Budget

2019–20

NOVA SCOTIA

Budget

2019–20

Budget 2019-20
Finance and Treasury Board
March 2019

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Contents

1. Introduction 1

2. Budget Overview 3

3. Four-Year Fiscal Plan 2019–20 to 2022–23 7

4. Report of the Auditor General on the Revenue Estimates 13

5. Budget 2019–20 19

6. Economic Outlook 45

7. Borrowing and Debt Management 61

1. Introduction

Budget 2019–20 continues to deliver on our plan to strengthen the fiscal health of the province, creating a strong foundation upon which government can deliver valuable programs and services to Nova Scotians.

Our investments this year continue to focus on healthcare, education and preparing youth for the workforce, strengthening communities and creating the conditions for economic growth.

Budget 2019–20 is the fourth consecutive balanced budget, with an estimated surplus of $33.6 million, and a further reduction in the Net Debt-to-GDP ratio to 33.8 per cent. The fiscal plan projects balanced budgets in each of the next four years.

As the province moves toward fiscal sustainability and as the economy grows, so does the ability of government to share the benefits with Nova Scotians.

Through investments this year, Budget 2019–20 will:

- train and recruit more doctors
- help connect more people to primary healthcare services in their communities
- improve access to care and reduce healthcare wait times
- support more families with enhanced child care programming and subsidies
- strengthen supports in the classroom and in our post-secondary institutions
- attract and welcome more new Canadians
- give young people more opportunities to prepare and connect to the workforce
- increase income security and housing supports for lower-income Nova Scotians
- fund community projects aimed to improve social well-being
- modernize infrastructure and public services
- invest in new tax credits that will drive private sector investment in our economy
- create the conditions for innovation, export development, and private sector growth

The 2019–20 Capital Plan will invest in vital infrastructure projects, including highway twinning, renovating and constructing new schools, and advancing two of the largest health care redevelopment projects in Nova Scotia's history, in Halifax and Cape Breton.

There are many positive signs that Nova Scotia is moving in the right direction, including a rise in population, with more young people staying and moving here and a record number of new immigrants. We are seeing growth in both employment and the labour force with unemployment hitting the lowest annual average on record. Nova Scotia's exports continue to increase, trade diversification has continued, and data shows positive growth in the number of net new businesses.

These positive signs are evidence that what government is doing to improve the conditions for the private sector to lead, expand and succeed are working. They reflect a private sector that is gaining confidence, taking risks, creating jobs, and helping to move the economy forward.

Along with Nova Scotians, government has worked hard to stay on a path to fiscal sustainability. Careful management of the province's finances, including adapting to changes in both revenue and expenses, provides government with the means to respond to the needs of citizens today while also making important investments that will support a stronger tomorrow.

2. Budget Overview

In fiscal year 2019–20 the Province of Nova Scotia is tabling its fourth consecutive balanced budget with an estimated surplus of $33.6 million (Table 2.1). Demonstrating the government's commitment to fiscal sustainability, the province is projecting balanced budgets for the remainder of the Four-Year Fiscal Plan—seven years of balanced budgets starting in 2016–17.

Table 2.1 Budget Summary – Statement of Operations
($ thousands)

General Revenue Fund	2018-19 Estimate	2018-19 Forecast	2019-20 Estimate
Revenues			
Ordinary Revenue	9,773,351	9,794,978	9,962,736
Ordinary Recoveries	655,546	678,628	658,509
Net Income from Government Business Enterprises	381,255	384,918	389,224
Total Revenues	**10,810,152**	**10,858,524**	**11,010,469**
Expenses			
Departmental Expenses	9,693,362	9,797,101	10,101,784
Refundable Tax Credits	146,883	129,816	134,324
Pension Valuation Adjustment	128,803	116,492	51,837
Debt Servicing Costs	893,573	862,544	856,107
Total Expenses	**10,862,621**	**10,905,953**	**11,144,052**
Consolidation and Accounting Adjustments			
General Revenue Fund Consolidation Adjustments	75,848	73,855	168,457
Special Purpose Funds	(22)	(214)	72
Other Organizations	6,073	2,226	(1,323)
Total Consolidation and Accounting Adjustments	**81,899**	**75,867**	**167,206**
Provincial Surplus (Deficit)	**29,430**	**28,438**	**33,623**

Total Revenues for 2019–20 are projected to be $11.01 billion, an increase of $200.3 million or 1.9 per cent over the 2018–19 estimate. This revenue increase is attributable to a $21.8 million or 0.3 per cent increase in provincial source revenues and a $178.5 million or 5.0 per cent increase in federal source revenues (Table 2.2).

Total Expenses for fiscal year 2019–20 including Consolidation and Accounting Adjustments are budgeted at $10.98 billion, up $196.1 million or 1.8 per cent from 2018–19 estimate. Departmental Expenses are projected to increase by $408.4 million or 4.2 per cent (Table 2.1); however, when factoring in the Consolidation and Accounting Adjustments this increase is decreased to $323.1 million or 3.4 per cent.

Table 2.2 Budget Summary – Highlights

($ thousands)

	2018-19 Estimate	2018-19 Forecast	2019-20 Estimate
Total Revenues	10,810,152	10,858,524	11,010,469
Total Expenses	10,862,621	10,905,953	11,144,052
Consolidation Adjustments	81,899	75,867	167,206
Provincial Surplus (Deficit)	29,430	28,438	33,623
Provincial Revenue Sources			
Personal Income Tax	2,816,066	2,687,547	2,811,289
Corporate Income Tax	531,267	643,787	604,741
Harmonized Sales Tax	1,858,125	1,849,022	1,895,909
Cannabis Tax	10,400	3,371	7,814
Motive Fuel Tax	272,440	270,503	276,942
Tobacco Tax	214,118	206,066	205,432
Other Tax Revenue	165,961	168,497	169,329
Registry of Motor Vehicles	131,966	135,216	136,076
Royalties - Petroleum	5,954	5,920	---
Other Provincial Sources	229,303	291,966	151,981
TCA Cost Shared Revenue	2,249	3,418	2,439
Other Fees and Charges	61,793	61,296	63,170
Gain (Loss) on Disposal of Crown Assets	---	---	---
Prior Years' Adjustments	---	(25,761)	---
Interest Revenues	85,384	97,254	85,574
Sinking Fund Earnings	107,670	107,864	95,920
Ordinary Recoveries	361,703	392,675	361,630
Net Income from Government Business Enterprises	381,255	384,918	389,224
Total - Provincial Sources	7,235,654	7,283,559	7,257,470
Federal Revenue Sources			
Equalization Payments	1,820,257	1,843,636	1,942,628
Canada Health Transfer	996,467	998,752	1,039,410
Canada Social Transfer	365,720	366,558	375,514
Offshore Accord	18,092	18,092	8,227
Crown Share	1,423	---	---
Other Federal Sources	28,340	19,535	41,260
TCA Cost Shared Revenue	50,356	41,106	49,081
Prior Years' Adjustments	---	1,333	---
Ordinary Recoveries	293,843	285,953	296,879
Total - Federal Sources	3,574,498	3,574,965	3,752,999
Expenses			
Agriculture	49,615	65,810	46,427
Business	156,111	155,381	152,014
Communities, Culture and Heritage	88,046	91,800	93,641
Community Services	989,698	995,261	1,018,081
Education and Early Childhood Development	1,397,782	1,396,815	1,429,342
Energy and Mines	31,462	42,118	49,036
Environment	37,516	38,016	38,524
Finance and Treasury Board	23,446	21,739	23,683
Fisheries and Aquaculture	20,889	20,889	21,536
Health and Wellness	4,367,099	4,446,933	4,638,526
Internal Services	189,497	202,219	193,834
Justice	354,581	355,401	361,438
Labour and Advanced Education	389,373	373,006	396,209
Assistance to Universities	425,272	430,862	427,782
Lands and Forestry	79,601	82,001	76,750
Municipal Affairs	212,581	212,930	213,222
Public Service	210,298	210,530	220,275
Seniors	2,709	2,640	2,721
Transportation and Infrastructure Renewal	477,545	505,821	497,280
Restructuring Costs	190,241	146,929	201,463
Refundable Tax Credits	146,883	129,816	134,324
Pension Valuation Adjustment	128,803	116,492	51,837
Debt Servicing Costs	893,573	862,544	856,107
Total - Expenses	10,862,621	10,905,953	11,144,052

The economy is expected to continue growing. For 2018, the economic outlook projects that Nova Scotia's nominal Gross Domestic Product (GDP) grew by 3.0 per cent and real GDP by 0.9 per cent. Nominal GDP growth is projected to be stable at 2.8 per cent in 2019 and 2.9 per cent in 2020. Real GDP growth is projected at 0.8 per cent in 2019 and 0.9 per cent for 2020.

The Net Debt of the province is expected to be $15.1 billion for the year ending 2018–19 and $15.3 billion for the year ending 2019–20. This is $102.5 million below the 2018–19 Budget estimate for 2018–19 and $4.0 million above the 2018–19 estimate for 2019–20.

The Net Debt-to-GDP ratio for 2018–19 is forecast to be 34.3 per cent instead of 34.2 per cent as projected in Budget 2018–19. The forecasted Net Debt-to-GDP ratio reflects a Statistics Canada revision of GDP figures, released in November 2018, which led to lower estimates of GDP for 2018. The Net Debt-to-GDP ratio is expected to improve to 33.8 per cent for 2019–20 (Table 2.3).

Table 2.3 Budget Summary – Net Debt/Gross Domestic Product

	2018-19 Estimate	2018-19 Forecast	2019-20 Estimate
Net Debt ($billions)	15.2	15.1	15.3
Nominal GDP ($billions)	44.3	44.0	45.2
Net Debt-to-GDP Ratio	34.2%	34.3%	33.8%

Budget 2019–20 presents both a balanced budget forecast for 2018–19 and a balanced budget for 2019–20, on-course for achieving long-term fiscal sustainability. The province's improving fiscal health provides a degree of stability in fiscal planning; although, there is still vulnerability to economic events and other factors outside of the province's control.

3. Four-Year Fiscal Plan 2019–20 to 2022–23

Medium-Term Outlook

The Four-Year Fiscal Plan indicates that government will achieve a budget surplus for 2018–19 as projected in Budget 2018–19 (Table 3.1). With a projected balanced budget for 2019–20, and continuing surpluses throughout the Four-Year Fiscal Plan, the province is delivering public services in a fiscally sustainable manner.

Table 3.1 Four-Year Fiscal Plan: Projections 2019–20 to 2022–23
($ millions)

General Revenue Fund	2018-19 Estimate	2018-19 Forecast	2019-20 Estimate	2020-21 Estimate	2021-22 Estimate	2022-23 Estimate
Revenue						
Ordinary Revenue	9,773.4	9,795.0	9,962.7	10,185.3	10,521.8	10,898.0
Ordinary Recoveries	655.5	678.6	658.5	641.3	637.2	623.5
Net Income Government Business Enterprises	381.3	384.9	389.2	396.0	401.1	408.8
Total Revenue	**10,810.2**	**10,858.5**	**11,010.5**	**11,222.6**	**11,560.0**	**11,930.3**
Expenses						
Departmental Expenses	9,693.4	9,797.1	10,101.8	10,209.5	10,550.6	10,969.4
Refundable Tax Credits	146.9	129.8	134.3	135.3	136.3	137.3
Pension Valuation Adjustment	128.8	116.5	51.8	54.7	59.2	58.6
Debt Servicing Costs	893.6	862.5	856.1	787.1	757.0	700.7
Total Expenses	**10,862.6**	**10,906.0**	**11,144.1**	**11,186.6**	**11,503.2**	**11,865.9**
Consolidation and Accounting Adjustments	81.9	75.9	167.2	16.0	9.0	9.0
Provincial Surplus (Deficit)	**29.4**	**28.4**	**33.6**	**51.9**	**65.8**	**73.4**
Net Debt	15,172	15,069	15,276	15,568	15,652	15,729
Nominal GDP	44,329	43,977	45,219	46,537	48,232	49,766
Net Debt-to-GDP Ratio	34.2%	34.3%	33.8%	33.5%	32.5%	31.6%

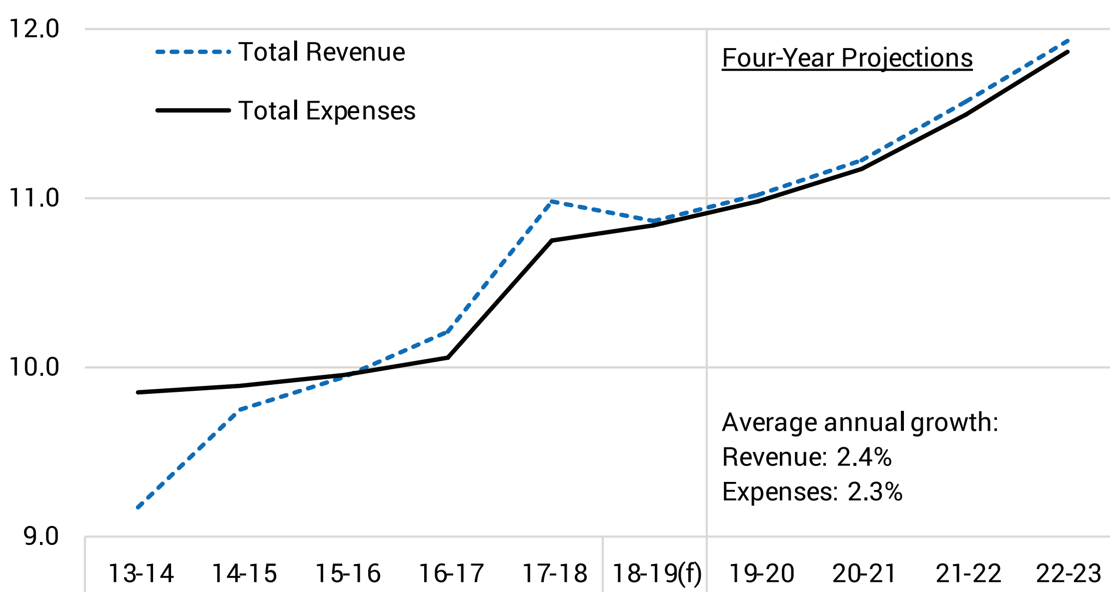
Budget 2019–20 projects a surplus of $33.6 million. The Government of Nova Scotia has improved its fiscal health since 2013–14 and is projecting modest surpluses throughout its four-year planning horizon.

The projected surpluses throughout the Four-Year Fiscal Plan are indicative of a sustainable fiscal plan. The debt arising from operating deficits is expected to reduce by $224.7 million between 2019–20 and 2022–23. Net Debt, which includes operating deficits and net capital spending, is expected to increase by $206.5 million in 2019–20 to $15.3 billion and reach $15.6 billion in 2020–21. The Net Debt is expected to be $15.7 billion by 2022–23. The increase in debt is reflective of government's capital plans over the four-year period, which includes twinning Highway 104 between Sutherlands River and Antigonish, two health care redevelopment projects in Halifax and Cape Breton, and the purchasing of P3 schools.

Revenue and Expenses

For 2019–20, Total Revenue is estimated to grow by 1.9 per cent compared to the 2018–19 estimate (1.4 per cent from the final forecast). Average annual growth in Total Revenue is projected to be 2.4 per cent over the four-year fiscal period (Chart 3.1).

Chart 3.1 Projected Revenues and Expenses 2019–20 to 2022–23
($ billions)



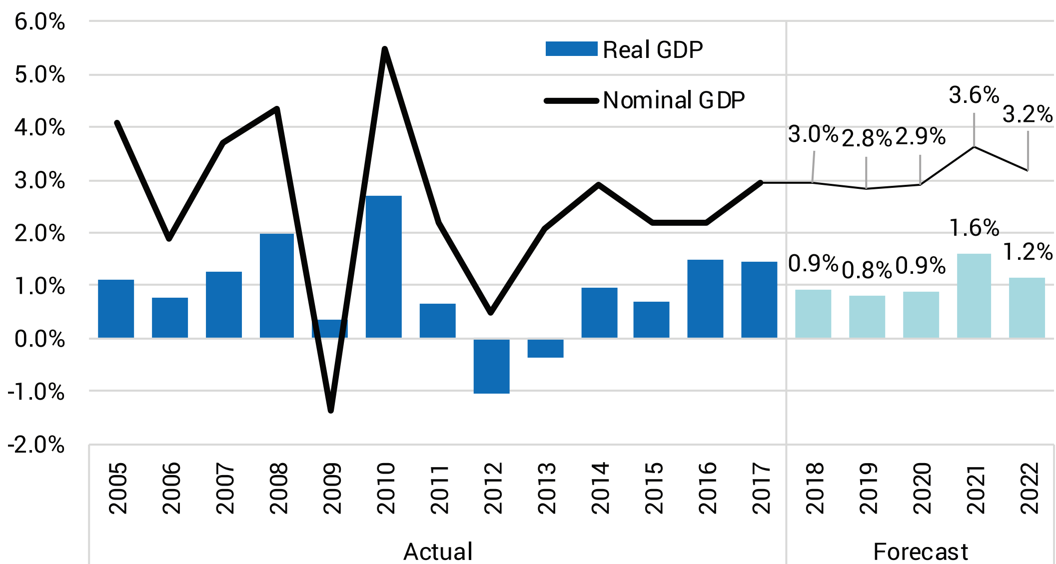
Total Expenses, including Consolidation and Accounting Adjustments, are projected to increase by 1.8 per cent compared to the 2018–19 estimate (1.4 per cent from the final forecast). Average annual growth in Total Expenses is projected to be 2.3 per cent over the four-year fiscal period. It is these growth rates in which spending is growing at a pace slower than that of revenue, that allows the province to maintain a surplus position throughout the four-year projection period.

Economic Outlook

The province's medium-term economic outlook forms the basis for revenue projections as well as the benchmark for assessing the relative size of government and debt. Any economic projection is subject to forecast uncertainty, especially beyond the short-term.

After declining in 2012 and 2013, Nova Scotia's real GDP started to grow in 2014 and 2015 followed by acceleration in 2016 and 2017 as major project investments ramped up (Chart 3.2). Much of Nova Scotia's recovering economic growth was founded on non-energy export growth, major project investments, and productivity growth. Productivity improvements have been particularly important in sustaining positive economic growth over the period from 2013 to 2016 in which the labour force declined.

