

Nova Scotia: 2019–20 Budget

SUMMARY

- As anticipated, the Province of Nova Scotia's budget for fiscal year 2019–20 (*Budget*; FY20) projects balanced books through FY23 (chart 1, p.2).
- A sizeable accounting adjustment is forecast to pad provincial coffers in FY20. The windfall will be largely directed to health and education spending plus previously announced business taxation measures.
- Outer-year borrowing requirements and net debt levels are expected to be modestly higher than *Budget 2018–19* projections, but the Province's net debt-to-GDP ratio remains on a downward trajectory.

ECONOMIC CONDITIONS

Nova Scotia's immediate near-term economic outlook was largely unchanged from prior projections. Real GDP is forecast to expand by 0.9% in 2018, in line with estimates as of the *2018–19 December Forecast Update*. Given Nova Scotia's diversified trade profile, the Province noted the escalation of Sino-US trade tensions and fallout from the UK's exit from the EU as key downside risks to the forecast. However, it continued to highlight the opportunities presented by the greater access to Asian export markets beyond China presented by signing of the Comprehensive and Progressive Trans-Pacific Partnership trade agreement.

A more substantial forecast revision came in calendar years 2020 and 2021. Accelerated economic growth via construction of combat vessels at the Halifax Shipyard is now expected to materialize after 2020. The current fiscal plan builds upon 0.9% output gains next year instead of the 1.5% gain anticipated in *Budget 2018–19*. Major project activity is then forecast to contribute to real economic growth of 1.6% in 2021 and 1.2% in 2022.

POLICY MEASURES

Tax policy detailed in *Budget* largely consisted of measures already implemented. Individuals who receive enhanced tax credits for the Basic Personal Amount, Spousal Amount, Eligible Dependant Amount, and Age Amount are expected to see tax savings of over \$150¹ in the 2019 tax year. The Innovation Equity Tax Credit (IETC) that incents investment in innovative firms took effect January 17, 2019 and will replace the existing Equity Tax Credit (ETC) as of December 31st. For the IETC, the investment limit is \$250,000—five times that of the ETC—rebates apply to a wider range of equity instruments, and a higher credit rate of 45% (versus a 35% ETC rate) can be claimed on ocean technology and life sciences outlays. A new credit for venture capital investment will take effect April 1st, 2019.

Following in the footsteps of multiple Provinces and the Federal Government, Nova Scotia will allot \$60 mn to accelerate the pace at which firms can deduct capital outlays. The Government anticipates that the move will help Nova Scotia

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	FY19		FY20	
	Bud. '18	Q2 '19	Bud. '19	Bud. '19
Personal Income Tax (PIT)	2,816	2,706	2,688	2,811
Corporate Income Tax (CIT)	531	622	644	605
Harmonized Sales Tax (HST)	1,858	1,860	1,849	1,896
Other Taxes	663	653	648	660
Total Tax Revenues	5,868	5,840	5,829	5,971
Prior Years' Adjustments	0	-19	-26	--*
Royalties - Petroleum	6	6	6	--**
Other Own-Source Revenue	619	696	696	696
Total Own-Source Revenue*	6,493	6,523	6,506	6,507
Gov. Bus. Enterprises - Net Income	381	386	385	389
Ordinary Recoveries	656	655	679	659
Federal Transfers*	3,281	3,299	3,289	3,456
Total Revenue	10,810	10,862	10,859	11,010
Program Spending	9,969	10,044	10,043	10,288
Debt Service	894	876	863	856
Total Expenditure	10,863	10,921	10,906	11,144
Consolidation & Adjustments	82	86	76	167
Provincial Balance	29	27	28	34
Term Debt Borrowing Req.	1,363	--**	1,315	1,503
of which: Debt Maturities	1,261	--**	1,261	2,073
Net Debt	15,171	--**	15,069	15,276
Memo Items, %				
Tax Revenue / GDP	13.3	13.3	13.2	13.2
Program Spending / GDP	22.6	22.8	22.8	22.8
Budget Balance / GDP	0.1	0.1	0.1	0.1
Debt Service / Revenue	8.3	8.1	7.9	7.8
Net Debt / GDP	34.5	--**	34.2	33.8
Annual Change, %				
Total Tax Revenue	1.8	1.3	1.1	2.4
Personal Income Tax (PIT)	1.7	-2.3	-2.9	4.6
Corporate Income Tax (CIT)	-1.5	15.4	19.4	-6.1
Harmonized Sales Tax (HST)	3.0	3.1	2.5	2.5
Total Revenue	-1.5	-1.0	-1.0	1.4
Program Spending	0.1	0.8	0.8	2.4
Total Expenditure	0.6	1.1	1.0	2.2

* Excluding ordinary recoveries. ** Data not available. Source: Nova Scotia Finance; Statistics Canada; nom. GDP forecast: Scotiabank Economics.

