

# Budget

2021–22

# Budget

2021–22

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Budget 2021–22  
Finance and Treasury Board  
March 2021

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# 1. Introduction

## *A Fair and Prosperous Future: Path to Balance*

Prior to the COVID-19 pandemic, Nova Scotia had a growing economy, with gains in population and the lowest unemployment rate in 45 years. The province achieved four consecutive year-end surpluses for fiscal years 2016–17 to 2019–20. The province embarked on a capital program to make generational investments in health, education, and transportation infrastructure.

The onset of the COVID-19 pandemic led to unprecedented impacts on public health and the economy. Government's priority moved to protecting Nova Scotians and controlling the spread through strong public health measures. This included making targeted investments to assist those most affected and support economic recovery. The pandemic has resulted in significant changes to the province's near-term fiscal outlook and a higher level of planning uncertainty.

Budget 2021–22 builds upon the strong fiscal foundation achieved over the past several years. This fiscal health helped the province weather the COVID-19 pandemic. The province will continue to exercise strong financial management and get back to balance as quickly as possible. We will create an environment where businesses can thrive again, and create the economic activity that will allow us to invest in healthcare, the environment and in people, especially those who have not had the same historic opportunities as other Nova Scotians.

Budget 2021–22 is government's first step in this new direction, with a focus on:

- An Economy Where Business Can Grow
- Healthcare
- Respect for the Environment
- A Connected, Affordable, Inclusive Nova Scotia

The province's Four-Year Fiscal Plan projects that our economic situation, revenues and expenditures will return to their previous trends prior to COVID-19 within four years, and the province anticipates returning to a balanced budget in 2024–25.

## 2. Budget Overview

The Operating Budget contains the estimates of revenue and expenditures that establish the financial plan of the province for the 2021–22 Fiscal Year, commencing April 1, 2021.

Prior to the 2020–21 fiscal year, the government achieved four consecutive year-end surpluses. The Province of Nova Scotia is tabling a budget with an estimated deficit of \$584.9 million for 2021–22 (Table 2.1). The estimated deficit for 2021–22 largely stems from the significant and continuing impact of the COVID-19 pandemic. The province continues under a State of Emergency, which was first declared on March 22, 2020, and Public Health Orders to contain the spread of the virus have been in place since March 13, 2020.

**Table 2.1 Summary Nova Scotia 2021–22 Operating Budget**

(\$ thousands)

	2020-21 Estimate	2020-21 Forecast	2021-22 Estimate
<b>General Revenue Fund</b>			
<b>Revenues</b>			
Ordinary Revenues	10,538,506	10,270,439	10,696,926
Ordinary Recoveries	666,720	710,798	684,998
Net Income from Government Business Enterprises	391,814	363,228	399,896
<b>Total Revenues</b>	<b>11,597,040</b>	<b>11,344,465</b>	<b>11,781,820</b>
<b>Expenses</b>			
Departmental Expenses	10,650,274	11,221,108	11,509,399
Refundable Tax Credits	131,451	123,734	144,698
Pension Valuation Adjustment	75,832	76,389	107,833
Debt Servicing Costs	758,393	742,521	710,886
<b>Total Expenses</b>	<b>11,615,950</b>	<b>12,163,752</b>	<b>12,472,816</b>
<b>Consolidation and Accounting Adjustments</b>			
General Revenue Fund Consolidation Adjustments	76,520	125,878	109,581
Special Purpose Funds	(57)	(1,398)	(901)
Other Organizations	(2,527)	(10,703)	(2,629)
<b>Total Consolidation and Accounting Adjustments</b>	<b>73,936</b>	<b>113,777</b>	<b>106,051</b>
<b>Provincial Surplus (Deficit)</b>	<b>55,026</b>	<b>(705,510)</b>	<b>(584,945)</b>

The fiscal impacts of the COVID-19 shock will take a few years to unwind, as government's priority continues to be managing the pandemic, while making investments to support the health and safety of Nova Scotians and economic recovery.

**Revenues:** Total Revenues for 2021–22 are projected to be \$11.8 billion, an increase of \$184.8 million or 1.6 per cent over the 2020–21 estimate. This revenue increase is attributable to a \$313.8 million or 7.6 per cent increase in federal source revenues, which is partially offset by a decrease of \$129.0 million or 1.7 per cent in provincial source revenues (Table 2.2).

**Expenses:** Total Expenses for fiscal year 2021–22 including Consolidation and Accounting Adjustments are budgeted at \$12.4 billion, up \$824.8 million or 7.1 per cent from the 2020–21 estimate. Taken separately, Total Expenses are up \$856.9 million or 7.4 per cent from the 2020–21 estimate while Consolidation and Accounting Adjustments have increased \$32.1 million or 43.4 per cent from the 2020–21 estimate (Table 2.2).

The province's 2020–21 Budget was tabled and passed prior to the onset of COVID-19 cases. Additional operating expenses related to COVID-19 are anticipated to be over \$1 billion by the end of 2021–22. In 2019–20, additional net operating costs were \$120.1 million; in 2020–21 they are anticipated to be \$617.3 million, and \$349.6 million is projected in 2021–22. In addition, COVID-19 related capital economic stimulus in the form of tangible capital assets (TCA) including buildings, highways and structures is projected to be \$156.7 million in 2020–21 and \$72.5 million in COVID related TCA spending in 2021–22.

## BUDGET OVERVIEW

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

	2020-21 Estimate	2020-21 Forecast	2021-22 Estimate
Total Revenues	11,597,040	11,344,465	11,781,820
Total Expenses	11,615,950	12,163,752	12,472,816
Consolidation and Accounting Adjustments	73,936	113,777	106,051
<b>Provincial Surplus (Deficit)</b>	<b>55,026</b>	<b>(705,510)</b>	<b>(584,945)</b>
<b>Provincial Revenue Sources</b>			
Personal Income Tax	2,979,575	2,839,360	2,945,359
Corporate Income Tax	541,872	413,425	500,223
Harmonized Sales Tax	2,004,070	1,911,840	2,025,505
Cannabis Tax	7,205	7,216	7,756
Vaping Tax	2,332	2,332	4,305
Motive Fuel Tax	277,161	232,441	238,632
Tobacco Tax	196,501	204,876	185,850
Other Tax Revenue	182,654	176,574	193,224
Prior Years' Adjustments - Provincial Taxes	---	(248,452)	---
Registry of Motor Vehicles	135,380	130,992	136,985
Other Provincial Sources	140,264	152,059	150,841
TCA Cost Shared Revenue	3,721	5,564	7,833
Other Fees and Charges	64,023	53,723	60,036
Prior Years' Adjustments	---	14,993	---
Interest Revenues	87,084	77,004	70,978
Sinking Fund Earnings	65,373	52,201	34,929
Ordinary Recoveries	372,047	372,599	359,679
Net Income from Government Business Enterprises	391,814	363,228	399,896
<b>Total - Provincial Sources</b>	<b>7,451,076</b>	<b>6,761,975</b>	<b>7,322,031</b>
<b>Federal Revenue Sources</b>			
Equalization Payments	2,145,883	2,145,883	2,315,000
Canada Health Transfer	1,080,690	1,078,379	1,109,000
Canada Social Transfer	387,762	386,932	398,000
Offshore Accord	86,000	85,600	44,000
Crown Share	---	---	---
Other Federal Sources	39,177	453,742	60,458
TCA Cost Shared Revenue	111,779	96,244	208,012
Prior Years' Adjustments	---	(2,489)	---
Ordinary Recoveries	294,673	338,199	325,319
<b>Total - Federal Sources</b>	<b>4,145,964</b>	<b>4,582,490</b>	<b>4,459,789</b>
<b>Expenses</b>			
Agriculture	42,075	46,689	40,613
Communities, Culture and Heritage	96,890	118,133	117,098
Community Services	1,002,202	1,040,486	1,124,314
Education and Early Childhood Development	1,479,302	1,536,224	1,591,394
Energy and Mines	63,509	66,399	70,768
Environment and Climate Change	42,492	44,827	44,379
Finance and Treasury Board	24,282	23,823	25,031
Fisheries and Aquaculture	17,792	17,390	19,493
Health and Wellness	4,822,637	5,173,796	5,332,752
Inclusive Economic Growth	149,022	192,369	125,594
Infrastructure and Housing	---	---	132,782
Justice	374,244	390,801	392,342
Labour and Advanced Education	400,631	434,008	407,450
Assistance to Universities	433,420	475,260	443,590
Lands and Forestry	78,215	91,580	79,033
Municipal Affairs	308,513	376,850	213,184
Public Service	136,354	134,171	142,347
Seniors	2,711	2,692	2,916
Service Nova Scotia and Internal Services	299,199	307,049	328,485
Transportation and Active Transit	535,752	573,362	554,192
Restructuring Costs	341,032	175,199	321,642
Refundable Tax Credits	131,451	123,734	144,698
Pension Valuation Adjustment	75,832	76,389	107,833
Debt Servicing Costs	758,393	742,521	710,886
<b>Total - Expenses</b>	<b>11,615,950</b>	<b>12,163,752</b>	<b>12,472,816</b>

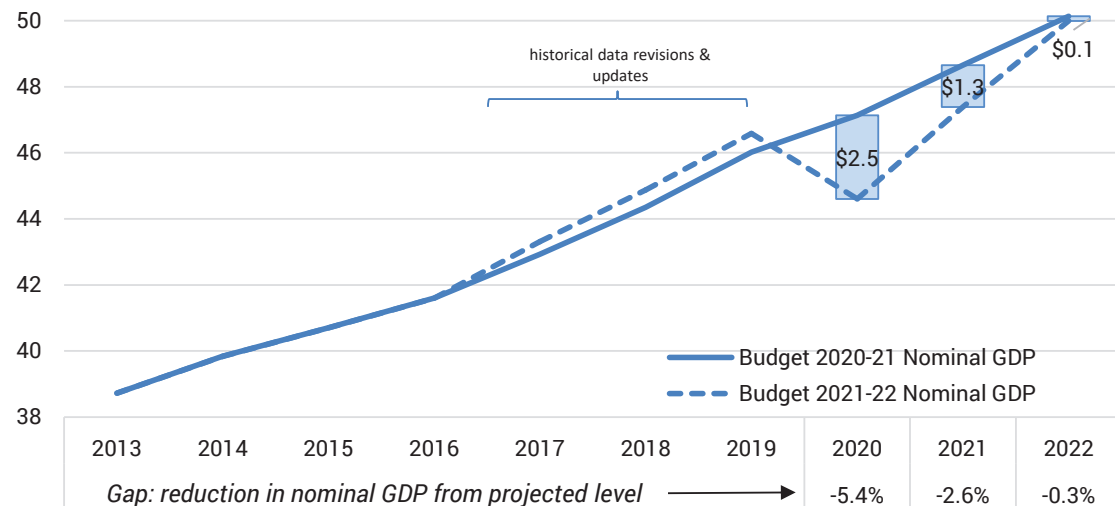


**Economic Growth:** Prior to the outbreak of the COVID-19 pandemic, Nova Scotia’s economy had been growing at an accelerating pace, reaching 2.4 per cent real growth in 2019 – the strongest growth since 2010. The COVID-19 pandemic generated an unusual shock resulting in lower household consumption, services production, and exports.

Real Gross Domestic Product (GDP) is estimated to have declined by 5.3 per cent in 2020. With widespread vaccination expected to return many industries to normal production by the end of 2021, Nova Scotia’s economy is projected to rebound with real GDP growth of 4.6 per cent in 2021 and 3.4 per cent in 2022.

Nova Scotia’s Nominal GDP is estimated to have declined by 4.2 per cent in 2020 (5.4 per cent less than anticipated in Budget 2020–21) and is projected to grow by 6.2 per cent in 2021, followed by a 5.5 per cent gain in 2022. Nominal GDP is projected to recover to pre-COVID-19 trends in 2022 (Chart 2.1). There have been upward historical data revisions for GDP by Statistics Canada that have impacted the Budget 2021–22 GDP estimates.

**Chart 2.1 Nominal GDP Growth Comparison with 2020–21 Budget Projection**  
(\$ billions, current prices)



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

**Net Debt:** The Net Debt of the province is expected to be \$16.7 billion for the year ending 2020–21 and \$18.0 billion for the year ending 2021–22, primarily reflecting \$1.2 billion in new investments from the 2021–22 capital plan, and the increased budget deficit associated with COVID-19. The estimate for 2021–22 is \$2.3 billion million above the 2020–21 estimate and \$1.3 billion above the 2020–21 forecast.

The Net Debt-to-GDP ratio for 2020–21 is forecast to be 37.4 per cent instead of 33.3 per cent as projected in Budget 2020–21 (Table 2.3). The increase in the Net Debt-to-GDP ratio reflects a downward adjustment to forecasted nominal GDP for 2020 due to the pandemic and an increase in Net Debt resulting from an unbudgeted deficit and additional capital spending in 2020–21. In 2021–22, the Net Debt-to-GDP ratio is expected to be 37.9 per cent.

**Table 2.3 Budget Summary – Net Debt and GDP**

	<b>2020-21 Estimate</b>	<b>2020-21 Forecast</b>	<b>2021-22 Estimate</b>
Net Debt (\$ billions)	15.7	16.7	18.0
Nominal GDP (\$ billions)	47.1	44.6	47.4
Net Debt-to-GDP Ratio	33.3%	37.4%	37.9%

Budget 2021–22 shows that Nova Scotia, like the rest of Canada and the world, is continuing to experience the impacts of unprecedented economic shock due to the COVID-19 pandemic. The fiscal and economic impacts of this pandemic are expected to persist in 2021–22 and beyond. Given the continuing uncertainty around the epidemiology of the pandemic and pace of economic recovery, the estimates may not unfold as budgeted. Subsequent information will be used in future forecast updates to assess Nova Scotia’s fiscal progress.

## 3. Four-Year Fiscal Plan 2021–22 to 2024–25

### Medium-Term Outlook

Government's fiscal plan resulted in four consecutive year-end surpluses for the 2016–2017 to 2019–20 fiscal years. The current Four-Year Fiscal Plan reflects the negative impacts that the COVID-19 pandemic has had on the province's fiscal position. Although the fiscal picture for Nova Scotia has improved from what was initially projected after the pandemic struck, the effects of COVID-19 continue to impact the province's economy and government's revenues and expenses in the near term.

It is anticipated that the economic situation, revenues and expenditures, will return to pre-COVID-19 trends within four years. The fiscal position of the province is expected to improve over the four-year fiscal plan horizon, achieving a balanced budget in 2024–25 (Table 3.1).

**Table 3.1 Four-Year Fiscal Plan – Projections 2020–21 to 2024–25**  
(\$ millions)

General Revenue Fund	2020-21 Estimate	2020-21 Forecast	2021-22 Estimate	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate
<b>Revenues</b>						
Ordinary Revenue	10,538.5	10,270.4	10,696.9	10,906.6	11,106.7	11,393.9
Ordinary Recoveries	666.7	710.8	685.0	684.5	668.6	586.4
Net Income Government Business Enterprises	391.8	363.2	399.9	399.1	402.9	406.0
<b>Total Revenues</b>	<b>11,597.0</b>	<b>11,344.5</b>	<b>11,781.8</b>	<b>11,990.2</b>	<b>12,178.2</b>	<b>12,386.3</b>
<b>Expenses</b>						
Departmental Expenses	10,650.3	11,221.1	11,509.4	11,300.5	11,412.9	11,415.1
Refundable Tax Credits	131.5	123.7	144.7	128.9	129.7	130.3
Pension Valuation Adjustment	75.8	76.4	107.8	113.8	120.5	115.4
Debt Servicing Costs	758.4	742.5	710.9	696.4	737.4	751.8
<b>Total Expenses</b>	<b>11,616.0</b>	<b>12,163.8</b>	<b>12,472.8</b>	<b>12,239.6</b>	<b>12,400.6</b>	<b>12,412.6</b>
Consolidation and Accounting Adjustments	73.9	113.8	106.1	31.8	46.8	36.8
<b>Provincial Surplus (Deficit)</b>	<b>55.0</b>	<b>(705.5)</b>	<b>(584.9)</b>	<b>(217.5)</b>	<b>(175.6)</b>	<b>10.5</b>
Net Debt	15,716	16,680	17,976	19,198	20,286	21,194
Nominal GDP	47,133	44,607	47,387	49,995	51,444	52,865
Net Debt-to-GDP Ratio	33.3%	37.4%	37.9%	38.4%	39.4%	40.1%

Budget 2021–22 projects a deficit of \$584.9 million, which is a \$120.6 million improvement over the forecasted deficit for 2020–21. As the fiscal impacts of the pandemic abate over the four-year planning horizon, government is expecting to return to a surplus of \$10.5 million in 2024–25.

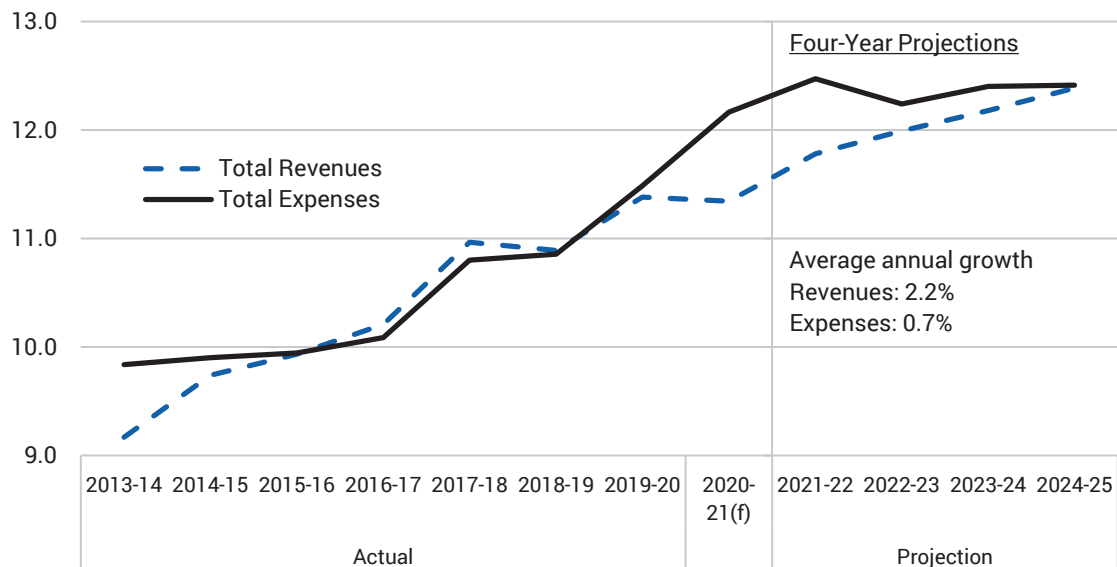
The debt arising from operating deficits is expected to add close to \$1.7 billion to the Net Debt between 2020–21 and 2024–25. Net Debt, which includes operating deficits and net capital spending, is expected to increase by \$1.4 billion in 2020–21 to \$16.7 billion and increase by a further \$1.3 billion in 2021–22 to \$18.0 billion.