Chart 3.2 Nova Scotia's Medium-Term Economic Outlook: GDP Growth
(Annual change, real GDP in $2012 chained)



Source: Statistics Canada, Table 36-10-0222-01 Gross domestic product, expenditure-based, provincial and territorial, annual (x 1,000,000); Department of Finance and Treasury Board projections

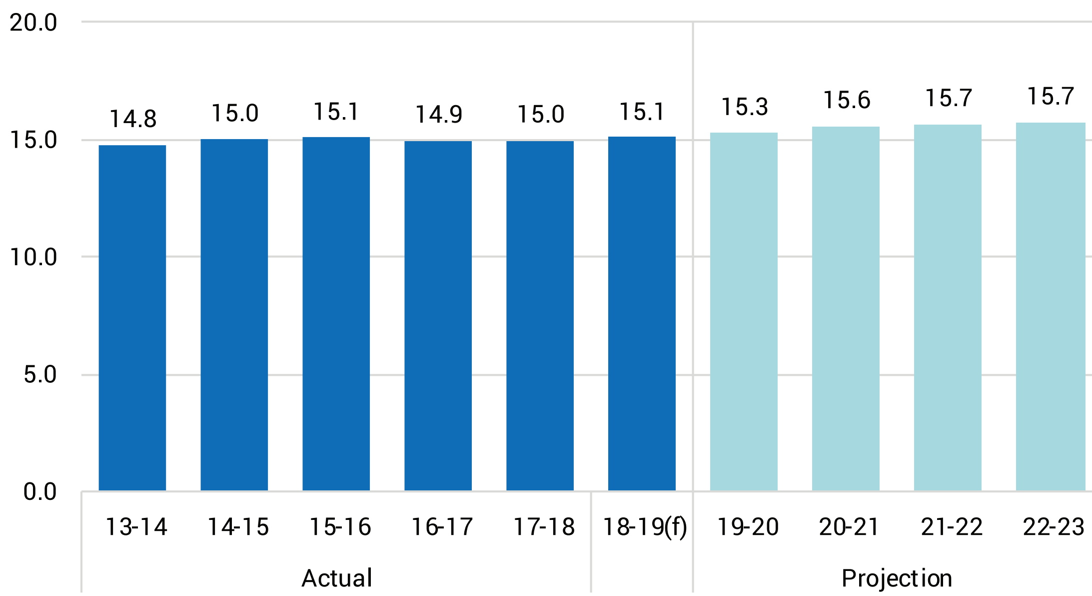
Over the medium-term, Nova Scotia's real GDP growth is expected to remain stable near its long run trend, with faster growth in later years based on assumptions about shipbuilding and other major project spending. The timing and impacts on the economy of these medium-term project expenditures are subject to change, and only those projects that are imminent and certain are included in these assumptions.

In addition to construction of combat vessels at the Halifax Shipyard, medium-term real GDP growth depends on productivity improvements and greater international exports. Stabilized inflation is also expected to add consistently to nominal GDP growth over this period.

Debt

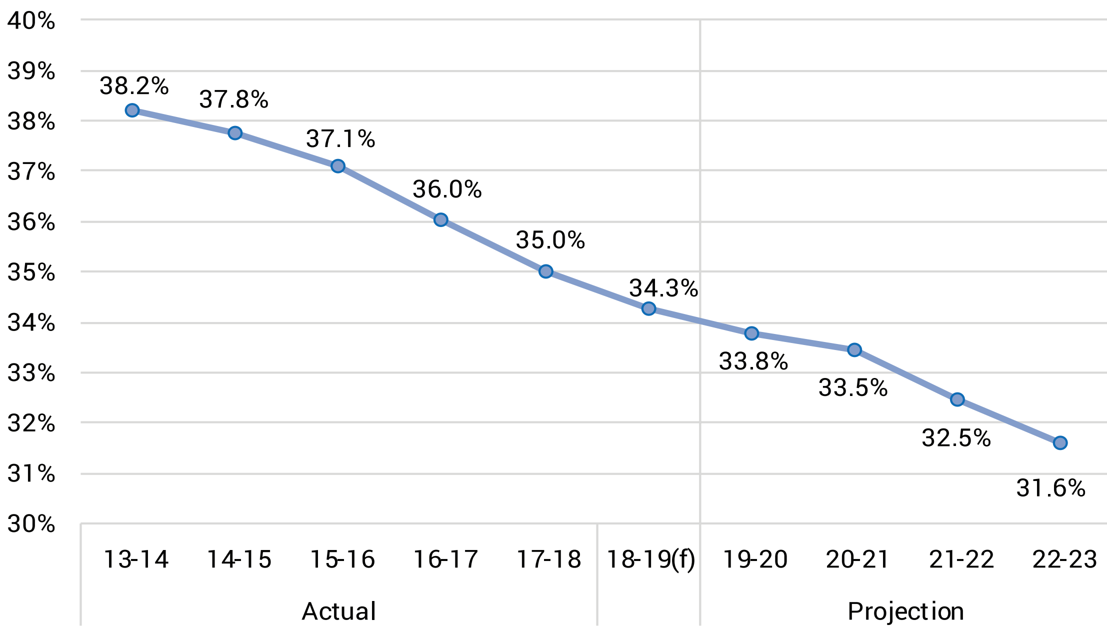
The Net Debt of the province is expected to be $15.1 billion for the year end of 2018–19 and $15.3 billion for the year end of 2019–20 (Chart 3.3). The total Net Debt will grow marginally over the four-year planning horizon, reaching $15.7 billion in 2022–23.

Chart 3.3 Projected Net Debt
($ billions)



The Government of Nova Scotia continues to place emphasis on improving its debt position. Although debt is expected to increase through the fiscal plan period, the Net Debt position relative to GDP is stable with a downward trend (Chart 3.4).

Chart 3.4 Ratio of Net Debt to Gross Domestic Product
(percentage of GDP)



In 2013–14, the Net Debt-to-GDP ratio was 38.2 per cent. The One Nova Scotia Report, released that year, recommended the province should reduce that ratio to 30.0 per cent by 2024. Nova Scotia is on track to meet this goal. Each year since 2013–14, the Net Debt-to-GDP ratio has decreased, reaching 35.0 per cent in 2017–18. (The 2017–18 Public Accounts closed with a Net Debt-to-GDP ratio of 34.6 per cent. In November 2018, Statistics Canada released revised GDP figures, which led to lower estimates of GDP for 2018. The 2017–18 Net Debt-to-GDP ratio was revised to 35.0 per cent on this basis.)

Nova Scotia's Net Debt-to-GDP ratio is forecast to be 34.3 per cent for fiscal year 2018–19. Budget 2019–20 projects that the ratio will decline to 33.8 per cent in 2019–20 and continue to decline to 31.6 per cent by 2022–23.

Fiscal sustainability is the degree to which government can make expenditures and meet creditor requirements without increasing the debt burden on the economy. The Net Debt-to-GDP ratio is the most widely recognized measure of government financial sustainability, and by this measure Nova Scotia's financial sustainability is improving.

4. Report of the Auditor General on the Revenue Estimates

Report to the House of Assembly

The following pages provide a statement by the Department of Finance and Treasury Board and the Auditor General of Nova Scotia's Report, as required by the Auditor General Act.

NOVA SCOTIA

Finance & Treasury Board
Office of the Deputy Minister

RE: Management's Responsibility for the 2019-20 Revenue Estimates of the Province of Nova Scotia

The Nova Scotia Department of Finance and Treasury Board is responsible for the preparation of the 2019-20 Revenue Estimates of the Province of Nova Scotia, and for ensuring the 2019-20 Revenue Estimates are reasonable and are presented fairly.

Uncertainty exists whenever estimates are used, which means that actual results will vary from those planned. In advance of receiving actual tax revenues, the Department of Finance and Treasury Board relies on an economic forecast and known relationships with historical and administrative tax data to estimate tax revenues.

The 2019-20 Revenue Estimates have been prepared on a basis consistent with the accounting policies to be used by Government in its consolidated financial statements for the year ended March 31, 2020. The assumptions underlying the 2019-20 Revenue Estimates reflect management's judgment as to a reasonable set of economic conditions and Government's planned courses of action for fiscal year 2019-20.

Byron Rafuse
Deputy Minister of Finance and Treasury Board

5161 George Street
Royal Centre, Suite 400
Halifax, Nova Scotia
B3J 1M7

Auditor General of Nova Scotia

INDEPENDENT LIMITED ASSURANCE REPORT

To the House of Assembly of Nova Scotia:

Conclusion

Based on the limited assurance procedures performed and evidence obtained, no matters have come to my attention to cause me to believe that the 2019-20 Revenue Estimates of the Province of Nova Scotia are not, in all material respects, fairly stated in accordance with the criteria.

Basis for my Report on the 2019-20 Revenue Estimates of the Province of Nova Scotia

Under Section 20 of the Auditor General Act, my office is mandated to conduct a review (limited assurance engagement) and provide a report as to whether the Revenue Estimates of the Province of Nova Scotia used in the preparation of the annual budget address of the Minister of Finance and Treasury Board of Nova Scotia to the House of Assembly of Nova Scotia are reasonable and presented fairly.

The criteria used to assess whether the 2019-20 Revenue Estimates of the Province of Nova Scotia are reasonable and presented fairly, are that the 2019-20 Revenue Estimates are prepared on a basis consistent with the accounting policies used by Government in its consolidated financial statements which are prepared in accordance with Canadian public sector accounting standards, and the assumptions underlying the 2019-20 Revenue Estimates reflect a reasonable set of economic conditions and Government's planned courses of action for fiscal year 2019-20.

Since the 2019-20 Revenue Estimates are based on assumptions regarding future events, actual results will vary from the information presented and the variance may be material. Accordingly, I express no opinion as to whether the 2019-20 Revenue Estimates will actually be achieved as budgeted. My work did not include, and my Report does not cover, the 2019-20 expense estimates of the Province of Nova Scotia, Government's overall estimated results and any resulting surplus or deficit, or the budget speech. My Report also does not cover the prior years' forecast or actual information provided for comparative purposes.

Management's Responsibility for the 2019-20 Revenue Estimates of the Province of Nova Scotia

The Nova Scotia Department of Finance and Treasury Board is responsible for the preparation and fair presentation of the 2019-20 Revenue Estimates. The Nova Scotia Department of Finance and Treasury Board is responsible for ensuring that the 2019-20 Revenue Estimates are prepared on a basis consistent with the accounting policies used by Government in its consolidated financial statements, and that the assumptions underlying the 2019-20 Revenue Estimates reflect a reasonable set of economic conditions and Government's planned courses of action for fiscal year 2019-20.

902 424 4046 tel
902 424 4350 fax
www.oag-ns.ca
Michael.Pickup@novascotia.ca

Auditor General's Responsibility

My responsibility is to provide a conclusion and report on whether the 2019-20 Revenue Estimates are reasonable and presented fairly based on the limited assurance procedures performed, and evidence obtained. I conducted a limited assurance engagement in accordance with the Canadian Standard on Assurance Engagements (CSAE) 3000 - *Attestation engagements other than audits or reviews of historical financial information*.

My office applies the Canadian Standard on Quality Control 1 – *Quality control for firms that perform audits and reviews of financial statements, and other assurance engagements* and, accordingly, maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

In conducting my work, I have complied with the independence and other ethical requirements of the Chartered Professional Accountants of Nova Scotia CPA Code of Professional Conduct and the Province of Nova Scotia's Code of Conduct for Public Servants.

In a limited assurance engagement, the practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a limited assurance engagement vary in nature and timing and are less in extent than a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Michael A. Pickup, FCPA, FCA
Auditor General of Nova Scotia

Halifax, Nova Scotia
March 26, 2019

Table 4.1 Revenues By Source

($ thousands)

General Revenue Fund: Revenues	2019-20 Estimate
Ordinary Revenue - Provincial Sources	
Tax Revenue:	
Personal Income Tax	2,811,289
Corporate Income Tax	604,741
Harmonized Sales Tax	1,895,909
Cannabis Tax	7,814
Motive Fuel Tax	276,942
Tobacco Tax	205,432
Other Tax Revenue	169,329
	5,971,456
Other Provincial Revenue:	
Registry of Motor Vehicles	136,076
Royalties - Petroleum	---
Other Provincial Sources	151,981
TCA Cost Shared Revenue - Provincial Sources	2,439
Other Fees and Charges	63,170
Gain on Disposal of Assets	---
	353,666
Investment Income:	
Interest Revenues	85,574
Sinking Fund Earnings	95,920
	181,494
Total - Provincial Sources	**6,506,616**
Ordinary Revenue - Federal Sources	
Equalization Payments	1,942,628
Canada Health Transfer	1,039,410
Canada Social Transfer	375,514
Offshore Accord	8,227
Crown Share	---
Other Federal Sources	41,260
TCA Cost Shared Revenue - Federal Sources	49,081
Total - Federal Sources	**3,456,120**
Total - Revenues	**9,962,736**
Ordinary Recoveries	
Provincial Sources	361,630
Federal Sources	296,879
Total - Ordinary Recoveries	**658,509**
Net Income from Government Business Enterprises	
Nova Scotia Liquor Corporation	243,415
Nova Scotia Gaming Corporation	128,000
Halifax-Dartmouth Bridge Commission	8,419
Highway 104 Western Alignment Corporation	9,390
Total - Net Income from GBEs	**389,224**
Total - Revenues of the General Revenue Fund	**11,010,469** 1
Governmental Unit Third Party Revenues (Table 4.2)	1,018,394
Total - Revenue of the Province	**12,028,863**

1: Total Revenue of the General Revenue Fund is the balance that is carried through the Estimates of the province. It is the budget of the General Revenue Fund that is the responsibility of the House of Assembly. The activities of the Governmental Units are effectively presented as off-sets against the expenses of their respective governmental units within the "Consolidation and Accounting Adjustments for Governmental Units."

See Table 4.2 for further explanation of the Total Third Party Revenue of Governmental Units.

Table 4.2 Governmental Unit Third Party Revenues
($ thousands)

Governmental Unit Third Party Revenues	2019-20 Estimate	
Regional Centres for Education, CSAP, and Nova Scotia Community College	414,489	
Provincial Health Authorities	327,803	
Housing Nova Scotia	154,886	
Resource Recovery Fund Board	56,997	
Governmental Units with third party revenue less than $10 Million	64,219	
Total - Governmental Unit Third Party Revenues	**1,018,394**	2

2: The governmental unit third party revenues are presented in this table to enable the total revenues of the province to be presented on a basis consistent with the consolidated financial statements of the province. The budgets of these organizations are subject to the approval of their respective board of directors.

CSAP = Conseil scolaire acadien provincial.

5. Budget 2019–20

Budget 2019–20's fiscal outlook provides the final forecast update for Budget 2018–19 and the Budget Estimates for 2019–20. The Province of Nova Scotia is forecasting a surplus position of $28.4 million in 2018–19, a decrease of approximately $1.0 million compared with the 2018–19 Budget Estimates surplus of $29.4 million.

Looking forward, the province is projecting a surplus of $33.6 million for 2019–20 and, therefore, a fourth balanced budget in a row. This section presents more detail on revenues by source, total expenses, and the estimated value of tax credits, rebates, and tax expenditures.

2018–19 Budget Forecast Update

The Forecast Update provides updated information about the major components of revenue and expenses as set out in the 2018–19 Budget Estimates.

The Province of Nova Scotia is forecasting a surplus of $28.4 million for the year ending March 31, 2019, which is down $1.0 million from the budgeted estimate of $29.4 million (Table 5.1).The difference is the result of Total Revenue being $48.4 million higher than expected, Total Expenses being $43.3 million higher than expected, and changes to Consolidation and Accounting Adjustments which negatively impact the bottom line by $6.0 million.

2018–19 Revenues: Total Revenue is forecasted to be $10.859 billion.

Relative to the 2018–19 Budget Estimates, overall tax revenue is forecasted to be lower by $39.6 million, as forecasted increases in Corporate Income Tax of $112.5 million and in Other Taxes of $2.5 million are offset by forecasted decreases in Personal Income Tax of $128.5 million, Harmonized Sales Tax of $9.1 million, Tobacco Tax of $8.1 million, Cannabis Tax of $7.0 million, and Motive Fuel Tax of $1.9 million.

Other Provincial Revenues are forecasted to increase by $40.8 million primarily because of an increase in Other Provincial Sources of $62.7 million, which is partially offset by a net negative Prior Year Adjustment of $25.8 million.

Federal Source Ordinary Revenues are forecasted to be $8.4 million higher than the 2018–19 Budget Estimates, primarily as a result of a lower Cumulative Best-of Guarantee payment of $23.4 million, and an increase in the Canada Health Transfer of $2.3 million, offset by decreases in Crown Share Adjustment Payments of $1.4 million, Tangible Capital Asset Cost Shared Revenue of $9.3 million and Other Federal Sources of $8.8 million.

Table 5.1 2018–19 Budget Forecast Update
(General Revenue Fund, $ thousands)

	2018-19 Estimate	2018-19 Forecast	2019-20 Estimate
Revenue			
Ordinary Revenue	9,773,351	9,794,978	9,962,736
Ordinary Recoveries	655,546	678,628	658,509
Net Income from Government Business Enterprises	381,255	384,918	389,224
Total Revenues	**10,810,152**	**10,858,524**	**11,010,469**
Expenses			
Departmental Expenses	9,693,362	9,797,101	10,101,784
Refundable Tax Credits	146,883	129,816	134,324
Pension Valuation Adjustment	128,803	116,492	51,837
Debt Servicing Costs	893,573	862,544	856,107
Total Expenses	**10,862,621**	**10,905,953**	**11,144,052**
Consolidation and Accounting Adjustments			
General Revenue Fund Consolidation Adjustments	75,848	73,855	168,457
Special Purpose Funds	(22)	(214)	72
Other Organizations	6,073	2,226	(1,323)
Total Consolidation and Accounting Adjustments	**81,899**	**75,867**	**167,206**
Provincial Surplus (Deficit)	**29,430**	**28,438**	**33,623**

Ordinary Recoveries are forecasted to be $23.1 million higher than Budget. This is primarily due to $24.7 million in a positive Prior Year Adjustment for recoveries, a $6.8 million increase from automobile levies charged to insurance companies, and a $5.0 million increase in out-of-province recoveries for insured services. These increases are offset by net decreases of $13.4 million for various programs, including $6.2 million due to project timing under the Federal Strategic Investment Fund for university infrastructure and $3.5 million due to lower than anticipated program uptake of the Low Carbon Economy Fund.

Net Income from Government Business Enterprises is forecasted to increase by $3.7 million due to forecasted increases in net income at the Highway 104 Corporation of $1.9 million, Halifax-Dartmouth Bridge Commission of $1.3 million, Nova Scotia Liquor Corporation of $1.1 million, and a forecasted decrease at the Nova Scotia Gaming Corporation of $0.6 million.

2018–19 Expenses: Total Expenses are forecasted to be $10.906 billion.

Total Departmental Expenses are forecasted to increase by $103.7 million relative to the 2018–19 Budget Estimates. This is due to expense increases at a number of departments totaling $168.4 million. This includes an increase of $79.8 million at the Department of Health and Wellness, primarily for rising demand in healthcare services and costs related to Continuing Care Sector service award payouts; $28.3 million at the Department of Transportation and Infrastructure Renewal, primarily for the Nova Scotia to Maine ferry costs, and snow and ice removal; and $16.2 million at the Department of Agriculture, primarily for the Frost Loss Program. The increases are partially offset by expense decreases in other departments totaling $64.7 million, which includes $16.4 million at Labour and Advanced Education, primarily due to a reduced loan provision for student assistance, and a $43.3 million decrease to Restructuring Costs.

For Other Expenses, Refundable Tax Credits are forecasted to be $17.1 million lower than expected. Reductions in the Capital Investment Tax Credit and Digital Animation Tax Credit estimates are partially offset by higher estimated costs for the Digital Media Tax Credit and Scientific Research and Experimental Development Tax Credit.

The Pension Valuation Adjustment has decreased by $12.3 million as a result of updated actuarial reports and changes in actuarial assumptions.

Debt Servicing Costs have decreased by $31.0 million primarily as a result of interest rates not rising as much as expected and lower pension debt-servicing obligations.

