Budget
2016–2017

Working together for a stronger Nova Scotia

NOVA SCOTIA

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1. Introduction

Budget 2016–2017

Working together for a stronger Nova Scotia

Budget 2016–2017 focuses on the things that truly matter to Nova Scotians: growing our economy, opportunities for youth and workers, education and health care.

Government is making strategic investments that will make a difference in the lives of Nova Scotians, creating opportunities through education and job training to expand and strengthen our workforce, ensuring access to efficient, effective home care and health care services, and providing supports for vulnerable Nova Scotians that have positive impacts over the long term.

Our priorities in the 2016–2017 budget are

- Opportunities For Growth
- Investing In Youth, Education, And Job Training
- Supporting Nova Scotians Who Need It Most
- Healthy People, Healthy Economy

Government is investing in sectors across our province that can capitalize on our natural advantages and have strong potential to innovate, expand their workforces, and grow our economy.

Government is able to make these investments as a result of our commitment, over the past two years, to manage spending and sharpen our focus on our core service responsibilities. Through a disciplined approach to our foundational priority of **Responsible Fiscal Management**, we have continued to operate within our fiscal plan.

That hard work is paying off, positioning Nova Scotia for a better economic future. Government is committed to working together with Nova Scotians, providing opportunities for success to our workers, and demonstrating compassion to vulnerable citizens who need our support. Some of the many investments in the Budget 2016–2017 include

- Launch of a multi-year redevelopment of the Queen Elizabeth II Health Sciences Centre, enhancing care for patients across Nova Scotia and Atlantic Canada.
- An expansion of the Graduate to Opportunity program to help our youth acquire “first jobs” that launch their careers
- Partner with the private sector to create 600 co-op positions for students to provide valuable work experience
- Redesigned employment and career development services that focus on front-line assistance for workers
- Increased investment in early years and education, including enhanced day care services, smaller class sizes in our schools, improved curriculum in math and language arts, and continued supports for post-secondary students
- More investment in home care services to assist Nova Scotians as they age
- Investments in aquaculture, the wine industry, the creative economy, and transportation infrastructure
- Additional funding to address health care wait times
- Launch a multi-year redevlopment of the QEII Health Sciences Centre, enhancing care for patients across the province and region
- Help for women at risk, people with disabilities, and vulnerable citizens
- High-speed Internet for more homes and businesses in rural Nova Scotia

We are committed to our path to achieve fiscal sustainability, providing short-term opportunities and achieving long-term outcomes that will grow our population and our economy. Working together, we will provide a better future for all Nova Scotians.

2. Budget Overview

The Province of Nova Scotia is tabling a budget in fiscal year 2016–2017 with an estimated surplus of $127.4 million, and a net position of $17.1 million, after the Contribution to Fiscal Capacity for a Provincial Health Complex (Table 2.1).

The province is projecting a surplus in each year of the four year fiscal plan.

Table 2.1 Budget Summary – Statement of Operations

($ thousands)

General Revenue Fund	2015-2016 Estimate	2015-2016 Forecast	2016-2017 Estimate
Revenues			
Ordinary Revenue	9,036,661	8,963,319	9,329,495
Ordinary Recoveries	531,238	550,189	552,529
Net Income from Government Business Enterprises	352,109	379,621	382,228
Total Revenues	9,920,008	9,893,129	10,264,252
Expenses			
Departmental Expenses	8,910,013	8,850,456	9,100,049
Refundable Tax Credits	150,968	120,658	137,602
Pension Valuation Adjustment	90,654	129,898	66,251
Debt Servicing Costs	872,612	854,711	841,712
Total Expenses	10,024,247	9,955,723	10,145,614
Consolidation and Accounting Adjustments for Government Units			
General Revenue Fund Consolidation Adjustments	11,435	(10,936)	12,553
Special Purpose Funds	(1,769)	651	81
Other Organizations	(3,002)	1,673	(3,861)
	6,664	(8,612)	8,773
Provincial Surplus (Deficit)	(97,575)	(71,206)	127,411
Contribution to Fiscal Capacity for Provincial Health Complex	---	---	(110,300)
Net Position	(97,575)	(71,206)	17,111

Total revenues for 2016–2017 are projected to be $10.3 billion, an increase of $344.2 million or 3.5 per cent over 2015–2016. This revenue increase is attributable to a $234.8 million or 3.9 per cent increase in provincial source revenues, a $58.1 million or 1.9 per cent increase in federal source revenues, a $21.3 million or 4.0 per cent increase in Ordinary Recoveries, and $30.1 million or 8.6 per cent increase in Net Income from Government Business Enterprises.

Total revenues for 2016–2017 reflect the Government of Canada and Halifax Regional Municipality's (HRM) capital contributions to the new Halifax Convention Centre. The capital cost of the project is being split between the three levels of government. The Public Sector Accounting Board (PSAB) Accounting Standard 3410 requires the recognition of the federal and municipal governments' capital commitments to the development of the Convention Centre at the date of substantial completion (planned by the developer for February 2017). At this date, there is no further performance obligation on the province to earn this revenue, and so it must be recognized as revenue at this time. This was included in and was subject to the Revenue Review conducted by the Office of the Auditor General (Section 4).

The Government of Canada and HRM's contributions totaling $110.3 million are reflected in the Tangible Capital Assets (TCA) revenue included in the 2016–2017 budget, of which $58.9 million reflects HRM's contribution and $51.4 million reflects the Government of Canada's contribution.

The province is not spending the $110.3 million in 2016–2017. This creates additional fiscal capacity for future years, by keeping the net debt of the province lower than it otherwise would have been. This avoids increasing program spending, based on one-time revenues, and creating future fiscal pressures. If the $110.3 million in one-time funding was added to program spending, in future years, without associated revenue, operating surpluses would be lower and deficits would be higher than they otherwise would have been.

Total expenses for fiscal year 2016–2017 before consolidation and accounting adjustments are budgeted at $10.1 billion, up $121.4 million from a $10.0 billion total in 2015–2016. Departmental Expenses are projected to increase by $190.0 million or 2.1 per cent (Table 2.2).

Table 2.2 Budget Summary – Highlights

($ thousands)

	Estimate 2015-2016	Forecast 2015-2016	Estimate 2016-2017
Total Revenues	9,920,008	9,893,129	10,264,252
Total Expenses	10,024,247	9,955,723	10,145,614
Consolidation Adjustments	6,664	(8,612)	8,773
Provincial Surplus (Deficit)	(97,575)	(71,206)	127,411
Contribution to Fiscal Capacity for Provincial Health Complex	---	---	(110,300)
Net Position	(97,575)	(71,206)	17,111
Provincial Revenue Sources			
Personal Income Tax	2,524,962	2,563,526	2,671,599
Corporate Income Tax	493,193	451,053	466,644
Harmonized Sales Tax	1,761,253	1,765,779	1,814,007
Motive Fuel Tax	262,276	257,816	271,718
Tobacco Tax	217,792	215,990	227,252
Other Tax Revenue	158,855	157,972	158,745
Registry of Motor Vehicles	126,949	129,265	127,534
Royalties - Petroleum	19,405	15,270	10,508
Other Provincial Sources	142,609	148,887	146,136
TCA Cost Shared Revenue	1,750	1,953	59,900
Other Fees and Charges	63,176	61,620	61,978
Prior Years' Adjustments	---	(86,813)	---
Interest Revenues	79,031	86,221	77,901
Sinking Fund Earnings	99,549	101,172	91,660
Ordinary Recoveries	317,269	332,956	332,074
Net Income from Government Business Enterprises	352,109	379,621	382,228
Total - Provincial Sources	6,620,178	6,582,288	6,899,884
Federal Revenue Sources			
Equalization Payments	1,768,921	1,777,759	1,738,321
Canada Health Transfer	896,863	895,694	942,770
Canada Social Transfer	341,579	341,134	348,901
Offshore Accord Offset Payments	36,779	36,779	33,255
Crown Share	7,437	3,966	1,427
Other Federal Sources	2,319	3,399	6,115
TCA Cost Shared Revenue	31,963	31,078	73,124
Prior Years' Adjustments	---	3,799	---
Ordinary Recoveries	213,969	217,233	220,455
Total - Federal Sources	3,299,830	3,310,841	3,364,368
Expenses			
Agriculture	61,536	60,936	60,217
Business	114,143	121,688	137,450
Communities, Culture and Heritage	61,837	64,302	81,689
Community Services	915,410	922,525	929,957
Education and Early Childhood Development	1,244,607	1,245,454	1,279,532
Energy	30,160	30,138	29,597
Environment	25,343	25,143	36,800
Finance and Treasury Board	14,415	13,072	22,782
Fisheries and Aquaculture	9,883	9,883	12,464
Health and Wellness	4,137,741	4,113,856	4,132,209
Internal Services	180,300	177,658	185,447
Justice	327,593	327,593	330,388
Labour and Advanced Education	362,931	362,910	364,271
Assistance to Universities	376,084	376,034	380,605
Municipal Affairs	167,474	159,591	184,383
Natural Resources	82,983	83,346	76,487
Public Service	200,947	199,249	205,869
Seniors	1,496	1,454	1,598
Transportation and Infrastructure Renewal	419,277	433,909	460,766
Restructuring Costs	175,853	121,715	187,538
Refundable Tax Credits	150,968	120,658	137,602
Pension Valuation Adjustment	90,654	129,898	66,251
Debt Servicing Costs	872,612	854,711	841,712
Total - Expenses	10,024,247	9,955,723	10,145,614

Nova Scotia's economy is projected to have grown by 0.8 per cent in real terms during 2015. Nominal Gross Domestic Product (GDP) growth was limited by lower consumer prices to an estimated 2.1 per cent. For 2016, the economic outlook indicates that Nova Scotia's real GDP will grow by 0.9 per cent. This will be followed by growth of 0.8 per cent in 2017. Nominal GDP growth is expected to accelerate to 2.5 per cent in 2016 and 2.7 per cent in 2017. Trends emerging in 2015 are expected to continue through 2016.

The Net Debt of the province is expected to be $15.1 billion for the year ending 2015–2016 and $15.2 billion for the year ending 2016–2017.

The total net debt is forecast to be below the level set in Budget 2015–2016 by $4 million for the 2015–2016 fiscal year. By the end of 2016–2017, the debt is expected to be $106 million lower than the 2015–2016 budget projection.

The debt-to-GDP ratio for 2015–2016 will be 37.9 per cent instead of the 36.3 per cent projected in Budget 2015 because of a revision to historical GDP values by Statistics Canada (Chart 3.3). The ratio is expected to decline to 37.1 per cent for 2016–2017 (Table 2.3).

Table 2.3 Budget Summary – Net Debt/Gross Domestic Product

($ billions)

	2015-2016 Estimate	2015-2016 Forecast	2016-2017 Estimate
Net Debt	15.1	15.1	15.2
Nominal GDP	41.6	39.9	40.9
Net Debt to GDP (ratio)	36.3%	37.9%	37.1%

Budget 2016–2017 presents a balanced budget, on-course with Government's fiscal plan towards achieving long-term fiscal sustainability. The province's improving fiscal health provides opportunities for strategic investments to be made. However, the province is still vulnerable to economic events and other factors outside of its control.

3. Four Year Fiscal Plan 2016–2020

The Four-Year Fiscal Plan indicates that government will achieve it's business plan goal of balancing the budget. The province is on course to achieve a sustainable cost of government and making progress towards achieving fiscal sustainability, through surpluses in each year of the four-year fiscal plan.

Table 3.1 Fiscal Projections 2016–2017 to 2019–2020

($ millions)

General Revenue Fund	2015-2016 Estimate	2015-2016 Forecast	2016-2017 Estimate	2017-2018 Estimate	2018-2019 Estimate	2019-2020 Estimate
Revenue						
Ordinary Revenue	9,036.7	8,963.3	9,329.5	9,451.7	9,696.1	9,890.0
Ordinary Recoveries	531.2	550.2	552.5	544.1	544.3	544.8
Net Income Government Business Enterprises	352.1	379.6	382.2	377.7	377.0	380.1
Total Revenue	9,920.0	9,893.1	10,264.3	10,373.5	10,617.4	10,814.9
Expenses						
Departmental Expenses	8,910.0	8,850.5	9,100.0	9,317.5	9,491.5	9,656.1
Refundable Tax Credits	151.0	120.7	137.6	128.5	121.9	119.9
Pension Valuation Adjustment	90.7	129.9	66.3	59.4	60.5	75.5
Debt Servicing Costs	872.6	854.7	841.7	853.2	870.5	836.8
Total Expenses	10,024.2	9,955.7	10,145.6	10,358.6	10,544.3	10,688.3
Consolidation and Accounting Adjustments for Governmental Units	6.7	(8.6)	8.8	5.9	5.9	5.9
Provincial Surplus (Deficit)	(97.6)	(71.2)	127.4	20.8	79.0	132.5
Contribution to Fiscal Capacity for Provincial Health Complex	-	-	(110.3)	-	-	-
Net Position	(97.6)	(71.2)	17.1	20.8	79.0	132.5
Net Debt	15,118	15,114	15,189	15,213	15,175	15,081
Nominal GDP	41,646	39,897	40,902	42,007	43,226	44,181
Debt to GDP Ratio	36.3%	37.9%	37.1%	36.2%	35.1%	34.1%

Budget 2016–2017 projects a surplus of $127.4 million with a net position of $17.1 million, after the Contribution to Fiscal Capacity for a Provincial Health Complex. The $127.4 million surplus projected in 2016–2017 creates $110.3 million in additional fiscal capacity. Removing the funding from the operating budget and allocating for future fiscal requirements ensures the one-time revenue is not built into ongoing annual spending.

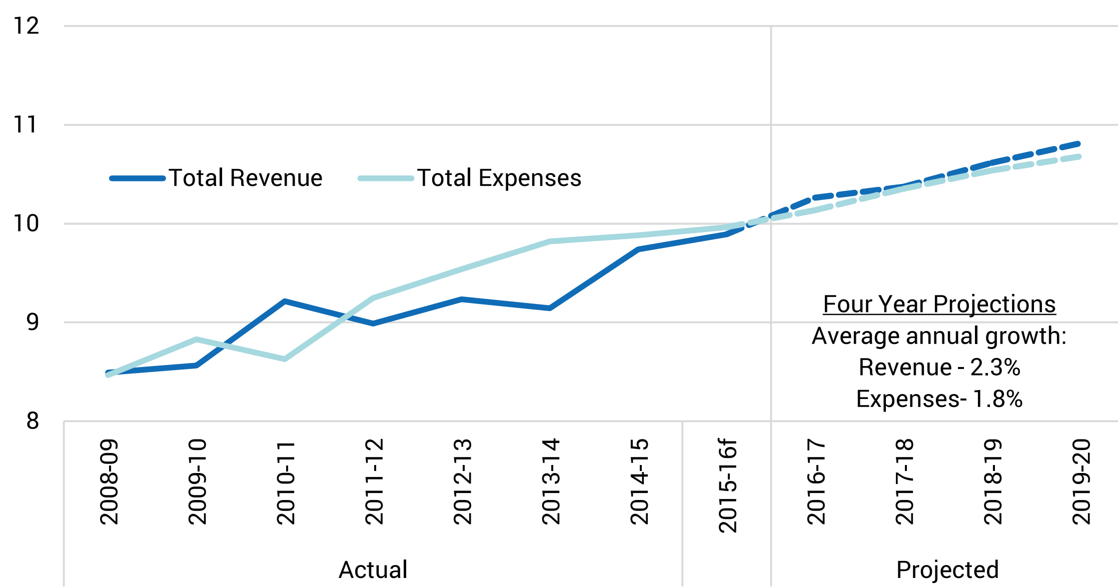
The Government of Nova Scotia has improved its fiscal health since 2013–2014 and is currently projecting balanced budgets throughout its four-year planning horizon. The Government is projecting modest surpluses over the next four years of its fiscal plan.

These projected surpluses are indicative of a more sustainable fiscal plan. The debt arising from operating deficits (Accumulated Deficits) is expected to reduce by $360 million between 2016 and 2020. The Net Debt, which includes operating deficits and net capital spending, will increase by $75.5 million in 2016–2017, stabilize at $15.2 billion in 2017–2018, then begin to decline in 2018–2019. The net debt is expected to decline by $108 million over the four-year planning horizon.

Revenue and Expense

For 2016–2017, total revenue is estimated to grow by 3.5 per cent compared to the 2015–2016 estimate (3.8 per cent over the final 2015–2016 Forecast). Average annual growth in total revenue is projected to be 2.3 per cent over the four-year fiscal period (Chart 3.1).

Chart 3.1 Projected Revenues and Expenses 2016–2017 to 2019–2020



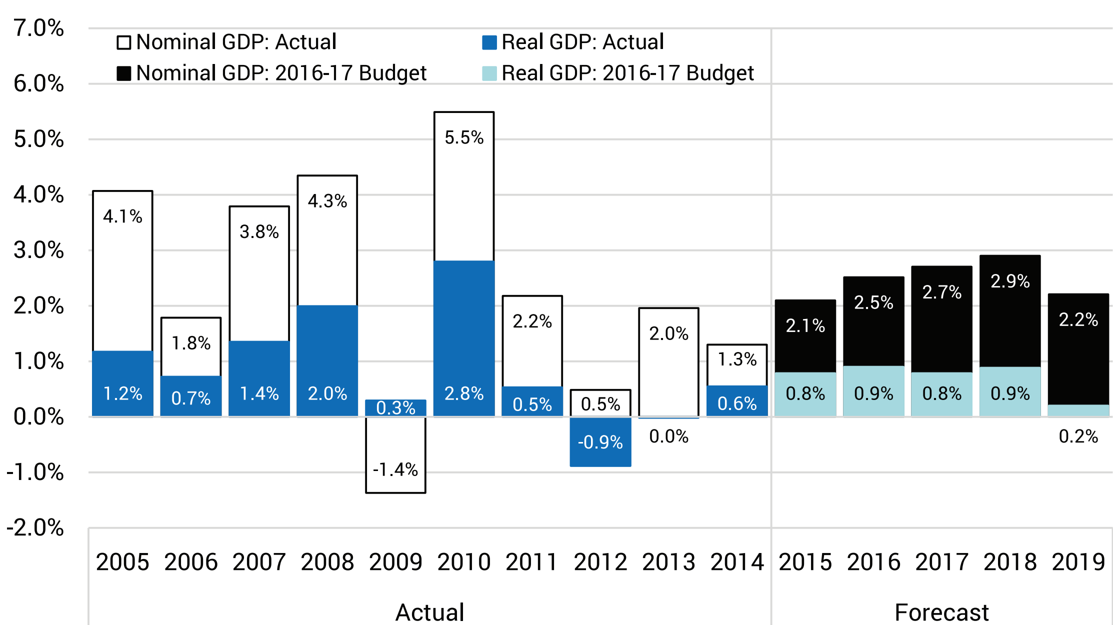
Total Expenses, including consolidation and accounting adjustments, are projected to increase by 1.2 per cent compared to the 2015–2016 estimate (1.7 per cent from the final Forecast). Average annual growth in total expenses is projected to be 1.8 per cent over the four-year fiscal period. It is these growth rates, revenue growing faster than spending, that allow the province to be in a surplus position from 2016–2017 to 2019–2020 as projected.

The growth of future revenue is projected at a slower rate over the following three years of the four-year plan, slowing to 1.1 per cent in 2017–2018. Prospects for revenue growth are primarily related to three sources: personal income tax, corporate income tax, and sales tax (HST). All three are heavily dependent upon an improving economy. Growth in federal transfer revenues will remain relatively flat for the foreseeable future, primarily as a result of the province's declining share of the national population and lower revenues for the offshore accord and cumulative best-of guarantee payments.

Medium-Term Economic Outlook

The province's medium-term economic outlook forms the basis for revenue projections as well as the benchmark for assessing the relative size of government and debt. Any five-year economic projection is subject to forecast uncertainty, especially beyond the short term. Nova Scotia's economic growth is expected to accelerate between 2016 to 2018, reflecting stable growth in real output and a modest rise in prices. Nominal GDP growth is projected to reach 2.9 per cent by 2018, with real GDP rising by 0.9 per cent (Chart 3.2). In the short term, economic growth is being driven by increasing exports and completion of major projects. A short-term rise in labour supply may allow for small gains in employment. In the longer term, growth remains constrained by the effects of an aging population on labour supply. Slower growth in 2019 reflects assumptions about the end of some major projects.

Chart 3.2 Nova Scotia's Medium-Term Economic Outlook



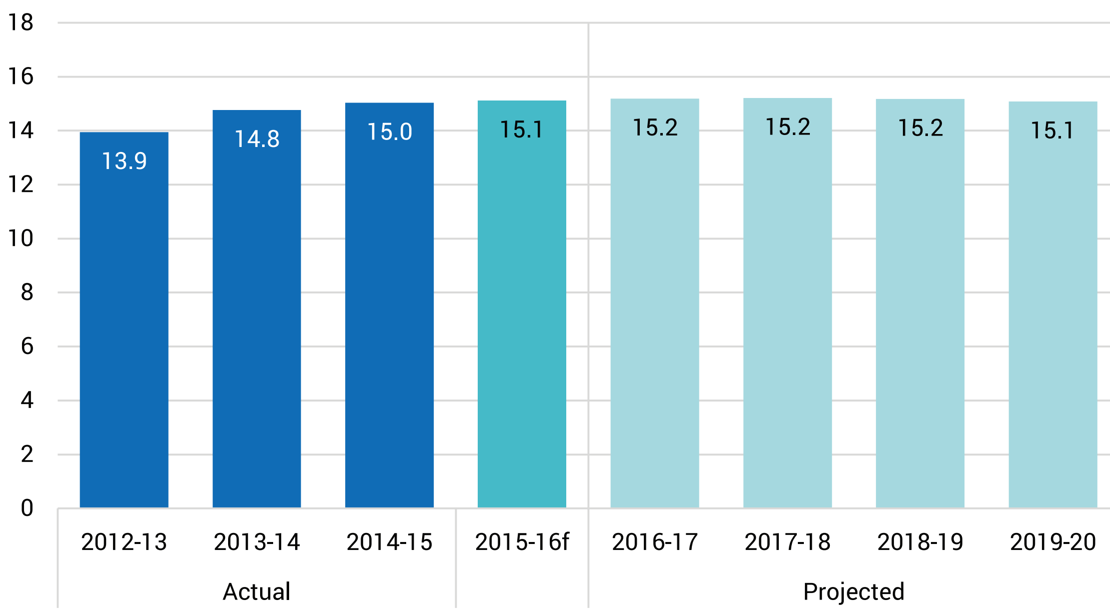
Source: Statistics Canada, CANSIM table 384-0038, Nova Scotia Department of Finance and Treasury Board

Debt

The Net Debt of the province is expected to be $15.1 billion for the year ended 2015–2016 and $15.2 billion for the year ending 2016–2017. The Debt is expected to peak at $15.2 billion and then begin to decline in 2018–2019 (Chart 3.3). The total net debt is forecast to be below projection set in Budget 2015 by $4 million for 2015–2016 and by the end of 2016–2017 is expected to be $106 million lower.

Chart 3.3 Projected Net Debt

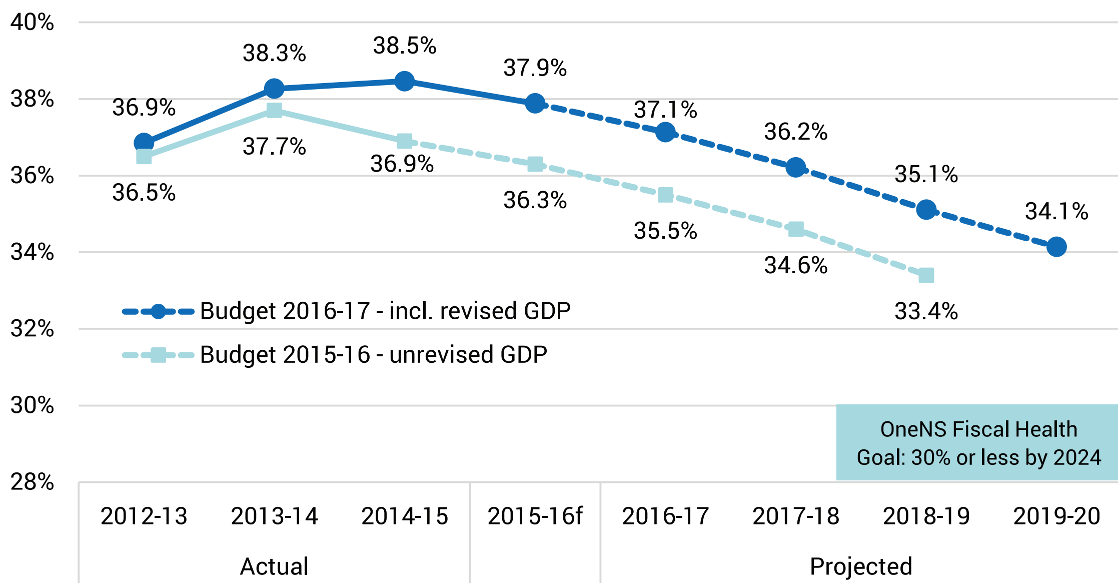
($billions)



The Government of Nova Scotia continues to place emphasis on improving its debt position, both in real terms and relative to gross domestic product (GDP).

