

Chapter 2

Highlights from the Province's 2021-22 Financial Audit

Key Messages

- Transparency and accountability over additional appropriations process should be improved
- Spending on P3 projects increasing with more to come in future years
- Significant funding provided to Nova Scotia's universities
- Retirees of significant public sector pension plans not receiving increases from indexing at time of high inflation

Why We Did This Chapter

- To highlight important financial matters impacting the Province

Selected Financial Highlights

Additional Appropriations:

- Nova Scotia's Finance Act does not require House of Assembly approval for budget overspending unlike other jurisdictions in Canada
- Additional appropriations process in Nova Scotia is less transparent than processes used in other provinces
- Additional appropriations significantly increased in recent years with \$4.7 billion in additional appropriations approved in the last ten years
- The Auditor General recommends improved accountability and transparency over additional appropriations

Significant Year-end Spending:

- \$1.4 billion in spending recorded in the last week of March 2022, the largest in the following departments:
 - \$264 million by the Department of Health and Wellness
 - \$224 million by the Department of Advanced Education
 - \$137 million by the Department of Community Services
 - \$131 million by the Department of Municipal Affairs and Housing
 - \$121 million by the Department of Public Works

Public-Private Partnership (P3) Projects Underway:

- The Province currently has two major P3 projects underway – Construction of the outpatient clinic as part of the QEII Health Sciences Centre New Generation project and Highway 104 twinning project
- \$200 million spent in 2021-22 and contractual obligations of \$633 million disclosed for future years
- Unmatured debt of \$333 million related to P3 projects

Health Spending:

- The Province spent \$6 billion in health spending and capital asset acquisitions in 2021-22
- Annual healthcare operating expenses are up \$1.1 billion since 2017-18
- 2021-22 spending attributed to the following entities:
 - \$2.7 billion to Nova Scotia Health
 - \$1.6 billion in the Department of Health and Wellness
 - \$1.0 billion in the Department of Seniors and Long-term Care
 - \$310 million to the IWK Health Centre
 - \$35 million to Office of Mental Health and Addictions
- Includes COVID-19 related spending on personal protective equipment, vaccination clinics, and salaries and wages
- Healthcare capital acquisitions mainly consist of construction and infrastructure projects at Cape Breton Regional Hospital, as well as the P3 QEII Health Sciences Centre New Generation project with work on the Halifax Infirmary and the Outpatient Clinic

Provincial Funding to Universities:

- The Province provided funding of \$551 million in 2021-22 to nine universities in Nova Scotia
- Provincial funding accounts for an average of 35% of total university revenues for the five universities receiving the most funding

Public Sector Pension Plans:

- The Province is not responsible for the Nova Scotia Public Service Superannuation Plan and this plan is not recorded in the Province's financial statements
- Nova Scotia Public Service Superannuation Plan is currently 98.3% funded with retirees not expected to receive pension increases from indexing until 2026 at the earliest
- Nova Scotia Teachers' Pension Plan is currently 82.5% funded with teachers retired after August 1, 2006 not expected to receive pension increases for the foreseeable future
- The report of the independent Nova Scotia Teachers' Pension Plan Panel with recommendations to address challenges facing the plan not yet publicly released

Questions Nova Scotians May Want to Ask

1. Will the Government of Nova Scotia amend the Finance Act to ensure there is more transparency and accountability through the legislature over additional appropriations now and in the future?
2. What does the funded status of the Nova Scotia Teachers' Pension Plan and the Nova Scotia Public Service Superannuation Plan mean for retirees as well as current teachers and public servants?
3. How do Nova Scotians benefit from the use of Public-Private Partnership relationships to build assets?
4. How is provincial funding determined for each university?
5. How does the Province's spending on universities benefit Nova Scotians?
6. Given the large amount of health spending, are the Province's resources being used as efficiently and effectively as possible?