2018–19 Consolidation and Accounting Adjustments: Overall changes in Consolidation and Accounting Adjustments are forecasted to result in a $6.0 million negative impact to the provincial surplus position relative to the 2018–19 Budget Estimates.

Budget 2019–20: Revenue Outlook

In 2019–20, Nova Scotia's Total Revenue in its General Revenue Fund is estimated to be $11,010.5 million. This is an increase of $200.3 million or 1.9 per cent from the 2018–19 Budget Estimates and an increase of $152.0 or 1.4 per cent compared to the 2018–19 forecast.

Total Revenue from all provincial sources, including Ordinary Recoveries and Net Income from Government Business Enterprises, contributes 65.9 per cent of all revenue in 2019–20. Revenue from federal sources contributes 34.1 per cent of all revenue in 2019–20.

Tables 5.2 and 5.3 provide financial statistics for Revenues by Source in dollar amounts and as a percentage of Total Revenue, respectively. Chart 5.1 provides a percentage breakdown of Revenues by Source.

Provincial Source Ordinary Revenues in 2019–20 are expected to be $6,506.6 million. This is an increase of $13.9 million or 0.2 per cent from the 2018–19 Budget Estimates and an increase of $0.7 million or less than 0.1 per cent from the 2018–19 forecast.

Federal Source Ordinary Revenues are projected to be $3,456.1 million in 2019–20, an increase of $175.5 million or 5.3 per cent from the 2018–19 Budget Estimates and an increase of $167.1 million or 5.1 per cent from the 2018–19 forecast.

Ordinary Recoveries from provincial sources are down $0.1 million or less than 0.1 per cent from the 2018–19 Budget Estimates and are down $31.1 million or 7.9 per cent compared to the 2018–19 forecast. Ordinary Recoveries from federal sources are up $3.0 million or 1.0 per cent from the 2018–19 Budget Estimates and are up $10.9 million or 3.8 per cent from the 2018–19 forecast.

Net Income from Government Business Enterprises is up $8.0 million or 2.1 per cent from the 2018–19 Budget Estimates and is up $4.3 million or 1.1 per cent from the 2018–19 forecast.

Table 5.2 Revenues by Source

($ thousands)

General Revenue Fund: Revenues	2016-17 Actual	2017-18 Actual	2018-19 Estimate	2018-19 Forecast	2019-20 Estimate
Ordinary Revenue - Provincial Sources					
Tax Revenue:					
Personal Income Tax	2,636,616	2,768,421	2,816,066	2,687,547	2,811,289
Corporate Income Tax	513,038	539,025	531,267	643,787	604,741
Harmonized Sales Tax	1,778,545	1,803,756	1,858,125	1,849,022	1,895,909
Cannabis Tax	---	---	10,400	3,371	7,814
Motive Fuel Tax	258,501	266,444	272,440	270,503	276,942
Tobacco Tax	222,234	210,710	214,118	206,066	205,432
Other Tax Revenue	165,337	175,045	165,961	168,497	169,329
	5,574,271	5,763,401	5,868,377	5,828,793	5,971,456
Other Provincial Revenue:					
Registry of Motor Vehicles	133,077	134,568	131,966	135,216	136,076
Royalties - Petroleum	9,870	9,118	5,954	5,920	---
Other Provincial Sources	133,835	143,675	229,303	291,966	151,981
TCA Cost Shared Revenue - Provincial Sources	3,272	62,274	2,249	3,418	2,439
Other Fees and Charges	62,511	61,950	61,793	61,296	63,170
Prior Years' Adjustments - Provincial Sources	(5,803)	230,903	---	(25,761)	---
Gain (Loss) on Disposal of Crown Assets	5,804	1,057	---	---	---
	342,566	643,545	431,265	472,055	353,666
Investment Income:					
Interest Revenues	88,621	121,084	85,384	97,254	85,574
Sinking Fund Earnings	90,475	96,546	107,670	107,864	95,920
	179,096	217,630	193,054	205,118	181,494
Total - Provincial Sources	6,095,933	6,624,576	6,492,696	6,505,966	6,506,616
Ordinary Revenue - Federal Sources					
Equalization Payments	1,732,893	1,794,968	1,820,257	1,843,636	1,942,628
Canada Health Transfer	944,419	965,873	996,467	998,752	1,039,410
Canada Social Transfer	349,511	357,451	365,720	366,558	375,514
Offshore Accord	33,255	19,957	18,092	18,092	8,227
Crown Share	2,176	15,944	1,423	---	---
Other Federal Sources	2,328	10,178	28,340	19,535	41,260
TCA Cost Shared Revenue - Federal Sources	24,337	75,880	50,356	41,106	49,081
Prior Years' Adjustments - Federal Sources	1,244	-543	---	1,333	---
Total - Federal Sources	3,090,163	3,239,708	3,280,655	3,289,012	3,456,120
Total - Ordinary Revenue	9,186,096	9,864,284	9,773,351	9,794,978	9,962,736
Ordinary Recoveries					
Provincial Sources	363,797	371,421	361,703	392,675	361,630
Federal Sources	264,142	344,835	293,843	285,953	296,879
Total - Ordinary Recoveries	627,939	716,256	655,546	678,628	658,509
Net Income from Government Business Enterprises (GBE)					
Nova Scotia Liquor Corporation	239,221	238,606	233,632	234,697	243,415
Nova Scotia Gaming Corporation	130,808	131,458	130,400	129,800	128,000
Halifax-Dartmouth Bridge Commission	14,506	8,726	7,883	9,160	8,419
Highway 104 Western Alignment Corporation	10,056	11,408	9,340	11,261	9,390
Total - Net Income from GBEs	394,591	390,198	381,255	384,918	389,224
Total - Revenues	10,208,626	10,970,738	10,810,152	10,858,524	11,010,469

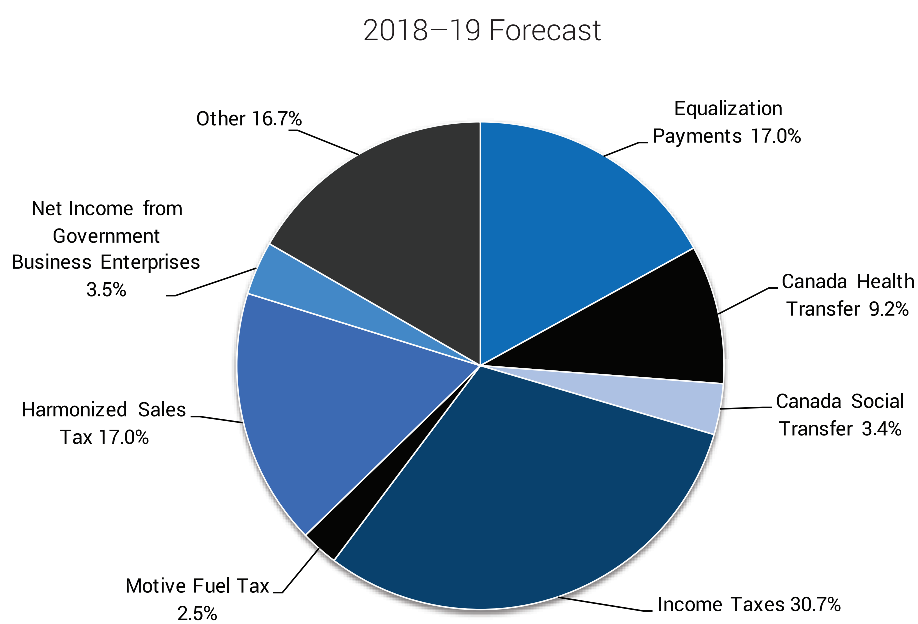
Table 5.3 Revenues by Source

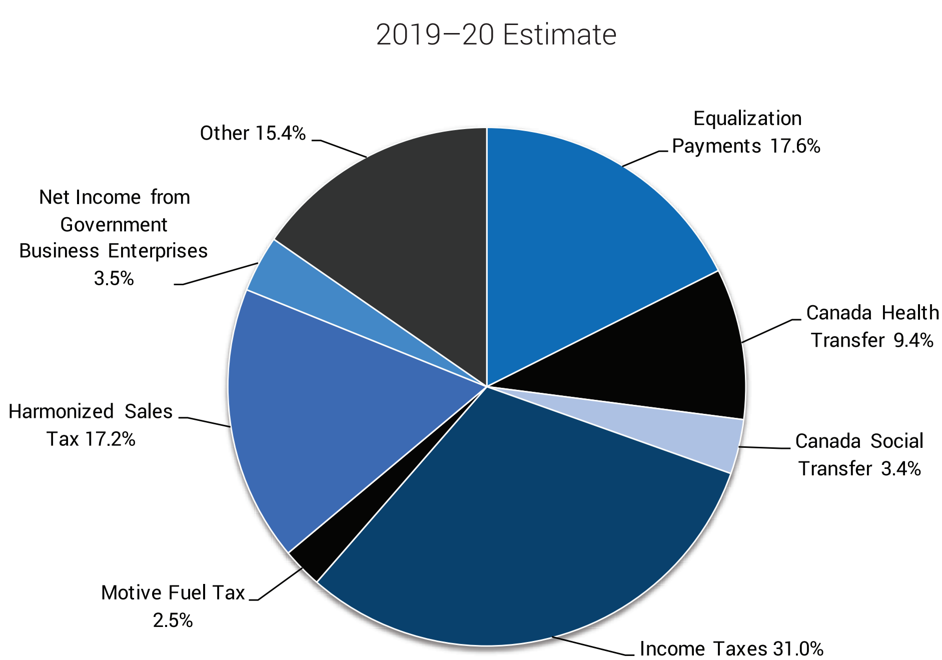
(as a percentage of Total Revenue)

General Revenue Fund: Revenues	2016-17 Actual	2017-18 Actual	2018-19 Estimate	2018-19 Forecast	2019-20 Estimate
Ordinary Revenue - Provincial Sources					
Tax Revenue:					
Personal Income Tax	25.8%	25.2%	26.1%	24.8%	25.5%
Corporate Income Tax	5.0%	4.9%	4.9%	5.9%	5.5%
Harmonized Sales Tax	17.4%	16.4%	17.2%	17.0%	17.2%
Cannabis Tax	---	---	0.1%	---	0.1%
Motive Fuel Tax	2.5%	2.4%	2.5%	2.5%	2.5%
Tobacco Tax	2.2%	1.9%	2.0%	1.9%	1.9%
Other Tax Revenue	1.6%	1.6%	1.5%	1.6%	1.5%
	54.6%	52.5%	54.3%	53.7%	54.2%
Other Provincial Revenue:					
Registry of Motor Vehicles	1.3%	1.2%	1.2%	1.2%	1.2%
Royalties - Petroleum	0.1%	0.1%	0.1%	0.1%	---
Other Provincial Sources	1.3%	1.3%	2.1%	2.7%	1.4%
TCA Cost Shared Revenue - Provincial Sources	---	0.6%	---	---	---
Other Fees and Charges	0.6%	0.6%	0.6%	0.6%	0.6%
Prior Years' Adjustments - Provincial Sources	-0.1%	2.1%	---	-0.2%	---
Gain (Loss) on Disposal of Crown Assets	0.1%	---	---	---	---
	3.4%	5.9%	4.0%	4.3%	3.2%
Investment Income:					
Interest Revenues	0.9%	1.1%	0.8%	0.9%	0.8%
Sinking Fund Earnings	0.9%	0.9%	1.0%	1.0%	0.9%
	1.8%	2.0%	1.8%	1.9%	1.6%
Total - Provincial Sources	59.7%	60.4%	60.1%	59.9%	59.1%
Ordinary Revenue - Federal Sources					
Equalization Payments	17.0%	16.4%	16.8%	17.0%	17.6%
Canada Health Transfer	9.3%	8.8%	9.2%	9.2%	9.4%
Canada Social Transfer	3.4%	3.3%	3.4%	3.4%	3.4%
Offshore Accord	0.3%	0.2%	0.2%	0.2%	0.1%
Crown Share	---	0.1%	---	---	---
Other Federal Sources	---	0.1%	0.3%	0.2%	0.4%
TCA Cost Shared Revenue - Federal Sources	0.2%	0.7%	0.5%	0.4%	0.4%
Prior Years' Adjustments - Federal Sources	---	---	---	---	---
Total - Federal Sources	30.3%	29.5%	30.3%	30.3%	31.4%
Total - Ordinary Revenue	90.0%	89.9%	90.4%	90.2%	90.5%
Ordinary Recoveries					
Provincial Sources	3.6%	3.4%	3.3%	3.6%	3.3%
Federal Sources	2.6%	3.1%	2.7%	2.6%	2.7%
Total - Ordinary Recoveries	6.2%	6.5%	6.1%	6.2%	6.0%
Net Income from Government Business Enterprises (GBE)					
Nova Scotia Liquor Corporation	2.3%	2.2%	2.2%	2.2%	2.2%
Nova Scotia Gaming Corporation	1.3%	1.2%	1.2%	1.2%	1.2%
Halifax-Dartmouth Bridge Commission	0.1%	0.1%	0.1%	0.1%	0.1%
Highway 104 Western Alignment Corporation	0.1%	0.1%	0.1%	0.1%	0.1%
Total - Net Income from GBEs	3.9%	3.6%	3.5%	3.5%	3.5%
Total - Revenues	100.0%	100.0%	100.0%	100.0%	100.0%

Note: Numbers may not add up to totals due to rounding.

Chart 5.1 Total Revenue 2018–19 Forecast and 2019–20 Estimate





Ordinary Revenue – Provincial Sources – Tax Revenue

Personal Income Tax (PIT)

Nova Scotia's 2019–20 estimate for PIT is $2,811.3 million, up $123.7 million or 4.6 per cent compared to the 2018–19 forecast and down $4.8 million or 0.2 per cent from the 2018–19 Budget Estimates.

Personal taxable income is projected to grow by $1.0 billion to $31.9 billion in 2019, an increase of 3.3 per cent, and grow to $32.8 billion in 2020, an increase of 3.1 per cent. Following a decline in yield as a result of the enhancement to Basic Personal, Age, Spousal, and Dependant Amounts introduced in 2018, yield is expected to grow by 1.7 per cent in 2019 and by 1.6 per cent in 2020. Revenues include cost estimates for the new Innovation Equity Tax Credit and the Venture Capital Tax Credit.

Table 5.4 provides a summary of PIT revenue growth since 2015, broken down by taxable income and the yield rate, for the taxation year. The yield rate is the effective or average tax rate on personal taxable income.

Table 5.4 Components of PIT Revenue by Calendar Year

	2015	2016	2017	2018 (E)	2019 (E)	2020 (E)
Taxable Income ($billions)	28.8	28.6	30.0	30.8	31.9	32.8
Yield Rate	8.84%	8.68%	8.89%	8.64%	8.79%	8.92%
Net PIT ($millions)	2,546	2,486	2,668	2,665	2,799	2,930

Note: Net PIT includes impact of provincial tax credits.

Corporate Income Tax (CIT)

Nova Scotia's 2019–20 estimate for CIT is $604.7 million, down $39.0 million or 6.1 per cent compared to the 2018–19 forecast and up $73.5 million or 13.8 per cent from the 2018–19 Budget Estimates.

National corporate taxable income is projected to decline by $29.1 billion or 8.0 per cent in 2019 to $335.0 billion and increase by $7.4 billion or 2.2 per cent to $342.4 billion in 2020. CIT revenues are projected to decline, primarily as a result of the federal government's accelerated capital cost allowance changes introduced in the fall of 2018. Federal estimates show the 2019–20 impact on provincial revenues will be around $60 million. Effective from the 2014–15 Public Accounts, the province calculates its share of national corporate taxable income on a three-year moving average of actual share rates. For 2019–20 the province's share is estimated to be 1.6 per cent. Nova Scotia's corporate taxable income in 2019 is estimated to be $5.4 billion, growing to $5.5 billion in 2020.

The average effective tax rate is estimated to be 11.3 per cent, and the small business share of taxable income is projected to be 36.3 per cent in both 2019 and 2020.

Harmonized Sales Tax (HST)

Net HST is estimated to total $1,895.9 million in 2019–20, up $46.9 million or 2.5 per cent compared to the 2018–19 forecast; up $37.8 million or 2.0 per cent from the 2018–19 Budget Estimates.

The increase in HST revenues is largely attributable to growth in the consumer expenditure tax base. The province's total tax base for taxable goods and services is projected to grow by $459.0 million or 2.2 per cent to $21.6 billion in 2019 and by $480.0 million or 2.2 per cent to $22.1 billion in 2020. Growth in the consumer expenditure base is forecasted to be 3.1 per cent in 2019 and 2.5 per cent in 2020. Consumer expenditures represent over 70 per cent of the HST tax base.

The pace of growth in taxable residential housing expenditures is expected to decline by 3.3 per cent in 2019 and by 0.7 per cent in 2020. The rebate on residential energy (Your Energy Rebate Program) is expected to total $110.5 million in 2019–20.

Public sector body rebates are projected to increase by $3.4 million or 2.4 per cent in 2019–20, while point-of-sale rebates for children's clothing, children's footwear, children's diapers, and printed books will increase by $0.7 million or 2.9 per cent.

Cannabis Tax

The province has entered into a coordinated Cannabis Tax framework with the Government of Canada for a two-year period following the legalization of recreational cannabis.

Both parties agreed that the combined rate of provincial and federal tax would not exceed the higher of $1.00 per gram of flowering material contained in a cannabis product or 10.0 per cent of a licensed producer's selling price.

The federal government is imposing a federal excise duty of $0.25 per gram of flowering material in a cannabis product and will collect a $0.75 per gram additional duty on behalf of the province. The duties are payable once the cannabis product is packaged for sale and ready to be delivered to a provincially authorized retailer of recreational cannabis or an individual purchasing medical cannabis.

Provincial Revenues from duties imposed upon recreational and medical cannabis are estimated to be $7.8 million in 2019–20, an increase of $4.4 million or 131.8 per cent from the 2018–19 forecast and a decrease of $2.6 million or 24.9 per cent from the 2018–19 Budget Estimates.

The Nova Scotia Liquor Corporation, the province's sole recreational cannabis retailer, has projected that it will purchase 8 million grams of recreational cannabis in 2019–20 for sale. Medical cannabis sales are projected to be 2.4 million grams.

Products containing 0.3 per cent or less of tetrahydrocannabinol (THC) are not subject to duty, nor are pharmaceutical products approved by Health Canada with a Drug Identification Number (DIN) that are derived from cannabis and that can only be acquired through a prescription.

Medical and recreational cannabis products are subject to the HST.

Motive Fuel Taxes

Motive Fuel Taxes are projected to total $276.9 million in 2019–20, an increase of $6.4 million or 2.4 per cent compared to the 2018–19 forecast and up by $4.5 million or 1.7 per cent from the 2018–19 Budget Estimates.

Gasoline consumption is estimated to rise by 3.4 per cent to 1.35 billion litres in 2019–20, while the consumption of diesel oil is estimated to increase by 0.5 per cent to 452 million litres in 2019–20.

Key drivers for Motive Fuel Taxes are average prices for gasoline and diesel oil which are projected to be lower in 2019–20 and labour income which is expected to increase by 2.7 per cent over 2018–19.

