power

3.39 In New Brunswick the authorized body ('rate regulator') that is empowered by statute (*Act*) to approve rates is the Energy and Utilities Board (EUB).

Government interference impacts independence of the regulatory process

3.40 Past interference by government as outlined in paragraph 3.11 diminishes the independence of the regulatory process. Continued interference could call into question the overall conclusion of independence in the regulatory process and the ability of NB Power to record these assets under IFRS.

Province Has Major Outdated IT Systems

What Is the Current State of the Province’s IT Systems?

Major systems are out of date

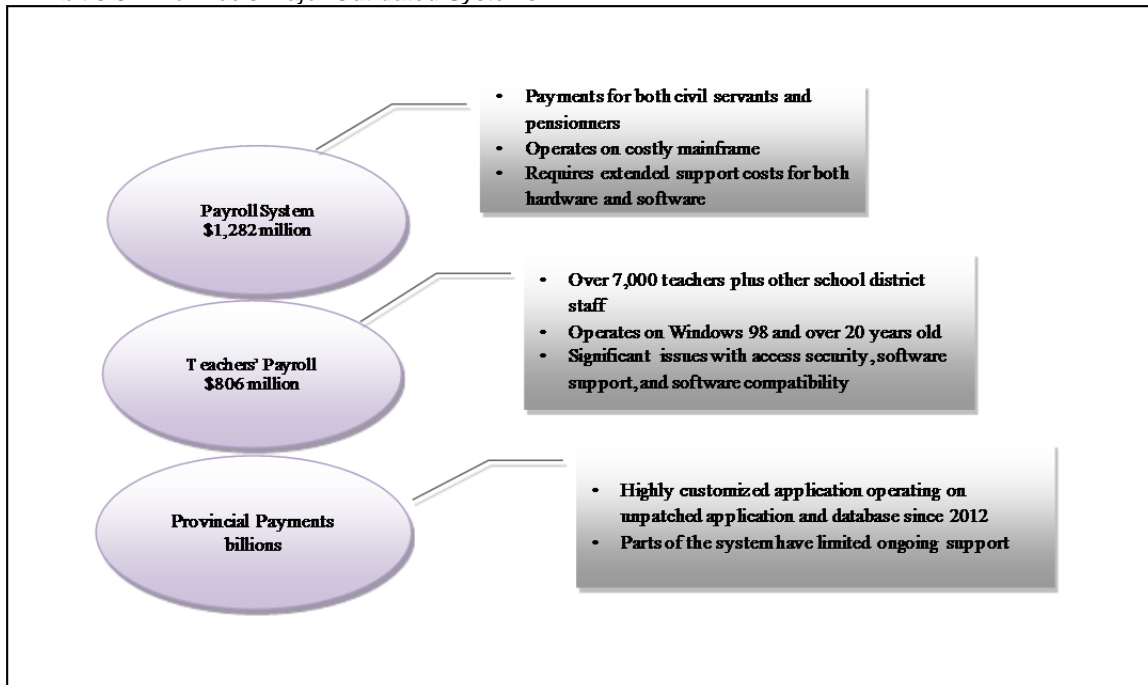
3.41 A failure of the Province’s major IT systems would affect the majority of New Brunswickers. For the past six years, we reported the Province has many outdated IT systems. These out-dated systems process the majority of the Province’s payroll and its payments to suppliers, nursing homes, municipalities, etc. Replacing these systems should be a key priority and the Province should proceed as quickly as possible to implement a new system.

Multiple duplicate systems result in waste and duplicate payments

3.42 Operating multiple duplicate systems results in wasted time for employees and can result in duplicate payments to suppliers. We noted SNB (Service New Brunswick) is operating three separate payroll and payments systems. We also found SNB made duplicate supplier payments as a result of operating three separate payment systems.

3.43 Exhibit 3.6 shows the Province’s major out-dated systems, dollars processed, and associated risks.

Exhibit 3.6 - Province’s Major Out-dated Systems



Source: AGNB prepared from information provided by SNB and Department of Education and Early Childhood Development.

What Is the Province Doing About Its Outdated Systems?

New system on the horizon

3.44 The Province plans to replace the out-dated and duplicate systems with a new ERP (Enterprise Resource Planning) system. The scope of the new ERP project is massive and needs to be properly managed by the Province to ensure success and to prevent a system development failure.

System's scope is massive

3.45 The new ERP system will be used by Parts 1 (departments and some Crown agencies), Part 2 (school districts), the Regional Health Authorities, and the Community Colleges. The system will cover many areas such as:

- Payroll and human resource management;
- Procurement (purchasing);
- Finance (payments, general ledger, fixed assets, cash management, etc.);
- Grant management; and
- Other areas such as residential tenancies.

3.46 From our interviews, we were informed SNB and Treasury Board are taking steps to ensure a strong project management framework is in place to oversee and monitor this major systems change.

When Will the ERP System Be Complete?

No date for when ERP will be complete

3.47 No date has been set for when the Province will implement the new ERP system. The Province is in the process of selecting a software solution. We were told the Province is taking time to evaluate proposals so the proper solution is selected. The Province issued a RFP (request for proposal) for a software solution in September 2017.

How Much Will the ERP System Cost?

System cost unknown

3.48 We are unable to determine the cost of the new ERP system. The project is still in its infancy stage and no contracts have been signed at the time of writing this report.

What Is the Auditor General Doing to Audit the New ERP System?

AG will continue to report

3.49 We consider the ERP system development a significant risk to the Province. Management has indicated it is monitoring, assessing and managing this risk. We will continue, however, to report on the ERP system development in future reports.

3.50 Until the ERP system is complete, we will continue to audit the existing out-dated systems.

Effect of Government Spending Announcements

How Do Spending Announcements Affect Financial Results?

Timing of announcements and expense differs

3.51 Throughout the course of a year government makes many spending announcements to the public. This may be in the form of a press release, budget process, or otherwise.

3.52 These announcements do not always have an immediate financial statement impact. Many announcements commit the government to spend money in the future, but some announcements are promises. Most promises do not commit the government to spend until they result in a formal agreement.

Financial statement users should look at the commitment note (note 14)

3.53 Users of financial statements may often overlook an important financial statement note which shows future spending commitments from past and present governments. Reviewing this note is part of a complete picture of the Province's financial situation.

Financial statement notes show committed funds - \$4.7 billion

3.54 The Province has committed to spend \$4.7 billion in the future. This is shown in Note 14(c) of the Province's consolidated financial statements. This note is also referenced at the bottom of the Consolidated Statement of Financial Position.

3.55 In the paragraphs that follow, we will provide further information on spending announcements and how they are recorded in the Province's consolidated financial statements. Every announcement, however, needs to be individually evaluated to determine the correct accounting treatment.

How Are Spending Announcements Recorded?

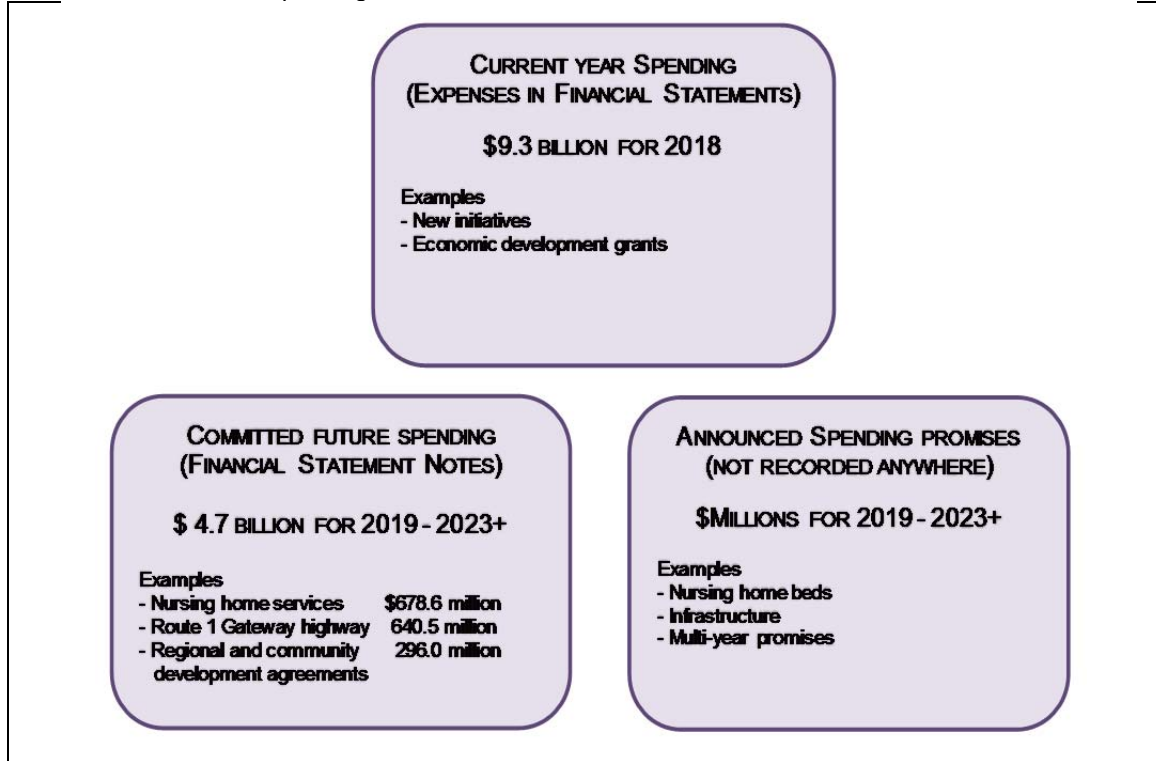
Government spending categories

3.56 As presented in Exhibit 3.7, government spending announcements can be divided into three categories:

- Record in current year expenses (spending is approved for current year);
- Record in future year expenses (agreements are signed to spend money in the future); or

- Record nothing (no spending is approved and no agreements are signed).

Exhibit 3.7 - Government spending and how it is reflected in the Province's consolidated financial statements



Source: AGNB prepared from Note 14 (c) in the Province of New Brunswick Volume 1 Consolidated Financial Statements for the fiscal year 2018. Press releases April 1, 2017 to March 31, 2018.

Current Year Spending – Recorded as Expenses in Financial Statements

Recorded as expenses **3.57** Some spending announcements relate to approved spending through the government’s budget process. In these cases, and if spent as planned, these amounts are recorded as expenses in the current year. This impacts the current year surplus or deficit in the consolidated financial statements.

\$9.3 billion actual expenses **3.58** The Province’s 2018 consolidated financial statements show \$9.3 billion in actual expenses. Included in this amount are some spending announcements which were approved during the year.

Examples **3.59** Examples for current year spending include economic development grants and other new initiatives.

Committed Future Year Spending – Recorded in Financial Statement Notes

Committed future spending

3.60 Sometimes spending announcements are reflected in the notes to the financial statements and are not recorded as expenses. These types of announcements commit the government to future spending if agreements or contracts have been signed.

Users should consult “Commitments” note in financial statement

3.61 Users should refer to the “Commitments” financial statement note presenting future spending (contractual obligations). This note is often overlooked, but it is a very important part of the picture of the Province’s financial situation.

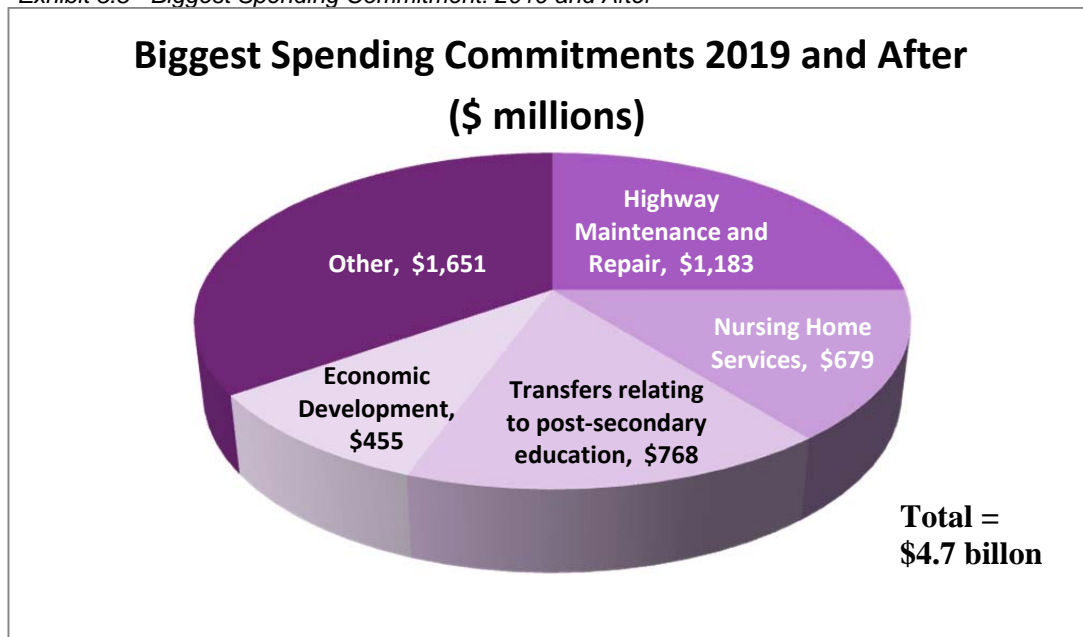
\$4.7 billion of committed spending

3.62 The Province’s consolidated financial statements Note 14(c) shows \$4.7 billion in future spending which was committed by past and present governments. This means the Province will be spending these amounts over future years. This \$4.7 billion had no impact on the 2018 annual surplus.

Examples of committed spending

3.63 Exhibit 3.8 provides some examples of committed spending in the future.

Exhibit 3.8 - Biggest Spending Commitment: 2019 and After



Source: AGNB prepared from Note 14 (c) in the Province of New Brunswick Volume 1 Consolidated Financial Statements for the fiscal year 2018.

Specific example

3.64 For example, included in the Highway Maintenance and Repair figure in Exhibit 3.8 is an operating agreement the Province signed relating to the Maintenance and Rehabilitation of the Route 1 Gateway highway. The Province will pay between \$22 million and \$24 million each year until 2022. After 2022, the Province will continue to make yearly payments totalling \$547 million.

Announced Spending Promises – Not Recorded

3.65 Sometimes spending announcements are promises that do not commit the government to spend money. Every announcement, however, needs to be individually evaluated to determine the correct accounting treatment.

Not recorded

3.66 As many spending promises are not supported by signed agreements or contracts, they do not appear in the financial statements. The government has not spent or contractually committed funds, and as such, in most cases is not required to record anything in its financial statements.

Specific example

3.67 For example in 2018, government published a multi-year plan to create more than a thousand nursing home beds. This promise was to be fulfilled over several years. This promise does not appear in the 2018 consolidated financial statements or its notes as signed contracts do not exist.

Centralizing Accounts Receivable Collection

Why is it Taking So Long to Centralize Accounts Receivable Collection?

\$3 billion in accounts receivable outstanding

3.68 The Province is owed almost \$3 billion in accounts receivable. We believe delays in centralizing accounts receivable collection are negatively impacting government's ability to collect its over-due accounts.

Efforts to centralize accounts receivable collection ongoing for 7 years

3.69 The project to centralize accounts receivable collection has been ongoing for seven years and we would expect the process to now be complete. We are disappointed with this delay.

3.70 In the Follow-up chapter in Volume 5 of our 2017 report, we report only two of nine recommendations have been implemented with respect to Accounts Receivable Collection. We reported a number of departments had not implemented various recommendations as they were waiting for the creation of the "Centralized Collection Unit".

3.71 Given the delays in centralizing accounts receivable collection and the lack of progress in implementing our past recommendations, we will again look at this area in more detail during our 2019 follow-up process.

Factors causing delays in centralizing accounts receivable collection

3.72 From our work this year, we determined the following factors are causing delays to centralize accounts receivable collection:

- the SNB collections branch has not been given a clear direction or mandate to centralize the collections of all accounts receivable;
- no timeline is in place to centralize all accounts receivable to the SNB collection branch;
- inefficiencies exist despite collection efforts having been in place since 2014;
- collection activities are inconsistent across government departments; and
- several resource challenges exist such as staffing and technology.

How Much Money is Owed to the Province?