In 2015, Statistics Canada restated its actual calculations of nominal GDP for all Canadian provinces from 1981 to 2013. This revision had the result of decreasing Nova Scotia's forecast of GDP by more than $1.4 billion in 2015. These changes impacted Nova Scotia's debt-to-GDP ratio by about 1.6 percentage points. As a result the expected debt-to-GDP ratio for 2015–2016 will be 37.9 per cent instead of the 36.3 per cent projected in Budget 2015 (Chart 3.4). Although the restatement had the effect of raising the level, it did not impact the downward sloping direction of the trend line. Although debt is expected to increase slightly, the position relative to GDP is stable with a downward trend.

Chart 3.4 Ratio of Net Debt to Gross Domestic Product



Nova Scotia's debt-to-GDP ratio continues its stable downward trend and is still on track towards meeting the One Nova Scotia Coalition's suggested goal of 30 per cent or less by 2024. The debt-to-GDP ratio is the most widely recognized measure of government financial sustainability, and by this measure Nova Scotia's financial sustainability is improving.

In comparison to last year's Budget 2015–2016 Four-Year Fiscal Plan the surplus of $127.4 million is $104.8 million higher than was expected for 2016–2017 and the net debt of the province is expected to be $106 million lower by the end of 2016–2017 than was projected in Budget 2015.

Fiscal Capacity for Provincial Health Complex

Nova Scotia's financial picture has improved through a disciplined approach to fiscal planning, which has held spending growth down. It is because of this fiscal discipline that the Four-Year Fiscal Plan is balanced for each year of the plan.

The recognition of the federal and municipal contributions to the Halifax Convention Centre, as one-time TCA revenue in 2016–2017, has created $110.3 million in additional fiscal capacity in 2016–2017. This additional capacity provides flexibility within the fiscal plan for future priorities that may not have been funded otherwise. When considering the $127.4 million surplus projected in 2016–2017, it is important to recognize that $110.3 million relates to one-time funding and should not be considered as ongoing operating revenue. Budget 2016–2017 recognizes the $110.3 million as one-time revenue which government has decided not to use for ongoing spending, but to create fiscal capacity for the future.

4. Report of the Auditor General on Estimates of Revenue

Report to the House of Assembly

The following pages provide the Auditor General of Nova Scotia's Report, as required by the Auditor General Act.

5161 George Street
Royal Centre, Suite 400
Halifax, Nova Scotia
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Auditor General of Nova Scotia

Report of the Auditor General to the House of Assembly on the Estimates of Revenue for the fiscal year ending March 31, 2017 used in the preparation of the April 19, 2016 Budget.

To the House of Assembly

I am required by section 20 of the Auditor General Act to provide an opinion on the reasonableness of the estimates of revenue used in the preparation of the annual budget address of the Minister of Finance and Treasury Board to the House of Assembly.

The estimates of revenue for the fiscal year ending March 31, 2017 are the responsibility of the Department of Finance and Treasury Board and have been prepared by departmental management using assumptions with an effective date of March 30, 2016 or earlier (including economic assumptions dated January 22, 2016). I have examined the support provided by departmental management for the assumptions and the preparation and presentation of the revenue estimates in the amount of $11,150,346,000 as described in the financial forecast of Revenues By Source (the 2016-17 revenue estimates as presented in Table 4.1 of the Nova Scotia Budget 2016-17), and which consists of revenue estimates of $10,264,252,000 in the General Revenue Fund, and an estimate of revenue from third parties in certain government entities of $886,094,000 (Table 4.2). My examination was made in accordance with the applicable Assurance and Related Services Guideline set out in the CPA Canada Handbook - Assurance. I have no responsibility to update this report for events and circumstances occurring after the date of my report.

In my opinion:

- as at the date of this report, the assumptions used by departmental management are suitably supported and consistent with the plans of the government, and provide a reasonable basis for the 2016-17 revenue estimates;
- the 2016-17 revenue estimates as presented reflect such assumptions; and
- the 2016-17 revenue estimates comply with presentation and disclosure standards set out in CPA Canada Handbook - Accounting.

Since the 2016-17 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 revenue estimates will be achieved. My examination did not include, and my opinion does not cover, the budget speech and Government's overall estimated results including the 2016-17 expense estimates. My opinion also does not cover prior years' forecast or actual information provided for comparative purposes.

Michael Pickup, CPA, CA
Auditor General of Nova Scotia

Halifax, Nova Scotia
April 18, 2016

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Table 4.1 Revenues By Source

($ thousands)

General Revenue Fund: Revenues	2016-2017 Estimate
Ordinary Revenue - Provincial Sources	
Tax Revenue:	
Personal Income Tax	2,671,599
Corporate Income Tax	466,644
Harmonized Sales Tax	1,814,007
Motive Fuel Tax	271,718
Tobacco Tax	227,252
Other Tax Revenue	158,745
	5,609,965
Other Provincial Revenue:	
Registry of Motor Vehicles	127,534
Royalties - Petroleum	10,508
Other Provincial Sources	146,136
TCA Cost Shared Revenue - Provincial Sources	59,900
Other Fees and Charges	61,978
	406,056
Investment Income:	
Interest Revenues	77,901
Sinking Fund Earnings	91,660
	169,561
Total - Provincial Sources	6,185,582
Ordinary Revenue - Federal Sources	
Equalization Payments	1,738,321
Canada Health Transfer	942,770
Canada Social Transfer	348,901
Offshore Oil and Gas Payments	33,255
Crown Share	1,427
Other Federal Sources	6,115
TCA Cost Shared Revenue Federal Sources	73,124
Total - Federal Sources	3,143,913
Total - Revenues	9,329,495
Ordinary Recoveries	
Provincial Sources	332,074
Federal Sources	220,455
Total - Ordinary Recoveries	552,529
Net Income from Government	
Business Enterprises (GBE)	
Nova Scotia Liquor Corporation	234,022
Nova Scotia Provincial Lotteries and Casino Corporation	127,700
Halifax-Dartmouth Bridge Commission	12,098
Highway 104 Western Alignment Corporation	8,408
Total - Net Income from GBE	382,228
Total - Revenues of the General Revenue Fund	10,264,252 [1]
Total Third Party Revenue of Governmental Units (Schedule 2B)	886,094
Total - Revenue of the Province	11,150,346

1: Total Revenue of the General Revenue Fund is the balance that is carried through the Estimates of the province. It is the budget of the General Revenue Fund that is the responsibility of the House of Assembly. The activities of the Governmental Units are effectively presented as off-sets against the expenses of their respective governmental units within the “Consolidation and Accounting Adjustments for Governmental Units.” See Table 4.2 for further explanation of the Total Third Party Revenue of Governmental Units.

Table 4.2 Governmental Unit Third Party Revenues

($ thousands)

Governmental Unit Third Party Revenues	2016-2017 Estimate	
Regional School Boards and Nova Scotia Community College	383,761	
Provincial Health Authority and IWK	259,209	
Housing Nova Scotia	139,690	
Resource Recovery Fund Board	50,365	
Trade Centre Limited	9,133	
Nova Scotia Business Incorporated	2,896	
Nova Scotia Utility and Review Board	3,400	
Nova Scotia E911	6,171	
Waterfront Development Corporation	3,797	
Governmental Units with third party revenue less than $2.5 Million	27,672	
Total Governmental Unit Third Party Revenues	886,094	2

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

5. Budget 2016–2017

Budget 2016–2017's fiscal outlook provides the final forecast update for Budget 2015–2016 and the Budget Estimate for 2016–2017. The Province of Nova Scotia is forecasting a deficit of $71.2 million in 2015–2016.

Looking forward, the province is projecting a balanced budget in 2016–2017, with a surplus of $127.4 million, with a net position of $17.1 million, after contributing to fiscal capacity for a provincial health complex (Section 2). This section presents more detail on revenues by source, total expenses, and the estimated value of tax credits, rebates, and tax expenditures.

2015–2016 Budget Forecast Update

The Forecast Update provides updated information about the major components of revenue and expenses as set out in 2015–2016 Budget Estimates.

The Province of Nova Scotia is forecasting a deficit of $71.2 million for the year ended March 31, 2016, which is a decrease of $26.4 million from the budgeted deficit of $97.6 million (Table 5.1).

The difference is the result of Total Revenue being $26.9 million lower than expected and Total Expenses being $68.5 million lower than expected, and changes to Consolidation and Accounting Adjustments.

Table 5.1 2015–2016 Budget Forecast Update

General Revenue Fund ($ thousands)

	2015-2016 Estimate	2015-2016 Forecast	Increase (Decrease) from Estimate
Revenue			
Ordinary Revenues	9,036,661	8,963,319	(73,342)
Ordinary Recoveries	531,238	550,189	18,951
Net Income from Government Business Enterprises	352,109	379,621	27,512
Total Revenue	9,920,008	9,893,129	(26,879)
Expenses			
Departmental Expenses	8,910,013	8,850,456	(59,557)
Refundable Tax Credits	150,968	120,658	(30,310)
Pension Valuation Adjustment	90,654	129,898	39,244
Debt Servicing Costs	872,612	854,711	(17,901)
Total Expenses	10,024,247	9,955,723	(68,524)
Consolidation and Accounting Adjustments	6,664	(8,612)	(15,276)
Provincial Surplus (Deficit)	(97,575)	(71,206)	26,369

2015–2016 Revenues: Total Revenue is forecasted to be $9.89 billion.

Relative to the 2015–2016 Budget Estimates, tax revenue is forecasted to be lower by $6.2 million than the 2015–2016 Budget Estimates, as a $42.1 million projected decline in Corporate Income Tax is mostly offset by a projected increase of $38.6 million in Personal Income Tax.

Other Provincial Revenues are forecasted to decline by $83.7 million as a result of prior year adjustments of $86.8 million mostly related to offshore royalties. Investment earning are forecasted to increase by $8.8 million primarily due to the implications of recognizing interest on amortized incentive loans from the jobs fund. Net Income from Government Business Enterprises is forecasted to increase by $27.5 million due to forecasted increases for all enterprises, and Ordinary Recoveries are also forecasted to increase by $19.0 million.

2015–2016 Expenses: Total Expenses are forecasted to be $9.96 billion.

Total Departmental Expenses are forecasted to decline by $59.6 million, relative to the 2015–2016 Budget Estimates. This is primarily due to decreases at the departments of Health and Wellness ($23.9 million), Internal Services ($2.6 million), Municipal Affairs ($7.9 million), and Restructuring Costs ($54.1 million). These decreases are partially offset by forecasted increases for the departments of Business ($7.5 million), Communities, Culture and Heritage ($2.5 million), Community Services ($7.1 million), and Transportation and Infrastructure Renewal ($14.6 million).

For Other Expenses, Refundable Tax Credits are forecasted to decline by $30.3 million primarily as a result of positive Prior Year Adjustments for 2013–2014 and 2014–2015. The Pension Valuation Adjustment is forecasted to increase by $39.2 million as a result of Long Service Award Changes. Debt Servicing Costs are forecasted to decline by $17.9 million as a result of interest rates not rising as anticipated and reduced pension debt servicing costs.

2015–2016 Consolidation and Accounting Adjustments: Overall changes in Consolidation adjustments are forecasted to result in a $15.3 million negative impact to the provincial deficit position relative to the 2015–2016 Budget Estimates.

Budget 2016–2017: Revenue Outlook

In 2016–2017, Nova Scotia's total revenues in its General Revenue Fund are estimated to be $10,264.3 million (Section 2). This is an increase of $344.2 million or 3.5 per cent from the 2015–2016 budget estimate and an increase of $371.1 million or 3.8 per cent compared to the 2015–2016 forecast.

Total Revenue from all provincial sources including Ordinary Recoveries and Net Income form Government Business Enterprises contributes 67.2 per cent of all revenue in 2016–2017, and the provincial share is projected to increase to 67.9 per cent by 2019–2020. Revenue from federal sources is anticipated to be relatively flat with an estimated average annual growth of 1.1 per cent between 2016–2017 and 2019–2020, and a share of 31.9 per cent of revenues by 2019–2020.

Table 5.2 provides financial statistics of the Revenues by Source by amount and as a percentage of total revenues, and a breakdown of revenues by the four main sources. Chart 5.1 provides a visual breakdown of Revenues by Source.

Provincial Own-Source Revenues in 2016–2017 are expected to be $6,186 million. This is an increase of $234.8 million or 3.9 per cent from the 2015–2016 budget estimate and an increase of $315.9 million or 5.4 per cent from the 2015–2016 forecast.

Federal Source Revenues are projected to be $3,144 million in 2016–2017, an increase of $58.1million or 1.9 per cent from the 2015–2016 budget estimate; an increase of $50.3 million or 1.6 per cent, from the 2015–2016 forecast.

Ordinary Recoveries from provincial sources are up $14.8 million or 4.7 per cent from the 2015–2016 budget estimate; down $0.9 million or 0.3 per cent compared to the 2015–2016 forecast. Ordinary Recoveries from federal sources are up $7.0 million or 3.0 per cent from the 2015–2016 budget estimate; up $3.2 million or 1.5 per cent from the 2015–2016 forecast.

Net Income from Government Business Enterprises is up $30.1 million or 8.6 per cent from the 2015–2016 budget estimate; up $2.6 million or 0.7 per cent from the 2015–2016 forecast.

Table 5.2 2016–2017 Revenues by Source

($ thousands)

General Revenue Fund: Revenues	2012-2013 Actual (as restated)	2013-2014 Actual (as restated)	2014-2015 Actual	2015-2016 Forecast	2016-2017 Estimate
Ordinary Revenue - Provincial Sources					
Tax Revenue:					
Personal Income Tax	2,142,547	2,192,826	2,349,723	2,563,526	2,671,599
Corporate Income Tax	429,493	425,894	474,031	451,053	466,644
Harmonized Sales Tax	1,648,664	1,660,056	1,702,427	1,765,779	1,814,007
Motive Fuel Tax	243,446	246,800	248,274	257,816	271,718
Tobacco Tax	206,287	217,229	206,255	215,990	227,252
Other Tax Revenue	150,432	161,581	155,087	157,972	158,745
	4,820,869	4,904,386	5,135,797	5,412,136	5,609,965
Other Provincial Revenue:					
Registry of Motor Vehicles	113,434	120,506	123,032	129,265	127,534
Royalties - Petroleum	22,748	20,732	30,019	15,270	10,508
Other Provincial Sources	135,467	139,347	130,498	148,887	146,136
Offshore Licenses Forfeitures	100	100	---	---	---
TCA Cost Shared Revenue - Provincial Sources	9,131	16,953	8,564	1,953	59,900
Other Fees and Charges	68,679	59,996	62,249	61,620	61,978
Prior Years' Adjustments - Provincial Sources	57,667	(258,483)	110,207	(86,813)	---
Gain on Disposal of Crown Assets	15,389	4,631	4,767	---	---
	422,615	103,782	469,336	270,182	406,056
Investment Income:					
Interest Revenues	76,251	77,093	83,660	86,221	77,901
Sinking Fund Earnings	111,146	111,470	103,892	101,172	91,660
	187,397	188,563	187,552	187,393	169,561
Total - Provincial Sources	5,430,881	5,196,731	5,792,685	5,869,711	6,185,582
Ordinary Revenue - Federal Sources					
Equalization Payments	1,578,829	1,718,183	1,750,653	1,777,759	1,738,321
Canada Health Transfer	795,017	829,861	852,161	895,694	942,770
Canada Social Transfer	322,957	327,379	334,007	341,134	348,901
Offshore Accord Offset Payments	146,059	89,461	64,481	36,779	33,255
Crown Share	12,916	4,577	14,058	3,966	1,427
Other Federal Sources	18,262	15,300	3,620	3,399	6,115
TCA Cost Shared Revenue - Federal Sources	24,470	22,485	21,950	31,078	73,124
Prior Years' Adjustments - Federal Sources	(840)	3,212	8,963	3,799	---
Total - Federal Sources	2,897,670	3,010,458	3,049,893	3,093,608	3,143,913
Total - Ordinary Revenue	8,328,551	8,207,189	8,842,578	8,963,319	9,329,495
Ordinary Recoveries -					
Provincial Sources	303,963	347,606	340,653	332,956	332,074
Federal Sources	247,434	262,065	203,972	217,233	220,455
Total - Ordinary Recoveries	551,397	609,671	544,625	550,189	552,529
Net Income from Government Business Enterprises (GBE)					
Nova Scotia Liquor Corporation	226,386	228,246	227,986	236,920	234,022
Nova Scotia Provincial Lotteries and Casino Corporation	113,418	108,991	110,033	124,900	127,700
Halifax-Dartmouth Bridge Commission	11,640	12,285	9,033	14,111	12,098
Highway 104 Western Alignment Corporation	1,956	1,640	4,114	3,690	8,408
QE2 Health Sciences	955	95	229	---	---
Total - Net Income from GBE	354,355	351,257	351,395	379,621	382,228
Total - Revenues	9,234,303	9,168,117	9,738,598	9,893,129	10,264,252

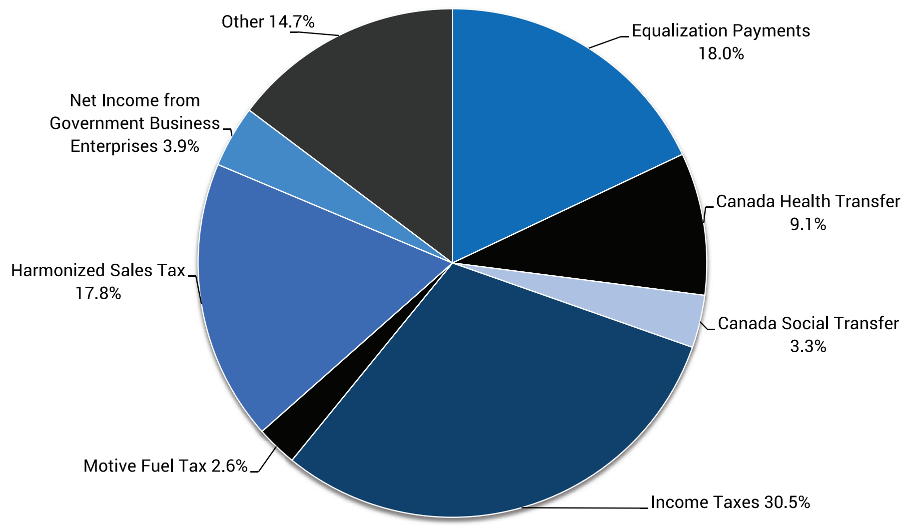
Table 5.3 2016–2017 Revenues by Source

(as a percentage of Total Revenue)

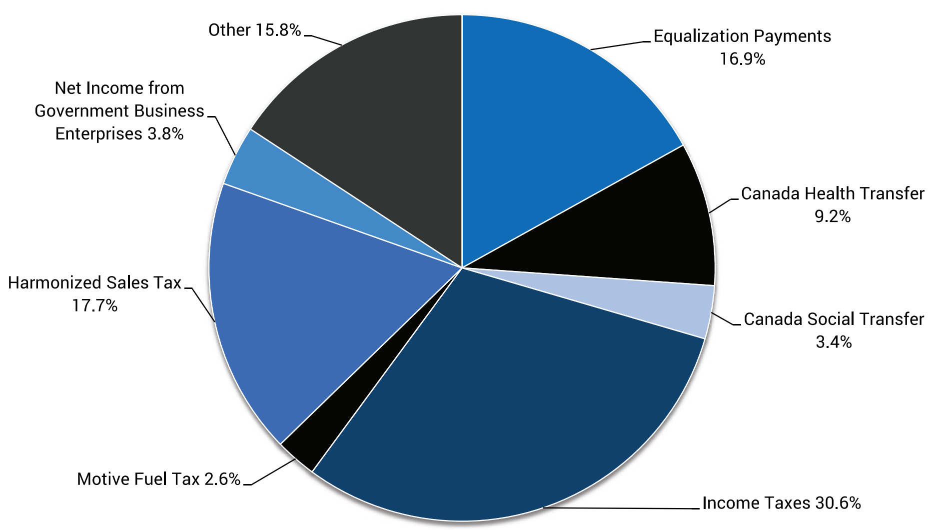
General Revenue Fund: Revenues	2012-2013 Actual (as restated)	2013-2014 Actual (as restated)	2014-2015 Actual	2015-2016 Forecast	2016-2017 Estimate
Ordinary Revenue - Provincial Sources					
Tax Revenue:					
Personal Income Tax	23.2%	23.9%	24.1%	25.9%	26.0%
Corporate Income Tax	4.7%	4.6%	4.9%	4.6%	4.5%
Harmonized Sales Tax	17.8%	18.1%	17.5%	17.8%	17.7%
Motive Fuel Tax	2.6%	2.7%	2.5%	2.6%	2.6%
Tobacco Tax	2.2%	2.4%	2.2%	2.2%	2.2%
Other Tax Revenue	1.6%	1.8%	1.6%	1.6%	1.4%
	52.1%	53.5%	52.8%	54.7%	54.6%
Other Provincial Revenue:					
Registry of Motor Vehicles	1.2%	1.3%	1.3%	1.3%	1.2%
Royalties - Petroleum	0.2%	0.2%	0.3%	0.2%	0.1%
Other Provincial Sources	1.5%	1.5%	1.4%	1.5%	1.4%
Offshore Licenses Forfeitures	0.0%	0.0%	---	---	---
TCA Cost Shared Revenue - Provincial Sources	0.1%	0.2%	0.1%	0.0%	0.6%
Other Fees and Charges	0.7%	0.7%	0.6%	0.6%	0.6%
Prior Years' Adjustments - Provincial Sources	0.6%	-2.8%	1.1%	-0.9%	---
Gain on Disposal of Crown Assets	0.2%	0.1%	0.0%	---	---
	4.6%	1.1%	4.9%	2.7%	4.0%
Investment Income:					
Interest Revenues	0.8%	0.8%	0.9%	0.9%	0.8%
Sinking Fund Earnings	1.2%	1.2%	1.1%	1.0%	0.9%
	2.0%	2.1%	1.8%	1.9%	1.7%
Total - Provincial Sources	58.7%	56.7%	59.6%	59.3%	60.2%
Ordinary Revenue - Federal Sources					
Equalization Payments	17.1%	18.7%	18.0%	18.0%	16.9%
Canada Health Transfer	8.6%	9.1%	8.7%	9.1%	9.2%
Canada Social Transfer	3.5%	3.6%	3.4%	3.3%	3.4%
Offshore Accord Offset Payments	1.6%	1.0%	0.7%	0.4%	0.3%
Crown Share	0.1%	0.0%	0.1%	0.0%	0.0%
Other Federal Sources	0.2%	0.2%	0.0%	0.0%	0.1%
TCA Cost Shared Revenue - Federal Sources	0.3%	0.2%	0.2%	0.3%	0.7%
Prior Years' Adjustments - Federal Sources	0.0%	0.0%	0.1%	0.0%	---
Total - Federal Sources	31.4%	32.8%	31.2%	31.2%	30.6%
Total - Ordinary Revenue	90.1%	89.5%	90.8%	90.5%	90.8%
Ordinary Recoveries -					
Provincial Sources	3.3%	3.8%	3.5%	3.4%	3.2%
Federal Sources	2.7%	2.9%	2.1%	2.2%	2.1%
Total - Ordinary Recoveries	6.0%	6.6%	5.6%	5.6%	5.4%
Net Income from Government Business Enterprises (GBE)					
Nova Scotia Liquor Corporation	2.4%	2.5%	2.3%	2.5%	2.3%
Nova Scotia Provincial Lotteries and Casino Corporation	1.2%	1.2%	1.1%	1.3%	1.3%
Halifax-Dartmouth Bridge Commission	0.1%	0.1%	0.1%	0.1%	0.1%
Highway 104 Western Alignment Corporation	0.0%	0.0%	0.0%	0.0%	0.1%
QE2 Health Sciences	0.0%	0.0%	0.0%	---	---
Total - Net Income from GBE	3.7%	3.8%	3.6%	3.9%	3.8%
Total - Revenues	100.0%	100.0%	100.0%	100.0%	100.0%

Chart 5.1 Revenues By Source 2015–2016 Forecast and 2016–2017 Budget

2015–2016 Forecast



2016–2017 Estimate



Ordinary Revenue – Provincial Sources – Tax Revenue

Personal Income Tax (PIT)

Nova Scotia's 2016–2017 estimate for personal income tax is $2,671.6 million, up $108.1 million or 4.2 per cent compared to the 2015–2016 forecast.

Personal taxable income is projected to grow by $788.2 million to $29.6 billion in 2016 — an increase of 2.7 per cent; and grow to $30.3 billion in 2017 — an increase of 2.6 per cent. This is primarily as a result of growth in household income in 2016 (+2.6 per cent) and in 2017 (+2.5 per cent).