2 Highlights from the Province's 2021-22 Financial Audit

Financial Audit Highlights

- 2.1 The objective of this chapter is to highlight and provide information on important financial matters impacting the Province. These include significant areas of government spending in fiscal 2021-22 including the additional appropriations needed for program spending, significant year-end spending, P3 projects underway, health spending, funding to universities and the funding status of major public sector pension plans.

Additional Appropriations



Nova Scotia's additional appropriations process lacks accountability

- 2.2 The Finance Act of Nova Scotia requires the Province to prepare a budget annually which includes estimates of the expenses for each department and public service unit for the next fiscal period. The budget is tabled, debated, and then voted on in the House of Assembly. Once the budget is passed, these approved amounts represent the annual budget appropriations for departments. The annual appropriation spending limits function as the House of Assembly's control on government spending.
- 2.3 During the year, if a department determines it cannot stay within its annual appropriation, the provincial Finance Act states that approval for additional appropriations must be obtained. Under the Finance Act, additional funding is approved by the Governor in Council.
- 2.4 The Governor in Council is the Lieutenant Governor of Nova Scotia acting by and with the advice of Executive Council. Executive Council is the decision-making authority for the Government and its decisions are shown in Orders in Council (OICs). Executive Council members are chosen by the Premier who serves as its President, meaning requests for additional appropriations are submitted to the decision-making members of Government and are not voted on by the House of Assembly.



Additional appropriations process in Nova Scotia lacks accountability through the legislature

- 2.5 In Nova Scotia under the Finance Act there is no requirement for the legislature to review, vote on, or approve additional appropriations. While there are nuances in legislation, in almost all other jurisdictions in Canada (this includes the provinces and federal government), there is a requirement for additional appropriations to return to the legislature for debate and approval through a supplementary estimate or other process. In some jurisdictions, if the legislature is not in session, additional appropriations may be approved temporarily by Governor in Council through special warrants, but there is still a requirement in most cases for additional appropriations to be approved by the legislature once the next session convenes.

Jurisdictional Comparison of Finance Acts for Additional Appropriations

Jurisdiction	Additional Appropriations Required to be tabled in the Legislature (Legislature in Session)	Special Warrants Required to be tabled in the Legislature (Legislature not in Session)
Nova Scotia	No	No
Newfoundland and Labrador	Yes	Yes
New Brunswick	Yes	Yes
Prince Edward Island	Yes	Yes
Quebec	Yes	Yes
Ontario	Yes	Yes
Manitoba	Yes	No
Saskatchewan	Yes	Yes
Alberta	Yes	No
British Columbia	Yes	Yes
Canada	Yes	Yes

Source: *Provincial and Federal Acts*

- 2.6 While the Province is correctly following the requirements as set out in the Finance Act for additional appropriations, unlike other provinces Nova Scotia currently has no requirement for additional appropriations to be brought to the House of Assembly for debate and approval. This means the legislature has limited ability to hold the government accountable for overspending.
- 2.7 The process is also less transparent than processes used in other provinces. OICs are the public record of Executive Council approval for additional appropriations. However, they often do not provide details on spending. Unlike other jurisdictions, where additional appropriations are reviewed and approved by the Legislative Assembly, these details may not be subject to transparent public discussion through the legislature.
- 2.8 Included below is OIC 2021-232 which is the public record of approval of \$424 million in additional appropriations.



Executive Council

A certified copy of an Order in Council dated September 29, 2021

2021-232

The Governor in Council on the report and recommendation of the Minister of Finance and Treasury Board dated September 28, 2021, and pursuant to Section 27 of Chapter 2 of the Acts of 2010, the *Finance Act*, is pleased to order that the supplemental sums identified in Column II of Schedule “A” attached to and forming part of the Report and Recommendation and this Order are hereby appropriated for the appropriated entities appearing opposite thereto for the fiscal year ending the 31st day of March, 2022, effective September 29, 2021.