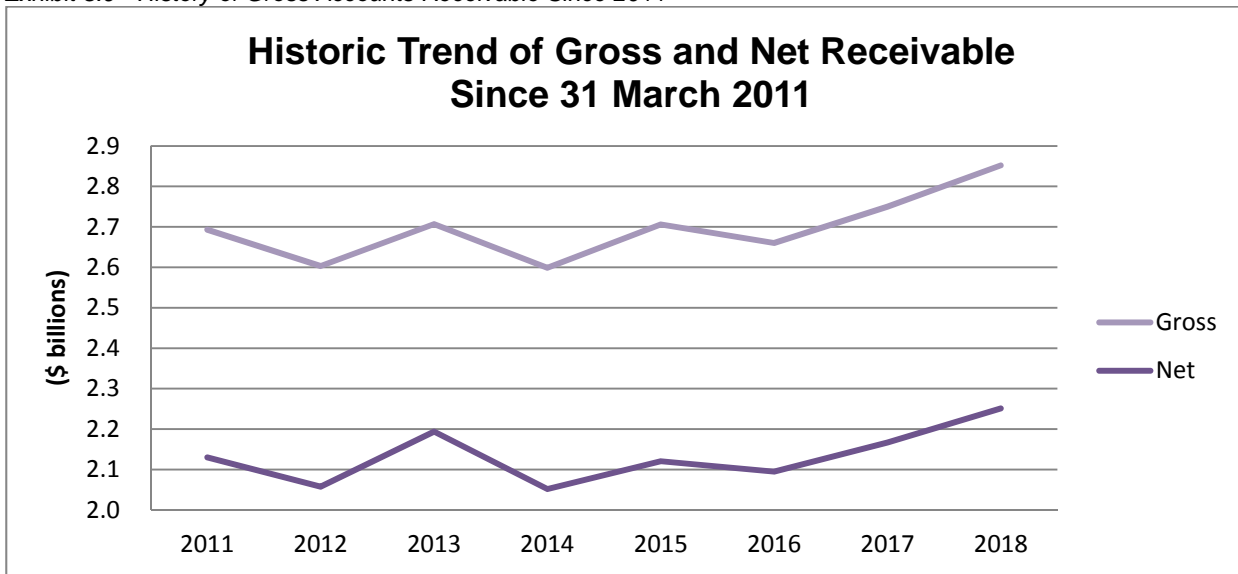
Accounts receivable continue to grow

3.73 Exhibit 3.9 summarizes the Province’s gross and net receivable balances since work to centralize accounts receivable collection began in 2011. Accounts receivable have grown during this time while efforts to centralize accounts receivable collection are delayed.

The Province is owed billions of dollars

3.74 At March 31, 2018, the Province was owed approximately \$2.8 billion for taxes, loans and other accounts receivable. On a net basis (after subtracting the provision for doubtful accounts), the Province was owed approximately \$2.3 billion at March 31, 2018.

Exhibit 3.9 - History of Gross Accounts Receivable Since 2011



Source: Prepared by AGNB from the Province’s audited March 31, 2018 consolidated financial statements.

What We Found

No clear direction has been given

3.75 We met with staff at the SNB collections branch and we were informed government has not provided staff with a direction or mandate to centralize the collections of all accounts receivable. SNB staff are still not clear on the responsibilities of the SNB collections branch and/or departments regarding enhancing the collection of overdue accounts receivable.

SNB has not asked for direction

3.76 SNB has also not approached government for direction in the two years since the collections branch transferred back to SNB in April 2017. We were told SNB plans to approach government in 2019 for direction.

3.77 We also found existing legislation still needs to be reviewed as part of the centralization process. For example, legislation needs to be reviewed to determine if it is possible to share debtor information between departments.

Accounts receivable are diverse

3.78 Overdue debtor accounts are diverse in nature and are specific to each department. This results in various approaches and processes to collect the different overdue accounts. Overdue accounts relate to property taxes, student loans, court fines, social assistance overpayments and other loans and general accounts.

Various repayment methods are used

3.79 For some overdue accounts, more steps are required than standard collection activities such as mailing letters and making telephone calls. Some departments have programs in place to help debtors repay such as payment plans and repayment assistance. Other departments use the Canada Revenue Agency (CRA) to offset tax refunds to collect overdue accounts.

Claims have limitation periods

3.80 Legislation is also in place which sets a time limit on bringing legal claims against debtors. Once the limitation period expires, so does the ability to make a legal claim. The Province changed legislation in 2011 to include a standstill provision to May 2016 to allow the Province time to develop a plan that would prevent further debts becoming statute barred. This standstill provision was extended again in 2016 to July 2021.

Accountability is not clear which is causing inefficiencies and delays

3.81 The SNB collections branch does not know if its mandate is to act solely as a typical collection agency or if, given the diversity of government accounts, it has a larger mandate for things such as administering repayment programs, assisting debtors and developing strategies to identify and prevent overdue account balances from increasing. We believe this uncertainty is causing inefficiencies and delays in collecting overdue accounts which may not be corrected until government provides a direction or mandate.

- 3.82** The impact of having no clear direction or mandate was evident in our work this year on overdue property tax accounts. Despite being responsible for collecting since 2014, we found the objectives and work performed by the SNB collections branch to collect overdue property tax accounts were not the same as what the Department of Finance expected. We also found some work was duplicated by both the Department of Finance and the SNB collections branch.
- Other challenges also exist** **3.83** We also found the SNB collections branch has experienced challenges such as staffing, limits on technology and continuous change since being created. Exhibit 3.10 summarizes the organizational changes since 2011.
- No timetable is in place** **3.84** It has still not been determined when the SNB collections branch will expand to include other departments or how the need for increased staff will be met. The ERP initiative includes technology to support collection efforts, however, the implementation timeline is not yet finalized.

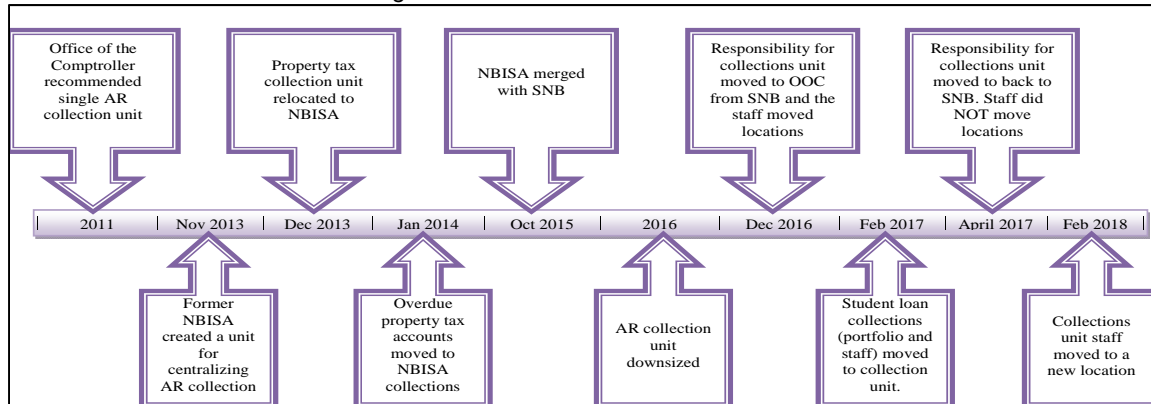
What is the History of Centralizing Accounts Receivable Collection?

- Little progress has been made to centralize collections** **3.85** In 2011, the Province began work to create a centralized branch to focus solely on collecting the Province's overdue accounts. The centralized branch was created in 2013 and was to collect overdue accounts for the Department of Finance and the Department of Agriculture, Aquaculture & Fisheries. Other departments were to be added in three more phases at later dates.
- 3.86** The growth of the centralized branch did not happen as planned. The centralized branch began collecting overdue property tax accounts for the Department of Finance in 2014. For three years, the centralized branch was only responsible for collecting overdue property tax accounts. In 2017, collecting overdue student loan accounts was transferred to the centralized branch from the Department of Post-Secondary Education, Training and Labour (PETL).
- 3.87** At March 31, 2018, seven years after efforts first began to centralize accounts receivable collection, the centralized branch collects property taxes and student

loans. All other accounts receivable are still the responsibility of other government departments. See Exhibit 3.10 for a timeline showing the changes associated with centralizing accounts receivable collection.

What was the Timeline for Centralizing Accounts Receivable Collection?

Exhibit 3.10 - Timeline for centralizing accounts receivable collection



Source: AGNB prepared based on information from SNB.

Collecting delays increase borrowing costs for the Province

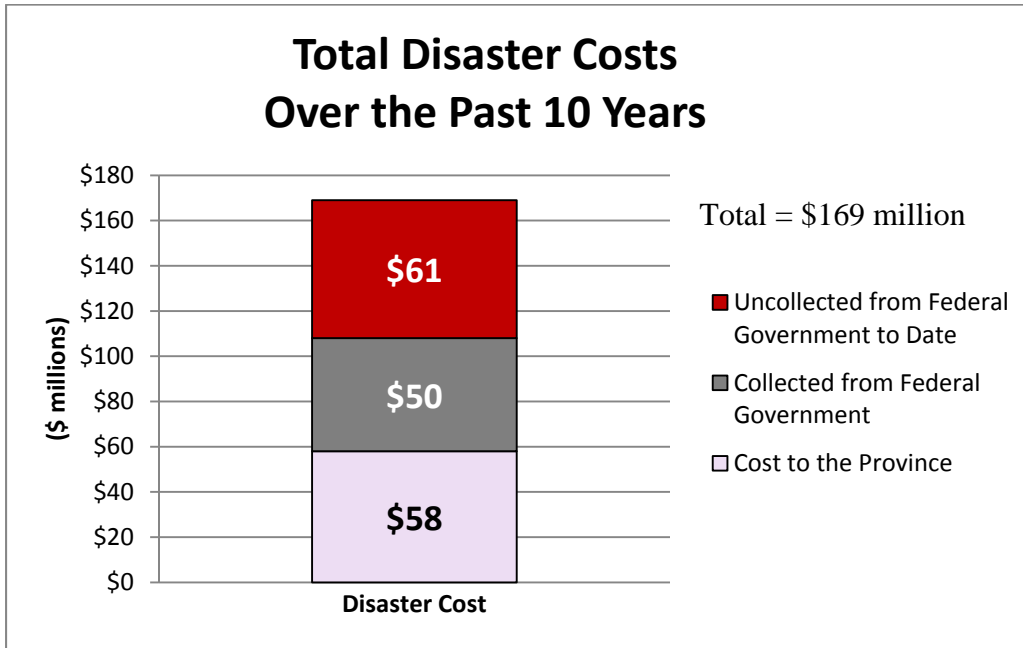
3.88 Delays in collecting significant receivable balances increase borrowing costs; the Province has to borrow money to pay current expenses. During a time when Net Debt has reached an all-time high as discussed in Chapter 2, collecting receivables should be made a priority.

Disaster Financial Assistance Receivable now at \$61 million

3.89 Another significant receivable is Disaster Financial Assistance. Over the last ten years, the Department, through the DFAA (Disaster Financial Assistance Arrangements) program has submitted \$169 million in disaster recovery expenses to the Federal government. Using a cost sharing formula, the Department's share is \$58 million with the remaining \$111 million being covered by the Federal government.

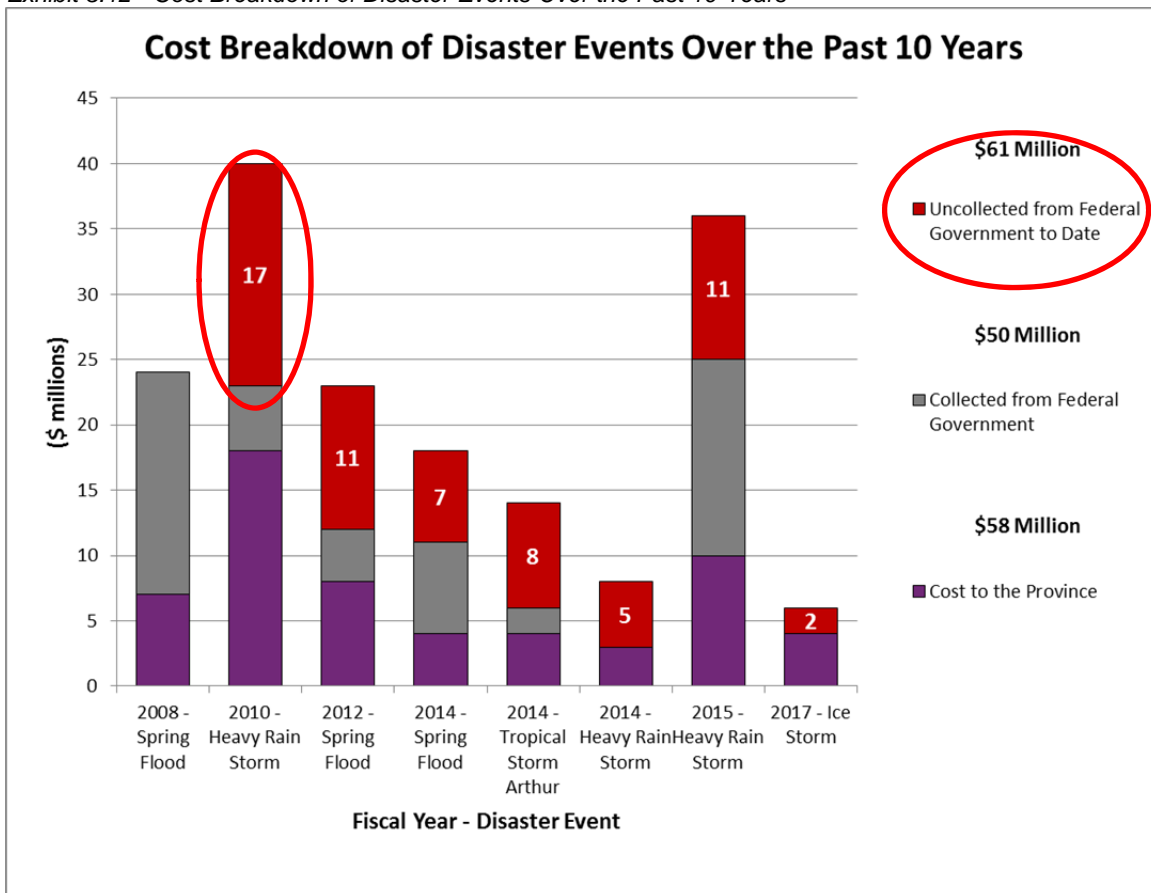
3.90 Of the \$111 million, only \$50 million has been collected and \$61 million remains outstanding. Exhibits 3.11 and 3.12 illustrate the cost breakdown of the disaster events for the past 10 years at March 31, 2018.

Exhibit 3.11 - Total Disaster Costs Over the Past 10 Years



Source: AGNB prepared from information provided by the Department of Justice and Public Safety.

Exhibit 3.12 - Cost Breakdown of Disaster Events Over the Past 10 Years



Source: AGNB prepared from information provided by the Department of Justice and Public Safety.

3.91 Given the frequency of Disaster Events and the growing receivable, now at \$61 million, collection efforts must be persistent.

3.92 We were informed it takes several years to file a claim for Disaster Financial Assistance with the Federal government and respond to follow-up requests. For future disaster events, the Department indicated it is applying to receive cash advances rather than collecting funds after claims have been filed. This should help with managing the Province's cash flow in the future for significant disaster events.

Results of the Province's Financial Statement Audit

What We Found in Our Financial Statement Audit of the Province

Unqualified opinion

3.93 On August 13, 2018 the Auditor General signed an unqualified (“clean”) audit opinion on the consolidated financial statements of the Province of New Brunswick for the year ended March 31, 2018.

3.94 The opinion indicates the Province’s consolidated financial statements are presented in accordance with Public Sector Accounting Standards. We are very pleased an unqualified audit opinion was released prior to the September 2018 election.

3.95 To reach an opinion on the consolidated financial statements, we carry out audit work on the major programs and activities in departments and Crown agencies. In addition, we audit major revenue items and a sample of expenses chosen from departments. We also examine internal controls of significant computer systems

Recommendations made to provincial Comptroller

3.96 In almost every audit, there are audit findings to be discussed with management. We made nine recommendations to the provincial Comptroller during this year’s audit. These were also summarized in a report to the Province’s audit committee.

3.97 Although we believe these recommendations were important to report to the Comptroller and the audit committee, they were not sufficiently large in dollar or qualitative terms to affect our opinion on the consolidated financial statements. We have reported any significant findings in this chapter.

3.98 While we have not noted any significant fraud, the existence of the findings may increase the risk of loss or mistake in the Province's consolidated financial statements. These items should be addressed prior to the next audit cycle.

3.99 In general the provincial Comptroller indicated he agreed with our recommendations and intends to address our concerns in the coming year.

Computer Systems Audited During the Provincial Audit

3.100 During the audit of the Province’s consolidated financial statements, we perform work on various computer systems. In Exhibit 3.13, we provide information on the computer systems audited and if recommendations were made to each responsible department or Crown agency.

3.101 In this chapter we have reported any findings we believe to be significant in nature from our computer systems work.

Exhibit 3.13 - List of IT Systems/Areas Audited by AGNB and Number of Recommendations to Management of the Department or Crown Agency

Department/Agency	IT System/Area	Recommendations Issued
Education and Early Childhood Development	Teachers’ payroll system	Yes
Finance	Property tax system	Yes
Service New Brunswick	Civil service payroll system (HRIS)	Yes
	Oracle input system (IPM)	Yes
	IT Infrastructure	Yes
	Property assessment system	Yes
Office of the Comptroller	Oracle financials	Yes

Source: AGNB prepared information.

Results of Crown Agency Financial Statement Audits

What We Found in Our Crown Agency Audits

***Unqualified audit
opinions issued***

3.102 For all but one of the Crown agencies we audit, we issued unqualified (“clean”) audit opinions. We issued a qualified audit opinion for the audit of the Office of Public Trustee. In common with many trusts, we were unable to verify the completeness of assets and our work was limited to the amounts recorded in the records. During the year, we completed 12 audits of Crown agencies financial statements, 1 claim audit and one notice to reader engagement.

***Recommendations made
to Crown agencies***

3.103 We made recommendations in 11 of our 12 Crown agency financial statement audits, as noted in Exhibit 3.14. We made these recommendations to each agency’s board of directors. Our recommendations were in the areas of: board governance, accounting concerns, internal control weaknesses, and cash management.

***Crown agencies should
implement our
recommendations before
the next audit cycle***

3.104 While we did not find evidence of any significant fraud, theft or error occurred, our recommendations indicate deficiencies in internal control or mistakes in financial reporting. We encourage Crown agencies to implement our recommendations prior to the next audit cycle.