The Net Debt is expected to be \$21.2 billion by 2024–25. The increase in debt is primarily reflective of government’s capital plans over the four-year period, which includes the twinning of Highway 104 between Sutherlands River and Antigonish, two healthcare redevelopment projects in Halifax and Cape Breton, and the purchasing of P3 schools, which had been approved and initiated prior to the pandemic.

## Revenue and Expenses

For 2021–22, Total Revenue is estimated to grow by 1.6 per cent compared to the 2020–21 estimate (up 3.9 per cent from the final forecast). Average annual growth in Total Revenue is projected to be 2.2 per cent over the four-year fiscal period (Chart 3.1).

**Chart 3.1 Revenues and Expenses – Projections 2021–22 to 2024–25**  
(\$ billions)



In 2021–22, Total Expenses, including Consolidation and Accounting Adjustments, are projected to increase by 7.1 per cent compared to the 2020–21 estimate (up 2.6 per cent from the final forecast). Average annual growth in Total Expenses is projected to be 0.7 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 allow the province to get back into a surplus position at the end of 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.

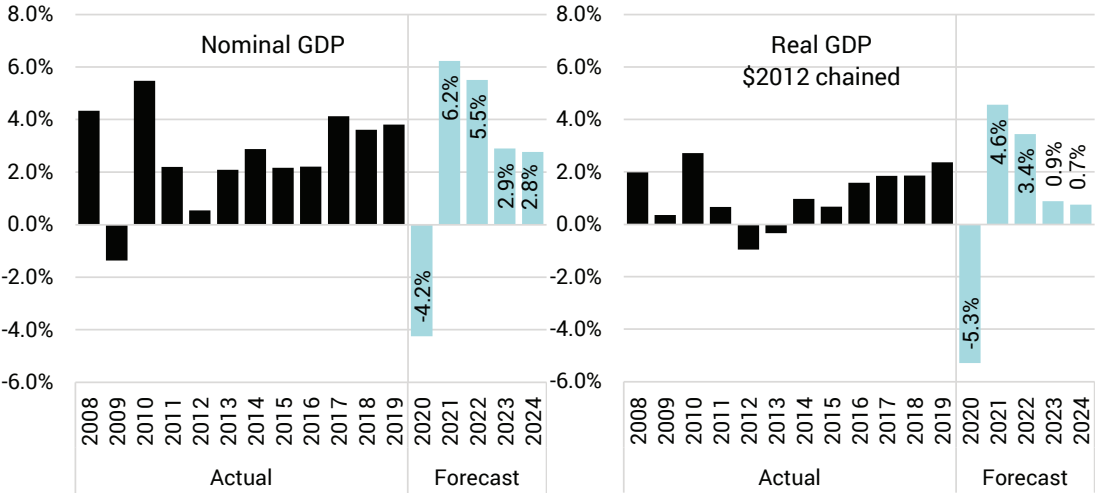
Prior to the outbreak of the global pandemic in 2020, Nova Scotia's economy had enjoyed stronger growth, with a rising population, growing labour force, and increasing employment. The COVID-19 pandemic and efforts to contain it have triggered a sharp decline in GDP growth – larger than any economic decline in recent history.

With successful roll-out of vaccines to contain COVID-19 in 2021, Nova Scotia's economy is projected to rebound with strong growth in 2021 and 2022 before returning to slower growth in 2023 and 2024 as conditions normalize (Chart 3.2). Most industries are expected to return to normal output in the latter half of 2021, though recovery in travel and tourism related industries is expected to take longer.

After recovery from the economic shock of COVID-19, Nova Scotia's economic outlook is sensitive to both demographic changes and major project investments. Population growth is expected to support economic growth through the rest of the decade, particularly through rising immigration. Major project investments and shipbuilding expenditures are expected to follow largely the same schedule as previously assumed. However, the timing and impacts on the economy of these medium-term project expenditures are subject to change, particularly if there are capacity constraints in the construction industry.

Nova Scotia's medium-term economic growth also depends on the interaction of renewed population growth, productivity improvements, private capital investments, and international exports. Although inflation may be elevated in the short run, this is expected to return to within the Bank of Canada's target range over the medium term.

**Chart 3.2 Nova Scotia’s Medium-Term Economic Outlook – GDP Growth**  
 (Annual change, GDP at market prices)



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.

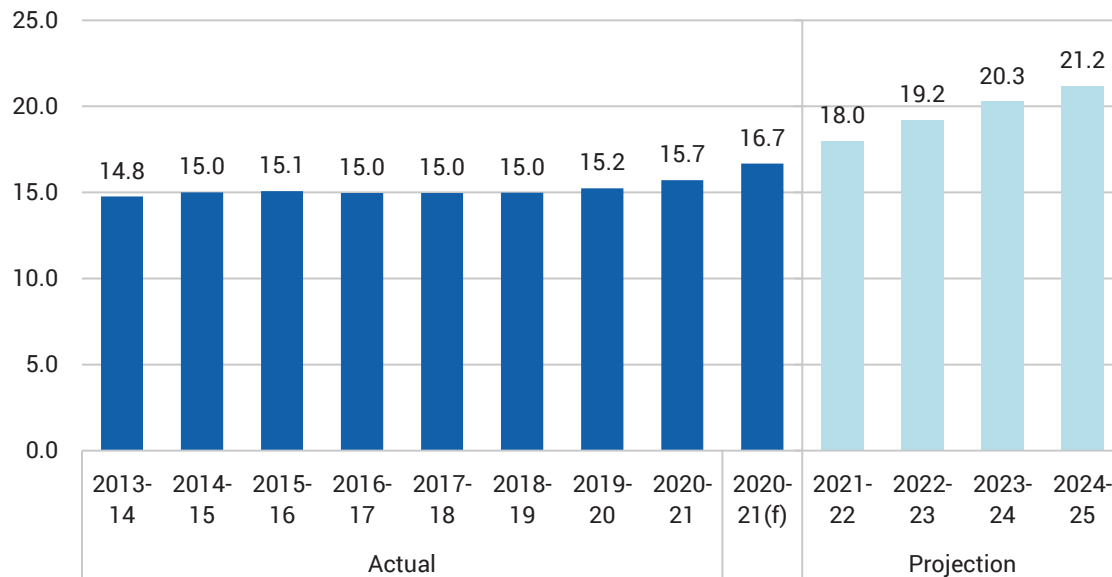
## Debt

The Net Debt of the province is expected to be \$16.7 billion for the 2020–21 year end and \$18.0 billion for the 2021–22 year end (Chart 3.3). The total Net Debt will grow over the four-year planning horizon, reflecting generational investments in infrastructure, reaching \$21.2 billion in 2024–25.

The Government of Nova Scotia continues to place emphasis on a sustainable fiscal position. Even with the impacts of the COVID-19 pandemic and generational investments in health, education, and transportation infrastructure, the Net Debt position of Nova Scotia, although higher, remains in a relatively good position.

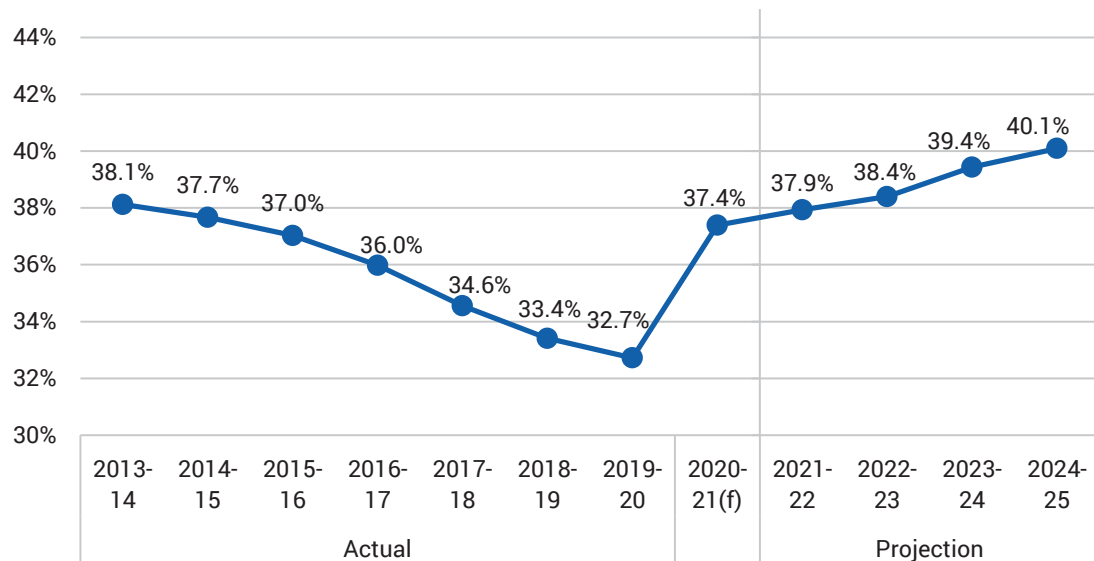
**Chart 3.3 Projected Net Debt**

(\$ billions)



In November 2020, Statistics Canada released GDP data for 2019, which led to a higher GDP figure being used in the ratio than what was forecasted for Public Accounts. The 2019–20 Net Debt-to-GDP ratio was revised to 32.7 per cent using this actual 2019 GDP figure.

**Chart 3.4 Projected Net Debt-to-GDP Ratio**  
(percentage of GDP)



Nova Scotia's Net Debt-to-GDP ratio is forecast to be 37.4 per cent for 2020–21, an increase of 4.7 per cent year over year, as a result of a decrease in nominal GDP, a deficit fiscal position, and higher capital spending, all as a result of the pandemic. Budget 2021–22 projects that the ratio will be 37.9 per cent in 2021–22 and 40.1 per cent in 2024–25 (Chart 3.4). The Net Debt-to-GDP was expected to rise over the next four years prior to the onset of the pandemic, because of generational investments of over \$2 billion in hospitals, schools, and highways made in 2020-21 and 2021-22.

The additional pressure of deficits and the decline in nominal GDP has resulted in a spike in the ratio; however, the upward trend can be expected to reverse once the Budget returns to balance and the capital plan returns to pre-generational investment levels.



## 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 2021-22 Revenue Estimates of the Province of Nova Scotia**

The Nova Scotia Department of Finance and Treasury Board is responsible for the preparation of the 2021-22 Revenue Estimates of the Province of Nova Scotia and for ensuring the 2021-22 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 2021-22 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, 2022. The assumptions underlying the 2021-22 Revenue Estimates reflect management's judgment as to a reasonable set of economic conditions and Government's planned courses of action for fiscal year 2021-22.

A handwritten signature in black ink, appearing to read 'Byron Rafuse'.

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Byron Rafuse  
Deputy Minister of Finance and Treasury Board



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Royal Centre, Suite 400  
Halifax, Nova Scotia  
B3J 1M7

## Acting 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 2021-22 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 2021-22 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 2021-22 Revenue Estimates of the Province of Nova Scotia are reasonable and presented fairly are that:

- the 2021-22 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, 2022, which are prepared in accordance with Canadian public sector accounting standards; and
- the assumptions underlying the 2021-22 Revenue Estimates reflect a reasonable set of economic conditions and Government's planned courses of action for fiscal year 2021-22.

Since the 2021-22 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 2021-22 Revenue Estimates will actually be achieved as budgeted. My Independent Limited Assurance Report does not cover the 2021-22 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.

#### Significant Inherent Limitation – Additional Uncertainty due to COVID-19

The COVID-19 pandemic has resulted in increased uncertainty in the economic conditions of the Province of Nova Scotia and the 2021-22 Revenue Estimates. This uncertainty represents a significant inherent limitation in the measurement of the 2021-22 Revenue Estimates, as the full extent and duration of the impact of COVID-19 is not yet known. As more information on the impact of COVID-19 on the Province's 2021-22 Revenue Estimates becomes available, adjustments to the Revenue Estimates may be necessary and these adjustments may be significant. The 2021-22 Revenue Estimates represent management's best estimates incorporating the estimated impact of COVID-19 based on information currently available. My conclusion is not modified as a result of this limitation.



**Management's Responsibility for the 2021-22 Revenue Estimates of the Province of Nova Scotia**

The Nova Scotia Department of Finance and Treasury Board is responsible for the preparation of the 2021-22 Revenue Estimates of the Province of Nova Scotia and for ensuring the 2021-22 Revenue Estimates are reasonable and presented fairly. The Nova Scotia Department of Finance and Treasury Board is responsible for ensuring that the 2021-22 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, 2022, and that the assumptions underlying the 2021-22 Revenue Estimates reflect a reasonable set of economic conditions and Government's planned courses of action for fiscal year 2021-22.

**Auditor General's Responsibility**

My responsibility is to provide a conclusion and report on whether the 2021-22 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.



Terry M. Spicer, CPA, CMA  
Acting Auditor General of Nova Scotia

Halifax, Nova Scotia  
March 25, 2021

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

<b>General Revenue Fund: Revenues</b>	<b>2021-22 Estimate</b>
<b>Ordinary Revenues - Provincial Sources</b>	
Tax Revenue:	
Personal Income Tax	2,945,359
Corporate Income Tax	500,223
Harmonized Sales Tax	2,025,505
Cannabis Tax	7,756
Vaping Tax	4,305
Motive Fuel Tax	238,632
Tobacco Tax	185,850
Other Tax Revenue	193,224
	6,100,854
Other Provincial Revenue:	
Registry of Motor Vehicles	136,985
Petroleum Royalties	---
Other Provincial Sources	150,841
TCA Cost Shared Revenue - Provincial Sources	7,833
Other Fees and Charges	60,036
Gain on Disposal of Assets	---
	355,695
Investment Income:	
Interest Revenues	70,978
Sinking Fund Earnings	34,929
	105,907
<b>Total - Provincial Sources</b>	<b>6,562,456</b>
<b>Ordinary Revenues - Federal Sources</b>	
Equalization Payments	2,315,000
Canada Health Transfer	1,109,000
Canada Social Transfer	398,000
Offshore Accord	44,000
Crown Share	---
Other Federal Sources	60,458
TCA Cost Shared Revenue - Federal Sources	208,012
<b>Total - Federal Sources</b>	<b>4,134,470</b>
<b>Total - Ordinary Revenues</b>	<b>10,696,926</b>
<b>Ordinary Recoveries</b>	
Provincial Sources	359,679
Federal Sources	325,319
<b>Total - Ordinary Recoveries</b>	<b>684,998</b>
<b>Net Income from Government Business Enterprises (GBEs)</b>	
Nova Scotia Liquor Corporation	246,126
Nova Scotia Gaming Corporation	138,700
Halifax-Dartmouth Bridge Commission	5,440
Highway 104 Western Alignment Corporation	9,630
<b>Total - Net Income from GBEs</b>	<b>399,896</b>
<b>Total - Revenues of the General Revenue Fund</b>	<b>11,781,820</b> <sup>1</sup>
Total Governmental Unit Third Party Revenues (Table 4.2)	1,005,609
<b>Total - Revenues of the Province</b>	<b>12,787,429</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. Within the Budget Summary, Table 2.1, 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>2021-22 Estimate</b>
Regional Centres for Education and Nova Scotia Community College	444,711
Provincial Health Authorities	282,285
Housing Nova Scotia	138,390
Resource Recovery Fund Board	61,469
Green Fund	26,000
Governmental Units with third party revenues less than \$10 Million	52,754
<b>Total - Governmental Unit Third Party Revenues</b>	<b>1,005,609</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. 2020–21 Budget Forecast Update

The final Forecast Update provides revised information about Nova Scotia's 2020–21 fiscal outlook, including updated information about the major components of revenue and expenses as set out in the 2020–21 Budget Estimates.

Since the approval of the 2020–21 Budget Estimates, Nova Scotia has faced the impact of the global COVID-19 pandemic. Public Health Orders have been in place since March 13, 2020, to contain the spread of COVID-19. Nova Scotia has been in a State of Emergency since March 22, 2020.

The Forecast Update shows that Nova Scotia, like the rest of Canada and the world, is continuing to experience an unprecedented economic shock due to the COVID-19 pandemic. The Province of Nova Scotia is forecasting a deficit of \$705.5 million for the year ending March 31, 2020, which is down \$760.5 million from the budgeted surplus of \$55.0 million (Table 5.1). The difference is due to Total Revenues being \$252.6 million lower than expected, Total Expenses being \$547.8 million higher than expected, and changes to Consolidation and Accounting Adjustments that positively impact the bottom line by \$39.8 million.

**Table 5.1 2020–21 Final Forecast Update**

(General Revenue Fund, \$ thousands)

<b>General Revenue Fund</b>	<b>2020-21 Estimate</b>	<b>2020-21 Forecast</b>	<b>2021-22 Estimate</b>
<b>Revenues</b>			
Ordinary Revenue	10,538,506	10,270,439	10,696,926
Ordinary Recoveries	666,720	710,798	684,998
Net Income from Government Business Enterprises	391,814	363,228	399,896
<b>Total Revenues</b>	<b>11,597,040</b>	<b>11,344,465</b>	<b>11,781,820</b>
<b>Expenses</b>			
Departmental Expenses	10,650,274	11,221,108	11,509,399
Refundable Tax Credits	131,451	123,734	144,698
Pension Valuation Adjustment	75,832	76,389	107,833
Debt Servicing Costs	758,393	742,521	710,886
<b>Total Expenses</b>	<b>11,615,950</b>	<b>12,163,752</b>	<b>12,472,816</b>
<b>Consolidation and Accounting Adjustments</b>			
General Revenue Fund Consolidation Adjustments	76,520	125,878	109,581
Special Purpose Funds	(57)	(1,398)	(901)
Other Organizations	(2,527)	(10,703)	(2,629)
<b>Total Consolidation and Accounting Adjustments</b>	<b>73,936</b>	<b>113,777</b>	<b>106,051</b>
<b>Provincial Surplus (Deficit)</b>	<b>55,026</b>	<b>(705,510)</b>	<b>(584,945)</b>

## Budget 2020–21 Revenues

Total Revenues are forecast to be \$11.344 billion.

**Ordinary Revenue:** Relative to the 2020–21 Budget Estimates, overall tax revenue is forecast to be lower by \$651.8 million. Decreases are expected for Personal Income Tax of \$140.2 million, Corporate Income Tax of \$128.4 million, Harmonized Sales Tax of \$92.2 million, Motive Fuel Tax of \$44.7 million, and Other Taxes of \$6.1 million. Prior Years' Adjustment for Taxes are forecast to be a net negative \$248.5 million. Tax increases are expected for Tobacco of \$8.4 million.

