



# Budget

2020–21

*Better Together*

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# 1. Introduction

## *Better Together*

Budget 2020–21 builds upon the strong fiscal foundation achieved over the past few years. Improving the fiscal health of the province allows government the capacity to provide programs and services that are important to Nova Scotians.

Budget 2020–21 builds on a stronger economy and positive fiscal position. Investments are focused on:

- Improving the lives of Nova Scotians, including accessibility and community supports, affordable housing, and pre-primary programming
- Building on our economic success
- Investing in modern infrastructure
- Providing confidence in a brighter future

Budget 2020–21 is the fifth consecutive balanced budget, with an estimated surplus of \$55.0 million, and a Net Debt-to-GDP ratio of 33.3 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, the government's ability to share the benefits with Nova Scotians expands. Through investments this year, Budget 2020–21 will:

- Increase the low-income threshold for the Nova Scotia Child Benefit and increase the amounts families will receive to help address child poverty
- Increase initiatives to provide safe, suitable, and affordable housing and provide an action plan to address homelessness
- Improve the recruitment and retention of family and specialist doctors, and increase seats for the next generation of doctors and nurses at Nova Scotian universities

- Reduce the Corporate Tax Rate 2 per cent to 14 per cent and the Small Business Tax Rate from 3 per cent to 2.5 per cent, helping businesses become more competitive and better able to innovate and invest back in their businesses and employees
- Support the largest health care redevelopment in the province's history with the QEII New Generation project and the Cape Breton Regional Municipality Health Care Redevelopment
- Enhance our transportation infrastructure by improving roads, highways, and bridges, and continuing to twin our 100-series highways
- Continue to create a more inclusive education system for all students
- Increase the Student Loan Forgiveness program
- Invest in green infrastructure projects to help reduce GHG (greenhouse gas) emissions
- Start up the Green Fund to support programs for climate change

The 2020–21 Capital Plan invests the largest single-year capital funding in the province's history, improving access to health care, schools, highways, and public infrastructure for Nova Scotia's families and communities.

Focusing on the fiscal health of the province has allowed government to make needed investments to support our people and our communities and to update our aging infrastructure to provide modernized facilities for today and future generations.

## 2. Budget Overview

In fiscal year 2020–21, the Province of Nova Scotia is tabling its fifth consecutive balanced budget with an estimated surplus of \$55.0 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—eight years of balanced budgets starting in 2016–17.

**Table 2.1 Budget Summary – Statement of Operations**

(\$ thousands)

	2019-20 Estimate	2019-20 Forecast	2020-21 Estimate
<b>General Revenue Fund</b>			
<b>Revenues</b>			
Ordinary Revenue	9,962,736	10,205,281	10,538,506
Ordinary Recoveries	658,509	817,906	666,720
Net Income from Government Business Enterprises	389,224	388,768	391,814
<b>Total Revenues</b>	<b>11,010,469</b>	<b>11,411,955</b>	<b>11,597,040</b>
<b>Expenses</b>			
Departmental Expenses	10,101,784	10,440,886	10,650,274
Refundable Tax Credits	134,324	121,467	131,451
Pension Valuation Adjustment	51,837	74,904	75,832
Debt Servicing Costs	856,107	843,034	758,393
<b>Total Expenses</b>	<b>11,144,052</b>	<b>11,480,291</b>	<b>11,615,950</b>
<b>Consolidation and Accounting Adjustments</b>			
General Revenue Fund Consolidation Adjustments	168,457	106,558	76,520
Special Purpose Funds	72	222	(57)
Other Organizations	(1,323)	2,683	(2,527)
<b>Total Consolidation and Accounting Adjustments</b>	<b>167,206</b>	<b>109,463</b>	<b>73,936</b>
<b>Provincial Surplus (Deficit)</b>	<b>33,623</b>	<b>41,127</b>	<b>55,026</b>

Total Revenues for 2020–21 are projected to be \$11.6 billion, an increase of \$586.6 million or 5.3 per cent over the 2019–20 estimate. This revenue increase is attributable to a \$193.6 million or 2.7 per cent increase in provincial source revenues and a \$393.0 million or 10.5 per cent increase in federal source revenues (Table 2.2).

Total Expenses for fiscal year 2020–21 including Consolidation and Accounting Adjustments are budgeted at \$11.5 billion, up \$565.2 million or 5.1 per cent from the 2019–20 estimate. Taken separately, Total Expenses are up \$471.9 million or 4.2 per cent from 2019–20 estimate while Consolidation and Accounting Adjustments have decreased \$93.3 million or 55.8 per cent from the 2019–20 estimate (Table 2.2).

**Table 2.2 Budget Summary – Highlights**  
(\$ thousands)

	2019-20 Estimate	2019-20 Forecast	2020-21 Estimate
Total Revenues	11,010,469	11,411,955	11,597,040
Total Expenses	11,144,052	11,480,291	11,615,950
Consolidation and Accounting Adjustments	167,206	109,463	73,936
<b>Provincial Surplus (Deficit)</b>	<b>33,623</b>	<b>41,127</b>	<b>55,026</b>
<b>Provincial Revenue Sources</b>			
Personal Income Tax	2,811,289	2,860,788	2,979,575
Corporate Income Tax	604,741	595,537	541,872
Harmonized Sales Tax	1,895,909	1,943,169	2,004,070
Cannabis Tax	7,814	6,737	7,205
Vaping Tax	---	---	2,332
Motive Fuel Tax	276,942	270,034	277,161
Tobacco Tax	205,432	188,337	196,501
Other Tax Revenue	169,329	173,624	182,654
Registry of Motor Vehicles	136,076	138,165	135,380
Petroleum Royalties	---	---	---
Other Provincial Sources	151,981	146,672	140,264
TCA Cost Shared Revenue	2,439	4,093	3,721
Other Fees and Charges	63,170	63,318	64,023
Prior Years' Adjustments	---	108,423	---
Interest Revenues	85,574	101,973	87,084
Sinking Fund Earnings	95,920	91,918	65,373
Ordinary Recoveries	361,630	376,003	372,047
Net Income from Government Business Enterprises	389,224	388,768	391,814
<b>Total - Provincial Sources</b>	<b>7,257,470</b>	<b>7,457,559</b>	<b>7,451,076</b>
<b>Federal Revenue Sources</b>			
Equalization Payments	1,942,628	2,009,037	2,145,883
Canada Health Transfer	1,039,410	1,043,370	1,080,690
Canada Social Transfer	375,514	376,945	387,762
Offshore Accord	8,227	8,227	86,000
Crown Share	---	4,041	---
Other Federal Sources	41,260	35,269	39,177
TCA Cost Shared Revenue	49,081	36,106	111,779
Prior Years' Adjustments	---	(502)	---
Ordinary Recoveries	296,879	441,903	294,673
<b>Total - Federal Sources</b>	<b>3,752,999</b>	<b>3,954,396</b>	<b>4,145,964</b>
<b>Expenses</b>			
Agriculture	46,427	52,297	42,075
Business	152,014	214,392	149,022
Communities, Culture and Heritage	93,641	103,800	96,890
Community Services	947,904	992,190	1,002,202
Education and Early Childhood Development	1,429,342	1,430,225	1,479,302
Energy and Mines	49,036	39,965	63,509
Environment	38,524	40,599	42,492
Finance and Treasury Board	23,683	22,749	24,282
Fisheries and Aquaculture	21,536	21,536	17,792
Health and Wellness	4,638,526	4,712,055	4,822,637
Justice	361,438	362,838	374,244
Labour and Advanced Education	396,209	402,093	400,631
Assistance to Universities	427,782	448,072	433,420
Lands and Forestry	76,750	79,190	78,215
Municipal Affairs and Housing	283,399	347,379	308,513
Public Service	131,162	132,578	136,354
Seniors	2,721	2,591	2,711
Service Nova Scotia and Internal Services	282,947	299,356	299,199
Transportation and Infrastructure Renewal	497,280	527,796	535,752
Restructuring Costs	201,463	209,185	341,032
Refundable Tax Credits	134,324	121,467	131,451
Pension Valuation Adjustment	51,837	74,904	75,832
Debt Servicing Costs	856,107	843,034	758,393
<b>Total - Expenses</b>	<b>11,144,052</b>	<b>11,480,291</b>	<b>11,615,950</b>



The economy is expected to continue growing. For 2019, Nova Scotia's nominal Gross Domestic Product (GDP) is estimated to have grown by 3.8 per cent, while real GDP is estimated to have increased by 1.9 per cent—the fastest pace of growth since 2010. In 2020, economic growth is expected to slow, primarily associated with the closure of the Northern Pulp mill. In 2021, economic growth is anticipated to recover. Nominal GDP growth is projected to slow to 2.4 per cent in 2020 before rising to 3.2 per cent in 2021. Nova Scotia's real GDP is projected to grow 0.4 per cent in 2020 and 1.2 per cent in 2021.

The Net Debt of the province is expected to be \$15.2 billion for the year ending 2019–20 and \$15.7 billion for the year ending 2020–21, primarily reflecting new investments from the 2020-21 capital plan. The estimate for 2020–21 is \$440.2 million above the 2019–20 estimate and \$534.5 million above the 2019–20 forecast.

The Net Debt-to-GDP ratio for 2019–20 is forecast to be 33.0 per cent instead of 33.8 per cent as projected in Budget 2019–20. The forecasted Net Debt-to-GDP ratio reflects a Statistics Canada update of GDP data, released in November 2019, which led to a higher GDP figure being estimated for 2019. The Net Debt-to-GDP ratio is expected to be 33.3 per cent for 2020–21 (Table 2.3).

**Table 2.3 Budget Summary – Net Debt/Gross Domestic Product**

	<b>2019-20 Estimate</b>	<b>2019-20 Forecast</b>	<b>2020-21 Estimate</b>
Net Debt (\$ billions)	15.3	15.2	15.7
Nominal GDP (\$ billions)	45.2	46.0	47.1
Net Debt-to-GDP Ratio	33.8%	33.0%	33.3%

Budget 2020–21 presents both a balanced budget forecast for 2019–20 and a balanced budget for 2020–21, 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 2020–21 to 2023–24

### Medium-Term Outlook

The Four-Year Fiscal Plan indicates that government will achieve a budget surplus for 2019–20 as projected in Budget 2019–20 (Table 3.1). With a projected balanced budget for 2020–21, 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 2020–21 to 2023–24**

(\$ millions)

<b>General Revenue Fund</b>	<b>2019-20 Estimate</b>	<b>2019-20 Forecast</b>	<b>2020-21 Estimate</b>	<b>2021-22 Estimate</b>	<b>2022-23 Estimate</b>	<b>2023-24 Estimate</b>
<b>Revenue</b>						
Ordinary Revenue	9,962.7	10,205.3	10,538.5	10,807.1	10,972.9	11,164.5
Ordinary Recoveries	658.5	817.9	666.7	655.6	629.4	618.2
Net Income from Government Business Enterprises	389.2	388.8	391.8	393.3	393.4	398.1
<b>Total Revenue</b>	<b>11,010.5</b>	<b>11,412.0</b>	<b>11,597.0</b>	<b>11,856.1</b>	<b>11,995.7</b>	<b>12,180.8</b>
<b>Expenses</b>						
Departmental Expenses	10,101.8	10,440.9	10,650.3	10,894.0	11,073.8	11,255.2
Refundable Tax Credits	134.3	121.5	131.5	132.2	132.8	133.5
Pension Valuation Adjustment	51.8	74.9	75.8	68.0	74.9	76.8
Debt Servicing Costs	856.1	843.0	758.4	725.1	664.3	663.8
<b>Total Expenses</b>	<b>11,144.1</b>	<b>11,480.3</b>	<b>11,616.0</b>	<b>11,819.2</b>	<b>11,945.9</b>	<b>12,129.3</b>
Consolidation and Accounting Adjustments	167.2	109.5	73.9	26.3	22.6	22.6
<b>Provincial Surplus (Deficit)</b>	<b>33.6</b>	<b>41.1</b>	<b>55.0</b>	<b>63.2</b>	<b>72.5</b>	<b>74.0</b>
Net Debt	15,276	15,181	15,716	16,443	17,253	17,866
Nominal GDP	45,219	46,020	47,133	48,649	50,134	51,725
Net Debt-to-GDP Ratio	33.8%	33.0%	33.3%	33.8%	34.4%	34.5%

Budget 2020–21 projects a surplus of \$55.0 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.



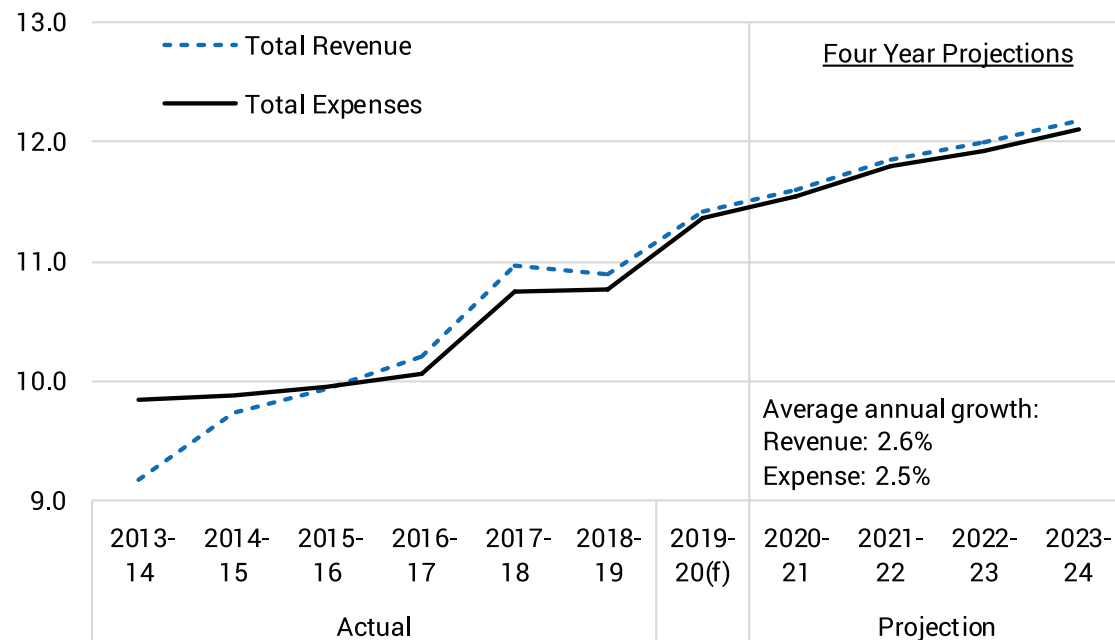
The projected surpluses throughout the Four-Year Fiscal Plan are indicative of a sustainable fiscal plan. The debt arising from operating deficits is expected to reduce by \$264.7 million between 2020–21 and 2023–24. Net Debt, which includes operating deficits and net capital spending, is expected to increase by \$534.6 million in 2020–21 to \$15.7 billion and reach \$16.4 billion in 2021–22. The Net Debt is expected to be \$17.9 billion by 2023–24. The increase in debt is reflective of government’s capital plans over the four-year period, which includes the twinning of 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 2020–21, Total Revenue is estimated to grow by 5.3 per cent compared to the 2019–20 estimate (up 1.6 per cent from the final forecast). Average annual growth in Total Revenue is projected to be 2.6 per cent over the four-year fiscal period (Chart 3.1).

**Chart 3.1 Revenues and Expenses – Projections 2020–21 to 2023–24**

(\$ billions)



In 2020–21, Total Expenses, including Consolidation and Accounting Adjustments, are projected to increase by 5.1 per cent compared to the 2019–20 estimate (up 1.5 per cent from the final forecast). Average annual growth in Total Expenses is projected to be 2.5 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.

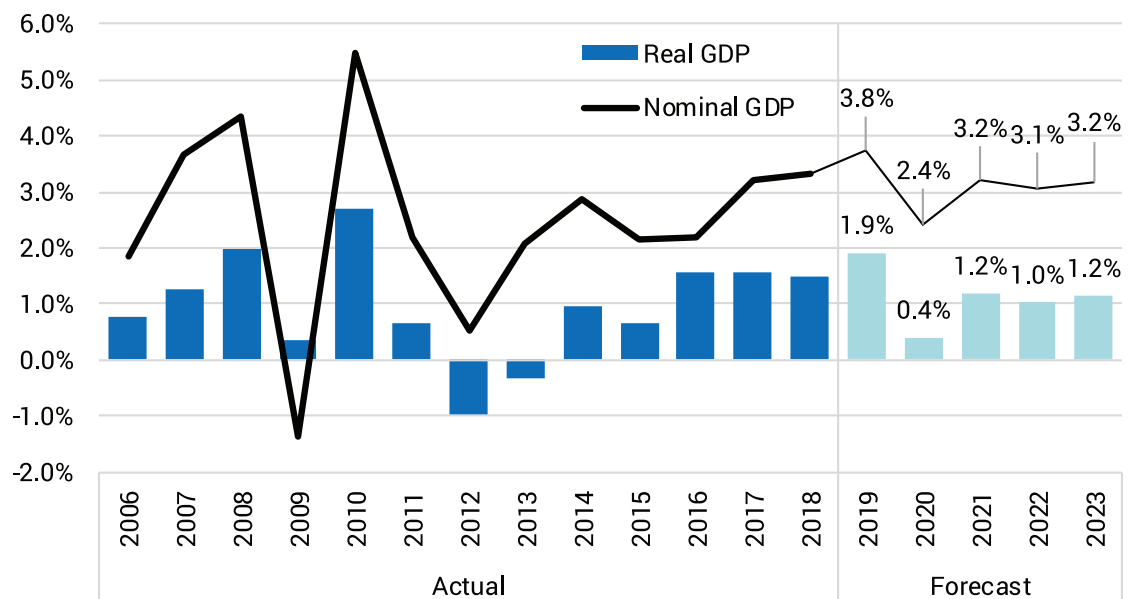
## Economic Outlook

The province's medium-term economic outlook forms the basis for revenue projections and provides 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 grew in each of the last five years (Chart 3.2). Initially, this growth was based on rising exports, productivity gains, and investment activity. In recent years, renewed population growth has allowed employment growth while unemployment rates fell to levels not seen in decades. Growth in 2019 is estimated at 1.9 per cent in real terms and 3.8 per cent in nominal terms—the fastest growth rates since 2010.

