

NEW BRUNSWICK BUDGET 2013

March 27, 2013

Higher deficits and delayed return to balance

New Brunswick took strong action yesterday to stem the deterioration in its fiscal situation. New Brunswick Finance Minister Blaine Higgs, in Budget 2013, yesterday announced increases in personal and corporate taxes to counteract the effect of a soft economy on its revenues. Minister Higgs confirmed, that slow economic growth in the province is hampering his government's efforts to date to balance the New Brunswick budget by 2014/2015 as promised last year. Despite new measures introduced Budget 2013, however, his updated three-year plan – which runs to 2015/2016 – now disappointingly shows deficits (albeit diminishing) throughout. For the 2013/2014 fiscal year, Minister Higgs projects a budget shortfall of \$479 million, including a \$110 million one-time charge related to proposed changes to public service pensions. Subsequent deficits are projected to be \$271 million and \$102 million in 2014/2015 and 2015/2016, respectively.

The 2012/2013 deficit is now estimated at \$411 million or more than double the \$183 million deficit projected in last year's budget.

Lower revenue path

The weaker fiscal results than previously expected reflect to a large degree a lower path for government revenues. This path began in 2012/2013 when revenues undershot earlier projections by nearly \$200 million and the government faced similar-sized misses in this and subsequent years if no measures were taken. The revenue outlook deteriorated amid significantly slower economic growth assumed in Budget 2013. Minister Higgs now believes New Brunswick's real GDP grew by 0.7% in 2012 and assumes that it will grow by just 0.5% in 2013 – both rates representing substantial downward revisions from the 1.3% and 2.1% used in last year's budget for 2012 and 2013, respectively.

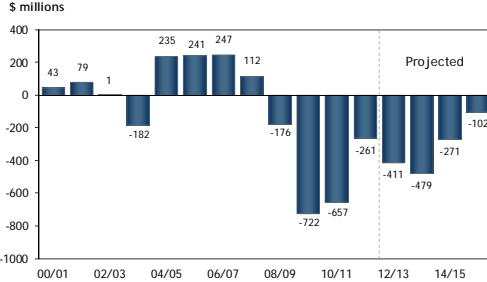
Expenses going up in 2013/2014

Larger deficits throughout the fiscal plan also reflect a higher expenditure path. Spending in 2012/2013 is now expected to come in \$32 million (0.4%) higher than projected in Budget 2012 (although this resulted entirely from a \$53 million actuarial change following the adoption of new mortality tables). Excluding the one-time \$110 million pension charge, total expenditures are projected to increase by 1.2% in 2013/2014, which is materially higher than the 0.6% decline that was projected for 2013/2014 in last year's budget. The divergence is evidently wider if the pension charge is included – pushing expense growth up to 2.5%. Expenditure saving measures totaling \$230 million during the fiscal plan were announced in yesterday's budget; however, their effect will only be felt starting in 2014/2015 when expenditure growth is projected to decelerate to a rate of 0.8%.

Revenue-boosting measures introduced

To mitigate the loss in revenue from a weaker economy, the New Brunswick government announced a number of revenue-boosting measures. Chief among them will be an increase in the personal income tax rates on July 1, 2013 – rolling them back to the levels that prevailed in 2006. This measure will bring in \$136 million in additional revenue in 2013/2014 and \$198 million in 2014/2015. Effective tonight, the government will raise the tax on tobacco products (generating \$15 million in 2013/2014). The government will also raise the general corporate income tax rates rate from 10% to 12%, effective July 1, 2013.

New Brunswick budget balance



Source: New Brunswick Ministry of Finance, RBC Economics Research

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This measure will generate \$17 million in 2013/2014 and \$22 million in 2014/2015. In his speech, the minister indicated that his government will announce “several changes to the province’s natural resource royalty structure” later this legislative session so that “natural resource revenue potential is returning maximum benefits to all New Brunswickers”.

The 2013 budget projects total revenues to rise by 1.8% to \$8.0 billion in 2013/2014, and then by 2.1% to \$8.2 billion and 3.0% to \$8.4 billion in the following two fiscal years.

Looking for efficiency gains

On the expenses side of the ledger, Minister Higgs reiterated his government’s commitment to find efficiencies in the public service that will generate savings. The government will continue on its three-year plan to reduce the size of the public service (saving \$86 million), it will phase out the retirement allowance for public servants (lump sums paid, over and above retirement benefits, based on years of service, representing \$52 million annually), set up an attendance management program with the aim of cutting sick-leave usage by 20% (\$20 million) and implement a host of other measures to contain the costs of running departments and providing services. Overall, Minister Higgs estimated the savings of the new measures announced in Budget 2013 at \$230 million for the entire fiscal plan.

The government is also looking to minimize its public service pension liabilities by converting the Public Service Superannuation pension plan to a shared risk pension model. This conversion, as mentioned above, will entail a one-time \$110 million charge in 2013/2014.

Despite a strong focus on generating efficiencies in the public service, total expenses will rise by \$206 million in 2013/2014 or \$96 million if we exclude the \$110 million pension plan conversion charge. Minister Higgs indicated that \$70 million of this increase represented new investments in areas such as innovation, an energy institute, mental health, early childhood development and social assistance reform. Among the major departments, health will see a \$15.6 million (0.6%) increase in ‘ordinary account’ spending in 2013/2014, social development \$16.8 million (1.6%) and education and early childhood development \$1.5 million (0.1%).

Net debt rising

The \$479 million projected deficit in 2013/2014 and a net increase of \$116 million in capital acquisition by the province will cause New Brunswick’s net debt to rise by \$594 million (or 5.4%) to \$11.6 billion by March 31, 2014. As a percentage of GDP, net debt will climb from 33.3% at March 31, 2013, to 34.2% at March 31, 2014.

Discussion – pragmatic but still somewhat disappointing

The budget presented yesterday by Finance Minister Higgs was built on a pragmatic assessment of New Brunswick’s (tough) fiscal situation and looked for longer term solutions rather than quick fixes. While we are somewhat disappointed that the fiscal plan comes short of balancing the books by 2015/2016 and the need to raise both personal and corporate income taxes, we believe that this budget lays the foundations to restore provincial finances over the medium term. There is a lot of hard work ahead on the expenditure side, with savings to be found in the way government operates and services are provided. On the revenue side, however, there may be some pleasant surprises ahead if our forecast for growth in the provincial economy proves right. We forecast New Brunswick’s real GDP to grow at 1.1% this year and 1.8% in 2014, both rates stronger than the 0.5% and 1.4%, respectively, assumed by Minister Higgs.

New Brunswick fiscal plan

\$ millions	Actual	Estimate	Revised	Estimate	Estimate	Estimate
	<u>2011-12</u>	<u>2012-13</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>
Revenue	7,789	8,051	7,855	7,994	8,158	8,402
Expense	8,050	8,234	8,266	8,473	8,429	8,504
Surplus/ (deficit)	-261	-183	-411	-479	-271	-102

Source: New Brunswick Ministry of Finance, RBC Economics Research

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