Crown Agencies Audited During the Year

3.105 Exhibit 3.14 provides information on the Crown agencies we audited over the past year (October 2017 – October 2018), the fiscal year-end completed, and if recommendations were made to each Crown agency. We present information on one Crown agency where we performed a notice to reader engagement.

Exhibit 3.14 - List of Crown Agency Audits and Notice to Reader Engagement Performed by AGNB and Recommendations to the Board of Directors of the Crown agency

Crown Agency	Recommendations Issued
March 31, 2018 Year End Audits	
Opportunities New Brunswick	Yes
Service New Brunswick	Yes
New Brunswick Legal Aid Services Commission	Yes
New Brunswick Legal Aid Services Commission – Federal Claim	Yes
March 31, 2018 Notice to Reader	
New Brunswick Combat Sport Commission	N/A – Not an Audit
December 31, 2017 Year End Audits	
New Brunswick Municipal Finance Corporation	No
March 31, 2017 Year End Audits	
Le Centre communautaire Sainte-Anne	Yes
Kings Landing Corporation	Yes
New Brunswick Agricultural Insurance Commission	Yes
New Brunswick Highway Corporation	Yes
New Brunswick Lotteries and Gaming Corporation	Yes
Premier’s Council on Disabilities	Yes
New Brunswick Legal Aid Services Commission – Trusts under the Administration of the Public Trustee	Yes
Regional Development Corporation	Yes

Source: AGNB prepared information.

3.106 In general Crown agencies indicated they agreed with our recommendations and they intend to address our concerns in the coming year.

Chapter 4

Understanding Employee Retirement Benefits

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Understanding Employee Retirement Benefits

Why are we Presenting Information on Employee Retirement Benefits?

Information on pension plans and retirement allowances

- 4.1** In this chapter we present information on the Province's significant pension plans and retirement allowances. Within the past five years, many changes have been made to:
- the New Brunswick Public Service Pension Plan (Public Service Plan);
 - the New Brunswick Teachers' Pension Plan (Teachers' Plan); and
 - some retirement allowance benefits.
- 4.2** New members of the Legislative Assembly, pension plan members and New Brunswickers will find the information in this chapter helpful in understanding the impact of these recent changes.

How Much has the Province Recorded for Retirement Benefit Liabilities?

- 4.3** At March 31, 2018, the Province has recorded over \$1 billion in retirement benefit liabilities. This is shown on the consolidated financial statements as a liability (net of assets and adjustments) and consists of:
- \$687 million for pension plans; and
 - \$408 million for retirement allowances.
- 4.4** Accounting for these retirement benefit liabilities involves significant estimates and complex accounting.
- 4.5** Appendix I - Exhibits 4.11 and 4.12 provide detailed accounting information on significant provincial pension plans. This information is more detailed than what is presented in the Province's consolidated financial statements.

Pension Plans

The Contribution and Benefits History of the Province's Biggest Plans

Public Service Plan and Teachers' Plan

4.6 The Public Service Plan and the Teachers' Plan are the two largest provincial pension plans. Exhibit 4.1 and Exhibit 4.2 summarize benefit payments to retirees, and cash contributed by the Province (the Province's contributions) and employees (employee contributions) to each plan over the past 10 years.

Public Service Plan – 10 Year History of Contributions and Benefits

4.7 In fiscal 2014, the Public Service Plan converted to a target benefit plan. This had a significant impact on the Province, employees and retirees.

What we observed – Public Service Plan

4.8 In Exhibit 4.1, we show the 10 year history of contributions and benefits for the plan and make the following observations.

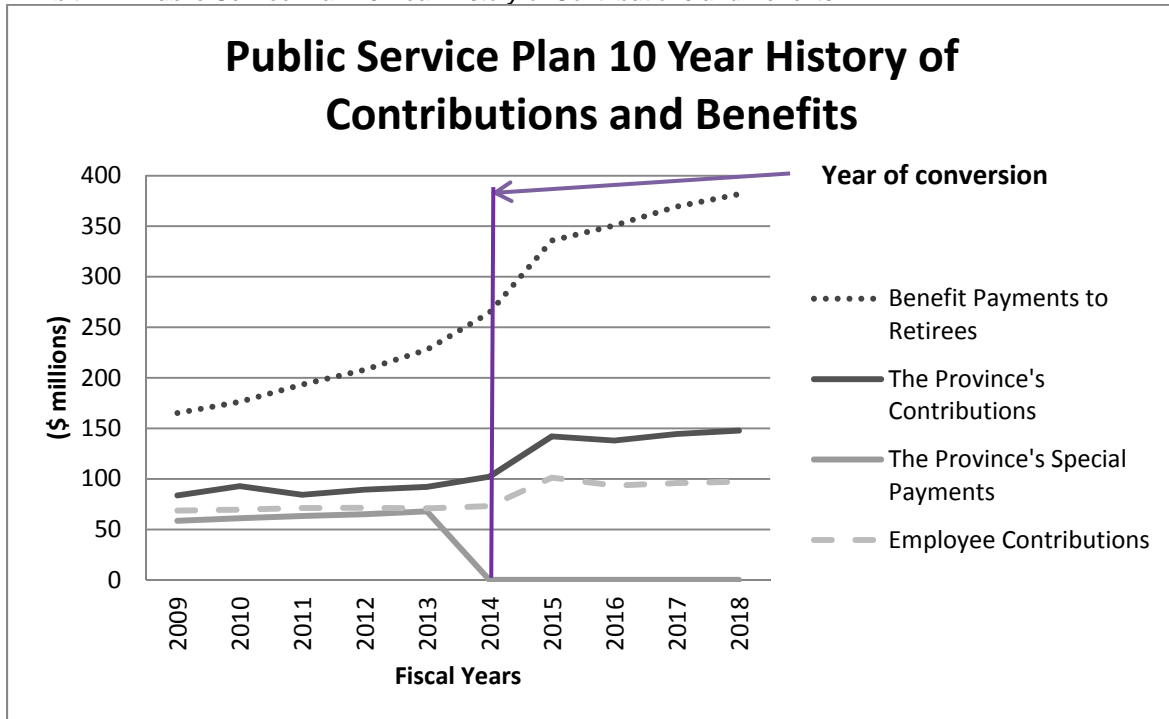
- Total pension benefits payments more than doubled over the past 10 years.
- Contributions to the plan by the Province increased after the plan converted and then stabilized. This increase was also as a result of including NB Power contributions after conversion.
- Special payments¹ made by the Province to help fund the plan are no longer occurring as a result of the conversion.
- The Province is making only one type of payment after conversion as opposed to two (contribution payment now compared to contribution and a special payment previously). This one payment is approximately the same amount as the Province was making before conversion.

¹ Due to large unfunded pension liabilities of the Public Service Plan in the early 1990's, the Province made legislative changes requiring special payments to help fund the plan. The Province made special payments each year as required by legislation and determined by an actuary.

- Since fiscal 2013 total annual employee contributions increased 37% after the plan converted.

See Appendix I - Exhibit 4.12 for more detail.

Exhibit 4.1 - Public Service Plan 10 Year History of Contributions and Benefits



Source: Prepared by AGNB. Refer to Appendix I – Exhibit 4.13 for detailed information.

Teachers' Plan – 10 Year History of Contributions and Benefits

4.9 In fiscal 2015, the Teachers' Plan converted to a target benefit plan. This had a significant impact on the Province and employees.

What we observed – Teachers' Plan

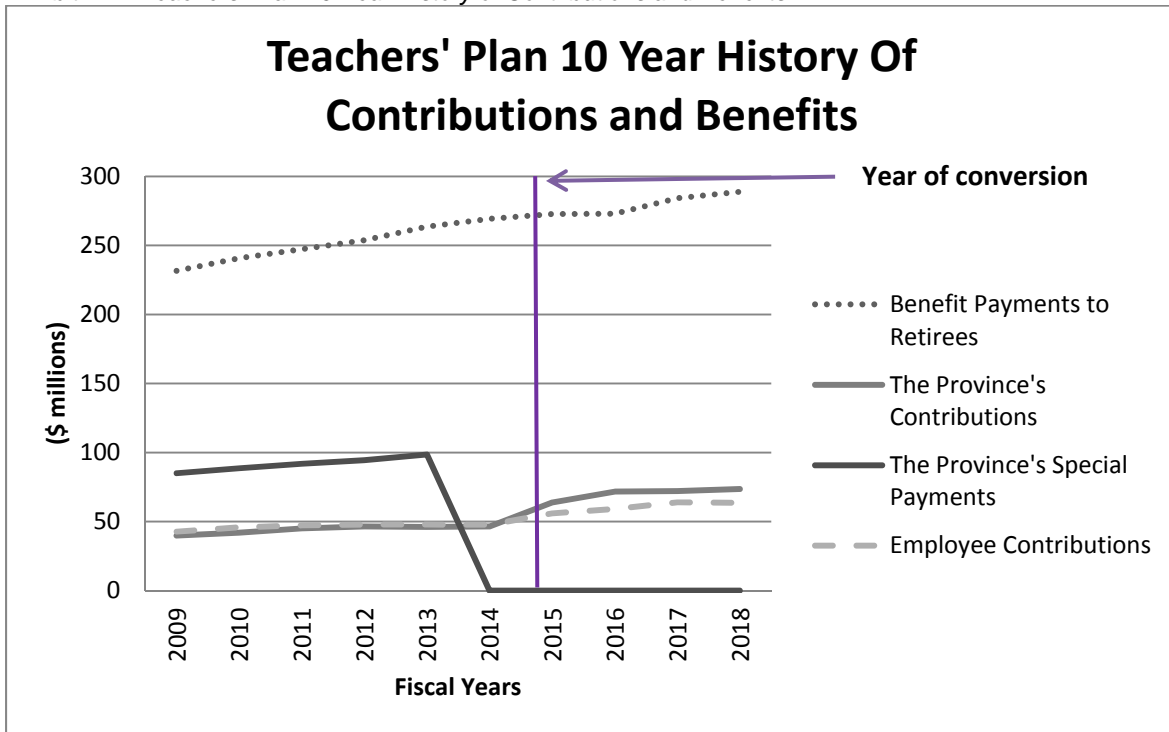
4.10 In Exhibit 4.2, we show the 10 year history for the plan and we make the following observations.

- Total pension benefits payments increased by 25% over the past 10 years.
- Contributions to the plan by the Province increased after the plan converted and then stabilized.

- Special payments² made by the Province to help fund the plan stopped in fiscal 2013 and are no longer occurring as a result of the conversion.
- The Province is making only one type of payment after conversion as opposed to two (contribution payment now compared to contribution and a special payment previously). This one payment is approximately half of the amount the Province was making in total before conversion.
- Since fiscal 2014, total annual employee contributions increased 33% after the plan converted.

See Appendix I - Exhibit 4.14 for more detail.

Exhibit 4.2 - Teachers' Plan 10 Year History of Contributions and Benefits



Source: Prepared by AGNB. Refer to Appendix I – Exhibit 4.14 for detailed information.

² Due to large unfunded pension liabilities of the Teachers' Plan in the early 1990's, the Province made legislative changes requiring special payments to help fund the plan. The Province made special payments each year as required by legislation and determined by an actuary.

What Will Pension Contributions be in the Future?

Province’s contributions decrease in future

4.11 As the result of the Public Service Plan and the Teachers’ Plan converting to target benefit plans, future contribution rates for the Province are now reasonably predictable and are expected to decrease over time. Employee contributions are also reasonably predictable, but differ depending on the plan.

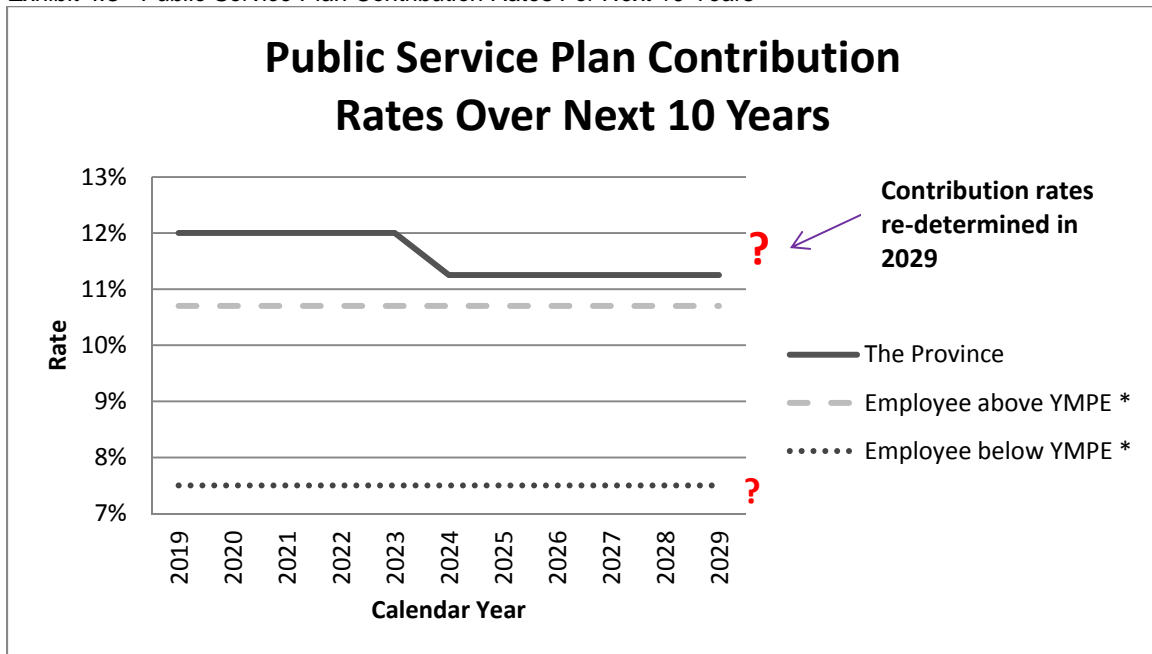
4.12 In this section, we show how contribution rates for the Province and employees are expected to change over time.

Public Service Plan Contributions

4.13 In Exhibit 4.3, we show the Province’s and the employee contribution rates for the next 10 years and we make the following observations.

- The Province’s contributions are expected to decrease over the next 10 years.
- Employee contributions are expected to remain stable.
- In 2029 the contribution rates for the Province and the employees will be re-determined and are expected to become equal at that time.

Exhibit 4.3 - Public Service Plan Contribution Rates For Next 10 Years



Source: Prepared by AGNB. Refer to Appendix I – Exhibit 4.15 for detailed information.

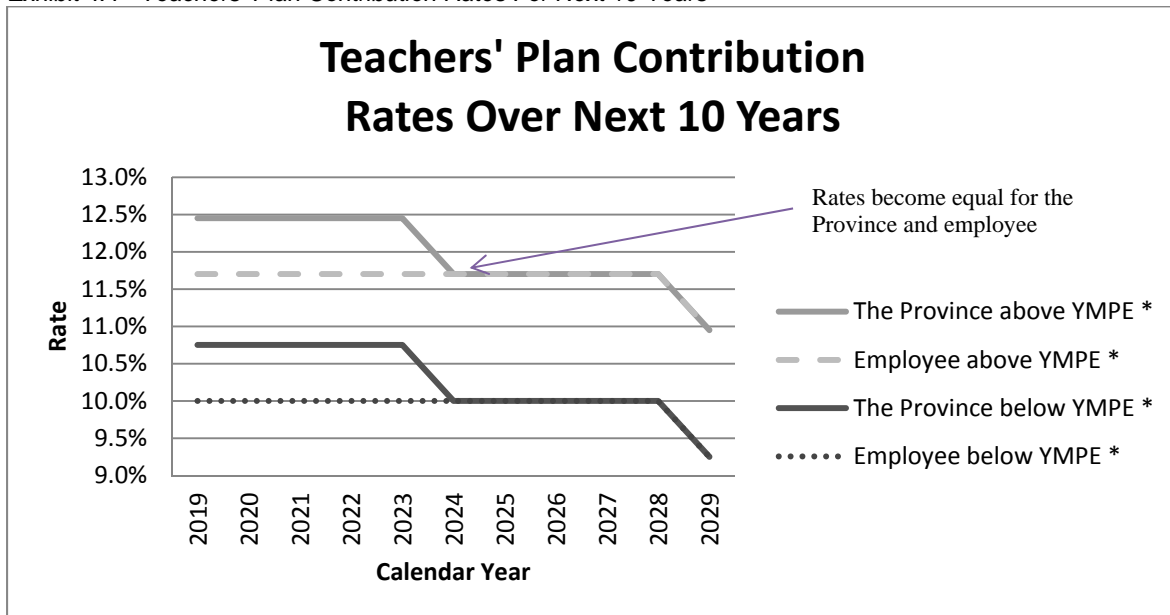
*YMPE = Year’s Maximum Pensionable Earnings (Canada Revenue Agency maximum amount of earnings on which contributions to the Canada Pension Plan are based).

Teachers' Plan Contributions

4.14 In Exhibit 4.4, we show the Province's and the employee contribution rates for the next 10 years and we make the following observations.

- The Province's contributions are expected to decrease over the next 10 years.
- Employee contributions are expected to remain stable, and decrease in 2029.
- The Province's and employee contribution rates are expected to be equal in 2024.

