

NOVA SCOTIA BUDGET 2016

April 20, 2016

Staying the course and returning to surplus

Overview

In a speech leading up to Nova Scotia's provincial budget, released yesterday, Minister of Finance Randy Delorey hinted that the 'tide was turning' for the province's finances and economy. After two budgets dedicated to containing costs and rethinking how services were delivered, Budget 2016 includes only small changes to the fiscal plan and succeeds in projecting a budget surplus this year after five years of deficits. The return to surplus through the forecast horizon will result in a slowly diminishing burden of debt as a share of GDP in each of the next four years. The return to budget balance is the culmination of the government's aim to restore fiscal sustainability to Nova Scotia, and while the government has admitted that with such slim surpluses one shock could knock them off course, for now the province's finances are on track.

Fiscal balance

After a stronger than anticipated hand off from 2015-16 in which the deficit was revised lower by one-quarter to \$71 million, Budget 2016 expects a small net surplus of \$17 million this year after 5 years of deficits. Inclusive of one-time revenue bumps however, the surplus rises to \$127 million thanks to \$110 million in contributions from federal and municipal governments for the Halifax Convention Centre. As the budget projection moves into the black, the Province is easing its spending restraint in the near term by introducing a host of new spending measures. Compensating for faster-growing expenditures are projected increases in revenues such that over the forecast horizon the government will run a series of small but growing budget surpluses.

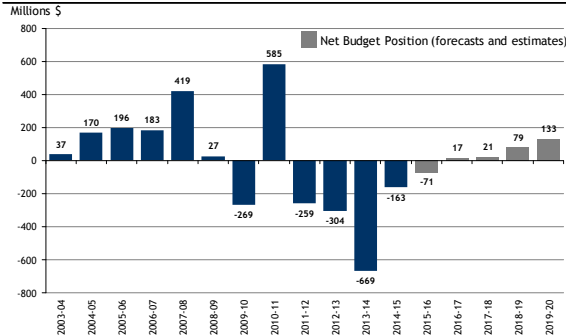
A raft of modest initiatives

After deploying significant efforts to contain departmental expenditures in the 2014 and 2015 budgets, Budget 2016 contains a host of modest initiatives, many of which are geared toward fostering economic growth. The budget includes \$37 million of new spending on youth, education and job training, \$48 million on health, \$21 million on non-health supports for the needy, and \$56 million on targeted investments to boost Nova Scotia's exports. Included in this final category are investments in wineries and vineyards, aquaculture, and \$10 million each for the Portland ferry and Nova Scotia Film and Television Production Incentive Fund. These investments are being made with job creation in mind, and to fill those jobs the Province is touting an increase to its *Graduate to Opportunity Program* which aims to retain young people in the province by helping recent graduates to find work. The upshot is that departmental spending growth is set to rise by 2.8% in 2016-17 from 0.4% in 2015-16, and then grow by 2% over the rest of the forecast horizon.

Revenues from a growing economy

The government expects a growing economy and tax base to generate enough new revenue from existing policies to pay for rising expenditures and maintain a small budget surplus over the forecast horizon. While the

Nova Scotia government budgetary balance



Source: RBC Economics Research, Nova Scotia Department of Finance and Treasury Board

Table 1: Economic Assumptions

Year-over-year % change	Forecast	
	2016	2017
2016 Budget		
Real GDP growth	0.9	0.8
CPI	1.5	1.9
Nominal GDP growth	2.5	2.7
Unemployment Rate*	8.4	8.1
Employment growth	0.6	0.1
RBC Economics		
Real GDP growth	1.3	1.1
CPI	1.5	2.5
Nominal GDP growth	3.1	3.1
Unemployment Rate*	8.4	8.1
Employment growth	-0.2	0.0

*Average level

Source: RBC Economics, Nova Scotia Department of Finance and Treasury Board

Gerard Walsh

Economist

416-974-6525

gerard.walsh@rbc.com

budget includes a small hike in tobacco taxes which is expected to generate an additional \$16 million this year, the bulk of the government's expected 3.8% increase in revenues is forecast to come from a 4.2% increase in personal incomes taxes and a 2.7% increase in HST receipts. This growth reflects a government forecast of strong growth in household incomes in 2016 and 2017 which will boost taxable income directly, and generate growth in retail sales.

