



Accountability Report

2018–2019

Finance & Treasury Board



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Accountability Statement

The Accountability Report of the Department of Finance and Treasury Board for the year ended March 31, 2019 is prepared pursuant to the Finance Act and government policies and guidelines. These authorities require the reporting of outcomes against the Department of Finance and Treasury Board Business Plan for the fiscal year just ended. The reporting of the Department of Finance and Treasury Board outcomes necessarily includes estimates, judgments, and opinions by Department of Finance and Treasury Board management.

We acknowledge that this Accountability Report is the responsibility of Department of Finance and Treasury Board management. The report is, to the extent possible, a complete and accurate representation of outcomes relative to the goals and priorities set out in the Department of Finance and Treasury Board 2018-19 Business Plan.

Original signed by

Honourable Karen Casey
Minister of Finance & Treasury Board

Original signed by

Byron Rafuse
Deputy Minister of Finance & Treasury Board

Message from the Minister

I am pleased to present the 2018-19 Accountability Report for the Department of Finance and Treasury Board.

The work of the Department of Finance and Treasury Board supports government priorities by helping to achieve ongoing fiscal sustainability for the province. The department achieves this through:

- budget and fiscal plan development
- financial accounting and reporting
- expenditure management
- financial advisory services
- corporate strategic initiatives
- revenue estimates and federal transfers
- tax policy, administration, and credits
- economic forecasting, policy analysis, and modelling
- liability, debt, and treasury management
- corporate compliance and reporting
- regulation of pensions and select financial institutions
- policy oversight to the specific agencies, boards, and commissions.

The department maintains focus on preserving the financial capacity of government to provide public services and investments in Nova Scotia. Government's plan continues along the same fiscal path that has resulted in consecutive balanced budgets in the last four years. It is this fiscal sustainability that helps facilitate a positive economic environment through market stability, which encourages economic growth and business investment.

The Department of Finance and Treasury Board is guided by the following mandate items in support of government priorities:

1. Ensure government's strategic objectives are achieved with fiscal discipline.
2. Continue to bring forward balanced budgets that reflect platform commitments and maintain provincial fiscal sustainability.
3. Support low and mid-income Nova Scotians.
4. Collaborate with the Department of Business to amend the equity tax credit with the aim of promoting more investment in innovation driven entrepreneurship.

Throughout the 2018-19 fiscal year the department worked hard to support and advance government priorities through several major projects and initiatives. I would like to thank every employee of the department for their ongoing dedication and service to the people of Nova Scotia.

As Minister of Finance and Treasury Board, I look forward to continuing the important work of the department to further advance the priorities of government.

Financial Results

	2018-19 Estimate	2018-19 Actuals	2018-19 Variance
Program & Service Area	<i>(\$ thousands)</i>		
Departmental Expenses:			
Senior Management	3,652	3,418	(235)
Corporate Strategic Initiatives	863	619	(244)
Controller's Division	2,396	4,185	1,789
Treasury Board	1,283	1,202	(81)
Financial Advisory Services	11,528	9,982	(1,546)
Fiscal Policy, Economics & Budgetary Planning	3,724	3,562	(162)
Total: Departmental Expenses	23,446	22,968	(479)
Additional Information:			
Ordinary Revenue	8,801,267	9,119,779	318,512
Fees and Other Charges	415	425	10
Ordinary Recoveries	292	271	(21)
Total: Revenue, Fees and Recoveries	8,801,974	9,120,475	318,501
TCA Purchase Requirements	0	0	0
Provincial Funded Staff (FTEs)	208.3	187.4	(21)
<p><u>Departmental Expenses Variance Explanation:</u> Temporary Salary Savings and Operating Savings offset by SOFI draw on the provincial guarantee</p> <p><u>Revenue, Fees and Recoveries Variance Explanation:</u> Increase in volume due to rising insurance costs which have caused higher premium taxes (Financial institutions)</p> <p><u>TCA Purchase Requirements Variance Explanation:</u> N/A</p> <p><u>Provincial Funded Staff (FTEs) Variance Explanation:</u> Variance due to vacancy savings</p>			

Measuring Our Performance

Strategic Goal: Fiscal Sustainability

Finance and Treasury Board's 2018-19 Business Plan identified fiscal sustainability as the department's strategic goal for the 2018-19 fiscal year. To achieve this, the department continued to provide financial leadership and analysis to build and sustain a sound fiscal framework and financial control over public finances.

