



Business Plan

2020–21

*Department of Finance
and Treasury Board*



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Budget 2020–21: Business Plan
Finance and Treasury Board
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Message from the Minister



I am pleased to present the 2020-21 Business Plan 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 fiscal sustainability for the province. The department accomplishes 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; and policy oversight to specific agencies, boards, and commissions.

The department's focus is to preserve the financial capacity of government to provide public programs and services in Nova Scotia. Government's plan continues along the same fiscal path that has resulted in consecutive balanced budgets in the last four years. Budget 2020-21 projects a balanced budget for the next four fiscal years to come. It is this fiscal sustainability that helps facilitate a positive economic environment through market stability, which encourages economic growth and business investment.

In an effort to support government priorities, the Department of Finance and Treasury Board is guided by the following mandate items, in addition to core operations and existing options:

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 middle-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.

The Department of Finance and Treasury Board relies on the dedication and expertise of its employees to achieve its objectives, and I would like to thank them for their ongoing efforts. 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 in the 2020-21 fiscal year.

Original signed by

Honourable Karen Casey
Minister of Finance and Treasury
Board

Departmental Mandate

The Department of Finance and Treasury Board works to preserve the financial capacity of government to provide public programs and services in Nova Scotia, by providing advice on fiscal sustainability for the province.

Flowing primarily from the *Finance Act* and the *Public Service Act*, the department's mandate includes:

- establishing a sound fiscal framework,
- control over public finances, and
- providing meaningful, transparent financial reporting.

The department prepares government's four-year fiscal plan and presents it annually in the provincial budget documents. The budget is monitored throughout the year and public forecast updates are provided to report on progress. The actual year-end results are provided annually to the public through the province's public accounts, which report results as compared to the budget.

Through its activities, the department supports government decision-making. The department also supports the Minister of Finance and Treasury Board in overseeing certain Crown agencies for which the Minister is assigned responsibility.

Finance and Treasury Board Priorities

The Department of Finance and Treasury Board supports government by establishing a sound fiscal plan and financial framework to support the priorities of Nova Scotians. Through this work, the department enables the Government of Nova Scotia to deliver public services.

In delivering on services, the department is guided by its core functions to oversee Nova Scotia's public finances, develop the budget and fiscal plan, report on government spending and income, as well as manage the province's debt. Additionally, the department assists other branches of government with budgeting, accounting, economic impact assessments, and statistical analysis to ensure that everyone aligns with the government's fiscal plan.

Balanced Budget

The government has achieved balanced budgets since 2016-17, presented a balanced budget for the 2019-20 fiscal year and has tabled a fifth balanced budget in a row for the 2020-21 fiscal year. The four-year fiscal plan until 2023-24 is projected to be balanced.

Finance and Treasury Board working in collaboration with all government departments and agencies is aligned with the mandate to establish a sound fiscal framework. Financial leadership and analysis to build and sustain a sound fiscal framework is critical to the success of the government's initiatives and delivery of public services.

Fiscal Discipline

Finance and Treasury Board provides advice for strong financial management and fiscal prudence that allows government to allocate resources to the important priorities of Nova Scotians.

The department continues to provide ongoing economic, statistical, and demographic information to inform policy and project development. This work assists in identifying ongoing and new program needs. By examining detailed profiles of the economic impacts of key sectors, as well as the inter-industry relationships between sectors, it allows Nova Scotians to see and make the best use of economic opportunities.

To improve efficiency and effectiveness of government-wide efforts, the department undertakes strategic examination of programs and program policies. This robust analysis supports initiatives targeted at improving and attaining operational efficiencies.

Tax Measures

Finance and Treasury Board has an ongoing review of tax policy, tax measures, and fiscal impacts to ensure the efficiency and effectiveness of the province's tax system.

Effective April 1, 2020, the province will reduce the general corporate income tax rate from 16 per cent to 14 per cent, saving Nova Scotia businesses \$70.5 million in the 2020-21 fiscal year.