Yield on personal taxable income is projected to be 9.02 per cent in 2016 and 9.15 per cent in 2017, which represents growth rates of 1.5 per cent in both years. Yield growth on personal taxable income in 2014 (+4.8 per cent) was stronger than expected and contributes to higher levels in successive years.

Growth in personal income tax revenues is partially offset by higher than projected costs for the Age Amount tax credit for low income seniors, and a decrease in revenues with the elimination of the federal Universal Child Care Benefit on July 1, 2016.

Corporate Income Tax (CIT)

Nova Scotia's 2016–2017 estimate for corporate income tax is $466.9 million, up $15.8 million or 3.5 per cent compared to the 2015–2016 forecast.

National corporate taxable income is projected to grow by $10.6 billion or 3.7 per cent in 2016 to $295.4 billion and by $8.6 billion or 2.9 per cent to $303.9 billion in 2017. Effective from the 2014–2015 Public Accounts, the province calculates its share of national corporate taxable income on a three-year moving average of actual share rates. For 2016–2017 the province's share is 1.5 per cent. Nova Scotia's corporate taxable income in 2016 is estimated to be $4.3 billion, growing to $4.5 billion in 2017.

The effective tax rate (yield) on corporate taxable income for the province is 10.69 per cent, down from 11.52 per cent in 2013. The small business share of taxable income has risen to 40.8 per cent from 36.9 per cent in 2013.

Harmonized Sales Tax (HST)

Net Harmonized Sales Tax is estimated to total $1,814.0 million in 2016–2017 up $48.2 million or 2.7 per cent compared to the 2015–2016 forecast.

The increase in HST revenues is largely attributable to growth in the consumer expenditure tax base. The province's total tax base for taxable goods and services is projected to grow by $536.0 million or 2.7 per cent to $20.8 billion in 2016 and by $457.6 million or 2.2 per cent to $21.2 billion in 2017. Growth in the consumer expenditure base is forecasted to be 2.7 per cent in 2016 and 3.2 per cent in 2017. Consumer expenditures represent over 70 per cent of the HST tax base.

Following a rebound in 2015 the pace of growth in taxable residential housing expenditures is expected to grow by 3.1 per cent in 2016 but decline by 3.5 per cent in 2017 — partially offsetting revenue growth. The rebate on residential energy (Your Energy Rebate Program) is expected to total $110.4 million in 2016–2017.

Tobacco Tax

Tobacco tax revenues are projected to total $227.3 million in 2016–2017, up $11.3 million or 5.3 per cent over the 2015–2016 forecast.

A tobacco tax increase of $0.02 per unit together with an increase of the tax rate on cigars, effective April 20, 2016, will generate an additional $15.8 million in 2016–2017. This is partially offset by falling demand for cigarettes and fine cut tobacco, projected to decline by 2.2 per cent and 6.3 per cent respectively. Prices for tobacco products are expected to increase by 1.5 per cent in 2016–2017 accompanied by the long-term decline in smoking.

Motive Fuel Taxes

Motive fuel taxes are projected to total $271.7 million in 2016–2017, an increase of $13.9 million or 5.4 per cent compared to the 2015–2016 forecast.

Gasoline consumption is estimated to rise by 5.9 per cent to 1.32 billion litres in 2016–2017, while the consumption of diesel oil is estimated to increase by 3.1 per cent to 436 million litres in 2016–2017.

Moderating gasoline and diesel oil prices are contributing to the increase in consumption, aided by an increase in labour income by 2.6 per cent over 2015–2016.

Other Tax Revenue

Other Tax Revenue includes such items as Corporations Capital Tax, Casino Win Tax, Levy on Private Sale of Used Vehicles, Tax on Insurance Premiums, and Gypsum Tax. The total for these items is estimated to be $158.7 million for 2016–2017, down $0.1 million or 0.1 per cent from the 2015–2016 budget estimate; up $0.8 million or 0.5 per cent from the 2015–2016 forecast.

Ordinary Revenue – Provincial Sources – Other Provincial Revenue

Registry of Motor Vehicles

Revenue generated by the Registry of Motor Vehicles is estimated to be $127.5 million for 2016–2017, up $0.6 million or 0.5 per cent from the 2015–2016 estimate; a decrease of $1.7 million or 1.3 per cent from the 2015–2016 forecast.

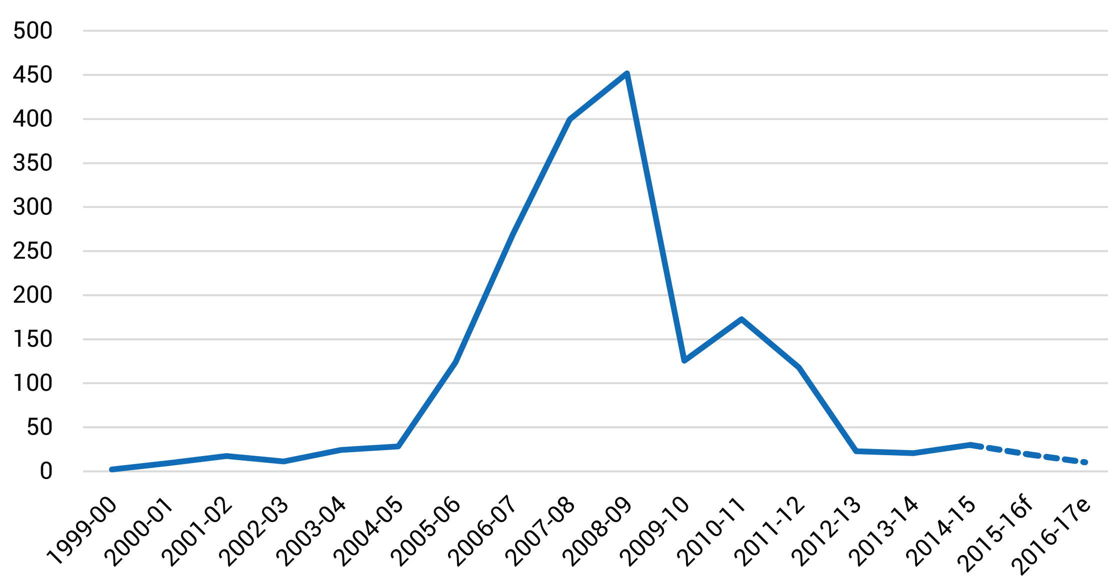
Offshore Petroleum Royalties

Offshore petroleum royalties are estimated to be $10.5 million in 2016–2017, a decrease of $4.8 million or 32.2 per cent from the 2015–2016 forecast.

Production volume for the Sable Offshore Energy Project (SOEP) is projected to decline as the project nears its technical end date. The accrual of abandonment costs estimated by SOEP interest holders continues to be a major factor contributing to lower revenues than experienced in the past (Chart 5.2).

Chart 5.2 Offshore Petroleum Royalties

($ millions)



Source: Nova Scotia Department of Finance and Treasury Board

Other Provincial Sources

Revenue from other provincial sources is estimated to be $146.1 million for 2016–2017, up $3.5 million or 2.5 per cent from the 2015–2016 budget estimate; down $2.8 million or 1.8 per cent from the 2015–2016 forecast.

This revenue source includes such items as Pharmacare premiums; Nova Scotia Securities Commission; registrations revenues for deeds, companies, and property; various other licenses and permits; and timber licenses and revenue. The primary reasons for the increase is improved securities commission revenue from filings and gain on disposal of two Department of Natural Resources helicopters, partially offset by reduced Pharmacare revenue.

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

TCA Cost Shared Revenue from provincial sources is estimated to be $59.9 million for 2016–2017, up $58.1 million from the 2015–2016 budget estimate; up $57.9 million from the 2015–2016 forecast.

The largest portion of this amount ($58.9 million) reflects Halifax Regional Municipality's (HRM) share of the $169.2 million capital lease for the new Halifax Convention Centre. The full principal component of the capital lease is capitalized. The associated obligations of the other levels of government will be reflected as a one-time revenue at the time of substantial completion as TCA cost shared revenue. The HRM contribution is reflected in TCA provincial sources and the federal contribution is reflected in TCA cost shared revenue - federal sources.

Other Fees and Charges

Revenue generated from other fees and charges is estimated to be $62.0 million for 2016–2017, a decrease of $1.2 million or 1.9 per cent from the 2015–2016 estimate; up $0.4 million or 0.6 per cent from the 2015–2016 forecast. The decrease results primarily from moving tourism related fees from the Department of Business to the new Tourism Crown corporation and reduced court and sheriff fees at Justice.

Ordinary Revenue – Provincial Sources – Investment Income

Interest Revenue

Interest revenue is estimated to be $77.9 million for 2016–2017, down $1.1 million or 1.4 per cent from the 2015–2016 estimate; down $8.3 million or 9.6 per cent from the 2015–2016 forecast. This decrease from estimate results primarily from lower interest rates, while the reduction from forecast also includes the implications of recognizing the amortization of the discounted interest incentive on loans from the Jobs Fund.

Sinking Fund Earnings

Sinking Fund Earnings are projected to total $91.7 million in 2016–2017, a decrease of $7.9 million or 7.9 per cent from the 2015–2016 budget estimate; down $9.5 million or 9.4 per cent from the 2015–2016 forecast, primarily as a result of the maturity of a debt issue totaling $205 million that included a mandatory sinking fund provision and therefore resulted in the withdrawal from sinking funds at maturity. This withdrawal reduces the total assets held in the sinking fund and subsequently the interest earned by the fund.

Ordinary Revenue – Federal Sources

Equalization

Equalization revenue in 2016–2017 are estimated to be $1,738.3 million, a decrease of $39.4 million or 2.2 per cent compared to the 2015–2016 forecast. The figure is composed of two separate fiscal equalization payments from the federal government.

Firstly, the Equalization estimate reflects the province's adoption of the Expert Panel formula for equalization payments, projected to be $1,722.3 million in 2016–2017, an increase of $32.7 million or 1.9 per cent compared to the 2015–2016 forecast. The Equalization program's annual growth was 3.1 per cent.

Secondly, as part of a clarification reached with the Government of Canada on October 10, 2007, commencing with the 2008–2009 fiscal year, Nova Scotia is entitled to receive an additional payment from the federal government if the cumulative value of the equalization formula in effect at the time the Offshore Accord was signed (the Interim approach) exceeds the cumulative value of the Expert Panel approach. This is known as the Cumulative Best-of Guarantee. The arrangement is in effect until the end of 2019–2020 to coincide with the term of the Offshore Accord.

The Cumulative Best-of Guarantee payment is estimated to be $16.0 million in 2016–2017, a decrease of $72.2 million or 81.8 per cent compared to the 2015–2016 forecast. This is the result of the Expert Panel approach growing at a faster rate than the Interim approach. By the end of 2016–2017 the province is expected to have received a total of $875.6 million in Cumulative Best-of Guarantee payments.

Table 5.4 Cumulative Best of Guarantee Payments (CBOG)
($ thousands)

Fiscal Year	Expert Panel	Interim Approach	Difference	Guarantee Payment
2008-2009	1,464,935	1,329,227	(135,708)	0
2009-2010	2,855,682	2,593,180	(262,502)	0
2010-2011	4,216,405	4,016,069	(200,336)	0
2011-2012	5,574,664	5,657,342	82,678	82,678
2012-2013	7,002,235	7,382,230	379,995	297,317
2013-2014	8,549,622	9,189,874	640,252	260,257
2014-2015	10,233,572	11,005,008	771,436	131,184
2015-2016	11,959,924	12,819,546	859,622	88,186
2016-2017	13,715,474	14,591,122	875,648	16,026
TOTAL				875,648

Offshore Accord Payments

Offshore Offset payments are estimated to be $33.3 million in 2016–2017, a decrease of $3.5 million or 9.6 per cent compared to the 2015–2016 forecast. The decrease reflects the declining offshore royalties included in the equalization formula. The equalization formula uses a two-year lag in data and a three-year weighted average.

The province is eligible to receive offshore offset payments for the second phase of the 2005 Offshore Accord that runs from 2012–2013 until the end of 2019–2020, as long as it continues to be in receipt of equalization payments. By the end of 2016–2017 the province is expected to have received a total of $1.3 billion in Offshore Accord payments.

The Canada Health Transfer (CHT)

Effective with the 2014–2015 fiscal year, the federal government renewed the CHT to provide for equal per capita cash for all provinces and territories. The new formula is in place for a 10-year period. The 2016–2017 national CHT amount that is available for distribution is set at $36.1 billion. The CHT is legislated to grow by 6 per cent each year until the end of the 2016–2017 fiscal year.

The CHT cash entitlement for Nova Scotia is estimated to be $942.8 million in 2016–2017, an increase of $47.1 million or 5.3 per cent compared to the 2015–2016 forecast. The estimate reflects the federal government's estimate of the province's declining share of national population, currently standing at 2.61 per cent, compared to 2.63 per cent in 2015–2016. National population grew by 1 per cent while the province's population grew by 0.3 per cent.

The Canada Social Transfer (CST)

Nova Scotia's 2016–2017 cash entitlement for CST is estimated to be $348.9 million, an increase of $7.8 million or 2.3 per cent compared to the 2015–2016 forecast.

The provincial entitlement is based on an equal per capita cash provincial allocation of a fixed national entitlement, which stands at $13.3 billion for 2016–2017. Effective with the 2014–2015 fiscal year the CST was renewed for a further 10-year period with the national pool legislated to grow by 3 per cent a year through to the end of the 2023–2024 fiscal year.

The estimate reflects the federal government's estimate of the province's declining share of national population, currently standing at 2.61 per cent, compared to 2.63 per cent in 2015–2016. National population grew by 1 per cent while the province's population grew by 0.3 per cent.

Crown Share Adjustment Payment

The Crown Share Adjustment Payment is estimated to be $1.4 million in 2016–2017, a decrease of $2.5 million or 64.0 per cent compared to the 2015–2016 forecast. The estimate reflects the underlying profitability of offshore oil and gas projects.

Other Federal Sources

Other Federal Sources are estimated to be $6.1 million in 2016–2017, an increase of $3.8 million from the 2015–2016 budget estimate; up $2.7 million from the 2015–2016 forecast.

Other Federal Sources comes from a statutory subsidy from the federal government and Infoway funding for the Personal Health Record project. The variance year over year results from the inclusion of Infoway funding that was approved after Budget 2015–2016 was released. Federal funding for the personal health record project is forecast to be $1.1 million in 2015–2016, growing to $3.8 million in 2016–2017. Total funding over three years is expected to be $9.3 million.

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

The estimate of TCA cost shared federal revenue is $73.1 million for 2016–2017. This represents an increase of $41.2 million compared to the 2015–2016 budget estimate; an increase of $42.0 million from the 2015–2016 forecast.

The increase results from one-time federal cost shared funding of $51.4 million for the new Halifax Convention Centre. The federal funding for the project will be recorded as revenue by the province as the federal portion of the $169.2 million capital lease obligation. The three levels of government agreed to share the costs, with the Halifax Regional Municipality and provincial government each contributing $58.9 million to the project. The HRM share ($58.9 million) has been reflected in TCA Cost Shared Revenue – Provincial Sources.

The total TCA revenue received by the province for the new Convention Centre is $110.3 million which, according to accounting standards, must be brought into the fiscal plan when the project reaches substantial completion. This date is projected by the developer to be in February 2017.

Ordinary Recoveries

Ordinary Recoveries are projected to total $552.5 million in 2016–2017, an increase of $21.3 million or 4.0 per cent from the 2015–2016 budget estimate; up $2.3 million or 0.4 per cent from the 2015–2016 forecast of $550.2 million.

Provincial source recoveries are up $14.8 million or 4.7 per cent to $332.1 million; a decrease of $0.9 million or 0.3 per cent from the 2015–2016 forecast; while federal sources are up $6.5 million or 3.0 percent to $220.5 million; an increase of $3.2 million or 1.5 per cent from the 2015–2016 forecast. The increase in provincial source recoveries relates primarily to increased recoveries from Out-of-Province health insured services and Royal Canadian Mounted Police (RCMP) costs recovered from municipalities.

The increase in federal sources relates primarily to the new Building Canada funding and Federal Gas Tax Transfer, both of which are flowed to municipalities through the provincial government.

Government Business Enterprises – Net Income

Nova Scotia Liquor Corporation

The Nova Scotia Liquor Corporation (NSLC) returns all of its income from operations ("income") to the Government of Nova Scotia as shareholder. The NSLC is budgeting comprehensive net income of $234.0 million in 2016–2017. This is an increase of 2.5 per cent compared to the 2015–2016 budget estimate of $228.2 million. The increase results from modest sales growth of 2.1 per cent, a 1.4% increase in gross profit, a 0.7% reduction in store operating expenses and a 1.9% reduction in other expenses.

Nova Scotia Provincial Lotteries and Casino Corporation

The Nova Scotia Provincial Lotteries and Casino Corporation's (NSPLCC) net income is budgeted to be $127.7 million in 2016–2017, which is $16.4 million higher than the 2015–2016 estimate of $111.3 million. NSPLCC's sales revenue will increase by $34.8 million in 2016–2017 compared to the 2015–2016 estimate, primarily due to increases resulting from changes in the video lottery business line and increased ticket lottery sales.

Halifax-Dartmouth Bridge Commission

Halifax-Dartmouth Bridge Commission (operating as Halifax Harbour Bridges) is budgeting net income for the 2016–2017 fiscal year at $12.1 million. This represents a $0.5 million or 4.2 per cent increase over the 2015–2016 Budget. Total revenue is projected to decline by $0.4 million from 2015–2016 with lower toll revenues due to bridge closures associated with the replacement of the suspended span of the Macdonald Bridge. Total expenses will decline by $0.9 million, a greater amount than the drop in revenue, from lower amortization charges and operating costs, partially offset by higher interest charges resulting from "big lift" project costs.

Highway 104 Western Alignment Corporation

Highway 104 Western Alignment Corporation's budget estimate for 2016–2017 of $8.4 million is up from the 2015–2016 estimate of $1.0 million. The increase is a result of reverting to the original bond repayment schedule, which anticipated 2026 as the final year of payment. In 2005, in times of strong provincial revenues from offshore royalties and surplus budgets, the repayment schedule was advanced to end in 2019. In current times the fiscal picture is tighter and the ability to speed up repayment is diminished; therefore, the original repayment schedule has been reinstituted, resulting in lower interest expense and depreciation and amortization charges.

Total revenue is budgeted to be $20.8 million; which is down slightly from the 2015–2016 estimate of $20.9 million. Total expenses are budgeted to be $12.4 million; down from the 2015–2016 estimate of $20.0 million. The major changes come in the area of interest charges, which are down by $2.2 million, and amortization and depreciation charges, which are down $5.4 million from the 2015-16 Budget estimate as a result of reverting to the original repayment schedule.

Key Tax Measures – Personal Income Taxes

Amount for Young Children

The province will maintain the Amount for Young Children Tax Credit, which was introduced in 2006 to offset the federal taxable Universal Child Care Benefit (UCCB). The 2016–2017 Federal Budget has eliminated the UCCB effective July 1, 2016, and replaced it with a non-taxable Child Care Benefit.

Trusts and Estates

The province will parallel recent federal changes announced in the federal government's 2014 budget to the taxation of trusts and estates. The new federal rules became effective on January 1, 2016. Effective for tax years ending after December 31, 2015, graduated personal income tax rates will apply only to trusts that are "graduated rate estates" or "qualified disability trusts." The top provincial marginal rate of 21 per cent will apply to all other trusts and estates.

Graduated personal income tax rates will only apply to the following:

- eligible estates for the first 36 months after an individual's death
- testamentary trusts that are for the benefit of individuals who are eligible for the federal disability tax credit

The new measure will improve tax fairness by reducing tax planning opportunities arising from beneficiaries effectively accessing more than one set of graduated rates, and will align the taxation of testamentary and inter *vivos trusts*.

Food Bank Tax Credit for Farmers

Effective January 1, 2016, individuals and corporations that carry on a farming business may claim a non-refundable tax credit equal to 25 per cent of the fair market value of qualifying agricultural products donated to a registered charity that provides food to those families in need. The tax credit must be claimed in the same year that a charitable donation tax credit or deduction is claimed for the donation.

Removal of Healthy Living Tax Credit

Effective January 1, 2015, government eliminated the Healthy Living Tax Credit. Implemented in 2005, the Healthy Living Tax Credit provided parents a maximum non-refundable credit of $500 for each child under the age of 18 that is enrolled in registered sport or recreational activities.

Dividend Tax Credit Rate for Non-eligible dividends

Effective January 1, 2015, the Dividend Tax Credit rate for non-eligible dividends was reduced from 5.87 per cent to 3.5 per cent. The Dividend Tax Credit compensates individual shareholders for the fact that dividend income is taxed at the corporation level and again at the personal level. Non-eligible dividends are typically paid out by small businesses. Most Canadian jurisdictions set the non-eligible dividend rate to be equal to the small business corporate income tax rate to achieve integration between the personal and corporate income tax systems. The province's small business tax rate is 3.0 per cent.

Removal of Personal Income Tax for GIS Recipients

Continuing for 2016–2017, residents of Nova Scotia who receive the Guaranteed Income Supplement (GIS) will continue to be refunded their provincial personal income taxes paid. The GIS is an income transfer paid by the federal government to low-income seniors who meet certain eligibility criteria.

$1,000 Non-refundable Age Amount Tax Credit for Low Income Seniors

Effective January 1, 2014, a new $1,000 non-refundable Age Amount tax credit for seniors with taxable income under $24,000 came into effect. In combination with the refund of personal income tax to GIS recipients, over 25,000 seniors no longer pay provincial personal income tax.

Fifth Tax Bracket and Elimination of the Personal Income Tax Surtax

Effective January 1, 2010, government implemented a fifth personal income tax bracket of 21 per cent applicable to taxable income exceeding $150,000. To offset the impact of this measure, government removed the 10 per cent surtax applied to Nova Scotia residents with provincial personal income taxes payable of more than $10,000. These measures will remain in place for fiscal 2016–2017.

Key Tax Measures – Business Taxes

Capital Investment Tax Credit

Effective January 1, 2015, the Capital Investment Tax Credit will provide a 15 per cent refundable corporate income tax credit for capital equipment acquired for use in Nova Scotia as part of a capital project that exceeds $15 million in total cost. The tax credit is available to corporations primarily in the manufacturing and processing, farming, fishing, and logging sectors. The Capital Investment Tax Credit is projected to cost $31.4 million in 2016–2017.

Food Bank Tax Credit for Farmers

Effective January 1, 2016, individuals and corporations that carry on a farming business may claim a non-refundable tax credit equal to 25 per cent of the fair market value of qualifying agricultural products donated to a registered charity that provides food to those families in need. The tax credit must be claimed in the same year that a charitable donation tax credit or deduction is claimed for the donation.

Digital Animation Tax Credit

Effective July 1, 2015, the Digital Animation Tax Credit provides a refundable corporate income tax credit for film and television productions where more than 90 per cent of the production consists of digital animation. A base credit of 25 per cent of total eligible expenditures applies plus a digital animation bonus of 17.5 per cent for Nova Scotian animation labour employed for the production. The Digital Animation Tax Credit is projected to cost $0.05 million in 2016–2017.

Film Industry Tax Credit

Effective July 1, 2015, the Film Industry Tax Credit was phased out. Productions that commenced principal photography before July 1, 2015, will remain eligible for the fully refundable tax credit. Given the historical timing of productions and their application for the Film Industry Tax Credit, tax expenditures are expected to continue to occur in the 2016–2017 fiscal year, and until the 2018–2019 fiscal year.

Corporation Capital Tax – Financial Institutions

Effective January 1, 2015, an annual cap of $12 million in capital tax payable was established for financial institutions required to pay tax under the Corporation Capital Tax Act. The tax applies to capital (e.g., paid-up capital stock, surpluses, reserves, etc.) employed in Nova Scotia by certain financial institutions.

Small Business Corporate Income Tax

Effective January 1, 2014, the rate was reduced from 3.5 per cent to 3.0 per cent.

Until December 31, 2013, small businesses were eligible for the reduced rate on the first $400,000 of taxable income, if they were a Canadian Controlled Private Corporation with taxable capital of $10 million or less. Effective January 1, 2014, the threshold was reduced to $350,000.

Key Tax Measures – Consumption Taxes

Tobacco Taxes

Effective at 12:01 am on April 20, 2016, the tobacco tax rate will increase by $0.02 per cigarette, $0.02 per gram of fine-cut tobacco, and $0.02 per pre-proportioned tobacco stick.

The new rate will be $0.2752 per cigarette, an increase of $4 per carton of 200 cigarettes. Tobacco tax on a carton of cigarettes will be $55.04.

In addition, the tax on cigars will increase from 56 per cent to 60 per cent of the suggested retail selling price of a cigar.

The tobacco tax rate increase will generate an additional $15.8 million in revenues for 2016–2017. The last tobacco tax rate increase took place on April 10, 2015.