### 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

In the near term, Nova Scotia’s economy is expected to slow as a result of the closure of the Northern Pulp mill. Growth is expected to return to trend starting in 2021 as a result of ongoing major project investments in shipbuilding and provincial infrastructure (e.g. highways and hospitals). 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.

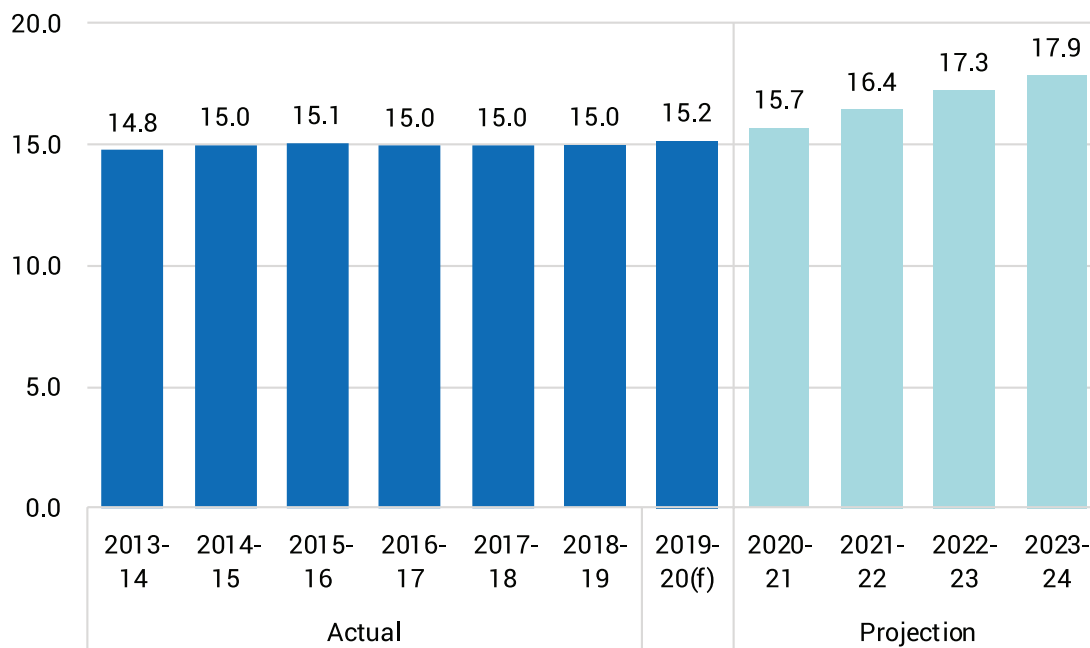
In addition, Nova Scotia’s medium-term economic growth depends on the interaction of renewed population growth, productivity improvements, private capital investments, and international exports. Stable inflation is also expected to have a consistent impact on nominal GDP growth over this period.

## Debt

The Net Debt of the province is expected to be \$15.2 billion for the year end of 2019–20 and \$15.7 billion for the year end of 2020–21 (Chart 3.3). The total Net Debt will grow over the four-year planning horizon, reflecting generational investments in infrastructure, reaching \$17.9 billion in 2023–24.

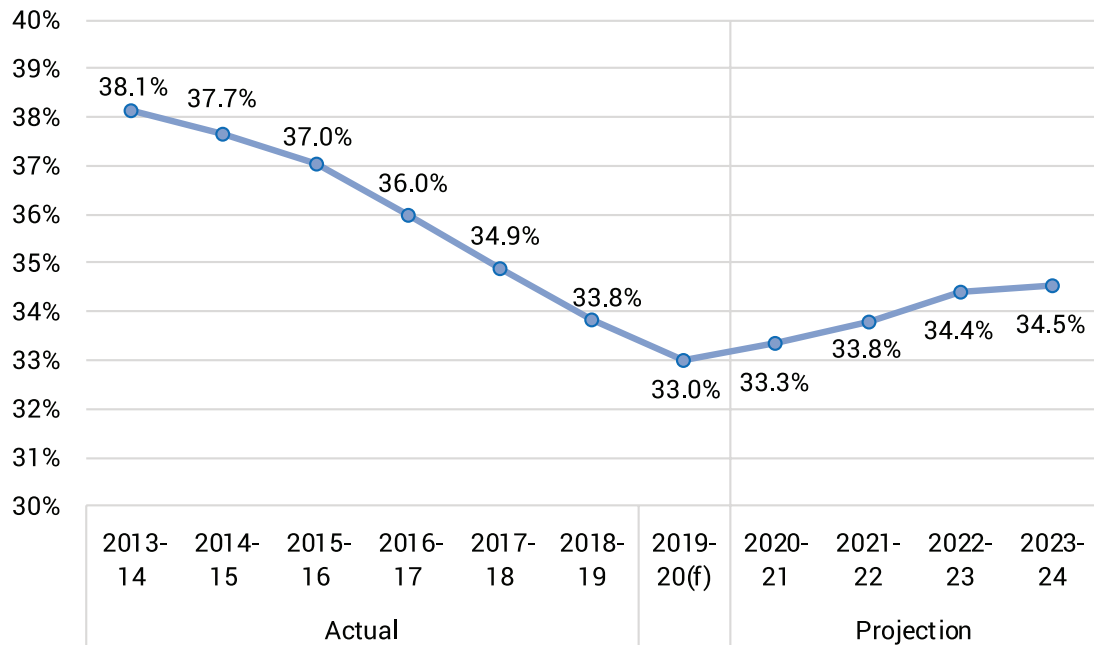
**Chart 3.3 Projected Net Debt**

(\$ billions)



The Government of Nova Scotia continues to place emphasis on a sustainable debt position. Even with generational investments in health, education, and transportation infrastructure in the Capital Plan reflected in Budget 2020–21, the Net Debt position of Nova Scotia remains relatively solid.

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



In 2013–14, the Net Debt-to-GDP ratio was 38.1 per cent (Chart 3.4). Each year since 2013–14, the Net Debt-to-GDP ratio has decreased, reaching 33.8 per cent in 2018–19. The 2018–19 Public Accounts closed with a Net Debt-to-GDP ratio of 34.1 per cent. In November 2019, Statistics Canada released GDP data for 2018, which led to a higher GDP figure being used in the ratio than what was forecasted for Public Accounts. The 2018–19 Net Debt-to-GDP ratio was revised to 33.8 per cent using this actual 2018 GDP figure.

Nova Scotia's Net Debt-to-GDP ratio is forecast to be 33.0 per cent for 2019–20. Budget 2020–21 projects that the ratio will be 33.3 per cent in 2020–21 and 34.5 per cent in 2023–24. The Net Debt-to-GDP ratio will increase somewhat over the Four-Year fiscal plan but is not expected to rise above the ratio in 2017–18 (34.9 per cent).

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 has improved significantly since 2013–14.

## 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.



**Finance & Treasury Board**  
Office of the Deputy Minister

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**RE: Management's Responsibility for the 2020-21 Revenue Estimates of the Province of Nova Scotia**

The Nova Scotia Department of Finance and Treasury Board is responsible for the preparation of the 2020-21 Revenue Estimates of the Province of Nova Scotia and for ensuring the 2020-21 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 2020-21 Revenue Estimates of the Province of Nova Scotia have been prepared on a basis consistent with the accounting policies to be used by Government in its preparation of the consolidated financial statements of the Province of Nova Scotia for the year ended March 31, 2021. The assumptions underlying the 2020-21 Revenue Estimates reflect management's judgment as to a reasonable set of economic conditions and Government's planned courses of action for fiscal year 2020-21.

A handwritten signature in blue ink, appearing to read 'Byron Rafuse', written over a horizontal line.

Byron Rafuse  
Deputy Minister of Finance and Treasury Board



5161 George Street  
Royal Centre, Suite 400  
Halifax, Nova Scotia  
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## 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 2020-21 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 2020-21 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 are presented fairly.

The criteria used to assess whether the 2020-21 Revenue Estimates of the Province of Nova Scotia are reasonable and presented fairly are that:

- the 2020-21 Revenue Estimates are prepared on a basis consistent with the accounting policies to be used by Government in its preparation of the consolidated financial statements of the Province of Nova Scotia for the year ended March 31, 2021, which are prepared in accordance with Canadian public sector accounting standards; and
- the assumptions underlying the 2020-21 Revenue Estimates reflect a reasonable set of economic conditions and Government's planned courses of action for fiscal year 2020-21.

Since the 2020-21 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 2020-21 Revenue Estimates will actually be achieved as budgeted. My Independent Limited Assurance Report does not cover the 2020-21 expense estimates of the Province of Nova Scotia, Government's overall estimated results and any resulting surplus or deficit, or the budget address. My Report also does not cover the prior year's forecast or actual information provided for comparative purposes.

#### Management's Responsibility for the 2020-21 Revenue Estimates of the Province of Nova Scotia

The Nova Scotia Department of Finance and Treasury Board is responsible for the preparation of the 2020-21 Revenue Estimates of the Province of Nova Scotia and for ensuring the 2020-21 Revenue Estimates are reasonable and presented fairly. The Nova Scotia Department of Finance and Treasury Board is responsible for ensuring that the 2020-21 Revenue Estimates are prepared on a basis consistent with the accounting policies to be used by Government in its preparation of the consolidated financial statements of the Province of Nova Scotia for the year ended March 31, 2021, and that the assumptions underlying the 2020-21 Revenue Estimates reflect a reasonable set of economic conditions and Government's planned courses of action for fiscal year 2020-21.





**Auditor General’s Responsibility**

My responsibility is to provide a conclusion and report on whether the 2020-21 Revenue Estimates are reasonable and are 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  
February 25, 2020

**Table 4.1 Revenues By Source**  
(\$ thousands)

	<b>2020-21 Estimate</b>
<b>General Revenue Fund: Revenues</b>	
<b>Ordinary Revenue - Provincial Sources</b>	
Tax Revenue:	
Personal Income Tax	2,979,575
Corporate Income Tax	541,872
Harmonized Sales Tax	2,004,070
Cannabis Tax	7,205
Vaping Tax	2,332
Motive Fuel Tax	277,161
Tobacco Tax	196,501
Other Tax Revenue	182,654
	<b>6,191,370</b>
Other Provincial Revenue:	
Registry of Motor Vehicles	135,380
Other Provincial Sources	140,264
TCA Cost Shared Revenue - Provincial Sources	3,721
Other Fees and Charges	64,023
	<b>343,388</b>
Investment Income:	
Interest Revenues	87,084
Sinking Fund Earnings	65,373
	<b>152,457</b>
<b>Total - Provincial Sources</b>	<b>6,687,215</b>
<b>Ordinary Revenue - Federal Sources</b>	
Equalization Payments	2,145,883
Canada Health Transfer	1,080,690
Canada Social Transfer	387,762
Offshore Accord	86,000
Other Federal Sources	39,177
TCA Cost Shared Revenue - Federal Sources	111,779
	<b>3,851,291</b>
<b>Total - Federal Sources</b>	<b>3,851,291</b>
<b>Total - Ordinary Revenues</b>	<b>10,538,506</b>
<b>Ordinary Recoveries</b>	
Provincial Sources	372,047
Federal Sources	294,673
	<b>666,720</b>
<b>Total - Ordinary Recoveries</b>	<b>666,720</b>
<b>Net Income from Government Business Enterprises (GBEs)</b>	
Nova Scotia Liquor Corporation	242,625
Nova Scotia Gaming Corporation	131,000
Halifax-Dartmouth Bridge Commission	7,559
Highway 104 Western Alignment Corporation	10,630
	<b>391,814</b>
<b>Total - Net Income from GBEs</b>	<b>391,814</b>
<b>Total - Revenues of the General Revenue Fund</b>	<b>11,597,040</b> <sup>1</sup>
Governmental Unit Third Party Revenues (Table 4.2)	
	1,002,768
<b>Total - Revenue of the Province</b>	<b>12,599,808</b>

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)

<b>Governmental Unit Third Party Revenues</b>	<b>2020-21 Estimate</b>
Regional Centres for Education and Nova Scotia Community College	428,335
Provincial Health Authorities	292,205
Housing Nova Scotia	146,697
Resource Recovery Fund Board	59,316
Green Fund	23,900
Governmental Units with third party revenue less than \$10 Million	52,315
<b>Total - Governmental Unit Third Party Revenues</b>	<b>1,002,768</b> <sup>2</sup>

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.

## 5. 2019–20 Budget Forecast Update

The 2019–20 Final Forecast Update provides revised information about Nova Scotia's fiscal outlook, including updated information about the major components of revenue and expenses as set out in the 2019–20 Budget Estimates.

The Province of Nova Scotia is forecasting a surplus of \$41.1 million for the year ending March 31, 2020, which is up \$7.5 million from the budgeted estimate of \$33.6 million (Table 5.1). The difference is due to Total Revenues being \$401.5 million higher than expected, Total Expenses being \$336.2 million higher than expected, and changes to Consolidation and Accounting Adjustments which negatively impact the bottom line by \$57.7 million.

**Table 5.1 2019–20 Budget Forecast Update**

(General Revenue Fund, \$ thousands)

<b>General Revenue Fund</b>	<b>2019-20 Estimate</b>	<b>2019-20 Forecast</b>	<b>2020-21 Estimate</b>
<b>Revenues</b>			
Ordinary Revenue	9,962,736	10,205,281	10,538,506
Ordinary Recoveries	658,509	817,906	666,720
Net Income from Government Business Enterprises	389,224	388,768	391,814
<b>Total Revenues</b>	<b>11,010,469</b>	<b>11,411,955</b>	<b>11,597,040</b>
<b>Expenses</b>			
Departmental Expenses	10,101,784	10,440,886	10,650,274
Refundable Tax Credits	134,324	121,467	131,451
Pension Valuation Adjustment	51,837	74,904	75,832
Debt Servicing Costs	856,107	843,034	758,393
<b>Total Expenses</b>	<b>11,144,052</b>	<b>11,480,291</b>	<b>11,615,950</b>
<b>Consolidation and Accounting Adjustments</b>			
General Revenue Fund			
Consolidation Adjustments	168,457	106,558	76,520
Special Purpose Funds	72	222	(57)
Other Organizations	(1,323)	2,683	(2,527)
<b>Total Consolidation and Accounting Adjustments</b>	<b>167,206</b>	<b>109,463</b>	<b>73,936</b>
<b>Provincial Surplus (Deficit)</b>	<b>33,623</b>	<b>41,127</b>	<b>55,026</b>

## Budget 2019–20 Revenues

Total Revenues are forecast to be \$11.412 billion.

**Ordinary Revenue:** Relative to the 2019–20 Budget Estimates, overall tax revenue is forecast to be higher by \$66.8 million. Expected decreases in Tobacco Tax of \$17.1 million, Corporate Income Tax of \$9.2 million, Motive Fuel Tax of \$6.9 million, and Cannabis Tax of \$1.1 million are offset by expected increases in Personal Income Tax of \$49.5 million, Harmonized Sales Tax of \$47.3 million, and Other Taxes of \$4.3 million.

Other Provincial Revenues are forecast to increase by \$107.0 million, primarily due to a net positive Prior Year Adjustment of \$108.4 million.

Federal Source Ordinary Revenues are forecast to be \$56.4 million higher than the 2019–20 Budget Estimates, primarily resulting from a decrease in the Cumulative Best-of Guarantee payment of \$66.4 million and increases in the Crown Share Adjustment Payments of \$4.0 million and Canada Health Transfer of \$4.0 million. These positive impacts are partially offset by decreases in Tangible Capital Asset Cost Shared Revenue of \$13.0 million and Other Federal Sources of \$6.0 million.

**Ordinary Recoveries:** Revenue from Ordinary Recoveries is forecast to be \$159.4 million higher than Budget Estimates. This is primarily due to increases of \$85.0 million for a federal contribution for Boat Harbour remediation, \$58.5 million in Federal Gas Tax recoveries, a \$6.7 million federal contribution for Harrietsfield remediation, and \$3.8 million from automobile levies from insurance companies.

Increases also include \$3.7 million for Hurricane Dorian from federal funding, \$3.6 million in prior year adjustment for recoveries, \$3.2 million for ambulance radios, \$3.1 million related to school leases ending, \$2.5 million in Labour Market Development Agreements, and \$2.1 million for the Challenge Fund. These increases are offset by net decreases of \$12.8 million for various programs, including an \$11.0 million underspend in the Federal Investing in Canada Infrastructure Fund.

**Net Income from Government Business Enterprises:** Net Income is forecast to decrease by \$0.5 million due to anticipated decreases in net income at the Nova Scotia Gaming Corporation of \$2.6 million and Nova Scotia Liquor Corporation of \$0.1 million. These decreases are slightly offset by predicted increases in net income for Highway 104 Western Alignment Corporation of \$1.8 million and Halifax-Dartmouth Bridge Commission of \$0.4 million.

## Budget 2019–20 Expenses

Total Expenses are forecast to be \$11.480 billion.

**Departmental Expenses:** Total Departmental Expenses are forecast to increase by \$339.1 million relative to the 2019–20 Budget Estimates. This is due to expense increases in a number of departments totaling \$349.2 million.

The Department of Health and Wellness expenses are forecast to be \$73.5 million higher, primarily due to rising demand in health care services at the Nova Scotia Health Authority and costs related to the Physician Services Master Agreement. The Department of Municipal Affairs and Housing expenses are expected to be \$64.0 million higher, primarily due to an increase in the Federal Gas Tax transfer to municipalities, Hurricane Dorian disaster assistance costs, and an increase in National Housing Strategy programs.

