

2004-2005 CAPITAL ESTIMATES

Province of New Brunswick

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MINISTER OF FINANCE

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Capital Budget 2004-2005

Mr. Speaker, it is my honour and privilege to stand in the House today to present the Capital Budget for 2004-05. In addition to the capital budget, I will take this opportunity to provide an economic update and to outline the fiscal challenges we face as we move forward. I will also table a document entitled *Accounting for Tangible Capital Assets*.

Mr. Speaker, building infrastructure is a key building block in the *Prosperity Plan*. In that plan, we stated that we will focus on building strategic infrastructure. Our objective is to improve competitiveness, facilitate the movement of people, goods and services to national and international markets, and provide public services essential to our quality of life.

Through today's 2004-05 Capital Budget, we will make smart investments to strengthen our competitiveness, enhance public health and safety, and improve the quality of life for New Brunswickers. Our objective remains: we will maintain what we have and build what we need.

The Economy

I would like to begin by reviewing developments affecting the economy.

Global economic conditions have improved somewhat since the summer. The European and Japanese economies have reported better performances in the latter half of the year. The recovery in the United States is gathering steam.

The Canadian economy has been beset by the SARS outbreak, the threat of mad-cow disease, forest fires in British Columbia, the August power blackout in Ontario, Hurricane Juan, trade disputes with the United States, and the dramatic increase in the value of our currency versus the American dollar. The result is weaker economic performance than anticipated for Canada.

Mr. Speaker, these conditions impact all areas, including New Brunswick. In his recent economic and fiscal statement, the former federal finance minister said that private sector economists have lowered their estimate for real Gross Domestic Product (GDP) growth in Canada for 2003 to 1.9%. This is down from the 2.2% expected in June and well below the 3.2% indicated in the February 2003 federal budget.

These economists warn that rapid appreciation of our dollar represents a significant downside to the Canadian economic outlook. The governor of the Bank of Canada concurred in a recent speech.

Mr. Speaker, the Province has no control over the dollar, but it is impacting our exporters in the primary and manufacturing sectors. In relation to GDP, New Brunswick's trade ranks first among the provinces.

The current private sector consensus for real GDP growth in New Brunswick this year is 2.1%, slightly above the growth anticipated in the national economy. In an August update to this House, I signalled growth of 2.0% for New Brunswick. Our projection was – and still is – prudent.

In November 2003, 384,600 New Brunswickers were employed. This was 4,700 more than the previous month. This increase in employment resulted in a decrease in the unemployment rate to 10.2 per cent in November.

In fact, our November statistics led the country with a 0.6 per cent decrease in the unemployment rate, as compared to October. Mr. Speaker, there are now 22,200 more New Brunswickers working than there were in June 1999, when we first took office.

For 2004, the private sector consensus for New Brunswick is for real GDP growth of 2.7%. The Atlantic Provinces Economic Council recently stated in its Outlook 2004 report: *“New Brunswick should see a recovery from GDP growth of about 2% this year to about 2.7% in 2004 led by stronger consumer spending. Firmer commodity prices and rising demand from the US should help the resource industries but the high Canadian dollar will dampen growth.”*

These projections are consistent with our expectation of growth in the 2.5% to 3.0% range in 2004.

The Department of Finance will continue to monitor economic and financial developments in the global economy and at home, Mr. Speaker, and will continue to assess their implications on New Brunswick.

2002-03 Fiscal Results

I would now like to discuss the Province’s fiscal situation, beginning with 2002-03 in which we recorded a \$1 million surplus for fiscal policy purposes.

Mr. Speaker, it was not easy to deliver that surplus. The government faced many fiscal challenges during 2002-03, many of which were outside our direct control. NB Power reported a net loss of \$77.4 million for the year. Weaker-than-anticipated market returns had an adverse effect on the pension expense, which was \$28.8 million higher than budget.

In October 2003, federal transfer payments were reduced to reflect a \$74 million impact due to lower population numbers contained in the Census. This negative impact was partially offset by improvements in other areas of the program. This resulted in a net revenue loss to New Brunswick of \$33.8 million for 2002-03.

Expenditures were managed tightly during the year and came in \$20.6 million below budget, despite increases in health spending and education spending.

Mr. Speaker, a drawdown of \$110.4 million was made from the Fiscal Stabilization Fund in 2002-03 to provide for essential public services during a difficult year.

If we had spent this money – as the Opposition said we should - rather than having banked it for a rainy day, we could have been looking at cuts to programs and services in 2002-03 rather than a third consecutive surplus for fiscal policy purposes.

For the purposes of the balanced budget legislation, the government has achieved a cumulative surplus of \$181.1 million over the first three years of the current four-year balanced budget cycle, which extends from 2000-01 to 2003-04.

This result has been achieved at the same time as record investments in health care and education as well as significant income tax reductions. It reflects our commitment to investing in the priorities of New Brunswickers.

2003-04 Fiscal Update

Mr. Speaker, I would now like to shift the focus to 2003-04, the current fiscal year.