Affordable Living Tax Credit

The province will continue to offer an HST credit to low-income households. For the average low-income household the credit will more than offset the impact of the HST rate increase that took place July 1, 2010.

The credit is paid quarterly in July, October, January, and April of each year. The maximum rebate is $255.00 per household plus $60.00 per dependent child for households earning less than $30,000 per year. Above $30,000 the credit will be reduced by $0.05 per $1.00 of income and will be completely phased out at a household income of $35,100. Similar to the federal government's Goods and Services Tax credit, individuals will need to file an income tax return to be eligible to receive the HST credit.

HST Rebate on New Homes for First-Time Home Buyers

The province currently provides a rebate of 18.75 per cent (to a maximum of $3,000) of the provincial portion of the HST on new homes purchased by first-time home buyers. First-time home buyers are defined as individuals who have not owned and occupied a home in the past five years.

The maximum rebate was increased to $3,000 where the Agreement of Purchase and Sale is entered into on or after April 1, 2012.

The rebate is also available on the purchase of land, services, and materials for owner-built homes.

Point-of-Sale (POS) Rebates of HST

In 2016–2017, point-of-sale rebates of the provincial portion of the HST on the following products will continue:

- Children's clothing
- Children's footwear
- Children's diapers
- Feminine hygiene products
- Printed books
- Residential energy (Your Energy Rebate Program)

Tax Credits, Rebates, and Tax Expenditures

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

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

($ thousands)

	2015-2016 Estimate	2015-2016 Forecast	2016-2017 Estimate
Personal Income Tax			
Political Tax Credit	771	812	832
Volunteer Firefighter & Ground Search and Rescue	3,932	3,761	3,856
Labour Sponsored Venture Capital Corporation	14	19	19
Equity Tax Credit	8,330	8,657	8,982
Affordable Living Tax Credit	65,822	65,213	65,213
Total	78,869	78,462	78,902
Corporate Income Tax			
Political Tax Credit	44	41	41
Scientific Research & Experimental Development	18,247	4,363	12,213
New Small Business Tax Holiday	44	16	17
Digital Media Tax Credit	7,501	(4,155)	2,320
Film Industry Tax Credit	24,094	20,104	22,583
Digital Animation Tax Credit	-	-	45
Food Bank Tax Credit for Farmers	-	-	300
Capital Investment Tax Credit	31,372	31,372	31,372
Small Business Tax Rate	205,483	223,936	231,788
Total	286,784	275,677	300,679
Harmonized Sales Tax			
Public Sector Rebates	130,114	134,550	137,301
Printed Book Rebate	10,391	10,620	10,918
First-time Homebuyers Rebate	658	625	604
Disability Rebates	163	134	139
Fire Fighting Equipment Rebate	149	152	156
Your Energy Rebate (YERP)	116,949	110,393	110,393
Children's Clothing Rebate	7,979	7,711	7,927
Children's Footwear Rebate	1,737	1,592	1,637
Diapers and Feminine Hygiene Products Rebate	4,020	4,013	4,126
Total	272,159	269,790	273,201

Revenue Sensitivity

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

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

Table 5.6 lists the specific key economic assumptions and variables that directly affect the calculation of provincial revenue estimate and forecast figures, as included in this Revenue Outlook section, and reflect assumptions developed by the province as at January 22, 2016.

Key Risks to the Revenue Estimates

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 14–18 months following the end of a taxation year, thereby creating prior year adjustments (PYAs).

Slower growth in the level of compensation of employees continues to pose a downside risk to personal income tax revenues – the province's largest source of revenue. Yield growth over the past few taxation years has been strong but current expectations about yield growth may not materialize. Increases in employment insurance benefits create only a temporary benefit and cannot fully offset declines in growth for the compensation of employees.

Table 5.6 Key Economic Assumptions and Variables Affecting Revenue Estimates

Revenue Source	Key Variables
Personal Income Taxes	• personal taxable income levels • provincial taxable income yield • tax credits uptake
Corporate Income Taxes	• national corporate taxable income levels as provided by Finance Canada • Nova Scotia share of national taxable income • tax credits uptake • national and provincial corporate profit levels
HST	• personal consumer expenditure levels • provincial gross domestic product • spending by exempt industries • rebate levels • residential housing investment
Tobacco, Gasoline and Diesel Taxes	• personal consumer expenditure levels • tobacco and fuel consumption patterns • tobacco and fuel prices • labour income
Petroleum Royalties	• foreign exchange rates • production levels • capital and operating costs of interest holder • world price of natural gas, subject to current market conditions
Equalization	• one-estimate one-payment approach
CHT/CST	• annual increases in the national base amount • changes in population

Lower levels of personal income usually lead to slower growth in consumer expenditures, which accounts for more than 70 per cent of Harmonized Sales Tax (HST) revenues. Improvements in the level of residential housing expenditures in 2016 are relatively small compared to consumer expenditures and levels are expected to decline in 2017.

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. A low oil price environment combined with global uncertainty presents substantial risks to corporate income tax revenues. The small business share of corporate taxable income in the province is on the rise, leading to slower growth in corporate income tax.

Deep Panuke production issues, a low price environment for natural gas, and increased decommissioning costs for the Sable Offshore Energy Project (SOEP) are key concerns for offshore royalties. Any further increase in the estimated decommissioning costs is likely to create additional negative Prior Year Adjustments.

Tobacco tax revenues continue to be influenced by cessation and reduced consumption. The province's ban on flavoured tobacco products and the potential substitution impact of electronic cigarettes contribute to declining consumption and revenues.

Growth in federal source revenues has been relatively flat over the past few years. This trend is expected to continue for the medium term. Agreements associated with the Equalization program (e.g., Offshore Accord and Cumulative Best-of Guarantee Payment) will end in 2019–2020 but are already showing significant decline from peak revenues achieved in the past.

A low oil price environment impacts national GDP growth and therefore the growth in the Equalization program. In addition, substantial declines in natural resource revenues in resource rich provinces (Alberta, Saskatchewan, and Newfoundland and Labrador) could result in changes to the national average fiscal capacity and the province's relative fiscal capacity.

Fiscal 2016–2017 represents the last year of a 6 per cent annual escalator mechanism for the Canada Health Transfer (CHT). Commencing in 2017–2018 the annual escalator becomes the three-year average of national GDP growth, which is currently under 4 per cent. Year-over-year declines in the Offshore Accord and Cumulative Best-of Guarantee may no longer be offset by gains in the CHT and Equalization.

Additional Information

In addition to the key economic and fiscal assumptions contained in the 2015–2016 revenue estimates, the following information should also be taken into account when interpreting the revenue estimates.

The revenue estimates for 2016–2017 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 Consolidated Fund.

The Department of Finance and Treasury Board and other departments or agencies of the province have prepared specific revenue estimates for 2016–2017 using a combination of current internal and external models and other information available. Every effort has been made to ensure the integrity of the results of the models and other information. As actual or more current information becomes available, adjustments may be necessary to the projection of revenues.

The revenue projected from federal transfer payment programs pursuant to the Federal-Provincial Fiscal Arrangements Act incorporates official information released by the federal government as of December 11, 2015. In addition, transfer payment revenue estimates are based on Canadian national and provincial population estimates supplied by Statistics Canada.

Prior Years' Adjustments (PYAs) are normally made to federal transfers and to income tax revenues. All PYAs known to date have been included in the final revenues for 2015–2016.

Budget 2016–2017: Expense Outlook

In 2016–2017, Nova Scotia's total expenses in its General Revenue Fund are estimated to be $10,145.6 million (Table 2.1). This is an increase of $121.4 million or 1.2 per cent from the 2015–2016 budget estimate and an increase of 189.9 million or 1.9 per cent compared to the 2015–2016 forecast.

Table 5.7 provides financial statistics of total provincial Expenses amount and as a percentage of total expenses, and a breakdown of expenses by the four main sources.

Departmental Expenses in 2016–2017 are expected to be $9,100.0 million. This is an increase of $190.0 million or 2.1 per cent from the 2015–2016 budget estimate and an increase of $249.6 million or 2.8 per cent from the 2015–2016 forecast.

Refundable Tax Credits are projected to be $137.6 million in 2016–2017, a decrease of $13.4 million or 8.9 per cent from the 2015–2016 budget estimate; an increase of $16.9 million or 14.0 per cent, from the 2015–2016 forecast.

Pension Valuation Adjustment is estimated to be $66.3 million in 2016–2017, down $24.4 million or 26.9 per cent from the 2015–2016 budget estimate; down $63.6 million or 49.0 per cent compared to the 2015–2016 forecast.

Debt Servicing Costs are projected to be $841.7 million for 2016–2017, down $30.9 million or 3.5 per cent from the 2015–2016 budget estimate; down $13.0 million or 1.5 per cent from the 2015–2016 forecast.

Table 5.7 2016–2017 Total Expenses

($ thousands)

General Revenue Fund: Expenses	2012-2013 Actual (as restated)	2013-2014 Actual (as restated)	2014-2015 Actual	2015-2016 Forecast	2016-2017 Estimate
Departmental Expenses:					
Agriculture	63,760	61,679	73,116	60,936	60,217
Business	---	---	---	121,688	137,450
Communities, Culture and Heritage	57,182	58,110	57,840	64,302	81,689
Community Services	941,824	889,692	919,978	922,525	929,957
Economic and Rural Development and Tourism	171,878	133,490	163,545	---	-
Education and Early Childhood Development	1,110,600	1,169,032	1,222,394	1,245,454	1,279,532
Energy	29,305	30,336	31,712	30,138	29,597
Environment	24,737	24,585	25,894	25,143	36,800
Finance and Treasury Board	37,664	12,996	12,656	13,072	22,782
Fisheries and Aquaculture	8,474	9,015	9,411	9,883	12,464
Health and Wellness	3,857,460	3,938,544	4,076,944	4,113,856	4,132,209
Internal Services	---	124,607	154,448	177,658	185,447
Justice	311,631	305,862	322,156	327,593	330,388
Labour and Advanced Education	345,474	359,465	346,724	362,910	364,271
Assistance to Universities	380,847	336,749	370,721	376,034	380,605
Municipal Affairs	---	180,729	150,523	159,591	184,383
Natural Resources	99,354	84,831	88,468	83,346	76,487
Public Service	160,492	224,416	226,887	199,249	205,869
Seniors	1,748	1,813	1,431	1,454	1,598
Service Nova Scotia and Municipal Relations	269,607	---	---	-	---
Transportation and Infrastructure Renewal	419,286	395,273	421,946	433,909	460,766
Restructuring Costs	173,471	148,721	138,683	121,715	187,538
Total - Departmental Expenses	8,464,794	8,489,945	8,815,477	8,850,456	9,100,049
Other Expenses					
Refundable Tax Credits	127,145	101,983	133,980	120,658	137,602
Pension Valuation Adjustment	108,510	388,160	78,370	129,898	66,251
Debt Servicing Costs	897,371	857,317	874,053	854,711	841,712
Total Expenses	9,597,820	9,837,405	9,901,880	9,955,723	10,145,614

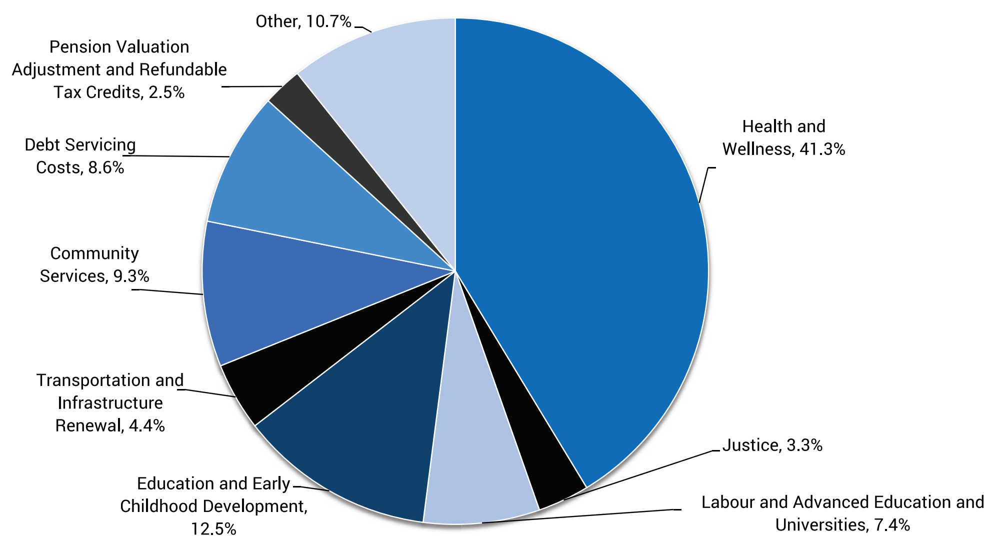
Table 5.8 2016–2017 Total Expenses

(as a percentage of Total Expenses)

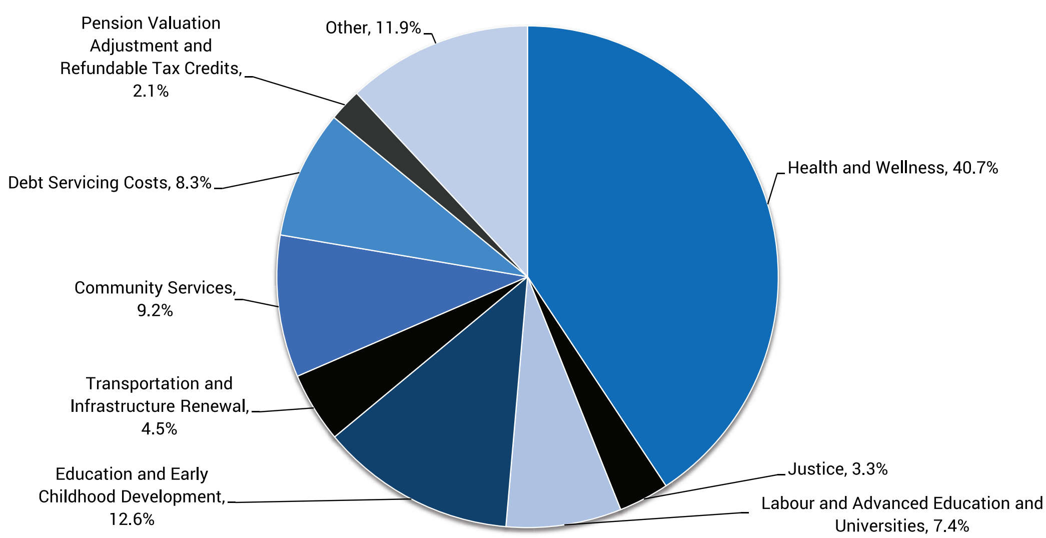
General Revenue Fund: Expenses	2012-2013 Actual (as restated)	2013-2014 Actual (as restated)	2014-2015 Actual	2015-2016 Forecast	2016-2017 Estimate
Departmental Expenses:					
Agriculture	0.7%	0.6%	0.7%	0.6%	0.6%
Business	---	---	---	1.2%	1.4%
Communities, Culture and Heritage	0.6%	0.6%	0.6%	0.6%	0.8%
Community Services	9.8%	9.0%	9.3%	9.3%	9.2%
Economic and Rural Development and Tourism	1.8%	1.4%	1.7%	---	---
Education and Early Childhood Development	11.6%	11.9%	12.3%	12.5%	12.6%
Energy	0.3%	0.3%	0.3%	0.3%	0.3%
Environment	0.3%	0.2%	0.3%	0.3%	0.4%
Finance and Treasury Board	0.4%	0.1%	0.1%	0.1%	0.2%
Fisheries and Aquaculture	0.1%	0.1%	0.1%	0.1%	0.1%
Health and Wellness	40.2%	40.0%	41.2%	41.3%	40.7%
Internal Services	---	1.3%	1.6%	1.8%	1.8%
Justice	3.2%	3.1%	3.3%	3.3%	3.3%
Labour and Advanced Education	3.6%	3.7%	3.5%	3.6%	3.6%
Assistance to Universities	4.0%	3.4%	3.7%	3.8%	3.8%
Municipal Affairs	---	1.8%	1.5%	1.6%	1.8%
Natural Resources	1.0%	0.9%	0.9%	0.8%	0.8%
Public Service	1.7%	2.3%	2.3%	2.0%	2.0%
Seniors	0.0%	0.0%	0.0%	0.0%	0.0%
Service Nova Scotia and Municipal Relations	2.8%	---	---	---	---
Transportation and Infrastructure Renewal	4.4%	4.0%	4.3%	4.4%	4.5%
Restructuring Costs	1.8%	1.5%	1.4%	1.2%	1.8%
Total - Departmental Expenses	88.2%	86.3%	89.0%	88.9%	89.7%
Other Expenses					
Refundable Tax Credits	1.3%	1.0%	1.4%	1.2%	1.4%
Pension Valuation Adjustment	1.1%	3.9%	0.8%	1.3%	0.7%
Debt Servicing Costs	9.3%	8.7%	8.8%	8.6%	8.3%
Total Expenses	100.0%	100%	100.0%	100.0%	100%

Chart 5.3 Total Expenses 2015–2016 Forecast and 2016–2017 Budget

2015–2016 Forecast



2016–2017 Estimate



6. 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, Public Debt Management Fund (PDMF), 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 have stood at $16.2 billion as of March 31, 2016. Against this gross financial market debt are financial assets held in mandatory ($1,730 million) and discretionary ($867 million) sinking funds plus holdings of Nova Scotia Municipal Finance Corporation debt ($810 million) plus advances to date to Halifax Bridges ($68.6 million).

These assets total $3.5 billion and are subtracted from gross financial market debt to result in a net financial market debt of $12.8 billion. The management of this net financial market debt position consists of executing the borrowing program, investing sinking funds and the PDMF, and where cost-effective to do so, executing derivative transactions.

The government's budgetary policy sets the context for treasury management operations. The province's annual fiscal plan sets the context for debt management. This budget shows that the government intends to post a budgetary surplus of $127.4 million in 2016–2017 followed by further surpluses throughout the fiscal plan years.

The management of the debt portfolio and borrowing program must consider the external financial and economic environment. Entering 2016–2017, global financial markets are expected to be challenging as a result of external factors.

Net Financial Market Debt: 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, and net acquisition of tangible capital assets.

In 2015–2016, the province had a $68.5 million decrease in net financial market debt outstanding in financial markets due to the budgetary deficit, offset by $2.7 million from the combination of cash–accrual differences. The province estimates that net financial market debt in financial markets will decrease by about $103 million in 2016–2017.

Nova Scotia's ratio of net debt to nominal gross domestic product at market prices is estimated to be 37.9 per cent at March 31, 2016, down from 38.5 per cent a year earlier. In 2015 Statistics Canada restated its actual calculations of nominal GDP for all Canadian provinces from 1981 to 2013. This revision had the result of decreasing Nova Scotia's forecast of 2015 GDP by more than $1.4 billion. This restatement impacted Nova Scotia's debt to GDP ratio by approximately +1.6 percentage points. As a result the expected debt to GDP ratio for 2015–2016 will be 37.9 per cent instead of 36.3 per cent as was projected in Budget 2015.

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 2009–2010 and the years 2011–2012 to 2015–2016. In 2015–2016 all three rating agencies confirmed the province's credit rating with a stable outlook.

Table 6.1 shows current provincial credit ratings. (Note that (neg) refers to a negative outlook, indicating the rating agency may change the respective province's credit rating downward over the next year or so).

Table 6.1 Canadian Provincial Credit Ratings

April 2016	DBRS	S&P	Moody's
British Columbia	AA(high)	AAA	Aaa
Alberta	AA(high)	AA+	Aaa (neg)
Saskatchewan	AA	AAA (neg)	Aaa
Manitoba	A(high)	AA	Aa2
Ontario	AA(low)	A+	Aa2(neg)
Quebec	A(high)	A+	Aa2
New Brunswick	A(high)	A+	Aa2
Nova Scotia	A(high)	A+	Aa2
Prince Edward Island	A(low)	A	Aa2
Newfoundland and Labrador	A (low)	A (neg)	Aa2 (neg)

Nova Scotia files a Form 18-K Annual Report and other required documents with the Securities and Exchange Commission (SEC), which provide information to investors and the general public on the economic, fiscal, and debt situation of the province. The most recent submission can be viewed on the Department of Finance and Treasury Board 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.

The following five profiles are provided to describe the overall structure and risk profile of the province's debt portfolio:

- primary issuance market activities
- the debt maturity schedule
- foreign currency exposure
- interest rate mix
- derivative counterparty exposure

1. Primary Issuance Market Activities

The Province of Nova Scotia expects to post a budgetary surplus of $127.4 million in 2016–2017. The Department of Finance and Treasury Board borrows monies in capital markets primarily to refinance existing debt, to fund the acquisition of net tangible capital assets, for on-lending to Crown corporations, and for other non-budgetary purposes.

The management of the debt maturities and timing of new debt issuance are optimized by the use of 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.

Borrowing: In the fiscal year 2015–2016, the province borrowed $1,055 million compared to term debt borrowing requirements of $886 million estimated in the budget. The Department of Finance and Treasury Board issued $980 million in a floating interest rate note maturing in June 2020, and reopened an existing 7-year fixed rate debt issue for a further $75 million.

Financial market conditions for term debt issuance in the domestic public markets were very challenging for most provincial issuers in 2015–2016. As such, the province opted to only issue debt in the private placement market. The province pre-borrowed a modest amount for the 2016–2017 fiscal year.

Long-term Debt: The Debt Management Committee, an advisory Committee to the Minister of Finance and Treasury Board, has had a policy guideline over the past number of years to increase the portion of long-term debt in the gross debt portfolio. The ongoing goal is to structure the maturity profile to withstand adverse changes in economic and fiscal circumstances. At present, the province continues to have about 50 per cent of Net Financial Market Debt in issues longer than 15 years.

Certain Crown agencies of the Province of Nova Scotia invest monies with the provincial General Revenue Fund on a short- and long-term basis. This activity is an efficient use of funds that provides both security and market returns to Crown agencies while providing the General Revenue Fund with funding at market cost of funds.

At March 31, 2016, Nova Scotia Business Inc., Resource Recovery Fund Board, Nova Scotia Strategic Opportunities Fund, and Nova Scotia Crop and Livestock Insurance Commission invested a total of $151.8 million with the General Revenue Fund, and the Halifax-Dartmouth Bridge Commission invested a total of $91.4 million in Province of Nova Scotia promissory notes.

There were also entities that are not part of the Consolidated Entity that invested with the General Revenue Fund. Those entities are the Nova Scotia Research and Innovation Trust, Nova Scotia Nominee Program, and Nova Scotia Crown Land Legacy Trust, having invested a total of $31.0 million.

2016–2017 Annual Borrowing: Projected term debt borrowing requirements for fiscal year 2016–2017 are expected to be $810 million. The Department of Finance and Treasury Board does not anticipate drawing down discretionary sinking funds in 2016–2017, but draws attention to the fact that these funds total $867 million.

Table 6.2 also shows the projected borrowing program for 2017–2018 to 2019–2020. The borrowing program starts with the provincial budgetary deficit that increases requirements or a surplus that reduces requirements. There are numerous cash versus accrual adjustments (non-budgetary items) that need to be made to determine the actual cash requirements of the General Revenue Fund.

Table 6.2 Projected Borrowing Requirements

($ millions)

	2015-2016 Estimate	2015-2016 Forecast	2016-2017 Estimate	2017-2018 Estimate	2018-2019 Estimate	2019-2020 Estimate
Budgetary (surplus)/deficit	97.6	71.2	(127.4)	(20.8)	(79.0)	(132.5)
Net Capital Advances	178.9	133.9	66.6	60.0	60.0	60.0
NS MFC Repayments	(108.2)	1.9	(105.1)	(98.9)	(92.2)	(84.5)
HDBC Net Advances	69.0	41.9	87.0	4.4	-	-
Tangible Capital Assets: Net Cash	59.2	11.9	202.9	44.6	41.5	38.6
Other Non-Budgetary Transactions	(138.1)	(335.1)	(227.1)	287.1	(92.0)	(157.6)
Cash Operating Requirements	158.3	(74.3)	(103.1)	276.4	(161.8)	(276.0)
Cash Debt Retirement	1,007.6	1,007.6	994.8	459.7	1,259.1	1,970.8
Mandatory Sinking Fund Income	89.8	90.1	81.8	84.5	85.8	74.7
Mandatory Sinking Fund Contributions	26.3	26.3	26.3	26.3	24.0	17.9
Mandatory Sinking Fund Withdrawals	(205.7)	(205.7)	-	-	(198.0)	855.4
Net Mandatory Sinking Fund Requirements	(89.6)	(89.4)	108.1	110.8	(88.2)	(762.8)
Discretionary Fund Income	9.7	11.1	9.9	10.8	12.3	14.0
Discretionary Fund Contributions	-	-	-	-	-	-
Discretionary Fund Withdrawals	-	-	-	-	-	-
Net Discretionary Fund Requirements	9.7	11.1	9.9	10.8	12.3	14.0
Total Requirements:	1,086.0	855.0	1,009.6	857.7	1,021.5	946.1
Short-Term Borrowing (inc) / dec:	(200.0)	200.0	(200.0)	-	-	-
Total Term Debt Requirements	886.0	1,055.0	809.6	857.7	1,021.5	946.1

Borrowing Program: The borrowing program starts with the provincial budgetary deficit that increases requirements or a surplus that reduces requirements. There are numerous cash versus accrual adjustments (non-budgetary items) that need to be made to determine the actual cash requirements of the General Revenue Fund.