Tobacco Tax

Tobacco Tax revenues are projected to total $205.4 million in 2019–20, down $0.6 million or 0.3 per cent from the 2018–19 forecast and down $8.7 million or 4.1 per cent compared to the 2018–19 Budget Estimates.

Cigarette consumption is projected to decline by 4.7 million cigarettes to 685 million in 2019–20, a decrease of 0.7 per cent. The consumption of fine cut tobacco is projected to decline by 1.9 million grams in 2019–20, a decrease of 4.8 per cent. The price of tobacco products is expected to rise by 1.5 per cent next fiscal year.

Other Tax Revenue

Other Tax Revenue includes such items as Corporations Capital Tax, Casino Win Tax, Levy on Private Sale of Used Vehicles, Tax on Insurance Premiums, and Gypsum Tax. The total for these items is estimated to be $169.3 million for 2019–20, up $3.4 million or 2.0 per cent from the 2018–19 Budget Estimates and up $0.8 million or 0.5 per cent from the 2018–19 forecast.

Ordinary Revenue – Provincial Sources – Other Provincial Revenue

Registry of Motor Vehicles

Revenue generated by the Registry of Motor Vehicles is estimated to be $136.1 million for 2019–20, up $4.1 million or 3.1 per cent from the 2018–19 Budget Estimates and an increase of $0.9 million or 0.6 per cent from the 2018–19 forecast.

Offshore Petroleum Royalties

No revenues for Offshore Petroleum Royalties are estimated in 2019–20, a decrease of $5.9 million from the 2018–19 forecast, and down by $6.0 million compared to the 2018–19 Budget Estimates.

Production has ceased for both the Sable Offshore Energy Project (SOEP) and Deep Panuke.

Other Provincial Sources

Revenue from Other Provincial Sources is estimated to be $152.0 million for 2019–20, down $77.3 million or 33.7 per cent from the 2018–19 Budget Estimates and down $140.0 million or 47.9 per cent from the 2018–19 forecast.

This revenue source includes such items as pharmacare premiums; Nova Scotia Securities Commission fees; registration revenues for deeds, companies, and property; various other licenses and permits; and timber licenses and revenue.

The province has committed to enter an agreement with the federal government regarding the Cooperative Capital Markets Regulatory System (national securities regulator) in 2018–19. For this commitment, the province is receiving a one-time payment of $77.1 million, and this payment is included in Other Provincial Sources revenue. The decrease of $77.3 million from estimate to estimate is largely due to this one-time payment. The 2018–19 forecast includes a one-time Offshore Licenses forfeiture payment of $61.4 million in 2018–19, that was known after the 2018–19 Budget was tabled.

Tangible Capital Asset (TCA) Cost Shared Revenue – Provincial Sources

TCA Cost Shared Revenue from provincial sources is estimated to be $2.4 million for 2019–20, down $0.2 million or 8.4 per cent from the 2018–19 Budget Estimates and down $1.0 million or 28.6 per cent from the 2018–19 forecast.

Other Fees and Charges

Revenue generated from Other Fees and Charges is estimated to be $63.2 million for 2019–20, $1.4 million or 2.2 per cent higher than the 2018–19 Budget Estimates and an increase of $1.9 million or 3.1 per cent from the 2018–19 forecast.

Ordinary Revenue – Provincial Sources – Investment Income

Interest Revenue

Interest Revenue is estimated to be $85.6 million for 2019–20, up $0.2 million or 0.2 per cent from the 2018–19 Budget Estimates and down $11.7 million or 12.0 per cent from the 2018–19 forecast. The increase from estimate results mainly from increased revenue generated from investments.

Sinking Fund Earnings

Sinking Fund Earnings are projected to total $96.0 million in 2019–20, a decrease of $11.8 million or 10.9 per cent from the 2018–19 Budget Estimates and down $11.9 million or 11.1 per cent from the 2018–19 forecast. This decrease from estimate is primarily a result of reduction in sinking fund assets due to loans maturing with mandatory sinking funds.

Ordinary Revenue – Federal Sources

Equalization

Equalization revenues in 2019–20 are estimated to be $1,942.6 million, an increase of $122.4 million or 6.7 per cent compared to the 2018–19 Budget Estimates, and up by $99.0 million or 5.4 per cent compared to the 2018–19 forecast. The figure is composed of two separate fiscal Equalization payments from the federal government.

Firstly, the Equalization estimate reflects the province's adoption of the Expert Panel formula for Equalization payments, projected to be $2,015.2 million in 2019–20, an increase of $81.8 million or 4.2 per cent compared to the 2018–19 forecast. The primary factor contributing to the increase is the year-over-year growth in the size of the overall Equalization program of 4.64 per cent.

Secondly, as part of a clarification reached with the Government of Canada on October 10, 2007, commencing with the 2008–09 fiscal year, Nova Scotia is entitled to receive an additional payment from the federal government if the cumulative value of the Equalization formula in effect at the time the Offshore Accord was signed (the Interim approach) exceeds the cumulative value of the Expert Panel approach.

This is known as the Cumulative Best-of Guarantee. The arrangement is in effect until the end of 2019–20 to coincide with the term of the Offshore Accord.

The first estimate of the Cumulative Best-of Guarantee payment is a negative adjustment of $72.6 million, an improvement of $17.2 million or 19.2 per cent compared to the 2018–19 forecast. Although the cumulative value of the Interim Approach is estimated to exceed the cumulative value of the Expert Panel by $724.2 million, the difference between the two cumulative values has narrowed. This results from the Expert Panel entitlements and Offshore Accord values growing at a faster pace than the Interim Approach. A second and final estimate for the value of the 2019–20 payment will be made by the federal government in March 2020.

Offshore Accord Payments

By the end of 2019–20, the province is expected to have received a total of $1.3 billion from the 2005 Offshore Accord. 2019—20 Offshore Accord payments are estimated to be $8.2 million, a decrease of $9.9 million or 54.5 per cent compared to the 2018–19 Budget Estimates and forecast. The decrease reflects the declining offshore royalties included in the Equalization formula. This is the final year of the current agreement.

The Canada Health Transfer (CHT)

Effective with the 2014–15 fiscal year, the federal government renewed the CHT to provide for equal per capita cash for all provinces and territories. Commencing in 2017–18, the CHT is legislated to grow by the three-year average growth rate of national nominal Gross Domestic Product with a floor of 3.0 per cent. In 2019–20 the three-year average growth rate of national nominal Gross Domestic Product is 4.64 per cent.

The 2019–20 national CHT amount that is available for distribution is set at $40.4 billion. The CHT cash entitlement for Nova Scotia is estimated to be $1,039.4 million, an increase of $42.9 million or 4.3 per cent from the 2018–19 Budget Estimates, and up by $40.7 million or 4.1 per cent compared to the 2018–19 forecast. The CHT estimate reflects the federal government's estimate of the province's share of national population — currently 2.57 per cent.

The federal government's healthcare funding for targeted initiatives such as home care and mental health care will be delivered outside the CHT.

The Canada Social Transfer (CST)

Nova Scotia's 2019–20 cash entitlement for CST is estimated to be $375.5 million, an increase of $9.8 million or 2.7 per cent from the 2018–19 Budget Estimates, and up by $9.0 million or 2.4 per cent compared to the 2018–19 forecast.

The provincial entitlement is based on an equal per capita cash provincial allocation of a fixed national entitlement, which stands at $14.6 billion for 2019–20. Effective with the 2014–15 fiscal year, the CST was renewed for a further 10-year period with the national pool legislated to grow by 3.0 per cent a year through to the end of the 2023–24 fiscal year.

The CST estimate reflects the federal government's estimate of the province's share of national population — currently 2.57 per cent.

The Crown Share Adjustment Payment

The province is not expected to receive a Crown Share Adjustment Payment in 2019–20 as offshore oil and gas production for both the SOEP and Deep Panuke has ended, compared to $1.4 million in the 2018–19 Budget Estimate.

Other Federal Sources

Other Federal Sources are estimated to be $41.3 million in 2019–20, an increase of $12.9 million or 45.6 per cent from the 2018–19 Budget Estimates and up $21.7 million or 111.2 per cent from the 2018–19 forecast.

Other Federal Sources include a statutory subsidy from the federal government, Infoway funding, and additional health funding secured under the Canada Health Transfer renegotiation. The year-over-year variance results primarily from additional health funding, which is estimated to total $37.5 million in 2019–20 and was budgeted and forecasted to be $22.0 million and $13.0 million, respectively, in 2018–19. The additional variance from forecast arises from the deferral of revenue in 2018–19 to 2019–20 due to timing of projects.

Tangible Capital Asset (TCA) Cost Shared Revenue – Federal Sources

The estimate of TCA Cost Shared Revenue from federal sources is $49.1 million for 2019–20. This represents a decrease of $1.3 million or 2.5 per cent compared to the 2018–19 Budget Estimates and an increase of $8.0 million or 19.4 per cent from the 2018–19 forecast.

Ordinary Recoveries

Ordinary Recoveries are projected to total $658.5 million in 2019–20, an increase of $3.0 million or 0.5 per cent from the 2018–19 Budget Estimates and down $20.1 million or 3.0 per cent from the 2018–19 forecast of $678.6 million.

Provincial source recoveries are estimated to be $361.6 million for 2019–20, down $0.1 million or 0.02 per cent from the 2018–19 Budget Estimate and $31.0 million or 7.9 per cent from the 2018–19 forecast.

Federal source recoveries are estimated to be $296.9 million, up $3.0 million or 1.0 per cent from the 2018–19 Budget Estimates and $10.9 million or 3.8 per cent from the 2018–19 forecast. The increase in federal sources relates primarily to $21.9 million for the Investing in Canada Infrastructure Plan. This increase is offset by decreases in various other federal programs including $10.7 million related to the Strategic Investment Fund for university infrastructure.

Government Business Enterprises – Net Income

Nova Scotia Liquor Corporation

The Nova Scotia Liquor Corporation (NSLC) returns all of its net income from operations to the Government of Nova Scotia as the shareholder. The NSLC is budgeting net income of $243.4 million in 2019–20. This is an increase of $9.8 million or 4.2 per cent compared to the 2018–19 Budget Estimates of $233.6 million.

Total net sales are projected to increase 0.9 per cent compared to the 2018–19 Budget Estimates, which is attributed to beverage alcohol sales increasing 2.4 per cent, primarily due to change in calendar days and store network renovations. The increase in beverage alcohol net sales is offset by a decrease in projected cannabis sales of 9.9 per cent compared to the 2018–19 Budget Estimates, based on current sales trends. Cannabis sales are lower than originally projected due to the delay in the legalization date, nationwide supply shortages, and lower than expected e-commerce transactions, an experience which is consistent across the country. Total expenses are up $4.6 million or 3.8 per cent compared to the 2018–19 Budget Estimates as a result of budgeted wage increases and annualization of operating expenses, including depreciation, related to the retailing of recreational cannabis.

Nova Scotia Gaming Corporation

The Nova Scotia Gaming Corporation's net income estimate is $128.0 million for 2019–20, which is a decrease of 1.8 per cent ($2.4 million) compared to the 2018–19 estimate. The decrease in net income is due to the decrease in video lottery revenue, which is reflective of current consumer trends and the removal of video lottery terminals by attrition as sites close.

Halifax-Dartmouth Bridge Commission

Halifax-Dartmouth Bridge Commission (operating as Halifax Harbour Bridges) is budgeting net income for the 2019–20 fiscal year of $8.4 million. This represents an increase of $0.5 million or 6.8 per cent from the 2018–19 Budget Estimates. This change is primarily due to a small increase in revenue from tolls, which is partially offset by higher maintenance costs.

Highway 104 Western Alignment Corporation

Highway 104 Western Alignment Corporation is budgeting net income for the 2019–20 fiscal year of $9.4 million, unchanged from the 2018–19 Budget Estimates.

Key Tax Measures

Enhancement of the Basic Personal Amount, Age Amount, Spousal Amount, and Dependant Amount

The Basic Personal Amount (BPA) is a non-refundable credit that can be claimed by all tax filers. The purpose of the BPA is to provide full relief from provincial income tax to all tax filers with taxable income below the BPA. It also provides partial relief to tax filers with taxable income above the BPA. Effective January 1, 2018, Budget 2018–19 contained the first full year impact of the enhancement to the BPA and other amounts, totalling $85 million of tax savings to Nova Scotians in the fiscal year.

A tax filer cohabitating with their spouse or common law partner can claim a Spousal Amount equal to the BPA. This amount is reduced by the income of the spouse or common law partner above the threshold on a dollar-for-dollar basis. The purpose of this non-refundable credit is to provide tax relief to families with secondary incomes at or below the BPA. If the Spousal Amount is claimed, the tax filer cannot use the Eligible Dependant Amount.

The Eligible Dependant Amount is a non-refundable credit for individuals who do not have a spouse or common law partner and are caring for children who have not reached the age of 18 in the taxation year. The amount can only be claimed if the dependant resides in a home maintained by the tax filer through any part of the year. Claiming the Dependant Amount precludes the individual from claiming the Spousal Amount, and only one person can claim the child as a dependant. The purpose of this credit is to reduce taxes for individuals without a secondary source of income supporting the household and who are incurring expenses associated with raising children. The value of the Dependant Amount is equal to the BPA and is reduced for each dollar of the dependant's net income above the threshold.

The province has increased the BPA, the Spousal Amount, and the Amount for an Eligible Dependant by $3,000 from $8,481 to $11,481 for the 2018 taxation year and subsequent taxation years. These credit amounts were unchanged since 2011, and the increase represents a 35.4 per cent enhancement. The $3,000 increase is available to all tax filers who have taxable income of less than $25,000. For tax filers who have taxable income between $25,000 and $75,000, the enhanced benefit roll-offs at the rate of $0.06 per $1 of taxable income and is fully phased out at $75,000 of taxable income. Tax filers who have more than $75,000 in taxable income will not receive any benefit from the enhanced BPA.

The value of the tax credit is determined by multiplying the amount of the credit by the lowest taxable income bracket rate. Previously, the maximum benefit a tax filer could receive under these credits was $745.48 ($8,481 * 8.79 per cent). The maximum benefit has now risen to $1,009.18 ($11,481 * 8.79 per cent) — an increase of $263.70.

The Age Amount is a non-refundable credit provided to individuals over the age of 65 in the taxation year. The Age Amount available to a tax filer is reduced for net income above $30,828 at a rate of $0.15 per $1 over the income threshold. The maximum Age Amount was $4,141 and it has increased by 35.4 per cent to $5,606 for 2018 and subsequent taxation years. The increase is proportional to the increase in the BPA. Similarly, the maximum benefit is available for tax filers with taxable income of less than $25,000 and phases out between taxable incomes of $25,000 and $75,000.

The enhancement of these non-refundable tax credits will cost $85 million in 2019–20. Approximately 223,000 tax filers did not pay any provincial income tax previously. These enhancements added almost 63,000 tax filers to that number. In total, 501,648 tax filers will benefit from the enhancement. On average, Nova Scotia tax filers receiving the enhancement will save an additional $159.22 in provincial income tax for the 2019 taxation year. The average varies by income range.

In some cases, tax filers will no longer have to use the Low Income Tax Reduction or Age Tax Credit to reduce or eliminate their tax liability. In addition, some seniors who are in receipt of the federal Guaranteed Income Supplement will see their tax liability reduced or eliminated. This will mean paying less in advance of receiving their refund of provincial income tax.

Innovation Equity Personal and Corporate Tax Credit

As announced in the 2018–19 Budget, the province introduced the new Innovation Equity Tax Credit (IETC) effective January 17, 2019 to encourage investors to make equity capital investments in support of young, growing, and innovative businesses. Investors receiving the tax credit will provide the capital required for research, development, or commercialization of new technology, new products, or new processes.

The IETC has several advantages compared to the Equity Tax Credit. Investments are no longer restricted to common shares as preferred shares and convertible debentures are now eligible. The maximum investment limit for individuals has been raised to $250,000. The tax credit rate remains at 35 per cent for investments in a broad range of sectors, and there is a 45 per cent tax credit rate available for investments in selected sectors in ocean technology and the life sciences. As a result, the maximum tax credit available has risen from $17,500 to between $87,500 (35 per cent) and $112,500 (45 per cent).

The minimum hold period for investments has been reduced from five years to four years. The IETC is also available to corporations as of April 1, 2019. The tax credit rate for corporate investments is 15 per cent to a maximum investment of $500,000. The estimated cost of the IETC in 2019—20 is $12 million; $10 million for the personal credit and $2 million for the corporate credit.

Venture Capital Personal and Corporate Tax Credit

Effective April 1, 2019, the province will introduce a Venture Capital Tax Credit that will be available for both individual and corporate investors who invest in a Venture Capital Corporation or Fund. The tax credit rate will be 15 per cent.

The venture capital investment structure is ideal for investors who wish to pool their investments with others and rely on professional fund management to select a portfolio of investment opportunities. The estimated cost of the Venture Capital Tax Credit is $3 million; $2 million for the personal credit and $1 million for the corporate credit.

Equity Tax Credit

The Equity Tax Credit provides a 35 per cent tax credit to individuals investing in Nova Scotia Corporations on a maximum investment of $50,000. The current Equity Tax Credit will be phased out as of December 31, 2019. Applications from eligible corporations will be accepted until December 31, 2019.

While the Equity Tax Credit will be phased out, there are no changes to the tax credit available for equity investments in Community Economic Development Investment Funds (CEDIFs).

Summary: Tax Credits, Rebates, and Tax Expenditures

Details of the estimated value of credits, rebates, and tax expenditures are presented in Table 5.5.

Table 5.5 Estimated Value of Tax Credits, Rebates and Tax Expenditures

($ thousands)

	2018-19 Estimate	2018-19 Forecast*	2019-20 Estimate
Personal Income Tax			
Political Tax Credit	858	865	889
Volunteer Firefighter & Ground Search and Rescue	3,829	3,776	3,805
Labour Sponsored Venture Capital Corporation	4	---	---
Equity Tax Credit	9,337	9,080	9,442
Innovation Equity Tax Credit	---	2,500	10,000
Venture Capital Tax Credit	---	---	2,000
Affordable Living Tax Credit	65,166	65,079	65,079
Total	**79,194**	**81,300**	**91,215**
Corporate Income Tax			
Political Tax Credit	38	38	38
Scientific Research & Experimental Development	15,221	17,684	17,542
New Small Business Tax Holiday	85	48	51
Digital Media Tax Credit	8,638	9,381	9,074
Film Industry Tax Credit	---	(575)	---
Digital Animation Tax Credit	22,657	21,792	17,452
Food Bank Tax Credit for Farmers	300	7	300
Capital Investment Tax Credit	31,372	12,679	21,372
Innovation Equity Tax Credit		---	2,000
Venture Capital Tax Credit		---	1,000
Small Business Tax Rate	256,213	269,461	254,376
Total	**334,524**	**330,515**	**323,205**
Harmonized Sales Tax			
Public Sector Rebates	131,584	142,548	145,899
Printed Book Rebate	9,378	8,952	9,213
First-time Homebuyers Rebate	515	506	503
Disability Rebates	81	63	65
Fire Fighting Equipment Rebate	93	120	123
Your Energy Rebate	104,659	110,535	110,535
Children's Clothing Rebate	8,855	9,490	9,767
Children's Footwear Rebate	2,150	2,183	2,247
Diapers and Feminine Hygiene Products Rebate	2,557	2,924	3,010
Total	**259,872**	**277,321**	**281,362**
*** 2018-19 includes the following Prior Year Adjustments:**			
Volunteer Firefighter & Ground Search and Rescue		(29)	
Scientific Research & Experimental Development		1,104	
Digital Media Tax Credit		(2,808)	
Film Industry Tax Credit		(9,740)	
Digital Animation Tax Credit		(2,651)	
Capital Investment Tax Credit		(18,693)	
		(32,817)	

Revenue Sensitivity

Revenue estimates, which are in the form of a forecast, are based on several economic, financial, tax assessment, statistics, and assumptions. All of these reflect the province's planned course of action for the forecast period and professional judgment as to the most probable set of economic conditions.