The Department of Business expenses are forecast to be higher by \$62.4 million, primarily due to the formation of the Forestry Innovation Transition Trust. The Department of Community Services expenses are expected to be \$44.3 million higher, primarily due to Child, Youth and Family Supports for children with complex needs.

The Department of Transportation and Infrastructure Renewal expenses are forecast to be \$30.5 million higher, primarily due to the advancement of the Windsor Street Exchange and an increase in costs for snow and ice removal. Assistance to Universities expenses are forecast to be \$20.3 million higher, primarily due to expenses related to deferred maintenance initiatives for universities.

The Department of Service Nova Scotia and Internal Services expenses are forecast to be \$16.4 million higher, primarily due to the SAP Modernization and Sustainment Project and additional licensing contract costs. Communities, Culture and Heritage expenses are projected to be \$10.2 million higher due to various community initiatives.

The increases described above are partially offset by expense decreases in other departments totaling \$10.1 million. The largest decrease is \$9.1 million at Energy and Mines, primarily due to an underspend in the Investing in Canada Infrastructure Fund.

**Refundable Tax Credits:** Expenses for Refundable Tax Credits are forecast to be \$12.9 million lower than expected. Estimated reductions of \$17.6 million in the Capital Investment Tax Credit and \$2.8 million in the Digital Media Tax Credit are partially offset by higher estimated costs of \$3.9 million for the Digital Animation Tax Credit and \$3.3 million higher for the Scientific Research and Experimental Development Tax Credit.

***Pension Valuation Adjustment:*** The Pension Valuation Adjustment has increased by \$23.1 million as a result of updated actuarial reports and changes in actuarial assumptions, mainly in the Teachers' Pension Plan.

***Debt Servicing Costs:*** Costs of Debt Servicing have decreased by \$13.1 million primarily as a result of interest rates being lower than expected and lower pension debt servicing obligations.

## 2019–20 Consolidation and Accounting Adjustments

Overall Consolidation and Accounting Adjustments are forecast to result in a \$109.5 million positive impact on the provincial surplus position. This figure is down \$57.7 from the 2019–20 Budget Estimates.



## 6. Budget 2020–21

Looking forward, the Province of Nova Scotia is projecting a surplus of \$55.0 million for Budget 2020–21 and, therefore, a fifth 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.

### Budget 2020–21: Revenue Outlook

In 2020–21, Nova Scotia's Total Revenue in its General Revenue Fund is estimated to be \$11,597.0 million. This is an increase of \$586.6 million or 5.3 per cent from the 2019–20 Budget Estimates and an increase of \$185.1 million or 1.6 per cent compared to the 2019–20 forecast.

Total Revenue from all provincial sources, including Ordinary Recoveries and Net Income from Government Business Enterprises, contributes 64.3 per cent of all revenue in 2020–21. Revenue from federal sources contributes 35.7 per cent of all revenue in 2020–21.

Tables 6.1 and 6.2 provide financial statistics for revenues by source in dollar amounts and as a percentage of Total Revenue, respectively. Chart 6.1 provides a visual percentage breakdown of revenues by source.

Provincial Source Ordinary Revenues in 2020–21 are expected to be \$6,687.2 million. This is an increase of \$180.6 million or 2.8 per cent from the 2019–20 Budget Estimates and a decrease of \$5.6 million or 0.1 per cent from the 2019–20 forecast.

Federal Source Ordinary Revenues are projected to be \$3,851.3 million in 2020–21, an increase of \$395.2 million or 11.4 per cent from the 2019–20 Budget Estimates and an increase of \$338.8 million or 9.6 per cent from the 2019–20 forecast.

Ordinary Recoveries from provincial sources are projected to be \$372.0 million in 2020–21, up \$10.4 million or 2.9 per cent from the 2019–20 Budget Estimates and down \$4.0 million or 1.1 per cent compared to the 2019–20 forecast. Ordinary Recoveries from federal sources are projected to be \$294.7 million in 2020–21, down \$2.2 million or 0.7 per cent from the 2019–20 Budget Estimates and down \$147.2 million or 33.3 per cent from the 2019–20 forecast.

Net Income from Government Business Enterprises is expected to be \$391.8 million in 2020–21, up \$2.6 million or 0.7 per cent from the 2019–20 Budget Estimates and up \$3.0 million or 0.8 per cent from the 2019–20 forecast.

**Table 6.1 Revenues by Source**  
(\$ thousands)

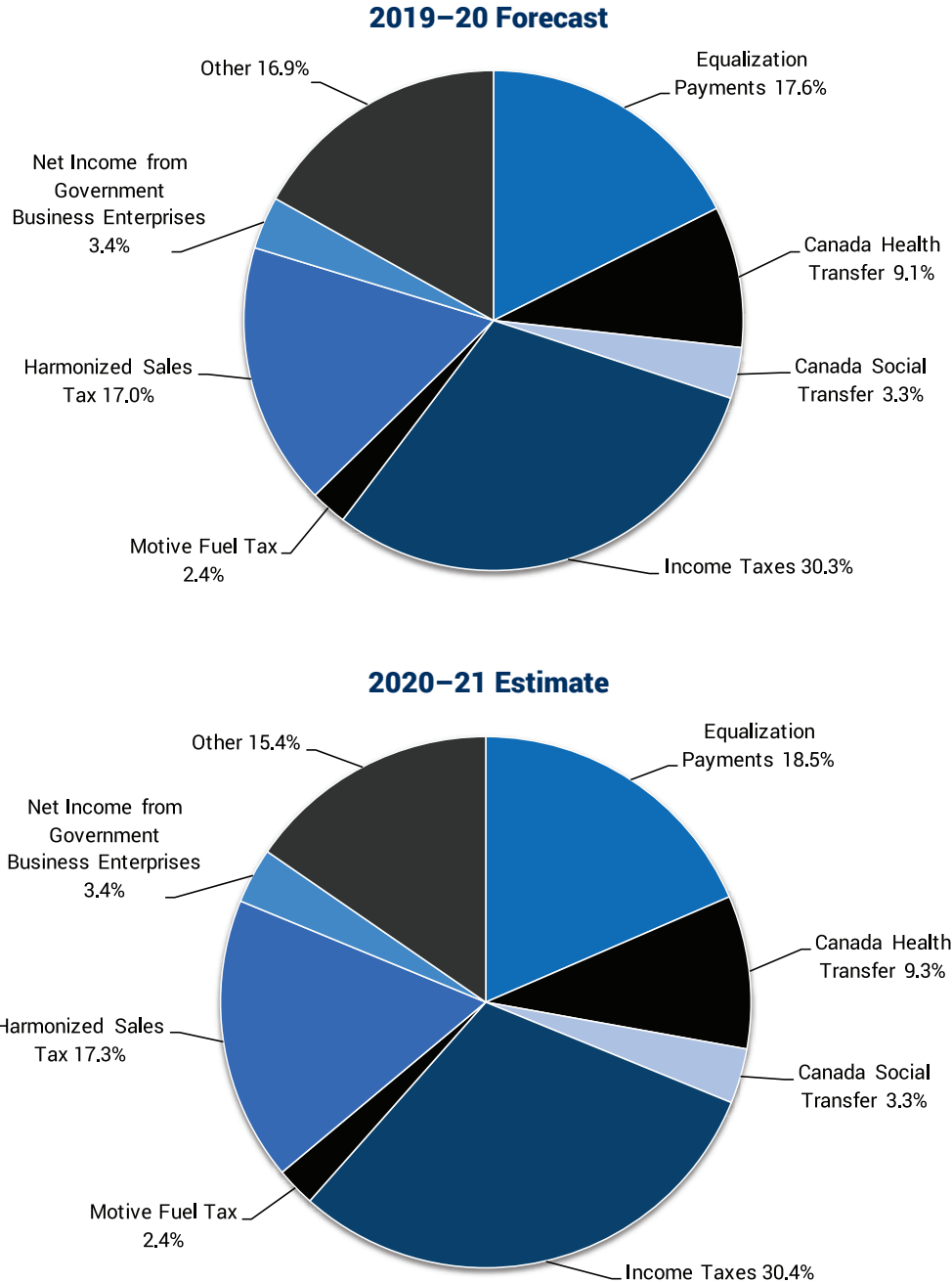
<b>General Revenue Fund: Revenues</b>	<b>2017-18 Actual</b>	<b>2018-19 Actual</b>	<b>2019-20 Estimate</b>	<b>2019-20 Forecast</b>	<b>2020-21 Estimate</b>
<b>Ordinary Revenue - Provincial Sources</b>					
<b>Tax Revenue:</b>					
Personal Income Tax	2,768,421	2,691,576	2,811,289	2,860,788	2,979,575
Corporate Income Tax	539,025	630,864	604,741	595,537	541,872
Harmonized Sales Tax	1,803,756	1,843,297	1,895,909	1,943,169	2,004,070
Cannabis Tax	---	3,371	7,814	6,737	7,205
Vaping Tax	---	---	---	---	2,332
Motive Fuel Tax	266,444	263,433	276,942	270,034	277,161
Tobacco Tax	210,710	205,766	205,432	188,337	196,501
Other Tax Revenue	178,822	180,308	169,329	173,624	182,654
	5,767,178	5,818,615	5,971,456	6,038,226	6,191,370
<b>Other Provincial Revenue:</b>					
Registry of Motor Vehicles	134,568	134,158	136,076	138,165	135,380
Royalties - Petroleum	9,118	6,889	---	---	---
Other Provincial Sources	139,898	213,948	151,981	146,672	140,264
TCA Cost Shared Revenue - Provincial Sources	62,274	2,509	2,439	4,093	3,721
Other Fees and Charges	61,950	63,189	63,170	63,318	64,023
Prior Years' Adjustments - Provincial Sources	230,903	974	---	108,423	---
Gain (Loss) on Disposal of Crown Assets	1,057	261	---	---	---
	639,768	421,928	353,666	460,671	343,388
<b>Investment Income:</b>					
Interest Revenues	121,084	107,655	85,574	101,973	87,084
Sinking Fund Earnings	96,546	106,519	95,920	91,918	65,373
	217,630	214,174	181,494	193,891	152,457
<b>Total - Provincial Sources</b>	<b>6,624,576</b>	<b>6,454,717</b>	<b>6,506,616</b>	<b>6,692,788</b>	<b>6,687,215</b>
<b>Ordinary Revenue - Federal Sources</b>					
Equalization Payments	1,794,968	1,843,636	1,942,628	2,009,037	2,145,883
Canada Health Transfer	965,873	998,752	1,039,410	1,043,370	1,080,690
Canada Social Transfer	357,451	366,558	375,514	376,945	387,762
Offshore Accord	19,957	18,092	8,227	8,227	86,000
Crown Share	15,944	4,208	---	4,041	---
Other Federal Sources	10,178	92,446	41,260	35,269	39,177
TCA Cost Shared Revenue - Federal Sources	75,880	39,666	49,081	36,106	111,779
Prior Years' Adjustments - Federal Sources	(543)	1,333	---	(502)	---
<b>Total - Federal Sources</b>	<b>3,239,708</b>	<b>3,364,691</b>	<b>3,456,120</b>	<b>3,512,493</b>	<b>3,851,291</b>
<b>Total - Ordinary Revenue</b>	<b>9,864,284</b>	<b>9,819,408</b>	<b>9,962,736</b>	<b>10,205,281</b>	<b>10,538,506</b>
<b>Ordinary Recoveries</b>					
Provincial Sources	371,421	395,319	361,630	376,003	372,047
Federal Sources	344,835	286,449	296,879	441,903	294,673
<b>Total - Ordinary Recoveries</b>	<b>716,256</b>	<b>681,768</b>	<b>658,509</b>	<b>817,906</b>	<b>666,720</b>
<b>Net Income from Government</b>					
<b>Business Enterprises (GBEs)</b>					
Nova Scotia Liquor Corporation	238,606	237,373	243,415	243,314	242,625
Nova Scotia Gaming Corporation	126,694	129,662	128,000	125,400	131,000
Halifax-Dartmouth Bridge Commission	8,726	9,506	8,419	8,864	7,559
Highway 104 Western Alignment Corporation	11,408	12,681	9,390	11,190	10,630
<b>Total - Net Income from GBEs</b>	<b>385,434</b>	<b>389,222</b>	<b>389,224</b>	<b>388,768</b>	<b>391,814</b>
<b>Total - Revenues</b>	<b>10,965,974</b>	<b>10,890,398</b>	<b>11,010,469</b>	<b>11,411,955</b>	<b>11,597,040</b>

**Table 6.2 Revenues by Source**  
 (percentage of Total Revenue)

<b>General Revenue Fund: Revenues</b>	<b>2017-18 Actual</b>	<b>2018-19 Actual</b>	<b>2019-20 Estimate</b>	<b>2019-20 Forecast</b>	<b>2020-21 Estimate</b>
<b>Ordinary Revenue - Provincial Sources</b>					
<b>Tax Revenue:</b>					
Personal Income Tax	25.2%	24.7%	25.5%	25.1%	25.7%
Corporate Income Tax	4.9%	5.8%	5.5%	5.2%	4.7%
Harmonized Sales Tax	16.4%	16.9%	17.2%	17.0%	17.3%
Cannabis Tax	---	---	0.1%	0.1%	0.1%
Vaping Tax	---	---	---	---	---
Motive Fuel Tax	2.4%	2.4%	2.5%	2.4%	2.4%
Tobacco Tax	1.9%	1.9%	1.9%	1.7%	1.7%
Other Tax Revenue	1.6%	1.7%	1.5%	1.5%	1.6%
	<b>52.6%</b>	<b>53.4%</b>	<b>54.2%</b>	<b>52.9%</b>	<b>53.4%</b>
<b>Other Provincial Revenue:</b>					
Registry of Motor Vehicles	1.2%	1.2%	1.2%	1.2%	1.2%
Royalties - Petroleum	0.1%	0.1%	---	---	---
Other Provincial Sources	1.3%	2.0%	1.4%	1.3%	1.2%
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	2.1%	---	---	1.0%	---
Gain (Loss) on Disposal of Crown Assets	---	---	---	---	---
	<b>5.8%</b>	<b>3.8%</b>	<b>3.2%</b>	<b>4.0%</b>	<b>2.9%</b>
<b>Investment Income:</b>					
Interest Revenues	1.1%	1.0%	0.8%	0.9%	0.8%
Sinking Fund Earnings	0.9%	1.0%	0.9%	0.8%	0.6%
	<b>2.0%</b>	<b>2.0%</b>	<b>1.6%</b>	<b>1.7%</b>	<b>1.3%</b>
<b>Total - Provincial Sources</b>	<b>60.4%</b>	<b>59.3%</b>	<b>59.1%</b>	<b>58.6%</b>	<b>57.7%</b>
<b>Ordinary Revenue - Federal Sources</b>					
Equalization Payments	16.4%	16.9%	17.6%	17.6%	18.5%
Canada Health Transfer	8.8%	9.2%	9.4%	9.1%	9.3%
Canada Social Transfer	3.3%	3.4%	3.4%	3.3%	3.3%
Offshore Accord	0.2%	0.2%	0.1%	0.1%	0.7%
Crown Share	0.1%	---	---	---	---
Other Federal Sources	0.1%	0.8%	0.4%	0.3%	0.3%
TCA Cost Shared Revenue - Federal Sources	0.7%	0.4%	0.4%	0.3%	1.0%
Prior Years' Adjustments - Federal Sources	---	---	---	---	---
<b>Total - Federal Sources</b>	<b>29.5%</b>	<b>30.9%</b>	<b>31.4%</b>	<b>30.8%</b>	<b>33.2%</b>
<b>Total - Ordinary Revenue</b>	<b>90.0%</b>	<b>90.2%</b>	<b>90.5%</b>	<b>89.4%</b>	<b>90.9%</b>
<b>Ordinary Recoveries</b>					
Provincial Sources	3.4%	3.6%	3.3%	3.3%	3.2%
Federal Sources	3.1%	2.6%	2.7%	3.9%	2.5%
<b>Total - Ordinary Recoveries</b>	<b>6.5%</b>	<b>6.3%</b>	<b>6.0%</b>	<b>7.2%</b>	<b>5.7%</b>
<b>Net Income from Government</b>					
<b>Business Enterprises (GBEs)</b>					
Nova Scotia Liquor Corporation	2.2%	2.2%	2.2%	2.1%	2.1%
Nova Scotia Gaming Corporation	1.2%	1.2%	1.2%	1.1%	1.1%
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%
<b>Total - Net Income from GBEs</b>	<b>3.5%</b>	<b>3.6%</b>	<b>3.5%</b>	<b>3.4%</b>	<b>3.4%</b>
<b>Total - Revenues</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

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

**Chart 6.1 Total Revenue 2019-20 Forecast and 2020-21 Estimate**



## Ordinary Revenue – Provincial Sources – Tax Revenue

### *Personal Income Tax (PIT)*

Nova Scotia's 2020–21 estimate for PIT is \$2,979.6 million, up \$168.3 million or 6.0 per cent compared to the 2019–20 Budget Estimates and up \$118.8 million or 4.2 per cent from the 2019–20 forecast.

Personal taxable income is projected to grow by \$930 million to \$33.1 billion in 2020, an increase of 2.9 per cent, and grow to \$34.2 billion in 2021, an increase of 3.2 per cent. Yield is expected to grow by 1.0 per cent in 2020 and by 1.4 per cent in 2021.

Table 6.3 provides a summary of PIT revenue growth since 2016, 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 6.3 Components of PIT Revenue by Calendar Year**

	2016	2017	2018	2019 (F)	2020 (E)	2021 (E)
Personal Taxable Income (\$ billions)	28.6	30.0	31.2	32.2	33.1	34.2
Yield Rate (per cent)	8.68%	8.89%	8.74%	8.87%	8.96%	9.09%
Net PIT (\$ millions)	2,476	2,656	2,723	2,848	2,961	3,099

### *Corporate Income Tax (CIT)*

Nova Scotia's 2020–21 estimate for CIT is \$541.9 million, down \$62.9 million or 10.4 per cent compared to the 2019–20 Budget Estimates and down \$53.7 million or 9.0 per cent from the 2019–20 forecast.