Other Provincial Revenues are forecast to be up by \$13.9 million due to increases in Other Provincial Sources of \$11.8 million and Tangible Capital Asset Cost Shared Revenue of \$1.8 million, as well as a net positive Prior Year Adjustment of \$15.0 million. These increases are partly offset by predicted decreases in Other Fees and Charges of \$10.3 million and Registry of Motor Vehicles of \$4.4 million. Investment income is forecast to be down \$23.3 million, as Sinking Fund Earnings and Interest Revenues are expected to decline by \$13.2 million and \$10.1 million, respectively.

Federal Source Ordinary Revenues are forecast to be \$393.0 million higher than the 2020–21 Budget Estimates due to an increase in Other Federal Sources of \$414.6 million. This variance is largely due to federal funding including the Essential Workers Wage Program, Safe Return to Class Fund, and Safe Restart Agreement. This positive impact is partly offset by expected declines in the Canada Health Transfer of \$2.3 million, Canada Social Transfer of \$0.8 million, Offshore Accord of \$0.4 million, and Tangible Capital Asset Cost Shared Revenue of \$15.5 million, as well as a net negative Prior Years' Adjustment for Federal Sources of \$2.5 million.

**Ordinary Recoveries:** Revenue from Ordinary Recoveries is forecast to be \$44.1 million higher than Budget Estimates. This is primarily due to an increase of \$33.9 million for an increased federal contribution for the Labour Workforce Development Agreement. Increases also include \$6.4 million in recoverable expenses under the Federal Investing and Canada Infrastructure Program (ICIP) for Harriestsfield environmental remediation and \$6.0 million increase in municipal recoveries for J Class Roads program. These increases are offset by a decrease of out of province services of \$16 million in the Department of Health and Wellness.

**Net Income from Government Business Enterprises:** Net Income is forecast to decline by \$28.6 million due to anticipated decreases in net income at the Nova Scotia Gaming Corporation of \$36.8 million, Halifax-Dartmouth Bridge Commission of \$6.8 million, and Highway 104 Western Alignment Corporation of \$5.2 million. These decreases are partly offset by a predicted increase in net income for the Nova Scotia Liquor Corporation of \$20.2 million.



## Budget 2020–21 Expenses

Total Expenses are forecast to be \$12.164 billion

**Departmental Expenses:** Total Departmental Expenses are forecast to increase by \$570.8 million relative to the 2020–21 Budget Estimates. This is primarily due to COVID-19 related expenses of \$617.3 million in a number of departments primarily the following.

The Department of Health and Wellness expenses are forecast to be \$351.2 million higher than Budget, of which \$342.4 million is COVID-19 related expenses primarily due to \$70.7 million for the Essential Workers Program, \$69.6 million for federal safe restart expenses, \$64.1 million for provincial stimulus projects and NSHA additional capital purchases, \$41.4 million for personal protective equipment, \$35.5 million for lost revenues at NSHA and IWK, and \$29.5 million for backfilling employees.

The Department of Municipal Affairs expenses are forecast to be \$68.3 million higher than Budget, primarily due to \$67.5 million for federal safe restart expenses for municipalities and transit.

The Department of Education and Early Childhood Development expenses are forecast to be \$56.9 million higher than Budget, primarily due to \$34.9 million for safe re-opening of schools and \$21.8 million for operating support grants to the childcare sector.

The Department of Inclusive Economic Growth expenses are forecast to be \$43.3 million higher than Budget, \$48.6 million is COVID-19 related, primarily due to \$32.8 million for provincial stimulus projects, \$6.8 million for the Tourism Accommodations Real Property Tax Program, and \$6.2 million for the Canada Emergency Commercial Rent Assistance Program.

Assistance to Universities expenses are forecast to be \$41.8 million higher than Budget, of which \$25 million is COVID-19 related for support grants to universities. In addition, expenses are \$16.8 million over budget due to the expansion of Computer Sciences at Dalhousie, Acadia, St. Francis Xavier, and Saint Mary's Universities.

The Department of Communities, Culture and Heritage expenses are forecast to be \$21.2 million higher than Budget; \$8.2 million is COVID-19 related for support grants to Sports, Arts, Culture, and Public Transit; \$6.4 million for community infrastructure and \$5.0 million for Sport Equity.

The Department of Community Services expenses are forecast to be \$38.3 million higher than Budget, of which \$29.6 million is due to COVID-19 related expenses, including \$11.3 million for customized placements from acute care, \$9.6 million for the

essential workers program, \$6.3 million for Disability Support Program increases, and \$4.4 million for provincial stimulus funding.

The Department of Labour and Advanced Education expenses are forecast to be \$33.4 million higher than Budget, primarily due to \$25.5 million in COVID-19 related expenses resulting from \$27.2 million in the fully recoverable federal Workforce and Labour Market Development Agreement expenses.

In addition to these departments with COVID-19 related expenses, the Department of Transportation and Active Transit expenses are forecast to be \$37.6 million higher than Budget, primarily due to a \$19 million increase for Boat Harbour clean up activities, \$7.5 million for operating and contact readiness costs for the P3 Highway 104 project, and \$5.2 million for snow and ice removal contract.

The ongoing pandemic and the associated public health response caused considerable variance to the 2020–21 Departmental Expenditures (Table 5.2). Additional operating expenses in 2020–21 related to the COVID-19 ongoing response are estimated to be \$617.3 million in net operating costs across various departments. There was also an additional \$156.7 million in total stimulus TCA expenditures related to COVID-19 in 2020–21.

**Table 5.2 2020–21 Final Forecast Update – Expenses Related to COVID-19**  
(\$ thousands)

<b>Departments and Public Service</b>	<b>COVID-19</b>	<b>Other Expenses</b>	<b>Final Forecast</b>
Agriculture	985	45,705	46,689
Communities, Culture and Heritage	8,205	109,928	118,133
Community Services	29,597	1,010,889	1,040,486
Education and Early Childhood Development	56,145	1,480,079	1,536,224
Energy and Mines	(8,140)	74,539	66,399
Environment and Climate Change	2,704	42,123	44,827
Finance and Treasury Board	---	23,823	23,823
Fisheries and Aquaculture	(402)	17,792	17,390
Health and Wellness	342,363	4,831,433	5,173,796
Inclusive Economic Growth	48,636	143,733	192,369
Justice	5,724	385,077	390,801
Labour and Advanced Education	25,503	408,505	434,008
Assistance to Universities	25,000	450,260	475,260
Lands and Forestry	859	90,721	91,580
Municipal Affairs	77,190	299,660	376,850
Public Service	(1,843)	136,014	134,171
Seniors	240	2,452	2,692
Service Nova Scotia and Internal Services	1,176	305,873	307,049
Transportation and Active Transit	3,317	570,045	573,362
Restructuring Costs	---	175,199	175,199
<b>Total - Departmental Expenses</b>	<b>617,259</b>	<b>10,603,849</b>	<b>11,221,108</b>

**Refundable Tax Credits:** The \$7.7 million decrease in the cost of refundable tax credits for 2020–21 is primarily attributable to the timing of large projects eligible for the Capital Investment Tax Credit. The COVID-19 pandemic played a significant part in applicants' abilities to plan and implement large-scale projects during periods of shutdowns.

**Pension Valuation Adjustment:** The Pension Valuation Adjustment has increased by \$0.6 million as a result of updated actuarial reports and changes in actuarial assumptions.

**Debt Servicing Costs:** Costs of Debt Servicing have decreased by \$15.9 million, primarily as a result of interest rates being lower than expected.

## 2020–21 Consolidation and Accounting Adjustments

Overall Consolidation and Accounting Adjustments are forecast to result in a \$113.8 million positive impact on the provincial surplus position. This figure is up \$39.8 million from the 2020–21 Budget Estimates.

## 6. Budget 2021–22

While improving, the Province's fiscal outlook continues to be impacted by COVID-19. In Budget 2021–22, overall revenues are growing after their decline in 2020–21, but overall expenses remain higher due to requirements to address the impact of the pandemic. The Province of Nova Scotia is projecting a deficit of \$584.9 million for Budget 2021–22.

### Budget 2021–22: Revenue Outlook

In 2021–22, Nova Scotia's Total Revenue in its General Revenue Fund is estimated to be \$11,781.8 million. This is an increase of \$184.8 million or 1.6 per cent from the 2020–21 Budget Estimates and an increase of \$437.4 million or 3.9 per cent compared to the 2020–21 forecast.

Total Revenue from all provincial sources, including Ordinary Recoveries and Net Income from Government Business Enterprises, contributes 62.1 per cent of all revenue in 2021–22. Revenue from federal sources contributes 37.9 per cent of all revenue in 2021–22.

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 2021–22 are expected to be \$6,562.5 million. This is a decrease of \$124.8 million or 1.9 per cent from the 2020–21 Budget Estimates and an increase of \$536.3 million or 8.9 per cent from the 2020–21 forecast.

Federal Source Ordinary Revenues are projected to be \$4,134.5 million in 2021–22, an increase of \$283.2 million or 7.4 per cent from the 2020–21 Budget Estimates and a decrease of \$109.8 million or 2.6 per cent from the 2020–21 forecast.

Ordinary Recoveries from provincial sources are projected to be \$359.7 million in 2021–22, down \$12.4 million or 3.3 per cent from the 2020–21 Budget Estimates and down \$12.9 million or 3.5 per cent compared to the 2020–21 forecast. Federal source recoveries are estimated to be \$325.3 million, up \$30.6 million or 10.4 per cent from the 2020–21 Budget Estimates and down \$12.9 million or 3.8 per cent from the 2020–21 forecast.

Net Income from Government Business Enterprises is expected to be \$399.9 million in 2021–22, up \$8.1 million or 2.1 per cent from the 2020–21 Budget Estimates and up \$36.7 million or 10.1 per cent from the 2020–21 forecast.

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

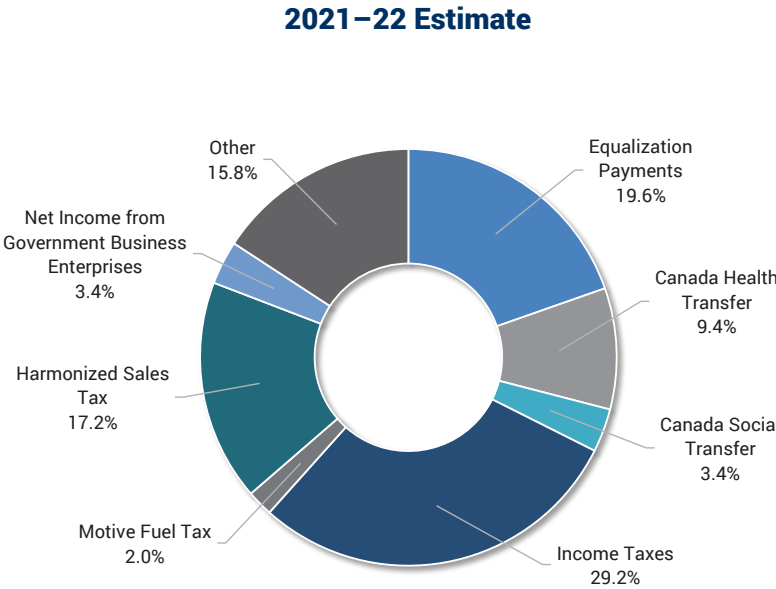
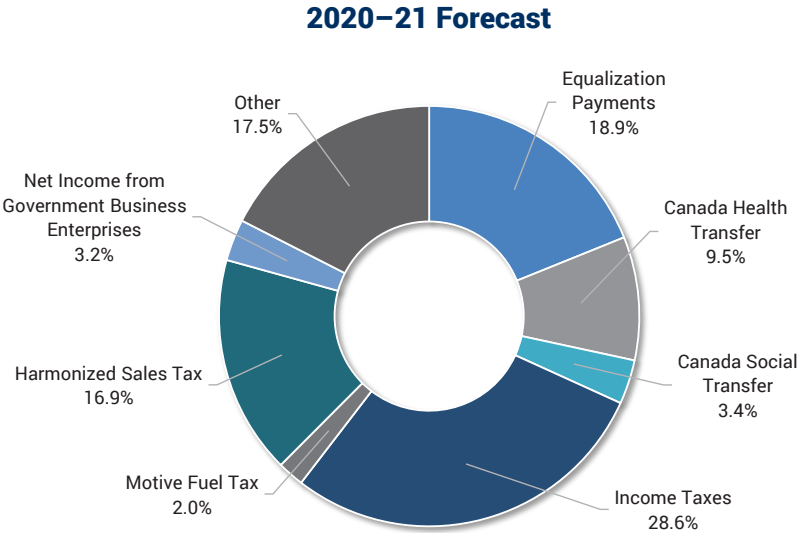
	2018-19	2019-20	2020-21	2020-21	2021-22
General Revenue Fund: Revenues	Actual	Actual	Estimate	Forecast	Estimate
<b>Ordinary Revenue - Provincial Sources</b>					
<b>Tax Revenue</b>					
Personal Income Tax	2,691,576	2,890,224	2,979,575	2,839,360	2,945,359
Corporate Income Tax	630,864	537,865	541,872	413,425	500,223
Harmonized Sales Tax	1,843,297	1,936,772	2,004,070	1,911,840	2,025,505
Cannabis Tax	3,371	7,341	7,205	7,216	7,756
Vaping Tax	---	---	2,332	2,332	4,305
Motive Fuel Tax	263,433	266,539	277,161	232,441	238,632
Tobacco Tax	205,766	183,035	196,501	204,876	185,850
Other Tax Revenue	180,308	200,621	182,654	176,574	193,224
Prior Years' Adjustments - Provincial Taxes	---	---	---	(248,452)	---
	5,818,615	6,022,397	6,191,370	5,539,612	6,100,854
<b>Other Provincial Revenue</b>					
Registry of Motor Vehicles	134,158	135,023	135,380	130,992	136,985
Royalties - Petroleum	6,889	---	---	---	---
Other Provincial Sources	213,948	149,070	140,264	152,059	150,841
TCA Cost Shared Revenue - Provincial Sources	2,509	17,392	3,721	5,564	7,833
Other Fees and Charges	63,189	65,641	64,023	53,723	60,036
Gain (Loss) on Disposal of Crown Assets	261	754	---	---	---
Prior Years' Adjustments - Provincial Sources	974	148,611	---	14,993	---
	421,928	516,491	343,388	357,331	355,695
<b>Investment Income</b>					
Interest Revenues	107,655	106,208	87,084	77,004	70,978
Sinking Fund Earnings	106,519	93,670	65,373	52,201	34,929
	214,174	199,878	152,457	129,205	105,907
<b>Total - Provincial Sources</b>	<b>6,454,717</b>	<b>6,738,766</b>	<b>6,687,215</b>	<b>6,026,148</b>	<b>6,562,456</b>
<b>Ordinary Revenue - Federal Sources</b>					
Equalization Payments	1,843,636	2,009,037	2,145,883	2,145,883	2,315,000
Canada Health Transfer	998,752	1,043,370	1,080,690	1,078,379	1,109,000
Canada Social Transfer	366,558	376,945	387,762	386,932	398,000
Offshore Accord	18,092	8,227	86,000	85,600	44,000
Crown Share	4,208	4,340	---	---	---
Other Federal Sources	92,446	48,128	39,177	453,742	60,458
TCA Cost Shared Revenue - Federal Sources	39,666	35,112	111,779	96,244	208,012
Prior Years' Adjustments - Federal Sources	1,333	(502)	---	(2,489)	---
<b>Total - Federal Sources</b>	<b>3,364,691</b>	<b>3,524,657</b>	<b>3,851,291</b>	<b>4,244,291</b>	<b>4,134,470</b>
<b>Total - Ordinary Revenue</b>	<b>9,819,408</b>	<b>10,263,423</b>	<b>10,538,506</b>	<b>10,270,439</b>	<b>10,696,926</b>
<b>Ordinary Recoveries</b>					
Provincial Sources	395,319	386,466	372,047	372,599	359,679
Federal Sources	286,449	341,862	294,673	338,199	325,319
<b>Total - Ordinary Recoveries</b>	<b>681,768</b>	<b>728,328</b>	<b>666,720</b>	<b>710,798</b>	<b>684,998</b>
<b>Net Income from Government Business Enterprises (GBEs)</b>					
Nova Scotia Liquor Corporation	237,373	247,278	242,625	262,856	246,126
Nova Scotia Gaming Corporation	129,662	121,171	131,000	94,200	138,700
Halifax-Dartmouth Bridge Commission	9,506	7,556	7,559	756	5,440
Highway 104 Western Alignment Corporation	12,681	12,616	10,630	5,416	9,630
<b>Total - Net Income from GBEs</b>	<b>389,222</b>	<b>388,621</b>	<b>391,814</b>	<b>363,228</b>	<b>399,896</b>
<b>Total - Revenues</b>	<b>10,890,398</b>	<b>11,380,372</b>	<b>11,597,040</b>	<b>11,344,465</b>	<b>11,781,820</b>

**Table 6.2 Revenues by Source**

(percentage of Total Revenue)

	2018-19 Actual	2019-20 Actual	2020-21 Estimate	2020-21 Forecast	2021-22 Estimate
<b>General Revenue Fund: Revenues</b>					
<b>Ordinary Revenue - Provincial Sources</b>					
<b>Tax Revenue</b>					
Personal Income Tax	24.7%	25.4%	25.7%	25.0%	25.0%
Corporate Income Tax	5.8%	4.7%	4.7%	3.6%	4.2%
Harmonized Sales Tax	16.9%	17.0%	17.3%	16.9%	17.2%
Cannabis Tax	---	0.1%	0.1%	0.1%	0.1%
Vaping Tax	---	---	---	---	---
Motive Fuel Tax	2.4%	2.3%	2.4%	2.0%	2.0%
Tobacco Tax	1.9%	1.6%	1.7%	1.8%	1.6%
Other Tax Revenue	1.7%	1.8%	1.6%	1.6%	1.6%
Prior Years' Adjustments - Provincial Taxes	---	---	---	-2.2%	---
	53.4%	52.9%	53.4%	48.8%	51.8%
<b>Other Provincial Revenue</b>					
Registry of Motor Vehicles	1.2%	1.2%	1.2%	1.2%	1.2%
Royalties - Petroleum	0.1%	---	---	---	---
Other Provincial Sources	2.0%	1.3%	1.2%	1.3%	1.3%
TCA Cost Shared Revenue - Provincial Sources	---	0.2%	---	---	0.1%
Other Fees and Charges	0.6%	0.6%	0.6%	0.5%	0.5%
Gain (Loss) on Disposal of Crown Assets	---	---	---	---	---
Prior Years' Adjustments - Provincial Sources	---	1.3%	---	0.1%	---
	3.9%	4.5%	3.0%	3.1%	3.0%
<b>Investment Income</b>					
Interest Revenues	1.0%	0.9%	0.8%	0.7%	0.6%
Sinking Fund Earnings	1.0%	0.8%	0.6%	0.5%	0.3%
	2.0%	1.8%	1.3%	1.1%	0.9%
<b>Total - Provincial Sources</b>	<b>59.3%</b>	<b>59.2%</b>	<b>57.7%</b>	<b>53.1%</b>	<b>55.7%</b>
<b>Ordinary Revenue - Federal Sources</b>					
Equalization Payments	16.9%	17.7%	18.5%	18.9%	19.6%
Canada Health Transfer	9.2%	9.2%	9.3%	9.5%	9.4%
Canada Social Transfer	3.4%	3.3%	3.3%	3.4%	3.4%
Offshore Accord	0.2%	0.1%	0.7%	0.8%	0.4%
Crown Share	---	---	---	---	---
Other Federal Sources	0.8%	0.4%	0.3%	4.0%	0.5%
TCA Cost Shared Revenue - Federal Sources	0.4%	0.3%	1.0%	0.8%	1.8%
Prior Years' Adjustments - Federal Sources	---	---	---	---	---
<b>Total - Federal Sources</b>	<b>30.9%</b>	<b>31.0%</b>	<b>33.2%</b>	<b>37.4%</b>	<b>35.1%</b>
<b>Total - Ordinary Revenue</b>	<b>90.2%</b>	<b>90.2%</b>	<b>90.9%</b>	<b>90.5%</b>	<b>90.8%</b>
<b>Ordinary Recoveries</b>					
Provincial Sources	3.6%	3.4%	3.2%	3.3%	3.1%
Federal Sources	2.6%	3.0%	2.5%	3.0%	2.8%
<b>Total - Ordinary Recoveries</b>	<b>6.3%</b>	<b>6.4%</b>	<b>5.7%</b>	<b>6.3%</b>	<b>5.8%</b>
<b>Net Income from Government Business Enterprises (GBEs)</b>					
Nova Scotia Liquor Corporation	2.2%	2.2%	2.1%	2.3%	2.1%
Nova Scotia Gaming Corporation	1.2%	1.1%	1.1%	0.8%	1.2%
Halifax-Dartmouth Bridge Commission	0.1%	0.1%	0.1%	---	---
Highway 104 Western Alignment Corporation	0.1%	0.1%	0.1%	---	0.1%
<b>Total - Net Income from GBEs</b>	<b>3.6%</b>	<b>3.4%</b>	<b>3.4%</b>	<b>3.2%</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>

Chart 6.1 Total Revenue 2020-21 Forecast and 2021-22 Estimate





## Ordinary Revenue – Provincial Sources – Tax Revenue

**Personal Income Tax (PIT):** Nova Scotia's 2021–22 estimate for PIT is \$2,945.4 million, down \$34.2 million or 1.1 per cent compared to the 2020–21 Budget Estimates and up \$106.0 million or 3.7 per cent from the 2020–21 forecast.