Savings from flat health costs

Nova Scotia's largest departmental expense is health and wellness which accounted for 41% of total expenses in 2015-16. Health spending is expected to rise by 0.4% in 2016-17 compared with an average of 2.2% over the past 3 years. To accomplish a slower pace of cost growth the Province is planning spending reductions on segments of service delivery and support including IT systems and acute care.

The capital plan

This year's capital plan, released in January 2016, projected a 2% decline in ordinary capital spending this year to \$481 million. The decline was led by lower spending on information technology (-37%) and buildings and land (-6%). The bulk of the government's infrastructure investments will be directed towards building, equipping and renovating schools (\$82 million), hospitals and health facilities (\$66 million), and highways and structures (\$220 million). The province also intends to make a \$164 million investment in the Halifax Convention Centre which is partially funded by the municipal and federal government. When the convention centre is included, it brings total capital spending to \$645 million for 2016-17.

Borrowing and net debt

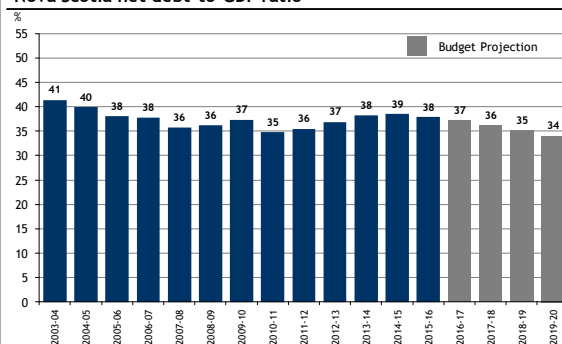
As Nova Scotia aims for budget balance in the near term, net debt will peak at \$15.2 billion in 2017-18 before edging lower for the remainder of the projection horizon. As debt stabilizes amid a growing economy, the net debt-to-GDP ratio will begin to fall reaching 34% in 2019-20 from its current level of 38%. This puts the province within striking distance of the suggested goal of 30% net debt-to-gdp ratio by 2024 as outlined by the One Nova Scotia Commission. After borrowing \$1,055 million in fiscal 2015-16, the province intends to borrow \$810 million in 2016-17 in term debt followed by an increased pace of borrowing for the following two years.

Table 2: Projected Borrowing Requirements (millions of dollars)

	Estimate		Revised			
	2015-16	2016-17	2017-18	2018-19	2019-20	
Cash Operating and Net Mandatory and Discretionary Fund Requirements	78	-153	15	398	-238	-1,025
Cash Debt Retirements	1,008	1,008	995	460	1,259	1,971
Short-term borrowing (inc)/dec	-200	200	-200			
Total Term Debt Requirements	886	1,055	810	858	1,021	946
Net Financial Market Debt	12,990	12,765	12,661	12,938	12,776	12,500

Source: Nova Scotia Department of Finance and Treasury Board

Nova Scotia net debt-to-GDP ratio



Source: RBC Economics Research, Nova Scotia Department of Finance and Treasury Board

	Forecast		Estimate		
	2015-16	2016-17	2017-18	2018-19	2019-20
Total Revenue	9,893	10,264	10,374	10,617	10,815
Departmental and Other Expenses	9,101	9,304	9,505	9,674	9,852
Public Debt Charges	855	842	853	871	837
Total Expenses	9,956	10,146	10,359	10,544	10,688
Accounting Adjustments	-9	9	6	6	6
One-time adjustments		-110			
Net Budgetary Balance	-71	17	21	79	133
Net Debt	15,114	15,189	15,213	15,175	15,081
Nominal GDP	39,897	40,902	42,007	43,226	44,181
Net debt to GDP Ratio	38%	37%	36%	35%	34%

Source: Nova Scotia Department of Finance and Treasury Board

The material contained in this report is the property of Royal Bank of Canada and may not be reproduced in any way, in whole or in part, without express authorization of the copyright holder in writing. The statements and statistics contained herein have been prepared by RBC Economics Research based on information from sources considered to be reliable. We make no representation or warranty, express or implied, as to its accuracy or completeness. This publication is for the information of investors and business persons and does not constitute an offer to sell or a solicitation to buy securities.