2.9 Government updates the public regularly on the Province's finances through regular budget forecast updates throughout the year, and on an annual basis in the Public Accounts. The financial statement discussion and analysis section of the Public Accounts provides information on the Province's finances, the Nova Scotia economy, and comparative financial information. The Province reports on additional appropriations for the year in the Public Accounts. Information provided by OICs, budget forecast updates, or within the Public Accounts could be raised by members of the House of Assembly during question period when the legislature is sitting. However, the information Government provides on additional appropriations still comes after approval has already been obtained through Executive Council.



Certain sections of the Nova Scotia Finance Act improved in 2010

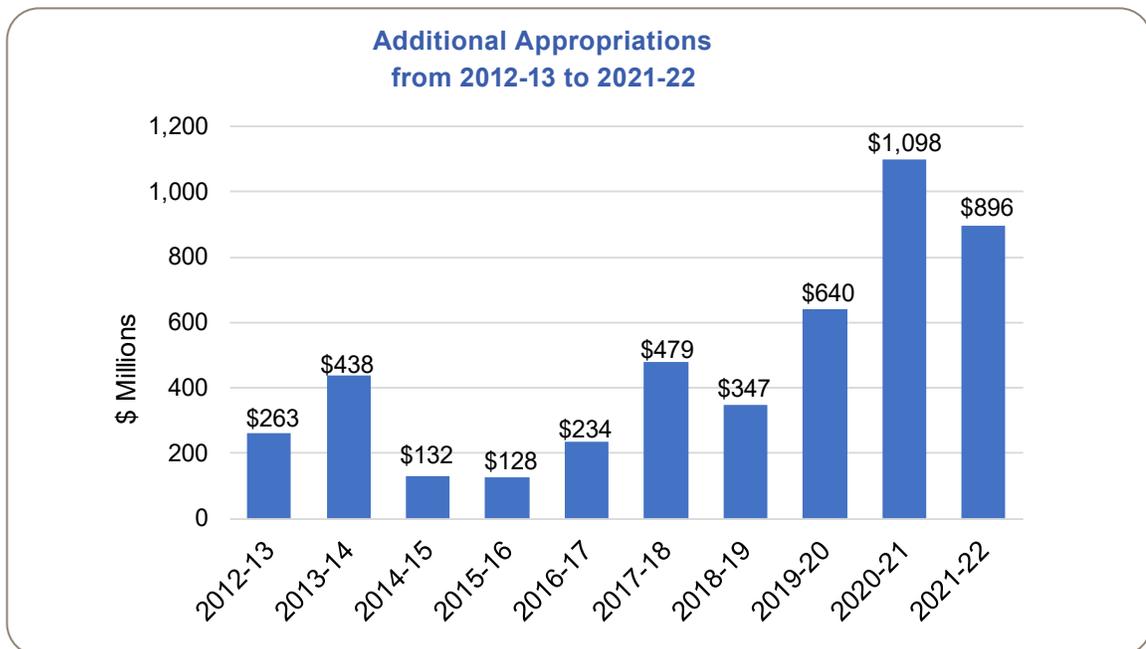
2.10 In 2010, a new Finance Act was passed by the House of Assembly. The new provisions in the updated Finance Act clarified the timeline and the approvals process for additional appropriations. While improvements to the Finance Act were made in 2010 the Act still does not require additional appropriations to return to the House of Assembly. Under the 2010 Finance Act, decision-making authority over additional appropriations remains with the executive branch of Government and not with the legislature.

2.11 It should be noted that the 2010 Finance Act, including the process for decision-making authority over additional appropriations, was tabled in the House of Assembly as a public bill and was passed by the House of Assembly in 2010.



