

# 2015 NOVA SCOTIA BUDGET

## TD Economics



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## NOVA SCOTIA GOVERNMENT PUTS BOTH SHORT- AND LONG-GAMES ON DISPLAY IN 2015 BUDGET

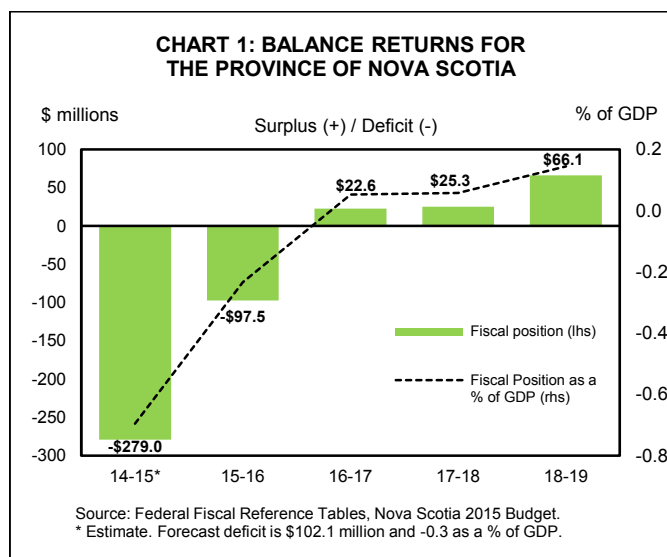
### Highlights

- In today's release of Budget 2015, the Government of Nova Scotia displayed resolve in continuing to work toward righting its fiscal ship in the short term while setting a course for sustainable economic growth and fiscal balance over the long term.
- The government has introduced revenue-raising and cost-restraint measures that it hopes will bring its books back to balance. To raise revenues, the government has increased fees on most transactions between Nova Scotians and the government. Meanwhile, expenses are expected to be brought under control through a scaling back of its departmental spending bill, as well as efficiencies identified during the process of Program Review.
- As a result of these measures, the Nova Scotia government is forecasting to be back in the black in 2016-17 -- the first balanced budget in the province since 2008-09. It is then expected to post surpluses each fiscal year thereafter. If this goal is reached, the debt-to-GDP ratio is expected to decline from 37.7% of GDP in 2013-14 to 33.4% in 2018-19.
- Taking the long view, Budget 2015 took steps to operationalize some of the goals outlined in the February 2014 One Nova Scotia report. These include a focus on fiscal sustainability, encouraging economic development, investing more in education, and working to put the brakes on the province's demographic decline by working to keep Nova Scotians at home and attract talent from outside the province.

In Budget 2015, the Government of Nova Scotia looked to both return to fiscal balance in the short term while ensuring economic growth and fiscal sustainability over the longer term. Through increasing 'sin' taxes, reducing the generosity of tax credits, and introducing significant restraint in departmental spending, the government expects to return to budget balance in 2016-17 (Chart 1). It anticipates remaining in surplus each year thereafter, as it continually explores ways to keep costs in check and maintain services while it invests in policies aimed at improving Nova Scotia's long-term demographic, economic, and fiscal outcomes.

### Improved budget starting point strikes the right tone

Before digging into the forecast, the dramatic improvement in the fiscal outcome for the 2014-15 fiscal year deserves some reflection. At \$102.1 million, the 2014-15 fiscal year saw the Nova Scotia fiscal deficit come in more than 60% below the forecast in last year's budget. This can largely be chalked up to corporate income tax revenues being 11.2%, or \$49.2 million, higher than was originally forecast. On the other side of the ledger, departmental expenses were down 0.3%, or \$22.7 mil-



**TABLE 1. NOVA SCOTIA GOVERNMENT FISCAL POSITION**

( Million C\$ unless otherwise indicated )