As these variables change and more information becomes available throughout the year, they may have an impact, either negative or positive, on the revenue forecasts. These impacts could be material. The province intends to update the forecast periodically throughout the forecast period. The above referenced variables can move independently and may have offsetting effects.

Table 5.6 lists the specific key economic assumptions and variables that directly affect the calculation of provincial revenue estimate and forecast figures, as included in this Revenue Outlook section, and reflect economic assumptions developed by the province as of November 8, 2018.

Key Risks – Revenues

Provincial own-source revenues are strongly influenced by several key factors in the economic outlook. In addition, the revenue models use administrative data, external factors, and historical relationships between factors to arrive at forecasted revenues. All factors are subject to change throughout the fiscal year and can contribute to significant variations in revenues. In addition, historical revisions to data by Statistics Canada often have revenue implications and final personal and corporate income tax assessments for a taxation year are not received until approximately 18 months following the end of a taxation year, thereby creating Prior Year Adjustments (PYAs).

Any slowdown in growth in the levels of household income or compensation of employees poses a downside risk to Personal Income Tax revenues — the province's largest source of revenue.

Yield growth had declined as a result of tax planning and new measures to enhance the Basic Personal Amount and other non-refundable tax credits but yield growth is now projected to grow. Any future slowing in yield growth would pose downward pressure on revenues.

Harmonized Sales Tax (HST) revenues are highly dependent on growth in consumer expenditures, which accounts for more than 70 per cent of the HST tax base. In addition, any further decline in the growth of residential housing investment will put downward pressure on HST revenues.

Table 5.6 Key Economic Assumptions and Variables Affecting Revenue Estimates

Revenue Source	Key Variables
Personal Income Tax	• personal taxable income levels • provincial taxable income yield • tax credits uptake
Corporate Income Tax	• national corporate taxable income levels as provided by Finance Canada • Nova Scotia's share of national taxable income • tax credits uptake
Harmonized Sales Tax	• personal consumer expenditure levels • provincial GDP • spending by exempt industries • rebate levels • residential housing investment
Cannabis Tax	• personal consumer expenditure levels • cannabis product consumption preferences • cannabis product prices • labour income, affecting disposable income spent on cannabis products
Tobacco, Gasoline and Diesel Taxes	• personal consumer expenditure levels • tobacco and fuel consumption patterns • tobacco and fuel prices • labour income, affecting disposable income spent on fuel
Equalization	• one-estimate one-payment approach
Canada Health Transfer **Canada Social Transfer**	• annual increases in the national base amount • changes in share of national population

The forecast of Corporate Income Tax revenues is highly dependent upon national corporate taxable income, especially given the fact that the province has adopted a three-year average share approach. As revenues are sensitive to fluctuations in Nova Scotia's share, there are substantial risks to Corporate Income Tax revenues if the share does not stay as strong. The recent change by the federal government in the accelerated capital cost allowance is forecast to have significant downward pressure on revenues, and the actual impact of these changes could be more.

Cannabis Tax revenues are subject to a number of uncertainties, including availability of products and consumer preferences. This is a new product and the tax base for the province, and estimates will need to be refined as the legal market becomes established and trends emerge.

Tobacco Tax revenues continue to be influenced by cessation and reduced consumption.

Agreements associated with the Equalization program (e.g., Offshore Accord and Cumulative Best-of Guarantee Payment) are currently legislated to expire at the end of 2019–20. A narrowing of the cumulative gap between the Expert Panel approach for Equalization and the Interim approach for the purpose of calculating the Cumulative Best-of Guarantee payment arose in both 2018–19 and 2019–20. Any further narrowing of this gap poses downside risks for revenues.

Additional Information

In addition to the key economic and fiscal assumptions contained in the 2019–20 revenue estimates, the following information should also be considered when interpreting the revenue estimates.

The revenue estimates for 2019–20 are considered to have been prepared on a basis consistent with accounting policies currently used by the province to record and/or recognize revenue for purposes of its General Revenue Fund.

The Department of Finance and Treasury Board and other departments or agencies of the province have prepared specific revenue estimates for 2019–20 using a combination of current internal and external models and other information available.

Every effort has been made to ensure the integrity of the results of the models and other information. As actual or more current information becomes available, adjustments may be necessary to the projection of revenues.

The revenue projected from federal transfer payment programs pursuant to the Federal-Provincial Fiscal Arrangements Act incorporates official information released by the federal government as of December 5, 2018. In addition, transfer payment revenue estimates are based on Canadian national and provincial population estimates supplied by Statistics Canada.

PYAs are normally made to federal transfers and to income tax revenues. All PYAs known to date have been included in the forecast.

Budget 2019–20: Expenses Outlook

In 2019–20, Nova Scotia's total expenses for the General Revenue Fund are estimated to be $11,144.1 million (Table 2.1). This is an increase of $281.4 million or 2.6 per cent from the 2018–19 Budget Estimates and an increase of $238.1 million or 2.2 per cent compared to the 2018–19 forecast.

Tables 5.7 and 5.8 provide financial statistics of provincial Total Expenses amount and as a percentage of total expenses, and Chart 5.2 presents a breakdown of expenses by the four main sources.

Table 5.7 Total Expenses

($ thousands)

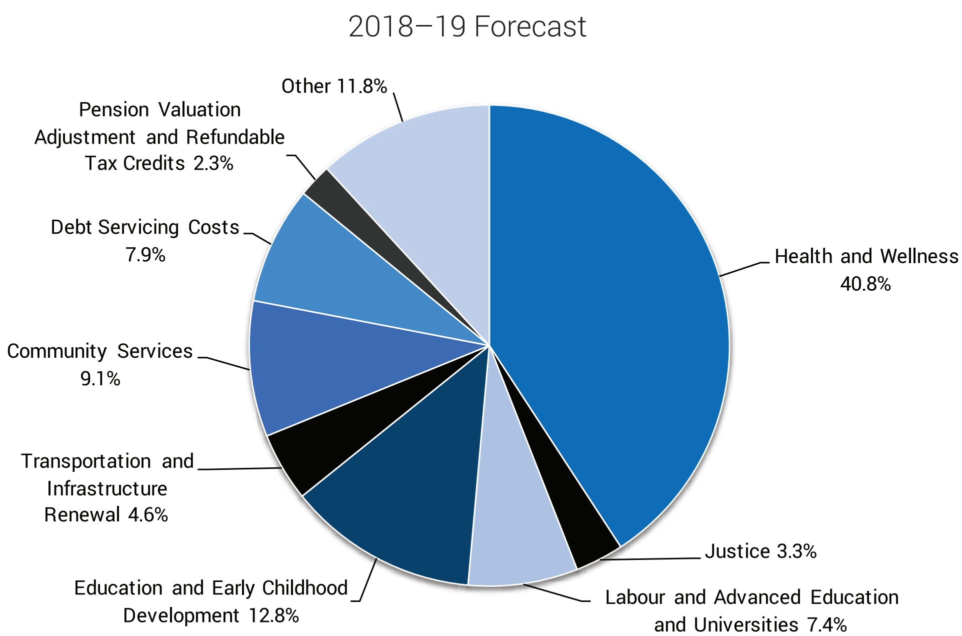
General Revenue Fund: Expenses	2016-17 Actual	2017-18 Actual	2018-19 Estimate	2018-19 Forecast	2019-20 Estimate
Departmental Expenses:					
Agriculture	45,376	52,795	49,615	65,810	46,427
Business	131,689	366,774	156,111	155,381	152,014
Communities, Culture and Heritage	97,925	98,401	88,046	91,800	93,641
Community Services	932,731	957,800	989,698	995,261	1,018,081
Education and Early Childhood Development	1,274,121	1,327,930	1,397,782	1,396,815	1,429,342
Energy	36,736	52,511	---	---	---
Energy and Mines	---	---	31,462	42,118	49,036
Environment	36,381	36,298	37,516	38,016	38,524
Finance and Treasury Board	26,911	21,044	23,446	21,739	23,683
Fisheries and Aquaculture	12,289	14,736	20,889	20,889	21,536
Health and Wellness	4,104,618	4,278,428	4,367,099	4,446,933	4,638,526
Internal Services	186,051	188,588	189,497	202,219	193,834
Justice	329,559	340,596	354,581	355,401	361,438
Labour and Advanced Education	381,635	377,848	389,373	373,006	396,209
Assistance to Universities	461,381	475,904	425,272	430,862	427,782
Lands and Forestry	---	---	79,601	82,001	76,750
Municipal Affairs	198,435	284,437	212,581	212,930	213,222
Natural Resources	79,648	77,670	---	---	---
Public Service	198,838	207,953	210,298	210,530	220,275
Seniors	1,526	2,170	2,709	2,640	2,721
Transportation and Infrastructure Renewal	522,295	558,749	477,545	505,821	497,280
Restructuring Costs	53,640	81,676	190,241	146,929	201,463
Total - Departmental Expenses	**9,111,785**	**9,802,308**	**9,693,362**	**9,797,101**	**10,101,784**
Other Expenses					
Refundable Tax Credits	133,738	115,133	146,883	129,816	134,324
Pension Valuation Adjustment	17,191	58,338	128,803	116,492	51,837
Debt Servicing Costs	823,759	824,667	893,573	862,544	856,107
Total Expenses	**10,086,473**	**10,800,446**	**10,862,621**	**10,905,953**	**11,144,052**

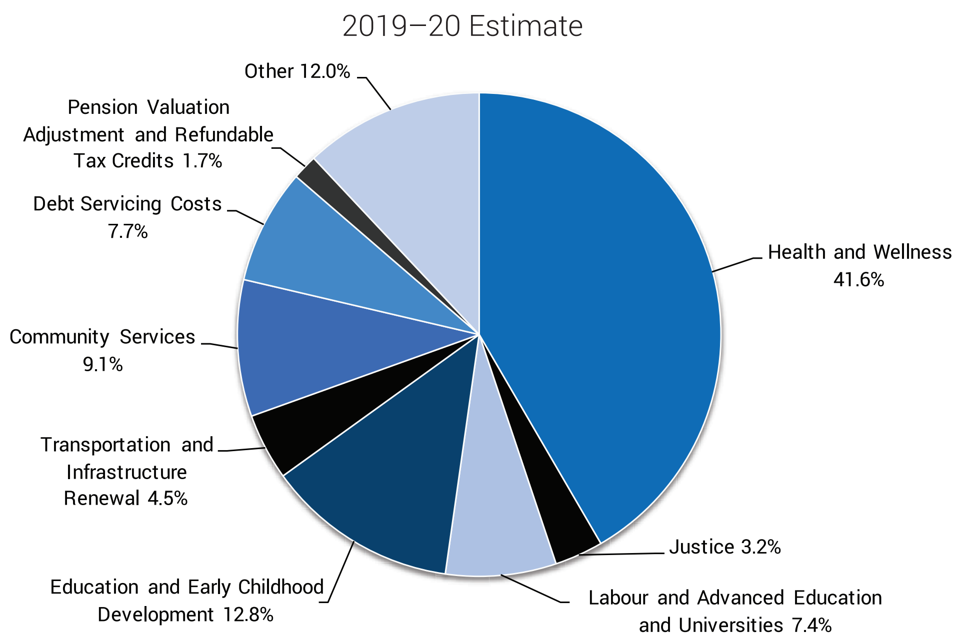
Table 5.8 Total Expenses
(as a percentage of Total Expenses)

General Revenue Fund: Expenses	2016-17 Actual	2017-18 Actual	2018-19 Estimate	2018-19 Forecast	2019-20 Estimate
Departmental Expenses:					
Agriculture	0.4%	0.5%	0.5%	0.6%	0.4%
Business	1.3%	3.4%	1.4%	1.4%	1.4%
Communities, Culture and Heritage	1.0%	0.9%	0.8%	0.8%	0.8%
Community Services	9.2%	8.9%	9.1%	9.1%	9.1%
Education and Early Childhood Development	12.6%	12.3%	12.9%	12.8%	12.8%
Energy	0.4%	0.5%	---	---	---
Energy and Mines	---	---	0.3%	0.4%	0.4%
Environment	0.4%	0.3%	0.3%	0.3%	0.3%
Finance and Treasury Board	0.3%	0.2%	0.2%	0.2%	0.2%
Fisheries and Aquaculture	0.1%	0.1%	0.2%	0.2%	0.2%
Health and Wellness	40.7%	39.6%	40.2%	40.8%	41.6%
Internal Services	1.8%	1.7%	1.7%	1.9%	1.7%
Justice	3.3%	3.2%	3.3%	3.3%	3.2%
Labour and Advanced Education	3.8%	3.5%	3.6%	3.4%	3.6%
Assistance to Universities	4.6%	4.4%	3.9%	4.0%	3.8%
Lands and Forestry	---	---	0.7%	0.8%	0.7%
Municipal Affairs	2.0%	2.6%	2.0%	2.0%	1.9%
Natural Resources	0.8%	0.7%	---	---	---
Public Service	2.0%	1.9%	1.9%	1.9%	2.0%
Seniors	---	---	---	---	---
Transportation and Infrastructure Renewal	5.2%	5.2%	4.4%	4.6%	4.5%
Restructuring Costs	0.5%	0.8%	1.8%	1.3%	1.8%
Total - Departmental Expenses	**90.3%**	**90.8%**	**89.2%**	**89.8%**	**90.6%**
Other Expenses					
Refundable Tax Credits	1.3%	1.1%	1.4%	1.2%	1.2%
Pension Valuation Adjustment	0.2%	0.5%	1.2%	1.1%	0.5%
Debt Servicing Costs	8.2%	7.6%	8.2%	7.9%	7.7%
Total Expenses	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Note: Numbers may not add up to totals due to rounding.

Chart 5.2 Total Expenses 2018–19 Forecast and 2019–20 Estimate





Departmental Expenses

Departmental Expenses in 2019–20 are estimated to be $10,101.8 million. This is an increase of $408.4 million or 4.2 per cent from the 2018–19 Budget Estimates and an increase of $304.7 million or 3.1 per cent from the 2018–19 forecast. Details of Departmental Expenses are provided in the *Budget 2019—20 Estimates and Supplementary Details* document.

Refundable Tax Credits

Refundable Tax Credits are estimated to be $134.3 million in 2019–20, which is a decrease of $12.6 million or 8.6 per cent from the 2018–19 Budget Estimates and an increase of $4.5 million or 3.5 per cent from the 2018–19 forecast. Refundable Tax Credits are projected to decline from the 2018–19 Budget Estimates as a result of lower estimates for the Capital Investment and Digital Animation Tax Credits, offset by higher expenditures for the Scientific Research and Experimental Development Tax Credit.

Pension Valuation Adjustment

Pension Valuation Adjustment is estimated to be $51.8 million in 2019–20, down $77.0 million from the 2018–19 Budget Estimates and down $64.7 million compared to the 2018–19 forecast. The decrease from estimate to estimate is attributed to the 2018–19 early service payouts and updated actuarial reports and changes in actuarial assumptions.

Debt Servicing Costs

Debt Servicing Costs are projected to be $856.1 million for 2019–20, down $37.5 million or 4.2 per cent from the 2018–19 Budget Estimates and down $6.4 million or 0.7 per cent from the 2018–19 forecast. Debt servicing costs have decreased from the Budget Estimates primarily as a result of maturing high coupon debt, favourable forecasted interest rates, and a decrease in short-term debt servicing costs and pension obligations.

6. Economic Outlook

The province relies on economic forecasts and statistical relationships with historical administrative data to estimate tax revenues prior to receiving information on actual tax revenues collected. The economic assumptions used in this forward-looking outlook are presented here. The outlook is based on data and external events up to November 8, 2018. As new data and information is revealed after November 8, 2018, this outlook is subject to change. Any new information and resulting deviations from this outlook will be incorporated into subsequent forecasts and published in future updates.

External Economic Conditions

Global Economy: The global economic outlook is expected to moderate as growth in advanced economies decelerate from recent peaks. The International Monetary Fund (IMF) anticipates that global real GDP growth will slow from 3.7 per cent in 2018 to 3.5 per cent in 2019 and 3.6 per cent in 2020.

The North American market remains the primary destination for Nova Scotia's exports, although exports are diversifying (Chart 6.1). Exports to the Asia-Pacific region continued to grow in 2018, with gains concentrated in seafood. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) will give Nova Scotia's exporters greater access to some of the world's fastest growing economies. As is the case globally, economic growth in the Asia-Pacific region is expected to be slower after 2018.

Slower growth in China is due to ongoing structural changes, financial sector imbalances, and the trade dispute with the United States (US). The Chinese economy is expected to grow by 6.2 per cent in both 2019 and 2020. The Japanese economy is projected to grow at 1.1 per cent in 2019 and 0.5 per cent in 2020 as accommodative fiscal and monetary policies mitigate the impacts of a sales tax increase in 2019. South Korea's economy continues to be supported by consumption and net exports.

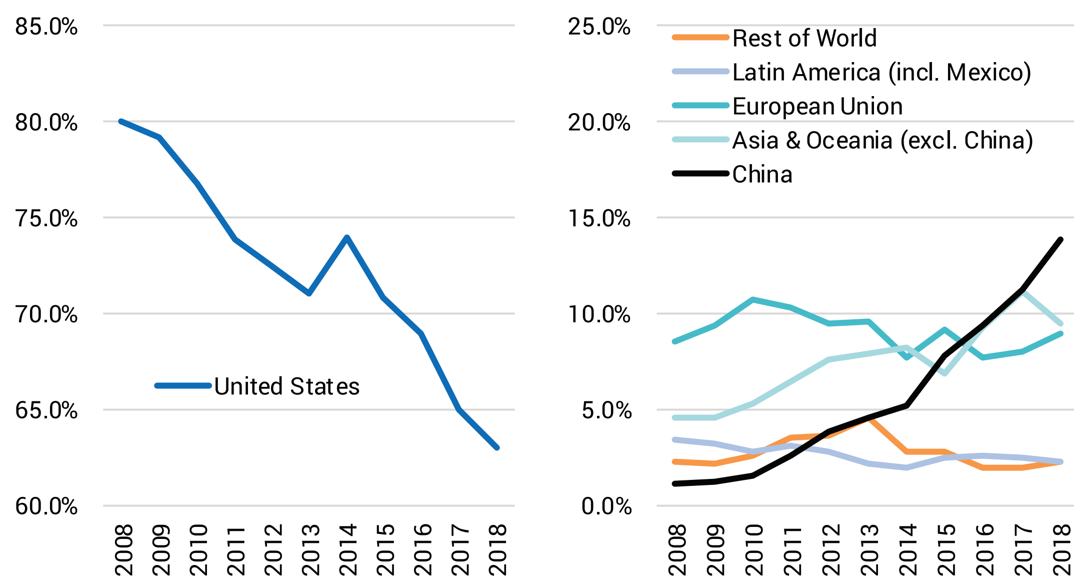
In the European Union (EU), the expansion has moderated to a slower pace in 2018. Goods exports to the EU account for 8.0 per cent of Nova Scotia's international shipments. Within the Euro Area, real GDP growth was 1.8 per cent in 2018, and the IMF projects growth of 1.6 per cent in 2019 and 1.7 per cent in 2020. Economic growth in the Euro Area has been supported by strong labour markets and consumer spending. The European Central Bank ended its net asset purchasing program, but monetary policy remains accommodative. In the United Kingdom (UK), growth has been supported by household consumption though uncertainty surrounding Brexit has weighed on business investment. The IMF expects UK growth to be 1.5 per cent in 2019 and 1.6 per cent in 2020.