Additional appropriations have more than tripled in the past 10 years

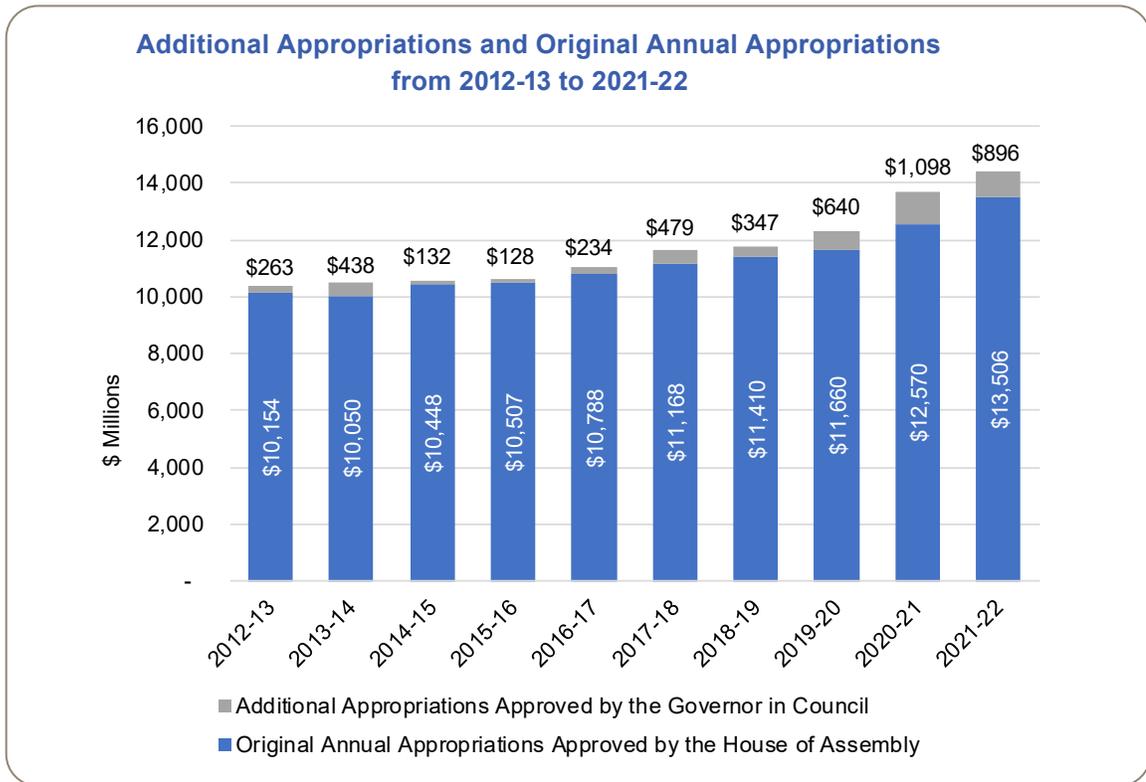
2.12 In fiscal 2021-22, there was \$896 million in additional appropriations approved by Governor in Council which represents significant spending for providing services impacting Nova Scotians. Recent years have seen an increase in the use of additional appropriations. In 2021-22, additional appropriations were 6.5 per cent of the Province's total expenditures compared to 2.6 per cent in 2012-13.



Source: 2012-13 to 2021-22 Public Accounts

\$4.7 billion in additional appropriations approved over last ten years

2.13 Additional appropriations increased by \$633 million or 240 per cent in 2021-22 to \$896 million from 2012-13 when additional appropriations were only \$263 million. In that ten-year period, \$4.7 billion in additional appropriations were approved.



Source: 2012-13 to 2021-22 Public Accounts

Note: The Original Estimates include departmental expenses, debt servicing costs, refundable tax credits, pension valuation adjustments, capital purchase requirements, and sinking fund instalments and serial retirements.

2.14 Additional appropriations are allocated to individual departments as required. The departments with the greatest additional appropriations in 2021-22 were the departments of Advanced Education; Municipal Affairs and Housing; Communities, Culture, Tourism and Heritage; and Health and Wellness. These additional appropriations were passed through three Orders in Council dated September 29, 2021, December 23, 2021, and March 29, 2022.

2.15 Final additional appropriations required are the difference between the departments' actual expenditures for the year and the sum of the original estimates and additional appropriations. The Finance Act requires these to be approved through OIC within 15 days of the tabling of the Public Accounts.