Each year there are requirements for the excess of capital expenditure over capital amortization, referred to as the net acquisition of tangible capital assets; those requirements in 2016–2017 are $203 million. However, the cash requirements arising from the net acquisition of tangible capital assets is expected to be only $85 million as the remainder is the value of capital leases for the Halifax Convention Centre.

The remaining non-budgetary adjustments are primarily related to non-cash interest charges on unfunded pension liabilities and post-employment benefits, and the non-cash expense of the Pension Valuation Adjustment.

The province, through its access to capital markets, is able to 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 corporations for their diverse on-lending requirements. Historically, Crown corporations have utilized approximately 10 per cent to 25 per cent of the province's annual borrowing program.

Net capital advances to Crown corporations for 2015–2016 are forecasted at $133.9 million, down from the Budget estimate of $178.9 million. For fiscal year 2016–2017, net capital advances are estimated to be $66.6 million. Some of the more notable Crown corporations that finance their on-going lending operations through the province's annual borrowing program are Nova Scotia Business Incorporated, Innovacorp, Invest Nova Scotia, Nova Scotia Farm Loan Board, Nova Scotia Fisheries and Aquaculture Loan Board, and the Nova Scotia Municipal Finance Corporation.

The Halifax-Dartmouth Bridge Commission, a provincial Crown corporation, received government authority to borrow up to $200 million from the Department of Finance and Treasury Board for the re-decking of the Angus L. Macdonald Bridge, with work started in early 2015. In 2014–2015, the Department of Finance and Treasury Board raised funds by debenture issuance in Canadian capital markets to lock-in interest rates and provided a $160 million loan to the Halifax-Dartmouth Bridge Commission. The Halifax-Dartmouth Bridge Commission has invested the excess funds from the loan with the General Revenue Fund, with funds being drawn down by the Halifax-Dartmouth Bridge Commission as required to fund re-decking expenses as they come due.

The province did not access the domestic public markets for funding in fiscal year 2015–2016. Given the volatility in global and domestic financial markets, the province completed the borrowing program in by way of private placements. 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.

The province maintains documentation with the Securities and Exchange Commission (SEC) 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 2016–2017. 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.

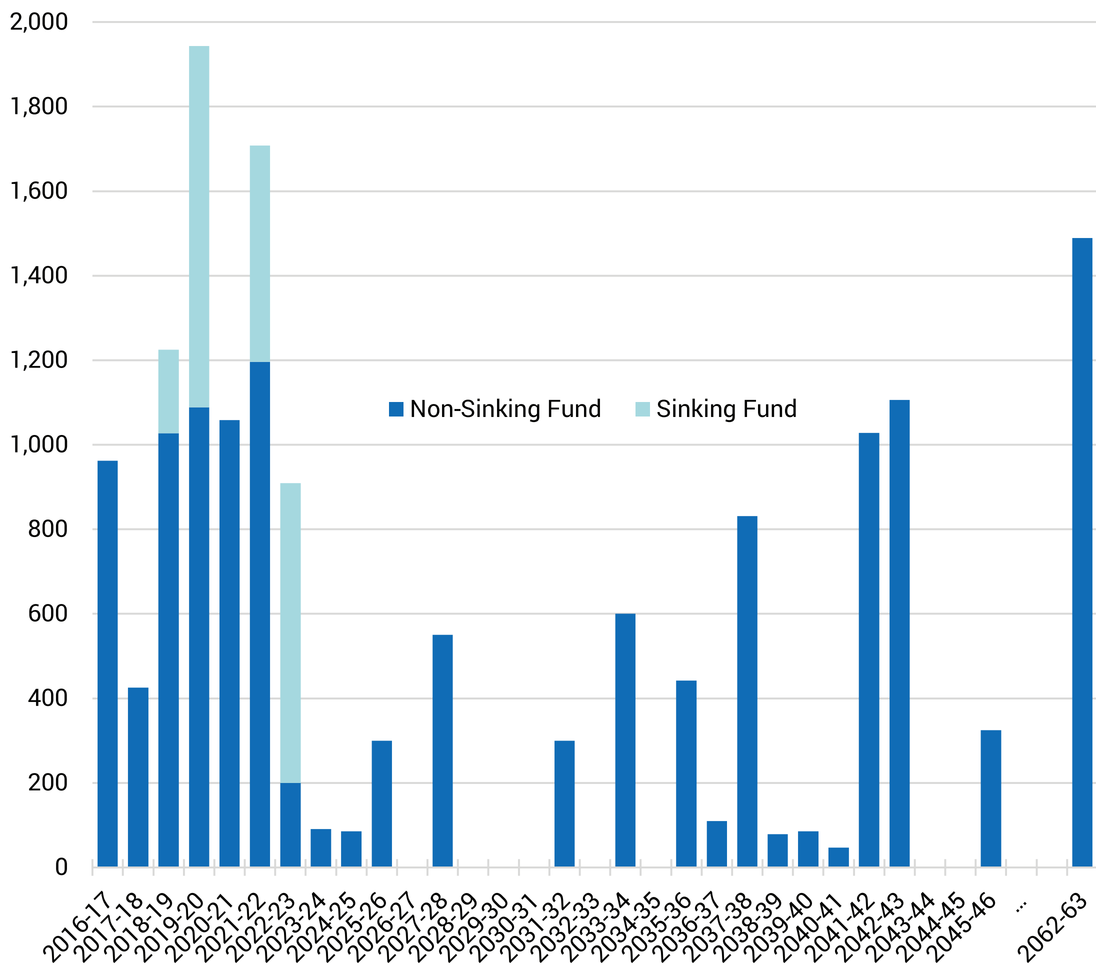
2. Debt Maturity Schedule

The Province of Nova Scotia's gross financial market debt at March 31, 2016, consisted of Canadian fixed-coupon marketable debentures, floating interest rate marketable debentures, foreign currency denominated fixed-coupon marketable debentures (all of these issues are hedged to Canadian dollars), Canada Pension Plan non-marketable debentures, capital leases ($165 million), and short-term promissory notes.

Chart 6.1, titled General Revenue Fund Debt Portfolio: Debenture Debt Maturity Schedule, displays the maturity profile of the province's debenture debt portfolio ($15.7 billion). The province's debenture portfolio is shown for those debt issues that have no mandatory sinking fund provisions ($13.4 billion), and the eight remaining debentures issues that have a mandatory sinking fund contribution by way of bond covenant ($2.3 billion). The province has no debt issues outstanding with put options.

Chart 6.1 General Revenue Fund Debt Portfolio

Debenture Debt Maturity Schedule ($ millions)



As of March 31, 2016, the average term to maturity of the gross debenture portfolio was 14.2 years, down from 14.9 one year ago. The average term to maturity has been falling in recent years after completion of the long-term debt issuance strategy and the passage of time.

The Province of Nova Scotia has accumulated and actively manages a large offsetting asset position in discretionary sinking funds, primarily the Sinking Fund General and the Public Debt Management Fund (PDMF). These funds, now totalling $867 million, are available to smooth the maturity schedule by reducing the necessity to borrow in financial markets in any given year.

Debt maturities, including principal repayments on capital leases, over the next three years are $460 million in the fiscal year 2017–2018, $12,59 million in the fiscal year 2018–2019, and $1,971 million in the fiscal year 2019–2020 (see Table 6.2). Offsetting these debt maturities are mandatory sinking funds of $198 million in 2018–2019 and $855 million in 2019–2020. In addition to the rollover of term debt, the borrowing program also includes the principal repayments under capital leases.

There are sizable maturities in US dollars in the fiscal years 2019 to 2023 that, by bond covenant, are fully funded with sinking funds at maturity. The province is required to contribute to the sinking fund of each such issue annually until such time as the full principal value of the bonds is accumulated. As such, the refinancing of these issues is spread over the entire life of each bond, and it is not necessary for the province to refinance these issues in the year of maturity.

3. Foreign Currency Exposure

The Canadian dollar payable debt has represented 100 per cent of the debt portfolio since late 2007. By way of background, the province historically carried large foreign currency exposures, and peaked at over 70 per cent in the mid-1990s. While the province has no foreign currency exposure, Section 44 of the Finance Act continues to limit this exposure, stating: "Unless the foreign currency exposure of the public debt is less than twenty per cent, no further transactions that increase foreign currency exposure may be executed. No borrowing in a foreign currency may be executed that cause the foreign currency exposure of the public debt to exceed twenty per cent."

4. Interest Rate Mix

The debt portfolio's net exposure to floating interest rates increased marginally over the past year, and ended the year at 13.5 per cent on March 31, 2016. The province includes fixed interest rate term debt and fixed income assets maturing in less than one year in its measure of floating interest rate debt to more accurately reflect exposure to resetting interest rates. In the past the province has been able to exercise tight control of this variable in the portfolio by maintaining access to capital markets and through its extensive derivative capabilities.

The current level of floating interest rate debt is at the mid-point of the province's floating interest rate exposure policy, and the Department of Finance and Treasury Board intends to maintain that level of floating interest rate debt in 2016–2017. The interest rate exposure policy sets the dollar volatility of debt-servicing costs, and the implied floating interest rate exposure is in the range of zero to 35 per cent of total debt outstanding. The Department of Finance and Treasury Board targets the mid-point of the policy range.

5. 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 the purpose of hedging, risk transfer, arbitraging interest rate differences, and adjusting portfolio risks. Derivative transactions are used when it is viewed to be more effective and can be done at a lower cost than would be possible by a market transaction.

At March 31, 2016, the province's use of derivatives was for two purposes:

- the hedging of foreign currency debt issues to Canadian dollars
- asset-liability management purposes (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 $3.8 billion notional face value of derivative transactions with external swap counterparty, down significantly from the peak at March 31, 2011. The decline in swap counterparty exposure is due primarily to the maturity of three foreign currency debt issues and the maturity of some other interest rate swaps. The province's current cross currency swap portfolio is approximately $2.2 billion notional face value, and assuming no further foreign currency denominated debenture issuances, the cross currency swap portfolio would wind down 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.

Structure of Debt Management and Sinking Funds

Gross and Net Financial Market Debt: Until March 31, 2002, the province provided sinking fund instalments for all its term debt issues including Canada Pension Plan (CPP) and Medium Term Notes (MTN) issues. These funds were held against each specific bond for the bond's principal repayment at maturity. The province ceased sinking fund contributions to these debt maturities in 2002–2003 and reassigned the existing sinking funds held to the Sinking Fund General. The latter is available to retire debt at the discretion of the Minister of Finance and Treasury Board.

As of March 31, 2003, funds held for public issues without a sinking fund bond covenant were also moved to the Sinking Fund General. The province continues to make sinking fund instalments on the remaining nine debentures that contain sinking fund bond covenants. The last of those debentures matures on July 30, 2022. On these sinking fund issues, annual sinking fund instalments are required to be either the minimum of 0.75 per cent or 1 per cent of the par value of each original issue, or in the case where the existing sinking fund plus interest and reinvested interest to be earned thereon, together with the sinking fund contribution to be paid into the sinking fund and reinvested interest to be earned thereon, would be in excess of the principal amount of the debenture outstanding at maturity, the amount to be paid by the province on such payment date may be reduced by the amount of such excess.

The contribution rates on the remaining eight sinking fund debentures ranges from zero to 2.3 per cent of the par value, with these rates being based on actual cash flows on the existing sinking fund assets and the anticipated rates of return on expected future cash flows of sinking fund assets. These figures are recalculated annually based on actual and expected investment returns. Sinking fund payments relating to debentures payable in US dollars were adjusted each year to reflect exchange rate movements from the date of issuance of the debentures to the date of being hedged to Canadian dollars. Sinking funds required by bond covenant are treated as restricted assets and are used solely for the retirement of specific debt issues.

At March 31, 2016, the estimated book value of the sinking funds was $2,598 million, of which $1,730 million were held in sinking funds established by way of bond covenant, and $867 million in the discretionary sinking funds that were held for policy purposes (Table 6.3). The policy objectives of both discretionary funds (the Sinking Fund General and the PDMF) 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.

The assets of the sinking funds and PDMF are invested in high-quality investments. Those investment guidelines are subject to approval by the Debt Management Committee. All assets were invested either in federal or provincial debt obligations.

Corporate bonds with a credit rating of at least “AA-” may be held in the sinking funds, but at March 31, 2016, there were no corporate bond holdings. The Sinking Fund General also holds $18.55 million of debt of the Halifax-Dartmouth Bridge Commission. The PDMF is typically invested in Government of Canada and provincial bonds. At March 31, 2016, cash and equivalents in the sinking funds and PDMF were $39 million.

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

In recent years, the province, although having no obligation to do so, has purchased all NSMFC debenture issues in their entirety and at March 31, 2016, held a portfolio of $810 million NSMFC debentures in the General Revenue Fund, up from $808 million from a year earlier. The NSMFC asset portfolio held by the Department of Finance, along with sinking funds and Public Debt Management Fund, are netted against the gross financial market debt of the province to arrive at net financial market debt (Table 6.3). 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 would be netted against the loan provided to the Halifax-Dartmouth Bridge Commission.

Table 6.3 Projected Gross and Net Financial Market Debt

($ millions)

	2015-2016 Estimate	2015-2016 Forecast	2016-2017 Estimate	2017-2018 Estimate	2018-2019 Estimate	2019-2020 Estimate
Gross Debt:						
Opening Balance	16,343.7	16,343.7	16,240.7	16,237.4	16,540.9	16,211.0
Borrowing Program	886.0	1,055.0	809.6	857.7	1,021.5	946.1
Debt Retirement	(1,007.6)	(1,007.6)	(994.8)	(459.7)	(1,259.1)	(1,970.8)
Change in other unfunded debt	160.8	(150.4)	181.9	(94.5)	(92.2)	(84.5)
Closing Balance	16,382.9	16,240.7	16,237.4	16,540.9	16,211.0	15,101.8
Mandatory Sinking Funds:						
Opening Balance	1,821.7	1,819.6	1,730.2	1,838.3	1,949.1	1,861.0
Installments	26.3	26.3	26.3	26.3	24.0	17.9
Earnings	89.8	90.1	81.8	84.5	85.8	74.7
Sinking Fund withdrawals	(205.7)	(205.7)	-	-	(198.0)	(855.4)
Closing Balance	1,732.1	1,730.2	1,838.3	1,949.1	1,861.0	1,098.2
Discretionary Funds:						
Opening Balance	855.3	856.2	867.3	877.2	888.0	900.3
Installments	-	-	-	-	-	-
Earnings	9.7	11.1	9.9	10.8	12.3	14.0
Fund withdrawals	-	-	-	-	-	-
Closing Balance	865.0	867.3	877.2	888.0	900.3	914.3
NSMFC and HDBC Assets:						
Opening Balance	834.9	834.9	878.7	860.5	766.1	673.8
Repayments	(108.2)	(108.2)	(105.1)	(98.9)	(92.2)	(84.5)
Advances to MFC	-	110.1	-	-	-	-
Advances to HDBC	69.0	41.9	87.0	4.4	-	-
Closing Balance	795.6	878.7	860.5	766.1	673.8	589.4
Net Financial Market Debt	12,990.2	12,764.5	12,661.4	12,937.7	12,776.0	12,500.0

Net Debt: Net debt is made up of Total Liabilities less Financial Assets and the actual year-end results are reported in the Consolidated Financial Statements of the province. Surpluses reduce the net debt of the province while deficits and net capital spending increase the net debt. Net debt is a key measure of the province's financial position and the Net Debt to Gross domestic product ratio is the most widely recognized measure of government financial sustainability. Table 6.4 presents the projected net debt over the fiscal plan. Net Debt is projected to start decreasing in 2018–2019.

Table 6.4 Projected Net Debt
($ millions)

	2015-2016 Estimate	2015-2016 Forecast	2016-2017 Estimate	2017-2018 Estimate	2018-2019 Estimate	2019-2020 Estimate
Net Debt - Opening Balance	14,961.4	15,030.6	15,113.7	15,189.3	15,213.0	15,175.4
Add (Deduct):						
Provincial Deficit (Surplus)	97.6	71.2	(127.4)	(20.8)	(79.0)	(132.5)
Increase in the Net Book Value of Tangible Capital Assets	59.2	11.9	203.0	44.6	41.5	38.6
Change in Net Debt	156.7	83.1	75.5	23.7	(37.5)	(93.9)
Net Debt - Closing Balance	15,118.2	15,113.7	15,189.3	15,213.0	15,175.4	15,081.5

Debt-Servicing Costs

Gross debt-servicing costs comprise the following items:

- interest on existing long-term debenture and capital lease debt and the estimated interest cost of incremental borrowing
- general interest that provides for bank charges, bond issue expense, amortization of debenture discounts/premiums, and short-term interest costs
- the accrual of interest of the province's unfunded pension and post-retirement benefit obligations

In 2016–2017, the province will incur $124 million in debt-servicing costs related to the accrual of interest on pension, retirement, and other obligations. The province accounts for its pension obligations and related expenses on an accrual basis in accordance with PSAB Section 3250. In accordance with this section, the province uses a smoothed market value to value the plan assets of the pension plans and determine the expected return on plan assets. Asset smoothing involves using market-related values instead of market values to calculate the expected return on pension plan assets. Using market-related values entails recognizing changes in the actual fair value of the plan assets in a rational and systematic manner over a period of five years. This approach impacts the pension expense in terms of the net debt-servicing costs and the amortization of actuarial gains and losses of the plan. Given the long-term nature of pension and pension accounting, this is a more fiscally responsible approach and alleviates the effects of significant market fluctuations, both positive and negative, and helps maintain stability and predictably in the budget process.

As noted above, the province has established mandatory sinking funds on some debt issues and maintains discretionary sinking funds for liability management purposes. The interest on those sinking funds is often netted against gross debt-servicing costs to arrive at net debt-servicing costs.

In addition, gross debt-servicing costs also supports the General Revenue Fund's on-lending activities to Crown corporations. That is, the General Revenue Fund incurs interest charges on long-term debt obligations that have been borrowed on behalf of Crown corporations such as the Nova Scotia Municipal Finance Corporation and Farm Loan Board. The General Revenue Fund earns interest on those monies lent to Crown corporations and other investments in amounts of $86.2 million in the 2015–2016 forecast, and $77.8 million in the 2016–2017 Budget Estimate. Unlike the earnings on sinking 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 to arrive at net debt-servicing costs (Table 6.5).

Table 6.5 Projected Debt Servicing Costs

($ millions)

	2015-2016 Estimate	2015-2016 Forecast	2016-2017 Estimate	2017-2018 Estimate	2018-2019 Estimate	2019-2020 Estimate
Interest on Long-term Debt	726.9	713.8	707.8	719.6	735.8	699.1
General Interest	7.7	9.6	9.7	10.1	10.9	11.8
Interest on Pension, Retirement and other obligations	138.0	131.4	124.2	123.5	123.7	125.9
Gross Debt Servicing Costs	872.6	854.7	841.7	853.2	870.5	836.8
Less: Sinking Fund Earnings	(99.5)	(101.2)	(91.7)	(95.3)	(98.1)	(88.7)
Net Debt Servicing Costs	773.1	753.5	750.1	757.9	772.4	748.1

Debt-Servicing Costs: Assumptions and Sensitivity Analysis

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

With the elimination of the province's foreign currency exposure, the main factor in debt-servicing cost sensitivity is the overall level of Canadian short-term interest rates and 10-year Canada bond yields during the fiscal year. Sensitivity to these variables (how much debt-servicing costs would change if a variable changed from the assumed level for a full year) is $15 million if Canada Treasury Bills were a full percentage point higher relative to the assumed level, and $4 million if Canada fixed interest bond yields rose by one percentage point.

Risk Management

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

7. Economic Outlook 2016 and 2017

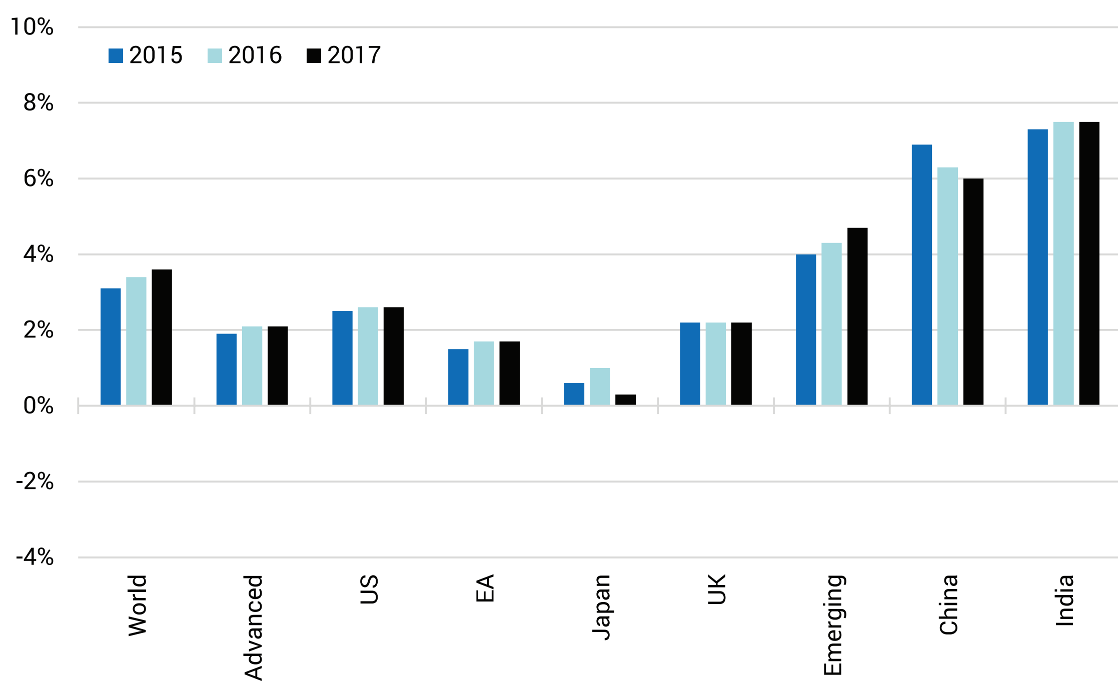
The province relies on economic forecasts and statistical relationships with historical administrative data to estimate tax revenues prior to receiving results of actual tax revenues collected. This forward-looking outlook and the economic assumptions used in the forecast are presented here.

External Economic Environment

Global Economy: Global economic growth in 2015 was lower than anticipated at 3.1 per cent. Declining oil prices impacted exchange rates, interest rates, and fiscal policies for many countries, including Canada. Growth in emerging market economies slowed for a fifth consecutive year. The Euro area economy grew at 1.6 per cent in 2015 (Chart 7.1).

Chart 7.1 IMF World Outlook: Optimistic After Serial Disappointment

Real GDP growth



Source: International Monetary Fund, World Economic Outlook January 2016
Advanced = advanced economies; US = United States; EA = Euro Area; UK = United Kingdom; Emerging = emerging and developing economies

Persistently low inflation and economic slack led the European Central Bank to pursue monetary policy easing through negative interest rates. The United Kingdom's GDP grew at 2.2 per cent, reflecting a strong domestic private sector, robust consumer confidence, real income growth, and positive corporate investment intentions.

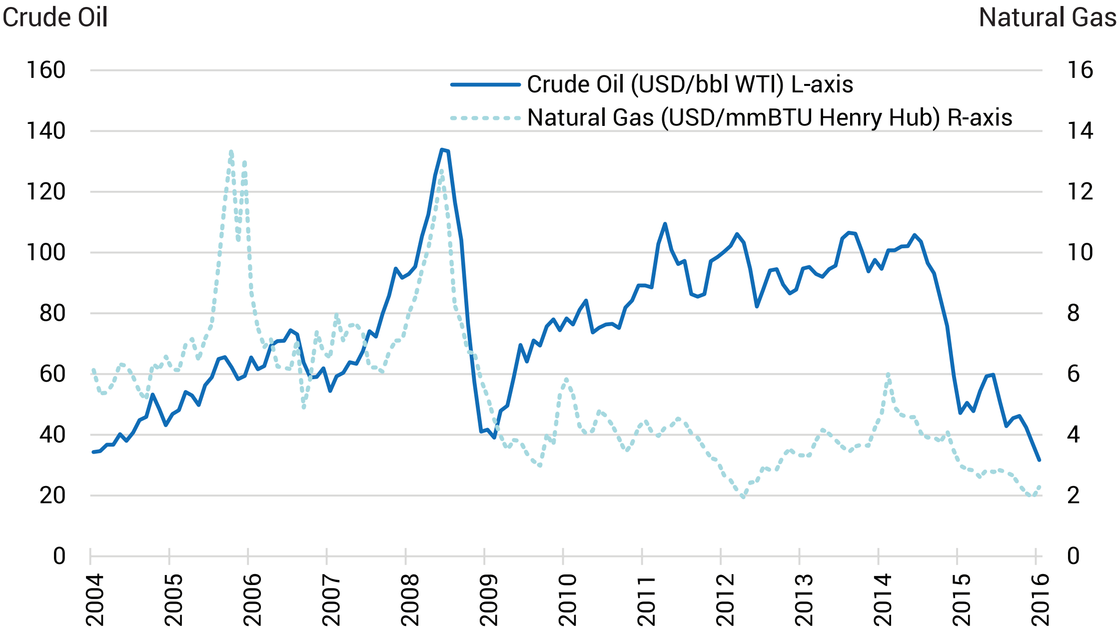
The International Monetary Fund (IMF) projects global real GDP growth to improve in 2016 with growth of 3.4 per cent before accelerating to 3.6 per cent in 2017.