¹ Figures reported in Canadian dollars unless otherwise stated.

companies remain competitive with those in the United States after the latter's tax reform package took effect early last year.

Budget also outlined plans in FY20 to raise spending in a number of core areas. On education, it will deliver \$56 mn to alleviate regulated childcare sector costs, and \$20 mn to fund smaller class sizes. Alongside a range of supports for youth training and workforce integration, the Government will offer \$10.2 mn beyond that already allocated for pre-primary classes, and expects every four-year-old to have access to free pre-primary programming by September 2020. New funding will also be provided to bolster immigrant attraction. For health care, the Province will provide an additional \$28.5 mn for home care support and mental health and addictions treatment, \$10 mn to improve physician and primary care access, and \$8.4 mn for pharmacare program demands relative to FY19.

Further to the Province's health care priorities, outlays under the 2019–20 Capital Plan—which was released in early March—are forecast to rise more than 10% higher than FY19. Funding of \$156.9 mn is earmarked for health care redevelopment ventures (chart 2), which include ongoing work on the QEII hospital complex and the CBRM project. Projected FY20 spending represents the largest total since FY13.

REVENUE AND EXPENDITURE DETAILS

New initiatives and changes to the economic outlook appear to have modestly shifted Nova Scotia's revenue trajectory. Total revenues are forecast to climb by 1.4% in FY20 and by 1.9% in FY21, which compare to respective estimates of 0.4% and 3.8% as of last year's plan. The stronger gains expected in FY20 reflect expansion off of a weaker base—recall that the FY19 mid-year fiscal update revealed softer-than-anticipated personal income tax receipts following revised tax return data and prior years' adjustments. Expanded personal income tax credits are projected to lower receipts by \$85 mn in FY20, with further foregone revenues of \$12 mn via the IETC. Downward revisions to FY21 revenue gains mirror the softer economic growth profile for calendar year 2020. Outer-year revenue estimates are in line with those in last year's budget.

Expenditure estimates were similarly re-profiled. Total spending is expected to advance 2.2% in FY20, in stark contrast to the 0.1% pullback planned as of last year. The climb anticipated for next fiscal year includes a 4.4% rise in outlays related to health and wellness and a 2.3% escalation of education spending. A tepid 0.4% rise in total expenditures is penciled in for FY21, far lower than the 3.6% forecast in *Budget 2018–19*. Projected spending increases beyond FY21 are largely unchanged from last year.

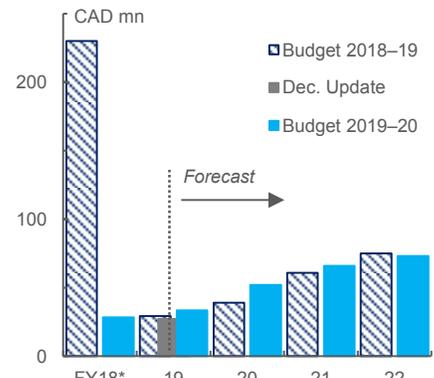
The bulk of new spending room will be sourced from a consolidation adjustment to the Province's General Revenue Fund, which comprises departments and public service units of the Nova Scotia Government. In FY20, accounting and consolidation changes are expected to lift the bottom line by \$167.2 mn, far more than the \$28.9 mn foreseen as of *Budget 2018–19*.

DEBT AND BORROWING

Provincial borrowing activity is expected to mirror spending plans and the projected balances. Nova Scotia completed some \$1.3 bn in term debt borrowing in FY19, roughly in line with last year's fiscal plan. Term debt requirements are forecast to peak at \$1.5 bn next fiscal year, with the increase over FY19 primarily attributable to a higher level of debt maturities. The \$1.5 bn figure for FY20 is some \$200 mn lower than

Chart 1

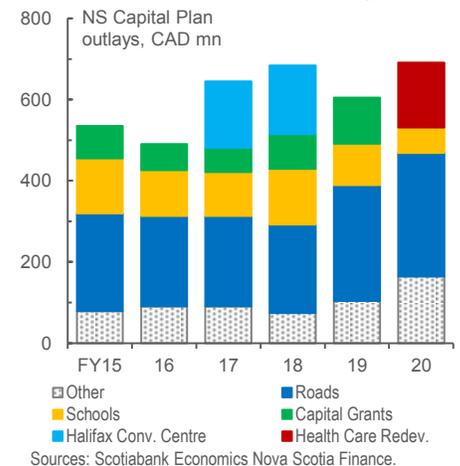
Nova Scotia's Budget Balance



* Final result. Sources: Scotiabank Economics, Nova Scotia Finance.