2021-22 Additional Appropriations (\$ Millions)					
Appropriation by OIC	2021-232 September 2021	2021-294 December 2021	2022-81 March 2022	Final Additional Appropriation Required September 2022	Total
Advanced Education	\$8	\$2	\$133	\$6	\$149
Communities, Culture, Tourism and Heritage	51	3	61	-	115
Communications Nova Scotia	-	-	-	-	-
Economic Development	34	-	13	-	47
Education and Early Childhood Development	53	-	-	-	53
Elections Nova Scotia	13	-	-	-	13
Environment and Climate Change	2	-	-	-	2
Freedom of Information and Protection of Privacy Review Office	-	-	-	-	-
Health and Wellness	87	-	-	16	103
Justice	5	-	11	15	31
Labour, Skills and Immigration	11	3	65	-	79
Municipal Affairs and Housing	105	9	20	-	134
Natural Resources and Renewables	7	39	-	5	51
Office of Addictions and Mental Health	1	-	-	-	1
Office of Equity and Anti-Racism Initiatives	2	-	-	-	2
Office of Healthcare Professionals Recruitment	-	1	-	-	1
Public Prosecution Service	1	-	1	-	2
Public Service Commission	3	-	-	-	3
Public Works	9	-	-	29	38
Seniors and Long-Term Care	29	40	-	-	69
Service Nova Scotia and Internal Services	3	-	-	-	3
Sinking Fund Instalment and Serial Retirements	-	-	-	-	-
Total	\$424	\$97	\$304	\$71	\$896

Source: 2021-22 Public Accounts

- 2.16 The Department of Advanced Education obtained additional appropriations in the amount of \$149 million. This is mostly attributable to infrastructure maintenance provided to universities, specific funding for the Centre for Discovery and Innovation at Cape Breton University, and funding to the Research Opportunities Fund managed by Research Nova Scotia. Additional funding was also required for expenses related to COVID-19 and programs at Nova Scotia Community College.
- 2.17 The Department of Municipal Affairs and Housing obtained additional appropriations in the amount of \$134 million. This is mostly attributable to costs incurred for the Canada Community Building Fund and an increase in Municipal Capacity grants. Additional funding was also required for the Investing in Canada Infrastructure Program, costs incurred for the Affordable Housing Commission, Disaster Financial Assistance, and the Disaster Mitigation Fund.
- 2.18 The Department of Communities, Culture, Tourism and Heritage obtained additional appropriations in the amount of \$115 million. This is mostly attributable to increases in funding for the Nova Scotia Film and Television Production Incentive Fund, tourism initiatives, and community grants for several community organizations.
- 2.19 The Department of Health and Wellness obtained additional appropriations in the amount of \$103 million. This is mostly attributable to additional costs related to COVID-19 and the Health Care

Workers collective agreement. Additional funding was also required for the Physician Services Academic Funding Plan and Alternative Payment Plan.

2.20 Additional appropriations in other departments were largely attributable to costs and funding related to COVID-19, Energy Efficiency Programming support, upgrades and maintenance for long-term care facilities, the Health Care Workers collective agreement, and the Workers' Compensation Board to expand presumptive cancer coverage for firefighters.

2.21 In fiscal 2020-21 there was a total of \$1.1 billion in additional appropriations approved by Governor in Council, including \$32 million approved after year end. The departments with the greatest additional appropriations in 2020-21 were the departments of Health and Wellness; Education and Early Childhood Development; and Municipal Affairs and Housing. There were also additional appropriations related to capital purchase requirements in the amount of \$149 million.