	2015 Budget				
	14-15*	15-16	16-17	17-18	18-19
<b>Revenues**</b>	9,566	9,920	10,202	10,369	10,653
% change	4.6	3.7	2.8	1.6	2.7
<b>Spending</b>	9,936	10,024	10,187	10,351	10,595
% change	1.3	0.9	1.6	1.6	2.3
Program spending***	8,967	9,061	9,213	9,349	9,570
Debt charges	878	873	873	891	909
Pension valuation adj.	91	91	102	111	116
Consolidation adj.	90.6	6.7	7.4	7.4	7.4
<b>Surplus/Deficit (-) **</b>	-279	-98	23	25	66
% of GDP	-0.7	-0.2	0.1	0.1	0.1
<b>Net Debt</b>	15,005	15,118	15,295	15,311	15,283
% of GDP	37.4	36.3	35.5	34.6	33.4

\* Estimate. \*\* Forecast deficit is \$102.1 million and -0.3 as a % of GDP.  
 \*\*Including net income from Government business enterprises.  
 \*\*\*Including refundable tax credits.  
 Source: Nova Scotia Department of Finance.

**TABLE 2. NOVA SCOTIA ECONOMIC ASSUMPTIONS**

[ Per cent change unless otherwise noted ]

	2015 BUDGET		
	2014	2015	2016
<b>Real GDP</b>	1.6	1.7	1.5
<b>Nominal GDP</b>	3.6	2.7	3.4
<b>Unemployment rate (%)</b>	9.0*	8.5	7.9
<b>Employment (000s)</b>	447.6*	450.1	452.2
<b>Population (000s)</b>	942.7*	943.7	944.5

Source: Nova Scotia Government. \*Actual.

taxes, lowering the non-eligible dividend tax credit, reducing the refundability of the Film Industry Tax Credit, and eliminating the Healthy Living Tax Credit. However, more remains to be done in implementing the recommendations outlined in *Charting a Path for Growth: Nova Scotia Tax and Regulatory Review*, published in November 2014.

### Expenditure restraint is also in the cards

With revenues being only one side of the ledger, the Nova Scotia government has recognized the need to rein in spending, with a focus on cutting costs while maintaining core services.

After increasing by 4.6% in fiscal 2014-15, the Government of Nova Scotia expects that growth in departmental spending will come in at a meager 0.7% in 2015-16 compared to the 2014-15 estimate, well below the anticipated increase in revenues. This can be chalked up to a reduction in the size of civil services (by 320 full-time equivalent jobs) and a three-year wage freeze for MLAs and excluded employees and a freezing of public-sector awards.<sup>1</sup> Further, the government is looking to restrain health spending to 0.8% (the smallest increase in more than a decade) and reduce the budgets of five departments. The government is also maintaining Program Review as a permanent initiative, after having identified \$119 million in savings to taxpayers, as well as continuing with a focus on cost reductions through shared services.

However, in addition to spending restraint, the Government of Nova Scotia increased outlays for education by \$20.4 million in fiscal 2015-16, while maintaining programs such as the Nova Scotia Bursary (\$24.8 million). The government also allocated nearly \$14 million in additional spending to health and social assistance.

### Expected budget balance to restrain debt growth

The Government of Nova Scotia is forecasting that fiscal 2015-16 will be the last year that it runs a deficit. Indeed, this

lion, thanks to mid-year departmental spending adjustments.

Building on this improved starting point, the Government of Nova Scotia is projecting a deficit of \$97.6 million in fiscal 2015-16, largely reflecting a sizable increase in revenues. In contrast, departmental expenditures are forecast to increase by a much more modest amount relative to 2014-2015.

### When it comes to revenue, Nova Scotians pay to play

For fiscal 2015-16, revenue is expected to grow by 3.7% over 2014-15 estimate (Table 1). This is in excess of the 2.7% increase forecast for nominal GDP growth - often considered the broadest measure of growth in the tax base (Table 2). This difference reflects renewed focus on the part of the government to raise revenue in order to put Nova Scotia on a sustainable fiscal track.

In an effort to balance the books, the Nova Scotia government has leaned heavily on higher user fees. Indeed, a quick reading of the 123-page 'User Fees and Government Charges' of fiscal 2015-16 leaves the distinct impression that no stone was left unturned in the government's quest for greater revenues. Despite the numerous fee hikes, the resulting increase in the take is a modest \$7.7 million.