At the same time, the small business corporate income tax rate will be reduced by one-half percentage point from 3 per cent to 2.5 per cent. This measure will save small businesses \$10.5 million in 2020-21.

The province will extend both the Digital Media and Digital Animation tax credits until December 31, 2025. The Digital Media Tax Credit was introduced in 2007 and was due to expire on December 31, 2020. Since its inception the tax credit has provided almost \$54 million to Nova Scotian businesses. The Digital Animation Tax Credit was introduced in July 2015 and was due to expire on June 30, 2020. Approximately \$45 million of applications have been approved under this tax credit.

Effective February 26, 2020, the province will increase tax rates on all tobacco products. The tax rate for cigarettes and tobacco sticks will rise from 27.52 cents per unit to 29.52 cents per unit; the tax rate for cigars will rise from 60 per cent of the suggested selling price to 75 per cent; and the tax rate for fine cut and other tobacco products will rise to 40 cents per gram.

The province will impose a tax on vaping substances and devices starting September 15, 2020. Liquid vaping substances will be taxed at the rate of 50 cents per milliliter. Vaping devices and their components will be taxed at the rate of 20 per cent of their suggested retail price.

The province enhanced the Basic Personal Amount (BPA) for the 2018 taxation year and future taxation years, effective January 1, 2018. These enhancements reduced 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 less than \$25,000. For individuals with taxable income between \$25,000 and \$75,000, the BPA enhancement is available on a sliding scale. This change has reduced taxes for over 500,000 Nova Scotians and an additional 63,000 no longer pay provincial income taxes. On average, tax filers have saved \$159 in provincial income tax.

With an ongoing focus to support business, the small business income threshold rose from \$350,000 to \$500,000, effective January 1, 2017. This provides tax relief, with more small businesses paying only the lower 3 per cent tax rate. This change has helped around 1,800 small businesses.

Nova Scotia start-up companies and small- and medium-sized businesses now benefit from more investment opportunities. The province introduced a new Innovation Equity Tax Credit, launched January 17, 2019. The new tax credit applies to investments up to \$250,000 in eligible businesses, which is \$200,000 more than the former 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.

Effective April 1, 2019, Nova Scotian corporations became eligible for an Innovation Equity Tax Credit. The tax credit rate is 15 per cent on investments up to \$500,000. The Equity Tax Credit, established in 1994, was phased out on December 31, 2019, as part of the 2019-20 Budget. Community Economic Development Investment Funds (CEDIFs) will remain as is, without changes.

The province has also created the Venture Capital Tax Credit that provides Nova Scotian individuals and corporations with a 15 per cent tax credit on investments in qualifying venture capital funds. The new tax credit became effective April 1, 2019 and provides venture capital that is critical to business development in high growth and innovative sectors.

Other Major Initiatives

The beverage alcohol industry in Nova Scotia consists of wineries, distilleries, and breweries. Each sector is diverse, including commercial and smaller manufacturers that operate using a variety of business models. This industry contributes to job creation and economic activity across Nova Scotia. The department continues to support the industry through policy coordination efforts and oversight to the Nova Scotia Liquor Corporation to enable responsible receipt, distribution, regulation and control of beverage alcohol in Nova Scotia; provide an engaged and collaborative business environment for local producers; support industry modernization; and maintain social responsibility while protecting the province's financial position.

While recreational cannabis was legalized on October 17, 2018, it was not until October 2019 that the sale of recreational cannabis edibles, extracts and topicals was legalized. The department continues to play a key role in the oversight and implementation of this new regime, participating in intergovernmental forums as well as monitoring the retail of cannabis by the Nova Scotia Liquor Corporation – the sole authorized retailer of cannabis in Nova Scotia. The department also continues to work to ensure Nova Scotia's regime supports the safe and responsible sale of these products.

The department continues to provide advice on tangible capital assets and infrastructure including asset divestiture, optimization, and monetization. The department is examining options, such as public-private-partnerships, for upcoming capital projects and other financing options for the public infrastructure – including bridges, hospitals, highways, universities and schools.