2020-21 Additional Appropriations (\$ Millions)						
Appropriation by OIC	2020-172 June 2020	2020-209 July 2020	2021-338 December 2020	2021-88 March 2021	Final Additional Appropriation Required September 2021	Total
Agriculture	\$-	\$-	\$-	\$5	\$-	\$5
Business	38	7	-	-	-	45
Communities, Culture and Heritage	-	4	6	11	-	21
Community Services	4	13	22	-	-	39
Education and Early Childhood Development	-	63	41	-	-	104
Energy and Mines	-	-	-	3	-	3
Environment	-	-	3	-	-	3
Government Contributions to Benefit Plans	-	-	-	-	4	4
Health and Wellness	35	339	88	-	-	462
Justice	-	6	6	4	-	16
Labour and Advanced Education	-	8	32	-	-	40
Assistance to Universities	-	-	-	42	-	42
Lands and Forestry	-	-	5	8	14	27
Municipal Affairs and Housing	-	-	77	-	-	77
Public Prosecution Service	-	-	-	1	-	1
Service Nova Scotia and Internal Services	-	1	-	7	-	8
Transportation and Infrastructure Renewal	2	2	20	14	14	52
Capital Purchase Requirements	149	-	-	-	-	149
Total	\$228	\$443	\$300	\$95	\$32	\$1,098

Source: 2020-21 Public Accounts

2.22 The Department of Health and Wellness obtained additional appropriations in the amount of \$462 million. This is mostly attributable to additional public health expenses related to COVID-19 and increases in Nova Scotia Health operational expenses. There were also additional expenditures related to Pharmaceutical Services.

2.23 The Department of Education and Early Childhood Development obtained additional appropriations in the amount of \$104 million. This is mostly attributable to additional childcare sector expenses related to COVID-19 and additional funding to support the reopening of schools. There was also an increase in expenditures related to the French Federal funding agreements.

- 2.24 The Department of Municipal Affairs and Housing obtained additional appropriations in the amount of \$77 million. This is mostly attributable to costs incurred for the Federal Restart Agreement, emergency shelter beds, and Housing Nova Scotia grants for costs incurred due to Public Health COVID-19 protocols.
- 2.25 Additional appropriations in other departments were largely attributable to costs and funding related to COVID-19, investments to improve infrastructure and stimulate the economy, and additional funding for the Workforce Development Agreement. The \$149 million in additional appropriations for capital purchase requirements was related to an increase in expenditures on buildings, highways, and structures.



The Auditor General recommends improved accountability and transparency over additional appropriations process

- 2.26 The budget process allows Nova Scotians to have input on government spending through their elected officials. During the budgetary process there are several rounds of questioning and debate that ultimately leads to the House of Assembly voting on whether to pass the year's annual appropriations. Since additional appropriations are not subject to this process, there is less accountability and a lack of transparency on these additional expenditures which represent increasingly significant amounts of public funds being spent. Without this process, a sitting government in Nova Scotia can, and have, approved large amounts of spending without being questioned by opposing elected representatives or in a forum which allows Nova Scotians to better understand the intent of the spending.
- 2.27 The lack of accountability and transparency through the House of Assembly over the additional appropriations process is not new. This issue has been raised by Auditors General of Nova Scotia in prior years, including in the February 2008 Report of the Auditor General, paragraph 6.42. The Auditor General at the time, Jacques Lapointe, noted that debate and challenge are integral to the budget process and are absent from the approval process for additional appropriations.

Recommendation 1.1

We recommend the Department of Finance and Treasury Board assess whether the current practice for the authorization of additional appropriations provides for adequate accountability and transparency over expenditure of public funds by Members of the Legislative Assembly and consider whether changes are necessary to align with legislated practices elsewhere in Canada.

Department of Finance and Treasury Board Response: The Department of Finance and Treasury Board (FTB) has carefully considered this matter and would take further action if directed by government. FTB is pleased to see that the Auditor General has noted that the processes and accountabilities established by the Finance Act (passed in the Legislature spring 2010) have been followed. With respect to improving accountability and transparency, FTB will work with Executive Council Office to proactively have "Schedule A" accessible via the Order In Council database (by electronic link) rather than available by request. Further, FTB will ensure the fact sheet, which is prepared for members of the media and summarizes the reasons why appropriated entities require the additional appropriations approved by the Governor In Council, is also readily available on the department's website. FTB considers the spending authorities as established in the Finance Act to be appropriate and is of the view that these were well understood by the Legislature when the Finance Act was passed. While other jurisdictions may have different processes, FTB is confident the spending authorities and processes permitted under the Finance Act are appropriately transparent and support public accountability. It is worth noting that Nova Scotia's budget process includes Auditor General scrutiny over the revenue estimates, and this is unique in Canada. FTB believes this process lends additional credibility to the

Estimates published, therefore as variances are experienced through the year (and reported through the public forecast updates) the explanations to the public are anchored against a fiscal plan that included more scrutiny than other jurisdictions.