National corporate taxable income is projected to increase by \$16.4 billion or 4.7 per cent in 2020 to \$365.7 billion and increase by \$14.9 billion or 4.1 per cent to \$380.6 billion in 2021.

The province calculates its share of national corporate taxable income on a three-year moving average of actual share rates. For 2020–21 the province's share is estimated to be 1.5 per cent. Nova Scotia's corporate taxable income in 2020 is estimated to be \$5.5 billion, growing to \$5.8 billion in 2021.

The general corporate income tax rate will be reduced by 2 percentage points, from 16 per cent to 14 per cent, effective April 1, 2020. The cost of this measure in 2020–21 will be approximately \$70.5 million. In addition, the small business rate will be reduced by one-half percentage point, from 3.0 per cent to 2.5 per cent, on April 1, 2020, as well. This is expected to cost \$10.5 million in 2020–21.

The average effective tax rate is estimated to be 9.8 per cent, down from 11.2 per cent prior to the tax rate reductions, and the small business share of taxable income is projected to be 37.0 per cent in both 2020 and 2021.

### *Harmonized Sales Tax (HST)*

Net HST is estimated to total \$2,004.1 million in 2020–21, up \$108.2 million or 5.7 per cent compared to the 2019–20 Budget Estimates and up \$60.9 million or 3.1 per cent from the 2019–20 forecast.

The increase in HST revenues is largely attributable to growth in the residential housing investment tax base and a historical revision to that base. The province's total tax base for taxable goods and services is projected to grow by \$588.3 million or 2.7 per cent to \$22.8 billion in 2020 and by \$706.2 million or 3.1 per cent to \$23.5 billion in 2021.

Growth in the consumer expenditure base is projected to be 2.8 per cent in 2020 and 3.3 per cent in 2021. Consumer expenditures represent over 70 per cent of the HST tax base.

Taxable residential housing expenditures are expected to grow by 2.3 per cent in 2020 and by 2.6 per cent in 2021, relative to the 2019–20 forecast. The rebate on residential energy (Your Energy Rebate Program) is expected to total \$121.5 million in 2020–21.

Compared to the 2019–20 forecast, public sector body rebates are projected to increase by 2.1 per cent, while point-of-sale rebates for children's clothing, children's footwear, children's diapers, and printed books will increase by 3.0 per cent.

### *Cannabis Tax*

The province entered into a Coordinated Cannabis Tax Agreement (CCTA) with the Government of Canada for a two-year period following the legalization of recreational cannabis.

The federal government imposes a federal excise duty of \$0.25 per gram of flowering material in a cannabis product and collects a \$0.75 per gram additional duty on behalf of the province. With the legalization of cannabis edibles, oils, and extracts, the federal government imposes a federal excise duty of \$0.0025 per milligram of total tetrahydrocannabinol (THC) contained in the product and collects a \$0.0075 per milligram of THC 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 \$7.2 million in 2020–21, a decrease of \$0.6 million or 7.8 per cent from the 2019–20 Budget Estimates and an increase of \$0.5 million or 6.9 per cent from the 2019–20 forecast.

Products containing 0.3 per cent or less of 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 can only be acquired through a prescription.

Medical and recreational cannabis products are subject to the HST.

### *Vaping Product Taxes*

Effective September 15, 2020, the province will introduce a vaping product tax on vaping substances and vaping devices. Vaping substances will be taxed at the rate of \$0.50 per millilitre, while vaping devices and components will be taxed at a rate of 20 per cent of their suggested retail selling price. Cannabis vaping substances are taxed according to the CCTA.

Vaping product taxes are projected to be \$2.3 million in 2020–21.

### *Motive Fuel Taxes*

Motive Fuel Taxes are projected to total \$277.2 million in 2020–21, an increase of \$0.2 million or 0.1 per cent compared to the 2019–20 Budget Estimates and up by \$7.1 million or 2.6 per cent from the 2019–20 forecast.

Gasoline consumption is estimated to rise by 3.0 per cent to 1.3 billion litres in 2020–21 relative to the 2019–20 forecast, while the consumption of diesel oil is estimated to increase by 0.4 per cent to 455 million litres in 2020–21. Key drivers for Motive Fuel Taxes are average prices for gasoline and diesel oil, which are projected to be lower in 2020–21, and labour income, which is expected to increase by 2.0 per cent over the 2019–20 forecast.

### *Tobacco Tax*

Tobacco Tax revenues are projected to total \$196.5 million in 2020–21, down \$8.9 million or 4.3 per cent from the 2019–20 Budget Estimates and up \$8.2 million or 4.3 per cent compared to the 2019–20 forecast.

Cigarette consumption is projected to decline from 622 million cigarettes in 2019–20 to 587 million in 2020–21, a decrease of 5.6 per cent. The consumption of fine cut tobacco is projected to decline from 36 million grams in 2019–20 to 34 million grams in 2020–21, a decrease of 5.6 per cent. The declines in consumption are offset by an increase in tobacco taxes that will generate approximately \$17.4 million in 2020–21.



### *Other Tax Revenue*

Other Tax Revenue includes items such as Corporation Capital Tax, Casino Win Tax, Levy on Private Sale of Used Vehicles, Tax on Insurance Premiums, and Gypsum Tax. The total for Other Tax Revenue is estimated to be \$182.7 million for 2020–21, up \$13.3 million or 7.9 per cent from the 2019–20 Budget Estimates and up \$9.0 million or 5.2 per cent from the 2019–20 forecast.

## **Ordinary Revenue – Provincial Sources – Other Provincial Revenue**

### *Registry of Motor Vehicles*

Revenue generated by the Registry of Motor Vehicles is estimated to be \$135.4 million for 2020–21, down \$0.7 million or 0.5 per cent from the 2019–20 Budget Estimates and a decrease of \$2.8 million or 2.0 per cent from the 2019–20 forecast.

### *Other Provincial Sources*

Revenue from Other Provincial Sources is estimated to be \$140.3 million for 2020–21, down \$11.7 million or 7.7 per cent from the 2019–20 Budget Estimates and down \$6.4 million or 4.4 per cent from the 2019–20 forecast. This revenue source includes items such as pharmacare premiums; Nova Scotia Securities Commission fees; registration revenues for deeds, companies, and property; various other licenses and permits; and timber licenses.

The decrease from estimate to estimate can be largely attributed to recategorizing certain line items to align with revisions of Public Accounts classifications. These items include preferred share dividends (moved to Other Tax Revenue), volunteer firefighter levy (moved to Other Tax Revenue), and student assistance interest revenue (moved to Investment Income).

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

TCA Cost Shared Revenue from provincial sources is estimated to be \$3.7 million for 2020–21, up \$1.3 million or 52.6 per cent from the 2019–20 Budget Estimates and down \$0.4 million or 9.1 per cent from the 2019–20 forecast. The increase of \$1.3 million is mainly driven by the Arts District and municipal road paving projects under Department of Transportation and Infrastructure Renewal.

### *Other Fees and Charges*

Revenue generated from Other Fees and Charges is estimated to be \$64.0 million for 2020–21, \$0.9 million or 1.4 per cent higher than the 2019–20 Budget Estimates and an increase of \$0.7 million or 1.1 per cent from the 2019–20 forecast.

## **Ordinary Revenue – Provincial Sources – Investment Income**

### *Interest Revenue*

Interest Revenue is estimated to be \$87.1 million for 2020–21, up \$1.5 million or 1.8 per cent from the 2019–20 Budget Estimates and down \$14.9 million or 14.6 per cent from the 2019–20 forecast. The increase from estimate is largely due to the reclassification of Student Assistance to Investment Income and is partly offset by decreased revenue generated from investments.

### *Sinking Fund Earnings*

Sinking Fund Earnings are projected to total \$65.4 million in 2020–21, a decrease of \$30.5 million or 31.8 per cent from the 2019–20 Budget Estimates and down \$26.5 million or 28.9 per cent from the 2019–20 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 2020–21 are estimated to be \$2,145.9 million, an increase of \$203.3 million or 10.5 per cent compared to the 2019–20 Budget Estimates, and up by \$136.8 million or 6.8 per cent compared to the 2019–20 forecast.

The Equalization program is legislated to grow by the three-year average growth rate of national nominal Gross Domestic Product. For 2020–21 the growth rate is 3.71 per cent and the national pool of cash to be distributed is \$20.6 billion. The Cumulative Best-of Guarantee ends on March 31, 2020. Since 2008–09 the province has received \$790.6 million in payments under this arrangement.

### *Offshore Accord Payments*

Offshore Accord Payments in 2020–21 are estimated to be \$86.0 million, an increase of \$77.8 million or 945.3 per cent compared to both the 2019–20 Budget Estimates and the 2019–20 forecast, primarily as a result of revenues from the offshore royalty arbitration settlement being included in the Equalization formula.

The second eight-year phase of the Offshore Accord ends on March 31, 2020, but the federal government is introducing legislation to extend the agreement by three years to fully protect the province from claw backs in Equalization related to the offshore royalty arbitration settlement.

### *The Canada Health Transfer (CHT)*

In 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 2020–21 the three-year average growth rate of national nominal Gross Domestic Product is 3.71 per cent.

The 2020–21 national CHT amount that is available for distribution is set at \$41.9 billion. The CHT cash entitlement for Nova Scotia is estimated to be \$1,080.7 million, an increase of \$41.3 million or 4.0 per cent from the 2019–20 Budget Estimates, and up by \$37.3 million or 3.6 per cent compared to the 2019–20 forecast. The CHT estimate reflects the federal government's estimate of the province's share of national population—currently 2.58 per cent which is unchanged from 2019–20.

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

### *The Canada Social Transfer (CST)*

Nova Scotia's 2020–21 cash entitlement for CST is estimated to be \$387.8 million, an increase of \$12.2 million or 3.3 per cent from the 2019–20 Budget Estimates, and up by \$10.8 million or 2.9 per cent compared to the 2019–20 forecast.

The provincial entitlement is based on an equal per capita cash provincial allocation of a fixed national entitlement, which stands at \$15.0 billion for 2020–21. 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 2.58 per cent.

### *The Crown Share Adjustment Payment*

The province is not expected to receive a Crown Share Adjustment Payment in 2020–21 as offshore oil and gas production for both the Sable Offshore Energy Project and Deep Panuke has ended, compared to \$4.0 million in the 2019–20 forecast attributable to a Prior Year Adjustment (PYA) related to the offshore royalty arbitration settlement.

### *Other Federal Sources*

Other Federal Sources are estimated to be \$39.2 million in 2020–21, a decrease of \$2.1 million or 5.0 per cent from the 2019–20 Budget Estimates and increase of \$3.9 million or 11.1 per cent from the 2019–20 forecast.

Other Federal Sources include statutory subsidies from the federal government and additional health funding secured under the Canada Health Transfer renegotiation. The year-over-year variance largely results from additional health funding.

There was also an Infoway payment that was recorded as a 2019–20 estimate, which was then moved to Other Provincial Sources for the 2019–20 forecast in order to align with revisions of Public Accounts classifications. This funding has ended in 2019–20.

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

The estimate for TCA Cost Shared Revenue from federal sources is \$111.8 million for 2020–21. This represents an increase of \$62.7 million or 127.7 per cent compared to the 2019–20 Budget Estimates and an increase of \$75.7 million or 209.6 per cent from the 2019–20 forecast. The increase from estimate to estimate is mainly attributed to the major highway twinning, provincial ferries, and Arts District projects under the Department of Transportation and Infrastructure Renewal.

## **Ordinary Recoveries**

Ordinary Recoveries are projected to total \$666.7 million in 2020–21, an increase of \$8.2 million or 1.2 per cent from the 2019–20 Budget Estimates and down \$151.2 million or 18.5 per cent from the 2019–20 forecast of \$817.9 million.

Provincial source recoveries are estimated to be \$372.0 million for 2020–21, up \$10.4 million or 2.9 per cent from the 2019–20 Budget Estimate and down \$4.0 million or 1.1 per cent from the 2019–20 forecast.

Federal source recoveries are estimated to be \$294.7 million, down \$2.2 million or 0.7 per cent from the 2019–20 Budget Estimates and down \$147.2 million or 33.3 per cent from the 2019–20 forecast. The decrease in federal sources relates primarily to a \$5.9 million decrease in the New Building Canada Fund's Small Community Fund and a \$5.1 million decrease in Clean Water and Wastewater Fund. These decreases are partially offset by increases in various other federal programs including \$3.5 million related to the Challenge Fund.

## 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 \$242.6 million in 2020–21. This is a decrease of \$0.8 million or 0.3 per cent per cent down compared to the 2019–20 Budget Estimate of \$243.4 million and down compared to the 2019–20 forecast of \$243.3 million.

Total net sales are projected to increase 1.4 per cent compared to the 2019–20 Budget Estimates, which is attributed to beverage alcohol sales increasing 0.8 per cent and cannabis sales increasing 6.4 per cent. Compared to the 2019–20 forecast, total net sales are projected to increase 2.7 per cent, most significantly from cannabis sales. The increase in Cannabis sales reflects the full year impact of the sale of edibles, extracts, and topicals, which commenced late in the third quarter of 2019–20, and the opening of additional cannabis locations throughout the province in 2020–2021.

Total expenses are up \$5.1 million or 4.1 per cent compared to the 2019–20 Budget Estimates and up \$6.6 million or 5.4 per cent compared to the 2019–20 forecast. The increase compared to the 2019–20 Budget estimate is a result of budgeted wage increases, implementation costs associated with key technology upgrades, expenses to support objectives of the new five-year strategic plan including cannabis access expansion, and depreciation. Depreciation is increasing as there is larger investment in store network and IT infrastructure. Lower than planned expenses related to cannabis in the 2019–20 forecast are resulting in a larger increase in expenses when comparing the 2019–20 forecast expenses to the 2020–21 expenses.

### *Nova Scotia Gaming Corporation*

The Nova Scotia Gaming Corporation's net income estimate (before Win Tax) is \$131.0 million for 2020–21, which is an increase of \$3.0 million or 2.3 per cent compared to 2019–20 estimate and an increase of \$5.6 million or 4.5 per cent compared to the 2019–20 forecast.

The increase in net income for 2020–21 compared to the 2019–20 estimate is due to new lottery products and a decrease in operating expenses for video lottery. Compared to the 2019–20 forecast, the increase in net income for 2020–21 is due to lottery jackpot levels returning to statistically normal levels from lower levels experienced in 2019–20, combined with completion of pension deficit payments.

### *Halifax-Dartmouth Bridge Commission*

Halifax-Dartmouth Bridge Commission (operating as Halifax Harbour Bridges) is budgeting net income for the 2020–21 fiscal year of \$7.6 million. This represents a decrease of \$0.9 million or 10.2 per cent from the 2019–20 Budget Estimates and a decrease of \$1.3 million or 14.7 per cent from the 2019–20 forecast. The change from estimate to estimate is primarily due to a decrease in interest income with lower cash balances on hand along with higher maintenance costs.

### *Highway 104 Western Alignment Corporation*

Highway 104 Western Alignment Corporation is budgeting net income for the 2020–21 fiscal year of \$10.6 million. This is an increase of \$1.2 million or 13.2 per cent from the 2019–20 Budget Estimates and a decrease of \$0.6 million or 5.0 per cent from the 2019–20 forecast. The increase results mainly from more traffic through the tolls.

## Key Tax Measures

### *General Corporate Income Tax Rate Reduction*

Effective April 1, 2020, the province will reduce the general corporate income tax rate from 16 per cent to 14 per cent.

The general corporate income tax rate in Nova Scotia has been set at 16 per cent since 1990. From 1982 to 1989 the rate was 15 per cent. The reduction by 2 percentage points will provide businesses with \$70.5 million in 2020–21.

### *Small Business Corporate Income Tax Rate Reduction*

Effective April 1, 2020, the province will reduce the small business corporate income tax rate from 3.0 per cent to 2.5 per cent.

From 2011 to 2014 the small business corporate income tax rate was reduced by one-half percentage point each year—dropping the rate from 5 per cent to 3 per cent. The small business rate is available on the first \$500,000 of active business income by Canadian Controlled Private Corporations (CCPCs) with taxable capital of less than \$10 million. The rate reduction will provide small businesses in the province with \$10.5 million in 2020–21.

### *Extend Digital Media Tax Credit (DMTC)*

The DMTC is a refundable corporate income tax credit. It was introduced in 2007 to encourage the employment of skilled Nova Scotians and to foster the development of an interactive digital media industry in the province. Since its introduction, the province has provided almost \$54 million in tax credits across 675 applications.

The DMTC was legislated to expire on December 31, 2020, but new legislation will be introduced as part of Budget 2020–21 to extend the tax credit for five years—to December 31, 2025.

The province will review the DMTC in consultation with the industry and stakeholders to ensure that the tax credit remains relevant and effective in an ever-changing digital technology environment.

### *Extend Digital Animation Tax Credit (DATC)*

The DATC is a refundable corporate income tax credit. It was introduced in 2015 to provide support for the production of digital-animation productions in the province. The tax credit, together with the Film and Television Production Incentive Fund, was put in place to replace the former Film Industry Tax Credit. Since its introduction, the province has approved Part A applications totaling almost \$45 million across 45 applications.

The DATC was legislated to expire on June 30, 2020, but new legislation will be introduced as part of Budget 2020–21 to extend the tax credit for five years—to December 31, 2025.

The province will review the DATC to ensure that the tax credit continues to support the digital animation industry.

### *Increase Tobacco Taxes*

Effective February 26, 2020, the province will increase the tax rates on all tobacco products sold in Nova Scotia.

The tax rate on cigarettes and tobacco sticks will rise from 27.52 cents per unit to 29.52 cents per unit.