Exhibit 4.4 - Teachers' Plan Contribution Rates For Next 10 Years



Source: Prepared by AGNB. Refer to Appendix I – Exhibit 4.15 for detailed information.

*YMPE = Year's Maximum Pensionable Earnings (Canada Revenue Agency maximum amount of earnings on which contributions to the Canada Pension Plan are based).

Some Significant Differences for Employees After Conversion

4.15 Exhibit 4.5 compares key elements for the Public Service Plan and Teachers' Plan after conversion in the areas of retirement age, early retirement penalties, employee contribution rates and benefit calculations. Refer to Appendix I - Exhibit 4.16 for further details comparing these plans before and after conversion.

Exhibit 4.5 - Comparing Key Elements of the Public Service Plan and Teachers' Plan After Conversion

	Public Service Plan	Teachers' Plan
Retirement Age (No Penalty)	Increased from 60 to 65	Increased between 0 and 4 years*
Early Retirement Penalty	Increased from 3% to 5% per year	Stayed at 2.5% - 5% depending on age & service
Employee Contribution Rate**	Increased from 5.8% to 7.5% of pay	Increased from 7.3% to 10% of pay
Benefit Calculation	Changed from best 5 years salary to career average salary	Changed from best 5 years salary to career average salary

Source: Prepared by AGNB. Refer to Appendix I – Exhibit 4.16 for further detailed information.

* Retirement age (no penalty) for the Teachers' Plan is based on various combinations of age and years of service

** Below YMPE (YMPE Year's Maximum Pensionable Earnings (Canada Revenue Agency maximum amount of earnings on which contributions to the Canada Pension Plan are based)

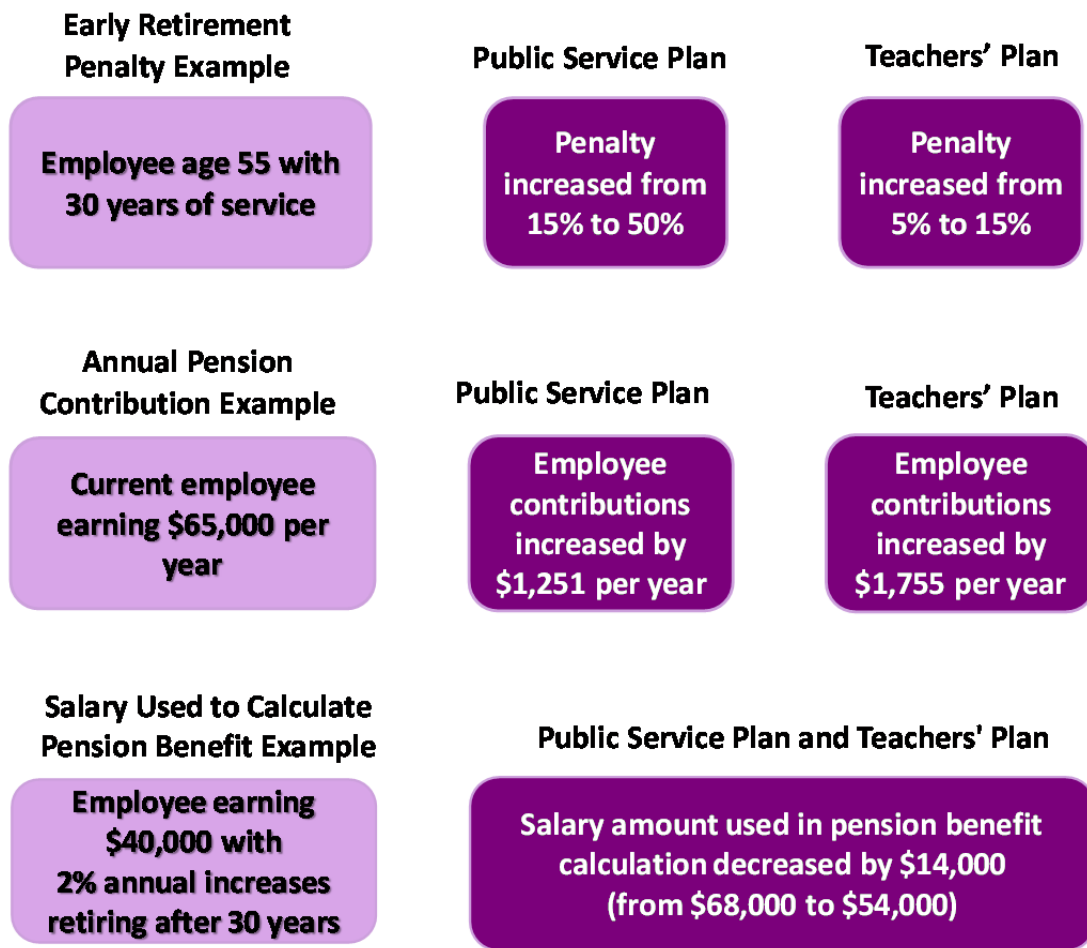
Three examples showing impact on employees

4.16 Exhibit 4.6 provides three examples of how plan conversions impacted employees of the Public Service Plan and Teachers' Plan.

- Example 1: An employee retiring early at age 55 with 30 years of service and the resulting penalty on benefits. (The example assumes all years of service are completed under the current plan terms.)
- Example 2: A current employee who earns an annual salary of \$65,000, and the resulting increase in the employee's annual contribution.

- Example 3: The impact on the salary amount used to determine an employee’s pension benefit if an employee:
 - earns a salary of \$40,000 in the first year of employment,
 - receives annual 2% increases,
 - retires after 30 years of service, and
 - assumes no inflation.

Exhibit 4.6 - Comparing Key Elements of the Public Service Plan and Teachers’ Plan After Conversion



Source: AGNB prepared information.

- 4.17 Exhibit 4.6 shows employees under both plans:
- face higher penalties on benefits if retiring early;
 - contribute more annually from their pay, and
 - receive less benefits when they retire.

Who Manages the Pension Plans?

4.18 Vestcor, an independent organization, is responsible to manage the assets of the Public Service Plan and Teachers' Plan, and to administer plan benefits. Each plan has its own Board of Trustees who meet regularly and are responsible to administer the plan in the best interests of its members.

No signed agreement to manage other Provincial pension plans

4.19 The Province has other pension plans where it is responsible for managing the plan assets and administering the benefits. The list is presented in Appendix I – Exhibit 4.10.

4.20 The Province has engaged Vestcor to perform these functions; however, no signed agreement exists for certain plans (refer to Appendix I – Exhibit 4.10). Without a signed agreement the Province is exposed to risk. Again this year, we recommended the Province obtain a signed agreement with Vestcor for the plans. We also recommended this in 2017.

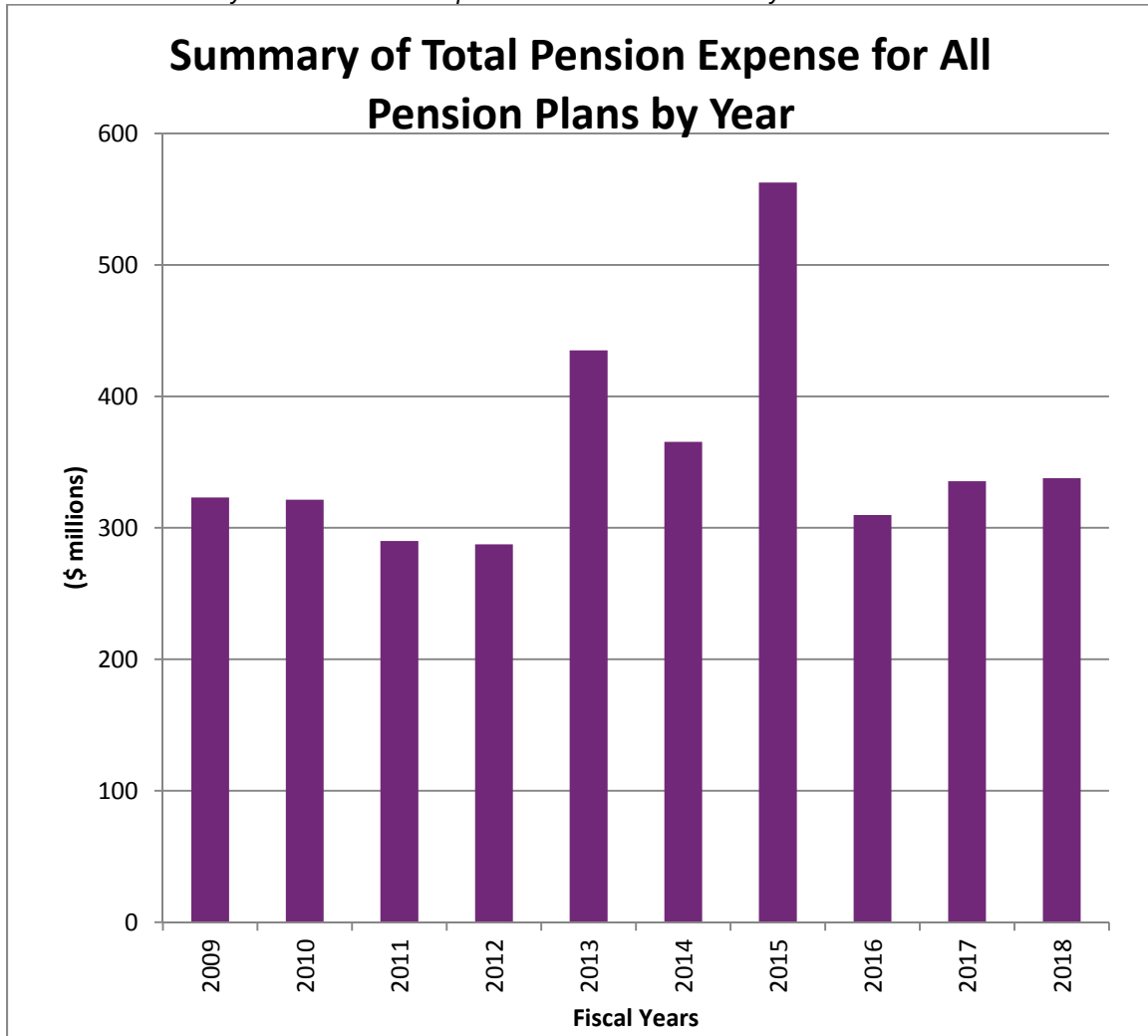
How Much Pension Expense Does the Province Record Annually?

4.21 Exhibit 4.7 summarizes total pension expense for all of the Province's pension plans over the past 10 years. Pension expense is the amount that affects the Province's surplus/deficit for the fiscal year.

4.22 In simple terms, pension expense is the Province's share of pension costs for the year as determined with the assistance of an actuary. This differs from the Province's contributions, which are cash payments. Appendix I - Exhibit 4.19 shows the difference between the expense and cash payments over the past 10 years.

4.23 After the Public Service Plan and Teachers' Plan converted to target benefit plans in 2014-15, the pension expense has remained relatively stable. This is a result of the design of the plans. A summary of pension expense for all significant pension plans is included in Appendix I - Exhibit 4.18.

Exhibit 4.7 - Summary of Total Pension Expense for All Pension Plans by Year



Source: Prepared by AGNB. Refer to Appendix I – Exhibit 4.19 for detailed information.

2013 and 2015 pension expenses

4.24 Items to note from Exhibit 4.7:

- the pension expense for fiscal year 2013 increased primarily from a change in actuarial assumptions for mortality rates; and
- the pension expense for fiscal year 2015 included a one-time plan settlement expense of \$115 million resulting from the Teachers’ Plan converting to a target benefit plan.

Retirement Allowance Benefit

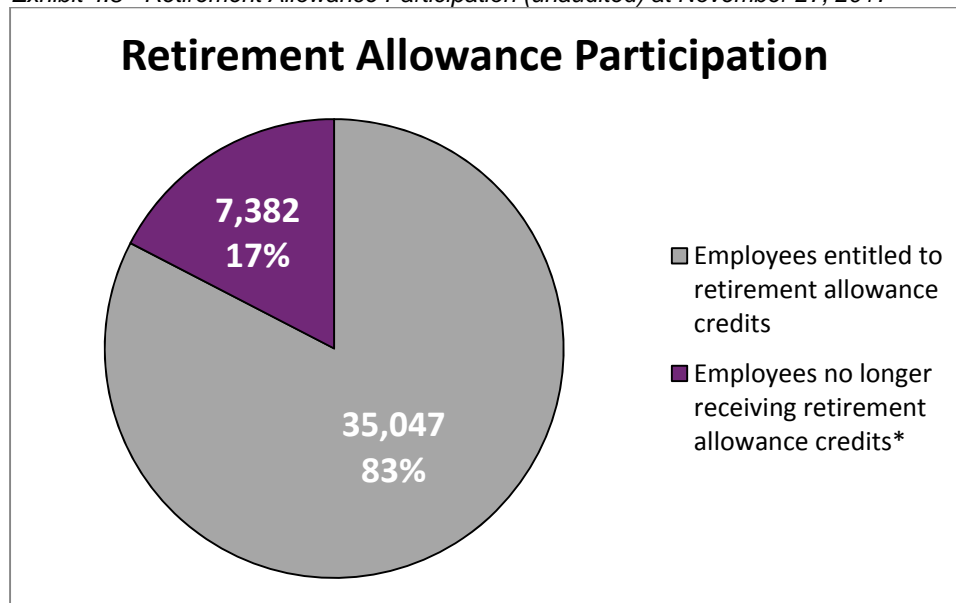
4.25 Retirement allowance is a significant expense for the Province each year. For 2018:

- benefit payments to employees were \$48 million, and
- the retirement allowance liability was \$408 million.

4.26 The retirement allowance liability will be paid out in future years to eligible employees as they retire based on years of service.

4.27 Exhibit 4.8 shows participating employees in the retirement allowance program. Appendix I - Exhibits 4.20 and 4.21 provide detailed summaries of participating employees.

Exhibit 4.8 - Retirement Allowance Participation (unaudited) at November 27, 2017



Source: Prepared by AGNB using information provided by the Province. Refer to Appendix I – Exhibits 4.20 and 4.21 for detailed information.

**Employees no longer receiving retirement allowance is comprised of all employees at 2013 whose retirement allowance stopped accumulating, and unionized employees have elected to discontinue accruing retirement allowance benefits.*

Net benefit liability has slightly decreased since changes were introduced

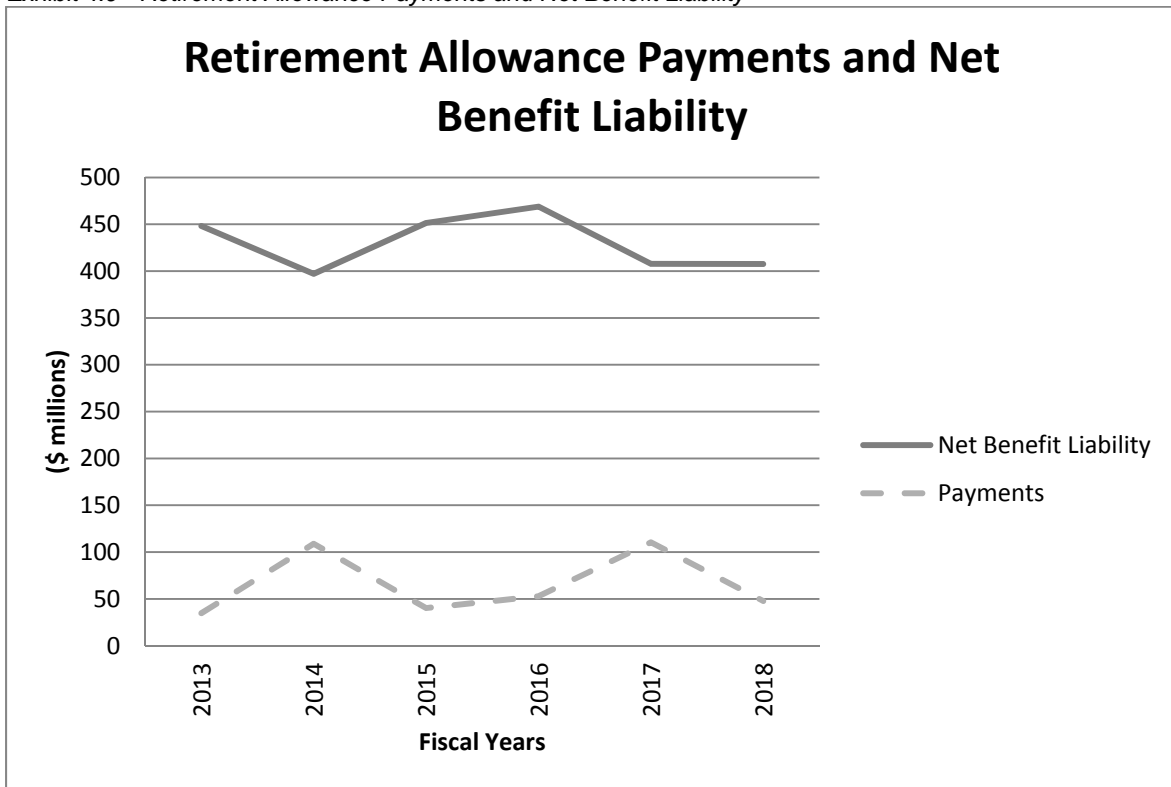
4.28 In January 2013, the Province announced, as a cost savings measure, it was no longer allowing management and non-union employees to accumulate a retirement allowance. When this change was made, we expected the liability would decrease over time. Despite this change, we found many employees still earn retirement allowance as

part of their unions’ collective bargaining processes. Other unions have agreed to discontinue the retirement allowance in exchange for additional wage adjustments.