Three measures were used to determine the progress on this goal: (1) fiscal sustainability, (2) flexibility, and (3) vulnerability. These were measured and reported on in the province's annual Budget, public forecast updates, and the Public Accounts.

Budget 2018-19 was tabled on March 20, 2018 with a surplus of \$29.4 million. Actual results show that the surplus ended at \$120.0 million for the 2018-19 fiscal year. Government has now achieved three consecutive balanced budgets and, as presented in Budget 2019-20, modest surpluses are projected to continue until at least 2022-23.

The ability to achieve multiple balanced budgets, through collaboration with all government departments and agencies, aligns with the department's mandate to establish a sound fiscal framework.

Measure: Sustainability

What does the measure tell us?

Sustainability can be defined as the degree to which a government can maintain existing programs and meet existing creditor requirements without increasing the debt burden on the economy¹. The primary measure for fiscal sustainability is the net debt of the province compared with its economic output of goods and services (i.e., net debt to nominal Gross Domestic Product (GDP) ratio).

The One Nova Scotia Commission Report proposed a net debt to GDP ratio goal for the province of 30 per cent or less by 2024. Net debt to GDP is trending toward the One Nova Scotia goal of 30 per cent. In 2013-14, the year the report was released, Nova Scotia was at 38.2 per cent and in 2018-19 the ratio ended at 34.1 per cent.

¹ *Indicators of Government Financial Condition, Research Report*; the Canadian Institute of Chartered Accountants, 1997.

Measure: Flexibility

What does the measure tell us?

Flexibility refers to the degree to which a government can increase its financial resources to respond to rising commitments, by either expanding its revenues or increasing its debt burden.² The typical measure of government financial flexibility looks at the ratio of debt servicing costs in relation to the total revenue generated in a given year (i.e., debt service costs as a percentage of total revenue).

Consistent work in this area has reduced the debt servicing costs from 8.8 per cent of total revenue in 2013-14 to 7.3 per cent in 2018-19. In this past fiscal year two rating agencies, DBRS and Moody's, confirmed the province's credit rating with a stable outlook, and Standard & Poor's raised Nova Scotia's rating to AA- (stable outlook) from A+ (positive outlook). The three agencies have cited the province's long-term commitment to fiscal prudence and strong financial management practices as positive.

Measure: Vulnerability

What does the measure tell us?

Vulnerability refers to the degree to which a government becomes dependent on, and therefore vulnerable to, sources of funding outside of its control or influence, both domestic and international.³ An often-used measure for the vulnerability of government finances is the amount of federal government transfers in relation to the total revenues of a provincial government (i.e., federal transfers as a percentage of total revenue).

² Ibid

³ Ibid

The performance measure results are presented below in Table 1: Performance Measures.

- For 2019-20 to 2022-23, the results are based on the Province of Nova Scotia's four-year fiscal plan, as presented in Budget 2019-20.
- Table 1 illustrates that most indicators for the strategic goal of fiscal sustainability are either improving or fairly stable over the forecast horizon.

Table 1: Performance Measures

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20 (Budget)	2020-21	2021-22	2022-23
Sustainability									
Annual Surplus/(Deficit) (\$millions)	(\$143.7)	(\$13.2)	\$151.2	\$226.3	\$120.0	\$33.6	\$51.9	\$65.8	\$73.4
Annual Surplus/(Deficit) (% of GDP)	(0.36%)	(0.03%)	0.36%	0.53%	0.27%	0.07%	0.11%	0.14%	0.15%
Net Debt to Nominal GDP (%)	37.8%	37.1%	36.1%	35.1%	34.1%	33.8%	33.5%	32.5%	31.6%
Net Debt per Capita (\$ dollars)	\$15,991	\$16,094	\$15,876	\$15,758	\$15,638	\$15,837	\$16,078	\$16,117	\$16,160
Net Debt (\$ billions)	\$15.01	\$15.07	\$14.97	\$14.98	\$15.01	\$15.28	\$15.57	\$15.65	\$15.73
Flexibility									
Debt Service Costs (% of total revenue)	8.4%	7.9%	7.5%	7.0%	7.3%	7.8%	7.0%	6.5%	5.9%
Own Source Revenue (% of GDP)	18.3%	18.5%	18.6%	19.3%	18.4%	16.0%	15.9%	15.9%	15.9%
Vulnerability									
Federal Transfers (% of total revenue)	31.7%	31.4%	31.2%	31.2%	31.8%	34.1%	33.9%	33.6%	33.8%

Notes: Performance measures for 2014-15 to 2018-19 use Government Reporting Entity (GRE) figures (Consolidated).

