

NOVA SCOTIA BUDGET 2015

April 9, 2015

Reshaping government on the way to balancing the books

In the days leading up to today's provincial budget, Nova Scotia Premier Stephen McNeil hinted that tough decisions would be an integral part of his government's fiscal plan. Indeed, a fair degree of re-thinking and re-engineering in the way Nova Scotia delivers services went into Budget 2015 and the government suggested that more changes might be forthcoming in future years.

The good news is that the efforts appear to be paying off with respect to the fiscal bottom line of the province. Today, Finance and Treasury Board Minister Diana Whalen announced that 1) the deficit in FY14/15 is now expected to be some 63% lower than originally forecasted and 2) that it will be eliminated entirely by next fiscal year (2015-2016). Meanwhile, she projects the weight of the provincial debt to diminish steadily (albeit modestly) in each the four years of the fiscal plan.

To achieve this, much of the focus will be on controlling the expenditure side of the ledger, although some revenue enhancing measures are part of the mix as well.

Much smaller deficit than previously expected in FY14/15

Budget 2015 benefits from a better 'hand-off' from FY14/15 than might have been anticipated. Revised forecasts show both higher revenues and lower expenditures compared to the original projections in Budget 2014. Revenues were boosted by a large \$115 million prior-year adjustment arising from higher levels of national corporate taxable income based upon updated federal estimates. A \$49 million upward revision to corporate income taxes also helped on the revenue side. On the expenditure side, mid-year departmental spending adjustments generated \$23 million in savings. Altogether, these and other smaller changes resulted in a significantly reduced budget deficit of \$102 million in FY14/15 or \$177 million lower than the original projection (\$279 million) in Budget 2014.

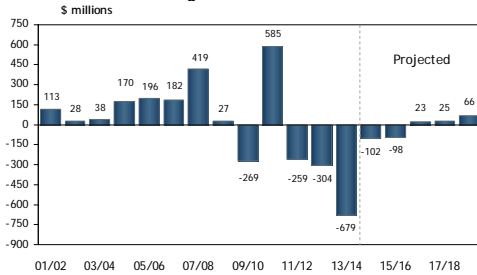
Lowest deficit in five years projected for FY15/16

For FY15/16, the government now projects a shortfall of \$98 million, which would constitute the lowest deficit in five years. Total revenues are forecasted to increase by 1.6% (relative to the revised FY14/15 figure) to \$9.9 billion, thereby slightly outpacing a 1.3% rise in total expenditures (\$10.0 billion).

Deficit to be eliminated by FY16/17

After pushing out the date for the expected return to balance (to FY17/18) in last year's budget, Minister Whalen brought that date back closer in the fiscal plan she presented today. She now projects the provincial deficit to be eliminated in FY16/17 with a small surplus of \$23 million. The fiscal plan further shows surpluses of \$25 million and \$66 million projected in the last two years of the four-year fiscal plan, reflecting the government's stated intention of keeping its budget in the black on a sustained basis.

Nova Scotia budget balance



Source: Nova Scotia Ministry of Finance, RBC Economics Research

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Focus on controlling expenditures

The government will continue to deploy significant efforts to control departmental expenditures, which are forecasted to grow by just 0.9% in FY15/16 and an average of 1.9% in the three remaining years of the fiscal plan. Minister Whalen noted that increases in government employee wages exerted substantial pressure on departmental expenses in the past three years and her government intends to address such pressures going forward. In recent days, the government announced a three-year freeze on non-unionized employee wages and public service awards. The minister characterized these measures as “initial steps” in addressing “unsustainable labour costs”, thereby implying that further action likely is forthcoming on this front.

Program review delivers substantial savings

Budget 2015 also contains a host of initiatives stemming from ongoing program review. These measures will generate \$119 million in savings in FY15/16. Savings will be generated from changes to programs (e.g. closure of visitor centres), grants and taxes (e.g. narrowing the film industry tax credit) and institutional structures (e.g. consolidating land registry offices). Of note, the government is restructuring some departments with the consolidation of the economic development and tourism portfolios into a new department of business. The move is expected to deliver \$29 million in annual savings.

Some relatively minor tax measures

While the focus was on expenditures, the budget still contained new tax measures. These included an increase in the tobacco tax, a reduction in the non-eligible dividend tax credit (from 5.87% to 3.5%) and the elimination of the healthy living tax credit; however, the size of the measures in terms of revenue generated was generally modest. That being said, changes to the film industry tax credit (making it 25% partially refundable) is likely to grab the news headlines given the intense lobbying from the industry in the period leading to the budget. Perhaps the bigger story with respect to taxes was the fact that no changes were made to the provincial portion of the HST—despite rumours to the contrary prior to the budget.

The weight of the provincial debt is on the decline

One of the benefits of diminishing deficits is that it reduces pressure on the provincial debt. Nova Scotia’s net debt is expected to change little over the entire fiscal plan, rising from \$15.0 billion at the end of FY14/15 to \$15.3 billion in FY18/19. As a share of GDP, however, net debt is projected to ease gradually from 36.9% at the end of FY14/15 to 36.3% in FY15/16 and further to 33.4% by FY18/19. The budget document showed that the government is considering a recommendation from the One Nova Scotia Commission to set a goal of 30% or less by 2024.

Lower borrowing requirements in FY15/16

The government estimates its term debt requirements to total \$886 million in FY15/16, down from a revised total of \$1.1 billion in FY14/15. For the remainder of the fiscal plan, the Province expects term debt requirements of \$1.0 billion in FY16/17, \$427 million in FY17/18 and \$1.0 billion in FY18/19.

Encouraging progress but road ahead still challenging

The budget delivered today by Minister Whalen puts the objective of balancing the books clearly in sight, which is encouraging news following last year’s extended road to balance. Nonetheless, the journey ahead will be challenging. Finding further savings within departments likely will get increasingly difficult. Also, Minister Whalen’s government will need the cooperation of the provincial economy. Budget 2015 is premised on reasonable, if conservative, economic assumptions (real GDP growth forecasts of 1.7% in 2015 and 1.5% in 2016, and nominal GDP growth of 2.7% and 3.4%, respectively); however, the performance of Nova Scotia’s economy has had a tendency to disappoint in recent years. In this context, the government would do well to add a further measure of prudence by explicitly including some form of a contingency reserve just in case the economy or other factors disappoint again.

Nova Scotia's fiscal plan

\$ millions	Estimate	Forecast	Estimate	Estimate	Estimate	Estimate
	2014-15	2014-15	2015-16	2016-17	2017-18	2018-19
General Revenue Fund	9,566	9,763	9,920	10,202	10,369	10,653
Revenue	9,226	9,418	9,568	9,846	10,019	10,312
Government Business Enterprises	340	345	352	356	351	342
Expense	9,936	9,897	10,024	10,187	10,351	10,595
Program spending	9,058	9,035	9,152	9,314	9,460	9,686
Interest on public debt	878	863	873	873	891	909
Consolidation adjustments	91	33	7	7	7	7
Surplus/ (deficit)	(279)	(102)	(98)	23	25	66

Source: Nova Scotia Ministry of Finance, RBC Economics Research

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