Liability has not significantly decreased

4.29 Exhibits 4.9 shows retirement allowance payments and net benefit liability have not decreased significantly since 2013 when the retirement allowance program was discontinued for management and non-union employees.

Exhibit 4.9 - Retirement Allowance Payments and Net Benefit Liability



Source: Prepared by AGNB. Refer to Appendix I – Exhibit 4.22 for detailed information.

Appendix I

Exhibit 4.10 - Pension Plan Definitions and Abbreviations

Pension Plan Name Abbreviation	Pension Plan Name	Pension Obligations and Assets Noted in the Chapter are Measured as at
NBPSPP	New Brunswick Public Service Pension Plan	March 31
NBTPP	New Brunswick Teachers' Pension Plan	March 31
H-CUPE	Shared Risk Plan for Canadian Union of Public Employees of NB Hospitals	December 31
H-CBE	Shared Risk Plan for Certain Bargaining Employees of NB Hospitals	December 31
NH-N&P	Pension Plan for Nursing and Paramedical Employees of New Brunswick Nursing Homes	March 31
NH-G&S	Pension Plan for General and Service Employees of New Brunswick Nursing Homes	March 31
NH-Mgmt	Pension Plan for Management Employees of New Brunswick Nursing Homes	March 31
Judges*	Provincial Court Act and Provincial Court Judges' Pension Act	March 31
Members*	Members' Superannuation Act and Members' Pension Act	March 31
Sch-Mgmt*	Pension Plan for Management Employees of New Brunswick School Districts	December 31
Sch-GLTS*	Pension Plan for General Labour, Trades and Services Employees of New Brunswick School Districts	December 31
Sch-2745*	Pension Plan for Full-Time CUPE 2745 Employees of New Brunswick School Districts	December 31
SERP*	Supplementary Retirement Plan	March 31

Source: Prepared by AGNB

*Assets and/or benefits administered by Vestcor on behalf of the Province and no signed agreement exists.

Appendix I (continued)

Exhibit 4.11 - Components of the Pension Balance for Accounting Purposes for Significant Pension Plans

Components of the Pension Balance for Accounting Purposes for Significant Pension Plans (2018)														
(\$ millions)														
	NBPSPP	NBTPP	H CUPE	H CBE	NH- N&P	NH- G&S	NH- Mgmt	Judges	Members	Sch- Mgmt	Sch- GLTS	Sch- 2745	SERP	Total
Province's Share (per Public Accounts)	100%	50%	50%	50%	100%	50%	100%	100%	100%	100%	100%	100%	100%	
Plan Assets	7,618.6	2,887.7	437.1	1,040.9	153.5	249.3	97.7	48.8	-	4.8	395.2	93.4	23.3	13,050.3
Accrued Benefit Obligation	7,637.2	2,650.2	570.8	1,098.4	145.5	279.3	90.0	87.8	62.5	19.9	447.4	123.7	315.0	13,527.7
Unamortized Adjustments	(286.3)	(39.4)	13.8	22.4	2.2	(6.7)	1.3	2.1	(0.9)	-	(14.3)	(14.2)	(26.8)	(346.8)
Valuation Adjustment*	267.7	276.9	-	-	5.8	-	6.4	-	-	-	-	-	-	556.8
Net Benefit Liability	-	-	147.5	79.9	-	23.3	-	41.1	61.6	15.1	37.9	16.1	264.9	687.4

Source: Prepared by AGNB

* The Province has no claim or legal right to these pension plan assets or surpluses. A valuation allowance is applied to remove any remaining assets for these plans. This accounting treatment is consistent with treatment in 2016 and 2017, as well as with Public Sector Accounting Standards.

Appendix I (continued)

Exhibit 4.12 - Components of the Pension Balance for Accounting Purposes for Significant Pension Plans

Components of the Pension Balance for Accounting Purposes (\$ billions)										
	2009	2010	2011	2012	2013	2014	2015*	2016	2017	2018
Estimated accrued benefit obligations	8.6	8.6	8.9	9.3	10.1	12.3	12.1	12.6	13.1	13.5
Value of plan assets	6.5	7.7	8.4	8.7	9.3	11.5	11.7	11.7	12.5	13.0
Pension position before accounting adjustments	2.1	0.9	0.5	0.6	0.8	0.8	0.4	0.9	0.6	0.5
Accounting adjustments	(2.3)	(1.1)	(0.7)	(0.9)	(1.0)	(0.8)	0.2	(0.3)	0.1	0.2
Pension balance for accounting purposes	(0.2)	(0.2)	(0.2)	(0.3)	(0.2)	0.0	0.6	0.6	0.7	0.7

Source: Prepared by AGNB

*As restated

Note: 2014 numbers present audited financial statement figures with no restatements.

Exhibit 4.13 - Pension Plan Contributions and Benefit Payments – Public Service Plan

Pension Contributions and Benefit Payments for Public Service Plan (\$ millions)							
Fiscal Year	Benefit Payments	Employee Contributions	Province Contributions ¹			Total Employee and Province Contributions	Ratio of Province to Employee Contributions
			Normal	Special Payments	Total Province Contributions		
2009	165.2	68.6	83.6	58.5	142.1	210.7	2.07
2010	176.2	69.6	92.8	61.0	153.8	223.4	2.21
2011	193.4	71.2	84.3	63.2	147.5	218.7	2.07
2012	207.9	71.5	89.4	64.9	154.3	225.8	2.16
2013	227.8	70.9	92.1	67.9	160.0	230.9	2.26
2014	264.5	73.1	102.1	0.0	102.1	175.2	1.40
2015	335.8	101.2	142.1	0.0	142.1	243.3	1.40
2016	350.7	93.4	138.0	0.0	138.0	231.4	1.48
2017	369.3	95.8	144.5	0.0	144.5	240.3	1.51
2018	381.8	97.3	147.7	0.0	147.7	245.0	1.52
Total 2009-2018	2,672.6	812.6	1,116.6	315.5	1,432.1	2,244.7	1.76

Source: Prepared by AGNB

¹ Public Service Plan Province contributions include contributions from the Province, Crown Corporations and other participants.

Appendix I (continued)

Exhibit 4.14 - Pension Plan Contributions and Benefit Payments – Teachers’ Plan

Pension Contributions and Benefit Payments for Teachers’ Plan							
(\$ millions)							
Fiscal Year	Benefit Payments	Employee Contributions	Province Contributions			Total Employee and Province Contributions	Ratio of Province to Employee Contributions
			Normal	Special Payments	Total Province Contributions		
2009	231.6	42.7	39.9	85.0	124.9	167.6	2.93
2010	240.8	45.9	41.9	88.6	130.5	176.4	2.84
2011	247.2	47.3	45.1	91.9	137.0	184.3	2.90
2012	253.7	47.8	46.4	94.4	140.8	188.6	2.95
2013	263.6	47.9	46.1	98.6	144.7	192.6	3.02
2014	269.3	47.7	46.5	0.0	46.5	94.2	0.97
2015	272.7	56.0	63.8	0.0	63.8	119.8	1.14
2016	273.0	59.2	71.7	0.0	71.7	130.9	1.21
2017	284.2	63.9	72.1	0.0	72.1	136.0	1.13
2018	288.8	63.6	73.6	0.0	73.6	137.2	1.16
Total 2009-2018	2,624.9	522.0	547.1	458.5	1,005.6	1,527.6	1.93

Source: Prepared by AGNB

Appendix I (continued)

Exhibit 4.15 - Summary of Pension Plan Contributions Rates – Public Service Plan and Teachers' Plan

Summary of Employee and Province Pension Plan Contribution Rates			
Plan	Dates In Effect	Employee Rates (Below and Above YMPE)*	Province Rates (Below and Above YMPE)*
Public Service Plan	April 1, 2014 - December 31, 2018	7.5% and 10.7%	12.5% and 12.5% (includes temporary contribution of 1.25%)
	January 1, 2019 to December 31, 2023	7.5% and 10.7%	12.0% and 12.0%
	January 1, 2024 to December 31, 2028	7.5% and 10.7%	11.25% and 11.25%
	January 1, 2029	Effective January 1, 2029, Province and employee contribution rates will be re-determined and will become equal.	
Teachers' Plan	July 1, 2016 to June 30, 2017	9.5% and 11.2%	11.5% and 13.2%
	July 1, 2017 to June 30, 2018	10.0% and 11.7%	11.5% and 13.2%
	July 1, 2018 to June 30, 2019	10.0% and 11.7%	11.5% and 13.2%
	July 1, 2019 to June 30, 2024	10.0% and 11.7%	10.75% and 12.45%
	July 1, 2024 to June 30, 2029	10.0% and 11.7%	10.0% and 11.7%
	July 1, 2029	9.25% and 10.95%	9.25% and 10.95%

Source: Prepared by AGNB

*YMPE = Year's Maximum Pensionable Earnings (Canada Revenue Agency maximum amount of earnings on which contributions to the Canada Pension Plan are based).

Appendix I (continued)

Exhibit 4.16 - Summary of Pension Plan Elements – Public Service Plan and Teachers’ Plan

Summary of Public Service Plan and Teachers’ Plan Elements		
Scenario	Public Service Plan	Teachers’ Plan
Current Employee Contribution Rates	7.5% up to YMPE* 10.7% above YPME*	10.0% up to YMPE* 11.7% above YPME*
Current Province Contribution Rates	12.5% (includes temporary contribution of 1.25%)	11.5% up to YMPE* 13.2% above YPME*
Current Elements (After Plan Conversion)		
Retirement Age (No Penalty/Reduction)	Age 65	35 years of pensionable service or Age + service index equal to at least 91 or Age 62 with 20 or more years of pensionable service or Age 65 with less than 20 years of pensionable service
Earliest Retirement Age (with Penalty/Reduction)	Age 55	Age + service index equal to at least 84 or Age 55
Reduction Factor	5% per year	2.5% or 5.0% Depending on combinations of age and years of pensionable service
Pension Calculation	Enhanced career average of salary	Enhanced career average of salary
Plan Elements Before Conversion		
Date of Conversion	January 1, 2014	July 1, 2014
Retirement Age (No Penalty/Reduction)	Age 60	35 years of pensionable service or Age + service index equal to at least 87 or Age 60 with 20 or more years of pensionable service or Age 65 with less than 20 years of pensionable service
Earliest Retirement Age (with Penalty/Reduction)	Age 55	Age + service index equal to at least 80 or Age 55
Reduction factor	3% per year	2.5% or 5.0% Depending on combinations+ of age and years of pensionable service
Pension Calculation	Average of best 5 years of salary	Average of best 5 years of salary
Plan Membership (2018)		
Participants	17,694 active contributors and 15,675 pensioners	8,121 active contributors and 9,052 pensioners

Source: Prepared by AGNB

*YMPE = Year’s Maximum Pensionable Earnings (Canada Revenue Agency maximum amount of earnings on which contributions to the Canada Pension Plan are based).

Appendix I (continued)

Exhibit 4.17 - Components of Pension Expense

Components of Pension Expense (for all pension plans)										
(\$ millions)										
	2009	2010	2011	2012	2013	2014	2015*	2016	2017	2018
Province's share of pension benefits earned	146.1	131.6	137.4	148.9	177.4	196.0	161.3	176.6	185.4	204.9
Net interest expense (revenue)	20.6	118.2	52.9	32.0	62.7	70.4	38.2	5.4	38.2	21.8
Plan amendments	-	-	-	-	-	(11.2)	(183.2)	-	-	-
Adjustments recognized due to plan amendment	-	-	-	-	-	-	130.9	-	-	-
Amortization of adjustments	159.7	87.1	99.7	106.5	194.9	132.1	53.4	60.3	52.8	41.8
Change in valuation adjustment	(3.3)	(15.5)	-	-	-	-	247.0	67.5	59.1	69.25
Plan settlements <i>(recorded in year as a result of conversion to new pension plan structure)</i>	-	-	-	-	-	(21.9)	115.0	-	-	-
Total Pension Expense	323.1	321.4	290.0	287.4	435.0	365.4	562.6	309.8	335.5	337.7

Source: Prepared by AGNB

*As restated

Exhibit 4.18 - Summary of Pension Expense for Significant Pension Plans

Summary of Pension Plan Expenses for Significant Pension Plans (2018)														
(\$ millions)														
	NB PSPP	NBTPP	H CUPE	H CBE	NH-N&P	NH-G&S	NH-MGMT	Judges	Members	Sch-Mgmt	Sch-GLTS	Sch-2745	SERP	Total
Provinces' Share of Benefits Earned	39.6	56.1	24.5	42.5	4.9	11.7	2.5	3.4	-	-	8.0	2.6	6.7	202.5
Net Interest	1.6	(13.7)	7.9	5.5	(0.3)	1.9	(0.3)	1.1	2.0	0.7	3.8	1.6	10.0	21.8
Amortization of Adjustments	24.4	2.6	(1.0)	(1.4)	-	0.9	-	0.6	(0.1)	1.5	8.4	3.2	2.7	41.8
Change in Valuation Adjustment	39.1	28.5	-	-	1.0	-	0.6	-	-	-	-	-	-	69.2
Total Pension Expense	104.7	73.5	31.4	46.6	5.6	14.5	2.8	5.1	1.9	2.2	20.2	7.4	19.4	335.3

Source: Prepared by AGNB. See Appendix I – Exhibit 4.10 for plan name abbreviations.

Appendix I (continued)

Exhibit 4.19 - Summary of Pension Expense and Contributions

Pension Expense and Contributions										
(\$ millions)										
	2009	2010	2011	2012	2013	2014	2015*	2016	2017	2018
Pension expense	323.1	321.4	290.0	287.4	435.0	365.4	562.6	309.8	335.5	337.7
Province contributions	288.6	307.8	313.3	327.0	350.8	216.5	260.9	257.2	259.7	281.2
Excess (deficiency) of Province contributions over pension expense	(34.5)	(13.6)	23.3	39.6	(84.2)	(148.9)	(301.7)	(52.6)	(75.8)	(56.5)

Source: Prepared by AGNB using information provided by the Province. Numbers prior to January 1, 2014 have not been updated for the impact of NB Power.

*As restated

Exhibit 4.20 - Summary of Groups Earning Retirement Allowances

Summary of Groups Earning Retirement Allowances (unaudited)		
Group	# of employees	Date of Mandatory Discontinuance of Retirement Allowance
Hospital Support Workers (CUPE 1252)	9,335	N/A
Teachers	7,544	N/A
Nurses	6,000	Voluntary discontinuance*
Educational Assistants (CUPE 2745)	2,550	N/A
School Bus Drivers and Custodians (CUPE 1253)	1,700	N/A
Highway Workers (CUPE 1190)	1,500	N/A
Social Workers (CUPE 1418)	1,100	N/A
Nurse Managers and Supervisors	202	Voluntary discontinuance*
Court Stenographers (CUPE 1840)	70	N/A
Resource Services (NBU)	250	April 15, 2018
Crown Prosecutors (PIPSC)	60	September 30, 2018
Specialized Health Care Professionals (NBU)	2,400	March 31, 2019
Medical Science Professionals (NBU)	1,600	March 31, 2019
Instructional (NBU)	29	June 30, 2020
Correctional Officers (CUPE 1251)	707	Currently under negotiation
Total	35,047	

Source: Prepared by AGNB using information provided by the Province.

* Employees with a voluntary discontinuance will continue to earn retirement allowance unless they choose to discontinue and receive a payment.

Appendix I (continued)

Exhibit 4.21 - Summary of Groups No Longer Earning Retirement Allowance Credits

Summary of Groups Earning No Longer Retirement Allowance Credits (unaudited)		
Group	# of employees	Date of Mandatory Discontinuance of Retirement Allowance
Non – Bargaining	4,389	March 31, 2013
Administrative Services (NBU)	1,550	March 31, 2016
Professional Support in Schools (NBU)	190	March 31, 2016
Non-Instructional (NBU)	30	March 31, 2016
Engineers, Vets and Agriculturists (PIPSC)	260	March 31, 2016
Highway Supervisors (NBU)	75	March 31, 2016
Engineering and Field (NBU)	332	March 31, 2016
ITCO (NBU)	17	December 31, 2016
Tech Inspection, Lab and Medical (NBU)	238	March 31, 2016
Crown Counsel (PIPSC)	49	June 30, 2016
School Business Officials (PSAC)	252	March 31, 2016 (discontinued before unionization)
Total	7,382	

Source: Prepared by AGNB using information provided by the Province

Exhibit 4.22 - Summary of Retirement Allowance Payments and Net Benefit Liability

Summary of Retirement Allowance Payments and Net Benefit Liability (\$ millions)		
Year	Payments	Net Benefit Liability
2013	34.8	448.2
2014	108.9	397.0
2015	40.2	451.4
2016	52.9	468.8
2017	110.5	407.6
2018	47.8	407.5
Total	395.1	

Source: Prepared by AGNB

Chapter 5

State of New Brunswick's Financial Condition

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State of New Brunswick's Financial Condition

What do the 2018 Financial Results Tell Us About the Province's Financial Condition?

