



NOVA SCOTIA BUDGET 2011

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Surplus surprise, but restraint still needed

In Budget 2010, the Nova Scotia government presented a plan to return the province to fiscal balance after warning that its existing path was unsustainable, as it was facing a substantial shortfall of \$1.4 billion by 2012/13 if nothing was done. This year's budget presents an update to that plan, and shows that the government is on track to meet its target of balancing the budget by 2013/14. The 2011/12 deficit is now expected to be \$390 million or just slightly above the \$370 million projected in last year's budget. The good news, however, is that the latest forecast for 2010/11 shows a \$447 million *surplus*, a significant improvement over the \$222 million deficit projected in last year's budget. While the surplus is primarily the result of one-time factors affecting revenues and expenditures last year and does not affect the planned deficit path, it will help the province restrain its debt growth this year.

Last year's plan introduced significant new revenue measures (e.g. a 2 percentage point increase in the HST and the creation of a temporary fifth income tax bracket applicable to the highest income earners) but avoided making large spending cuts: the government planned for 4.8% program expenditure growth in 2010/11 (excluding assistance to universities, which saw a one-time drop due to changes in the schedule of payments). The government is taking the opposite approach this year, introducing a small amount of corporate and personal income tax relief, but restraining expenditure growth substantially. The government plans for 1.6% program expenditure growth in 2011/12 (excluding assistance to universities), followed by a decline of 2.8% in 2012/13. While expenditures have come in under budget in each of the past two years, the government's targets were relatively modest by historical standards: last year's 4.8% target for program expenditure growth is not far below the 5.7% average growth in the five years leading up to the recession. It remains to be seen whether the government can maintain its track record given this new, more ambitious goal.

The government also provided an update to the four year plan. While the 2011/12 deficit is close to the plan's target, the projected 2012/13 deficit has been increased to \$216 million (from \$187 million in the 2010 budget.) This is due to upward revisions to departmental expense projections and occurs despite an increase in projected revenues. Nonetheless, the government still expects to balance the books by 2013/14, projecting a surplus of \$15.4 million that year (up from effectively zero as previously projected).

The \$669 million improvement in the budget balance for 2010/11, relative to the 2010 budget, came from a variety of sources. The single biggest factor was a prior years' adjustment from the federal government totalling \$196.1 million. Personal, sales and tobacco taxes were all higher than expected as well, possibly because GDP growth was stronger than anticipated (the government predicted 1.9% real GDP growth in the 2010 budget; 2010 growth is now expected to be 2.1%.) A further \$134 million came from lower-than-expected program spending, which was distributed relatively evenly across departments.

Assumptions underlying the plan are credible but not especially conservative. Real GDP is forecast at 1.9% in both this year and next, or a little stronger than our projection of 1.5% in 2011 and marginally softer than our 2.0% call for 2012.

Highlights

Departmental expenditures are projected to be \$8.3 billion in 2011/12, a 5.8% increase over last year. However, as noted above, there were special circumstances surrounding the province's assistance to universities which shifted more than \$340 million in payments to the prior fiscal year. This meant expenditures were unusually low in 2010/11. Excluding assistance to universities, program spending is planned to increase by 1.6%. This reflects broad based increases, with some cuts to smaller departments balanced by moderate growth in most areas. Health spending, which makes up over 40% of provincial expenditures, is expected to grow by 1.7%. This is a significant slowdown from the 6.2% average growth over the past few years.

Revenues are expected to fall by 3.1% in 2011/12, to \$8.5 billion, with both own-source and federal revenues declining. Most of the drop in own-source revenues results from unusually high prior-years' adjustments in 2010/11 (\$196 million), combined with lower offshore petroleum revenues (\$60 million.) Some offset is provided by increased HST revenues, which are expected to be up by 9.2% or \$137 million. This is due to the fact that 2011 is the first full year after the two percentage point HST increase on July 1st, 2010. Federal revenues will decline as a result of declining offshore oil and gas transfers and the end of stimulus related funding.

Planned capital spending is \$560 million in 2011/12. This is down substantially from its peak of \$800 million in 2009/10, but is still high relative to pre-recession levels. Nearly half of the capital budget is allocated to transportation as part of the government's 5-year Highway Improvement Plan.

Provincial Debt

Nova Scotia's debt-to-GDP ratio is now expected to peak in 2011/12 at 36.6% before falling to 33.6% in 2014-15. This represents an improvement over the 2010 budget projections, which had the ratio peaking at 40.2% in 2011/12. However, it still leaves Nova Scotia with the second highest debt-to-GDP ratio in the country (after Quebec.) Total borrowing requirements for 2011/12 are expected to be \$1.6 billion down from \$1.9 billion in 2010/11. The budget documents stated that the government looks to "maintain access to a diversity of borrowing sources, both domestically and in foreign markets". Nearly 40% of required borrowing in 2010/11 was made through international markets.



Nova Scotia's fiscal plan

\$ millions	Actual	Estimate	Forecast	Projection	Projection	Projection	Projection
	2009-10	2010-11	2010-11	2011-12	2012-13	2013-14	2014-15
Revenue	8,156	8,391	8,799	8,524	8,600	8,930	9,132
Expense	8,883	9,044	8,794	9,337	9,205	9,321	9,481
Program spending	8,030	8,085	7,915	8,452	8,245	8,338	8,473
Interest on public debt	853	959	879	886	961	983	1,008
Consolidation adjustments	39	83	85	69	31	31	31
Government Business Enterprises	359	349	357	355	358	376	382
Surplus/ (deficit)	-330	-222	447	-390	-216	15	64

Source: Nova Scotia Ministry of Finance, RBC Economics Research

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