At budget, we projected a modest surplus of \$7.5 million. However, as I said, the economy has weakened and we have been faced with significant fiscal challenges.

By early summer, we recognized that spending was growing out of line with revenues. We took a prudent, proactive step to control expenditures by implementing a one-time reduction to selected programs in government departments.

While most departments will spend less than their 2003-04 budgets, increased investments in health care and higher pension expense, related to weaker-than-anticipated market performance in 2002, will result in an increase in overall spending.

To help stabilize the Province's finances and ensure the provision of essential public services, we plan to transfer the remainder of the Fiscal Stabilization Fund in 2003-04.

Mr. Speaker, our goal is to balance the books for 2003-04 but it will be very difficult. Nevertheless, with continued fiscal discipline and prudence, we intend to meet the objectives of the balanced budget legislation over the four-year cycle ending March 31, 2004.

Looking Ahead

I would now like to provide some context on the challenges we are facing in the upcoming fiscal year, 2004-05.

What are some of the challenges, Mr. Speaker?

- Health care pressures are driving our spending up – costs are continually growing in the Prescription Drug Program, Medicare and Hospital Services;
- Government is facing a heavy collective bargaining calendar at a time when we need fiscal discipline and prudence;
- Census-related adjustments to federal transfers have reduced our transfer payments with implications now and in the future;
- Developments in the Canadian economy – such as SARS, the power blackout and a downturn in travel - are constraining Equalization entitlements;
- NB Power has experienced some difficulties in the past few years, and we continue to monitor developments on that front;
- The lack of sustainable and predictable health care funding from the federal government, combined with an Equalization formula that is insufficient, creates an added challenge.

Taken at face value, these challenges are obviously significant. But they are comparable to challenges faced by the other provinces. The decisions that we face are not easy, but they are necessary.

Mr. Speaker, we will overcome these challenges. We will maintain a balanced approach of strong financial discipline in our budgets, which has allowed us to focus new investments on the most important priorities of New Brunswickers; health care, education and jobs.

We will continue to balance the Province's books by living within our means, ensuring efficiencies and savings in government operations and finding new, innovative ways of delivering services.

Critical to this process is the work of the Resource Maximization Committee. This cabinet committee has a mandate to evaluate 600 government programs and services to determine if they meet government objectives and provide the greatest value to taxpayers.

This is not a one-time exercise for one budget - it will provide a framework for new service delivery innovation. We will take further decisions to confront and conquer the overall fiscal challenges that we are facing. Our goal is clear. We will have balanced books over the course of our mandate.

Capital Budget 2004-05

Mr. Speaker, I will now turn to the highlights of the 2004-05 capital estimates.

In the *Prosperity Plan* and in our election platform, our government stated clearly that it will continue to invest in building strategic infrastructure to make our province and communities more economically competitive and to help New Brunswickers reach higher and go further.

We believe that strong communities with modern infrastructure and facilities will help generate even more job-creating investment. It will also make our communities an even better place to live.

That is what today's capital budget will deliver, Mr. Speaker. Furthermore, our infrastructure choices are strategic and focused. The priorities for capital spending encompass health care, education, transportation, municipal infrastructure, and the safety and security of New Brunswickers.

We are not simply assigning dollars to a shopping list of projects. Our objective remains: we will maintain what we have and build what we need.

As I have stated, we will build strategic infrastructure that improves our competitiveness. We will build infrastructure that facilitates the movement of people, goods and services to national and international markets. We will also build strategic infrastructure that ensures quality public services, essential to our quality of life.

Mr. Speaker, I am pleased to inform the House that the gross capital budget for 2004-05 is \$375.8 million. The capital budget is 26.0 per cent higher than last year's revised budget.

This amount is a deliberate and strategic choice with a sharp focus on priorities – not only the priorities of the government, but also the priorities of all New Brunswickers.

The capital budget for the Department of Health and Wellness is \$53.7 million, a 46.2 per cent increase over 2003-04 revised figures. It includes increased investment in hospital equipment along with strategic investments in new and existing health care infrastructure.

The Department of Education's capital budget is \$46.0 million, a 31.4 per cent increase over 2003-04 revised figures. As a former teacher, it is an honour for me to announce that the capital budget also provides for the first year of a new, four-year, \$100-million commitment to the Healthy Schools program.

Today's capital budget also invests in strategic transportation infrastructure. Our goal is to provide safer, more efficient highways and to allow New Brunswick to become more competitive in moving goods to global markets.

The capital budget for highway infrastructure is \$241.8 million, a 23.3 per cent increase over 2003-04 revised figures.

Mr. Speaker, individual ministers will elaborate on their projects but I can give some highlights, grouping them under our key priorities.