United States: The US is the destination for over 60.0 per cent of Nova Scotia's international goods exports. The US is also a major source of Nova Scotia tourism visitors and imports. US economic growth remained above its potential in 2018 due to its strong labour markets and federal tax cuts. US real GDP growth is expected to moderate in 2019 to 2.5 per cent.

US real GDP is expected to grow by 1.9 per cent in 2020 as the end of fiscal stimulus and ongoing trade tensions slow the economy. Household consumption is expected to remain robust as labour markets remain tight and wage growth continues.

Although the US economy may be running above potential, the US Federal Reserve has indicated that monetary tightening will proceed cautiously in light of global developments and muted inflation pressure. Business investment is expected to moderate further as interest rates rise, demand growth slows, and new tariffs continue to affect supply chains. Although trade tensions have currently eased between China and the United States, they remain a key source of uncertainty in the outlook.

Chart 6.1 Nova Scotia's International Trade Is Diversifying
(share of international merchandise exports on a customs basis)



Source: Innovation, Science and Economic Development, Trade Data Online. Data for 2018 is average of January to November

Canada: Nova Scotia's trade with other provinces accounted for over 50 per cent of the province's total trade in 2017. While Nova Scotia's international trade is primarily goods shipments, trade with the rest of Canada is weighted towards trade in services.

Canada's real GDP growth was estimated at 2.1 per cent in 2018. Canadian labour markets remained strong in 2018 and unemployment fell to its lowest rate in more than four decades. Consumer spending and residential investment slowed, while capital investment and exports expanded through much of the year. Housing markets in Toronto and Vancouver cooled because of ongoing affordability measures.

Canada's real GDP is projected to grow by 1.7 per cent in 2019 and 1.6 per cent in 2020. Continued growth in employment and wages should support household spending as households adjust to new mortgage conditions and higher debt-servicing costs. Housing activity is expected to remain soft due to tighter financial conditions and policy changes for financial institutions. Business investment is expected to grow as the economy reaches capacity limits, requiring expansion to increase output.

New trade agreements and tax measures should also support business investment. Canada's non-energy exports are projected to grow in line with foreign demand as Canada benefits from new trade agreements, though weaker domestic demand is projected to weigh on imports. Oil prices are expected to rebound as planned production cuts in Alberta during the first half of 2019 help to alleviate excess supply and downward pressure on prices.

The Bank of Canada raised their key policy rate three times in 2018. The decline in oil prices and output restraint is expected to be a temporary drag on growth in 2019. Given the expectations around US and Canadian monetary policy, the Canadian dollar is projected to average around 78–79 US cents in 2019 and 2020.

Budget Economic Assumptions

Table 6.1 presents the key external economic assumptions as of November 8, 2018.

Table 6.1 External Economic Assumptions for Nova Scotia Budget Forecast

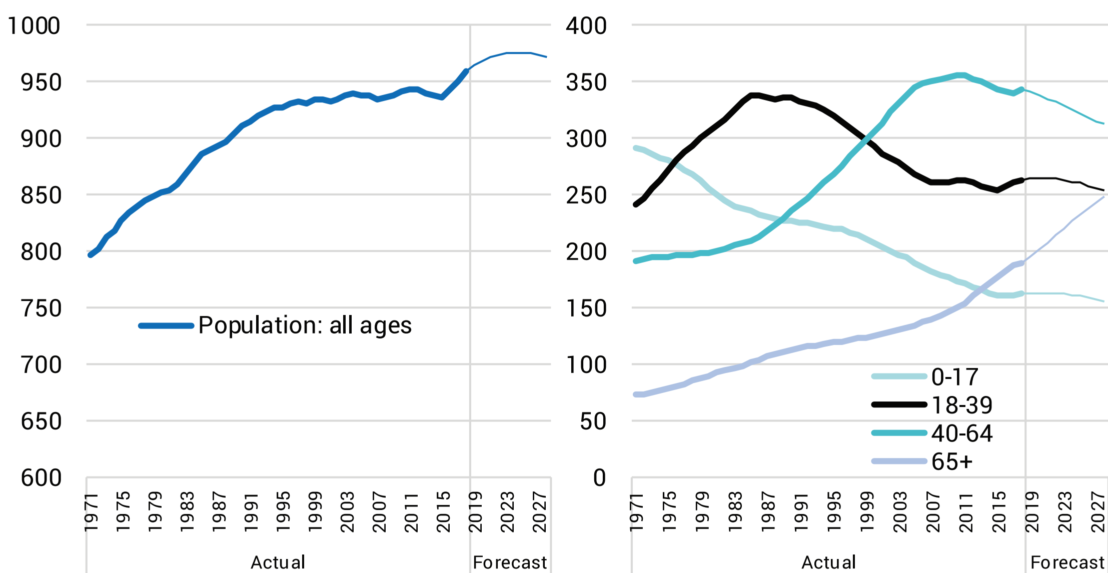
	2019	2020
US Real GDP Growth (% change, 2012 chained)	2.5	1.9
Canada Real GDP Growth (% change, 2012 chained)	1.7	1.6
Canada Nominal GDP Growth (% change, current prices)	3.7	3.6
USD/CAD exchange rate (US¢ per CAD)	78.2	78.7
Canadian Prime Lending Rate	4.3	4.7
5 Year Conventional Mortgage Rate	5.9	6.1

Nova Scotia Economic Review and Outlook

Population and demography: Nova Scotia's population continues to grow, with sustained high levels of international migration and positive net interprovincial migration contributing to the highest estimated population on record: 959,942 persons. The population at all ages grew by over 9,200 between July 1, 2017, and July 1, 2018. Natural population change continues to negatively affect population growth as deaths outnumber births.

In revised population projections, the population is expected to continue growing through the middle of the next decade (Chart 6.2). Over this time, the composition of the population is expected to change as the baby boom cohort will be largely over the age of 65 by the end of the next decade. Improvements in immigration and net interprovincial migration are expected to help stabilize the population aged 18–39 over the next decade.

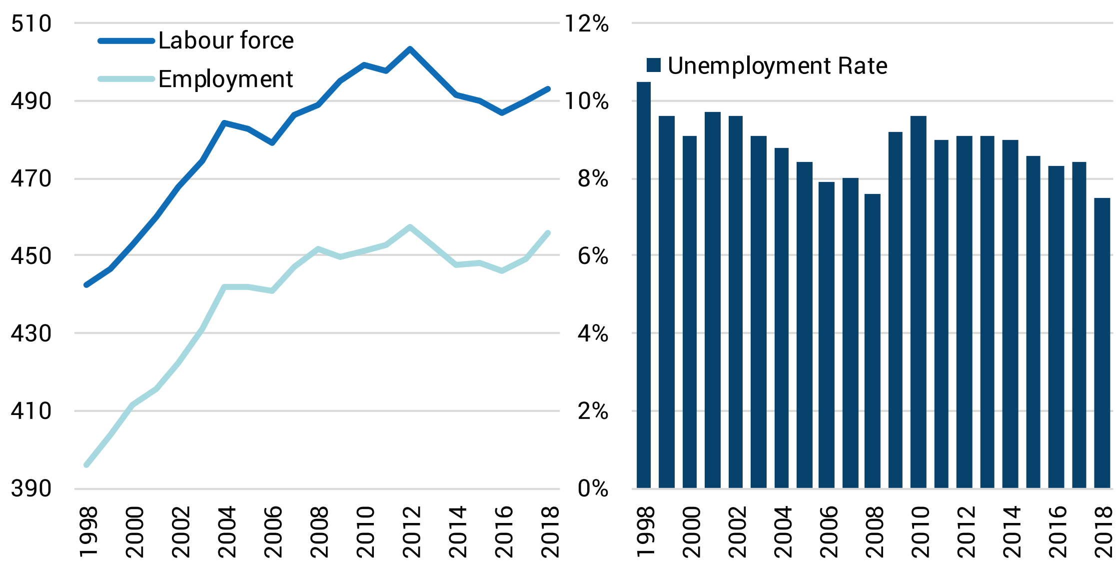
Chart 6.2 Nova Scotia's Population Rising
(thousands, July 1)



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

Nova Scotia's Recent Economic Performance: Nova Scotia's recent renewal in economic growth can be attributed in part to a growing population and labour productivity (Charts 6.3 and 6.4). These two phenomena have offset the economic impact of an aging population and rising retirements. Population increases have translated into labour force growth in 2017 and 2018 after four years of a shrinking workforce. Rising employment (+1.5 per cent) has led to a lower unemployment rate (7.5 per cent) in 2018 and tighter labour market conditions over the last year.

Chart 6.3 Nova Scotia's Labour Force and Employment Are Growing Again
(Labour force and employment in thousands, unemployment rate as a share of labour force in annual averages)



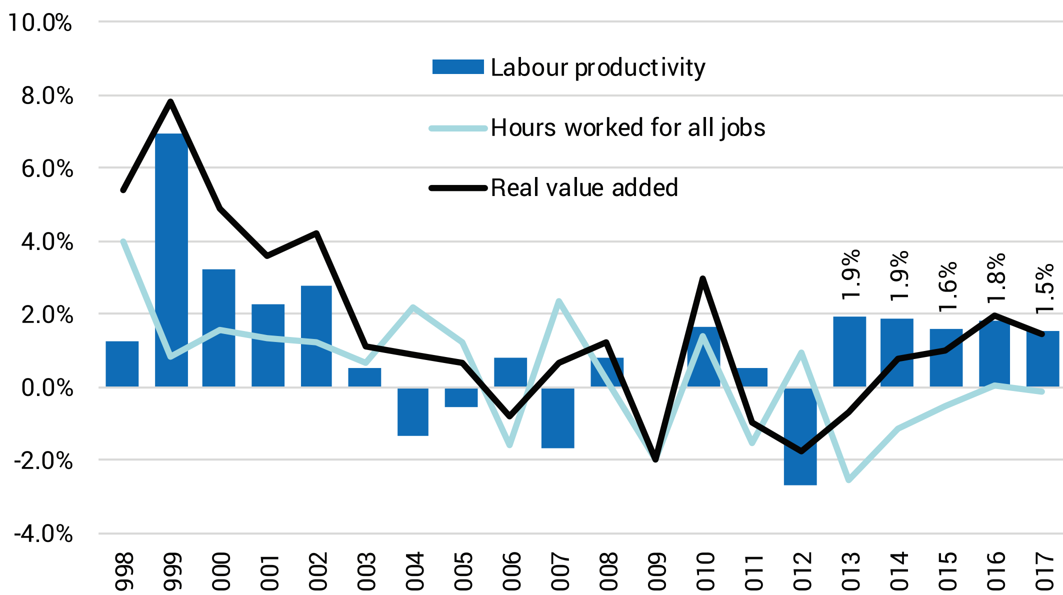
Source: Statistics Canada, Table 14-10-0018-01 Labour force characteristics by sex and detailed age group, annual (x 1,000)
Note: annual average for 2018 released after November 8, 2018, is not incorporated into projections.

Labour productivity in the business sector has risen with average annual growth of 1.8 per cent in the past five years. Productivity improvements are widespread across several business sectors.

Across all sectors, real Gross Domestic Product (GDP) grew 1.5 per cent in 2017, the same pace as 2016. Growth in household consumption expenditures, residential investment, exports, and government spending offset rising imports and the wind-down of some major projects. Growth in nominal GDP in 2017 was 2.9 per cent, faster than in the previous two years.

Chart 6.4 Nova Scotia's Productivity Growth

(Annual change, business sector industries)



Source: Statistics Canada, Table 36-10-0480-01 Labour productivity and related measures by business sector industry and by non-commercial activity consistent with the industry accounts

Rising employment lifted compensation of employees by 2.7 per cent during the first three quarters of 2018. After the strong growth in 2017, household consumption and residential investment are estimated to have grown more moderately in 2018. Retail sales were up 1.2 per cent in 2018 with a decline in new automobile sales offsetting growth in other sectors. Housing starts were up over 20.0 per cent in 2018 and home prices showed growth but renovation activity slowed. The Consumer Price Index (CPI) in 2018 rose 2.2 per cent in 2018 with rising energy prices across Canada. The Nova Scotia CPI excluding energy prices was up 1.6 per cent.

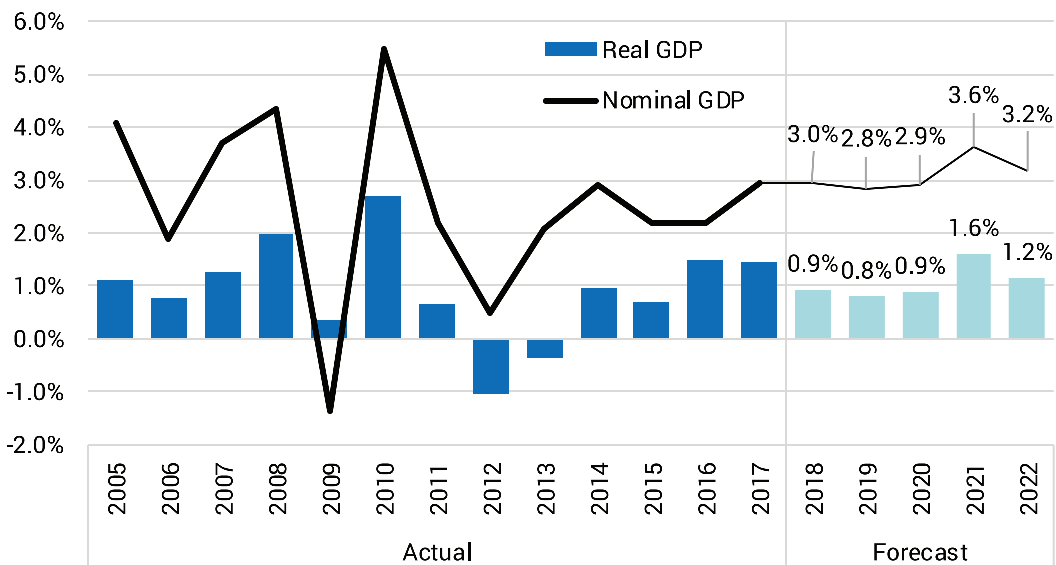
Momentum in export growth continued into 2018. International merchandise exports increased 7.5 per cent over the first eleven months of 2018, and manufacturing shipments were up 9.4 per cent for 2018. In 2018, rising exports were seen in most major categories but were particularly fast for lobster, forest products, coal, and tires/rubber. Export destination diversification continued in 2018 with shipments rising faster to Asia and the European Union than to the United States.

Non-residential building construction increased 5.0 per cent in 2018 compared to 2017. Continued activity with commercial buildings in Halifax and a rise in industrial building construction outside the Halifax region drove the increase in 2018. Some major engineering construction projects (such as the Maritime Link and the Angus L. Macdonald Bridge redecking) finished work in late 2017 or early 2018, which will temper growth.

Overall real GDP for 2018 is estimated to have grown by 0.9 per cent with nominal GDP growth of 3.0 per cent.

Nova Scotia Economic Outlook: In the near term, Nova Scotia's real GDP growth is forecast to remain positive but at a slower pace than observed in recent years: 0.8 per cent in 2019 and 0.9 per cent in 2020 (Chart 6.5). Nominal GDP is forecasted to grow by 2.8 per cent in 2019 and 2.9 per cent in 2020, similar to the pace observed in 2017.

Chart 6.5 Nova Scotia's GDP Outlook
(Annual change, real GDP in $2012 chained)



Source: Statistics Canada, Table 36-10-0222-01 Gross domestic product, expenditure-based, provincial and territorial, annual (x 1,000,000); Department of Finance and Treasury Board projections

Over the medium-term, Nova Scotia's economic growth is expected to accelerate in 2021 and 2022 with specific project work including construction of combat vessels at the Halifax Shipyard and other major investment projects.

The recent improvements in the demographic situation in the province are expected to allow modest growth in the labour force while employment stabilizes over the next two years.

Household income is expected to grow by 2.9 per cent in 2019, sustained by wage growth, government transfers, and payments of long service awards for provincial public sector employees. Growth is expected to moderate to 2.7 per cent in 2020. Household consumption expenditures are expected to grow at similar rates as household income, while inflation is expected to be higher than in recent years.

In 2019, major projects work will be lifted with decommissioning work of offshore natural gas facilities and an increase in provincial government capital expenditures. Work on these projects will continue into 2020. Residential construction is expected to slow over 2019 and 2020 as housing starts fall after a period of elevated levels.

Non-energy commodity exports have been growing robustly in recent years, but this growth is expected to moderate in 2019 and 2020. Economic growth of Nova Scotia's major export destinations (Canada, United States, China, Europe) are projected to be slower, and the Canadian dollar is expected to be stable. New trade agreements (CUSMA, CETA, CPTPP) provide an upside risk to further export expansion but may require expanded production capacity. Nova Scotia's offshore natural gas projects wound down in 2018, and energy imports are anticipated to rise in the short term.

Among sectors, Nova Scotia's near-term economic outlook is driven by the manufacturing sector along with construction, professional services, and real estate (Table 6.2). These offset declines anticipated in wholesale and transportation activity as well as slower growth in resource sectors, personal/repair services, information/culture, and public administration.

Table 6.2 Nova Scotia Outlook for GDP by Industry
(Compound annual growth rates, real GDP at basic prices)

	Share of GDP 2017	Actual Growth 2012–2017	Projected Growth 2017–2020
All industries	100.0	0.9	0.9
Agriculture, forestry, fishing	3.1	-1.5	0.5
Mining, oil, gas	0.6	-2.2	0.1
Utilities	2.1	0.8	0.3
Construction	6.0	1.2	1.9
Manufacturing	7.6	0.2	2.7
Wholesale trade	3.6	2.1	-0.1
Retail trade	6.8	2.4	0.5
Transportation	3.5	1.4	-0.9
Information, culture	3.3	0.8	0.3
Finance, insurance	5.6	0.5	0.5
Real estate, rental, leasing	15.7	1.8	1.5
Professional, technical	4.5	3.0	1.7
Company management	0.3	-4.3	-1.5
Administrative, support	2.1	-1.0	0.1
Education	6.9	0.6	0.4
Health care, social assistance	10.7	1.1	0.9
Arts, entertainment, recreation	0.6	1.8	0.5
Accommodation, food	2.6	1.1	0.7
Personal, repair	2.1	0.6	0.3
Public administration	12.4	-0.7	0.2

Source: Statistics Canada, Tables 36-10-0400-01, 36-10-0402-01; Department of Finance and Treasury Board projections
Note: Real estate, rental, leasing includes the imputed rent on owner-occupied dwellings.