Personal taxable income is projected to grow by \$892 million to \$32.8 billion in 2021, an increase of 2.8 per cent, and grow to \$34.1 billion in 2022, an increase of 3.9 per cent. Yield is expected to grow by 1.6 per cent in 2021 and by 2.1 per cent in 2022.

Table 6.3 provides a summary of PIT revenue growth since 2017, 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**

	2017	2018	2019	2020(F)	2021(E)	2022(E)
Personal Taxable Income (\$ billions)	30.0	31.2	31.7	31.9	32.8	34.1
Yield Rate (per cent)	8.89%	8.74%	8.83%	8.73%	8.87%	9.06%
Net PIT (\$ millions)	2,656	2,730	2,838	2,826	2,911	3,080

**Corporate Income Tax (CIT):** Nova Scotia's 2021–22 estimate for CIT is \$500.2 million, down \$41.6 million or 7.7 per cent compared to the 2020–21 Budget Estimates and up \$86.8 million or 21.0 per cent from the 2020–21 forecast.

National corporate taxable income is projected to increase by \$82.5 billion or 30.2 per cent in 2021 to \$355.8 billion and increase by \$33.0 billion or 9.5 per cent to \$389.7 billion in 2022.

The province calculates its share of national corporate taxable income on a three-year moving average of actual share rates. For 2021–22 the province's share is estimated to be 1.4 per cent. Nova Scotia's corporate taxable income in 2021 is estimated to be \$5.1 billion, growing to \$5.6 billion in 2022.

The general corporate income tax rate was reduced by 2 percentage points, from 16 per cent to 14 per cent, effective April 1, 2020. In addition, the small business rate was reduced by one-half percentage point, from 3.0 per cent to 2.5 per cent, on April 1, 2020. 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 average effective tax rate is estimated to be 9.6 per cent and the small business share of taxable income is projected to be 38.1 per cent in both 2021 and 2022.

**Harmonized Sales Tax (HST):** Net HST is estimated to total \$2,025.5 million in 2021–22, up \$21.4 million or 1.1 per cent compared to the 2020–21 Budget Estimates and up \$113.7 million or 5.9 per cent from the 2020–21 forecast.

The increase in HST revenues is primarily attributable to growth in consumer expenditures, but all tax bases are projected to rise in 2021–22. The province's total tax base for taxable goods and services is projected to grow by \$1.1 billion or 5.2 per cent to \$22.9 billion in 2021 and by \$1.0 billion or 4.5 per cent to \$23.9 billion in 2022.

Growth in the consumer expenditure base is projected to be 5.3 per cent in 2021 and 5.4 per cent in 2022. Consumer expenditures represent over 70 per cent of the HST tax base.

Taxable residential housing expenditures are expected to grow by 6.0 per cent in 2021 and by 2.4 per cent in 2022, relative to the 2020–21 forecast. The rebate on residential energy (Your Energy Rebate Program) is expected to total \$114.9 million in 2021–22.

Compared to the 2020–21 forecast, public sector body rebates are projected to increase by 2.9 per cent, while point-of-sale rebates for children's clothing, children's footwear, children's diapers, and printed books will increase by 5.3 per cent.

**Cannabis Tax:** The province entered into a Coordinated Cannabis Tax Agreement (CCTA) with the Government of Canada 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 \$7.8 million in 2021–22, an increase of \$0.6 million or 7.7 per cent from the 2020–21 Budget Estimates and an increase of \$0.5 million or 7.5 per cent from the 2020–21 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 Tax:** Effective September 15, 2020, the province introduced a vaping product tax on vaping substances and vaping devices. Vaping substances are taxed at the rate of \$0.50 per millilitre, while vaping devices and components are 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 tax revenues are projected to be \$4.3 million in 2021–22, up \$2.0 million or 84.6 per cent compared to both the 2020–21 Budget Estimates and the 2020–21 forecast due to the fact that the revenues reflect a full fiscal year.

**Motive Fuel Taxes:** Motive Fuel Taxes are projected to total \$238.6 million in 2021–22, a decrease of \$38.5 million or 13.9 per cent compared to the 2020–21 Budget Estimates and up by \$6.2 million or 2.7 per cent from the 2020–21 forecast.

Gasoline consumption is estimated to decline by 0.9 per cent to 1.1 billion litres in 2021–22 relative to the 2020–21 forecast, while the consumption of diesel oil is estimated to increase by 0.3 per cent to 425 million litres in 2021–22. Key drivers for Motive Fuel Taxes are average prices for gasoline and diesel oil, which are projected to rise in 2021–22, and labour income, which is expected to increase by 2.9 per cent over the 2020–21 forecast.

**Tobacco Tax:** Tobacco Tax revenues are projected to total \$185.9 million in 2021–22, down \$10.7 million or 5.4 per cent from the 2020–21 Budget Estimates and down \$19.0 million or 9.3 per cent compared to the 2020–21 forecast.

Cigarette consumption is projected to decline from 596 million cigarettes in 2020–21 to 558 million in 2021–22, a decrease of 6.4 per cent. The consumption of fine cut tobacco is also projected to decline by 0.2 per cent.

**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 \$193.2 million for 2021–22, up \$10.6 million or 5.8 per cent from the 2020–21 Budget Estimates and up \$16.7 million or 9.4 per cent from the 2020–21 forecast.

## Ordinary Revenue – Provincial Sources – Other Provincial Revenue

**Registry of Motor Vehicles:** Revenue generated by the Registry of Motor Vehicles is estimated to be \$137.0 million for 2021–22, up \$1.6 million or 1.2 per cent from the 2020–21 Budget Estimates and an increase of \$6.0 million or 4.6 per cent from the 2020–21 forecast.

**Other Provincial Sources:** Revenue from Other Provincial Sources is estimated to be \$150.8 million for 2021–22, up \$10.6 million or 7.5 per cent from the 2020–21 Budget Estimates and down \$1.2 million or 0.8 per cent from the 2020–21 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 increase from estimate to estimate can be largely attributed to increases under the Department of Health and Wellness for Infoway Funding and pharmacare premiums.

**Tangible Capital Asset (TCA) Cost Shared Revenue – Provincial Sources:** TCA Cost Shared Revenue from provincial sources is estimated to be \$7.8 million for 2021–22, up \$4.1 million or 110.5 per cent from the 2020–21 Budget Estimates and up \$2.3 million or 40.8 per cent from the 2020–21 forecast. The increase of \$4.1 million is mainly driven by the Arts District project under the Department of Infrastructure and Housing.

**Other Fees and Charges:** Revenue generated from Other Fees and Charges is estimated to be \$60.0 million for 2021–22, \$4.0 million or 6.2 per cent lower than the 2020–21 Budget Estimates and an increase of \$6.3 million or 11.8 per cent from the 2020–21 forecast.

## Ordinary Revenue – Provincial Sources – Investment Income

**Interest Revenue:** Interest Revenue is estimated to be \$71.0 million for 2021–22, down \$16.1 million or 18.5 per cent from the 2020–21 Budget Estimates and down \$6.0 million or 7.8 per cent from the 2020–21 forecast. The decrease from estimate is largely due to lower forecasted interest rates.

**Sinking Fund Earnings:** Sinking Fund Earnings are projected to total \$34.9 million in 2021–22, a decrease of \$30.4 million or 46.6 per cent from the 2020–21 Budget Estimates and down \$17.3 million or 33.1 per cent from the 2020–21 forecast. This decrease from estimate is primarily a result of lower forecasted interest rates and a reduction in sinking fund assets due to loans maturing with mandatory sinking funds.

## Ordinary Revenue – Federal Sources

**Equalization:** Equalization revenues in 2021–22 are estimated to be \$2,315.0 million, an increase of \$169.1 million or 7.9 per cent compared to both the 2020–21 Budget Estimates and the 2020–21 forecast, primarily as a result of the province’s fiscal capacity growing slower than the 10-province average due to the weighting applied to revenues from the offshore royalty arbitration settlement in the Equalization formula.

The Equalization program is legislated to grow by the three-year average growth rate of national nominal Gross Domestic Product. For 2021–22 the growth rate is 1.6 per cent and the national pool of cash to be distributed is \$20.9 billion.

**Offshore Accord Payments:** Offshore Accord Payments in 2021–22 are estimated to be \$44.0 million, a decrease of \$42.0 million or 48.8 per cent compared to the 2020–21 Budget Estimates and a decrease of \$41.6 million or 48.6 per cent from the 2020–21 forecast, primarily as a result of a lower weighting for revenues from the offshore royalty arbitration settlement being included in the Equalization formula.

The federal government introduced legislation to extend the agreement by three years – to the end of 2022–23 – 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 2021–22 the three-year average growth rate of national nominal Gross Domestic Product is 1.6 per cent. As a result, the 3 per cent floor will be in effect.

The 2021–22 national CHT amount that is available for distribution is set at \$43.1 billion. The CHT cash entitlement for Nova Scotia is estimated to be \$1,109.0 million, an increase of \$28.3 million or 2.6 per cent from the 2020–21 Budget Estimates, and up by \$30.6 million or 2.8 per cent compared to the 2020–21 forecast. The CHT estimate reflects the federal government’s estimate of the province’s share of national population – currently 2.57 per cent which is down from 2.58 per cent in 2020–21.

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 2021–22 cash entitlement for CST is estimated to be \$398.0 million, an increase of \$10.2 million or 2.6 per cent from the 2020–21 Budget Estimates, and up by \$11.1 million or 2.9 per cent compared to the 2020–21 forecast.

The provincial entitlement is based on an equal per capita cash provincial allocation of a fixed national entitlement, which stands at \$15.5 billion for 2021–22. Effective with the 2014–15 fiscal year, the CST was renewed for a further 10-year period with the national pool legislated to grow by 3.0 per cent a year through to the end of the 2023–24 fiscal year.

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

**Other Federal Sources:** Other Federal Sources are estimated to be \$60.5 million in 2021–22, an increase of \$21.3 million or 54.3 per cent from the 2020–21 Budget Estimates and decrease of \$393.3 million or 86.7 per cent from the 2020–21 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 mainly results from non-capital funding for the Investing in Canada Infrastructure Program.

**Tangible Capital Asset (TCA) Cost Shared Revenue – Federal Sources:** The estimate for TCA Cost Shared Revenue from federal sources is \$208.0 million for 2021–22. This represents an increase of \$96.2 million or 86.1 per cent compared to the 2020–21 Budget Estimates and an increase of \$111.8 million or 116.1 per cent from the 2020–21 forecast. The increase from estimate to estimate is mainly attributed to funding for hospital grants and existing TCA projects under the Department of Health and Wellness, Department of Education and Early Childhood Development, as well as ferry and highway projects under the Department of Transportation and Active Transit.

## Ordinary Recoveries

Ordinary Recoveries are projected to total \$685.0 million in 2021–22, an increase of \$18.3 million or 2.7 per cent from the 2020–21 Budget Estimates and down \$ 25.8 million or 3.6 per cent from the 2020–21 forecast of \$710.8 million.

Provincial source recoveries are estimated to be \$359.7 million for 2021–22, down \$12.4 million or 3.3 per cent from the 2020–21 Budget Estimate and down \$ 12.9 million or 3.5 per cent from the 2020–21 forecast.

Federal source recoveries are estimated to be \$325.3 million, up \$30.6 million or 10.4 per cent from the 2020–21 Budget Estimates and down \$ 12.9 million or 3.8 per cent from the 2020–21 forecast.

## Government Business Enterprises – Net Income

***Nova Scotia Liquor Corporation (NSLC):*** The 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 \$246.1 million in 2021–22. This is an increase of \$3.5 million or 1.4 per cent up compared to the 2020–21 Budget Estimate of \$242.6 million and down \$16.7 million or 6.4 per cent compared to the 2020–21 forecast of \$262.9 million.

Total net sales are projected to increase 3.7 per cent compared to the 2020–21 Budget Estimates, which is attributed to beverage alcohol sales increasing 2.9 per cent and cannabis sales increasing 10.0 per cent. Compared to the 2020–21 forecast, total net sales are projected to decrease 1.7 per cent as it is assumed sales will gradually realign to pre-COVID-19 for consistency sales trends.

Total expenses are up \$9.2 million or 7.2 per cent compared to the 2020–21 Budget Estimates and up \$5.5 million or 4.1 per cent compared to the 2020–21 forecast. The increases, both compared to the 2020–21 Budget Estimate and forecast, are primarily related to budgeted wage increases, annualization of labour for new cannabis stores, and additional labour and operating expenses for COVID-19 protocols. Depreciation and service contracts continue to increase with continued investment in store network and in IT infrastructure upgrades.

***Nova Scotia Gaming Corporation (NSGC):*** The NSGC's net income estimate (before Casino Win Tax) is \$138.7 million for 2021–22, which is an increase of \$7.7 million or 5.9 per cent compared to 2020–21 estimate and an increase of \$44.5 million or 47.2 per cent compared to the 2020–21 forecast.

The increase in net income for 2021–22 compared to the 2020–21 estimate is due to increases in existing and new lottery sales and decreased casino operating expenses. Compared to the 2020–21 forecast, the increase in net income for 2021–22 is due to the expected return of some stabilization after a year of business interruptions as a result of public health measures to combat the COVID-19 pandemic.

***Halifax-Dartmouth Bridge Commission:*** Halifax-Dartmouth Bridge Commission (operating as Halifax Harbour Bridges) is budgeting net income for the 2021–22 fiscal year of \$5.4 million. This represents a decrease of \$2.1 million or 28.0 per cent from the 2020–21 Budget Estimates and an increase of \$4.7 million or 619.6 per cent from the 2020–21 forecast. The 2020–21 forecast net income is low due to lower toll revenues as traffic volumes decreased during the COVID-19 pandemic. The increased net income in the 2021–22 fiscal year budget is due to a combination of projected increased traffic volume along with a proposed increase in toll rates to be implemented in January 2022.

**Highway 104 Western Alignment Corporation:** Highway 104 Western Alignment Corporation is budgeting net income for the 2021–22 fiscal year of \$9.6 million. This is a decrease of \$1.0 million or 9.4 per cent from the 2020–21 Budget Estimates and an increase of \$4.2 million or 77.8 per cent from the 2020–21 forecast. The decrease in budgeted net income results mainly from decreased traffic through the tolls.

## Key Tax Measures

### Extension of Equity Tax Credit for CEDIFS

As announced in the 2019–20 Budget, the Equity Tax Credit was phased out as of December 31, 2019, with the exception of investments in Community Economic Development Investment Funds (CEDIFs). The tax credit for these investments is scheduled to expire on February 28, 2022. The tax credit will now be extended for a 10-year period.

The tax credit for CEDIFs has been in existence since 1999 and provides a 35 per cent tax credit for individuals who invest up to \$50,000 in a taxation year and hold their shares for a 5-year period. Rollover tax credits provide an additional 20 per cent when individuals retain their shares for an additional 5 years (10 years in total) and a further 10 per cent when individuals retain their shares for a period of 15 years.



## 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 Expenditures**

(\$ thousands)

	2020-21 Estimate	2020-21 Forecast	2021-22 Estimate
<b>Personal Income Tax</b>			
Political Tax Credit	1,030	1,034	1,236
Volunteer Firefighter & Ground Search and Rescue	3,729	3,630	3,630
Equity Tax Credit	10,006	9,161	9,122
Innovation Equity Tax Credit	10,000	10,000	10,000
Venture Capital Tax Credit	2,000	2,000	2,000
Affordable Living Tax Credit	64,637	64,646	64,646
	<b>91,402</b>	<b>90,471</b>	<b>90,634</b>
<b>Corporate Income Tax</b>			
Scientific Research & Experimental Development	19,468	21,318	19,449
New Small Business Tax Holiday	12	17	19
Digital Media Tax Credit	6,244	7,343	7,576
Digital Animation Tax Credit	16,001	18,329	9,920
Food Bank Tax Credit for Farmers	300	300	300
Capital Investment Tax Credit	21,372	8,468	39,477
Innovation Equity Tax Credit	2,000	2,000	2,000
Venture Capital Tax Credit	1,000	1,000	1,000
Small Business Tax Rate	247,959	188,956	229,023
	<b>314,356</b>	<b>247,731</b>	<b>308,764</b>
<b>Harmonized Sales Tax</b>			
Public Sector Rebates	156,721	161,555	166,231
Printed Book Rebate	9,472	9,180	9,668
First-time Homebuyers Rebate	651	644	660
Disability Rebates	86	48	50
Fire Fighting Equipment Rebate	143	87	92
Your Energy Rebate	121,478	111,415	114,875
Children's Clothing Rebate	10,250	8,674	9,135
Children's Footwear Rebate	2,096	1,738	1,830
Diapers and Feminine Hygiene Products Rebate	2,020	1,731	1,823
	<b>302,917</b>	<b>295,072</b>	<b>304,364</b>

## Revenue Sensitivity

Revenue estimates, which are in the form of a forecast, are based on several economic, financial, tax assessment, and statistical 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).