Financial condition improved slightly in 2018

- 5.1** The Province of New Brunswick's 2018 financial condition improved slightly from 2017. Short-term trends continue to improve as a result of the small surplus realized by the Province in 2018. These positive trends need to continue into the future in order improve the long-term financial health of the Province.
- 5.2** We reached this conclusion by analysing twelve financial indicators¹ used to assess the state and broader view of the Province's financial condition. See Exhibit 5.4 for a complete summary of all indicators. Since our last report in 2017 we found:
- three of the twelve short-term indicators improved; and
 - all twelve long-term indicators remain unchanged.

Can the Province Sustain Its Existing Programs?

- 5.3** The Province's ability to sustain existing programs and services without increasing debt improved slightly during 2018 mainly as a result of the Province's 2018 surplus. We were therefore able to assess five of the seven short-term sustainability indicators as favourable this year. Past deficits and the significant size of the Province's Net Debt prevent us from assessing many long-term indicators as favourable.

¹ We report on twelve indicators of financial condition identified by the Public Sector Accounting Board (PSAB) in a Statement of Recommended Practice (SORP). This analysis is intended to give a broader view of the financial health of the Province as the analysis shows trends. The analysis expands on the information reported in the audited consolidated financial statements which only reflect the Province's fiscal status at a point in time.

5.4 Exhibit 5.1 presents a summary of the Province's sustainability indicators. We have assessed sustainability as mostly favourable in the short term and as largely unfavourable in the long term.

Sustainability defined

5.5 Sustainability indicates whether the Province can maintain programs and meet existing creditor payments without increasing the debt burden on the economy.

Exhibit 5.1 - Sustainability Indicator Trends

Sustainability Indicator Trends		
Sustainability indicator	Short-term trend	Long-term trend
Assets-to-liabilities	Favourable	Unfavourable
Financial assets-to-liabilities	Favourable	Unfavourable
Net Debt-to-total annual revenue	Favourable	Unfavourable
Expense by function-to-total expenses	Neutral	Neutral
Net Debt-to-GDP	Favourable	Unfavourable
Accumulated deficit-to-GDP	Favourable	Unfavourable
Total expenses-to-GDP	Neutral	Unfavourable

Source: AGNB prepared information.

Is the Province Flexible in Its Ability to Raise Taxes and Increase Debt?

Largely unfavourable trends

5.6 The Province is less flexible in its ability to raise taxes and increase debt because of:

- declining asset lives (such as schools, highways and bridges); and
- increases in own source revenues (such as increases in HST and Corporate Income Taxes)

5.7 As summarized in Exhibit 5.2, we have assessed flexibility in both the short and long term as largely unfavourable.

Flexibility defined

5.8 Flexibility is the degree to which a government can change its debt or tax burden on the economy to maintain programs and meet existing creditor requirements. When flexibility decreases a government is less able to pay for its expenses with its internally generated revenue.

Exhibit 5.2 - Flexibility Indicator Trends

Flexibility Indicator Trends		
Flexibility indicator	Short-term trend	Long-term trend
Public debt charges-to-revenues	Favourable	Favourable
Net book value of capital assets-to-cost of capital assets	Unfavourable	Unfavourable
Own source revenues-to-GDP	Unfavourable	Unfavourable

Source: AGNB prepared information.

Is the Province Vulnerable from Relying on Outside Sources of Revenue?

Favourable trends

5.9 The Province is less vulnerable from outside revenue sources because of:

- increases in the Province's own source revenue;
- relying less on the Federal government to assist in funding major infrastructure projects; and
- managing and controlling its exposure from changes in foreign currencies.

5.10 As summarized in Exhibit 5.3, we have assessed vulnerability in both the short and long term as favourable.

Vulnerability defined

5.11 Vulnerability is the degree to which a government is dependent on sources of funding outside its control or influence.

Exhibit 5.3 - Vulnerability Indicator Trends

Vulnerability Indicator Trends		
Flexibility indicator	Short-term trend	Long-term trend
Government transfers-to-total revenue	Favourable	Favourable
Foreign currency debt-to-Net Debt	Favourable	Favourable

Source: AGNB prepared information.

Summary of Financial Indicators

5.12 In Exhibit 5.4, we summarize our analysis of all the Province's financial indicators. In this exhibit we show:

- the indicators for each category (sustainability, flexibility, or vulnerability);
- the purpose of the indicator;
- the short-term (two year) and long-term (five or ten year) trend; and
- a reference within this chapter of where we discuss the indicator in more detail.

Exhibit 5.4 - Summary of Indicators of Financial Condition

	Indicator	Purpose	Short-term Trend	Change in trend from prior year	Term	Long-term Trend ¹	Paragraph
Sustainability	Assets-to-liabilities	Measures extent that government finances its operations by issuing debt	Favourable ²	✓	5 year	Unfavourable	5.14
	Financial assets-to-liabilities	Measures whether future revenues will be needed to pay for past transactions	Favourable	No change	5 year	Unfavourable	5.18
	Net Debt-to-total annual revenue	Shows whether more time is needed to pay for past transactions	Favourable	No change	10 year	Unfavourable	5.22
	Expense by function-to-total expenses	Shows the trend of government spending over time	Neutral	No change	5 year	Neutral	5.26
	Net Debt-to-GDP	Shows the relationship between Net Debt and the activity in the economy	Favourable ²	✓	10 year	Unfavourable	5.32
	Accumulated deficit-to-GDP	Measures the sum of the current and all prior year operating results relative to the growth in the economy	Favourable ²	✓	5 year	Unfavourable	5.36
	Total expenses-to-GDP	Shows the trend of government spending over time in relation to the growth in the economy	Neutral	No change	10 year	Unfavourable	5.40
Flexibility	Public debt charges-to-revenues	Measures extent that past borrowing decisions limits ability to meet current financial and service commitments	Favourable	No change	10 year	Favourable	5.47
	Net book value of capital assets-to-cost of capital assets	Measures the estimated useful lives of tangible capital assets available to provide products /services	Unfavourable	No change	5 year	Unfavourable	5.51
	Own source revenues-to-GDP	Measures extent income is taken out of the economy	Unfavourable	No change	10 year	Unfavourable	5.55
Vulnerability	Government transfers-to-total revenues	Measures the dependence on another level of government	Favourable	No change	10 year	Favourable	5.60
	Foreign currency debt-to-Net Debt	Measures the government's potential vulnerability to currency fluctuations	Favourable	No change	10 year	Favourable	5.64

Source: AGNB prepared information.

✓ shows a positive change from prior year

¹ Long-term trend unchanged from prior year

² Last year was "Neutral"

Detailed Support for Sustainability Indicators

Sustainability defined 5.13 Sustainability indicates whether the Province can maintain programs and meet existing creditor payments without increasing the debt burden on the economy.

Comparing Assets-to-Liabilities

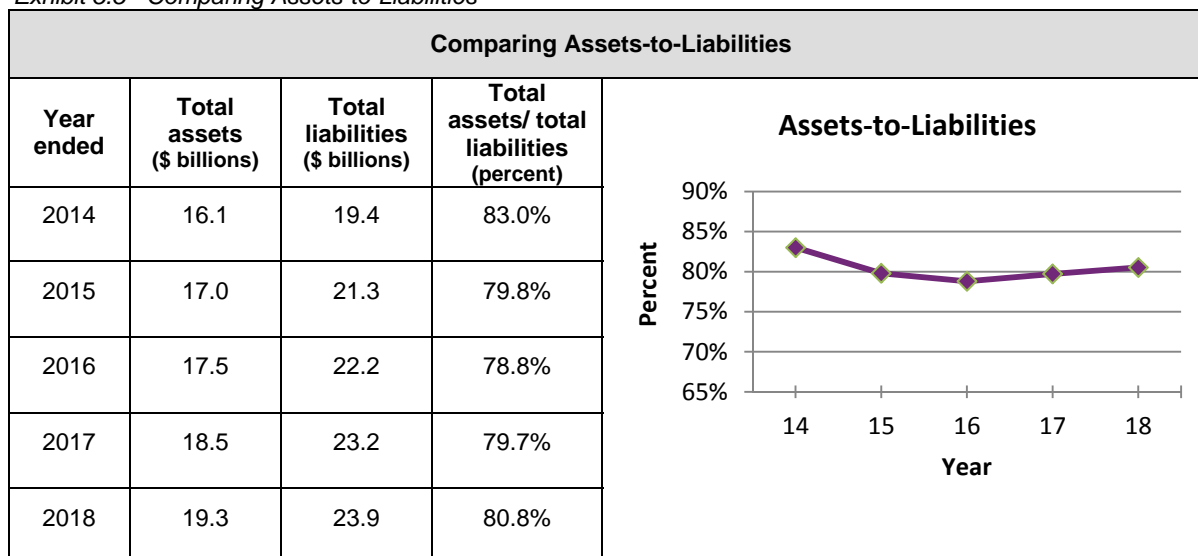
5.14 We have assessed the short-term trend as favourable and the long-term trend as unfavourable.

5.15 For the last two years, this indicator has improved slightly indicating a favourable trend in the short-term. For the past five years, the Province's percentage has trended below 100% indicating the Province has financed its operations by issuing debt. This is an unfavourable long-term trend which we would like to see reversed.

How to read exhibit 5.16 An assets-to-liability percentage below 100% and decreasing indicates a negative trend as the Province has more liabilities than it has assets. This means the government has accumulated deficits and has been financing its operations by issuing debt.

5.17 We present the assets-to-liabilities sustainability indicator in Exhibit 5.5.

Exhibit 5.5 - Comparing Assets-to-Liabilities



Source: Based on applicable years Public Accounts data with restatements where identified in Public Accounts.

Comparing Financial Assets-to-Liabilities

5.18 We have assessed the short-term trend as favourable and the long-term trend as unfavourable.

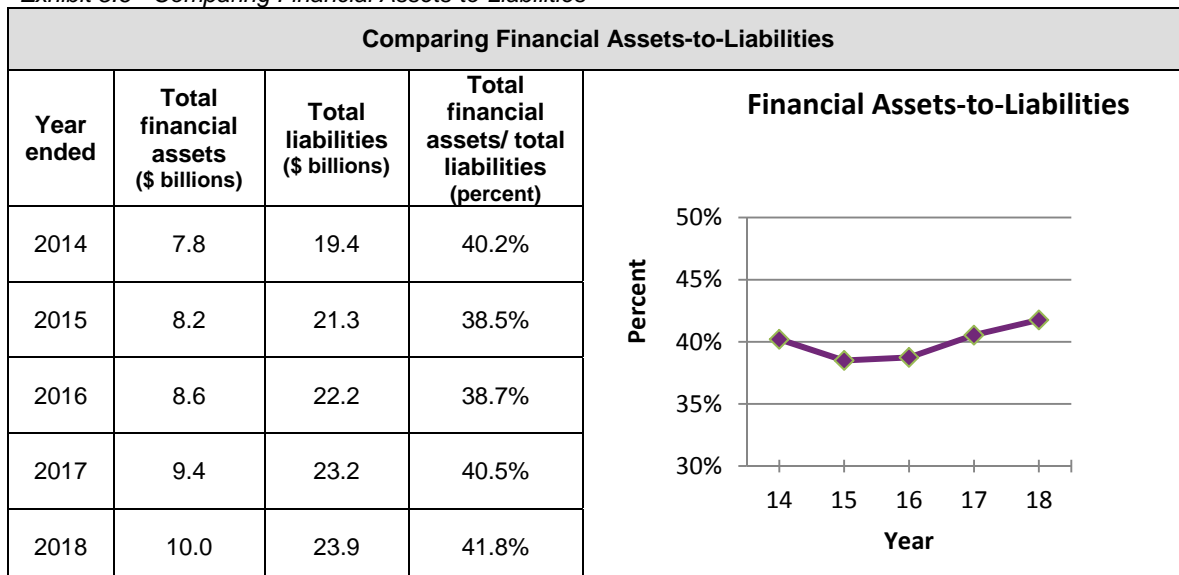
5.19 For the past three years, the Province's percentage for this indicator has improved slightly indicating a favourable trend in the short-term. The percentage, however, has been below 100% over the past five years meaning future revenues will be needed to pay for past transactions. As a result, we are still assessing the long-term trend as unfavourable.

How to read exhibit

5.20 A financial assets-to-liabilities percentage that is less than 100% implies that future surpluses will be required to pay for past transactions and events. A decreasing percentage indicates a negative trend.

5.21 We present the financial assets-to-liabilities sustainability indicator in Exhibit 5.6.

Exhibit 5.6 - Comparing Financial Assets-to-Liabilities



Source: Based on applicable years Public Accounts data with restatements where identified in Public Accounts.

Comparing Net Debt-to-Total Annual Revenue

5.22 We have assessed the short-term trend as favourable and the long-term trend as unfavourable.

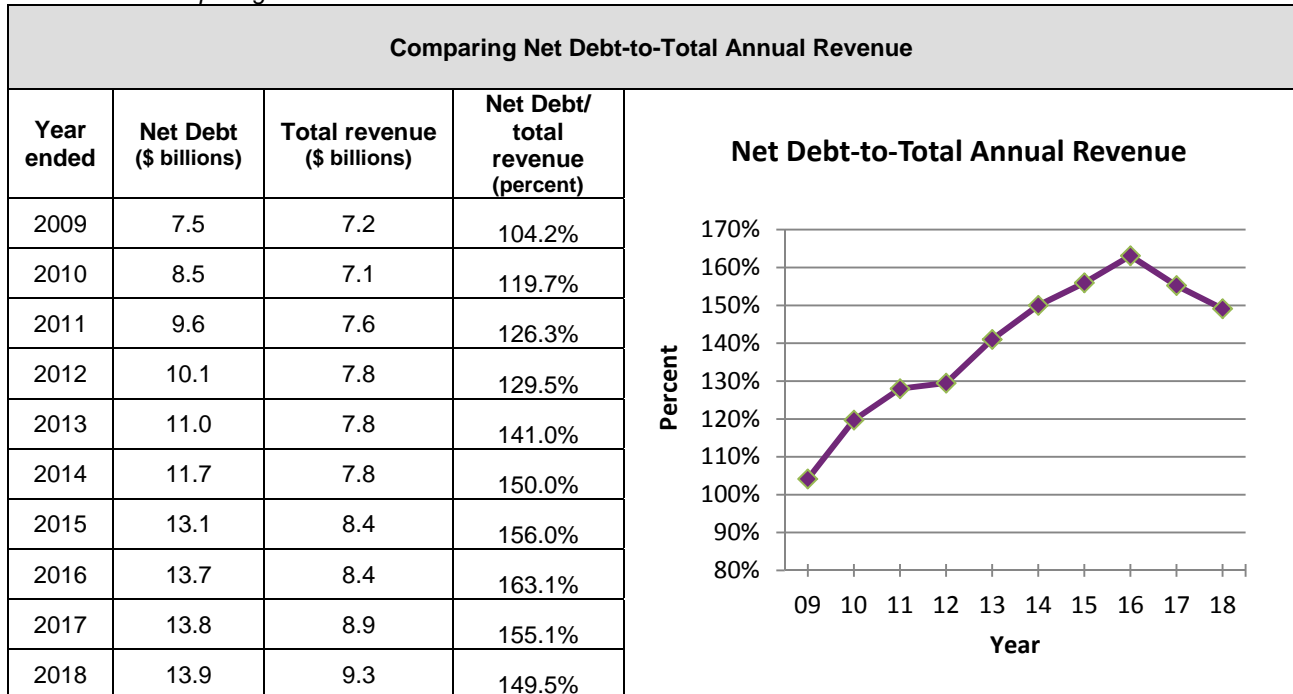
5.23 The Province's Net Debt-to-total annual revenue percentage has been increasing from 2009 to 2016. In 2018 the percentage declined to 149.5% as Net Debt remained relatively consistent with the prior year while total revenue increased.

How to read exhibit

5.24 A Net Debt-to-total annual revenue percentage that is increasing indicates a negative trend as the Province will need more time to eliminate the Net Debt. Net Debt provides a measure of the future revenue required to pay for past transactions and events.

5.25 We present the Net Debt-to-total annual revenue sustainability indicator in Exhibit 5.7.

Exhibit 5.7 - Comparing Net Debt-to-Total Annual Revenue



Source: Based on applicable years Public Accounts data with restatements where identified in Public Accounts.

Comparing Expense by Function-to-Total Expense

5.26 We have assessed both the short-term and long-term trend as neutral as there has been little change in how expenses are allocated to functions in the last five years. The cost of servicing the public debt has remained relatively consistent over the last five years.

5.27 The impact of a small annual surplus this year and New Brunswick's growing Net Debt needs to be closely monitored in the future. The interest burden on the debt consumes resources that would otherwise be used to deliver services.