While higher user fees should bode well for revenues in the near-term, the Government of Nova Scotia also took a step forward in adjusting its tax mix toward being more reliant on consumption and 'sin' taxes, and away from personal and corporate income taxes. In addition, the government elected to scale back a number of tax preferences. The measures introduced today include increasing tobacco

reflects the expectation that average annual revenue growth from fiscal 2015-16 to 2018-19, at 2.2%, will outpace the anticipated 1.8% annual increase in expenditures

As a consequence of the expected return to budget balance, net debt is projected to remain essentially unchanged beginning in fiscal 2016-17. With nominal GDP growth forecast to top 3% annually, on average, it will ultimately eat away at the debt-to-GDP ratio, taking it from a recent peak of 37.7% in fiscal 2014-15 to 33.4% by 2018-19 (Chart 2).

**Budget 2015 addresses the long and short of the Nova Scotia economy**

While returning the budget to balance is one key focus of the Budget 2015, the other is the long view taken in addressing the long-term challenges of Nova Scotia.

Over the next few years, the Nova Scotia economy is expected to perform well, riding high on the fortunes of the U.S. economy, a weaker loonie, and lower prices at the pumps. However, without a genuine effort to steer the economic ship in a different direction, these gains are forecast to be fleeting, as the economy fights secular headwinds related to declining population and labour force participation brought on by an aging population.

In order to address these challenges, the Nova Scotia government has established various bodies to examine the role the government can play in countering these long-term forces. In addition to the Program Review and Tax and Regulatory Review already mentioned, the Nova Scotia government also established the One Nova Scotia Commission, which published its report, *Now or Never: An Urgent Call to Action for Nova Scotians*, in February 2014.

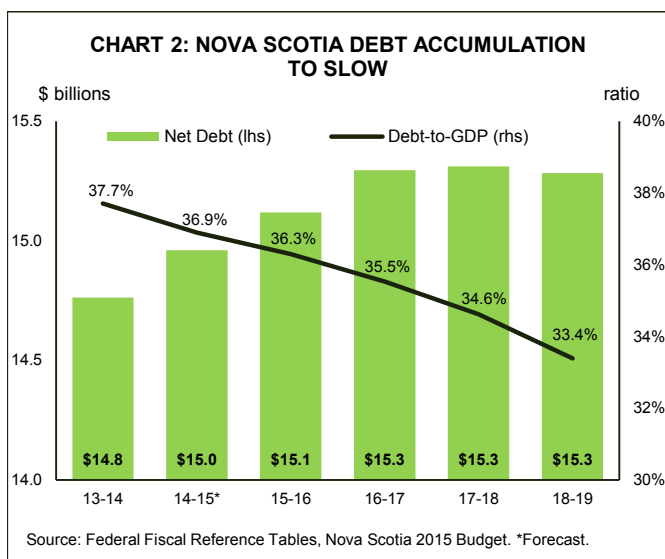
In this report, the Commission outlined 19 population, economic development, and governance and fiscal goals that need to be achieved in order for Nova Scotia’s economy to put itself on a sustainable economic path over the long term. And there has been some progress in achieving these goals. For instance, the government created a new Department of Business, which is expected to assist the private sector in driving economic growth in Nova Scotia. In this vein, the government is also placing a renewed focus on collaborations with the private sector by having a private-sector board lead tourism in the province. Further, balanced budgets and a sustainable debt path appear within reach. Also, the government has introduced initiatives focused on improving the business climate in Nova Scotia, while working to improve the educational and employment prospects for Nova Scotians. Finally, there is a renewed focus on retaining Nova Scotians and attracting entrepreneurs and workers from elsewhere to Nova Scotia.

**Bottom line**

The Government of Nova Scotia is making many of the gestures needed to inspire confidence among Nova Scotians and outsiders that progress is being made toward righting the fiscal ship. This is true both in the near term, as the government raises revenues while keeping its spending in check, and the long term, thanks to the work of the various bodies toward creating a tax mix and economic climate that is conducive to encouraging economic activity.

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**ENDNOTES**

1 <http://novascotia.ca/News/Release/?id=20150407005>.

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