The tax rate on fine cut tobacco will rise from 26 cents per gram to 40 cents per gram, while the tax rate for other tobacco products will rise from 18.52 cents per gram to 40 cents per gram. Nova Scotia is the only province that has separate rates for fine cut and other tobacco, and the rate increase brings the province in line with other Canadian jurisdictions. It also treats fine cut tobacco similarly to cigarettes.

The tax on cigars will rise from 60 per cent of the suggested retail selling price to 75 per cent. Again, this is in line with tax rates applicable to cigars across the country.

The tax increases are expected to generate approximately \$17.4 million in revenues for 2020–21.

### *Implement Vaping Products Tax*

Effective September 15, 2020, the province will implement a tax on all vaping products sold in Nova Scotia.

Vaping substances, including those that do not contain nicotine, will be taxed at the rate of \$0.50 per millilitre. The province has previously announced that it will ban flavored vaping liquids effective April 1, 2020. This is consistent with the province's ban on flavored tobacco products. Vaping devices and their components will be taxed at a rate of 20 per cent of their suggested retail selling price. Cannabis vaping substances are taxed under the cannabis tax.

All retailers, wholesalers, and manufacturers of vaping products will be required to be licensed to sell their products in Nova Scotia, effective July 1, 2020. Vaping product taxes are projected to be \$2.3 million in 2020–21.

### *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 enhancement of these non-refundable tax credits will cost \$85 million in 2020–21. 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.

## Summary: Tax Credits, Rebates, and Tax Expenditures

Details of the estimated value of credits, rebates, and tax expenditures are presented in Table 6.4.

**Table 6.4 Estimated Value of Tax Credits, Rebates and Tax Expenditures**  
(\$ thousands)

	2019-20 Estimate	2019-20 Forecast	2020-21 Estimate
<b>Personal Income Tax</b>			
Political Tax Credit	889	904	1,030
Volunteer Firefighter & Ground Search and Rescue	3,805	3,729	3,729
Equity Tax Credit	9,442	9,636	10,006
Innovation Equity Tax Credit	10,000	10,000	10,000
Venture Capital Tax Credit	2,000	2,000	2,000
Affordable Living Tax Credit	65,079	64,637	64,637
	<b>91,215</b>	<b>90,906</b>	<b>91,402</b>
<b>Corporate Income Tax</b>			
Scientific Research & Experimental Development	17,542	20,862	19,468
New Small Business Tax Holiday	51	11	12
Digital Media Tax Credit	9,074	6,244	6,244
Film Industry Tax Credit	---	984	---
Digital Animation Tax Credit	17,452	21,337	16,001
Food Bank Tax Credit for Farmers	300	31	300
Capital Investment Tax Credit	21,372	3,769	21,372
Innovation Equity Tax Credit	2,000	2,000	2,000
Venture Capital Tax Credit	1,000	1,000	1,000
Small Business Tax Rate	254,376	237,891	247,959
	<b>323,167</b>	<b>294,129</b>	<b>314,356</b>
<b>Harmonized Sales Tax</b>			
Public Sector Rebates	145,899	153,437	156,721
Printed Book Rebate	9,213	9,201	9,472
First-time Homebuyers Rebate	503	634	651
Disability Rebates	65	83	86
Fire Fighting Equipment Rebate	123	139	143
Your Energy Rebate	110,535	121,478	121,478
Children's Clothing Rebate	9,767	9,956	10,250
Children's Footwear Rebate	2,247	2,036	2,096
Diapers and Feminine Hygiene Products Rebate	3,010	1,962	2,020
	<b>281,362</b>	<b>298,926</b>	<b>302,917</b>

## 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 6.5 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 7, 2019, as well as the announced closure of the Northern Pulp mill on December 20, 2019.

### *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 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, HST revenues are highly sensitive to changes in the level of residential housing investment.

**Table 6.5 Key Economic Assumptions and Variables Affecting Revenue Estimates**

<b>Revenue Source</b>	<b>Key Variables</b>
<b>Personal Income Tax</b>	<ul style="list-style-type: none"> <li>• personal taxable income levels</li> <li>• provincial taxable income yield</li> <li>• tax credits uptake</li> </ul>
<b>Corporate Income Tax</b>	<ul style="list-style-type: none"> <li>• national corporate taxable income levels as provided by Finance Canada</li> <li>• Nova Scotia's share of national taxable income</li> <li>• tax credits uptake</li> </ul>
<b>Harmonized Sales Tax</b>	<ul style="list-style-type: none"> <li>• personal consumer expenditure levels</li> <li>• provincial GDP</li> <li>• spending by exempt industries</li> <li>• rebate levels</li> <li>• residential housing investment</li> </ul>
<b>Cannabis and Vaping Taxes</b>	<ul style="list-style-type: none"> <li>• personal consumer expenditure levels</li> <li>• cannabis and vaping product consumption preferences</li> <li>• cannabis and vaping product prices</li> <li>• labour income, affecting disposable income spent on cannabis and vaping products</li> </ul>
<b>Tobacco and Motive Fuel Taxes</b>	<ul style="list-style-type: none"> <li>• personal consumer expenditure levels</li> <li>• tobacco and fuel consumption patterns</li> <li>• tobacco and fuel prices</li> <li>• labour income, affecting disposable income spent on fuel</li> </ul>
<b>Equalization</b>	<ul style="list-style-type: none"> <li>• one-estimate one-payment approach</li> </ul>
<b>Canada Health Transfer Canada Social Transfer</b>	<ul style="list-style-type: none"> <li>• annual increases in the national base amount</li> <li>• changes in share of national population</li> </ul>

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.

Cannabis Tax revenues are subject to a number of uncertainties, including availability of products and consumer preferences. The introduction of cannabis oils, edibles, and extracts creates additional uncertainty about how the new products will be received, and estimates will need to be refined as the legal market becomes established and trends emerge.

Vaping tax estimates are dependant on assumptions related to usage, in the absence of detailed information. Effective April 1, 2020, Nova Scotia is banning flavoured vape products, which will impact usage and revenue estimates. The degree to which this will occur is uncertain.

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

### *Additional Information*

In addition to the key economic and fiscal assumptions contained in the 2020–21 revenue estimates, the following information should also be considered when interpreting the revenue estimates.

The revenue estimates for 2020–21 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 2020–21 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 (Canada) incorporates official information released by the federal government as of December 5, 2019. 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 2020–21: Expenses Outlook

In 2020–21, Nova Scotia's total expenses for the General Revenue Fund are estimated to be \$11,616 million (Table 6.6). This is an increase of \$471.9 million or 4.2 per cent from the 2019–20 Budget Estimates and an increase of \$135.7 million or 1.2 per cent compared to the 2019–20 forecast.

Tables 6.7 and 6.8 provide financial statistics of provincial Total Expenses by dollar amount and as a percentage of total expenses. Chart 6.2 presents a visual breakdown of expenses by the main sources.

**Table 6.6 Total Expenses**

(\$ thousands)

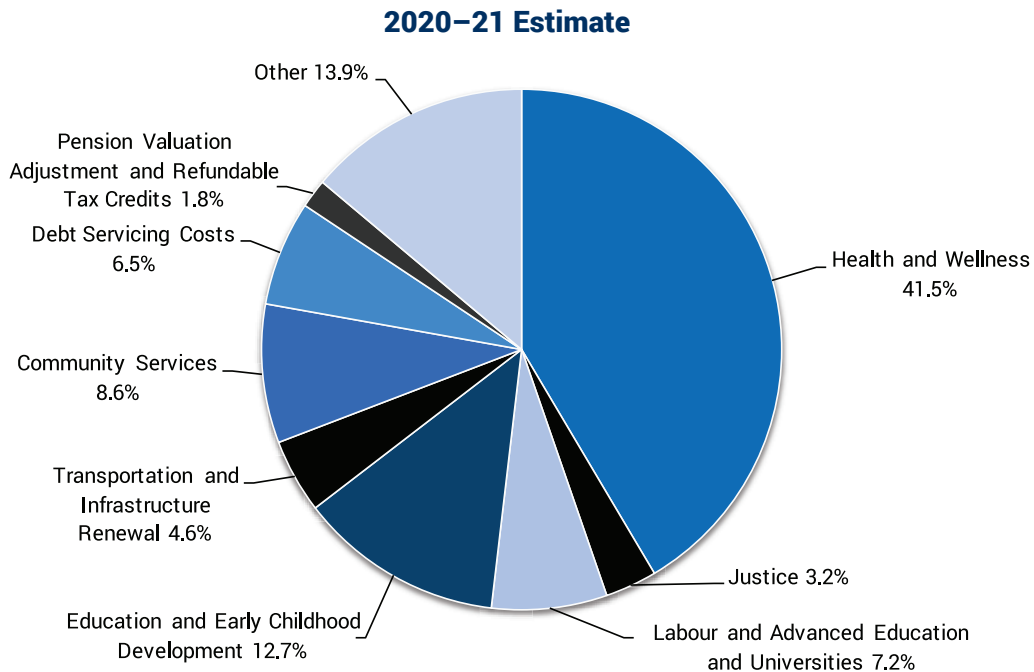
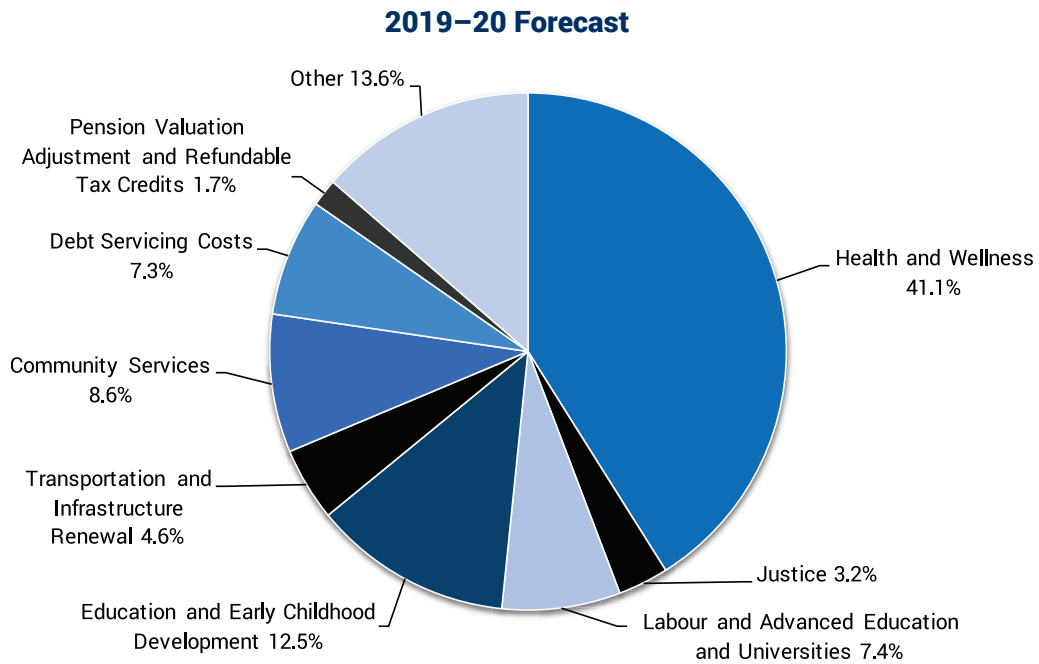
<b>General Revenue Fund: Expenses</b>	<b>2017-18 Actual</b>	<b>2018-19 Actual</b>	<b>2019-20 Estimate</b>	<b>2019-20 Forecast</b>	<b>2020-21 Estimate</b>
<b>Departmental Expenses:</b>					
Agriculture	52,795	59,216	46,427	52,297	42,075
Business	366,774	149,364	152,014	214,392	149,022
Communities, Culture and Heritage	98,401	91,800	93,641	103,800	96,890
Community Services	957,800	994,818	947,904	992,190	1,002,202
Education and Early Childhood Development	1,327,930	1,407,070	1,429,342	1,430,225	1,479,302
Energy and Mines	52,511	42,012	49,036	39,965	63,509
Environment	36,298	38,013	38,524	40,599	42,492
Finance and Treasury Board	21,044	22,967	23,683	22,749	24,282
Fisheries and Aquaculture	14,736	20,862	21,536	21,536	17,792
Health and Wellness	4,278,428	4,413,913	4,638,526	4,712,055	4,822,637
Internal Services	188,588	204,048	—	—	—
Justice	340,596	355,289	361,438	362,838	374,244
Labour and Advanced Education	377,848	368,641	396,209	402,093	400,631
Assistance to Universities	475,904	430,206	427,782	448,072	433,420
Lands and Forestry	77,670	129,969	76,750	79,190	78,215
Municipal Affairs and Housing	284,437	209,466	283,399	347,379	308,513
Public Service	207,953	207,728	131,162	132,578	136,354
Seniors	2,170	2,591	2,721	2,591	2,711
Service Nova Scotia and Internal Services	—	—	282,947	299,356	299,199
Transportation and Infrastructure Renewal	558,749	551,864	497,280	527,796	535,752
Restructuring Costs	81,676	122,531	201,463	209,185	341,032
<b>Total - Departmental Expenses</b>	<b>9,802,308</b>	<b>9,822,368</b>	<b>10,101,784</b>	<b>10,440,886</b>	<b>10,650,274</b>
<b>Other Expenses</b>					
Refundable Tax Credits	115,133	124,529	134,324	121,467	131,451
Pension Valuation Adjustment	57,772	56,522	51,837	74,904	75,832
Debt Servicing Costs	825,177	856,138	856,107	843,034	758,393
<b>Total Expenses</b>	<b>10,800,390</b>	<b>10,859,557</b>	<b>11,144,052</b>	<b>11,480,291</b>	<b>11,615,950</b>

**Table 6.7 Total Expenses**  
(percentage of Total Expenses)

<b>General Revenue Fund: Expenses</b>	<b>2017-18 Actual</b>	<b>2018-19 Actual</b>	<b>2019-20 Estimate</b>	<b>2019-20 Forecast</b>	<b>2020-21 Estimate</b>
<b>Departmental Expenses:</b>					
Agriculture	0.5%	0.5%	0.4%	0.5%	0.4%
Business	3.4%	1.4%	1.4%	1.9%	1.3%
Communities, Culture and Heritage	0.9%	0.8%	0.8%	0.9%	0.8%
Community Services	8.9%	9.2%	8.5%	8.6%	8.6%
Education and Early Childhood Development	12.3%	13.0%	12.8%	12.5%	12.7%
Energy and Mines	0.5%	0.4%	0.4%	0.3%	0.5%
Environment	0.3%	0.4%	0.3%	0.4%	0.4%
Finance and Treasury Board	0.2%	0.2%	0.2%	0.2%	0.2%
Fisheries and Aquaculture	0.1%	0.2%	0.2%	0.2%	0.2%
Health and Wellness	39.6%	40.6%	41.6%	41.0%	41.5%
Internal Services	1.7%	1.9%	---	---	---
Justice	3.2%	3.3%	3.2%	3.2%	3.2%
Labour and Advanced Education	3.5%	3.4%	3.6%	3.5%	3.4%
Assistance to Universities	4.4%	4.0%	3.8%	3.9%	3.7%
Lands and Forestry	0.7%	1.2%	0.7%	0.7%	0.7%
Municipal Affairs and Housing	2.6%	1.9%	2.5%	3.0%	2.7%
Public Service	1.9%	1.9%	1.2%	1.2%	1.2%
Seniors	---	---	---	---	---
Service Nova Scotia and Internal Services	---	---	2.5%	2.6%	2.6%
Transportation and Infrastructure Renewal	5.2%	5.1%	4.5%	4.6%	4.6%
Restructuring Costs	0.8%	1.1%	1.8%	1.8%	2.9%
<b>Total - Departmental Expenses</b>	<b>90.8%</b>	<b>90.4%</b>	<b>90.6%</b>	<b>90.9%</b>	<b>91.7%</b>
<b>Other Expenses</b>					
Refundable Tax Credits	1.1%	1.1%	1.2%	1.1%	1.1%
Pension Valuation Adjustment	0.5%	0.5%	0.5%	0.7%	0.7%
Debt Servicing Costs	7.6%	7.9%	7.7%	7.3%	6.5%
<b>Total Expenses</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

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

**Chart 6.2 Total Expenses 2019–20 Forecast and 2020–21 Estimate**





### *Departmental Expenses*

Departmental Expenses in 2020–21 are estimated to be \$10,650.3 million. This is an increase of \$548.5 million or 5.4 per cent from the 2019–20 Budget Estimates and an increase of \$209.4 million or 2.0 per cent from the 2019–20 forecast. Details of Departmental Expenses are provided in the Budget 2020–21 Estimates and Supplementary Details document.

### *Refundable Tax Credits*

Refundable Tax Credits are estimated to be \$131.5 million in 2020–21, which is a decrease of \$2.9 million or 2.1 per cent from the 2019–20 Budget Estimates and an increase of \$10.0 million or 8.2 per cent from the 2019–20 forecast. Refundable Tax Credits are projected to decline from the 2019–20 Budget Estimates as a result of lower estimates for the Digital Media and Digital Animation Tax Credits, offset by higher expenditures for the Scientific Research and Experimental Development Tax Credit.

### *Pension Valuation Adjustment*

The Pension Valuation Adjustment is estimated to be \$75.8 million in 2020–21, up \$24.0 million or 46.3 per cent from the 2019–20 Budget Estimates and up \$0.9 million or 1.2 per cent compared to the 2019–20 forecast. The increase from estimate to estimate is attributed to updated actuarial reports and changes in actuarial assumptions, mainly in the Teachers' Pension Plan, Teachers' Pension Plan Retirement Health Benefit, and Public Service Superannuation Plan Retirement Health Benefit obligations.