How to read exhibit

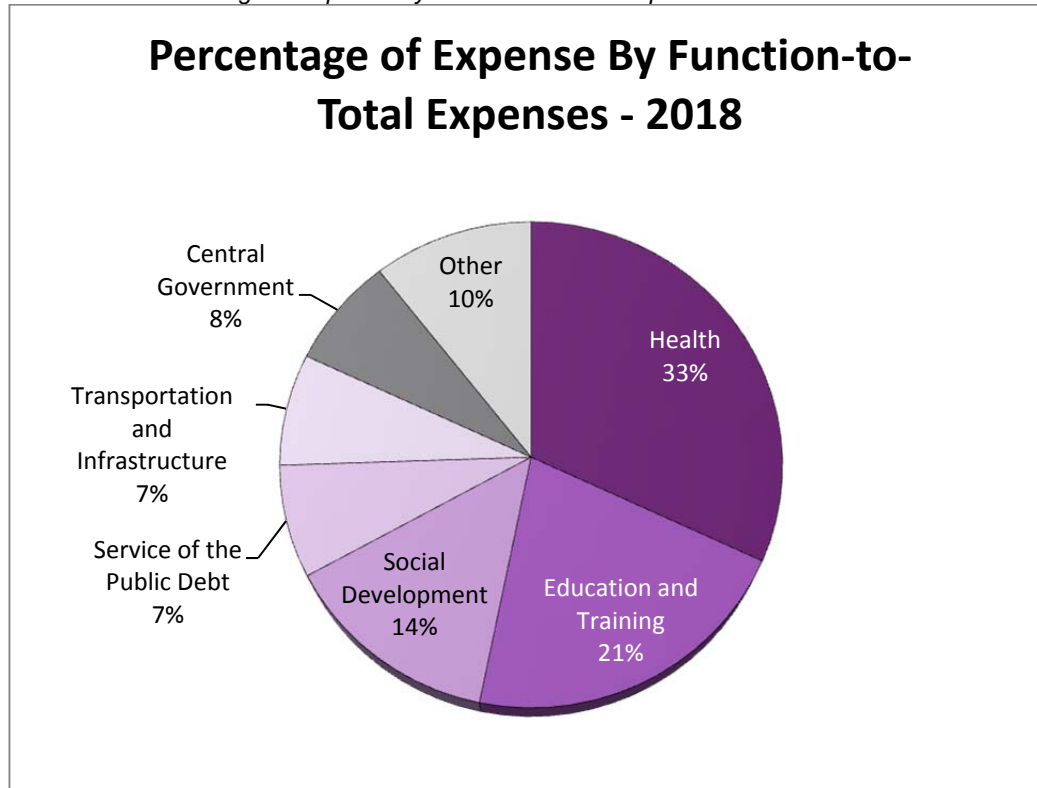
5.28 The two exhibits in this section can be read as follows:

- For Exhibit 5.8, each slice of pie represents the percentage of expenses allocated to each expense function for 2018.
- For Exhibit 5.9, each line in the chart represents an expense function. As the line progresses, it shows (by year) the percentage of expenses allocated to each function. As the line decreases, the Province is allocating less of its total expenses to a function. (i.e. the function is receiving a smaller slice of the pie.)

If the Province is allocating more expenses to servicing the public debt, this represents a negative trend.

5.29 We present the expense by function-to-total expenses sustainability indicator in Exhibit 5.8 for 2018. Exhibit 5.8 shows the amount of expenses allocated to each expense function for the year.

Exhibit 5.8 - Percentage of Expense By Function-to-Total Expenses - 2018



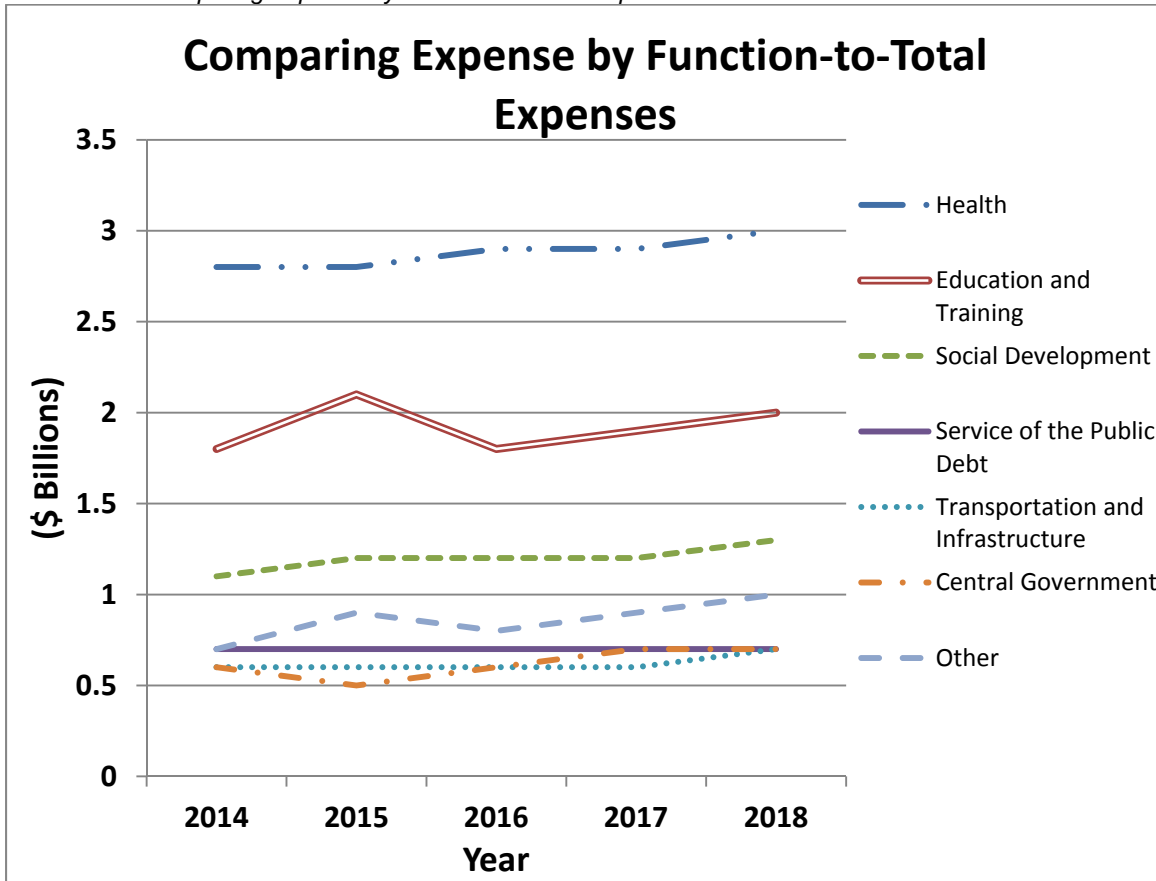
Source: Public Accounts 2018

5.30 In Exhibit 5.8 we note the following observations:

- the expenses for Education and Training and Health consume 54% of the total expenses in 2018, trending slightly upward from prior years, and
- the expenses for service of the public debt are almost as large as expenses for Central Government.

5.31 We present the expense by function-to-total expenses sustainability indicator in Exhibit 5.9 for the past five years.

Exhibit 5.9 - Comparing Expense by Function-to-Total Expenses



Source: Based on applicable years Public Accounts data with restatements where identified in Public Accounts.

Other includes: Protection Services, Economic Development, Resources and Labour and Employment

Comparing Net Debt-to-GDP

5.32 We have assessed the short-term trend as favourable and the long-term trend as unfavourable.

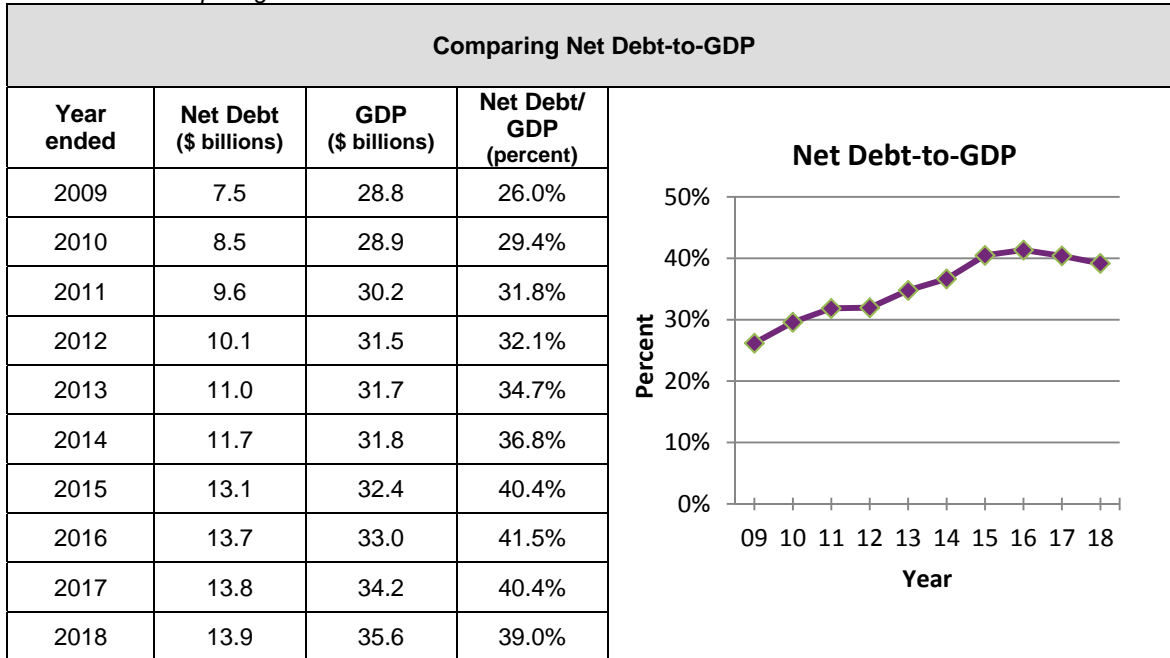
5.33 We note a negative trend from 2009 to 2016 because the Net Debt of the Province increased faster than the growth in the economy. In 2017 and 2018, we start to see this trend reversing but the percentage is still at its third highest level in ten years. For these reasons, we have assessed the short-term trend as favourable, however the long-term trend remains unfavourable.

How to read exhibit

5.34 A net debt-to-GDP percentage that is increasing indicates a negative trend as the growth of Net Debt (liabilities less financial assets) exceeds the growth in GDP.

5.35 We present the Net Debt-to-GDP sustainability indicator, in Exhibit 5.10.

Exhibit 5.10 - Comparing Net Debt-to-GDP



Source: Based on applicable years Public Accounts data with restatements where identified in Public Accounts.

Comparing Accumulated Deficit-to-GDP

5.36 We have assessed the short-term trend as favourable and the long-term trend as unfavourable.

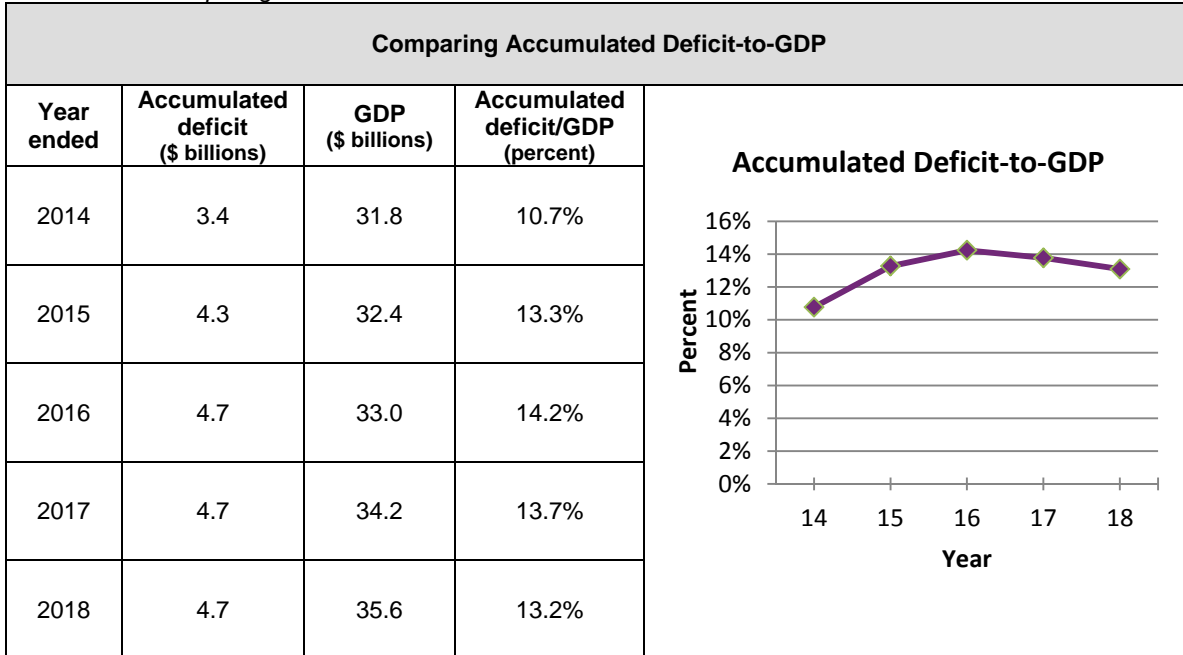
5.37 Exhibit 5.11 shows a negative trend from 2014 to 2016 as the accumulated deficit has grown more than the economy. We see this negative trend start to decline, however, in 2017 and 2018 as the accumulated deficit has not changed but the economy has continued to grow.

How to read exhibit

5.38 An accumulated deficit-to-GDP percentage that is increasing indicates a negative trend as the growth of the accumulated deficit is out pacing the growth in GDP. (The accumulated deficit is the extent to which current and past annual revenues have been insufficient to cover the current and past annual costs of providing services.)

5.39 We present the accumulated deficit-to-GDP sustainability indicator in Exhibit 5.11.

Exhibit 5.11 - Comparing Accumulated Deficit-to-GDP



Source: Based on applicable years Public Accounts data with restatements where identified in Public Accounts.

Comparing Total Expenses-to-GDP

5.40 We have assessed the short-term trend as neutral and the long-term trend as unfavourable.

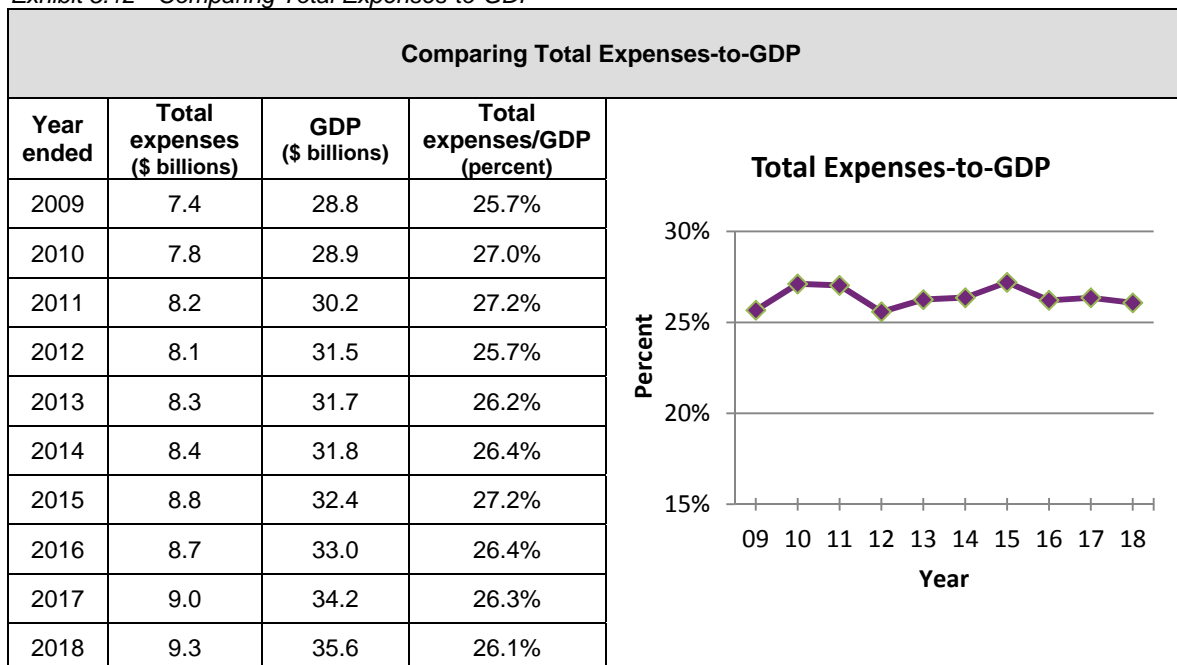
5.41 Exhibit 5.12 shows a negative trend from 2009 to 2015 as expenses have grown more than the economy. We see this negative trend start to decline somewhat, however, in 2016 to 2018. In these years, the percentage has remained relatively stable, therefore we have assessed the short-term trend as neutral.

How to read exhibit

5.42 A total expenses-to-GDP percentage that is increasing indicates a negative trend as the government expenses continue to grow faster than the economy. Government expenses as a percentage of GDP have increased over time.

5.43 We present the total expenses-to-GDP sustainability indicator in Exhibit 5.12.

Exhibit 5.12 - Comparing Total Expenses-to-GDP



Source: Based on applicable years Public Accounts data with restatements where identified in Public Accounts.

Detailed Support for Flexibility Indicators

Flexibility defined

5.44 Flexibility is the degree to which the government can change its debt or tax burden on the economy to maintain programs and meet existing creditor requirements.

5.45 One of the most publicized factors which affect the flexibility of governments is the cost of servicing the public debt. This is considered to be an indicator of flexibility, since the government's first payment commitment is to service its debt, leaving no flexibility in the timing of these payments.

5.46 The cost of servicing the public debt is comprised mainly of:

- interest on the funded debt of the Province as well as interest cost on capital leases;
- amortization of foreign exchange gains and losses;
- amortization of discounts and premiums which were incurred on the issuance of provincial debt; and
- foreign exchange earned on interest and maturities during the year.

It does not include principal repayments on the funded debt of the Province.