The province's pace of recovery from the effects of the COVID-19 pandemic pose significant risks to revenues. Any slowdown of projected 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 declined during the pandemic but is now projected to grow at close to historic levels. 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 account 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. Projected growth in these tax bases is also subject to how the province's economy recovers from the pandemic and whether business sectors are able to return to their pre-pandemic levels.

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

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

The forecast of Corporate Income Tax revenues is highly dependent upon national corporate taxable income, especially given the fact that the province has adopted a three-year average share approach. As revenues are sensitive to fluctuations in Nova Scotia's share, there are substantial risks to Corporate Income Tax revenues if the share does not stay as strong.

Cannabis Tax revenues are subject to a number of uncertainties, including availability of products and consumer preferences, 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 about a relatively undeveloped market.

### **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 2021–22 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 2021–22 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 1, 2020. 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 2021–22: Expenses Outlook

In 2021–22, Nova Scotia's total expenses for the General Revenue Fund are estimated to be \$12.5 billion (Table 6.6). This is an increase of \$856.9 million or 7.4 per cent from the 2020–21 Budget Estimates and an increase of \$309.1 million or 2.5 per cent compared to the 2020–21 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>2018-19 Actual</b>	<b>2019-20 Actual</b>	<b>2020-21 Estimate</b>	<b>2020-21 Forecast</b>	<b>2021-22 Estimate</b>
<b>Departmental Expenses</b>					
Agriculture	59,216	52,224	42,075	46,689	40,613
Communities, Culture and Heritage	91,800	103,793	96,890	118,133	117,098
Community Services	936,840	999,085	1,002,202	1,040,486	1,124,314
Education and Early Childhood Development	1,407,070	1,440,647	1,479,302	1,536,224	1,591,394
Energy and Mines	46,556	34,222	63,509	66,399	70,768
Environment and Climate Change	38,013	41,019	42,492	44,827	44,379
Finance and Treasury Board	22,967	122,093	24,282	23,823	25,031
Fisheries and Aquaculture	20,862	21,508	17,792	17,390	19,493
Health and Wellness	4,413,913	4,682,593	4,822,637	5,173,796	5,332,752
Inclusive Economic Growth	149,364	204,375	149,022	192,369	125,594
Infrastructure and Housing	---	---	---	---	132,782
Justice	355,289	366,064	374,244	390,801	392,342
Labour and Advanced Education	368,641	401,842	400,631	434,008	407,450
Assistance to Universities	430,206	448,042	433,420	475,260	443,590
Lands and Forestry	125,425	79,661	78,215	91,580	79,033
Municipal Affairs	267,444	356,960	308,513	376,850	213,184
Public Service	126,052	130,729	136,354	134,171	142,347
Seniors	2,591	2,741	2,711	2,692	2,916
Service Nova Scotia and Internal Services	285,724	299,295	299,199	307,049	328,485
Transportation and Active Transit	551,864	595,726	535,752	573,362	554,192
Restructuring Costs	122,531	170,662	341,032	175,199	321,642
<b>Total - Departmental Expenses</b>	<b>9,822,368</b>	<b>10,553,281</b>	<b>10,650,274</b>	<b>11,221,108</b>	<b>11,509,399</b>
<b>Other Expenses</b>					
Refundable Tax Credits	124,529	64,391	131,451	123,734	144,698
Pension Valuation Adjustment	54,143	50,246	75,832	76,389	107,833
Debt Servicing Costs	855,595	818,160	758,393	742,521	710,886
<b>Total - Expenses</b>	<b>10,856,635</b>	<b>11,486,078</b>	<b>11,615,950</b>	<b>12,163,752</b>	<b>12,472,816</b>

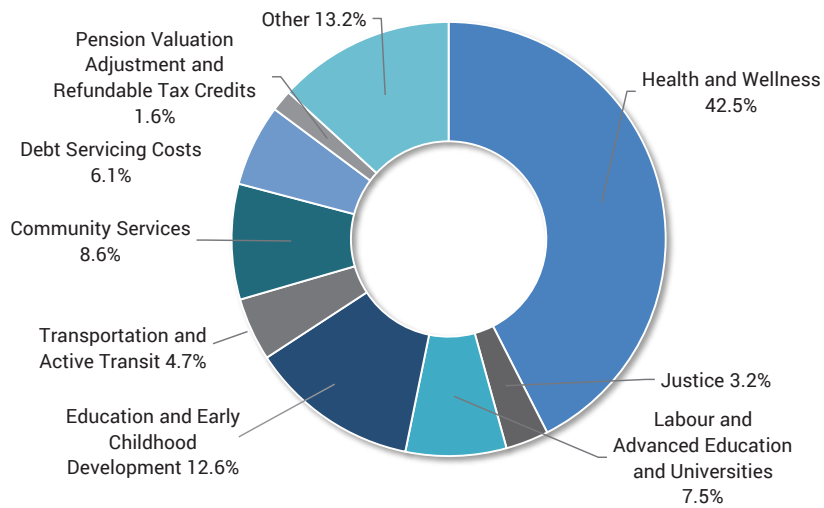
**Table 6.7 Total Expenses**  
(percentage of Total Expenses)

<b>General Revenue Fund: Expenses</b>	<b>2018-19 Actual</b>	<b>2019-20 Actual</b>	<b>2020-21 Estimate</b>	<b>2020-21 Forecast</b>	<b>2021-22 Estimate</b>
<b>Departmental Expenses</b>					
Agriculture	0.5%	0.5%	0.4%	0.4%	0.3%
Communities, Culture and Heritage	0.8%	0.9%	0.8%	1.0%	0.9%
Community Services	8.6%	8.7%	8.6%	8.6%	9.0%
Education and Early Childhood Development	13.0%	12.5%	12.7%	12.6%	12.8%
Energy and Mines	0.4%	0.3%	0.5%	0.5%	0.6%
Environment and Climate Change	0.4%	0.4%	0.4%	0.4%	0.4%
Finance and Treasury Board	0.2%	1.1%	0.2%	0.2%	0.2%
Fisheries and Aquaculture	0.2%	0.2%	0.2%	0.1%	0.2%
Health and Wellness	40.7%	40.8%	41.5%	42.5%	42.8%
Inclusive Economic Growth	1.4%	1.8%	1.3%	1.6%	1.0%
Infrastructure and Housing	---	---	---	---	1.1%
Justice	3.3%	3.2%	3.2%	3.2%	3.1%
Labour and Advanced Education	3.4%	3.5%	3.4%	3.6%	3.3%
Assistance to Universities	4.0%	3.9%	3.7%	3.9%	3.6%
Lands and Forestry	1.2%	0.7%	0.7%	0.8%	0.6%
Municipal Affairs	2.5%	3.1%	2.7%	3.1%	1.7%
Public Service	1.2%	1.1%	1.2%	1.1%	1.1%
Seniors	---	---	---	---	---
Service Nova Scotia and Internal Services	2.6%	2.6%	2.6%	2.5%	2.6%
Transportation and Active Transit	5.1%	5.2%	4.6%	4.7%	4.4%
Restructuring Costs	1.1%	1.5%	2.9%	1.4%	2.6%
<b>Total - Departmental Expenses</b>	<b>90.5%</b>	<b>91.9%</b>	<b>91.7%</b>	<b>92.3%</b>	<b>92.3%</b>
<b>Other Expenses</b>					
Refundable Tax Credits	1.1%	0.6%	1.1%	1.0%	1.2%
Pension Valuation Adjustment	0.5%	0.4%	0.7%	0.6%	0.9%
Debt Servicing Costs	7.9%	7.1%	6.5%	6.1%	5.7%
<b>Total - Expenses</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

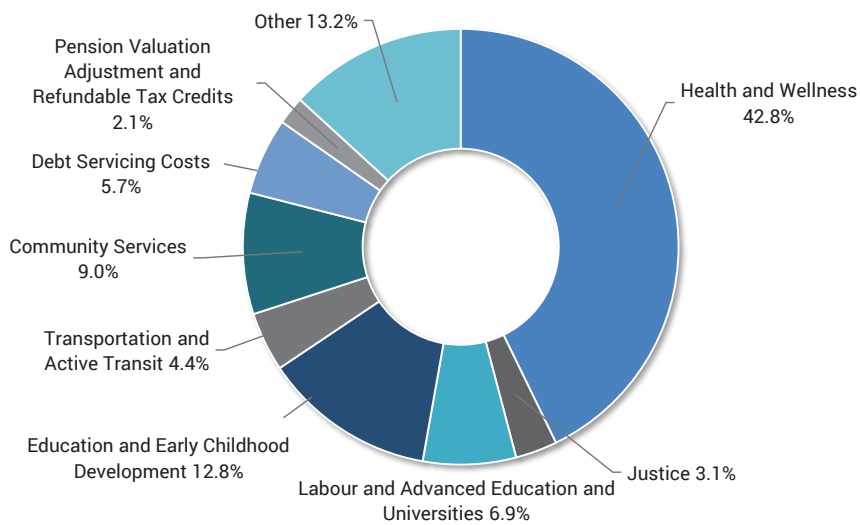
Note: Numbers may not add up to totals due to rounding.

**Chart 6.2 Total Expenses 2020–21 Forecast and 2021–22 Estimate**

**2020–21 Forecast**



**2021–22 Estimate**



## Departmental Expenses

Departmental Expenses in 2021–22 are estimated to be \$11.5 billion. This is an increase of \$859.1 million or 8.1 per cent from the 2020–21 Budget Estimates and an increase of \$288.3 million or 2.6 per cent from the 2020–21 forecast. Details of Departmental Expenses are provided in the Budget 2021–22 Estimates and Supplementary Details document.

**COVID-19 Impact:** The ongoing pandemic and the associated public health response has caused considerable variance to the 2020–21 Departmental Expenditures, as noted in Section 5. As the pandemic continues into fiscal year 2021–22, additional operating expenses related to the COVID-19 ongoing response are estimated to be \$349.6 million in net operating costs across various departments (Table 6.8).

The Department of Health and Wellness is projected to spend an additional \$275.6 million on COVID-19 response, mainly due to \$53.4 million in personal protective equipment (PPE), \$33.1 million in contact tracing, testing, and data management, \$24.2 million for the vaccine distribution program, \$13.5 million to cover lost revenue from reciprocal billing and various operational revenue streams at the health authority, and \$11.1 million for PPE warehousing, security, and cleaning protocols.

The Department of Education and Early Childhood Development is projected to spend \$25.7 million on COVID-19 related costs, highlighted by \$8.0 million on spending plans associated with the federal safe return to school program.

The Department of Community Services is projected to spend \$18.4 million to respond to COVID-19 that includes \$7.1 million for maintenance of children emergency placements and \$10.4 million in Disability Support Program utilization increases to create capacity in hospital settings.



**Table 6.8 COVID-19 Cost to the Province**

(\$ thousands)

<b>Departments and Public Service</b>	<b>2021-22 Estimate</b>	<b>COVID-19 Impact</b>
Agriculture	40,613	---
Communities Culture and Heritage	117,098	---
Community Services	1,124,314	18,446
Education and Early Childhood Development	1,591,394	25,652
Energy and Mines	70,768	---
Environment and Climate Change	44,379	1,260
Finance and Treasury Board	25,031	---
Fisheries and Aquaculture	19,493	150
Health and Wellness	5,332,752	275,574
Inclusive Economic Growth	125,594	10,347
Infrastructure and Housing	132,782	7,290
Justice	392,342	2,738
Labour and Advanced Education	407,450	2,189
Assistance to Universities	443,590	---
Lands and Forestry	79,033	---
Municipal Affairs	213,184	1,121
Public Service	142,347	135
Seniors	2,916	---
Service Nova Scotia and Internal Services	328,485	1,494
Transportation and Active Transit	554,192	3,220
Restructuring	321,642	---
<b>Total Departmental Expenses</b>	<b>11,509,399</b>	<b>349,616</b>

## Refundable Tax Credits

Refundable Tax Credits are estimated to be \$144.7 million in 2021–22, which is an increase of \$13.2 million or 10.1 per cent from the 2020–21 Budget Estimates and an increase of \$21.0 million or 16.9 per cent from the 2020–21 forecast. Refundable Tax Credits are projected to increase from the 2020–21 Budget Estimates as a result of higher estimates for the Digital Media and Capital Investment Tax Credits, offset by lower expenditures for the Digital Animation Tax Credit.

## Pension Valuation Adjustment

The Pension Valuation Adjustment is estimated to be \$107.8 million in 2021–22, up \$32.0 million or 42.2 per cent from the 2020–21 Budget Estimates and up \$31.4 million or 41.2 per cent compared to the 2020–21 forecast. The increase from estimate to estimate is attributed to updated actuarial reports and changes in actuarial assumptions, mainly in retirement health benefit plans, previously approved early retirement incentive plans and the Sydney Steel Pension Plan.

## Debt Servicing Costs

Debt Servicing Costs are projected to be \$710.9 million for 2021–22, down \$47.5 million or 6.3 per cent from the 2020–21 Budget Estimates and down \$31.6 million or 4.3 per cent from the 2020–21 forecast. Debt Servicing Costs have decreased from the Budget Estimates primarily as a result of maturing high coupon debt and favourable forecasted interest rates.

## Key Risks – Expenses

There remains uncertainty in various department expenditures due to the ongoing epidemiology of the pandemic. Many costs may experience variance throughout the fiscal year, as experienced since the onset of the global pandemic.

Generally, there remains a risk that utilization of various government programs will continue to experience variance beyond the budgeted estimate due to public health protocols and any future restrictions, if needed. Many departments experienced fluctuations since the beginning days of COVID-19, and that risk will remain into fiscal 2021–22.

Healthcare and community service programming may see variance in a variety of cost categories, primarily in their front-line service delivery divisions. This may include variances to PPE costs, changes to bed requirements, costs adhering to cleaning protocols, or staffing changes that vary from those estimated at the time of budget.

The Department of Inclusive Economic Growth will continue to monitor the evolution of the pandemic and the impact on a variety of vital sectors. If additional supports are deemed necessary, the department may experience a variance to its expenditures depending on the magnitude of supports considered necessary.

## 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 forecast outlook are presented here.

This outlook is based on data and external events up to November 9, 2020, as well as revised fiscal and capital plans as of February 26, 2021. The outlook is subject to change based on information published after November 9, 2020, and new information will be incorporated into future economic forecasts. Some of the descriptive analysis of economic context below references data released after November 9, 2020.

### International and National Economic Context

**Global Economy:** The COVID-19 pandemic caused a widespread global recession in 2020. Lockdowns introduced in the first half of the year slowed down economic activity significantly. As restrictions eased, pent-up demand supported a stronger than expected rebound across many regions in the third quarter of 2020. Momentum slowed in the last quarter of 2020 following rising COVID-19 cases in a number of countries. However, new fiscal support in the United States and Japan combined with increased confidence coming from vaccine rollouts is expected to boost economic activity in 2021.

Despite the increased number of cases towards the end of 2020 and renewed containment measures, global economic activity is re-emerging strongly from the depth of the pandemic. Given the severity of the pandemic shocks, many economies have not fully recovered with most economic indicators being lower than their pre-pandemic levels.

The International Monetary Fund's (IMF) January 2021 World Economic Outlook estimates that global real Gross Domestic Product (GDP) declined 3.5 per cent in 2020. This is 0.9 percentage points better than previously projected, reflecting stronger than expected momentum in the second half of the year. The IMF baseline scenario assumes that a broad vaccine rollout is available in advanced economies and some emerging markets by summer 2021 and across most countries by the second half of 2022.

The IMF projects global economic output to expand by 5.5 per cent in 2021. After the rebound in 2021, real global growth is expected to slow to about 4.2 per cent in 2022 as the pandemic's damage to long run potential growth becomes clearer. Over the medium term, economic recovery will depend on the ability to limit the spread of the virus, ensure successful delivery of vaccine treatments worldwide, and provide adequate monetary and fiscal stimulus.

**United States (US):** The US economy is recovering from the deep economic contraction caused by the COVID-19 pandemic. The US economy grew 4.1 per cent (seasonally adjusted annualized real rate) in the final quarter of 2020 following a 33.4 per cent expansion in the third quarter. US economic recovery slowed with measures taken to limit the spread of the second wave of the virus. These measures are also expected to weigh on the recovery during the first half of 2021. However, additional federal spending is expected to provide a positive catalyst to economic growth. The US economy contracted 3.5 per cent in 2020 and is expected to grow 3.6 per cent in 2021 and 3.5 per cent in 2022.

**Europe:** The Euro Area real GDP rebounded with 59.9 per cent growth (seasonally adjusted annualized real rate) in the third quarter of 2020 following a decline of 47.8 per cent in the first half of the year. However, new containment measures in late 2020 caused real GDP to fall 2.4 per cent in preliminary results for Quarter 4 (Q4) and are expected to slow down the recovery in the first quarter of 2021. Real GDP is expected to return to its pre-pandemic levels by mid-2022 supported by the Next Generation European Union (EU) stimulus package, ongoing recovery in foreign demand and gradual resolution of the health crisis with vaccine therapies. The IMF estimates that economic activity in the Euro Area declined 7.2 per cent in 2020 and will be followed by 4.2 per cent growth in 2021 and 3.6 per cent growth in 2022.

**China:** Despite reporting the first widespread cases of COVID-19, China is expected to be one of only a few countries to have real GDP growth in 2020. The government's policy response, epidemic control measures, and reprioritization of macroeconomic objectives helped support projected real growth of 2.3 per cent in 2020. While the recovery is expected to be solid going into 2021, it will be uneven with consumer services trailing industrial production. Fiscal policy stimulus which focused on providing relief and boosting public investment is starting to moderate. The IMF projects China's economy to grow 8.1 per cent in 2021 followed by 5.6 per cent growth in 2022. According to the World Bank, China's GDP is still expected to be about 2.0 per cent below its pre-pandemic projections by 2022 with the crisis accentuating pre-existing vulnerabilities and imbalances.