### *Debt Servicing Costs*

Debt Servicing Costs are projected to be \$758.4 million for 2020–21, down \$97.7 million or 11.4 per cent from the 2019–20 Budget Estimates and down \$84.6 million or 10.0 per cent from the 2019–20 forecast. Debt Servicing Costs have decreased from the Budget Estimates primarily as a result of less long-term debt, maturing high coupon debt, favourable forecasted interest rates, and a decrease in short-term debt servicing costs and pension obligations.

## 7. 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 7, 2019, and the announced closure of the Northern Pulp mill on December 20, 2019. This outlook is subject to change based on information published after November 7, 2019. New information will be incorporated into subsequent published forecasts.

### External Economic Conditions

**Global Economy:** Global economic growth in 2019 slowed to its weakest in a decade. The International Monetary Fund (IMF) anticipates that global real GDP growth will rise from 2.9 per cent in 2019 to 3.3 and 3.4 per cent in 2020 and 2021. Growth in advanced economies is expected to stabilize at 1.6 percent in 2020 and 2021. Growth in emerging markets is expected to increase 4.4 per cent in 2020 and 4.6 per cent in 2021.

**Asia:** Slower growth in China is expected due to ongoing structural changes, financial sector imbalances, and trade tensions with the United States (US). The partial rollback of past tariffs and pause in additional tariff hikes as part of a “Phase One” trade deal with the United States is likely to alleviate near-term cyclical weakness. However, unresolved US-China economic disputes, as well as financial regulations to reduce overleveraging are expected to weigh on China’s economic growth. China’s real GDP growth is expected to moderate from 6.1 per cent in 2019 to 6.0 and 5.8 per cent in 2020 and 2021. After growing an estimated 1 per cent in 2019, Japan’s economy is projected to moderate to 0.7 and 0.5 per cent in 2020 and 2021.

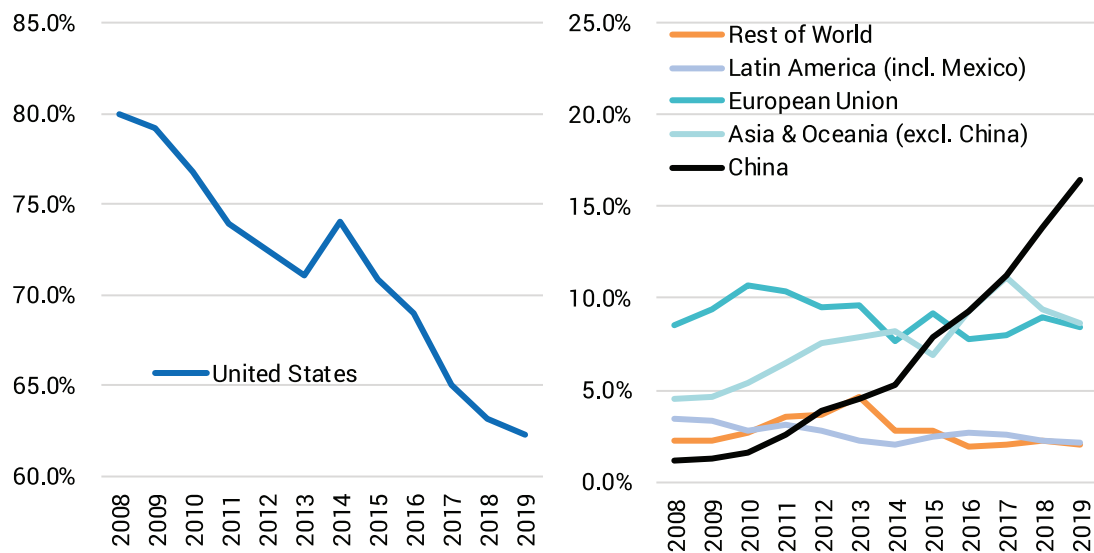
**Europe:** Within the euro area, real GDP growth was 1.2 per cent in 2019, and the IMF projects growth of 1.3 and 1.4 per cent in 2020 and 2021. Employment and wage growth were robust, and the unemployment rate declined steadily. Modest economic growth is expected in 2020, as external demand is expected to regain some momentum, financing conditions remain favourable, labour markets improve, and governments offer some fiscal expansion. In 2019, the European Central Bank decreased policy interest rates and renewed quantitative easing measures, and these are expected to continue until inflation converges to its target.

In the United Kingdom (UK), growth in 2019 was weaker due to the negative impact of slower global growth and ongoing Brexit uncertainty. Going forward, Brexit uncertainty should fade, although the UK’s new economic relationships are still unclear. There should also be positive impact from expansionary fiscal policy. The IMF expects UK growth to be 1.4 per cent in 2020 and 1.5 per cent in 2021.

**United States:** While the US remains the largest international destination for Nova Scotia exports and an important source of imports and tourists, Nova Scotia's international trade is diversifying (Chart 7.1). US economic growth (2.3 per cent) outpaced its potential in 2019 but was slower than in 2018. US growth was strengthened by higher employment, government spending and household consumption. The US Federal Reserve reduced the Federal Funds rate by 0.75 percentage points in 2019. However, waning stimulus from tax cuts, escalating trade disputes, slower business investment and weaker industrial production all slowed US growth in 2019. Overall US inflation and inflation excluding energy and food are both running near and below 2 per cent.

US real GDP growth is expected to moderate to 1.8 and 1.9 per cent in 2020 and 2021. Neutral fiscal and monetary policies are expected as the economy slows. Resolution of trade tensions could alleviate uncertainty prior to the 2020 elections while continued employment gains, wage growth and healthy household balance sheets support rising domestic demand.

**Chart 7.1 Nova Scotia's International Trade is Diversifying**  
(share of international merchandise exports on a customs basis)



Source: Innovation, Science and Economic Development Canada, Trade Data Online. Data for 2019 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 2018. Canada's real GDP growth was estimated at 1.6 per cent in 2019 as the economy had a small output gap. Global trade tensions held back business investment and exports. There remain ongoing challenges in Canada's energy markets. Some housing markets slowed in 2019.

Canada's real GDP is projected to grow by 1.6 per cent in 2020 and 1.8 per cent in 2021. Continued growth in population, disposable income, along with low interest rates should support household spending. Business investment and exports are expected to improve as energy transportation capacity expands and trade policy headwinds diminish around the world. Business investment is also expected to increase because of technological advances and the need to grow non-energy production capacity. Canada's housing activity is expected to recover in 2020 on the strength of rising construction of multiple-unit buildings in urban areas.

The Bank of Canada maintained its target for the overnight rate at 1.75 per cent throughout 2019. The Bank expects inflation to be around the 2 per cent target over the projection horizon. Short-term inflation fluctuations will be driven by higher energy prices (including carbon charges), offset by weakness from continued economic slack.

## Budget Economic Assumptions

Table 7.1 presents the key external economic assumptions used for Nova Scotia's economic forecast.

**Table 7.1 External Economic Assumptions for Nova Scotia Budget Forecast**  
(As of November 7, 2019)

	2020	2021
US Real GDP Growth (% change, 2012 chained)	1.8	1.9
Canada Real GDP Growth (% change, 2012 chained)	1.6	1.8
Canada Nominal GDP Growth (% change, current prices)	3.6	3.8
USD/CAD exchange rate (US¢ per CAD)	76.0	76.0
Canadian Prime Lending Rate	3.6	3.6
5 Year Conventional Mortgage Rate	4.7	5.1

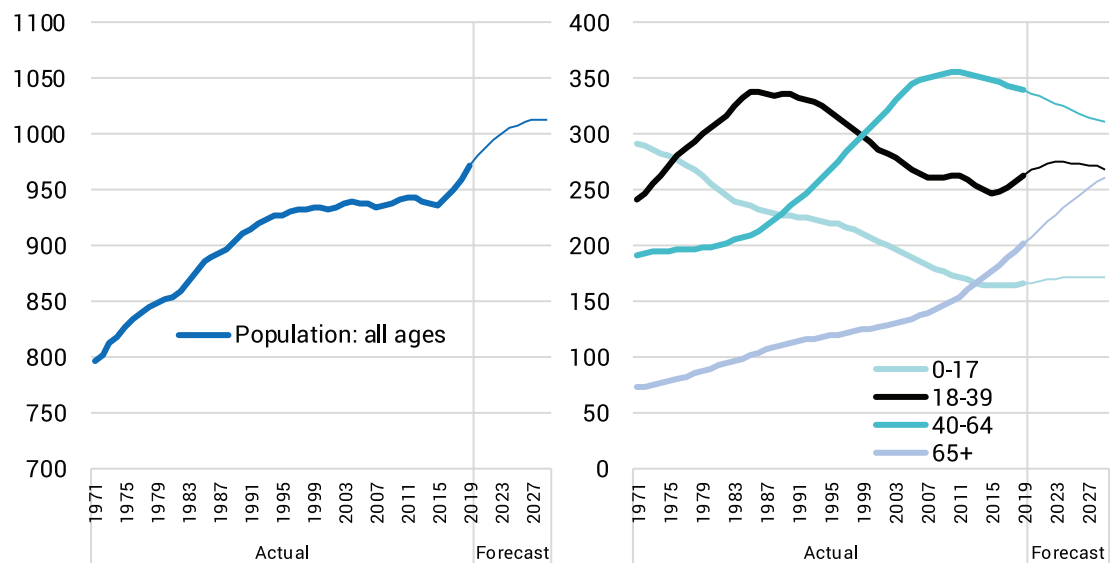
## Nova Scotia Economic Review

**Population and demography:** Nova Scotia's population has been on a strong upward trend from 2015 to 2019 (Chart 7.2). The population reached a new high of 976,768 on October 1, 2019. Since April 1, 2015, the Nova Scotia population has increased by over 40,000 people. Leading these changes are record levels of immigration with 6,393 people arriving between July 1, 2018 and July 1, 2019, the most arrivals in a year since at least the Second World War. For four years in a row, interprovincial migration has been a net positive inflow into Nova Scotia, reversing the net outmigration observed over recent decades. The number of births has been stable, averaging around 8,400 each year, while the number of deaths has risen, contributing to population decline before migration.

The positive migration patterns over the past few years have increased the youth population (age 15-34). Last year the median age of Nova Scotians declined for the first time since 1964. In revised population projections, Nova Scotia's population is expected to continue to grow in the 2020s, rising to over 1 million. Nova Scotia's population outlook depends on continued immigration, including the Atlantic Immigration Pilot in the short-term. An improved demographic situation among the working-age population helps to mitigate the impact of aging on the economy.

**Chart 7.2 Nova Scotia's Population is Rising**

(thousands, July 1)



Source: Statistics Canada. Table 17-10-0005-01 Population estimates on July 1st, by age and sex; Nova Scotia Department of Finance and Treasury Board projections.

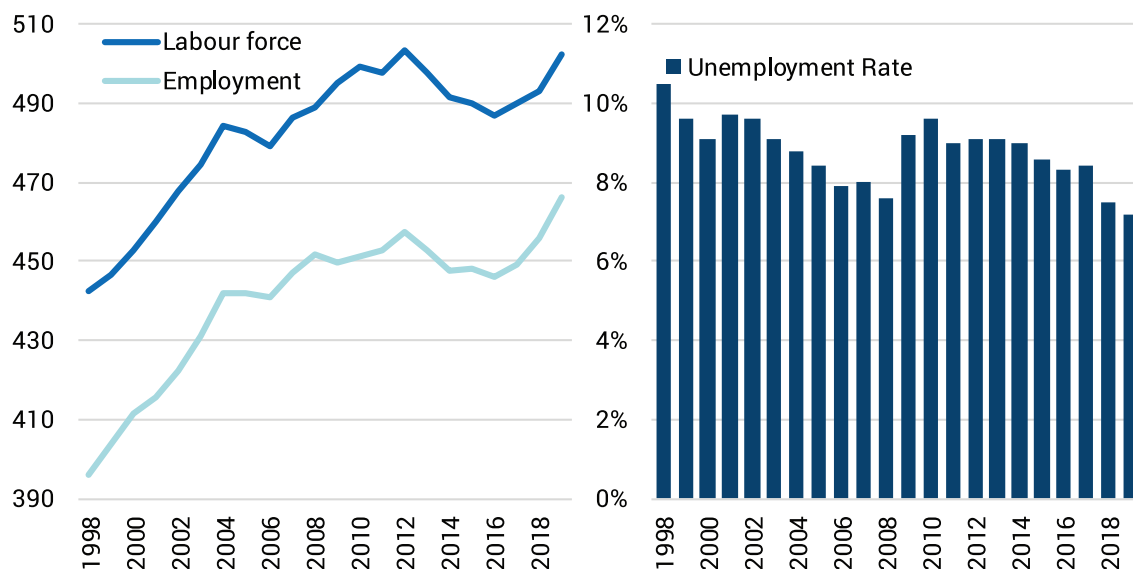
**Nova Scotia's Recent Economic Performance:** Nova Scotia's population growth has contributed to stronger labour markets, consumer spending and housing investment. Although global economic growth has slowed amid higher uncertainty, Nova Scotia's exports have trended up in recent years. Major investments in shipbuilding, natural gas decommissioning and provincial infrastructure all supported growth in 2019.

**Economic Growth:** Nova Scotia's real Gross Domestic Product (GDP) grew 1.5 per cent in 2018, a similar pace as observed in 2016 and 2017. Nominal household consumption growth slowed to 2.8 per cent, while residential investment continued to grow at a solid pace (+7.4 per cent) for a fourth consecutive year. Investment in non-residential structures declined with the completion of some major projects but was offset with growth in oil, gas and mineral exploration, business machinery and equipment, and government capital projects. Nominal exports of goods and services were up 4.8 per cent in 2018 after a growth of 5.7 per cent in 2017 with increases in both goods and services.

In 2019, Nova Scotia's real GDP is estimated to have grown by 1.9 per cent (3.8 per cent in nominal terms) – the fastest pace of economic growth since 2010. Strong employment and wage growth (Chart 7.3) along with rising housing investment and exports contributed to broad economic gains.

### Chart 7.3 Nova Scotia's Labour Force and Employment Are Growing

(Labour force and employment in thousands, annual averages)



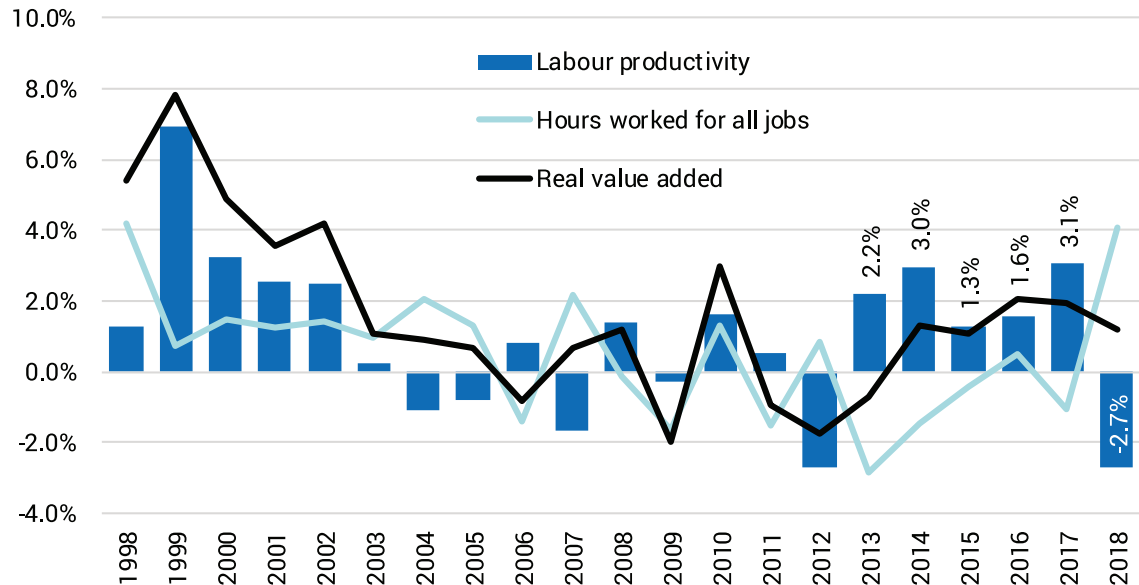
Source: Statistics Canada, Table 14-10-0327-01 Labour force characteristics by sex and detailed age group, annual. Note: annual average for 2019 released after November 7, 2019, is not incorporated into projections.

**Labour Market:** Nova Scotia’s labour market has benefited from a growing population, posting three years (2017–2019) of rising labour force and employment. In 2019, employment grew 2.2 per cent and the labour force was up 1.9 per cent – both at their fastest pace since 2004. Nova Scotia’s labour market tightened in 2019, exhibited by a lower unemployment rate, rising job vacancies and higher wages. The unemployment rate declined to 7.2 per cent in 2019, the lowest rate since the early 1970s, while the job vacancy rate increased and average earnings grew 3.8 per cent over the first eleven months of 2019 – the fastest pace among the provinces. Employee compensation grew 5.1 per cent through September 2019 compared to the same period in 2018.

**Productivity:** During the period from 2013-2017, the number of hours worked in the Nova Scotia economy was stable or declining in each year. From 2014-2017, steady productivity growth kept the economy expanding despite this decline in labour inputs. In 2018, Nova Scotia recorded a substantial increase in full-time employment and hours worked, resulting in a retreat in productivity (Chart 7.4).

### Chart 7.4 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

**Retail Spending:** Nova Scotia's retail spending increased 2.7 per cent for January-November 2019 compared to January-November 2018. Lower gasoline prices weighed on total expenditures with sales rising by 3.8 per cent for retailers, excluding gasoline stations. New motor vehicle unit sales are continuing to decline with a further 3.1 per cent decrease in 2019. However, a rising share of vehicle purchases in Nova Scotia within the truck category (72.5 per cent of total units) kept overall spending on vehicles rising in 2019 (+2.8 per cent).

**Inflation:** Inflation pressures in Nova Scotia have been modest in recent years. Growth of the Consumer Price Index (CPI) was 1.6 per cent in Nova Scotia in 2019. Lower energy prices (-1.2 per cent) have been a downward pressure on inflation while prices outside of energy products increased by 2.0 per cent in 2019.