Economic Forecast Risks and Sensitivities

The economic assumptions constitute a forward-looking assessment of economic conditions and prospects, based on external data and information up to November 8, 2018. As new information is revealed after this date, the outlook is subject to change. The Department of Finance and Treasury Board monitors new data and events that may result in a revised economic outlook. Any changes to the economic outlook will be published in future updates.

The global economy is projected to continue expanding, but downside risks are emerging and momentum from cyclical recovery will no longer drive economic growth above potential. Further tightening of monetary policy is expected for advanced economies and will filter into the outlooks for interest rates and exchange rates. However, the timing and degree of further monetary tightening is uncertain.

Although US economic growth was solid in 2018, it is expected to slow with tightening monetary policy and fading fiscal stimulus. The US-China trade dispute and possible federal government shutdowns are sources of uncertainty to the US outlook that could become more disruptive going forward.

The Canadian economy has slowed recently due to lower oil prices and cooling housing markets. Uncertainty regarding Canada's trade relations within North America have been reduced with the signing of the Canada–United States–Mexico Agreement (CUSMA). Although there is little uncertainty about the effects of CUSMA, its implementation is still incomplete. The impacts of Canada's other new agreements (CETA, CPTPP) remain uncertain as well. Risks around Brexit and the UK's future trading relationship with Canada have not been resolved, and further economic disruption is possible from this risk.

Nova Scotia's economic outlook also has upside risks from further investment in production capacity to take advantage of new export opportunities. However, the provincial economic outlook is sensitive to large changes in industrial capacity and output.

Nova Scotia's economic outlook has upside risks if prospective major projects (not included in this outlook) move forward. The scale and timing of the economic activity associated with shipbuilding and other major projects that are included in the outlook could also alter the projections.

Forecast Summary and Private Sector Comparison

Table 6.3 presents a summary of the Nova Scotia economic outlook used in preparing the revenue estimates. The economic forecast contains data and information up to and including November 8, 2018. The private sector forecast comparison is based on the average of published forecasts as of November 8, 2018.

Table 6.3 Summary Budget Economic Forecast
(Per cent change, nominal values, except where noted)

	2018	2019	2020
Real GDP ($2012 chained)	0.9	0.8	0.9
Average of private sector forecasters: Real GDP	*1.1*	*0.9*	*0.9*
Nominal GDP	3.0	2.8	2.9
Average of private sector forecasters: Nominal GDP	*3.1*	*3.0*	*2.8*
Compensation of Employees	2.7	2.8	2.3
Household Income	2.6	2.9	2.7
Household Final Consumption	2.8	3.1	2.4
Retail sales	2.1‡	2.4	1.7
Average of private sector forecasters: Retail sales	*2.6*	*2.6*	*2.2*
Consumer Price Index (all-items, Index 2002=100)	2.3‡	2.3	2.0
Average of private sector forecasters: CPI	*2.3*	*2.3*	*2.0*
Residential Investment	5.5	-3.3	-0.7
Non-residential, Machinery, Intellectual Property	0.6	4.8	2.2
Corporate net operating surplus	6.6	5.9	5.6
Unincorporated net mixed income	2.2	2.3	2.0
Exports of goods and services	4.4	2.8	2.8
Exports of goods to other countries	7.9	4.1	2.9
Imports of goods and services	2.6	2.3	2.0
Population at July 1 (000s, all ages)	959.9a	964.5	968.3
Population at July 1 (000s, 18–64)	606.7‡	605.7	603.4
Labour force (000s)	493.0‡	494.5	495.0
Employment (000s)	452.9‡	454.2	454.0
Average of private sector forecasters: Employment	*454.5*	*455.7*	*456.4*
Unemployment rate (%)	8.1‡	8.1	8.3
Average of private sector forecasters: Unemployment rate	*7.7*	*7.7*	*7.7*

a~actual

‡ 2018 figures as estimated using data up to November 8, 2018. Actuals for 2018 were released after this date.

Note: non-residential, machinery, intellectual property refers to all categories of gross fixed capital formation except residential structures. This includes business as well as non-profit and government investment.

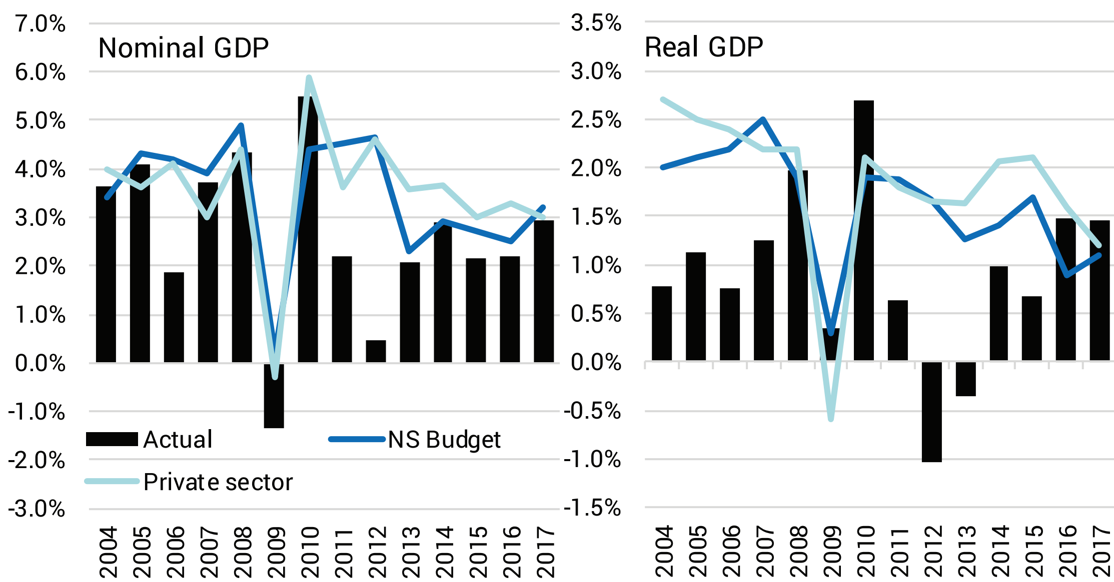
Only a limited number of private sector forecasters make projections for nominal GDP and retail sales.

Economic Forecast Process and Review

Section 56(3)(b) of the Finance Act requires the Minister of Finance and Treasury Board to present the major economic assumptions made in preparing the fiscal plan.

The Department of Finance and Treasury Board uses a proprietary econometric forecasting model to project the key indicators of Nova Scotia's economy. The model builds future projections on historical trends as well as external assumptions about global conditions. In the process of generating an economic forecast, staff identify conditions that are expected to deviate from historical trends and make appropriate adjustments to reflect these events. This exercise of professional judgment is documented and disclosed to decision-makers prior to releasing the economic forecast (Chart 6.6).

Chart 6.6 Economic Forecast Accuracy



Source: Statistics Canada, Table 36-10-0222-01 Gross domestic product, expenditure-based, provincial and territorial, annual (x 1,000,000); Department of Finance and Treasury Board Budget projections and private sector forecast

The Department of Finance and Treasury Board conducts challenge and review sessions to validate the economic forecast. Before using economic assumptions and forecasts for budget planning, department staff present them to members of the academic community and leading private sector forecasters who evaluate whether the exogenous assumptions and resulting economic forecasts form a reasonable and internally coherent basis for fiscal planning. Senior management of the Department of Finance and Treasury Board as well as staff from the Office of the Auditor General (OAG) participate in challenge sessions, so that they can hear credible, objective advice on whether the economic forecast is a reasonable basis for fiscal planning.

Adjustments to the forecast were made as a result of feedback from this session, resulting in a different projection than the one presented in the December 2018 Budget Forecast Update (which also included data up to November 8, 2018).

The Department of Finance and Treasury Board provides its economic outlook as part of the OAG's review of revenue estimates, who assess the reasonableness of the forecast, consistent process, full disclosure of assumptions, professional judgment, and appropriate approvals.

The provincial economic forecast is intended to provide a reasonable basis for fiscal planning, but it is often different from the final economic results that drive revenue growth. These variances are typically caused by major events and shocks to the provincial economy as well as revisions to historical data.

The economic outlook is sensitive to changes that could occur to different types of economic activity. Different types of shocks, including their spinoffs effects, would be expected to have different impacts on the economic outlook depending on the supply-chain linkages, imports, wages, and employment of the type of activity. Changes in some types of activity would need to be larger in dollars terms to result in an equivalent impact on the overall nominal GDP forecast of the province (Table 6.4). Unforeseen external and domestic events can change the economic outlook with different sensitivities and likelihoods depending on the sectors affected.

Table 6.4 Economic Forecast Sensitivities

(Variability in output required to change nominal GDP growth by 0.5 percentage points)

Capital investment	$264 million
Residential construction	$288 million
Household final consumption	$395 million
Resource sector output	$274 million
Manufacturing sector output	$388 million
Service sector output	$226 million

Economic Indicators

Table 6.5 presents a summary of the key economic indicators for Nova Scotia for 2013 to 2020.

Table 6.5 Nova Scotia Key Indicators

		ACTUAL				
		2013	2014	2015	2016	2017
Gross Domestic Product at market prices ($millions current)		38,614	39,739	40,603	41,492	42,715
	(% change)	*2.1%*	*2.9%*	*2.2%*	*2.2%*	*2.9%*
Gross Domestic Product at market prices ($2012, chained millions)		37,697	38,066	38,325	38,895	39,461
	(% change)	*-0.4%*	*1.0%*	*0.7%*	*1.5%*	*1.5%*
Compensation of employees ($millions current)		20,838	21,303	21,782	21,911	22,535
	(% change)	*2.4%*	*2.2%*	*2.2%*	*0.6%*	*2.8%*
Household income ($millions current)		37,690	38,604	39,834	40,129	41,485
	(% change)	*2.7%*	*2.4%*	*3.2%*	*0.7%*	*3.4%*
Household final consumption expenditure ($millions current)		27,762	28,562	28,814	29,323	30,483
	(% change)	*3.2%*	*2.9%*	*0.9%*	*1.8%*	*4.0%*
Retail sales ($millions current)		13,639	14,018	14,046	14,710	15,861
	(% change)	*3.2%*	*2.8%*	*0.2%*	*4.7%*	*7.8%*
Consumer Price Index (all-items, Index 2002=100)		126.6	128.8	129.3	130.9	132.4
	(% change)	*1.2%*	*1.7%*	*0.4%*	*1.2%*	*1.1%*
Business gross fixed capital formation: residential ($millions current)		2,723	2,397	2,577	2,749	2,983
	(% change)	*0.4%*	*-12.0%*	*7.5%*	*6.7%*	*8.5%*
Gross fixed capital formation: non-res., M&E, gov't, IP ($millions current)		5,144	5,312	5,457	6,198	5,869
	(% change)	*7.8%*	*3.3%*	*2.7%*	*13.6%*	*-5.3%*
Net operating surplus: corporations ($millions current)		2,165	2,566	2,325	2,710	2,993
	(% change)	*-5.2%*	*18.5%*	*-9.4%*	*16.6%*	*10.4%*
Net mixed income: unincorporated ($millions current)		4,049	4,188	4,317	4,494	4,678
	(% change)	*1.1%*	*3.4%*	*3.1%*	*4.1%*	*4.1%*
Exports of goods and services ($millions current)		14,930	14,327	14,855	15,365	15,822
	(% change)	*-1.1%*	*-4.0%*	*3.7%*	*3.4%*	*3.0%*
Exports of goods to other countries ($millions current)		5,250	5,023	5,325	5,373	5,451
	(% change)	*-8.3%*	*-4.3%*	*6.0%*	*0.9%*	*1.5%*
Imports of goods and services ($millions current)		26,148	25,207	25,726	26,825	27,720
	(% change)	*2.5%*	*-3.6%*	*2.1%*	*4.3%*	*3.3%*
Population (all ages, 000s July 1)		940.4	938.5	936.5	942.8	950.7
	(% change)	*-0.3%*	*-0.2%*	*-0.2%*	*0.7%*	*0.8%*
Labour Force (000s)		497.7	491.6	490.2	486.6	490.1
	(% change)	*-1.2%*	*-1.2%*	*-0.3%*	*-0.7%*	*0.7%*
Participation rate (%)		63.7	62.8	62.4	61.7	61.8
	(change)	*-0.7*	*-0.9*	*-0.4*	*-0.7*	*0.1*
Employment (000s)		452.6	447.6	448.1	446.2	449.0
	(% change)	*-1.1%*	*-1.1%*	*0.1%*	*-0.4%*	*0.6%*
Employment Rate (%)		57.9	57.2	57.0	56.6	56.7
	(change)	*-0.6*	*-0.7*	*-0.2*	*-0.4*	*0.1*
Unemployment Rate (%)		9.1	9.0	8.6	8.3	8.4
	(change)	*0.0*	*-0.1*	*-0.4*	*-0.3*	*0.1*

	FORECAST			ANNUAL AVERAGE	
	2018	2019	2020	2013-17	2018-20
Gross Domestic Product at market prices ($millions current)	43,977	45,219	46,537		
(% change)	3.0%	2.8%	2.9%	2.6%	2.9%
Gross Domestic Product at market prices ($2012, chained millions)	39,831	40,152	40,512		
(% change)	0.9%	0.8%	0.9%	1.1%	0.9%
Compensation of employees ($millions current)	23,155	23,797	24,342		
(% change)	2.7%	2.8%	2.3%	2.0%	2.5%
Household income ($millions current)	42,580	43,794	44,984		
(% change)	2.6%	2.9%	2.7%	2.4%	2.8%
Household final consumption expenditure ($millions current)	31,326	32,292	33,083		
(% change)	2.8%	3.1%	2.4%	2.4%	2.8%
Retail sales ($millions current)	16,187	16,570	16,857		
(% change)	2.1%	2.4%	1.7%	3.8%	2.0%
Consumer Price Index (all-items, Index 2002=100)	135.4	138.6	141.3		
(% change)	2.3%	2.3%	2.0%	1.1%	2.1%
Business gross fixed capital formation: residential ($millions current)	3,147	3,043	3,022		
(% change)	5.5%	-3.3%	-0.7%	2.3%	-2.0%
Gross fixed capital formation: non-res., M&E, gov't, IP ($millions current)	5,904	6,187	6,325		
(% change)	0.6%	4.8%	2.2%	3.4%	3.5%
Net operating surplus: corporations ($millions current)	3,189	3,376	3,566		
(% change)	6.6%	5.9%	5.6%	8.4%	5.7%
Net mixed income: unincorporated ($millions current)	4,779	4,890	4,986		
(% change)	2.2%	2.3%	2.0%	3.7%	2.2%
Exports of goods and services ($millions current)	16,512	16,973	17,453		
(% change)	4.4%	2.8%	2.8%	1.5%	2.8%
Exports of goods to other countries ($millions current)	5,882	6,123	6,299		
(% change)	7.9%	4.1%	2.9%	0.9%	3.5%
Imports of goods and services ($millions current)	28,441	29,099	29,693		
(% change)	2.6%	2.3%	2.0%	1.5%	2.2%
Population (all ages, 000s July 1)	959.9	964.5	968.3		
(% change)	1.0%	0.5%	0.4%	0.3%	0.4%
Labour Force (000s)	493.0	494.5	495.0		
(% change)	0.6%	0.3%	0.1%	-0.4%	0.2%
Participation rate (%)	61.6	61.5	61.3	62.5	61.5‡
(change)	-0.2	-0.1	-0.2		
Employment (000s)	452.9	454.2	454.0		
(% change)	0.9%	0.3%	-0.1%	-0.2%	0.1%
Employment Rate (%)	56.6	56.5	56.2	57.1	56.4‡
(change)	-0.1	-0.1	-0.3		
Unemployment Rate (%)	8.1	8.1	8.3	8.7	8.2‡
(change)	-0.3	0.0	0.1		

‡ average level over period, not average change

Note: Highlighted material are forecast estimates

Gross fixed capital formulation of non-residential structures, machinery, equipment, intellectual property, includes government and non-profit sector investments as well as business sector investments.

7. Borrowing and Debt Management

The Department of Finance and Treasury Board provides the treasury function for most of the government entity, including managing daily banking functions (bank transfers, short-term investing and borrowing, and banking relationships) and short-term investments of special funds (sinking funds and miscellaneous trust funds).

Financial Market Debt: The department is responsible for managing Nova Scotia's gross financial market debt portfolio, which is estimated to stand at $16.5 billion as of March 31, 2019. Against this gross financial market debt are financial assets held in a mandatory sinking fund ($1,857.9 million) and liquidity ($911.4 million) sinking fund plus holdings of Nova Scotia Municipal Finance Corporation debt ($774.6 million) and advances to Halifax Bridges ($145.6 million). These assets total $3,689.5 million and are subtracted from gross financial market debt to result in an expected Net Financial Market Debt of $12.8 billion at March 31, 2019. The management of this Net Financial Market Debt position consists of executing the borrowing program, investing sinking funds, and where cost-effective to do so, executing derivative transactions.

The government's budgetary policy sets the context for treasury management operations. The province's annual fiscal plan sets the context for debt management. This Budget shows that the government intends to post a budgetary surplus of $33.6 million in 2019–20 followed by further surpluses throughout the fiscal plan years.

The management of the debt portfolio and borrowing program must consider the external financial and economic environment. Global financial markets are expected to be challenging for the Province of Nova Scotia even though the province has a modest borrowing program for the 2019–20 fiscal year. While there has been a strengthening of the American and global economies leading to rises in administered interest rates in North America, there remains the prospect of international trade protectionism, geo-political tensions, political uncertainty, and China's internal debt problems.

The Budget Estimates and Public Accounts are presented on a full accrual basis. In contrast, Treasury Management is the cash side of government operations. In this context, the borrowing requirements are a cash flow measure, representing actual cash transactions related to the current, past, and future budgetary transactions, as well as the cash flow implications of non-budgetary transactions, such as capital advances to governmental units, differences in cash versus accrual revenues in the Budget, and net acquisition of tangible capital assets. The province paid out $364.0 million in Long Term Service Awards during the 2018–19 fiscal year. As these obligations had already been recorded as a liability, the pay out of these amounts did not change Net Debt but did increase the Net Financial Market Debt.

The province estimates that in 2018–19 there was a $300.0 million increase in Net Financial Market Debt outstanding in financial markets due to the acquisition of tangible capital assets, payout of Long Term Service Awards, a small increase of capital advances by Crown corporations, and many other non-cash items that contribute to the rise in financial market debt in 2018–19. The province estimates that Net Financial Market Debt in financial markets will increase by about $171.5 million in 2019–20.

Nova Scotia Credit Ratings

Nova Scotia maintains a policy of full disclosure and transparency with financial market participants. Nova Scotia actively communicates its economic and fiscal position both to investors and to bond-rating agencies. The improved fiscal outlook has been recognized by credit rating agencies. Nova Scotia has generally posted budgetary surpluses since the early 2000s, interrupted with modest budgetary deficits in 2009–10 and the years 2011–12 to 2015–16. In 2018–19 two rating agencies confirmed the province's credit rating with a stable outlook, and Standard & Poor's raised Nova Scotia's rating to AA- (stable outlook) from A+ (positive outlook). Table 7.1 shows current provincial credit ratings. Note that (neg) refers to a negative outlook, indicating the rating agency may change the respective province's credit rating downward over the next year or so. Similarly, (pos) refers to a positive outlook, indicating the rating agency may change the rating upwards over the next year or so.