Through the 2019-2021 Triennial Review of the Canada Pension Plan, Finance and Treasury Board will work with its provincial counterparts and the federal government to examine whether improvements to the way benefits under the Canada Pension Plan are provided can be made without increasing costs for individuals or businesses. Finance and Treasury Board will continue to work with its provincial counterparts and the federal government to monitor implementation of the new Canada Pension Plan Enhancement, which began to be phased in on January 1, 2019.

On January 10, 2019 Government signed two agreements that formally committed Nova Scotia to joining the Cooperative Capital Markets Regulatory System – known as the “National Regulator.” The department is working with the Nova Scotia Securities Commission, the Government of Canada, counterparty provinces and territories, and the Capital Markets Authority Implementation Organization to implement the National Regulator.

The Canadian Free Trade Agreement (CFTA) requires provinces and territories to negotiate rules applicable to financial services to incorporate into the Agreement. Provinces, territories and the federal government are working together to advance negotiations. The department continues to work with the Department of Intergovernmental Affairs to represent Nova Scotia's interests throughout these negotiations.

Diversity, inclusion, and a positive work culture is a key priority for 2020-21 and onward. The department has adopted mentally healthy principles to promote a positive work culture and employee well-being. Managers and employees are to complete a mental health training

session offered by the Public Service Commission by end of 2019-20 and 2020-21, respectively. Over the coming fiscal year, Finance and Treasury Board is focusing on identifying potential areas of improvement within the department.

Strategic Goal: Fiscal Sustainability

The department continues to support government's objective of a balanced budget and to achieve fiscal sustainability. Fiscal sustainability is the Department of Finance and Treasury Board's strategic goal for 2020-21. The department will provide financial leadership and analysis to continue building a sound fiscal framework and sustaining financial control over public finances.

Fiscal Sustainability: Actions

Key actions that advance the fiscal sustainability objective are guided by the department's core functions.

Budget and Fiscal Plan Development

Develop and coordinate the provincial budget, four-year fiscal plan, and capital plan. This work includes budget policy analysis, fiscal planning, and ongoing scrutiny of the borrowing plan.

Financial Accounting

Establish corporate accounting policies in accordance with Canadian Public Sector Accounting Standards.

Provide expert accounting advice/recommendations to the finance and business community for the General Revenue Fund's and Government Reporting Entities' corporate initiatives of the province.

Prepare and analyze the annual public accounts, which include the consolidated financial statements of the province.

Expenditure Management and Financial Management

Coordinate, monitor, and report multi-year spending activities, through the budget and forecast process, with respect to operational and capital planning for the province.

Corporate Strategic Initiatives

Undertake strategic examination of programs and program policy to improve efficiency and effectiveness of government-wide efforts.

Revenue Estimates and Federal Transfers

Participate and support Federal-Provincial-Territorial (FPT) finance relationships and support FPT collaborations while providing advice on advancing the province's interests.

Review and report on federal estimates, technical and policy features, and implications of changes to formulae.

Regulation

Enable effective regulation of several financial services sectors including insurance, credit unions, pensions, and securities, as well as and the alcoholic beverage, cannabis retail, and gaming industries.

Tax policy, administration and credits

Complete ongoing reviews of tax policy, tax measures, and fiscal impacts. Design, enhance, and implement tax policy that builds from this work.
Oversee tax agreements with the federal government.
Advance the province's interests on FPT tax-related committees.

Economic Forecasting, Policy Analysis and Modelling

Provide forecasts of economic growth by industry, allowing Nova Scotians to plan for economic change at the sectoral level.
Provide population projections at the county level, allowing for better targeted planning of public services as well as business and community development, as demographics change in the coming decade.
Measure the progress towards the One Nova Scotia goals through supporting public measurement and analysis.

Liability and Treasury Management

Manage the treasury functions for the province, which involves prudent management of the annual borrowing program and the province's cash, liquidity, and debt portfolios. This is accomplished with a view to minimizing debt service costs subject to acceptable levels of risk.
Provide advice and consultation services to government departments, agencies, boards, and commissions.