Comparing Public Debt Charges-to-Revenues

5.47 We have assessed both the short-term and long-term trend as favourable.

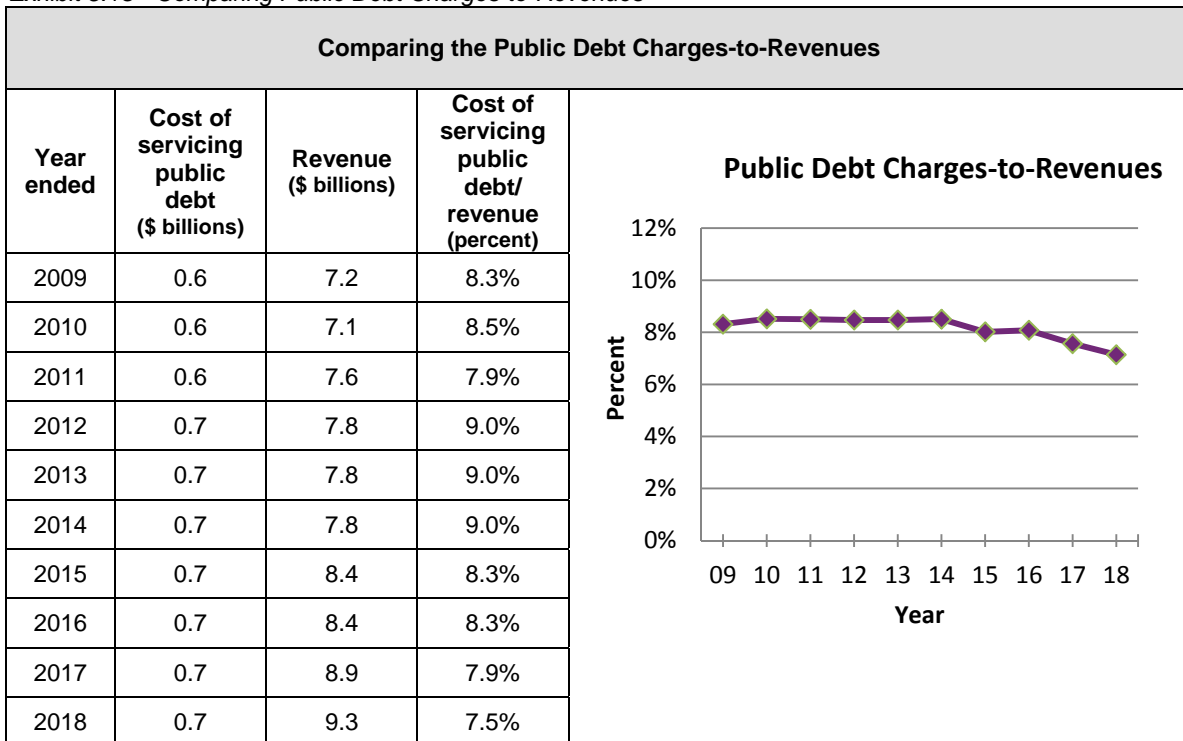
5.48 Exhibit 5.13 shows the cost of servicing the public debt as a percentage of the Province's total revenues has decreased in 2018 compared to the previous nine fiscal years. This is a result of the Province's 2018 revenue increasing and the cost to service public debt has remained stable.

How to read exhibit

5.49 A public debt charges-to-revenues percentage that is decreasing indicates a favourable trend, as proportionately less revenue is needed to service the public debt.

5.50 We present the public debt charges-to-revenues flexibility indicator in Exhibit 5.13.

Exhibit 5.13 - Comparing Public Debt Charges-to-Revenues



Source: Based on applicable years Public Accounts data with restatements where identified in Public Accounts.

Comparing Net Book Value of Capital Assets-to-Cost of Capital Assets

5.51 We have assessed both the short-term and long-term trend as unfavourable.

5.52 Exhibit 5.14 shows the Province's capital assets have approximately 55.6% of their average useful lives remaining. For example, this means, on average:

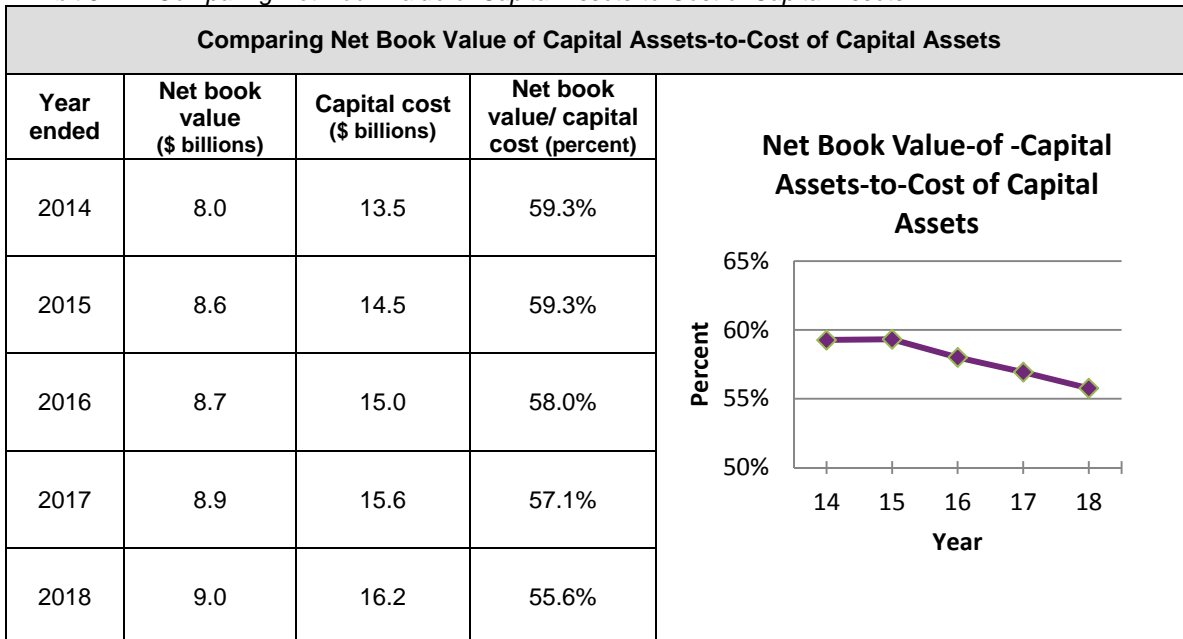
- an asset with a ten year estimate of useful life will have approximately six years of useful life remaining; and
- an asset with a twenty year estimate of useful life will have approximately twelve years useful life remaining.

How to read exhibit

5.53 A net book value of capital assets-to-cost of capital assets percentage that is decreasing indicates a negative trend as assets are depreciating (being used) at a faster rate than they are being replaced. We caution the reader on the use of this indicator. The indicator is based on an estimate of an asset's useful life.

5.54 We present the net book value of capital assets-to-cost of capital assets flexibility indicator in the Exhibit 5.14.

Exhibit 5.14 - Comparing Net Book Value of Capital Assets-to-Cost of Capital Assets



Source: Based on applicable years Public Accounts data with restatements where identified in Public Accounts.

Comparing Own Source Revenues-to-GDP

5.55 We have assessed both the short-term and long-term trend as unfavourable.

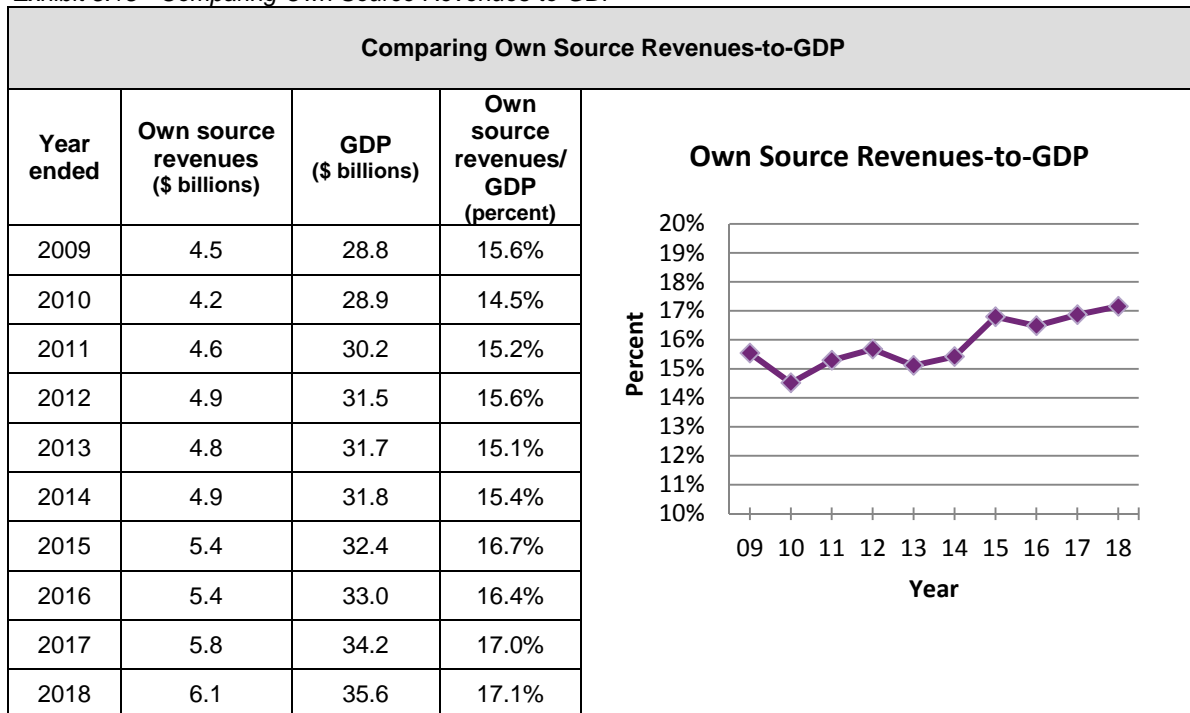
5.56 Exhibit 5.15 shows a negative trend as the percentage has generally increased from 2009 to 2018. The recent increases in 2017 and 2018 are mostly a result of the government increasing Harmonized Sales Tax (HST) and Corporate Income Tax.

How to read exhibit

5.57 An own source revenues-to-GDP percentage that is increasing indicates a negative trend as more of the Province's revenue is generated from the provincial economy. This limits the Province's ability to raise taxes in the future making the Province less flexible in how it can generate revenue.

5.58 We present the own source revenues-to-GDP flexibility indicator in Exhibit 5.15.

Exhibit 5.15 - Comparing Own Source Revenues-to-GDP



Source: Based on applicable years Public Accounts data with restatements where identified in Public Accounts.

Note: In 2010, the ratio decreased mostly as a result of a large loss by the then New Brunswick Electric Finance Corporation (now amalgamated with New Brunswick Power Corporation). In that year, lower taxes or fees did not cause own source revenue to decrease.

Detailed Support for Vulnerability Indicators

Vulnerability defined **5.59** Vulnerability is the degree to which a government is dependent on sources of funding outside its control or influence.

Comparing Government Transfers-to-Total Revenues

5.60 We have assessed both the short-term and long-term trend as favourable.

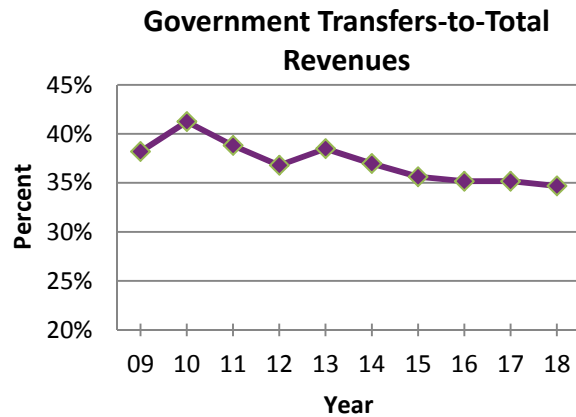
5.61 Exhibit 5.16 shows the Province's reliance on Federal government transfers has been decreasing since 2013. This means the Province is less dependent on the Federal government as a source of revenue. Thus, reducing the Province's vulnerability.

How to read exhibit **5.62** A government transfers-to-total revenues percentage that is decreasing indicates a positive trend as the Province is less dependent on outside sources (such as the Federal government) for revenue. If the percentage increases, the Province is more vulnerable to the Federal government funding decisions.

5.63 We present the government transfers-to-total revenues vulnerability indicator in Exhibit 5.16.

Exhibit 5.16 - Comparing Government Transfers-to-Total Revenues

Comparing Government Transfers-to-Total Revenues			
Year ended	Federal government transfer revenue (\$ billions)	Total revenue (\$ billions)	Federal government transfer revenue/ total revenue (percent)
2009	2.8	7.2	38.9%
2010	2.9	7.2	40.3%
2011	2.9	7.6	38.2%
2012	2.9	7.8	37.2%
2013	3.0	7.8	38.5%
2014	2.9	7.8	37.2%
2015	3.0	8.4	35.7%
2016	3.0	8.4	35.7%
2017	3.1	8.9	34.8%
2018	3.2	9.3	34.4%



Source: Based on applicable years Public Accounts data with restatements where identified in Public Accounts.

Comparing Foreign Currency Debt-to-Net Debt

5.64 We have assessed both the short-term and long-term trend as favourable. The effectiveness of the Province's hedging strategy has led us to assess this indicator as favourable.

5.65 Exhibit 5.17 shows the Province's risk of exposure to foreign currency fluctuations has been mixed over time. The amount of Net Debt in foreign currency has increased in the last two years. The Province, however, offsets/reduces this risk by having an effective hedging strategy.

5.66 The Province uses several alternatives to reduce (hedge) risk associated with debt repayable in foreign currencies:

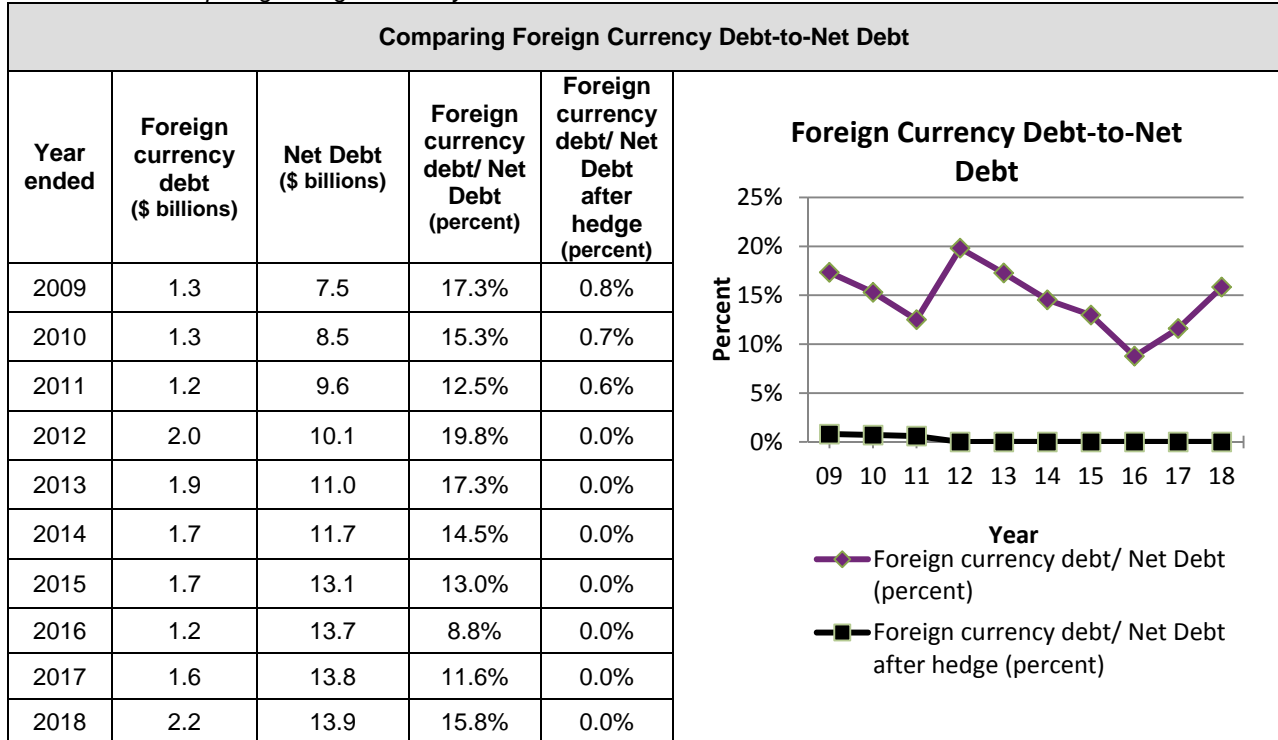
- entering into swap agreements which allows repayment of the debt and interest payments in Canadian dollars; and
- entering into forward contracts (which allows the Province to purchase foreign currency at a stipulated price on a specified future date).

How to read exhibit

5.67 Exhibit 5.17 presents two percentages. The percentage after the hedge is the key percentage to analyze. If this percentage increases, then the Province is more at risk when exchange rates fluctuate which indicates a negative trend.

5.68 We present the foreign currency debt-to-net debt vulnerability indicator in Exhibit 5.17.

Exhibit 5.17 - Comparing Foreign Currency Debt-to-Net Debt



Source: Based on applicable years Public Accounts data with restatements where identified in Public Accounts.

Glossary

Findings by Entity

Department/Crown Agency	2018 Report References		
	Volume	Chapter	Page(s)
Aboriginal Affairs Secretariat	Volume 1	Chapter 5	148
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