Table 7.1 Canadian Provincial Credit Ratings

	DBRS	S&P	Moody's
Nova Scotia	**A(high)**	**AA-**	**Aa2**
Prince Edward Island	A(low) (pos)	A	Aa2
Newfoundland & Labrador	A(low)	A	Aa3(neg)
New Brunswick	A(high) (neg)	A+	Aa2
Quebec	A(high)	AA-	Aa2
Ontario	AA(low)	A+	Aa3
Manitoba	A(high)	A+	Aa2
Saskatchewan	AA	AA	Aaa
Alberta	AA(neg)	A+	Aa1(neg)
British Columbia	AA(high)	AAA	Aaa

Nova Scotia files a Form 18-K Annual Report and other required documents with the Securities and Exchange Commission, which provides information to investors and the general public on the economic, fiscal, and debt situation of the province. The most recent submission can be viewed on the department's website.

Structure of the Debt Portfolio

The structure of the debt portfolio has been evolving over the past number of years with the intent of locking in historically low interest rates, protecting the province's fiscal situation from unanticipated increases in interest rates, and managing the province's refinancing requirements for the long term. At the same time, the province has maintained a relatively constant level of exposure to short-term interest rates.

Primary Issuance Market Activities

The Province of Nova Scotia expects to post a budgetary surplus of $33.6 million in 2019–20. The department continues to borrow monies each year in capital markets primarily to refinance existing debt, but also to fund the acquisition of net tangible capital assets, for on-lending to Crown corporations, and for other non-budgetary purposes.

2018–19 Borrowing Completed: In the fiscal year 2018–19, the province borrowed $1,315 million compared to term debt borrowing requirements of $1,363 million estimated in the Budget. The department issued $600 million in 30-year debentures in the domestic public market with a coupon rate of 3.15 per cent. The department also issued $615 million in Canadian Dollar Offered Rate ("CDOR") floating rate notes in the four- and six-year terms, and $100 million in Canadian Overnight Repo Rate Average ("CORRA") floating interest rate notes. The province continues to maintain access to a diversity of borrowing sources, both domestically and in foreign markets. This access is a key factor in achieving lower financing costs and maintaining a broad demand for Nova Scotia debt issues.

2019–20 Annual Borrowing: Term debt borrowing requirements for fiscal year 2019–20 are expected to be $1,502.7 million (Table 7.2). The increase in borrowing requirements in 2019–20 compared to the previous year actual borrowing is due primarily to a higher level of debt maturities. There are numerous cash versus accrual adjustments (non-budgetary items) that need to be made to determine the actual cash requirements of the General Revenue Fund. Each year there are requirements for the excess of capital expenditure over capital amortization, referred to as the net acquisition of tangible capital assets; those requirements in 2019–20 are $240.2 million.

The remaining non-budgetary adjustments are primarily related to non-cash interest charges on unfunded pension liabilities and post-employment benefits, and the non-cash expense of the Pension Valuation Adjustment. The Department of Finance and Treasury Board does not anticipate drawing down discretionary sinking funds in 2019–20 but draws attention to the fact that these funds total $911.4 million.

Table 7.2 Projected Borrowing Requirements
($ millions)

	2018–19 Estimate	2018–19 Forecast	2019–20 Estimate	2020–21 Estimate	2021–22 Estimate	2022–23 Estimate
Budgetary (surplus)/deficit	(29.4)	(28.4)	(33.6)	(51.9)	(65.8)	(73.4)
Net Capital Advances	47.2	21.3	66.8	30.0	30.0	30.0
NS MFC Net Advances	(104.6)	7.0	(105.4)	(103.5)	(88.6)	(116.8)
HDBC Net Advances	12.4	---	14.4	---	---	---
Tangible Capital Assets: Net Cash	150.0	138.3	240.2	344.1	150.1	150.4
Other Non-Budgetary Transactions	92.3	(18.1)	(10.8)	(23.0)	(32.9)	(147.4)
Cash Operating Requirements	**167.9**	**120.1**	**171.5**	**195.7**	**(7.2)**	**(157.2)**
Cash Debt Retirement	**1,261.0**	**1,261.0**	**2,072.8**	**1,080.9**	**1,713.9**	**1,731.2**
Mandatory Sinking Fund Income	85.8	86.4	73.6	48.9	35.4	4.2
Mandatory Sinking Fund Contributions	24.0	24.0	17.9	17.9	10.0	---
Mandatory Sinking Fund Withdrawals	(198.0)	(198.0)	(855.4)	---	(512.0)	(708.8)
Net Mandatory Sinking Fund Requirements	**(88.2)**	**(87.6)**	**(763.9)**	**66.8**	**(466.6)**	**(704.6)**
Discretionary Fund Income	21.9	21.5	22.3	22.4	23.1	23.4
Discretionary Fund Contributions	---	---	---	---	---	---
Discretionary Fund Withdrawals	---	---	---	---	---	---
Net Discretionary Fund Requirements	**21.9**	**21.5**	**22.3**	**22.4**	**23.1**	**23.4**
Total Requirements:	1,362.6	1,315.0	1,502.7	1,365.8	1,263.2	892.8
Change in Short -Term Borrowing (inc) / dec	---	---	---	---	---	---
Total Borrowing Requirements	**1,362.6**	**1,315.0**	**1,502.7**	**1,365.8**	**1,263.2**	**892.8**

The province, through its access to capital markets, can raise financing in an efficient and cost-effective manner; as such the province, through its annual borrowing program, secures wholesale funding on behalf of its Crown entities for their diverse on-lending requirements. Net capital advances to Crown entities in 2018–19 are estimated to have been $21.3 million, down from Budget Estimate of $47.2 million. For fiscal year 2019–20, net capital advances are estimated to be $66.8 million.

The Nova Scotia Municipal Finance Corporation (NSMFC), a provincial Crown corporation, acts as a central borrowing agency for municipalities and municipal enterprises in Nova Scotia. Under the incorporating legislation, municipalities and municipal enterprises are required to raise their long-term capital requirements through the NSMFC except for borrowings from the federal government, the province, another municipality, or their agencies. The NSMFC issues serial debentures to fund these cash requirements; the NSMFC has the legislative authority and ability to issue such securities through capital markets with the assistance of a provincial guarantee. There has never been a default by the NSMFC on any of its obligations.

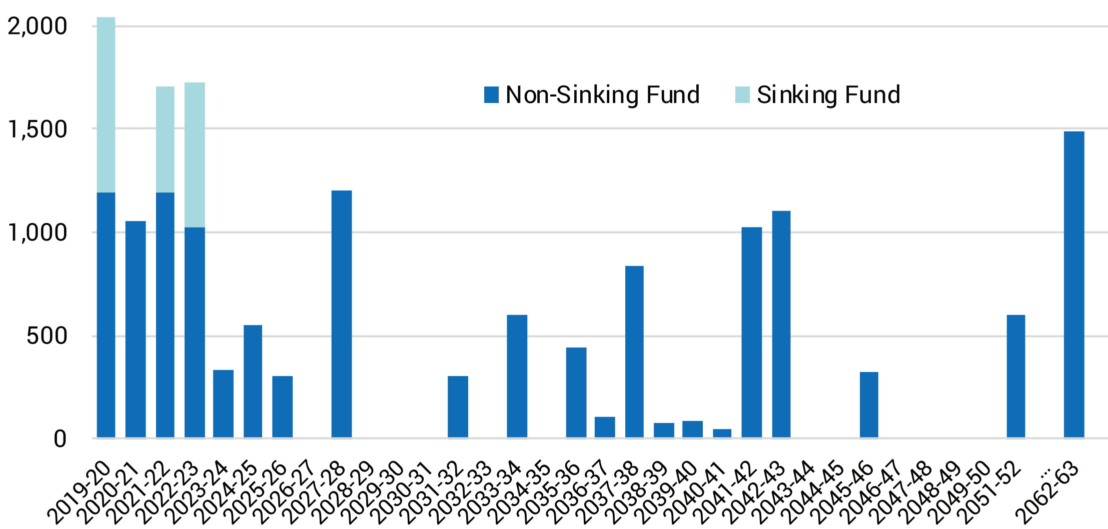
For many years, the province, although having no obligation to do so, has purchased all NSMFC debenture issues in their entirety and at March 31, 2019, held a portfolio of $774.6 million NSMFC debentures in the General Revenue Fund, up marginally from $767.9 million from a year earlier. The NSMFC asset portfolio held by the province, along with sinking and liquidity funds, are netted against the gross financial market debt of the province to arrive at Net Financial Market Debt (Table 7.3). Much the same as the NSMFC asset portfolio, the financial market debt issued by the province under its own name to fund the redecking of the Angus L. Macdonald Bridge is netted against the loan provided to the Halifax-Dartmouth Bridge Commission.

The province maintains documentation with the Securities and Exchange Commission in the United States to provide access to the US and global bond markets. Although Nova Scotia maintains documentation to borrow in foreign markets, the domestic Canadian debt market is expected to be the primary source of funding for the province's borrowing program in 2019–20. The province attempts to maintain a presence in the domestic public debt markets with liquid benchmark issues. The domestic Medium-Term Note program is maintained to add flexibility to the domestic borrowing programs.

Debt Maturity Schedule

The Province of Nova Scotia's gross financial market debt at March 31, 2019, consisted of Canadian fixed-coupon marketable debentures, floating interest rate marketable debentures, foreign currency denominated fixed-coupon marketable debentures (all issues are hedged to Canadian dollars), Canada Pension Plan non-marketable debentures, capital leases ($180.8 million) on public-private-partnership schools, the Convention Centre, and a correctional facility, and short-term promissory notes. Chart 7.1 displays the maturity profile of the province's debenture debt portfolio ($15,964.2 million).

Chart 7.1 General Revenue Fund Debt Portfolio: Debenture Debt Maturity Schedule
($ millions, debenture debt maturity schedule)



The province's debenture portfolio is shown for those debt issues that have no mandatory sinking fund provisions ($13,888.0 million), and the eight remaining debentures issues that have a mandatory sinking fund contribution by way of bond covenant ($2,076.2 million). The province has no debt issues outstanding with put options.

As of March 31, 2019, the average term to maturity of the gross debenture portfolio was 13.2 years, up from 12.8 one year ago. The average term to maturity had been falling in recent years after completion of the long-term debt issuance strategy and the passage of time.

The province has accumulated and actively manages a large offsetting asset position in sinking funds. At March 31, 2019, the estimated book value of the mandatory sinking fund and liquidity fund was $2,769.3 million, of which $1,857.9 million were held in mandatory sinking funds established by way of bond covenant, and $911.4 million in the discretionary liquidity funds that were held for policy purposes. The policy objectives of the discretionary funds are to manage interest rates, manage short-term liquidity, and assist in the refunding of maturing debt, while at the same time providing an appropriate level of investment return to the General Revenue Fund.

Derivative Counterparty Exposure

Derivative is a broadly used term for any financial contract where future cash flows (and thus its value) are derived from a specific underlying reference point or benchmark, for example, interest rate, foreign currency rate, financial asset, index, forward, future, or any other agreed upon reference point. Derivatives allow the Province of Nova Scotia to identify and synthetically isolate and manage the market risks in financial instruments for hedging, risk transfer, arbitraging interest rate differences, and adjusting portfolio risks. Derivative transactions are used when viewed to be more cost-effective and can be done at a lower cost than would be possible by a cash market transaction.

At March 31, 2019, the province's use of derivatives was for two purposes: (1) the hedging of foreign currency debt issues to Canadian dollars, and (2) asset-liability management purposes. The latter derivative transactions are designed to protect the provincial budgetary surplus from changes in interest rates associated with the Department of Finance and Treasury Board's on-lending program to Crown corporations. The province does not use derivatives for speculative purposes.

Currently, the province is party to approximately $2.6 billion notional face value of derivative transactions with external swap counterparties, down significantly from the peak of $6.5 billion at March 31, 2011. The decline in swap counterparty exposure is due primarily to the maturity of numerous foreign currency debt issues and the maturity of other interest rate swaps. The province's current cross currency swap portfolio is approximately $1.6 billion notional face value, and assuming no further foreign currency denominated debenture issuances, the cross-currency swap portfolio falls to under $800 million by March 31, 2020, and would wind down to zero by July 30, 2022.

Table 7.3 Projected Gross and Net Financial Market Debt

($ millions)

	2018–19 Estimate	2018–19 Forecast	2019–20 Estimate	2020–21 Estimate	2021–22 Estimate	2022–23 Estimate
Gross Debt:						
Opening Balance	16,554.2	16,242.0	16,485.0	15,823.9	16,005.2	15,465.9
Borrowing Program	1,362.6	1,315.0	1,502.7	1,365.8	1,263.2	892.8
Debt Retirement	(1,261.0)	(1,261.0)	(2,072.8)	(1,080.9)	(1,713.9)	(1,731.2)
Change in other unfunded debt	(92.2)	189.0	(91.0)	(103.5)	(88.6)	(116.8)
Closing Balance	**16,563.6**	**16,485.0**	**15,823.9**	**16,005.2**	**15,465.9**	**14,510.6**
Mandatory Sinking Funds:						
Opening Balance	1,946.6	1,945.5	1,857.9	1,094.0	1,160.8	694.2
Installments	24.0	24.0	17.9	17.9	10.0	10.4
Earnings	85.8	86.4	73.6	48.9	35.4	4.2
Sinking Fund withdrawals	(198.0)	(198.0)	(855.4)	---	(512.0)	(708.8)
Closing Balance	**1,858.4**	**1,857.9**	**1,094.0**	**1,160.8**	**694.2**	**---**
Discretionary Funds:						
Opening Balance	893.3	889.9	911.4	933.7	956.1	979.2
Installments	---	---	---	---	---	---
Earnings	21.9	21.5	22.3	22.4	23.1	23.4
Fund Withdrawals	---	---	---	---	---	---
Closing Balance	**915.2**	**911.4**	**933.7**	**956.1**	**979.2**	**1,002.6**
NSMFC / HDBC Assets:						
Opening Balance	915.5	915.5	922.5	831.5	727.9	639.3
Repayments	(104.6)	(104.6)	(105.4)	(103.5)	(88.6)	(116.8)
Advances to MFC	---	111.6	---	---	---	---
Advances to HDBC	12.4	---	14.4	---	---	---
Closing Balance	**823.3**	**922.5**	**831.5**	**727.9**	**639.3**	**522.5**
Net Financial Market Debt	**12,966.7**	**12,793.2**	**12,964.8**	**13,160.5**	**13,153.3**	**12,996.0**

Net Debt: Net Debt is made up of Total Liabilities less Financial Assets and the actual year-end results are reported in the Consolidated Financial Statements of the province. Surpluses reduce the Net Debt of the province while deficits and net capital spending increase the Net Debt. Net Debt is a key measure of the province's financial position and the Net Debt to Gross Domestic Product ratio is the most widely recognized measure of government financial sustainability. Nova Scotia's ratio of Net Debt to nominal Gross Domestic Product at market prices is estimated to stand at 34.3 per cent at March 31, 2019, down from 35.0 per cent a year earlier. Table 7.4 presents the projected Net Debt over the fiscal plan.

Table 7.4 Projected Net Debt
($ millions)

	2018-19 Estimate	2018-19 Forecast	2019-20 Estimate	2020-21 Estimate	2021-22 Estimate	2022-23 Estimate
Net Debt - Opening Balance	**15,050.9**	**14,959.2**	**15,069.0**	**15,275.6**	**15,567.8**	**15,652.1**
Add (Deduct):						
Provincial Deficit (Surplus)	(29.4)	(28.4)	(33.6)	(51.9)	(65.8)	(73.4)
Increase in the Net Book Value of Tangible Capital Assets	150.0	138.3	240.2	344.1	150.1	150.4
Change in Net Debt	120.6	109.8	206.5	292.2	84.3	77.0
Net Debt - Closing Balance	**15,171.5**	**15,069.0**	**15,275.6**	**15,567.8**	**15,652.1**	**15,729.1**

Debt-Servicing Costs

Gross debt-servicing costs comprise the following items: (1) interest on existing long-term debenture and capital lease debt and the estimated interest cost of incremental borrowing; (2) general interest that provides for bank charges, bond issue expense, amortization of debenture discounts/premiums, and short-term interest costs; and (3) the accrual of interest of the province's unfunded pension and post-retirement benefit obligations.

In addition, gross debt-servicing costs also supports the General Revenue Fund's on-lending activities to Crown corporations. That is, the General Revenue Fund incurs interest charges on long-term debt obligations that have been borrowed on behalf of Crown corporations such as the Nova Scotia Municipal Finance Corporation and Farm Loan Board. The General Revenue Fund earns interest on those monies lent to Crown corporations and other investments in amounts of $97.3 million in the 2018–19 forecast, and $85.6 million in the 2019–20 Budget Estimate. Unlike the earnings on sinking and liquidity fund assets, the income from the on-lending activity is not typically shown as netted against debt-servicing costs. To achieve a true picture of the actual interest cost on long-term indebtedness, these amounts should be subtracted from gross debt-servicing costs (Table 7.5).

Table 7.5 Projected Debt Servicing Costs
($ millions)

	2018-19 Estimate	2018-19 Forecast	2019-20 Estimate	2020-21 Estimate	2021-22 Estimate	2022-23 Estimate
Interest on Long-term Debt	757.0	727.6	722.9	653.6	621.1	562.4
General Interest	18.8	19.8	17.9	15.8	17.8	18.4
Interest on Pension, Retirement and other obligations	117.8	115.1	115.3	117.7	118.1	119.9
Gross Debt Servicing Costs	**893.6**	**862.5**	**856.1**	**787.1**	**757.0**	**700.7**
Less: Sinking Fund Earnings	(107.7)	(107.9)	(95.9)	(71.3)	(58.4)	(27.6)
Net Debt Servicing Costs	**785.9**	**754.6**	**760.2**	**715.8**	**698.6**	**673.1**

Debt-Servicing Costs: Assumptions and Sensitivity Analysis

Actual debt-servicing costs will vary from estimated amounts due to the dependence of debt-servicing costs on certain financial market variables and changes in the amount borrowed.

With the elimination of the province's foreign currency exposure, the main factor in debt-servicing cost sensitivity is the overall level of Canadian short-term interest rates during the fiscal year. Sensitivity to this variable (how much debt-servicing costs would change if a variable changed from the assumed level for a full year) is $15 million if Canada Treasury Bills were a full percentage point higher relative to the assumed level.

Risk Management

The Debt Management Committee, an advisory committee to the Minister of Finance and Treasury Board, carries out the governance and oversight function for the debt management of the Province of Nova Scotia. The committee ensures that the province's treasury management is based on sound financial principles and is conducted in a prudent manner, balancing the costs and risks within acceptable control standards. The committee has responsibilities for the following key governance roles: strategic planning, risk management, internal control, and communications. These functions ensure that the governance and oversight roles of treasury management operations are independent of operational staff.