2019-20 to 2022-23 use General Revenue Fund (GRF) figures, because consolidated figures are not available for Budget and forecast years.

Moving forward, the Department of Finance and Treasury Board will remain focused on fiscal sustainability as the strategic goal for 2019-20. The goal of fiscal sustainability enables the Government of Nova Scotia to deliver public services and create an environment for growth. Building upon this, the Department of Finance and Treasury Board supports Government by establishing a sound fiscal plan and financial framework to support the priorities of Nova Scotia.

As part of this work on sound financial management, the department has an ongoing review of tax policy, tax measures, and fiscal impacts to ensure the efficiency and effectiveness of the province's tax system. In 2018-19, the department made the following tax changes:

- The province enhanced the *Basic Personal Amount (BPA)* for the 2018 taxation year and subsequent taxation years, effective January 1, 2018. These enhancements reduce taxes for low- and middle-income individuals and families. The BPA increased by up to \$3,000 from \$8,481 to \$11,481. For individuals with taxable income greater than \$25,000, the amount of the enhancement reduces as income rises, with the enhancement ending when taxable income reaches \$75,000. This has reduced taxes for over 500,000 Nova Scotians and an additional 60,000 no longer pay provincial income taxes.
- Nova Scotia start-up companies and small- to medium-sized businesses will benefit from more investment. The province introduced a new *Innovation Equity Tax Credit* on January 17, 2019. The new tax credit applies to investments up to \$250,000 in eligible businesses, which is \$200,000 more than the current equity tax credit. Nova Scotian investors will receive a tax incentive of 35 per cent, or 45 per cent in priority sectors of oceans technology and life sciences.
- The current equity tax credit, established in 1994, will be phased out as part of the 2019-20 Budget, to enable time for businesses to adjust. Community Economic Development Investment Funds (CEDIFs) will remain as is, without changes.
- Effective April 1, 2019 Nova Scotian corporations will also be eligible for the *Innovation Equity Tax Credit*. The tax credit rate for corporations is 15 per cent on investments up to \$500,000.
- The province also created the *High Growth Venture Capital Tax Credit* that will provide Nova Scotian individuals and corporations with a 15 per cent tax credit on investments in qualifying venture capital funds. The new tax credit is effective April 1, 2019 and will provide venture capital that is critical to business development in high growth and innovative sectors.

Other Major Initiatives

The beverage alcohol industry in Nova Scotia is growing, consisting of wineries, distilleries, and breweries. Each sector is diverse, including commercial and craft manufacturers operating on a variety of business models. This industry has economic growth potential for the province and is contributing to job creation and economic activity across Nova Scotia. Government wants to see this industry continue to grow and flourish. Therefore, the department has amended *the Liquor*

Control Act to eliminate the requirement for a plebiscite to open a business that manufactures or serves alcohol in a dry community. This change, which came into effect on January 1, 2019, reduces red tape for businesses and the Nova Scotia Liquor Corporation (NSLC).

The legalization of recreational cannabis became effective on October 17, 2018. The department played, and will continue to play, a key role in Nova Scotia's oversight and implementation of recreational cannabis including engaging with the NSLC to ensure the safe retail of cannabis products within the province. Finance and Treasury Board has been working closely with federal and provincial partners to implement provincial initiatives to accommodate the federal policy to legalize this new regime. This work will continue as the federal government legalizes additional forms of recreational cannabis, including edible products.

The recent enhancements to enhance the Canada Pension Plan (CPP) will improve retirement income security of working Nova Scotians while being modest, affordable and giving workers and businesses time to adjust. The new, enhanced CPP began to be phased in on January 1, 2019. Federal and provincial governments have been continuing to work together to safeguard the long-term sustainability of the CPP enhancement by developing regulations that ensure the CPP enhancement remains appropriately funded over time. Finance and Treasury Board has been leading this work for Nova Scotia.