**Construction:** Residential building construction continued with another solid year in 2019, with investment rising 12.4 per cent for January-November 2019 compared to January-November 2018. New construction of multiple-unit buildings in Halifax and renovation activity outside Halifax have been prominent sources of growth. Home resale prices in Halifax trended upwards in 2019, and housing starts, a leading indicator of future activity, were down 1.4 per cent in 2019. Non-residential building construction continued at a similar level as 2018 for most of 2019, with activity down only 0.4 per cent for January-November 2019 compared to January-November 2018.

**Exports:** Export momentum continued into 2019 with international goods shipments rising 5.7 per cent. Export markets continue to diversify – particularly with rising seafood shipments to the Asian market. Shipments were up 4.1 per cent to the United States and 8.4 per cent to other markets. For 2019 shipments are up among seafood products, tires, machinery and equipment, plastics, and frozen fruit, but have declined for forestry products, energy products, and scrap metals. Nova Scotia's manufacturing shipments have risen 4.5 per cent year-to-date (to November) but tourist visitation has declined 4 per cent over the first ten months of 2019.

## Nova Scotia Economic Outlook

Slower global growth is expected to moderate the pace of Nova Scotia's export growth. Higher provincial capital investments in transportation and health care will boost economic growth over the short and medium terms.

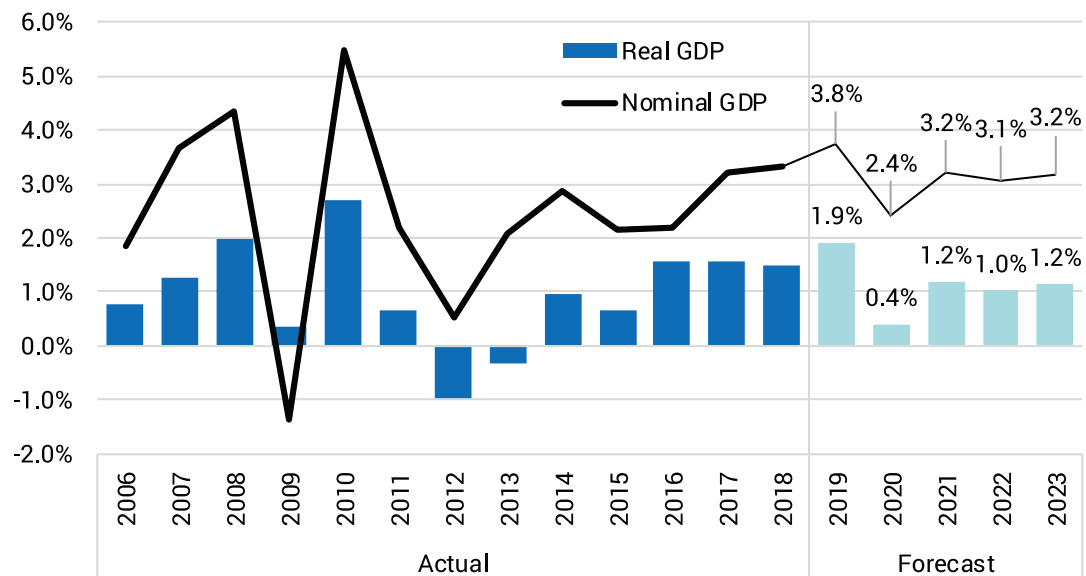
However, the closure of the Northern Pulp mill and impacts in associated industries will diminish growth notably in 2020 (Chart 7.5). In 2021, growth is expected to recover with support from ongoing hospital redevelopment construction activity in Halifax and Cape Breton. Nova Scotia's real GDP is projected to grow 0.4 per cent in 2020 and 1.2 per cent in 2021. Nominal GDP growth is projected to slow to 2.4 per cent in 2020 before rising to 3.2 per cent in 2021.



Over the medium term, the outlook expects that real growth will continue around 1 per cent, and nominal growth around 3 per cent, supported with Halifax Shipyard manufacturing activity and hospital redevelopment projects. Employment growth will be tempered in 2020 with expected job losses related to the pulp mill closure offsetting growth in other areas. Population growth should continue to support moderate growth in the labour force and the unemployment rate will again fall below long-run historical averages. The labour market post-2020 should see gradual improvements.

### Chart 7.5 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); Nova Scotia Department of Finance and Treasury Board projections

Household income is anticipated to slow after a strong pace in 2019, with expected job losses tempering growth in compensation of employees, although partially offset with rising Employment Insurance claims and long-term rising pension and old-age support income from an aging population. Household income growth is projected to rise in 2021 supported by a normalizing labour market and major project activity. Similarly, household consumption growth is projected to slow in 2020 and pickup afterwards. Inflation is expected to rise to 2 per cent.

Continued population growth should continue to support residential investment, although at a slower pace than recent years. Decommissioning and shipbuilding activity will continue and provincial government capital expenditures, particularly hospital redevelopments, are expected to increase.

International exports are projected to decline in 2020 as the closure of Northern Pulp will end exports of wood pulp (\$241 million in 2019) and may also affect lumber shipments from Nova Scotia. Continued economic growth among major trading partners (Canada, United States, China, Europe) and a stable Canadian dollar should keep other exports on track for modest growth. Service industry growth is expected to be broad-based, but at slower rates than in previous years (Table 7.2).

**Table 7.2 Nova Scotia Outlook for GDP by Industry**  
(Compound annual growth rates, real GDP at basic prices)

Sector	Share of GDP	Actual Growth	Projected Growth
	2018	2013-18	2018-21
All industries	100.0	1.3	1.2
Agriculture, forestry, fishing	3.3	-0.6	0.4
Mining, oil, gas	0.8	9.3	0.5
Utilities	2.3	0.5	1.0
Construction	5.7	0.8	5.9
Manufacturing	7.4	0.9	-1.1
Wholesale trade	3.3	1.3	0.2
Retail trade	6.9	2.4	1.6
Transportation	3.6	2.3	-0.3
Information, culture	2.9	2.5	0.6
Finance, insurance	5.6	1.1	0.9
Real estate, rental, leasing	15.8	1.7	1.9
Professional, technical	4.3	2.5	1.6
Company management	0.3	-7.2	-0.6
Administrative, support	2.1	0.7	1.2
Education	7.0	0.7	0.9
Health care, social assistance	11.0	1.5	1.4
Arts, entertainment, recreation	0.6	2.5	0.7
Accommodation, food	2.7	2.1	0.8
Personal, repair	2.1	0.7	0.7
Public administration	12.5	0.0	0.0

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

## Forecast Summary and Private Sector Comparison

Table 7.3 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 7, 2019 as well as the announced closure of Northern Pulp made on December 20, 2019. The private sector forecast comparison is based on the average of published forecasts as of November 7, 2019.

**Table 7.3 Summary Budget Economic Forecast**  
(Per cent change, nominal values, except where noted)

	2019	2020	2021
Real GDP (\$2012 chained)	1.9	0.4	1.2
<i>Average of private sector forecasters: Real GDP</i>	1.3	1.2	1.4
Nominal GDP	3.8	2.4	3.2
<i>Average of private sector forecasters: Nominal GDP</i>	3.2	3.0	3.2
Compensation of Employees	3.9	2.2	3.5
Household Income	3.3	2.6	3.1
Household Final Consumption	3.3	2.8	3.3
Retail sales	2.6 ‡	2.1	2.5
<i>Average of private sector forecasters: Retail sales</i>	3.3	3.0	2.2
Consumer Price Index (all-items, Index 2002=100)	1.6 ‡	2.0	1.9
<i>Average of private sector forecasters: CPI</i>	1.6	2.0	1.9
Residential Investment	12.9	2.3	2.6
Non-residential, Machinery, Intellectual Property	2.2	5.8	3.2
Corporate net operating surplus	3.6	3.2	3.7
Unincorporated net mixed income	2.7	1.8	2.5
Exports of goods and services	5.0	2.1	3.7
Exports of goods to other countries	6.0	-1.7	3.1
Imports of goods and services	4.4	3.2	3.1
Population at July 1 (000s, all ages)	971.4a	980.4	988.5
Population at July 1 (000s, 18–64)	603.8a	604.8	605.0
Labour force (000s)	502.0 ‡	506.5	509.4
Employment (000s)	465.5 ‡	465.6	470.6
<i>Average of private sector forecasters: Employment</i>	465.1	468.2	470.6
Unemployment rate (%)	7.3 ‡	8.1	7.6
<i>Average of private sector forecasters: Unemployment rate</i>	7.0	7.2	7.2

‡ 2019 figures as estimated using data up to November 7, 2019. Actuals for 2019 were released after this date. a~actual.

Notes: 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 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 7, 2019 as well as the announced closure of Northern Pulp mill on December 20, 2019. 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, and downside risks of recession have abated amid supportive monetary policy decisions in several advanced economies. The Bank of Canada's monetary policy remains neutral with few changes expected in the near term. Likewise, foreign exchange rates are expected to remain stable. However, changes in Canada's interest or exchange rates may affect Nova Scotia's trade and investment environment as well as financial conditions for indebted households.

Less uncertainty in the US-China trade conflict and the UK's relationship with Europe may stabilize global trade volumes. However, trade conflicts remain a source of uncertainty in Nova Scotia's economic outlook. This outlook does not, however, consider the impacts of travel and trade restrictions resulting from the novel coronavirus outbreak at the beginning of 2020.

Domestically, Nova Scotia's economic outlook is always subject to risks from changes at large industrial facilities. The closure of the Northern Pulp mill is expected to slow the province's growth in the near term. This outlook incorporates reductions in output and employment from pulp, wood products, and associated industries. However, the impact on upstream industries and on employment may prove to be different than these assumptions.

Nova Scotia's economic outlook has benefited from encouraging demographic surprises, allowing labour force and employment growth which boosts potential GDP. Continued population growth and retention of new immigrants is necessary to maintain labour force and employment levels, though Nova Scotia businesses have shown their ability to raise output through improved productivity when employment growth stalls. Even with rising population, Nova Scotia's production capacity may be reaching limits and further economic expansion may require additional investments.

Nova Scotia's economic outlook has upside risks if prospective major projects (not included in this outlook) move forward. The forecast incorporates major projects only when they are nearly certain to occur and are ready to begin. New or cancelled major projects or changes in project timing can alter expectations in any year. Timing for large infrastructure projects such as shipbuilding and hospital redevelopments are subject to changes that may alter the medium-term outlook.

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 spinoff 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 dollar terms to result in an equivalent impact on the overall nominal GDP forecast of the province (Table 7.4). Unforeseen external and domestic events can change the economic outlook with different sensitivities and likelihoods depending on the sectors affected.

**Table 7.4 Economic Forecast Sensitivities**

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

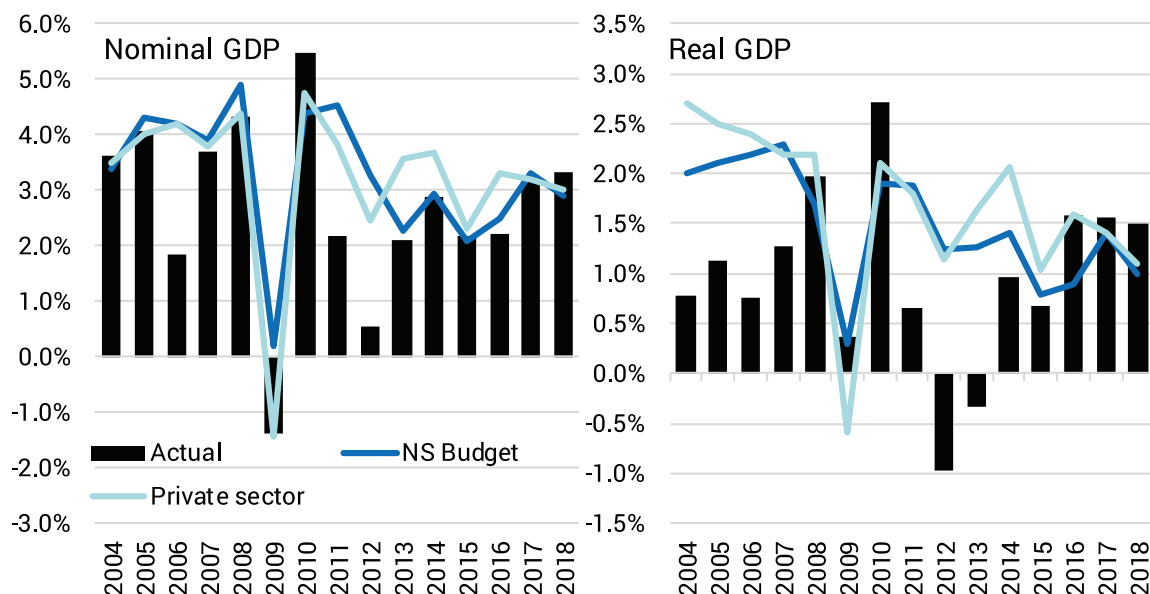
Capital investment	\$274 million
Household final consumption	\$410 million
Resource sector output	\$284 million
Manufacturing sector output	\$403 million
Service sector output	\$235 million
Residential construction	\$299 million

## 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. The accuracy of these projections is compared against the latest Statistics Canada results as well as private sector forecast averages in Chart 7.6.

**Chart 7.6 Economic Forecast Accuracy**



Source: Statistics Canada, Table 36-10-0222-01 Gross domestic product, expenditure-based, provincial and territorial, annual (x 1,000,000); Nova Scotia 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.

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.

## Economic Indicators

Key economic indicators for Nova Scotia for 2014 to 2021.

**Table 7.5 Nova Scotia Key Indicators**

	<b>ACTUAL</b>				
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Gross Domestic Product at market prices (\$ millions current)	39,838	40,701	41,599	42,930	44,354
(% change)	2.9%	2.2%	2.2%	3.2%	3.3%
Gross Domestic Product at market prices (\$2012, chained millions)	38,173	38,429	39,038	39,651	40,249
(% change)	1.0%	0.7%	1.6%	1.6%	1.5%
Compensation of employees (\$ millions current)	21,303	21,782	21,911	22,681	23,537
(% change)	2.2%	2.2%	0.6%	3.5%	3.8%
Household income (\$ millions current)	38,701	39,932	40,223	41,821	43,131
(% change)	2.4%	3.2%	0.7%	4.0%	3.1%
Household final consumption expenditure (\$ millions current)	28,673	28,882	29,373	30,517	31,372
(% change)	2.7%	0.7%	1.7%	3.9%	2.8%
Retail sales (\$ millions current)	14,018	14,046	14,710	15,861	15,904
(% change)	2.8%	0.2%	4.7%	7.8%	0.3%
Consumer Price Index (all-items, Index 2002=100)	128.8	129.3	130.9	132.4	135.3
(% change)	1.7%	0.4%	1.2%	1.1%	2.2%
Business gross fixed capital formation: residential (\$ millions current)	2,397	2,577	2,744	2,975	3,195
(% change)	-12.0%	7.5%	6.5%	8.4%	7.4%
Gross fixed capital formation: non-res., M&E, gov't, IP (\$ millions current)	5,312	5,457	5,958	5,886	6,358
(% change)	3.3%	2.7%	9.2%	-1.2%	8.0%
Net operating surplus: corporations (\$ millions current)	2,539	2,342	2,673	2,750	2,750
(% change)	17.3%	-7.8%	14.1%	2.9%	0.0%
Net mixed income: unincorporated (\$ millions current)	4,285	4,415	4,570	4,855	5,006
(% change)	3.5%	3.0%	3.5%	6.2%	3.1%
Exports of goods and services (\$ millions current)	14,424	14,987	14,989	15,846	16,607
(% change)	-4.0%	3.9%	0.0%	5.7%	4.8%
Exports of goods to other countries (\$ millions current)	5,021	5,322	5,223	5,354	5,669
(% change)	-4.3%	6.0%	-1.9%	2.5%	5.9%
Imports of goods and services (\$ millions current)	25,317	25,829	26,297	27,671	29,166
(% change)	-3.6%	2.0%	1.8%	5.2%	5.4%
Population (all ages, 000s July 1)	938.5	936.5	942.8	950.4	959.5
(% change)	-0.2%	-0.2%	0.7%	0.8%	1.0%
Population (age 18-64, 000s July 1)	601.4	595.3	595.0	596.7	599.6
(% change)	-0.9%	-1.0%	0.0%	0.3%	0.5%
Labour Force (000s)	491.6	490.2	486.6	490.1	493.1
(% change)	-1.2%	-0.3%	-0.7%	0.7%	0.6%
Participation rate (%)	62.8	62.4	61.7	61.8	61.7
(change)	-0.9	-0.4	-0.7	0.1	-0.1
Employment (000s)	447.6	448.1	446.2	449.0	455.9
(% change)	-1.1%	0.1%	-0.4%	0.6%	1.5%
Employment Rate (%)	57.2	57.0	56.6	56.7	57.1
(change)	-0.7	-0.2	-0.4	0.1	0.4
Unemployment Rate (%)	9.0	8.6	8.3	8.4	7.5
(change)	-0.1	-0.4	-0.3	0.1	-0.9

## ECONOMIC OUTLOOK

	FORECAST			ANNUAL AVERAGE	
	2019	2020	2021	2014-18	2019-21
Gross Domestic Product at market prices (\$ millions current)	46,020	47,133	48,649		
(% change)	3.8%	2.4%	3.2%	2.7%	2.8%
Gross Domestic Product at market prices (\$2012, chained millions)	41,023	41,190	41,682		
(% change)	1.9%	0.4%	1.2%	1.3%	0.8%
Compensation of employees (\$ millions current)	24,449	24,989	25,852		
(% change)	3.9%	2.2%	3.5%	2.5%	2.8%
Household income (\$ millions current)	44,556	45,734	47,168		
(% change)	3.3%	2.6%	3.1%	2.7%	2.9%
Household final consumption expenditure (\$ millions current)	32,408	33,328	34,415		
(% change)	3.3%	2.8%	3.3%	2.3%	3.1%
Retail sales (\$ millions current)	16,313	16,656	17,075		
(% change)	2.6%	2.1%	2.5%	3.2%	2.3%
Consumer Price Index (all-items, Index 2002=100)	137.5	140.2	142.9		
(% change)	1.6%	2.0%	1.9%	1.2%	1.9%
Business gross fixed capital formation: residential (\$ millions current)	3,607	3,690	3,786		
(% change)	12.9%	2.3%	2.6%	7.4%	2.4%
Gross fixed capital formation: non-res., M&E, gov't, IP (\$ millions current)	6,497	6,873	7,091		
(% change)	2.2%	5.8%	3.2%	4.6%	4.5%
Net operating surplus: corporations (\$ millions current)	2,849	2,939	3,047		
(% change)	3.6%	3.2%	3.7%	2.0%	3.4%
Net mixed income: unincorporated (\$ millions current)	5,140	5,233	5,366		
(% change)	2.7%	1.8%	2.5%	4.0%	2.2%
Exports of goods and services (\$ millions current)	17,444	17,812	18,468		
(% change)	5.0%	2.1%	3.7%	3.6%	2.9%
Exports of goods to other countries (\$ millions current)	6,007	5,906	6,090		
(% change)	6.0%	-1.7%	3.1%	3.1%	0.7%
Imports of goods and services (\$ millions current)	30,455	31,417	32,384		
(% change)	4.4%	3.2%	3.1%	3.6%	3.1%
Population (all ages, 000s July 1)	971.4	980.4	988.5		
(% change)	1.2%	0.9%	0.8%	0.6%	0.9%
Population (ages 18-64, 000s July 1)	603.8	604.8	605.0		
(% change)	0.7%	0.2%	0.0%	-0.1%	0.1%
Labour Force (000s)	502.0	506.5	509.4		
(% change)	1.8%	0.9%	0.6%	0.1%	0.7%
Participation rate (%)	62.0	62.0	61.9	62.1	62.0
(change)	0.3	0.0	-0.1		
Employment (000s)	465.5	465.6	470.6		
(% change)	2.1%	0.0%	1.1%	0.5%	0.5%
Employment Rate (%)	57.5	57.0	57.1	56.9	57.2
(change)	0.4	-0.5	0.1		
Unemployment Rate (%)	7.3	8.1	7.6	8.4	7.7
(change)	-0.2	0.8	-0.5		

‡ average level over period, not average change

Notes: 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.