Chart 2

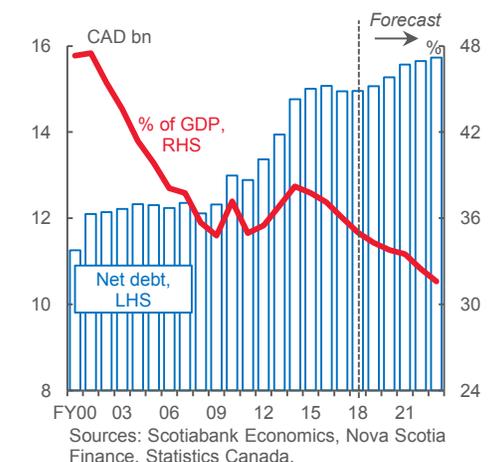
Stepped-Up Capital Spending Plans



Sources: Scotiabank Economics Nova Scotia Finance.

Chart 3

Nova Scotia's Net Debt



Sources: Scotiabank Economics, Nova Scotia Finance, Statistics Canada.

outlined in last year's budget; the change largely reflects a downward revision to non-budgetary transactions. Total borrowing requirements are anticipated to slow from \$1.4 bn in FY21 to \$892 mn by FY23 (top table), but should come in a cumulative \$294 mn higher than the prior projection over FY21–22.

Debt levels are likewise on track to come in slightly higher than previously projected. The Province's net debt is forecast to average \$15.5 bn over FY20–22 versus the *Budget 2018–19* target of \$15.4 bn, with its share of nominal GDP anticipated to fall steadily from 34.3% in FY19 to 31.6% in FY23 (chart 3, p.2). Substantial cumulative sinking fund withdrawals of more than \$2 bn during FY20–23 will be key to the debt reduction trajectory. The Government still expects its net debt-to-GDP ratio to reach 30% by 2024, as recommended in the One Nova Scotia Report on the province's long-term economic development.

OUR TAKE

While Nova Scotia's bottom line will undoubtedly benefit from the unexpectedly large accounting revision, we support the Province's fiscal planning and policy direction. Training programs and efforts to attract newcomers look constructive, alongside targeted health care spending, to boosting the province's long-term potential as it grapples with population aging. Tax incentives for new private-sector investment are also a good use of the surplus, especially as near-term provincial growth eases. The more generous EITC rate for ocean technology- and life science-related outlays look to be a prudent way to provide a lift to a sector in which the province holds a natural advantage and a growing reputation, and may be complemented by public and private support for the industry via the Oceans Supercluster awarded to Atlantic Canada.

The cost side of the ledger relies on material expenditure restraint—notably in FY21—and this will be important if the Province is to sustain its slim surpluses. While the FY21 spending plan is ambitious, the Government has limited spending growth to a comparable rate in a number of recent years. Ultimately, Nova Scotia's fiscal health will require the right balance of expenditure management and targeted, capacity-enhancing investment.

Nova Scotia's Borrowing Requirements					
\$ millions unless otherwise noted					
	FY19	FY20	FY21	FY22	FY23
Provincial Balance	(28)	(34)	(52)	(66)	(73)
Other Cash Operating Req.'s	149	205	248	59	(84)
Cash Operating Req.'s	120	172	196	(7)	(157)
Cash Debt Retirement	1,261	2,073	1,081	1,714	1,731
Net Mandatory Sinking Fund Req.'s	(88)	(764)	67	(467)	(705)
Discretionary Fund Req.'s	22	22	22	23	23
Total Borrowing Requirements	1,315	1,503	1,366	1,263	893

Source: Nova Scotia Finance.

Nova Scotia's Four-Year Fiscal Plan					
\$ millions unless otherwise noted					
	FY19	FY20	FY21	FY22	FY23
Ordinary Revenue	9,795	9,963	10,185	10,522	10,898
Ordinary Recoveries	679	659	641	637	624
GBE Net Income	385	389	396	401	409
Total Revenue	10,859	11,010	11,223	11,560	11,930
Departmental Expenses	9,797	10,102	10,210	10,551	10,969
Refundable Tax Credits	130	134	135	136	137
Pension Valuation Adjustment	116	52	55	59	59
Debt Service Costs	863	856	787	757	701
Total Expenses	10,906	11,144	11,187	11,503	11,866
Consolidation & Accounting Adj.	76	167	16	9	9
Provincial Balance	28.4	33.6	51.9	65.8	73.4
Net Debt	15,069	15,276	15,568	15,652	15,729

Source: Nova Scotia Finance.

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