

Fiscal Overview 2008

Costs continue to rise while revenues remain flat. The province must plan carefully to address budget pressures and needs, while allocating funds to stimulate the economy.

Nova Scotia has had one of the country's most stringent debt reduction policies, which has helped the province contain and then reduce the debt over time. However, this places severe limitations on the province's capacity to fund infrastructure.

The federal budget has created some added pressures for Nova Scotia's budget. Federal funds earmarked for infrastructure projects must be cost-shared and some federal tax measures will have the effect of reducing provincial revenues.

The current economic climate presents fiscal challenges for the province: how best to stimulate the economy while maintaining fiscal prudence?

It is important not to harm the economy or negate stimulus efforts. Reductions in government spending for operations or programs can have the effect of countering stimulus spending on capital projects.

However, government must also adjust spending levels to meet longer term projections for the revenue base, while protecting core programs for citizens.

Government is now considering where, when and how to focus its efforts to achieve the best economic supports to stimulate the economy. These may reside in capital spending, program spending, or tax measures.

All of these measures are likely to have an impact on the province's surplus or debt.

The Economy

Nova Scotia's economic growth is expected to slow in 2009-2010 in the midst of the global recession and credit crisis.

Consumer confidence is flagging as Nova Scotians react to the declining value of their personal investments and fewer personal employment opportunities. Consumer spending is forecast to fall from an average growth rate of 4.6 per cent over the last three years.

Availability of credit plays a major role in consumer spending, and may affect consumer purchases of big ticket items like housing and automobiles. Residential investments are also anticipated to slow after several years of healthy growth.

Most of Nova Scotia exports go to the United States, so markets are likely to be soft well into 2010, tied to the recovery of the US economy.

These negative economic factors may put pressure on business profits, resulting in reduced business confidence and spending. Some major business investments in Nova Scotia have already been delayed.

Employment growth is also likely to slow, due to the economic downturn plus long term demographics.

However, Nova Scotia's economy may benefit from the fiscal stimulus measures announced in the Government of Canada's budget of Jan. 27.



Finance

Crown copyright © 2010, Province of Nova Scotia, all rights reserved.

Economists do not yet know how long and deep the United States recession will be. Some say there will be a gradual recovery starting in mid-2009, while others predict 2010 or even longer.

It will also take a considerable period of time to restore the world credit system and financial markets. Central banks including the Bank of Canada have been injecting liquidity into the markets to improve access to credit in a very tight market.

Governments around the world have adopted some aggressive fiscal policies to address the economic crisis. The Government of Canada is looking at a mixed approach with tax incentives and infrastructure spending with possible program spending cuts. The US government also has a varied stimulus package. However, Canadian exports would be affected if the United States government adopts a protectionist approach.

Consumer debt has been increasing since 2003. Nova Scotians have been spending around 102 per cent of their incomes. In the current economic climate, consumers may be inclined to reduce debt and spending – which may offset efforts to stimulate the economy.

Limited access to credit over time could also reduce the confidence of small and medium businesses owners, and increase the risk of bankruptcy. Easing credit could cause consumers and business to assume more debt.

Deflation is also a possibility given falling commodity and consumer prices. Consumers delay spending, which will cause lower tax revenues and a longer recovery period.

Revenues

Since 1998-1999, Nova Scotia's annual revenues have been increasing an average of 5.2 per cent, with provincial sources growing on average 5.5 per cent and federal sources 4.8 per cent.

In 2008-2009, Nova Scotia's total provincial revenue sources accounted for 64.4 per cent of total revenue at \$5.465 billion. Federal revenue sources accounted for the remaining 35.6 per cent at \$3.015 billion.

Growth in revenues started to level off in the end of 2008, reflecting the downturn in the economy. These numbers were reflected in the December, 2008, budget forecast update.

As of the December 19, 2008 budget forecast, Nova Scotia is forecasting total revenues of \$8.481 billion for 2008-2009, including net income from Government Business Entities (GBEs).

Income taxes are the main provincial source of revenue, totalling \$2.171 billion – with \$1.784 billion in personal and \$386 million corporate income taxes

Harmonized Sales Tax revenues are forecast at \$1.156 billion and Motive Fuel Taxes, \$247.6 million. Petroleum Royalties are expected to generate \$500.8 million.