Emerging market and developing economies, outside of China, are projected to have faster growth in the coming years. The IMF forecasts that Brazil and Russia will return to positive growth in 2017 and India's growth will be more important to global activity as it benefits from policy reforms and lower commodity prices. Growth in the advanced economies is also expected to strengthen.

China's economy continues to slow and shift as it moves away from growth driven through investment and manufacturing. The service sector and market-driven consumer spending are expected to play a greater importance in the economy going forward, but the transition process may lead to increased volatility in China and globally.

Commodity Markets: Oil prices made a small rebound during the summer of 2015, but continued to slide thereafter (Chart 7.2). The benchmark US dollar price for a barrel of West Texas Intermediate (WTI) crude oil fell to US$30.32 in February 2016, 70 per cent lower than 18 months ago. The price of oil is expected to eventually increase as higher cost producers exit the market. However, the medium-term price path is still highly uncertain given current inventory accumulation, efficiency improvements, new sources of supply, Organization of Petroleum Exporting Countries (OPEC) policy, and geopolitical factors.

Chart 7.2 Oil and Natural Gas Prices Remain Very Low



WTI= Crude oil price $US per barrel, West Texas Intermediate
Natural gas price = $US per million British Thermal Units, Henry Hub
Source: US Department of Energy – Energy Information Administration

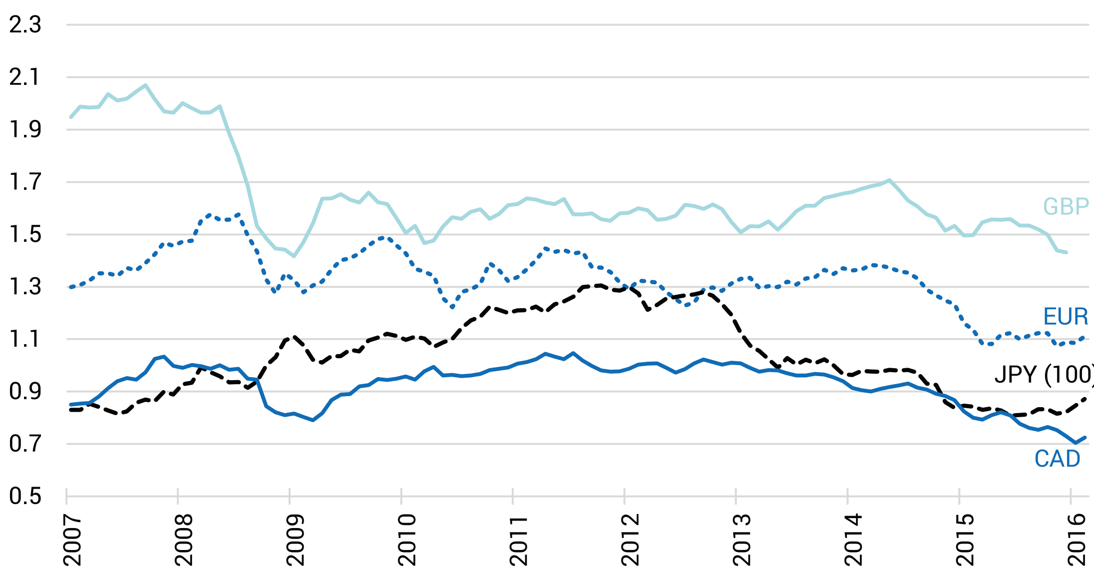
Natural gas prices have slid over the past two years and are expected to remain at subdued levels in the short term. Metal prices have fallen with China shifting growth away from investment and heavy manufacturing. Agriculture prices in US dollars were lower in 2015 due to stronger supply. Lumber prices are expected to increase as the US housing market improves.

US Economic Performance and Forecast Outlook: The US remains Nova Scotia's largest international trading partner. Over 70 per cent of international goods shipped from Nova Scotia are destined for the United States. Financial markets, monetary policy, and foreign exchange rates in the US are key factors for the economic climate in which Nova Scotia operates.

In 2014 and 2015, the US economy grew 2.4 per cent per year. Consumer spending is growing at a faster rate each year since 2012. Residential investment increased as US housing starts rose to over 1.1 million and home prices increased. Business investment was generally positive outside the oil and gas sector. A strengthening US economy has lifted the US dollar relative to most of its trading partners lowering US exports, but enhancing trade opportunities for countries exporting to the US, such as Canada (Chart 7.3). In 2015, Canada's foreign exchange rate depreciated at the fastest rate in decades, falling from an annual average of $0.905 USD to $0.782 USD. US Government consumption and investment grew for the first time since 2010.

Chart 7.3 US Dollar Appreciates Against Many Trading Partners

USD per foreign currency



Source: US Federal Reserve

The strengthening US economy and improving labour market conditions led the US Federal Reserve to raise its target range for the federal funds rate by 0.25 percentage points in December 2015, from 0.25 per cent to 0.5 per cent. Employment gains have remained solid even amid some weakening in other indicators. The unemployment rate has fallen to 5.0 per cent while the labour force participation rate rebounded after years of steady decline.

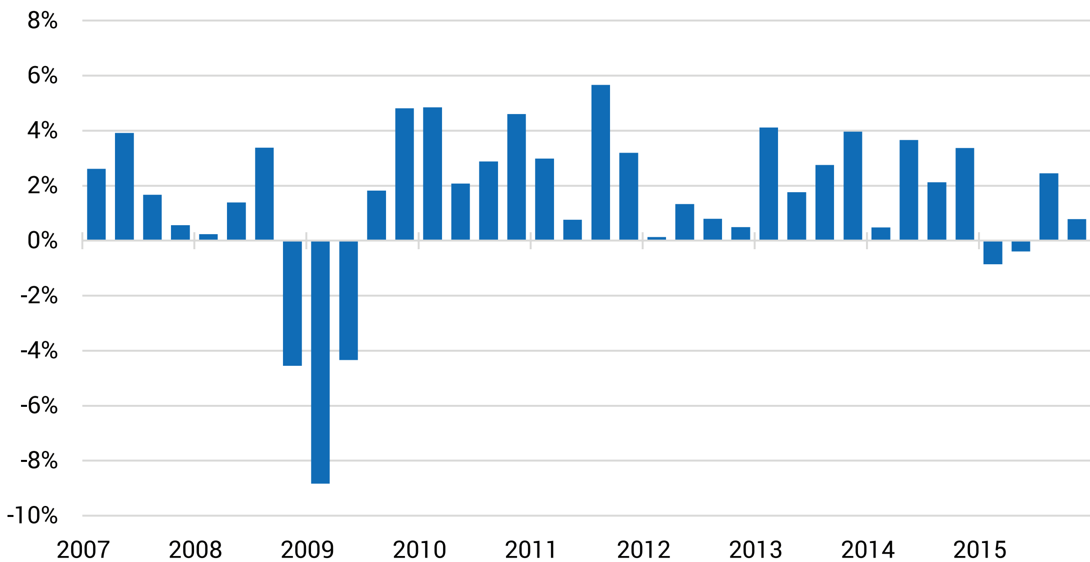
Inflationary pressures have been modest with the fall in energy prices and a strengthened US dollar. The Federal Reserve has expressed caution about increasing the federal funds rate in the short term. The Federal Reserve is signalling that monetary conditions will remain accommodative for some time and will be driven by the pace of improvement in the economy.

The United States economy is expected to continue to grow at about its current pace, expanding by 2.4 per cent in both 2016 and 2017. This outlook assumes employment improvements will continue and lower gasoline prices will continue to support domestic demand. Consumer fundamentals will remain solid and the housing market recovery will continue with new household formations. Government spending will accelerate to make a larger positive contribution to growth but net exports will remain a small drag for the US economy.

Canadian Economic Performance and Forecast Outlook: Canada's recovery and expansion from the 2009 recession depended heavily on investment in and exports from natural resource sectors. This ended with the recent collapse in commodity prices, especially oil. Prior to the collapse, Canada's recovery was disproportionately concentrated in provinces richly endowed with natural resources: Alberta, Saskatchewan, and Newfoundland and Labrador.

Chart 7.4 Energy Sector Weighs on Canada's Growth

Quarterly growth in real GDP, seasonally adjusted annualized rate



Source: Statistics Canada, CANSIM table 380-0064

Falling energy prices pulled Canada into a technical recession during the first half of 2015, though the downturn was concentrated in the oil-producing regions (Chart 7.4). By the third quarter, Canada was again reporting solid economic growth coming from consumer spending and recovering exports. In the fourth quarter, a retreat in consumer spending and exports slowed growth again. With the completion or suspension of oil projects that once dominated Canada's non-residential investment, capital spending has been a drag on Canadian economic growth in 2015.

The lower Canadian dollar has pushed up retail food costs in Canada. The Consumer Price Index increased 1.1 per cent in 2015, with a 9.6 per cent decrease in energy costs offset by increases in food prices. The consumer price index excluding food and energy was up 1.8 per cent in 2015.

In 2015, government spending slowed as both federal and provincial governments repaired deficits after previous years of stimulus investments. After the 2008 recession, employment growth only kept pace with population growth (Chart 7.5). From 2010 to 2013, employment grew at around 1.4 per cent per year. As oil prices fell in 2014 and 2015, employment growth slowed to 0.6 and 0.8 per cent respectively.

Chart 7.5 Canadian Employment Rates Remain Below Pre-Recession Levels

Employment-to-population ratio, aged 15+, seasonally adjusted

Source: Statistics Canada, CANSIM table 282-0087

Deteriorating labour market conditions were particularly noticeable in oil-producing regions of the country. Since 2013, monthly unemployment rates have risen by over 3 per cent in Alberta and by over 2 per cent in Saskatchewan and Newfoundland and Labrador. Over the same period, unemployment rates have fallen in Ontario and, to a lesser extent, in other non-energy producing provinces.

Demographics are also influencing longer trends in Canada's labour markets. Participation and employment rates have been below pre-recession levels as the baby boom cohort pushes a larger share of the population into traditional retirement ages. Although this phenomenon is widespread across the country, it is particularly acute in Atlantic Canada.

Notwithstanding its long run demographic challenges, Canada's immediate economic difficulties were expected to be short-lived if the falling Canadian dollar could stimulate growth in non-energy sectors. Under this assumption, output would shift from provinces dependent on national resource production to provinces with manufacturing and service capacity for non-energy products. Those provinces will also benefit from lower costs for gasoline and other fuels.

There remain uncertainties about the capabilities of Canada's manufacturing sectors to increase output. Years of cost cutting and capacity reductions caused by a stronger currency and global market shifts may have diminished the country's manufacturing potential. Even if the US recovery continues and foreign exchange rates make Canadian products more competitive, manufacturers may struggle to expand and improve productivity as imported machinery and equipment are typically priced in US dollars.

Canada's economic outlook is assumed to remain soft in the near term, with real GDP growing by 1.5 per cent in 2016. Conditions that led to the slower pace from the fourth quarter of 2015 are expected to carry over into 2016, though there may be more growth in the second half of the year. Canada's real GDP is expected to grow by 2.2 per cent in 2017.

These external assumptions do not provide for initiatives announced as part of the federal government's 2016–2017 budget, tabled on March 22, 2016. However, it is consistent with private sector economists and the federal budget economic outlook that do reflect these initiatives.

Budget Economic Assumptions

Key economic assumptions for the budget, shown in Table 7.1 below, are based on data and information available as of January 22, 2016.

Table 7.1 External Economic Assumptions for Nova Scotia Budget Forecast

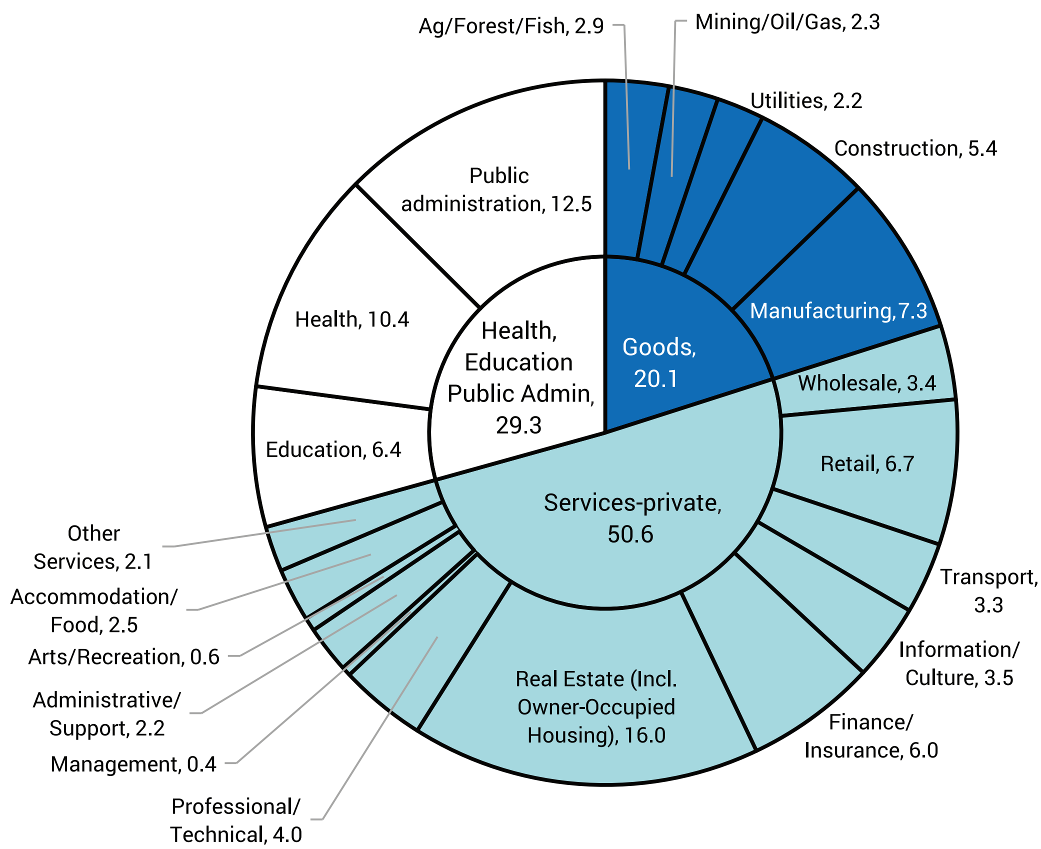
	2016	2017
US Real GDP Growth ($2009 chained)	2.4	2.4
Canada Real GDP Growth ($2007 chained)	1.5	2.2
Canada Nominal GDP Growth ($current)	2.4	3.8
USD/CAD exchange rate	.729	.767
Natural Gas (USD/mmBTU, Henry Hub)	2.65	3.22
Crude Oil (USD/bbl, WTI)	38.54	47.00
Canadian Prime Lending Rate	2.4	2.8
5 Year Conventional Mortgage Rate	4.8	5.4

Nova Scotia's Economy

Economic Structure: Production in the goods sector accounts for 20 per cent of the gross domestic product generated in the province (Chart 7.6). Services in the private sector account for just over 50 per cent of GDP while health, education, and public administration amount to just under 30 per cent of output.

Chart 7.6 Goods Sector Accounts for 20 per cent of Provincial GDP

Share of GDP, 2014

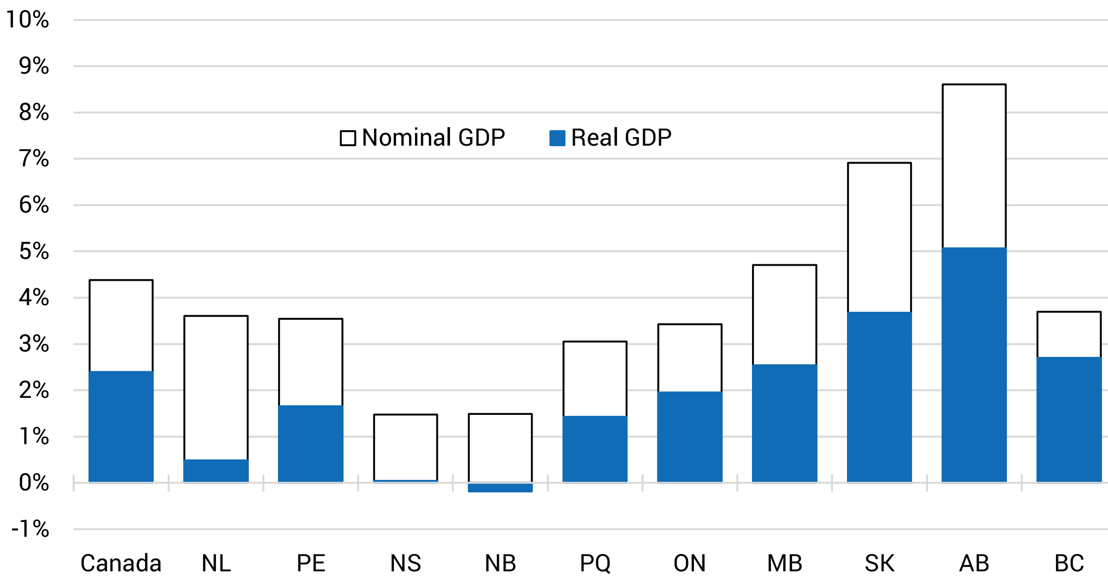


Source: Statistics Canada, CANSIM table 379-0028

Gross Domestic Product: From 2010 to 2014, Nova Scotia's real GDP was virtually unchanged (Chart 7.7). The size and growth of Nova Scotia's GDP has been adjusted down in historical revisions to the Provincial Economic Accounts by Statistics Canada. Over this period, real GDP in the province grew by only 0.05 per cent per year. Any growth in nominal output is attributable only to rising prices. Nominal GDP increased by 1.5 per cent per year.

Chart 7.7 NS Real GDP Almost Unchanged from 2010–2014

Compound Annual Growth Rate



Source: Statistics Canada, CANSIM table 384-0038

Over many previous decades, Nova Scotia's income per capita has grown faster than the national average, resulting in the province catching up to the national standard of living. In the last five years, Nova Scotia's per capita real GDP fell from 81.0 per cent of the national average to 77.2 per cent of the national average.

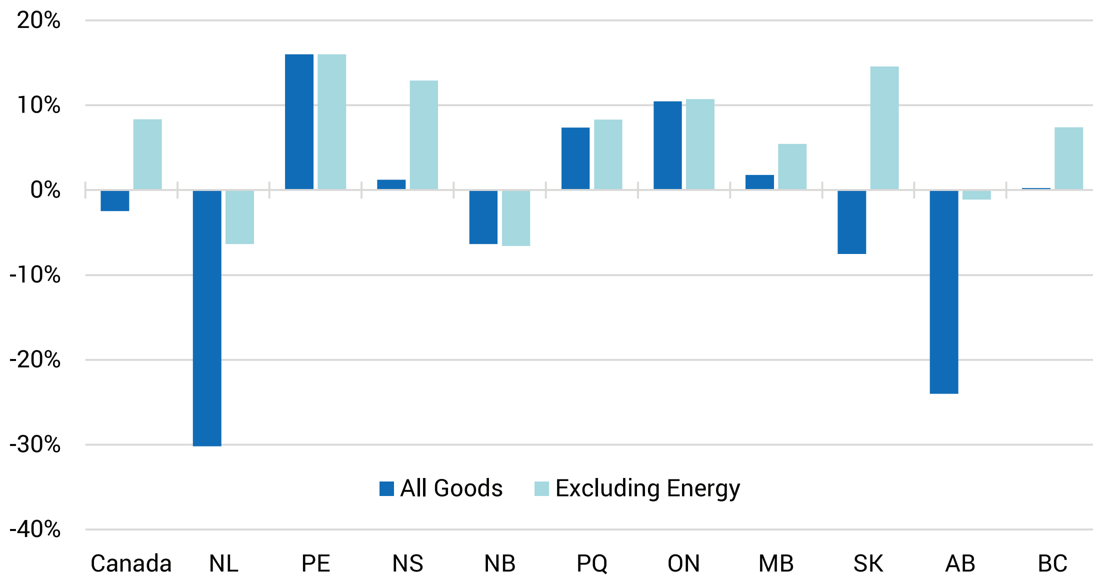
During the 2010–2014 period, the provincial economy faced numerous shocks, including restraint in federal government and military employment, slowing government capital expenditures, closures in forestry and manufacturing sectors, building of new industrial and commercial facilities in Halifax, corrections in housing construction, as well as the introduction of natural gas output from the Deep Panuke platform. There were also persistent trends: rising exports of non-energy goods and commodities, declining natural gas output from the Sable offshore energy project, net interprovincial population outmigration, and increasing retirement of an aging workforce.

In 2015, the global economic environment shifted on the substantial and unexpected persistence of lower oil prices. There are a number of ways in which this affects Nova Scotia's economy, but on balance the effect is generally positive for the province, as it is for many oil importers.

Exports: With lower oil prices, the value of the Canadian dollar has depreciated considerably, making Nova Scotia's exports more competitive in international markets. Domestic non-energy goods exports continued their rise, gaining 12.9 per cent in 2015. This more than offset the decline in the value of energy exports as output from the Deep Panuke and Sable natural gas fields declined. Nova Scotia's manufacturing shipments led the country in growth at 6.4 per cent.

Chart 7.8 Non-Energy Exports offset Falling Natural Gas Output in Nova Scotia

Growth 2015 international goods exports, customs basis



Source: Statistics Canada, CANSIM table 228-0060

Inflation: Lower oil prices have slowed inflation; the consumer price index grew by just 0.4 per cent in Nova Scotia during 2015. This can be seen in the significant decline in retail sales at gasoline stations, which dropped by over $350 million. Outside of gas stations, Nova Scotia's retail sales grew by 3.2 per cent last year, led by 6.7 per cent increase in the value of new motor vehicle sales.

Labour Market: The decline in oil prices even appears to be reversing long-standing migration and labour market trends in Nova Scotia. During 2015, Nova Scotia's net out-migration to other provinces slowed. At the same time the number of people moving into the province rose. The decline in the size of the labour force slowed in 2015 and employment grew for the first time since 2012. At 8.6 per cent, Nova Scotia's unemployment rate is the lowest since 2008 and below its long run average. Employee compensation rose by 2.2 per cent in 2015 and average weekly earnings among all sectors was up by 1.8 per cent.

Employment for youth (aged 15–24) grew 2.1 per cent (+1,300) in 2015 after four years of decline. The youth population and labour force continue to decline; the labour force for 15–24 year olds declined in 2015 continuing its downward trend since 2004.

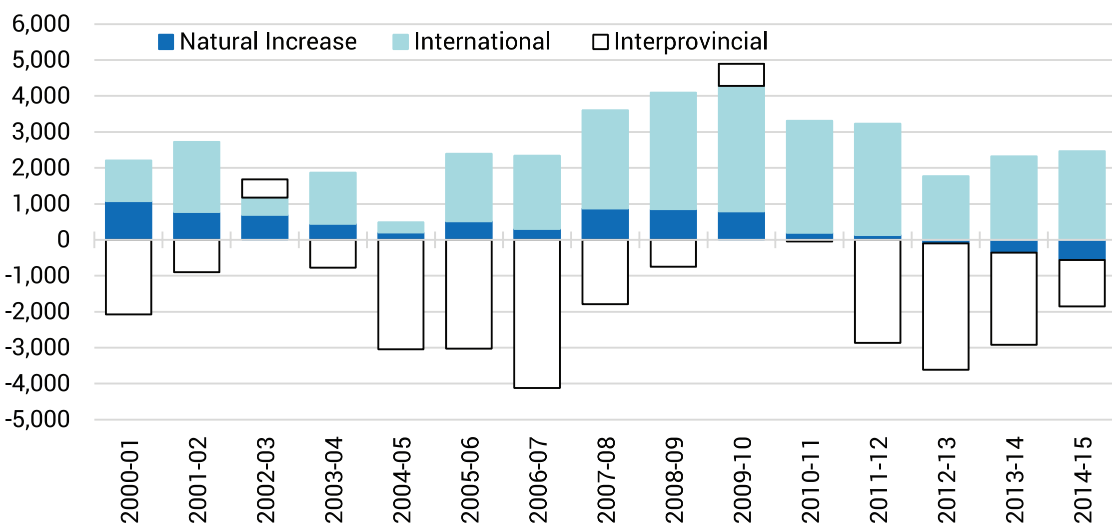
The unemployment rate for youth declined from 17.8 per cent to 15.3 per cent in 2015, its lowest level since 2008. The youth unemployment rate had been trending down prior to the global economic downturn but rose in Nova Scotia and Canada in 2009. The youth unemployment rate increased further in Nova Scotia over the 2010 to 2012 period.