Finance and Treasury Board supported amendments to Nova Scotia's *Securities Act*. This is keeping with the province's commitment, as part of the Council of Ministers of Securities Regulation, to harmonize securities regulation and promote improved enforcement of securities laws in Canada. The changes to the Act will improve standards and efficiencies and bring us in line with other Canadian jurisdictions. In addition, on January 10, 2019, Government signed two agreements that formally committed Nova Scotia to joining the Cooperative Capital Markets Regulatory System (CCMR), known as the "National Regulator". The department is taking the lead in working with the Government of Canada and the other counterparty provinces to implement the CCMR.

The department has supported changes to other financial sector legislation to ensure these regulatory frameworks continue to be robust, up to date, and to meet the needs of Nova Scotia businesses while protecting consumers. Amendments to the *Credit Union Act* resulted from a mandatory review of the Act. The amendments improve and strengthen oversight of credit unions while reflecting changes made by the federal government to exit supervisory oversight of Atlantic Central. Amendments made to the *Pension Benefits Act* in Spring 2019 will provide more flexibility and improve the stability of defined-benefit pension plans in many organizations, including private-sector companies, municipalities and universities.

In fall 2018, Government amended the *Gaming Control Act* to provide authority for the Governor in Council to make regulations that will enable modifications to the Voluntary Self-Exclusion (VSE) program. The new VSE program will provide better options for individuals who wish to exclude themselves from casinos either temporarily or permanently.

Finance and Treasury Board continues to provide advice on tangible capital assets and infrastructure including asset divestiture, optimization, and monetization. It has been heavily involved in examining options, including public-private-partnerships, for upcoming capital projects such as the QEII redevelopment project.

Interesting Facts about the Department

- A division of Finance and Treasury Board is the official statistics agency for the government and the representative to the national statistics agency.
- Every business day the department produces a Daily Stats report that delivers up-to-date analysis of all economic and demographic conditions for the province.
- Finance and Treasury Board plays an important role in developing new public sector accounting standards that are implemented Canada-wide by the Public Sector Accounting Board. Since 2010, the department has participated on this board. The department provides comments regarding proposed new standards and participates on project teams in developing new standards.
- The Pension Regulation Division of the department oversees approximately 485 pension plans ranging in size from plans with one member with just a few thousand dollars in assets to a plan with over 32,000 active members and \$8 billion in assets.
- Finance and Treasury Board has had 18 consecutive Public Accounts released with an unqualified Auditor's Report.
- The Liability Management and Treasury Services division manages \$15.8 billion in long term debentures outstanding, mandatory sinking funds of \$1.9 billion and liquidity funds of \$911 million outstanding as of March 31, 2019.
- Finance and Treasury Board maintains positive relations with credit rating agencies on behalf of the province. The Province of Nova Scotia's credit ratings are AA- with Standard & Poor's, Aa2 with Moody's, and A(high) with Dominion Bond Rating Service. All ratings have a stable outlook. The province has had numerous credit rating upgrades since the early 2000s, with the most recent credit rating upgrade being by Standard & Poor's in 2018.
- Finance and Treasury Board Human Resource statistics show that as of April 1, 2018, 61.8 per cent of staff were female, compared to 54.3 per cent across government as a whole. Also, as of that date, approximately 37.2 per cent of department employees are over 50 years old while 20.8 per cent are 35 and under.

Appendix A: Public Interest Disclosure of Wrongdoing

The *Public Interest Disclosure of Wrongdoing Act* was proclaimed into law on December 20, 2011.

The Act provides for government employees to be able to come forward if they reasonably believe that a wrongdoing has been committed or is about to be committed and they are acting in good faith.

The Act also protects employees who do disclose from reprisals, by enabling them to lay a complaint of reprisal with the Labour Board.

A Wrongdoing for the purposes of the Act is:

- a) a contravention of provincial or federal laws or regulations
- b) a misuse or gross mismanagement of public funds or assets
- c) an act or omission that creates an imminent risk of a substantial and specific danger to the life, health or safety of persons or the environment, or
- d) directing or counselling someone to commit a wrongdoing

The following is a summary of disclosures received by the Department of Finance and Treasury Board.

Information Required under Section 18 of the Act	Fiscal Year 2018-19
Number of disclosures received	None reported
Number of findings of wrongdoing	None reported
Details of each wrongdoing	N/A
Recommendations and actions taken on each wrongdoing	N/A

N/A= not applicable