Priority – Health Care

Mr. Speaker, health care continues to be a top priority for New Brunswickers and for our government. I am proud to report that our capital investment includes:

- \$25.0 million for hospital equipment, including \$11.3 million for diagnostic medical equipment
- \$12.1 million for the ongoing construction of the Stan Cassidy Rehabilitation Centre in Fredericton
- \$5.5 million for the establishment of Community Health Centres under the Primary Health Care Transition Fund
- \$4.4 million for various capital improvements and renovations to existing hospitals
- \$3.0 million to begin the planning for a new hospital in the Upper St. John River Valley
- \$2.0 million for the new Ambulatory Care and Laboratory Services building at The Moncton Hospital.

Priority – Education

Mr. Speaker, this government believes in a quality learning environment for students and teachers. The Minister of Education will outline many projects comprising the \$46.0 million in new construction and improvements to our existing K to 12 schools.

Our capital investment in education facilities will also include:

- \$2.0 million for repairs and renovations to the community college network, a commitment that we have renewed in each capital budget since 2001-02.

Priority – Transportation Infrastructure

Mr. Speaker, investments in our roads and highways improve the safety of motorists, bring tourists to our province and increase the level of trade with our neighbours.

We will invest \$45.8 million more on roads and highways in 2004-05 than in 2003-04. Our capital investment in transportation will include:

- \$135.0 million to upgrade and rehabilitate our existing network of highways, bridges and ferries; this includes \$18.0 million for Routes 11 and 17, of which \$15.7 million is for construction and \$2.3 million is for planning and pre-construction activities
- \$101.8 million for the Trans-Canada Highway, of which \$78.1 million is for twinning the highway and \$23.7 million is for major projects on the highway under two programs: the Highway Improvement Program and the Strategic Highway Infrastructure Program
- \$5.0 million as an initial investment to improve border crossings at St. Stephen and Woodstock.

Priority – Municipal Infrastructure

Mr. Speaker, we have placed a strategic focus on infrastructure for municipalities and rural communities. Our capital investment includes:

- \$14.5 million in 2004-05 under the \$163 million Canada – New Brunswick Infrastructure Program to improve “green municipal infrastructure,” which ensures safe drinking water and more effective waste management systems
- \$500,000 under the Clean Water Control Grant program to help defray costs related to water and wastewater projects in municipalities
- \$500,000 to help Local Service Districts purchase emergency equipment and maintain fire halls and recreation facilities.

Priority – Safety and Security

Mr. Speaker, our government’s investment will contribute to the safety and security of the public who use our public buildings and other public infrastructure. We take our responsibility seriously, which is why we are making the following capital investments in 2004-05:

- \$7.0 million for school buses and other government equipment
- \$3.0 million for capital repairs to improve the health and safety of government buildings
- \$1.6 million to rehabilitate earthen dams in the Musquash watershed
- \$300,000 for the replacement and maintenance of aboiteaux to help prevent flooding of farmlands and highways.

Conclusion

Mr. Speaker, the capital investments that I have outlined today clearly show that the government is committed to doing what needs to be done for New Brunswick infrastructure – in health, education, transportation and other fields.

We have made choices and set priorities. We have targeted our financial resources, being careful and fiscally responsible. We are maintaining what we have and building what we need.

We are strengthening our competitiveness, enhancing public health and safety, and improving the quality of life of New Brunswickers.

We are enthusiastically doing what needs to be done. We are not only doing the right thing, but we are also being accountable at the same time.

This brings me to one last point, Mr. Speaker.

Tangible Capital Asset Accounting

I would like to inform the House that the Province is moving toward a major change in its accounting procedures that will enhance accountability to taxpayers.

In making the change, the government is following the recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. Five provincial jurisdictions and the federal government have already done so, and the remaining jurisdictions are doing the same.

New Brunswick Auditor General Daryl C. Wilson is the current chair of PSAB. In that role, he has been quoted as saying: *“This new model allows us to look at a government’s debt and the sources and uses of its cash in addition to its annual results. This will serve to enhance government accountability to taxpayers.”*

The change relates to how the Province will report on tangible capital assets in its financial statements. Tangible capital assets include government-owned buildings such as schools and hospitals, roads, bridges, ferries, vehicles, and large pieces of equipment and machinery that are used to deliver services to the public for many years.

Tangible capital assets are now expensed in the year of acquisition. The accounting change will result in an asset, such as a building, being amortized over its estimated useful life.

Mr. Speaker, the change means that the public will see more relevant, appropriate and timely information about the government’s tangible capital assets. I am tabling a document today, entitled *Accounting for Tangible Capital Assets*. I hope it will assist the public in understanding the scope and impact of the change required by the accounting standard-setter.

The Office of the Comptroller and the Department of Finance are preparing now, and everything will be ready in time for the spring budget.

It will be my honour to return to this chamber at that time to outline the 2004-05 Main Estimates for the Province. In the meantime, it is a pleasure to present a capital budget that will help New Brunswickers reach higher and go further.

Finally, I tip my hat to the road builders, trades people, suppliers and other workers who will soon roll up their sleeves and get these capital investment jobs done in a cost-effective way for the benefit of all New Brunswickers.

Thank you, Mr. Speaker.