One of the possible signs of the effects of slowdown in oil investment activity is the rising number of employment insurance beneficiaries in Nova Scotia and the decline in the job vacancy rate. The increasing slack in the labour market may allow for additional employment on major projects without causing wage pressure and diversion from other activities.

Population: Nova Scotia's overall population experienced a period of growth from 2002 to 2004 as well as from 2008 to 2012. Otherwise, population has remained stable or declined. In the most recent quarters Nova Scotia's population started to grow again, reaching an all-time high of 945,824 as of January 1, 2016. For January 1 to December 31, 2015, deaths continue to outnumber births in Nova Scotia. Immigrants to Nova Scotia totaled more than 3,400 in 2015, the largest number since 1995 (Chart 7.9). Net interprovincial migration resulted in an outflow of 1,198, the smallest figure in five years.

Chart 7.9 International Migration is Nova Scotia's Source of Population Growth

Change in Population, July 1 – June 30



Source: Statistics Canada, CANSIM table 051-0004

Construction: A number of developments in the domestic economy have also been supportive of growth. The provincial housing market recovered much of the ground lost in 2014, with over 3,800 housing starts particularly concentrated in multi-unit dwellings. Non-residential building construction rose by 10.9 per cent on Halifax commercial properties as well as industrial sector investments outside the city.

Major Projects: Major projects and investment activities often have a visible impact on the Nova Scotia economy. With commencement of substantial activity in construction of the Arctic Offshore Patrol Ships at the Halifax Shipyard, the first effects of the National Shipbuilding Procurement Strategy are becoming visible in the provincial economy.

Likewise, several other ongoing projects are expected to contribute to strong investment in the coming years: the redecking of the Macdonald Bridge, construction of the Nova Centre, connection of the Maritime Link, and offshore exploration by Shell and BP. Over the coming years, Nova Scotia's growth will depend on continued investment activity on these major projects to sustain growth.

There are a number of other major investment projects under consideration and development; however, these are not included in the economic outlook presented here as their likelihood and/or impacts are still uncertain. These include the Donkin coal mine, liquefied natural gas projects and initiatives announced as part of the federal government's 2016–2017 budget.

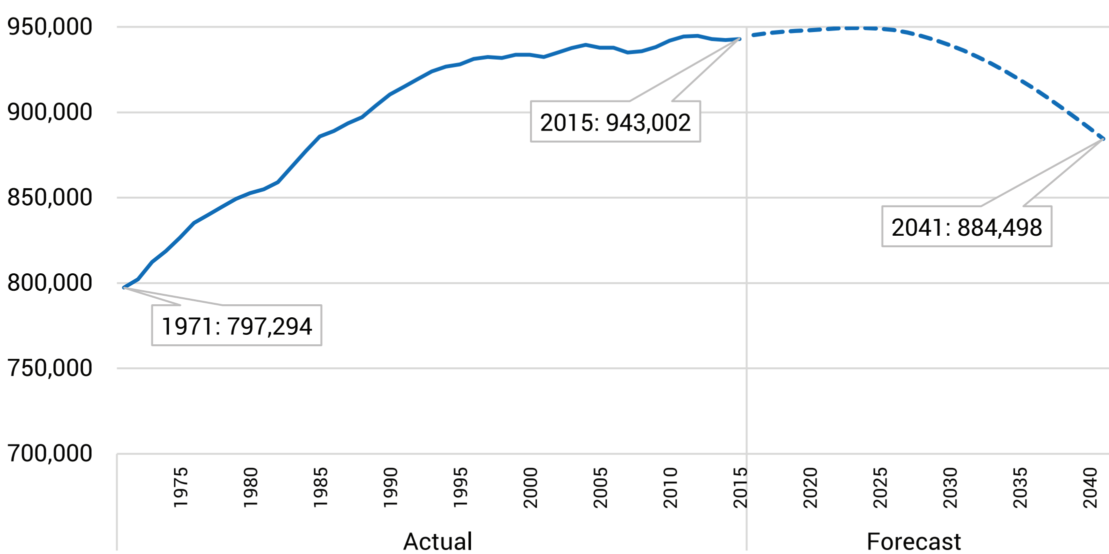
Nova Scotia's Economic Outlook

Nova Scotia's economic outlook reflects the volatility and uncertainty in both global and domestic economic conditions. This outlook reflects data and information available as of January 22, 2016.

Nova Scotia Population: Currently, less than 19 per cent of Nova Scotians are aged 65 years or older. About 17 per cent are under the age of 18, and 64 per cent fall into the conventional working age between 18 and 64 years. Since 2013, those in the 65 and over age cohort have outnumbered the youth cohort under the age of 18. Nova Scotia Finance and Treasury Board projects this trend to continue (Chart 7.11).

Chart 7.10 Nova Scotia Population Projections: a Decade of Stability, then a Decade of Decline

Population: all ages, as of July 1

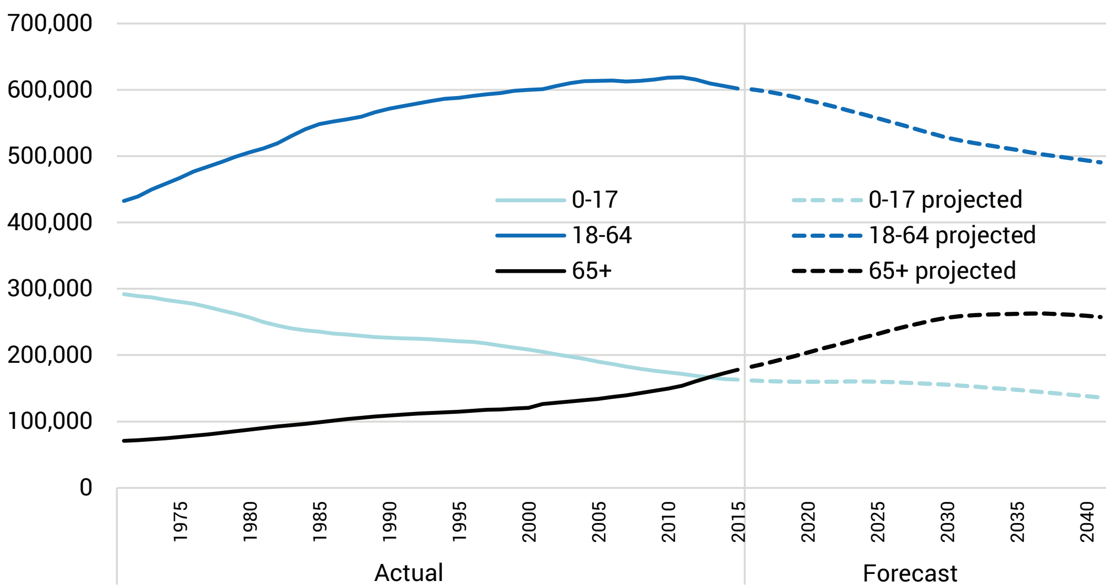


Source: Statistics Canada, CANSIM table 051-0001, Nova Scotia Department of Finance and Treasury Board

With the aging of the baby boom cohort into the traditional retirement age of 65 and lower birth rates among subsequent generations, Nova Scotia's population has reached a plateau. In the near term, Nova Scotia may see positive population growth through interprovincial and international migration (Chart 7.10). In the longer term, the passing of the baby boom cohort into their elderly years will put downward pressure on the working age cohort aged 18 to 64 years. The population aged 18 to 64 is projected to decline from 63.8 per cent of the population in 2015 to 55.5 per cent in the next 25 years (Chart 7.11).

Chart 7.11 Population Aging is Reducing Number of Working Age Nova Scotians

Population by age cohort



Source: Statistics Canada, CANSIM table 051-0001, Nova Scotia Department of Finance and Treasury Board

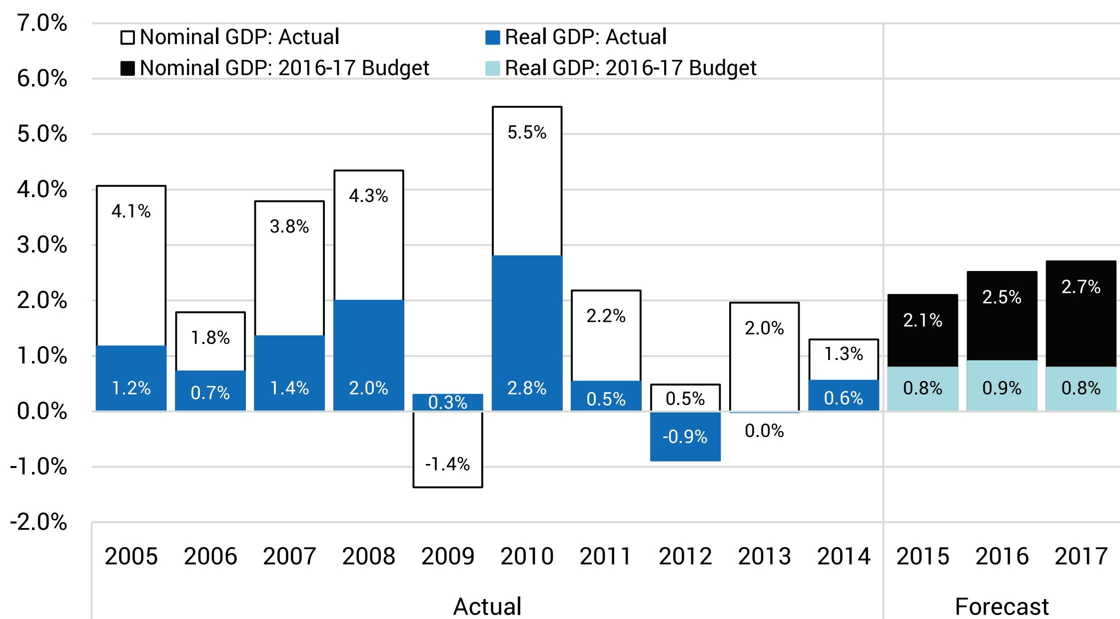
GDP: Nova Scotia's economy is projected to have grown by 0.8 per cent in real terms during 2015. Nominal Gross Domestic Product (GDP) growth was limited by lower consumer prices to an estimated 2.1 per cent. For 2016, the economic outlook indicates that Nova Scotia's real GDP will grow by 0.9 per cent. This will be followed by growth of 0.8 per cent in 2017 (Chart 7.12).

Nominal GDP growth is expected to accelerate to 2.5 per cent in 2016 and 2.7 per cent in 2017. Trends emerging in 2015 are expected to continue through 2016. Major project investments are expected to continue sustaining growth, including a full year of production at the Halifax shipyard and ongoing work on the Nova Centre, Maritime Link, and offshore exploration projects. Nominal GDP and its components correlate to the revenue potential of key tax bases, including household income, consumer expenditures, and residential construction.

Contributions to growth from major investments are expected to slow in 2017 as a number of projects reach conclusion (Chart 7.13).

Chart 7.12 Nova Scotia's Outlook for Real and Nominal GDP

Compound Annual Growth Rate



Source: Statistics Canada, CANSIM table 384-0038, Nova Scotia Department of Finance and Treasury Board

Chart 7.13 Contributions to Nova Scotia's Nominal GDP Growth

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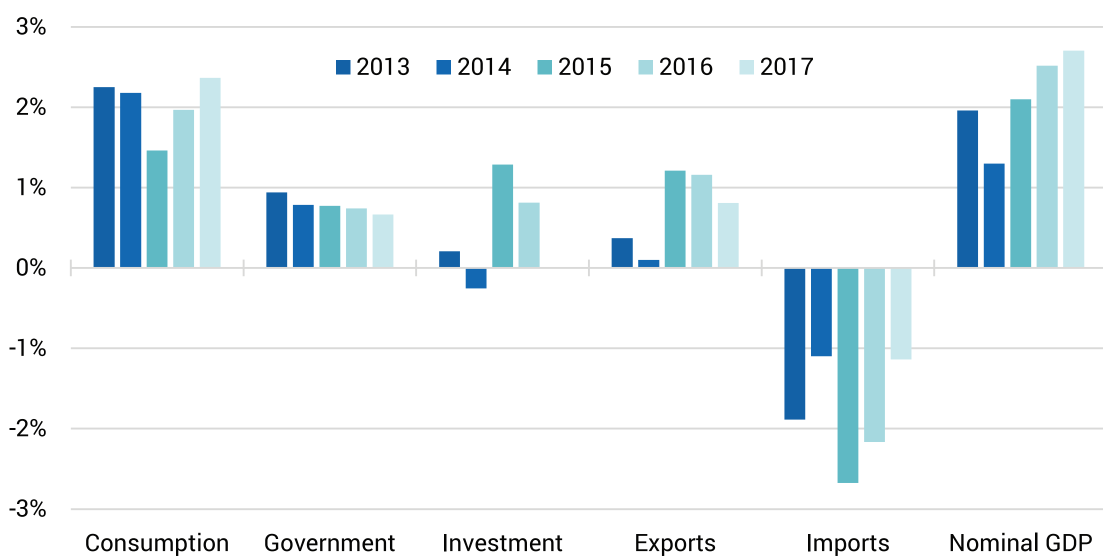

Source: Statistics Canada, CANSIM table 384-0038, Nova Scotia Department of Finance and Treasury Board

Exports: While oil prices remain low, a favourable foreign exchange rate and rising US demand are expected to keep Nova Scotia international goods exports recovering, rising by 4.7 per cent in 2016 and by 2.8 per cent in 2017 (Chart 7.14). Growth in non-energy merchandise exports is expected to more than offset the declining value and volume of natural gas shipped to the US.

Over the medium term, a return to higher oil prices and foreign exchange rates will coincide with rising interest rates to slow the contribution to Nova Scotia's growth from the external sector.

Chart 7.14 Nova Scotia's Outlook for International Goods Exports

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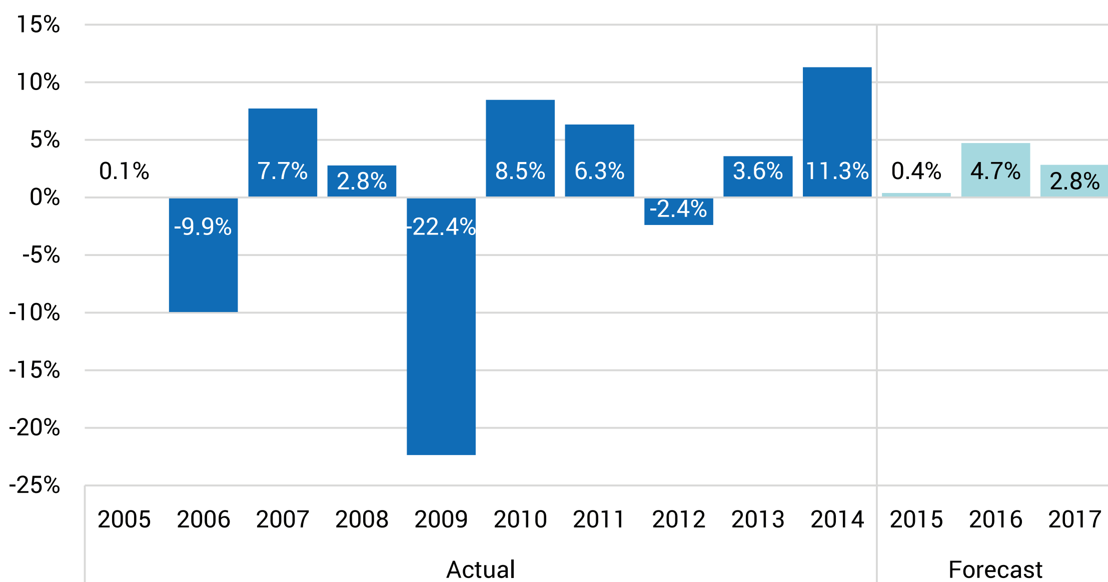
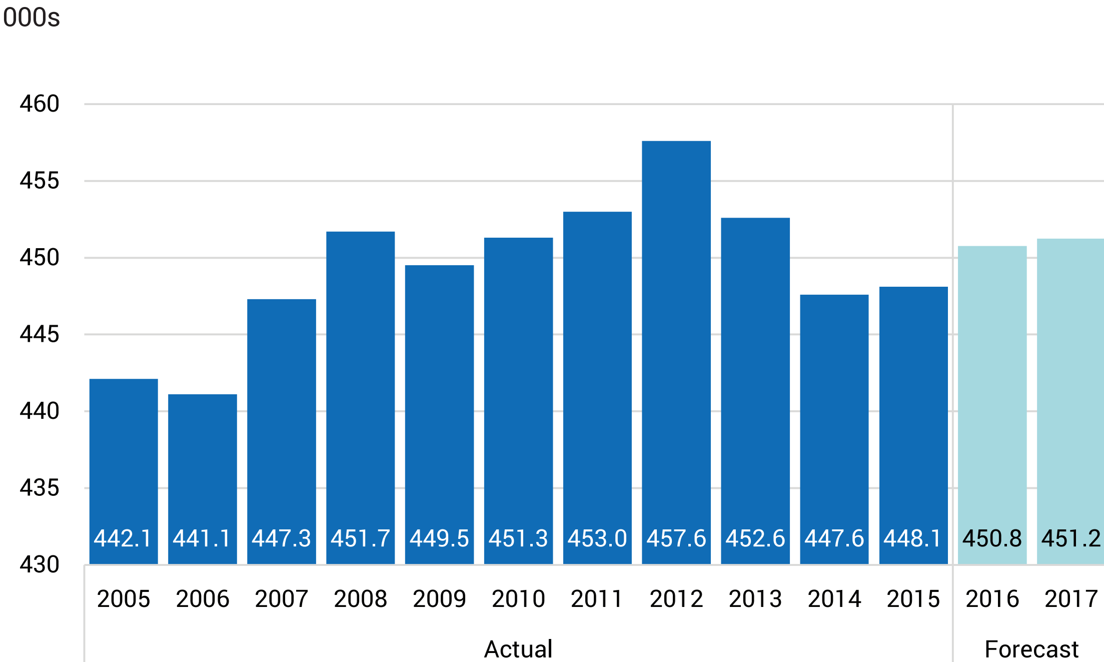


Source: Statistics Canada, CANSIM table 384-0038, Nova Scotia Department of Finance and Treasury Board

Employment: In the short term, the combination of major project investments, non-energy exports, and a stable labour supply are expected to contribute to some modest employment growth for Nova Scotia in 2016 and 2017 (Chart 7.15).

Chart 7.15 Nova Scotia's Outlook for Employment



Source: Statistics Canada, CANSIM table 282-0002, Nova Scotia Department of Finance and Treasury Board

At under 452,000, employment levels are not expected to return to the highs recorded in 2012. Although returning workers displaced by slowing oil investment will stabilize the labour force, this is expected to be a temporary phenomenon. Continued retirement of the large baby boom cohort is still expected to limit labour supply and employment growth. The Nova Scotia unemployment rate is projected to remain below its recent average—8.4 per cent in 2016 and 8.1 per cent in 2017.

Household Income: With limited employment gains, growth in household income is likely to be attributable to wage and productivity improvements in the short run. The Nova Scotia economic forecast anticipates that employee compensation will grow by 2.5 per cent in 2016 and by 2.4 per cent in 2017 (Chart 7.16).

Chart 7.16 Nova Scotia's Outlook for Employee Compensation and Household Income

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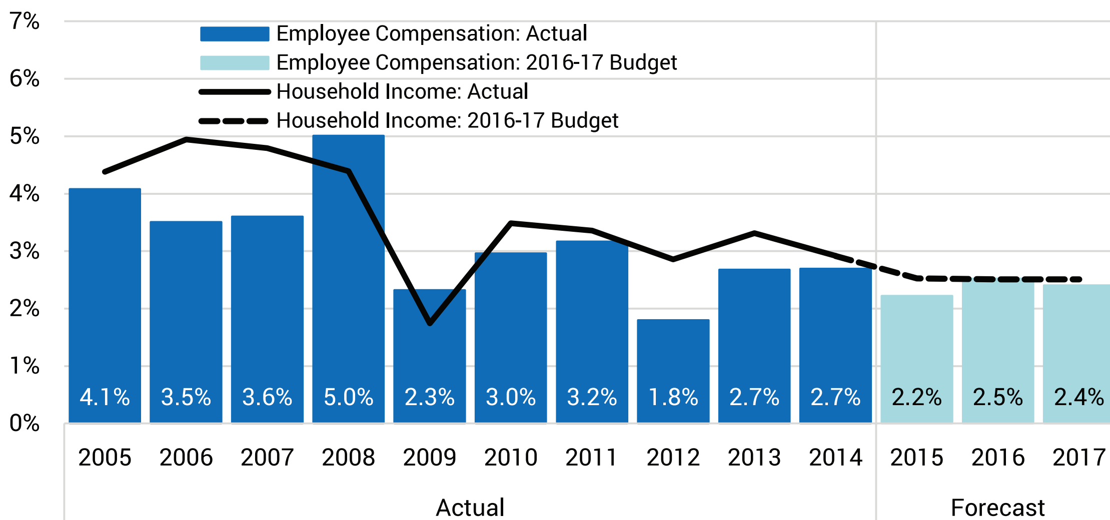

Source: Statistics Canada, CANSIM table 384-0042, Nova Scotia Department of Finance and Treasury Board

Overall household income is expected to match this pace, though there are increasing contributions from public and private pension income sources.

Household Consumption: Nominal household consumption is expected to grow by 2.7 per cent in 2016 and by 3.2 per cent in 2017 as income growth and lower oil prices improve household purchasing power (Chart 7.17). The household consumption forecast is consistent with the growth rates observed for 2012–2014, but higher than expected growth of 2.0 per cent in 2015, which was weighed down by low oil prices.

Chart 7.17 Nova Scotia's Outlook for Household Consumption

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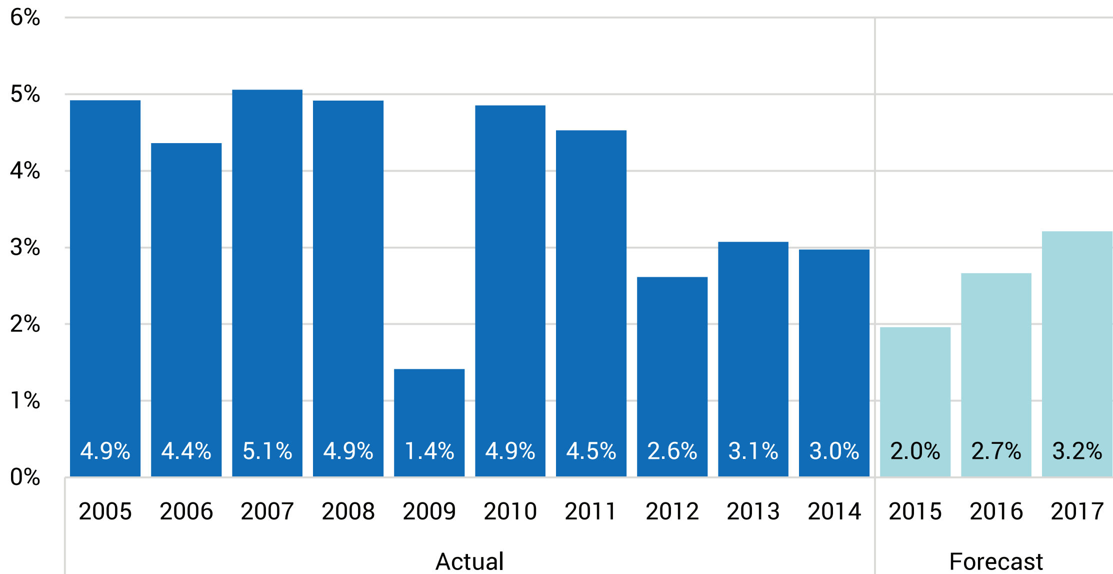
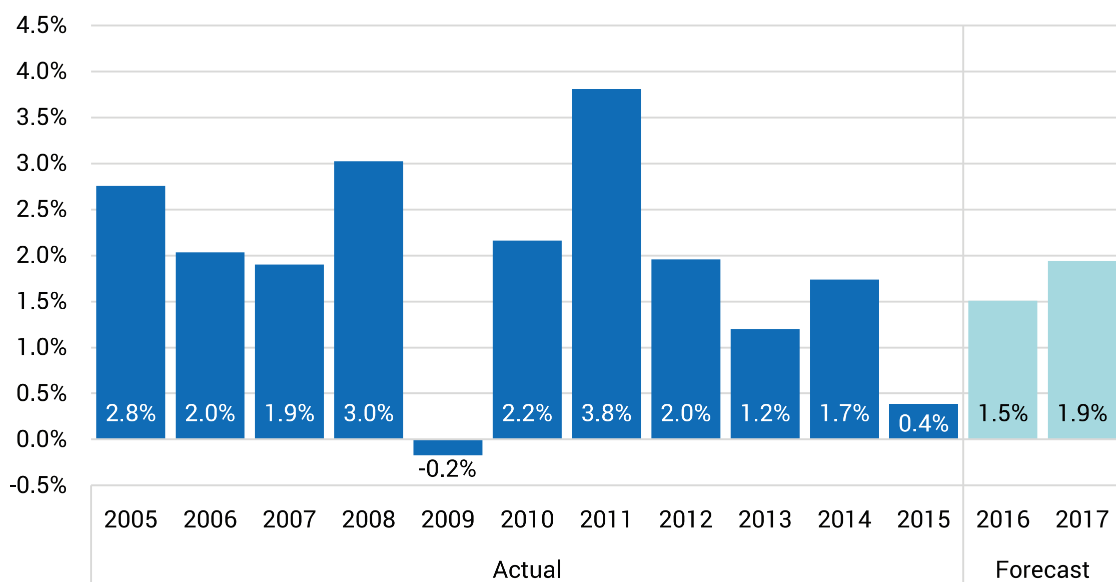


Source: Statistics Canada, CANSIM table 384-0038, Nova Scotia Department of Finance and Treasury Board

Inflation: Consumer price inflation is projected to remain modest in the face of lower energy prices, boosting the real purchasing power for Nova Scotia's households.