**Canada:** Canadian economic activity contracted sharply in the first half of 2020 due to the COVID-19 pandemic and public health measures to contain it. Growth in real GDP declined 38.5 per cent (seasonally adjusted annualized rate) in the second quarter of 2020, the steepest quarterly decline since the start of data collection in 1961. The decline reflects large decreases in household spending, business investment, and trade. Canada's economy was able to resume growing in the second half of 2020, with rebounds of 40.6 per cent in the third quarter and 9.6 per cent in the fourth quarter. The pace of recovery has slowed during the second wave of COVID-19 cases because of renewed public health measure and restrictions. Overall, Canada's real GDP fell by 5.4 per cent in 2020. Federal and provincial governments provided support to households

and businesses through various programs. Canada's housing sector continued to see rising activity with increased housing starts and price growth amid a low-interest rate environment.

Economic activity is expected to continue recovering in the first quarter of 2021 even as several provinces maintain lockdowns and public health restrictions. The scheduled vaccine rollout should help lift consumer confidence and allow the labour market recovery to build through 2021. Business investment and exports are expected to recover as uncertainty eases and with the anticipation of borders re-opening later in 2021. Ongoing fiscal policy support is planned over the short term with support programs being lifted only as conditions improve. The federal government has announced a plan for up to \$70–100 billion in infrastructure investment over three years. Canadian housing activity is expected to remain elevated in 2021 because of lower borrowing costs, household income recovery, rising demand for single-family homes, and a lower inventory of existing houses. Canada's real GDP is projected to grow 4.4 per cent in 2021 and 3.2 per cent in 2022.

Like many central banks, the Bank of Canada eased monetary policy significantly through reductions in the target for the overnight rate and extraordinary asset purchases. The bank lowered its overnight rate from 1.75 per cent to 0.25 per cent in March 2020 and has since maintained this rate at 0.25 per cent. The Bank introduced a quantitative easing program that is currently at a pace of at least \$4 billion per week. The Bank of Canada does not expect inflation to be back to 2 per cent until 2023. Higher gasoline prices are expected to drive short-term fluctuations in inflation, but the general economic slack in the Canadian economy is expected to keep inflation below the 2 per cent target in 2021 and 2022.

## 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 9, 2020)	2021	2022
US Real GDP Growth (% change, 2012 chained)	3.6	3.5
Canada Real GDP Growth (% change, 2012 chained)	4.4	3.2
Canada Nominal GDP Growth (% change, current prices)	6.3	5.3
USD/CAD exchange rate (US¢ per CAD)	76.3	76.5
Canadian Prime Lending Rate (%)	2.4	2.5
5 Year Conventional Mortgage Rate (%)	4.1	4.9

Source: Nova Scotia Department of Finance and Treasury Board

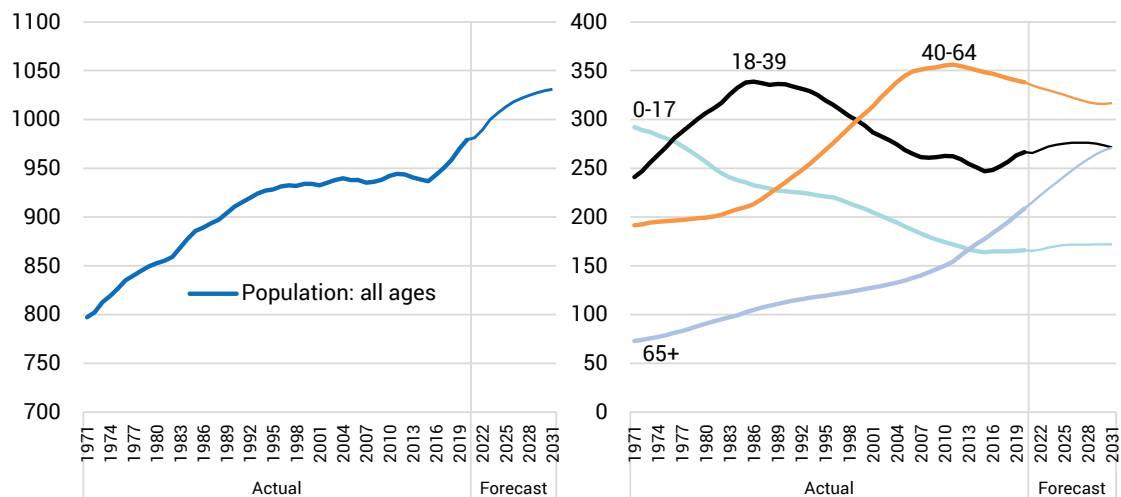
## Nova Scotia Economic Context

**Population and Demography:** Nova Scotia's population was on an upward trajectory prior to the pandemic. Nova Scotia's population rose by over 42,000 persons since 2015. Although overall movement between provinces slowed in 2020 due to the pandemic, net interprovincial migration into Nova Scotia grew. Net interprovincial migration to Nova Scotia between July 1 and October 1, 2020, was the strongest since 1984, with positive net migration from all provinces and territories. Travel restrictions and processing issues slowed international migration for both permanent and non-permanent residents (notably international students). The population growth from natural change (births less deaths) continues to be negative.

The population is projected to grow 0.2 per cent from July 1, 2020, to July 1, 2021, before rising to around 1 per cent growth by 2023 with the Government of Canada's plans to increase immigration levels in the next few years. By 2024, Nova Scotia's population is projected to rise above one million residents (Chart 7.1). Demographic trends are expected to continue as the share of the population aged over 65 rises to over 26 per cent, though the number of persons under 40 years old continues to grow over the medium term through migration to the province.

**Chart 7.1 Nova Scotia's Population to Rise Above One Million in 2024**

(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.

**Economic Growth:** Economic growth was improving steadily prior to the pandemic with rising population, employment growth, residential investment, productivity improvements, and expanding exports. Real GDP growth was 2.4 per cent in 2019, its fastest pace since 2010. Business sector labour productivity growth, for 8 of the last 10 years, has been a critical part of Nova Scotia's economic acceleration.

The COVID-19 pandemic and associated global recession disrupted these positive trends in Nova Scotia's economy, from March 2020 onwards. Many recessions are typically concentrated in reduced investment, manufacturing, and exports while household consumption and service production are sources of stability. While there were contractions in cyclically sensitive goods industries, the COVID-19 economic shock was unusually concentrated in normally stable service production. Economic activity contracted sharply in the service industries because of mandated closures, limited travel, social distancing measures, and general uncertainty.

Weak global demand and facility closures had notable effects on manufacturing shipments and exports during this time. Economic activity improved as restrictions eased and the public health situation was under control through the 2020 summer and fall. However, certain sectors continued to operate below capacity. A second wave of infections – provincially, nationally, and globally – required renewed public health measures at the end of 2020. With an improved understanding of the transmission of the virus, more targeted restrictions in the second wave caused less of a shock to economic activity than was observed during the first wave in 2020.

Nova Scotia's real GDP is estimated to have declined 5.3 per cent (4.2 per cent in nominal terms) in 2020 – a decrease in economic activity without precedent in the modern economic history of the province. Decreases in household consumption, particularly services, and investment and trade activity that occurred were only partly offset by increased government expenditure, household income transfers, and capital projects.

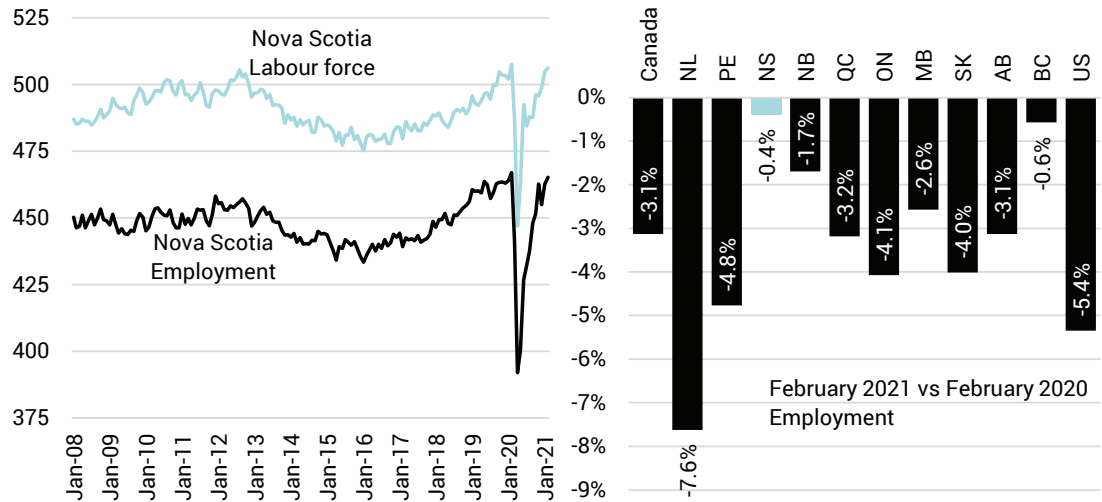
**Labour Market:** The variation seen in the labour market in 2020 was extreme with the largest monthly changes on record and vastly different outcomes across demographic groups and sectors. By February 2021, Nova Scotia's employment was 465,200, just 1,800 below pre-pandemic employment reported for February 2020. Nova Scotia has closed the COVID-19 employment gap more than any other province (Chart 7.2). Full-time employment was higher in February 2021 than in February 2020, though there remains more people working fewer hours.

In 2020, average employment levels were 4.6 per cent lower with large impacts among females (-5.5 per cent) and youth aged 15 to 24 (-11.9 per cent). Employees in the private sector accounted for all net job losses in 2020, while public sector and self-employment levels were on average a little higher. By February 2021, employment

among women and those over 25 had completely recovered (Chart 7.3). Residual employment losses were concentrated among men as well as youth aged 15 to 24.

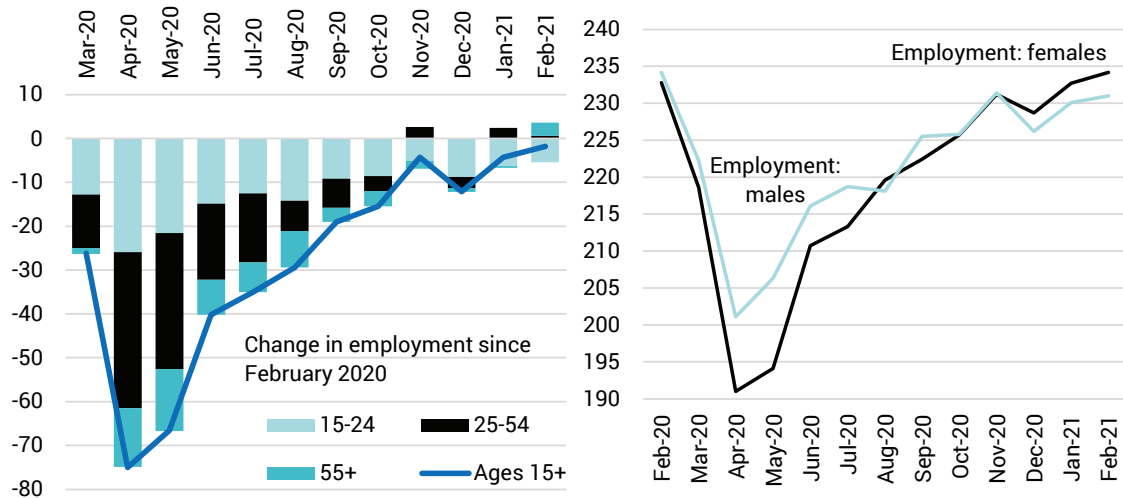
### Chart 7.2 Labour Market Rebounded With Easing of Restrictions

(Thousands, seasonally adjusted)



### Chart 7.3 Women's Employment Recovered, Youth Employment Lower

(Thousands, seasonally adjusted)



Source: Statistics Canada, Table 14-10-0287-01 Labour force characteristics, monthly, seasonally adjusted and trend-cycle

The initial impacts of COVID-19 restrictions on employment were felt across most industries, with the most severe declines reported among service businesses

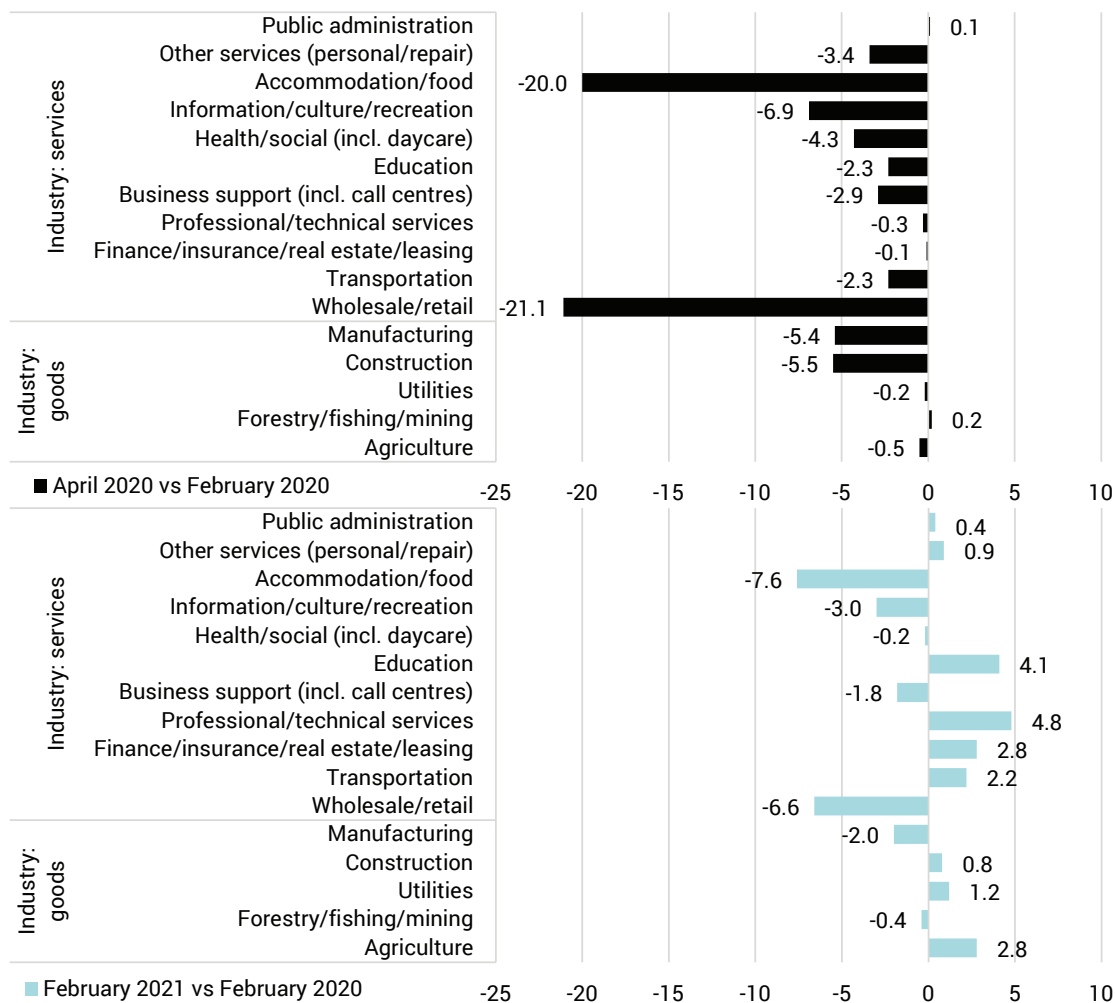


that were ordered to close by public health orders. There were 20,000 jobs lost in accommodation and food services and 21,100 in wholesale and retail trade.

As of February 2021, employment had recovered and even grown for some industries, including professional, scientific, and technical services; educational services; finance, insurance, real estate, rental, and leasing; agriculture; and transportation and warehousing (Chart 7.4). Employment remains substantially lower in accommodation and food services; information, culture, and recreation; wholesale and retail trade; business, building, and other support services; and manufacturing.

**Chart 7.4 Employment Loss Remains in Some Service Industries**

(Thousands, seasonally adjusted)



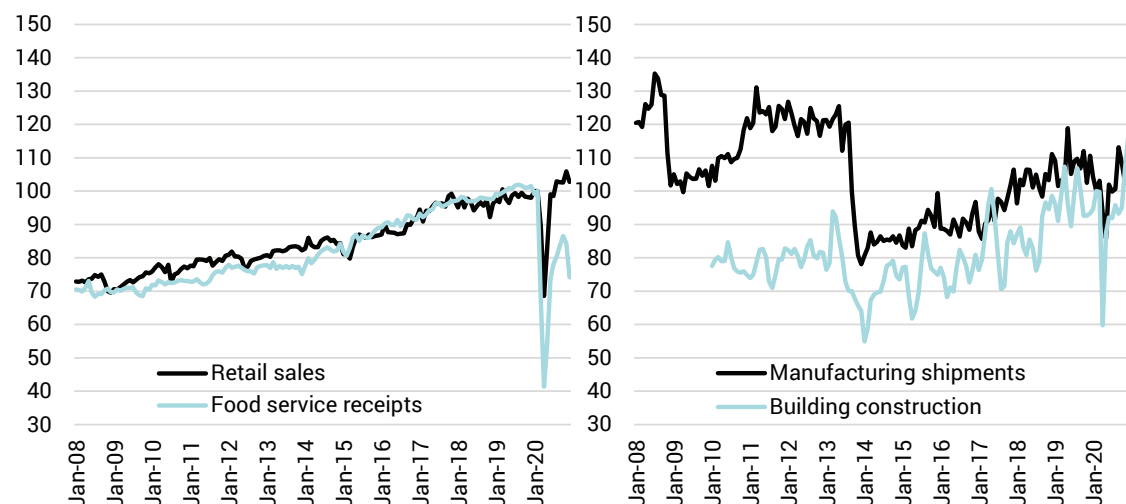
Source: Statistics Canada. Table 14-10-0355-01 Employment by industry, monthly, seasonally adjusted and unadjusted, and trend-cycle (x 1,000)

**Household Consumption:** Retail spending contracted significantly during the initial lockdown period from March to June 2020, with fewer numbers of active businesses in the sector compared to pre-pandemic levels. Retail sales returned to 2019 levels during summer 2020. There was year-over-year growth in retail sales towards the end of 2020. Retail sales for 2020 were 2.0 per cent lower than 2019. Declines in sales of motor vehicle and parts dealers, furniture stores, gasoline stations, clothing stores, and sports, hobby, and book stores were offset by solid increases for building material and garden equipment and supplies dealers, food and beverage stores, general merchandise stores, and miscellaneous store retailers. Overall, household consumption is estimated to have declined 5.4 per cent in 2020.

Restaurants have been affected both by sharp reductions in tourist activity as well as by public health orders and closures. Food service and drinking places receipts have averaged 23.6 per cent lower for 2020 and were 27.0 per cent lower in December 2020 than December 2019 (Chart 7.5). Government support programs created during the pandemic have supported household incomes and household savings have risen in 2020.