## 8. Borrowing and Debt Management

The Department of Finance and Treasury Board serves as 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 of Finance and Treasury Board is responsible for managing Nova Scotia's gross financial market debt portfolio, which is estimated to stand at \$15.8 billion as of March 31, 2020. Against this gross financial market debt are financial assets held in mandatory sinking fund (\$1,092.3 million) and liquidity (\$930.0 million) sinking fund plus holdings of Nova Scotia Municipal Finance Corporation debt (\$766.0 million) plus advances to Halifax Bridges (\$156.0 million). These assets total \$2,944.3 million and are subtracted from gross financial market debt to result in an expected net financial market debt of \$12.9 billion at March 31, 2020. 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 \$55.0 million in 2020–21 followed by further surpluses throughout the fiscal plan years. By way of background, the province has continually posted surpluses since 2016–17.

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 2020–21 fiscal year. While there has been a slowing of the American and global economies leading to some decreases in administered interest rates, there remains the prospect of international trade protectionism, geo-political tensions, political uncertainty, public health events in China, 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, and 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.

In 2019–20, the province estimates there was a \$266.1 million increase in net financial market debt outstanding in financial markets due to the net acquisition of tangible capital assets, offset by the budgetary surplus, and many other non-cash items that contributed to the rise in financial market debt in 2019–20. The province estimates that net financial market debt in financial markets will increase by about \$357.4 million in 2020–21 primarily due to the net acquisition of tangible capital assets.

## 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 2019–20, all three rating agencies confirmed the province’s credit rating with a stable outlook. Table 8.1 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 8.1 Canadian Provincial Credit Ratings**

	<b>DBRS</b>	<b>S&amp;P</b>	<b>Moody's</b>
<b>Nova Scotia</b>	<b>A(high)</b>	<b>AA-</b>	<b>Aa2</b>
Prince Edward Island	A	A(pos)	Aa2
Newfoundland & Labrador	A(low)	A	A1
New Brunswick	A(high)	A+	Aa2
Quebec	AA(low)	AA-	Aa2
Ontario	AA(low)	A+	Aa3
Manitoba	A(high)	A+(pos)	Aa2
Saskatchewan	AA	AA	Aaa
Alberta	AA(neg)	A+	Aa2
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 of Finance and Treasury Board’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 \$55.0 million in 2020–21. The Department of Finance and Treasury Board 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.

The management of the debt maturities and timing of new debt issuances are optimized by using discretionary sinking fund reserves held by the province. As noted below, these discretionary funds represent an integral component of the Treasury Management strategy of the province as their drawdown or replenishment can significantly alter the timing of debt issuance year to year.

**2019–20 Borrowing Completed:** In the fiscal year 2019–20, the province borrowed \$1,200.0 million compared to term debt borrowing requirements of \$1,502.7 million estimated in the Budget. The Department of Finance and Treasury Board issued \$600.0 million in 30-year debentures in the domestic public market with a coupon rate of 3.15 per cent, although the actual yield-to-maturity on those issues was 2.34 per cent as the bonds were issued above par value; and \$300.0 million in 10-year debentures in the domestic public market with a coupon rate of 2.0 per cent. The department also issued \$300.0 million in Canadian Dollar Offered Rate (CDOR) floating rate notes in the five-year term. The province did not pre-borrow for the 2020–21 fiscal year. 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.

**2020–21 Annual Borrowing:** Projected term debt borrowing requirements for fiscal year 2020–21 are expected to be \$1,521.4 million (Table 8.2). 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 2020–21 are \$437.7 million, including \$166.6 million for the purchase of P3 schools.

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 2020–21 but draws attention to the fact that these funds total \$930.0 million.

**Table 8.2 Projected Borrowing Requirements**

(\$ millions)

	2019–20 Estimate	2019–20 Forecast	2020–21 Estimate	2021–22 Estimate	2022–23 Estimate	2023–24 Estimate
Budgetary (surplus)/deficit	(33.6)	(41.1)	(55.0)	(63.2)	(72.5)	(74.0)
Net Capital Advances	66.8	42.6	83.5	30.0	30.0	30.0
NS MFC Net Advances	(105.4)	(8.6)	(111.4)	(96.5)	(124.7)	(99.1)
HDBC Net Advances	14.4	10.4	(5.0)	(6.0)	(7.0)	(8.0)
Tangible Capital Assets: Net Cash	240.2	204.8	437.7	331.7	325.0	304.9
Other Non-Budgetary Transactions	(10.8)	(63.5)	7.6	(41.0)	(136.1)	(139.5)
<b>Cash Operating Requirements</b>	<b>171.6</b>	<b>144.6</b>	<b>357.4</b>	<b>155.0</b>	<b>14.8</b>	<b>14.3</b>
<b>Cash Debt Retirement</b>	<b>2,072.8</b>	<b>2,072.8</b>	<b>1,080.8</b>	<b>1,715.8</b>	<b>1,734.2</b>	<b>336.4</b>
Mandatory Sinking Fund Income	73.6	72.3	46.7	32.6	3.8	---
Mandatory Sinking Fund Contributions	17.9	17.9	17.9	10.0	17.5	---
Mandatory Sinking Fund Withdrawals	(855.4)	(855.4)	---	(512.0)	(708.8)	---
<b>Net Mandatory Sinking Fund Requirements</b>	<b>(763.9)</b>	<b>(765.2)</b>	<b>64.6</b>	<b>(469.4)</b>	<b>(687.5)</b>	---
Discretionary Fund Income	22.3	19.6	18.7	18.9	17.8	17.5
Discretionary Fund Contributions	---	---	---	---	---	---
Discretionary Fund Withdrawals	---	---	---	---	---	---
<b>Net Discretionary Fund Requirements</b>	<b>22.3</b>	<b>19.6</b>	<b>18.7</b>	<b>18.9</b>	<b>17.8</b>	<b>17.5</b>
Total Requirements:	1,502.7	1,471.8	1,521.4	1,420.3	1,079.3	368.2
Change in Short-Term Borrowing (inc) / dec	---	(167.6)	---	---	---	---
<b>Total Borrowing Requirements</b>	<b>1,502.7</b>	<b>1,304.2</b>	<b>1,521.4</b>	<b>1,420.3</b>	<b>1,079.3</b>	<b>368.2</b>

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 2019–20 are estimated to have been \$42.6 million, down from Budget Estimate of \$66.8 million. For fiscal year 2020–21, net capital advances are estimated to be \$83.5 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, 2020, held a portfolio of \$766.0 million NSMFC debentures in the General Revenue Fund, down marginally from \$774.6 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 8.3). 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.

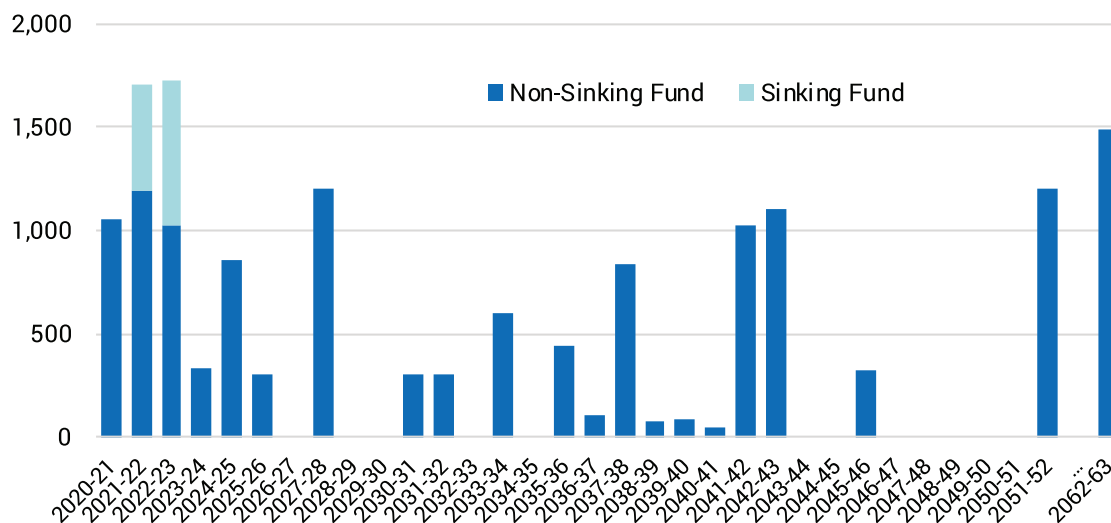
The province maintains documentation with the Securities and Exchange Commission in the United States to provide access to the US and global bond markets. Although Nova Scotia maintains documentation to borrow in foreign markets, the domestic Canadian debt market is expected to be the primary source of funding for the province's borrowing program in 2020–21. The province attempts to maintain a presence in the domestic public debt markets with liquid benchmark issues. The domestic Medium-Term Note (MTN) 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, 2020, 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 (\$151.9 million) on public-private-partnership schools, the Convention Centre, a correctional facility, and short-term promissory notes. Chart 8.1, titled General Revenue Fund Debt Portfolio: Debenture Debt Maturity Schedule, displays the maturity profile of the province's debenture debt portfolio (\$15,120.5 million).

**Chart 8.1 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 (\$13,899.7 million), and the four remaining debentures issues that have a mandatory sinking fund contribution by way of bond covenant (\$1,220.8 million). The province has no debt issues outstanding with put options.

As of March 31, 2020, the average term to maturity of the gross debenture portfolio was 14.4 years, up from 13.2 one year ago. The average term to maturity rose in 2019–20 as the province continued the long-term debt issuance strategy and over \$2 billion of debt maturities in the fiscal year.

The Province of Nova Scotia has accumulated and actively manages a large offsetting asset position in sinking funds. At March 31, 2020, the estimated book value of the mandatory sinking fund and liquidity fund was \$2,022.3 million, of which \$1,092.3 million were held in mandatory sinking funds established by way of bond covenant, and \$930.0 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, 2020, 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 \$1.8 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 \$787.8 million notional face value, and assuming no further foreign currency denominated debenture issuances, the cross-currency swap portfolio falls to zero by July 30, 2022.

The Department of Finance and Treasury Board credit policy states that it executes derivative transactions only with well-rated counterparties. The Liability Management and Treasury Services Division actively manage the credit risks of the derivative portfolio. The Debt Management Committee reviews all counterparty exposure and limits. When the counterparty has a split credit rating, the province considers the most conservative among the ratings.

**Table 8.3 Projected Gross and Net Financial Market Debt**  
(\$ millions)

	2019–20 Estimate	2019–20 Forecast	2020–21 Estimate	2021–22 Estimate	2022–23 Estimate	2023–24 Estimate
<b>Gross Debt:</b>						
Opening Balance	16,305.8	16,305.8	15,828.1	16,157.2	15,765.2	14,985.5
Borrowing Program	1,502.7	1,304.2	1,521.4	1,420.3	1,079.3	368.2
Debt Retirement	(2,072.8)	(2,072.8)	(1,080.8)	(1,715.8)	(1,734.2)	(336.4)
Change in other unfunded debt	(91.0)	290.8	(111.4)	(96.5)	(124.7)	(99.1)
<b>Closing Balance</b>	<b>15,644.7</b>	<b>15,828.1</b>	<b>16,157.2</b>	<b>15,765.2</b>	<b>14,985.5</b>	<b>14,918.2</b>
<b>Mandatory Sinking Funds:</b>						
Opening Balance	1,857.6	1,857.6	1,092.3	1,156.9	687.5	---
Installments	17.9	17.9	17.9	10.0	17.5	---
Earnings	73.6	72.3	46.7	32.6	3.8	---
Sinking Fund withdrawals	(855.4)	(855.4)	---	(512.0)	(708.8)	---
<b>Closing Balance</b>	<b>1,093.7</b>	<b>1,092.3</b>	<b>1,156.9</b>	<b>687.5</b>	<b>---</b>	<b>---</b>
<b>Discretionary Funds:</b>						
Opening Balance	910.4	910.4	930.0	948.7	967.6	985.3
Installments	---	---	---	---	---	---
Earnings	22.3	19.6	18.7	18.9	17.8	17.5
Fund Withdrawals	---	---	---	---	---	---
<b>Closing Balance</b>	<b>932.7</b>	<b>930.0</b>	<b>948.7</b>	<b>967.6</b>	<b>985.3</b>	<b>1,002.8</b>
<b>NSMFC / HDBC Assets:</b>						
Opening Balance	920.2	920.2	922.0	810.6	714.1	589.4
Repayments	(105.4)	(109.4)	(111.4)	(96.5)	(124.7)	(99.1)
Advances to MFC	---	96.8	---	---	---	---
Advances to HDBC	14.4	14.4	---	---	---	---
<b>Closing Balance</b>	<b>829.2</b>	<b>922.0</b>	<b>810.6</b>	<b>714.1</b>	<b>589.4</b>	<b>490.3</b>
<b>Net Financial Market Debt</b>	<b>12,789.2</b>	<b>12,883.8</b>	<b>13,241.0</b>	<b>13,396.0</b>	<b>13,410.8</b>	<b>13,425.1</b>

**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 (GDP) ratio is the most widely recognized measure of government financial sustainability. Nova Scotia's ratio of Net Debt to nominal GDP at market prices is estimated to stand at 33.0 per cent at March 31, 2020, down from 33.8 per cent a year earlier. Table 8.4 presents the projected Net Debt over the fiscal plan.



**Table 8.4 Projected Net Debt**  
(\$ millions)

	2019-20 Estimate	2019-20 Forecast	2020-21 Estimate	2021-22 Estimate	2022-23 Estimate	2023-24 Estimate
<b>Net Debt - Opening Balance</b>	15,069.0	15,011.2	15,181.3	15,715.8	16,442.6	17,252.5
Add (Deduct):						
Provincial Deficit (Surplus)	(33.6)	(41.1)	(55.0)	(63.2)	(72.5)	(74.0)
Increase in the Net Book Value of Tangible Capital Assets	240.2	211.2	589.6	790.0	882.3	687.2
<b>Change in Net Debt</b>	206.5	170.0	534.6	726.8	809.9	613.2
<b>Net Debt - Closing Balance</b>	15,275.6	15,181.3	15,715.8	16,442.6	17,252.5	17,865.7

## 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 support 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 NSMFC and Farm Loan Board. The General Revenue Fund earns interest on those monies lent to Crown corporations and other investments in amounts of \$102.0 million in the 2019–20 forecast, and \$87.1 million in the 2020–21 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 8.5).

**Table 8.5 Projected Debt Servicing Costs**  
(\$ millions)

	2019-20 Estimate	2019-20 Forecast	2020-21 Estimate	2021-22 Estimate	2022-23 Estimate	2023-24 Estimate
Interest on Long-term Debt	722.9	712.8	638.4	602.2	539.4	536.6
General Interest	17.9	20.5	10.0	12.1	11.9	11.9
Interest on Pension, Retirement and other obligations	115.3	109.7	110.0	110.8	113.0	115.3
<b>Gross Debt Servicing Costs</b>	<b>856.1</b>	<b>843.0</b>	<b>758.4</b>	<b>725.1</b>	<b>664.3</b>	<b>663.8</b>
Less: Sinking Fund Earnings	(95.9)	(91.9)	(65.4)	(51.4)	(21.6)	(17.5)
<b>Net Debt Servicing Costs</b>	<b>760.2</b>	<b>751.1</b>	<b>693.0</b>	<b>673.7</b>	<b>642.7</b>	<b>646.3</b>

## 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 \$15.0 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.

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