Revenues generated by GBEs such as the Nova Scotia Liquor Corporation are forecast at \$360.9 million and revenues from other provincial sources are \$1.028 billion.

Revenue from federal sources makes up 35.6 per cent of Nova Scotia's budget in 2008-2009. These include:

- Equalization: \$1.465 billion



Finance

Crown copyright © 2010, Province of Nova Scotia, all rights reserved.

- Canada Health Transfer: \$668.7 million
- Canada Social Transfer: \$297.1 million
- Crown Share: \$95.1million
- Other federal sources = \$489.8million

Revenue Challenges

Nova Scotia's revenues are expected to soften considerably in the coming months due to the downturn in the economy.

Many revenue categories will either flatten or decline and there are no extra revenues expected from other sources.

Slower growth in taxable income combined with unemployment and decreased consumer confidence will cause downward pressure on revenues from personal and corporate income taxes and the Harmonized Sales Tax.

World prices for natural gas and oil declined steeply in 2008 and are forecast to remain low for quite some time. Combined with lower production volumes, this will have a significant negative impact on offshore royalty revenue.

Finally, revenues will be affected by the phasing out of the Large Corporations Tax.

The Province of Nova Scotia does not anticipate significant increases in revenues from federal sources in the coming years.

The Government of Canada amended the Equalization program again in the fall of 2008, reducing the overall amount available to receiving provinces. Nova Scotia's equalization entitlement for 2009-2010 will stay the same as the previous year.

Transfers for health and social programs are also expected to grow at a rate that is much slower than rising costs.

Provinces will see the end of several federal trusts created in bill c-48. The federal government is also phasing out the Wait Times Reduction Fund. Nova Scotia has received additional funds from the Crown Share this year and last, but this payment is expected to be somewhat less in the coming year.

Expenses

Nova Scotia's total gross expenses have grown from \$5.32 billion in 1998-1999 to \$8.32 billion in 2008-2009, an average annual increase of 4.7 per cent.

Total departmental expenses have grown from \$4.41 to \$7.35 billion, an annual average increase of 5.4 per cent. Health care continues to be the largest expense for Nova Scotia at \$3.193 billion in 2008-2009 with an average annual growth of 6.6 per cent.

This is followed by Education at \$1.491 billion with an average annual growth of approximately 3 per cent, and Community Services at \$908 million with an average annual growth of 4.1 per cent.

Other departments have grown in total from \$998 million in 1998-1999 to 1.757 billion in 2008-2009, representing an average annual increase of approximately 7.3 per cent.



Finance

Crown copyright © 2010, Province of Nova Scotia, all rights reserved.

Total gross debt servicing costs were \$909 million in 1998-99 and are \$886 million today - a reduction of \$23 million.

Total 2008-2009 expenses for the Province of Nova Scotia are forecast to be \$8.317 billion, as of the December 2008 budget forecast update.

Departmental expenses make up 88.4 per cent of the total, at \$7.349 billion. These include:

- \$3.193 billion for Health, 38.4 per cent of total expenses
- \$1.491 billion for Education and Universities, 17.9 per cent
- \$908.5 million for Community Services, 10.9 per cent
- \$1.757 billion for all other departments, or 21.1 per cent

Debt servicing costs are forecast to be \$886.4 million, or 10.7 per cent of expenses.

The Pension Valuation Adjustment (PVA) is forecast to be \$81.3 million, or 1.0 per cent.

Expense Challenges

The Province of Nova Scotia's expenses will increase in 2009-2010 as the cost of delivering programs and services goes up – particularly in large areas such as health and education.

Commitments for salaries and wages account for some 50 per cent of total spending, and increases are part of negotiated collective agreements. A 1 per cent increase in wages results in approximately \$40 million in additional expenses.

Expenses for Health and Education amount to \$4.7 billion or 56 per cent of total government spending. Demand for more health services – combined with an aging population – is contributing to rising costs. And even though the overall student population is declining, educational facilities must be maintained and students taught.

Government will also face additional costs to address economic problems. A stimulus package will be included in the budget, and government is anticipating higher expenses for social programs, business supports, education and workplace training, and pension costs for 2009-2010.



Finance