### Chart 7.5 Recovery for Retail Sales, Manufacturing and Construction, Downturn Persists in Food Service Receipts

(Index, February 2020 = 100)



Source: Statistics Canada, Table 16-10-0048-01 Manufacturing sales by industry and province, monthly (dollars unless otherwise noted) (x 1,000); Table 20-10-0008-01 Retail trade sales by province and territory (x 1,000); Table 21-10-0019-01 Monthly survey of food services and drinking places (x 1,000); Table 34-10-0175-01 Investment in Building Construction

**Investment:** The COVID-19 pandemic slowed business investment. Preliminary data for business investment in machinery and equipment was down 15.5 per cent in 2020. Non-residential building construction has declined 3.7 per cent in 2020 with less construction of industrial and commercial buildings. Ongoing capital spending by the provincial government on transportation, healthcare, and other infrastructure is expected to support economic recovery in the near and medium term.

Residential building construction activity declined sharply during the spring of 2020, but then picked up through the remainder of the year. Compared to 2019, investment in residential structures is estimated to have declined 7.6 per cent in 2020 (Chart 7.5). Lower activity in Halifax multiple dwelling unit construction projects and renovations were partially offset by increasing construction of new single-family homes. The tightness of the Halifax housing market led to price increases for home resales (+10.9 per cent on average in 2020) as well as new houses (+3.7 per cent).

**Exports:** Nova Scotia's exports are estimated to have declined in 2020 due to weak global demand, COVID-19 related work stoppages, closure of wood pulp production, and significantly lower tourism. International merchandise shipments declined 13.8 per cent in 2020. Shipments have been lower in seafood, tires, and wood pulp while shipments of lumber, frozen fruit, and gypsum have been up. Shipments to the United States (-10.4 per cent) and China (-34.4 per cent) have declined while rising only slightly to the European Union (+2.9 per cent).

Tourist and other visitor spending are estimated to have declined significantly in 2020 due to the COVID-19 pandemic. Associated sectors such as air transportation and transportation services, accommodation, arts, entertainment and recreation, and food services are among the most impacted from the drop in tourists in 2020. Overall, exports of services, including non-visitor services in the transportation of goods, financial, professional, and business services, are estimated to have declined 16.4 per cent in 2020.

**Inflation:** Inflation pressures have been modest in 2020 with energy prices declining in world markets. The Nova Scotia Consumer Price Index (CPI) increased 0.3 per cent in 2020 and the CPI-energy declined 12.1 per cent. CPI-food increased 2.7 per cent while CPI indices declined for household operations, furnishings, and equipment; clothing and footwear; transportation; and recreation, education, and reading.

## Nova Scotia Economic Outlook

The Nova Scotia economy is estimated to have contracted significantly in 2020, but is already exhibiting evidence of a strong V-shaped recovery for many sectors. Positive economic trends prior to the pandemic, trade expansion, and relatively lower COVID-19 cases all play a role in helping Nova Scotia's economy get back to its previous trends. All industries had to navigate the COVID-19 pandemic and global recession in 2020; however, less disruption to output is expected for some sectors: professional, scientific and technical services, finance and insurance, utilities, and public administration.

**Table 7.2 Nova Scotia Outlook for GDP by Industry**

(Compound annual growth rates, real GDP at basic prices)

	Share of GDP: 2019	Actual 2015-2019	Estimated 2019-2020	Projected 2020-2022
All industries	100.0	1.9	-5.3	4.0
Agriculture, forestry, fishing	3.4	-2.5	-17.8	7.8
Mining, oil, gas	0.8	6.3	1.0	2.3
Utilities	2.1	1.5	-4.2	1.8
Construction	5.9	4.5	-5.7	12.0
Manufacturing	7.6	3.4	-9.3	3.8
Wholesale trade	3.0	-0.3	-4.3	3.5
Retail trade	6.5	1.7	-9.9	5.4
Transportation	3.6	4.0	-14.0	4.6
Information, culture	3.0	2.7	-3.4	2.0
Finance, insurance	5.7	3.0	0.9	2.0
Real estate, rental, leasing	15.8	2.3	-0.1	2.5
Professional, technical	4.5	2.4	-0.6	2.5
Company management	0.2	-12.6	2.0	2.3
Administrative, support	2.1	-1.0	-8.9	3.1
Education	6.9	0.9	-5.0	3.5
Health care, social assistance	11.0	1.7	-3.3	2.8
Arts, entertainment, recreation	0.6	3.4	-44.0	31.6
Accommodation, food	2.7	3.2	-37.8	18.8
Personal, repair	2.1	2.4	-15.2	6.4
Public administration	12.6	1.0	0.4	1.4

Source: Statistics Canada. Table 36-10-0400-01 Gross domestic product (GDP) at basic prices, by industry, provinces and territories, percentage share, Table 36-10-0402-01 Gross domestic product (GDP) at basic prices, by industry, provinces and territories (x 1,000,000); Nova Scotia Department of Finance and Treasury Board projections Note: Real estate, rental, leasing includes the imputed rent on owner-occupied dwellings

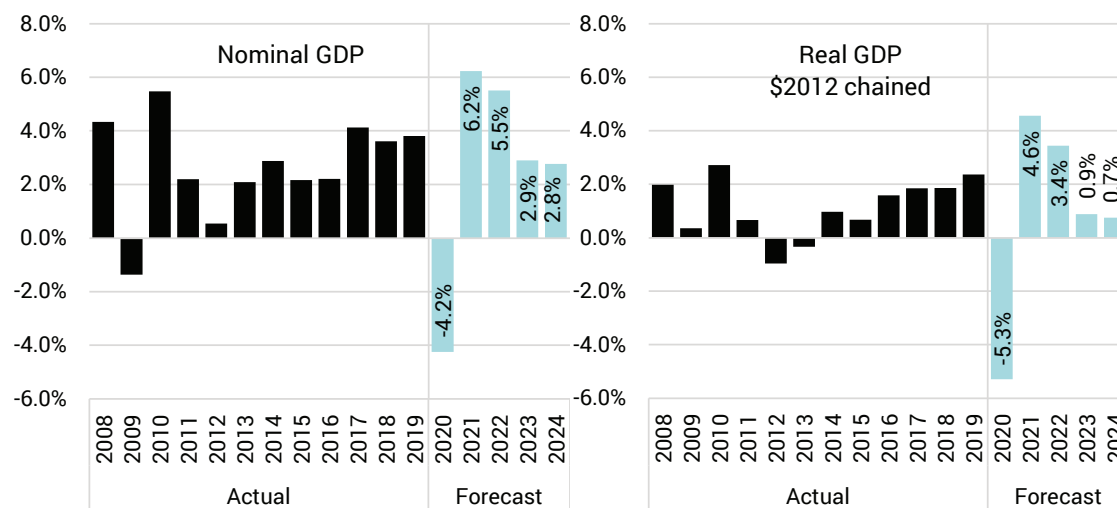
A robust economic recovery is expected for 2021 although there are elevated risks around this projection. Recovery in export markets, the vaccine rollout, and capital

projects should help to lift economic activity. The economic projections include as a cautious assumption that the COVID-19 pandemic and public health measures would restrict output for a limited period in 2021 – although not as prolonged or widespread as in 2020. Tourism spending is projected to take multiple years to fully recover, keeping related sectors in food services and accommodation, arts, entertainment and recreation, and transportation below pre-pandemic projections. Other service sectors are expected to be mostly recovered by the end of 2021 (Table 7.2).

With normalizing of conditions, job growth is expected to resume, and the need for fiscal stimulus programs will reduce over time. Residential construction is expected to grow 6.0 per cent with continued demand amid a growing population, a tight market, and low interest rates. Nova Scotia real GDP is projected to grow 4.6 per cent in 2021 with nominal GDP rising by 6.2 per cent (Chart 7.6).

**Chart 7.6 Nova Scotia's GDP Outlook**

(Annual change, GDP at market prices)



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

Economic growth in 2022 is projected to continue as the pandemic shock is expected to be largely over. Tourism and export activity are projected to grow due to global economic recovery and widespread vaccination. These developments will support further recovery in accommodation and food services, arts, entertainment and recreation, transportation, and manufacturing sectors. Population growth, normalizing businesses conditions, and expenditures on major capital projects are expected to bring real GDP back to pre-pandemic levels. The economic outlook projects nominal GDP growth of 5.5 per cent and real GDP growth of 3.4 per cent in 2022.

## 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 9, 2020, as well as fiscal and capital plans as of February 26, 2021. The private sector forecast is as of November 9, 2020.

**Table 7.3 Summary Budget Economic Forecast**

(Per cent change, nominal values, except where noted)

	2020	2021	2022
Real GDP (\$2012 chained)	-5.3	4.6	3.4
<i>Average of private sector forecasters: Real GDP</i>	-4.8	4.0	3.2
Nominal GDP	-4.2	6.2	5.5
<i>Average of private sector forecasters: Nominal GDP</i>	-3.7	5.7	5.1
Compensation of Employees	-2.7	3.2	4.9
Household Income	5.2	-1.5	3.3
Household Final Consumption	-5.4	5.3	5.4
Retail sales	-6.0‡	4.5	4.6
<i>Average of private sector forecasters: Retail sales</i>	-5.9	4.7	6.2
Consumer Price Index (all-items, Index 2002=100)	0.3‡	1.7	2.0
<i>Average of private sector forecasters: CPI</i>	0.3	1.7	2.4
Residential Investment	-7.6	6.0	2.4
Non-residential, Machinery, Intellectual Property	-4.5	8.0	7.4
Corporate net operating surplus	-16.7	9.7	15.1
Unincorporated net mixed income	3.4	1.6	4.2
Exports of goods and services	-14.5	8.1	8.8
Exports of goods to other countries	-14.8	7.1	9.1
Imports of goods and services	-7.7	4.6	4.9
Population at July 1 (000s, all ages)	979.4a	981.2	989.4
Population at July 1 (000s, 18–64)	604.6a	600.6	600.9
Labour force (000s)	491.8‡	496.7	503.1
Employment (000s)	443.7‡	456.6	465.3
<i>Average of private sector forecasters: Employment</i>	442.5	460.5	468.6
Unemployment rate (%)	9.8‡	8.1	7.5
<i>Average of private sector forecasters: Unemployment rate</i>	10.1	8.6	7.5

Source: Nova Scotia Department of Finance and Treasury Board

‡ 2020 figures as estimated using data up to November 9, 2020. Actuals for 2020 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 epidemiology of the COVID-19 pandemic is the key risk to the economic projections. Although this outlook makes assumptions about further impacts of COVID-19 in 2021, these are highly uncertain. The resurgence of new cases both domestically and abroad, as well as new variants of COVID-19, has elevated uncertainty going into 2021. Further increases in cases and additional public health measures would likely slow the economic recovery. Positive developments around containment, treatment, and widespread vaccine distribution would be supportive of growth.

Nova Scotia's economic outlook remains sensitive to external demand. The pace of recovery for our major trading partners remains a significant risk in the near term. US economic growth will be heavily influenced by the timing and size of federal stimulus. It is also uncertain how financial vulnerabilities will impact countries with elevated debt levels. Trade protectionism and restrictions on Canadian trade also have the potential to dampen exports. Canada–United States trade relations may be strained by the new US administration's Buy American agenda. The EU–United Kingdom Trade and Cooperation Agreement mitigates a key downside risk. Trade tensions remain unresolved between the United States and China, although economic recovery may take priority over renewed trade pressures.

Across Canada, household savings have increased sharply in 2020, reflecting limited opportunities to spend as well as precautionary savings. How and when these savings will be spent is uncertain. Changes in consumer preferences and business operations caused by COVID-19 may persist permanently, thus altering demand for products, changing production processes, as well as accelerating trends in e-commerce, remote work, and housing demand. The outlook for consumer spending is also sensitive to support programs and tourist spending.

Potential economic growth may have been "scarred" during the pandemic. Weaker labour market attachment, permanent business closures, elevated debt levels, and more cautious investment decisions may have long-term impacts on growth. Business investments could be slower than anticipated if insolvencies lead to tighter credit conditions and bank lending. Returning to pre-pandemic immigration and migration patterns has been incorporated into the forecast, but deviation from this could limit medium-term potential growth. There are also considerable uncertainties on the longer-term impacts of COVID-19 and policy on market structures and resource allocation.

Increased public and private investments are expected to be a major contributor to the economic recovery. However, the scale and timing of economic activity associated with major projects included in the outlook could change. Lower than anticipated

investments due to capacity and labour constraints, particularly in construction, present a downside risk to the economic outlook.

Additional fiscal support may be required and implemented to sustain economic recovery and promote a quicker return to full capacity. However, normalization of government balance sheets will eventually require that stimulus measures be withdrawn. Likewise, monetary policy in Canada and around the world has been eased, and accommodative conditions are expected going forward. The timing and extent of fiscal and monetary tightening are notable risks to the economic outlook.

Although Statistics Canada has undertaken significant new initiatives to measure the economic consequences of the pandemic, there have been lower response rates to surveys and changes in collection methods. This may create an elevated risk that future data revisions alter the economic dimensions of the pandemic.

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

Capital investment	\$288 million
Household final consumption	\$431 million
Resource sector output	\$299 million
Manufacturing sector output	\$423 million
Service sector output	\$247 million
Residential construction	\$314 million

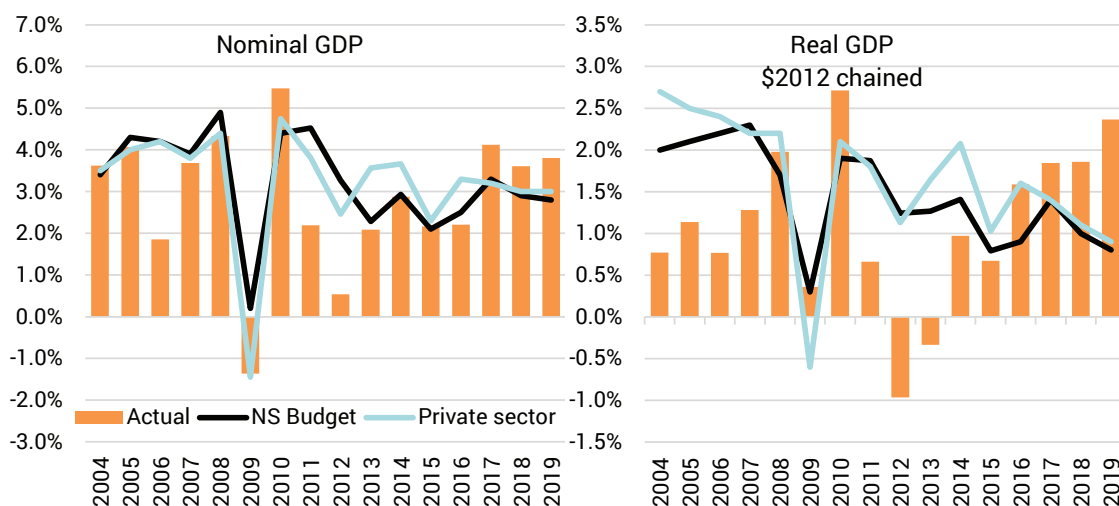
Source: Nova Scotia Department of Finance and Treasury Board



## 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 7.7.

**Chart 7.7 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, observed by 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.

## Economic Indicators

Key economic indicators for Nova Scotia for 2015 to 2022.

**Table 7.5 Nova Scotia Key Indicators**

	2015	2016	2017	2018	ACTUAL 2019
Gross domestic product at market prices (\$ millions current)	40,701	41,599	43,314	44,877	46,586
(% change)	2.2%	2.2%	4.1%	3.6%	3.8%
Gross domestic product at market prices (\$2012, chained millions)	38,429	39,038	39,757	40,496	41,453
(% change)	0.7%	1.6%	1.8%	1.9%	2.4%
Compensation of employees (\$ millions current)	21,782	21,911	22,681	23,946	24,676
(% change)	2.2%	0.6%	3.5%	5.6%	3.0%
Household income (\$ millions current)	39,932	40,223	41,802	43,424	44,682
(% change)	3.2%	0.7%	3.9%	3.9%	2.9%
Household final consumption expenditure (\$ millions current)	28,882	29,373	30,484	31,421	32,174
(% change)	0.7%	1.7%	3.8%	3.1%	2.4%
Retail sales (\$ millions current)	14,046	14,710	15,861	15,888	16,289
(% change)	0.2%	4.7%	7.8%	0.2%	2.5%
Consumer Price Index (all-items, Index 2002=100)	129.3	130.9	132.4	135.3	137.5
(% change)	0.4%	1.2%	1.1%	2.2%	1.6%
Business gross fixed capital formation: residential (\$ millions current)	2,577	2,744	2,984	3,205	3,641
(% change)	7.5%	6.5%	8.7%	7.4%	13.6%
Gross fixed capital formation: non-res., M&E, gov't, IP (\$ millions current)	5,457	5,958	5,870	6,395	6,136
(% change)	2.7%	9.2%	-1.5%	8.9%	-4.1%
Net operating surplus: corporations (\$ millions current)	2,342	2,673	3,082	2,793	3,347
(% change)	-7.8%	14.1%	15.3%	-9.4%	19.8%
Net mixed income: unincorporated (\$ millions current)	4,415	4,570	4,816	5,002	5,068
(% change)	3.0%	3.5%	5.4%	3.9%	1.3%
Exports of goods and services (\$ millions current)	14,987	14,989	15,637	16,664	17,383
(% change)	3.9%	0.0%	4.3%	6.6%	4.3%
Exports of goods to other countries (\$ millions current)	5,322	5,223	5,427	5,782	6,088
(% change)	6.0%	-1.9%	3.9%	6.5%	5.3%
Imports of goods and services (\$ millions current)	25,829	26,297	27,190	28,778	29,264
(% change)	2.0%	1.8%	3.4%	5.8%	1.7%
Population (all ages, 000s July 1)	936.5	942.8	950.1	958.4	969.7
(% change)	-0.2%	0.7%	0.8%	0.9%	1.2%
Population (ages 18-64, 000s July 1)	595.3	595.0	596.3	598.8	602.9
(% change)	-1.0%	0.0%	0.2%	0.4%	0.7%
Labour Force (000s)	490.2	486.6	490.1	493.1	502.3
(% change)	-0.3%	-0.7%	0.7%	0.6%	1.9%
Participation rate (%)	62.4	61.7	61.8	61.7	62.2
(change)	-0.4	-0.7	0.1	-0.1	0.5
Employment (000s)	448.1	446.2	449.0	455.9	466.1
(% change)	0.1%	-0.4%	0.6%	1.5%	2.2%
Employment Rate (%)	57.1	56.6	56.6	57.1	57.7
(change)	-0.1	-0.5	0.0	0.5	0.6
Unemployment Rate (%)	8.6	8.3	8.4	7.5	7.2
(change)	-0.4	-0.3	0.1	-0.9	-0.3