Capital Markets Administration and Compliance

Manage the accounting, debt servicing, trade settlement, reporting and custody of all debt and investments of the province while ensuring compliance with legislation and policy.
Monitor and report on internal financial controls, governance of specific software systems and corporate compliance programs.

Fiscal Stability: Inputs – Budget Context

Finance and Treasury Board Departmental Expenses Summary			
	2019-20 Estimate	2019-20 Forecast	2020-21 Estimate
Programs and Services	(\$thousands)	(\$thousands)	(\$thousands)
Senior Management	3,726	3,634	3,690
Controller's Division	2,384	2,162	2,355
Treasury Board Office	1,319	1,357	1,418
Corporate Strategic Initiatives	760	777	789
Financial Advisory Services	11,582	11,000	12,000
Fiscal Policy, Economics and Budgetary Planning	3,912	3,819	4,030
Total – Departmental Expenses	23,683	22,749	24,282
Additional Information:			
Fees and Other Charges	445	445	410
Ordinary Recoveries	280	178	51
Provincial Funded Staff (FTEs) Net	208.9	195.3	210.5

Fiscal Sustainability: Performance Measures

Progress will be measured and reported on in the province's annual budget, public forecast updates, and public accounts. These measures are also used by the Auditor General for Nova Scotia.

1. Fiscal Sustainability

Fiscal 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 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.

A budget balance is measured by the annual surplus/deficit of the provincial budget.

2. Flexibility

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 is the ratio of debt servicing costs in relation to the total revenue available to spend in a given year (debt service costs as a percentage of revenue).

3. Vulnerability

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

The measure often used for the vulnerability of government finances is the amount of federal government transfers in relation to the total revenues of a provincial government (federal transfers as a percentage of total revenue).

Performance Measures: Results

The performance measure results are presented in the following table.

¹ SORP-4, *Indicators of Financial Condition*, Public Sector Accounting Handbook, CPA Canada.

² Ibid

³ Ibid

- For 2019-20, the results are based on the final forecast as presented in Budget 2020-21. The final results will be presented in the Provincial Public Accounts for 2019-20 in the summer of 2020.
- For 2020-21 to 2023-24, the results are based on the Province of Nova Scotia's four-year fiscal plan, as presented in Budget 2020-21.

Indicator	2016-17	2017-18	2018-19	2019-20 (f)	2020-21	2021-22	2022-23	2023-24
Sustainability								
Annual Surplus/(Deficit) (\$millions)	\$151.2	\$226.3	\$120.0	\$41.1	\$55.0	\$63.2	\$72.5	\$74.0
Annual Surplus/(Deficit) (% of GDP)	0.36%	0.53%	0.27%	0.09%	0.12%	0.13%	0.14%	0.14%
Net Debt to Nominal GDP (%)	36.1%	35.1%	34.1%	33.0%	33.3%	33.8%	34.4%	34.5%
Net Debt per Capita (\$dollars)	\$15,876	\$15,758	\$15,638	\$15,628	\$16,030	\$16,635	\$17,333	\$17,847
Net Debt (\$billions)	\$14.968	\$14.981	\$15.011	\$15.181	\$15.716	\$16.443	\$17.253	\$17.866
Flexibility								
Debt Service Costs (% of total revenue)	7.5%	7.0%	7.3%	7.4%	6.5%	6.1%	5.5%	5.4%
Own Source Revenue (% of GDP)	18.6%	19.3%	18.4%	16.2%	15.8%	15.8%	15.7%	15.7%
Vulnerability								
Federal Transfers (% of total revenue)	31.2%	31.2%	31.8%	34.7%	35.8%	35.2%	34.3%	33.2%

Notes: Performance measures for 2016-17 to 2018-19 use Government Reporting Entity figures (Consolidated). 2019-20 to 2023-24 use General Revenue Fund figures because consolidated figures are not available for budget and forecast years. f=forecast.