Chart 7.18 Nova Scotia's Outlook for Consumer Price Index

Growth, annual average



Source: Statistics Canada, CANSIM table 326-0021, Nova Scotia Department of Finance and Treasury Board

Residential Construction: The apparent recovery in residential housing investment observed in 2015 merely brought activity levels closer to their long run average after a sharp correction in 2014. In 2016, the economic outlook anticipates that a number of major multi-unit housing projects in Halifax will continue towards completion, leading to annual growth of 3.1 per cent (Chart 7.19). However, the limited number of residential building permits in late 2015 suggests that housing activity will decline towards the end of the year and will shrink by 3.5 per cent in 2017.

Chart 7.19 Nova Scotia's Outlook for Residential Construction Investment

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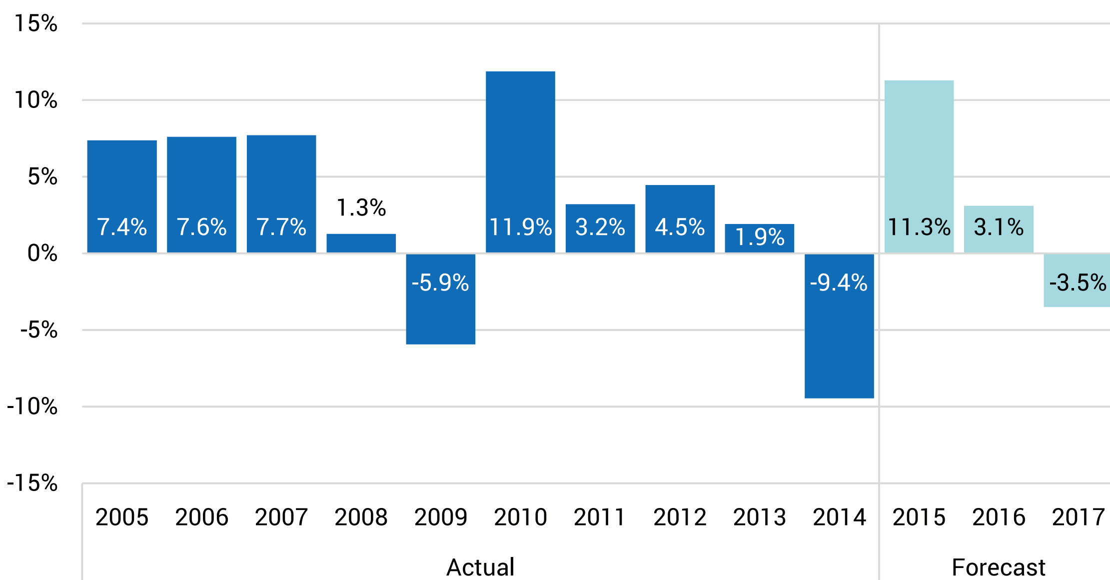


Source: Statistics Canada, CANSIM table 384-0038, Nova Scotia Department of Finance and Treasury Board

Nova Scotia Economic Forecast

Table 7.2 presents a summary of the Nova Scotia economic outlook. This outlook is used in preparing revenue estimates. Table 7.3 presents an average of forecasts for Nova Scotia prepared by economists at banks and think tanks. The estimated economic growth for 2015 is consistent with the average of private sector forecasters, considering the latest indicators available about that year (as of January 22, 2016).

Table 7.2 Summary Nova Scotia Budget Economic Forecast

The Nova Scotia economic forecast contains data and information up to and including January 22, 2016.

(Per cent change, except where noted)	2015	2016	2017
Real GDP ($2007 chained)	0.8%	0.9%	0.8%
Nominal GDP	2.1%	2.5%	2.7%
Compensation of Employees	2.2%	2.5%	2.4%
Household Income	2.5%	2.5%	2.5%
Household Final Consumption	2.0%	2.7%	3.2%
Retail Sales	0.0%	1.2%	2.4%
Consumer Price Index	0.4%[a]	1.5%	1.9%
Investment in Residential Structures	11.3%	3.1%	-3.5%
Net Operating Surplus: Corporations	-0.9%	2.9%	2.8%
Exports of Goods to Other Countries	0.4%	4.7%	2.8%
Population at July 1 (thousands)	943.0[a]	945.3	946.4
Employment (thousands)	448.1[a]	450.8	451.2
Unemployment Rate, Annual Average	8.6%[a]	8.4%	8.1%

a ~ actual (forecast growth rates apply to actuals as known by January 22, 2016)

Comparison with Private Sector Forecasters' Outlook

In 2016 and 2017 the Department of Finance and Treasury Board's forecasts for economic growth are below the range of private sector forecasters, on both a real and nominal GDP basis (Table 7.3).

Private sector forecasters have been consistently optimistic in their outlook for the Nova Scotia economy when compared against Statistics Canada's latest results for the province. Indeed, Statistics Canada has even revised its own previously reported economic accounts for Nova Scotia down. In light of this, the Department of Finance and Treasury Board's lower projections for economic growth mitigate downside risks to the fiscal plan.

Table 7.3 Private Sector Forecasters' Outlook for Nova Scotia

	2015	2016	2017
Real GDP ($2007 chained)	1.2%	1.6%	1.5%
Minimum of private sector forecasters	*0.5%*	*1.2%*	*1.2%*
Maximum of private sector forecasters	*1.8%*	*2.3%*	*1.7%*
Nominal GDP*	2.7%	3.3%	3.4%
Retail Sales*		3.8%	2.5%
Consumer Price Index		1.9%	2.0%
Employment		0.6%	0.5%
Unemployment Rate		8.5%	8.3%

Average of forecasts as published by January 22, 2016
*Only a limited number of forecasters publish an outlook for nominal GDP and for retail sales

Risks to the Economic Forecast

The Nova Scotia Budget economic assumptions constitute a forward-looking assessment of economic conditions and prospects for the province, based on external data and information up to January 22, 2016. As new data and information is revealed subsequent to January 22, 2016, the results of the forecast are subject to change. Any new information and deviations from Nova Scotia Budget economic assumptions will be incorporated into subsequent forecasts and published in future updates.

Nova Scotia's economic outlook is subject to domestic risks within the provincial economy, external risks from economic events elsewhere in the world, and technical risks due to issues with data and modelling. In the short run economic forecast, most of Nova Scotia's domestic economic risks are persistent—risks that have caused uncertainty in the economic outlook for several years. These include downside risks from natural gas production and household debt as well as upside risks from major projects and low oil prices.

Natural Gas: Although the province attempts to project the typical decline that occurs as natural gas fields mature, the level of reserves, output, and prices may decline faster than assumed. In recent years, this risk has materialized largely through changes to reserves and output from the Sable and Deep Panuke fields.

Interest Rates: The current interest rate environment offers favourable conditions for Canadians to accumulate debt for mortgage, investment, or consumption purchases. Canadian data suggest that households across the country have accumulated significant debt relative to income. At the present, there is little to suggest that Canadians and Nova Scotians need or are inclined to deleverage household balance sheets, but pressures in oil regions could change this. Adverse shocks to interest rates, incomes, or housing prices could all result in falling consumer confidence and associated expenditures.

Major Projects: This forecast only makes provision in the economic forecast for those major projects and investments that are beyond the development stage and for which the economic impacts are clear. There are a number of major projects that are under active discussion or development for Nova Scotia that are not included in this economic forecast, including the Donkin coal mine, liquefied natural gas terminals, and federal investments to stimulate aggregate demand. If these materialize, the economic outlook would be lifted by additional capital expenditures. Changes to the timing of projects currently underway could also affect the economic outlook.

Oil Prices: The persistence and depth of the oil price decline has been a significant surprise to the entire global economy. As an oil importer, lower prices benefit Nova Scotia by boosting the purchasing power of household incomes and improving the cost competitiveness of domestically produced goods and services. The 2016–2017

Budget economic forecast reflects explicit assumptions that oil prices will improve household purchasing power and consumption in Nova Scotia. There are implicit assumptions that in the short run low oil prices will continue to drive a competitive foreign exchange rate and low interest rates. Changes to oil prices would change these assumptions.

Federal Stimulus and Monetary Easing: The impact of low oil prices on the Canadian economy may also prompt federal authorities to adopt more aggressive monetary and fiscal policies to close a growing output gap, particularly if Canadian manufacturing and service sectors prove unable to rebound with the low foreign exchange rate. The Nova Scotia Budget economic assumptions do not incorporate any such plans for additional stimulus through unconventional monetary easing. This economic outlook does not incorporate the effects of departmental spending plans, infrastructure investments, and additional transfers to persons announced in the federal government's 2016–17 budget. Insofar as these federal initiatives could prompt additional expenditures in the Nova Scotia economy, they are an upside risk to the economic outlook. Once further details of these expenditures are available, they will be incorporated into updated economic projections.

Demographic: Over the medium term, Nova Scotia's economic outlook continues to be clouded by the uncertain effects of a large demographic shift. The large baby boom cohort is reaching traditional retirement age and withdrawing their labour supply. Over the next 10 to 15 years, this could put considerable pressure on producers to raise both productivity and wages in order to maintain current output levels. Otherwise, the province could face a constraint on the pace of growth over the long run.

In 2015, Nova Scotia saw signs of labour market slack and increased usage of employment insurance. This suggests that demographic pressure may be modest while low oil prices stem major investments projects and population movements in Western Canada. However, over the medium and long term, Nova Scotia's significant demographic challenges remain.

Global Economy: For 2016, US growth appears to be gaining traction and Chinese authorities appear resolute in their plans to expand domestic consumer markets. However, there may be further geopolitical risks that cause yet another disappointment in global economic forecasts. In most years since the great recession in 2008 and 2009, a series of global uncertainties and shocks have weighed on growth for both advanced and developing economies. These include the regime changes in major oil producing regions during the Arab Spring, the European sovereign debt and banking crises, fiscal gridlock in the United States, and border skirmishes in Eastern Europe. In 2015, the global economy was buffeted by instability in Chinese equity and foreign exchange markets as well as Europe's struggle to absorb mass migration from the Middle East.

While global geopolitics are typically downside risks to the economic forecast, there are potential upside risks for Nova Scotia's medium term outlook resulting from changing the patterns of trade. The Nova Scotia Budget economic forecast makes no explicit provision for the impacts of the Canada-EU Comprehensive Economic and Trade Agreement. This could open considerable opportunities for Nova Scotia producers to serve a large and affluent consumer market. Likewise, China's attempt to reorient growth away from a cycle of building production facilities and exporting to advanced economies may offer better trade opportunities for Nova Scotia, even though the overall pace of Chinese growth is expected to slow.

Economic Forecasting Process

Section 56(3)(b) of the Finance Act requires the Minister of Finance to present the major economic assumptions made in preparing the fiscal plan. The Nova Scotia Department of Finance and Treasury Board prepares economic forecasts as part of the fiscal planning process.

Economic forecasts help inform the Minister of Finance and Treasury Board of the potential size of tax bases. The economic forecast also provides the Minister and the Treasury and Policy Board with context on the size of government expenditures relative to the entire value of production in the province. Nominal GDP growth is the broadest indicator of the size of the tax base and of the dollar value of production in the province. However, it is generally the sub-components of nominal GDP that are directly incorporated into the Nova Scotia Budget revenue forecast.

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 a number of external assumptions about global conditions that affect the performance of Nova Scotia's economy. The demographic and economic outlooks presented in this document are based on data and information available up to January 22, 2016, with additional information about the Canadian and US economic outlook as of February 12, 2016. The economic forecast was finalized and approved for use in fiscal planning as of March 2, 2016.

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.

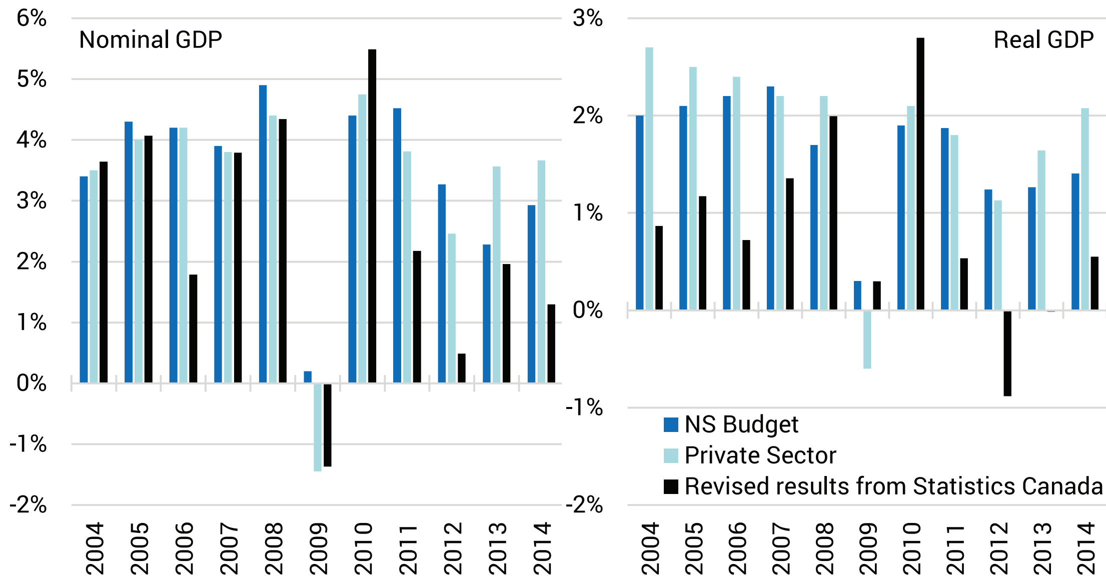
Review Process: The Department of Finance and Treasury Board conducts challenge and review sessions to validate the economic forecast. Before using economic assumptions and forecasts for budget planning, the Department of Finance and

Treasury Board presents them to members of the academic community and leading private-sector forecasters. These experts evaluate whether the exogenous assumptions and resulting economic forecasts form a reasonable and internally coherent basis for fiscal planning. Department staff note any challenges to the economic forecast and determine whether further adjustments are necessary. Senior management of the Department of Finance and Treasury Board participate in challenge sessions, so that they can hear credible, objective advice on whether the economic forecast is a reasonable basis for fiscal planning.

After the economic forecast has been challenged, reviewed, and approved, it is shared with the Office of the Auditor General (OAG) for further review as part of the OAG's review of revenue estimates. In addition to scrutinizing the reasonableness of the forecast itself, the OAG ensures that the economic forecast reflects consistent process, full disclosure of assumptions, professional judgment, and appropriate approvals. The OAG's review of economic forecasts is a unique procedure in Canada, providing an additional layer of transparency in the budget process.

Forecast Accuracy: Despite these efforts to minimize changes to the economic forecast, unforeseen and unforeseeable events will undermine the accuracy of any forward-looking statement (Chart 7.20). 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. In recent years, these have included closure of major industrial facilities, unanticipated slowdowns in natural gas production, and federal government austerity.

Chart 7.20 Forecast Accuracy



Source: Statistics Canada, CANSIM table 384-0038, private sector forecasters, Nova Scotia Department of Finance and Treasury Board

Forecasting provincial GDP and its components depends on estimation of key relationships and trends in Nova Scotia's economy. However, the variables used to estimate these relationships and trends are subject to historical data revisions by Statistics Canada. In 2015, Statistics Canada announced a series of substantial revisions to its previous estimates of Nova Scotia's economic accounts.

Among provinces, Nova Scotia had the largest negative revision (and largest revision overall) to its GDP, particularly in exports and investments. As a result of this and other conceptual changes to the measurement of income and expenditures for the provincial economy, Nova Scotia's overall nominal GDP has averaged 1.4 per cent below previous estimates over the 2011–2013 period. This restatement of GDP alters key fiscal ratios such as revenues, expenditures, and net debt expressed as a percentage of GDP.

Economic Performance and Outlook – Key Indicators

The following Tables provide details of key indicators for Nova Scotia's economic performance.

Table 7.4 Nova Scotia Economic Performance, Key Indicators

					ACTUAL
	2010	2011	2012	2013	2014
Gross domestic product at market prices ($millions current)	36,849	37,652	37,835	38,576	39,077
(% change)	*5.5%*	*2.2%*	*0.5%*	*2.0%*	*1.3%*
Gross domestic product at market prices ($2007, chained millions)	35,693	35,884	35,567	35,562	35,758
(% change)	*2.8%*	*0.5%*	*-0.9%*	*0.0%*	*0.6%*
Compensation of employees ($millions current)	19,372	19,986	20,346	20,891	21,454
(% change)	*3.0%*	*3.2%*	*1.8%*	*2.7%*	*2.7%*
Household income ($millions current)	34,509	35,668	36,686	37,901	39,006
(% change)	*3.5%*	*3.4%*	*2.9%*	*3.3%*	*2.9%*
Household final consumption expenditure ($millions current)	25,087	26,223	26,909	27,736	28,561
(% change)	*4.9%*	*4.5%*	*2.6%*	*3.1%*	*3.0%*
Retail sales ($millions current)	12,651	13,098	13,223	13,605	13,915
(% change)	*4.5%*	*3.5%*	*1.0%*	*2.9%*	*2.3%*
Consumer Price Index (all-items, Index 2002=100)	118.2	122.7	125.1	126.6	128.8
(% change)	*2.2%*	*3.8%*	*2.0%*	*1.2%*	*1.7%*
Business gross fixed capital formation: residential ($millions current)	2,514	2,595	2,711	2,763	2,502
(% change)	*11.9%*	*3.2%*	*4.5%*	*1.9%*	*-9.4%*
Business gross fixed capital formation: non-res., M&E ($millions current)	3,593	3,388	2,382	2,616	2,775
(% change)	*19.2%*	*-5.7%*	*-29.7%*	*9.8%*	*6.1%*
Net operating surplus: corporations ($millions current)	3,121	2,755	2,284	2,274	1,697
(% change)	*27.6%*	*-11.7%*	*-17.1%*	*-0.4%*	*-25.4%*
Exports of goods and services ($millions current)	14,497	15,389	15,197	15,338	15,377
(% change)	*5.7%*	*6.2%*	*-1.2%*	*0.9%*	*0.3%*
Exports of goods to other countries ($millions current)	5,519	5,868	5,727	5,932	6,603
(% change)	*8.5%*	*6.3%*	*-2.4%*	*3.6%*	*11.3%*
Imports of goods and services ($millions current)	23,987	25,985	25,618	26,332	26,756
(% change)	*7.8%*	*8.3%*	*-1.4%*	*2.8%*	*1.6%*
Population (all ages, 000s July 1)	942.1	944.5	944.8	943.0	942.4
(% change)	*0.4%*	*0.3%*	*0.0%*	*-0.2%*	*-0.1%*
Population (ages 18-64, 000s July 1)	618.1	618.9	615.3	609.8	605.6
(% change)	*0.5%*	*0.1%*	*-0.6%*	*-0.9%*	*-0.7%*
Labour Force (000s)	499.1	497.9	503.5	497.7	491.6
(% change)	*0.8%*	*-0.2%*	*1.1%*	*-1.2%*	*-1.2%*
Participation rate (%)	64.3%	63.9%	64.4%	63.7%	62.8%
(change)	*0.1%*	*-0.4%*	*0.5%*	*-0.7%*	*-0.9%*
Employment (000s)	451.3	453	457.6	452.6	447.6
(% change)	*0.4%*	*0.4%*	*1.0%*	*-1.1%*	*-1.1%*
Employment Rate (%)	58.2%	58.1%	58.5%	57.9%	57.2%
(change)	*-0.1%*	*-0.1%*	*0.4%*	*-0.6%*	*-0.7%*
Unemployment Rate (%)	9.6%	9.0%	9.1%	9.1%	9.0%
(change)	*0.4%*	*-0.6%*	*0.1%*	*0.0%*	*-0.1%*

Table 7.5 Nova Scotia Economic Performance, Key Indicators

		FORECAST			ANNUAL AVERAGE	
		2015	2016	2017	2010-14	2014-17
Gross domestic product at market prices ($millions current)		39,897	40,902	42,007		
	(% change)	*2.1%*	*2.5%*	*2.7%*	*1.5%*	*2.4%*
Gross domestic product at market prices ($2007, chained millions)		36,040	36,366	36,652		
	(% change)	*0.8%*	*0.9%*	*0.8%*	*0.05%*	*0.8%*
Compensation of employees ($millions current)		21,930	22,484	23,025		
	(% change)	*2.2%*	*2.5%*	*2.4%*	*2.6%*	*2.4%*
Household income ($millions current)		39,992	40,996	42,025		
	(% change)	*2.5%*	*2.5%*	*2.5%*	*3.1%*	*2.5%*
Household final consumption expenditure ($millions current)		29,121	29,897	30,857		
	(% change)	*2.0%*	*2.7%*	*3.2%*	*3.3%*	*2.6%*
Retail sales ($millions current)		13,917	14,084	14,425		
	(% change)	*0.0%*	*1.2%*	*2.4%*	*2.4%*	*1.2%*
Consumer Price Index (all-items, Index 2002=100)		129.3	131.3	133.8		
	(% change)	*0.4%*	*1.5%*	*1.9%*	*2.2%*	*1.3%*
Business gross fixed capital formation: residential ($millions current)		2,785	2,871	2,771		
	(% change)	*11.3%*	*3.1%*	*-3.5%*	*-0.1%*	*3.5%*
Business gross fixed capital formation: non-res., M&E ($millions current)		2,954	2,966	2,959		
	(% change)	*6.4%*	*0.4%*	*-0.2%*	*-6.3%*	*2.2%*
Net operating surplus: corporations ($millions current)		1,682	1,731	1,780		
	(% change)	*-0.9%*	*2.9%*	*2.8%*	*-14.1%*	*1.6%*
Exports of goods and services ($millions current)		15,850	16,312	16,642		
	(% change)	*3.1%*	*2.9%*	*2.0%*	*1.5%*	*2.7%*
Exports of goods to other countries ($millions current)		6,629	6,943	7,139		
	(% change)	*0.4%*	*4.7%*	*2.8%*	*4.6%*	*2.6%*
Imports of goods and services ($millions current)		27,801	28,665	29,130		
	(% change)	*3.9%*	*3.1%*	*1.6%*	*2.8%*	*2.9%*
Population (all ages, 000s July 1)		943.0	945.3	946.4		
	(% change)	*0.1%*	*0.2%*	*0.1%*	*0.0%*	*0.1%*
Population (ages 18-64, 000s July 1)		601.9	600.6	597.7		
	(% change)	*-0.6%*	*-0.2%*	*-0.5%*	*-0.5%*	*-0.4%*
Labour Force (000s)		490.2	492.2	491.1		
	(% change)	*-0.3%*	*0.4%*	*-0.2%*	*-0.4%*	*0.0%*
Participation rate (%)		62.4%	62.5%	62.3%		
	(change)	*-0.4%*	*0.1%*	*-0.2%*	*63.8%‡*	*62.5%‡*
Employment (000s)		448.1	450.8	451.2		
	(% change)	*0.1%*	*0.6%*	*0.1%*	*-0.2%*	*0.3%*
Employment Rate (%)		57.0%	57.2%	57.2%		
	(change)	*-0.1%*	*0.2%*	*0.0%*	*58.0%‡*	*57.2%‡*
Unemployment Rate (%)		8.6%	8.4%	8.1%		
	(change)	*-0.4%*	*-0.2%*	*-0.3%*	*9.2%‡*	*8.5%‡*

NOVA SCOTIA