## ECONOMIC OUTLOOK

	FORECAST			ANNUAL AVERAGE	
	2020	2021	2022	2015-19	2020-22
Gross domestic product at market prices (\$ millions current)	44,607	47,387	49,995		
(% change)	-4.2%	6.2%	5.5%	3.4%	5.9%
Gross domestic product at market prices (\$2012, chained millions)	39,260	41,050	42,461		
(% change)	-5.3%	4.6%	3.4%	1.9%	4.0%
Compensation of employees (\$ millions current)	24,014	24,788	26,000		
(% change)	-2.7%	3.2%	4.9%	3.2%	4.1%
Household income (\$ millions current)	46,989	46,272	47,795		
(% change)	5.2%	-1.5%	3.3%	2.8%	0.9%
Household final consumption expenditure (\$ millions current)	30,451	32,065	33,785		
(% change)	-5.4%	5.3%	5.4%	2.7%	5.3%
Retail sales (\$ millions current)	15,307	16,003	16,739		
(% change)	-6.0%	4.5%	4.6%	3.8%	4.6%
Consumer Price Index (all-items, Index 2002=100)	137.9	140.3	143.1		
(% change)	0.3%	1.7%	2.0%	1.5%	1.8%
Business gross fixed capital formation: residential (\$ millions current)	3,365	3,566	3,652		
(% change)	-7.6%	6.0%	2.4%	9.0%	4.2%
Gross fixed capital formation: non-res., M&E, gov't, IP (\$ millions current)	5,861	6,330	6,798		
(% change)	-4.5%	8.0%	7.4%	3.0%	7.7%
Net operating surplus: corporations (\$ millions current)	2,789	3,059	3,521		
(% change)	-16.7%	9.7%	15.1%	9.3%	12.4%
Net mixed income: unincorporated (\$ millions current)	5,239	5,325	5,550		
(% change)	3.4%	1.6%	4.2%	3.5%	2.9%
Exports of goods and services (\$ millions current)	14,867	16,074	17,481		
(% change)	-14.5%	8.1%	8.8%	3.8%	8.4%
Exports of goods to other countries (\$ millions current)	5,186	5,556	6,063		
(% change)	-14.8%	7.1%	9.1%	3.4%	8.1%
Imports of goods and services (\$ millions current)	27,009	28,258	29,633		
(% change)	-7.7%	4.6%	4.9%	3.2%	4.7%
Population (all ages, 000s July 1)	979.4	981.2	989.4		
(% change)	1.0%	0.2%	0.8%	0.9%	0.5%
Population (ages 18-64, 000s July 1)	604.6	600.6	600.9		
(% change)	0.3%	-0.7%	0.1%	0.3%	-0.3%
Labour Force (000s)	491.8	496.7	503.1		
(% change)	-2.1%	1.0%	1.3%	0.6%	1.1%
Participation rate (%)	60.3	60.8	61.0	62.0	60.9‡
(change)	-1.9	0.5	0.2		
Employment (000s)	443.7	456.6	465.3		
(% change)	-4.8%	2.9%	1.9%	1.0%	2.4%
Employment Rate (%)	54.4	55.9	56.4	57.0	56.2‡
(change)	-3.3	1.5	0.5		
Unemployment Rate (%)	9.8	8.1	7.5	8.0	7.8‡
(change)	2.6	-1.7	-0.6		

Source: Nova Scotia Department of Finance and Treasury Board ‡ 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 \$16.5 billion as of March 31, 2021 (Table 8.1). Against this gross financial market debt are financial assets held in mandatory sinking funds (\$1,153.0 million) and liquidity sinking fund (\$941.1 million) plus holdings of Nova Scotia Municipal Finance Corporation (NSMFC) debt (\$744.9 million) plus advances to the Halifax-Dartmouth Bridge Commission (HDBC) (\$151.0 million). These assets total \$2,990.0 million and are subtracted from gross financial market debt to result in an expected net financial market debt of \$13.5 billion on March 31, 2021. 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. The COVID-19 pandemic and recession in 2020 resulted in the province having to borrow more monies in 2020–21 to fund the budgetary deficit and capital stimulus spending initiatives. This trend is expected to continue for some years. This Budget shows that the government intends to post a budgetary deficit of \$584.9 million in 2021–22 followed by declining deficits in the next two fiscal years, with the expectation of the province being back to a balanced budget in 2024–25. By way of background, the province had posted surpluses in the fiscal years 2016–17 to 2019–20.

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 all provinces given the elevated level of borrowing resulting from the COVID-19 pandemic and global recession. The Province of Nova Scotia has a comparatively modest borrowing program for the 2021–22 fiscal year. While there has been a strengthening of the American and global economies in the latter part of 2020, administered interest rates are expected to remain at low levels for the next number of years.

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.

**Table 8.1 Projected Gross and Net Financial Market Debt**

(\$ millions)	2020-21 Estimate	2020-21 Forecast	2021-22 Estimate	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate
<b>Gross Debt</b>						
Opening Balance	15,828.1	15,828.1	16,517.6	16,874.7	16,740.7	17,090.1
Borrowing Program	1,521.4	2,223.5	2,204.7	1,761.3	1,337.2	880.8
Debt Retirement	(1,080.8)	(1,080.8)	(1,715.8)	(1,734.2)	(851.4)	(859.1)
Change in other unfunded debt	(111.4)	(453.2)	(131.8)	(161.0)	(136.4)	(98.2)
<b>Closing Balance</b>	<b>16,157.2</b>	<b>16,517.6</b>	<b>16,874.7</b>	<b>16,740.7</b>	<b>17,090.1</b>	<b>17,013.5</b>
<b>Mandatory Sinking Funds</b>						
Opening Balance	1,092.3	1,094.0	1,153.0	677.6	---	---
Installments	17.9	17.9	10.0	28.2	---	---
Earnings	46.7	41.1	26.5	3.1	---	---
Sinking Fund withdrawals	---	-	(512.0)	(708.8)	---	---
<b>Closing Balance</b>	<b>1,156.9</b>	<b>1,153.0</b>	<b>677.6</b>	<b>---</b>	<b>---</b>	<b>---</b>
<b>Discretionary Funds</b>						
Opening Balance	930.0	930.1	941.1	949.6	959.8	973.0
Installments	---	---	---	---	---	---
Earnings	18.7	11.1	8.4	10.2	13.2	13.2
Fund Withdrawals	---	---	---	---	---	---
<b>Closing Balance</b>	<b>948.7</b>	<b>941.1</b>	<b>949.6</b>	<b>959.8</b>	<b>973.0</b>	<b>986.2</b>
<b>NSMFC / HDBC Assets</b>						
Opening Balance	922.0	922.0	895.9	764.2	603.1	466.7
Repayments	(111.4)	(116.4)	(131.8)	(161.0)	(136.4)	(98.2)
Advances to NSMFC	---	90.4	---	---	---	---
Advances to HDBC	---	---	---	---	---	---
<b>Closing Balance</b>	<b>810.6</b>	<b>895.9</b>	<b>764.2</b>	<b>603.1</b>	<b>466.7</b>	<b>368.5</b>
<b>Net Financial Market Debt</b>	<b>13,241.0</b>	<b>13,527.5</b>	<b>14,483.4</b>	<b>15,177.8</b>	<b>15,650.4</b>	<b>15,658.9</b>

In 2020–21, the province estimates there was a \$643.7 million increase in net financial market debt outstanding in financial markets due to the budgetary deficit, the net acquisition of tangible capital assets, and many other non-cash items that contributed to the rise in financial market debt. The province estimates that net financial market debt in financial markets will increase by about \$955.9 million in 2021–22 primarily due to the budgetary deficit, and 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 2020–21, all three rating agencies confirmed the province’s credit rating with a stable outlook. Table 8.2 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 8.2 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	Aa2
Newfoundland & Labrador	A(low)(neg)	A(neg)	A1(neg)
New Brunswick	A(high)	A+	Aa2
Quebec	AA(low)	AA-	Aa2
Ontario	AA(low)	A+	Aa3
Manitoba	A(high)	A+	Aa2
Saskatchewan	AA(low)	AA	Aaa(neg)
Alberta	AA(low)(neg)	A+(neg)	Aa3
British Columbia	AA(high)	AAA(neg)	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 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 estimates the budgetary deficit in 2020–21 was \$705.5 million and expects to post a budgetary deficit of \$584.9 million in 2021–22. The Department of Finance and Treasury Board continues to borrow monies each year in capital markets to fund these budgetary deficits, refinance existing debt, 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.

**2020–21 Borrowing Completed:** In the fiscal year 2020–21, the province borrowed \$2,150 million (\$2,223.5 million in proceeds) compared to term debt borrowing requirements of \$1,521.4 million estimated in the Budget. The latter estimate was prepared prior to the global outbreak of COVID-19. In the domestic public market, the Department of Finance and Treasury Board issued \$300 million in 30-year debentures with a coupon rate of 3.15 per cent, although the actual yield-to-maturity on the issue was 2.11 per cent as the bond was issued above par value; \$300 million in 10-year debentures with a coupon rate of 2.00 per cent; and \$500 million in 7-year debentures with a coupon rate of 1.10 per cent.

In April 2020, the department also issued two fixed interest rate bonds by way of private placement of \$515.0 million in the three-year term with a 1.10 per cent coupon rate, and \$535.0 million in the five-year term with a 1.35 per cent coupon rate. The province did not pre-borrow for the 2021–22 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.

**2021–22 Annual Borrowing:** Projected term debt borrowing requirements for fiscal year 2021–22 is expected to be \$2,204.7 million (Table 8.3), relatively unchanged from the previous year. There are numerous cash versus accrual adjustments (non-budgetary

## BORROWING AND DEBT MANAGEMENT

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; instead of those requirements in 2021–22 are \$476.5 million. The remaining non-budgetary adjustments are primarily related to non-cash interest charges on unfunded pension liabilities and post-employment benefits, repayment to the Sable Offshore Energy Project interest holders of previous over-payment of royalties, 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 2021–22 but draws attention to the fact that these funds total \$941.1 million.

**Table 8.3 Projected Borrowing Requirements**

(\$ millions)

	2020-21 Estimate	2020-21 Forecast	2021-22 Estimate	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate
Budgetary (surplus)/deficit	(55.0)	705.5	584.9	217.5	175.6	(10.5)
Net Capital Advances	83.5	47.5	117.3	50.0	50.0	50.0
NS MFC Net Advances	(111.4)	(21.0)	(125.8)	(154.0)	(128.4)	(90.2)
HDBC Net Advances	(5.0)	(5.0)	(6.0)	(7.0)	(8.0)	(8.0)
Tangible Capital Assets: Net Cash	437.7	529.3	476.5	594.9	583.9	286.0
Other Non-Budgetary Transactions	7.6	(183.7)	(91.0)	(7.0)	(200.5)	(218.8)
<b>Cash Operating Requirements</b>	<b>357.4</b>	<b>1,072.6</b>	<b>955.9</b>	<b>694.4</b>	<b>472.6</b>	<b>8.5</b>
<b>Cash Debt Retirement</b>	<b>1,080.8</b>	<b>1,080.8</b>	<b>1,715.8</b>	<b>1,734.2</b>	<b>851.4</b>	<b>859.1</b>
Mandatory Sinking Fund Income	46.7	41.1	26.5	3.1	---	---
Mandatory Sinking Fund Contributions	17.9	17.9	10.0	28.2	---	---
Mandatory Sinking Fund Withdrawals	---	-	(512.0)	(708.8)	---	---
<b>Net Mandatory Sinking Fund Requirements</b>	<b>64.6</b>	<b>59.0</b>	<b>(475.5)</b>	<b>(677.5)</b>	<b>---</b>	<b>---</b>
Discretionary Fund Income	18.7	11.1	8.4	10.2	13.2	13.2
Discretionary Fund Contributions	---	---	---	---	---	---
Discretionary Fund Withdrawals	---	---	---	---	---	---
<b>Net Discretionary Fund Requirements</b>	<b>18.7</b>	<b>11.1</b>	<b>8.4</b>	<b>10.2</b>	<b>13.2</b>	<b>13.2</b>
Total Requirements:	1,521.4	2,223.5	2,204.7	1,761.3	1,337.2	880.8
<b>Total Borrowing Requirements</b>	<b>1,521.4</b>	<b>2,223.5</b>	<b>2,204.7</b>	<b>1,761.3</b>	<b>1,337.2</b>	<b>880.8</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 2020–21 are estimated to have been \$47.5 million, down from the Budget Estimate of \$83.5 million. For fiscal year 2021–22, net capital advances are forecast to be \$117.3 million.

The 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, 2021, held a portfolio of \$744.9 million NSMFC debentures in the General Revenue Fund, down from \$766.0 million from a year earlier as the NSMFC did not have a fall debenture issue in 2020–21. The NSMFC also provided municipalities with an operating line of credit during the global COVID-19 pandemic to offset expected declines in municipal tax revenues. On March 31, 2021, municipalities had drawn \$47.5 million for this lending facility against an authorized program limit of \$380 million.

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 8.1). Much the same as the NSMFC asset portfolio, the financial market debt issued by the province under its own name to fund the re-decking of the Angus L. Macdonald Bridge is netted against the loan provided to the Halifax-Dartmouth Bridge Commission.

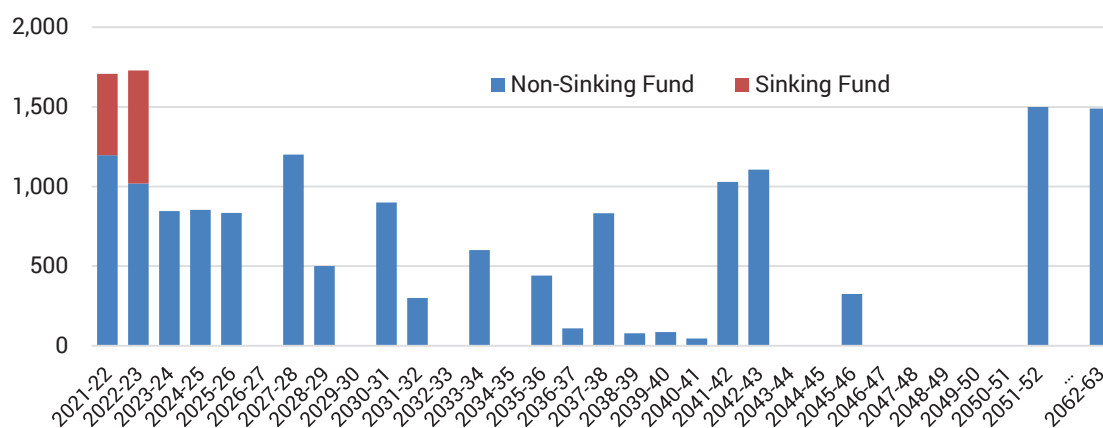
The province maintains documentation with the Securities and Exchange Commission in the United States to provide access to the US and global bond markets. Although Nova Scotia maintains documentation to borrow in foreign markets, the domestic Canadian debt market is expected to be the primary source of funding for the province's borrowing program in 2021–22. 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, 2021, consisted of Canadian fixed-coupon marketable debentures, floating interest rate marketable debentures, three foreign currency denominated fixed-coupon marketable debentures (all issues are hedged to Canadian dollars), Canada Pension Plan non-marketable debentures, capital leases (\$129.3 million) on public-private-partnership schools, the Halifax Convention Centre, and a correctional facility, and net short-term promissory notes. Chart 8.1 displays the maturity profile of the province’s debenture debt portfolio (\$16.5 million).

**Chart 8.1 General Revenue Fund Debt Portfolio: Debenture Debt Maturity Schedule**

(\$ millions)



The province’s debenture portfolio is shown for those debt issues that have no mandatory sinking fund provisions (\$15,291.4 million), and the four remaining debentures issues that have a mandatory sinking fund contribution by way of bond covenant (\$1,220.1 million). The province has no debt issues outstanding with put options.

As of March 31, 2021, the average term to maturity of the gross debenture portfolio was 13.7 years, down from 14.4 years one year ago. The average term to maturity fell in 2020–21 as the province issued shorter-dated term 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, 2021, the estimated book value of the mandatory sinking fund and liquidity fund was \$2,094.2 million, of which \$1,153.0 million was held in mandatory sinking funds established by way of bond covenant, and \$941.1 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.

As of March 31, 2021, 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 on 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 to external parties is \$787.8 billion 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.

## 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. Net debt provides a measure of the future revenues required to pay for past transactions and events. Surpluses reduce the Net Debt of the province while deficits and net capital spending increase the Net Debt. Net Debt is larger than Net Financial Market Debt as it includes future obligations and nets non-marketable assets.

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 37.4 per cent on March 31, 2021, up from 32.7 per cent a year earlier. Table 8.4 presents the projected Net Debt over the fiscal plan.

**Table 8.4 Projected Net Debt**

(\$ millions)

	2020-21 Estimate	2020-21 Forecast	2021-22 Estimate	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate
<b>Net Debt - Opening Balance</b>	<b>15,181.3</b>	<b>15,242.4</b>	<b>16,680.3</b>	<b>17,975.7</b>	<b>19,198.2</b>	<b>20,286.0</b>
Add (Deduct):						
Provincial Deficit (Surplus)	(55.0)	705.5	584.9	217.5	175.6	(10.5)
Increase in the Net Book Value of Tangible Capital Assets	589.6	732.4	710.4	1,005.0	912.1	918.7
Change in Net Debt	534.5	1,437.9	1,295.4	1,222.5	1,087.8	908.2
<b>Net Debt - Closing Balance</b>	<b>15,715.8</b>	<b>16,680.3</b>	<b>17,975.7</b>	<b>19,198.2</b>	<b>20,286.0</b>	<b>21,194.2</b>

## Debt Servicing Costs

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

In addition, gross debt servicing costs also supports the General Revenue Fund's on-lending activities to Crown corporations. That is, the General Revenue Fund incurs interest charges on long-term debt obligations that have been borrowed on behalf of Crown corporations such as the NSMFC and Farm Loan Board. The General Revenue Fund earns interest on those monies lent to Crown corporations and other investments in amounts of \$77.0 million in the 2020–21 forecast, and \$71.0 million in the 2021–22

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)

	2020-21 Estimate	2020-21 Forecast	2021-22 Estimate	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate
Interest on Long-term Debt	638.4	619.4	586.8	563.3	597.0	605.1
General Interest	10.0	3.1	2.7	7.4	10.3	12.0
Interest on Pension, Retirement and other obligations	110.0	120.0	121.4	125.7	130.1	134.7
<b>Gross Debt Servicing Costs</b>	<b>758.4</b>	<b>742.5</b>	<b>710.9</b>	<b>696.4</b>	<b>737.4</b>	<b>751.8</b>
Less: Sinking Fund Earnings	(65.4)	(52.2)	(34.9)	(13.3)	(13.2)	(13.2)
<b>Net Debt Servicing Costs</b>	<b>693.0</b>	<b>690.3</b>	<b>676.0</b>	<b>683.1</b>	<b>724.2</b>	<b>738.6</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

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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.