Significant Year-end Spending

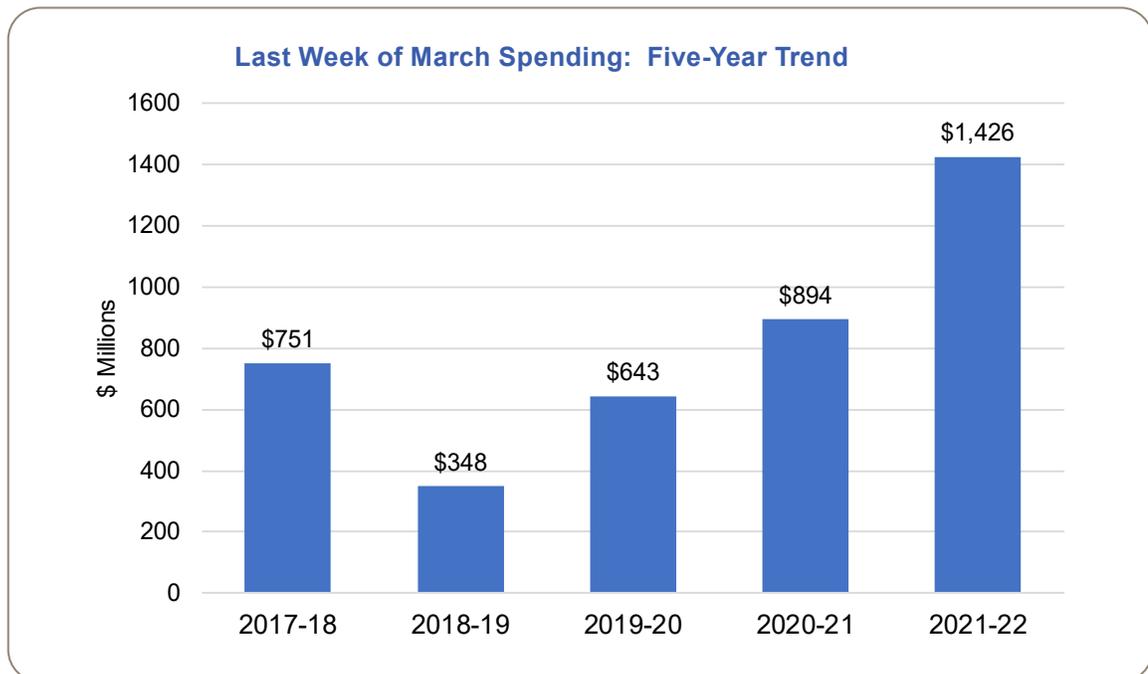
2.28 It is not unusual for organizations, provincial and otherwise, to have an increase in the number of transactions recorded near the end of their fiscal year. These transactions often represent accruals, estimates, reallocations between departments, and other expenses for which a final figure is only available at year end and are processed in the normal course of business.



\$1.4 billion in spending recorded in the last week of March 2022

2.29 The following chart displays specific year-end spending transactions that occurred during the final week of each of the past five fiscal years. These transactions are an area of focus annually as part of our financial audit work. Significantly more spending was recorded during the final week of fiscal 2021-22 than during the same period of the previous four years.

2.30 Management indicated that a change in Government during the year, along with higher than anticipated Provincial revenues, impacted spending and led to an increase in fiscal 2021-22. As the year progressed and more certainty was gained, Government was able to reconsider how its priorities could be advanced.

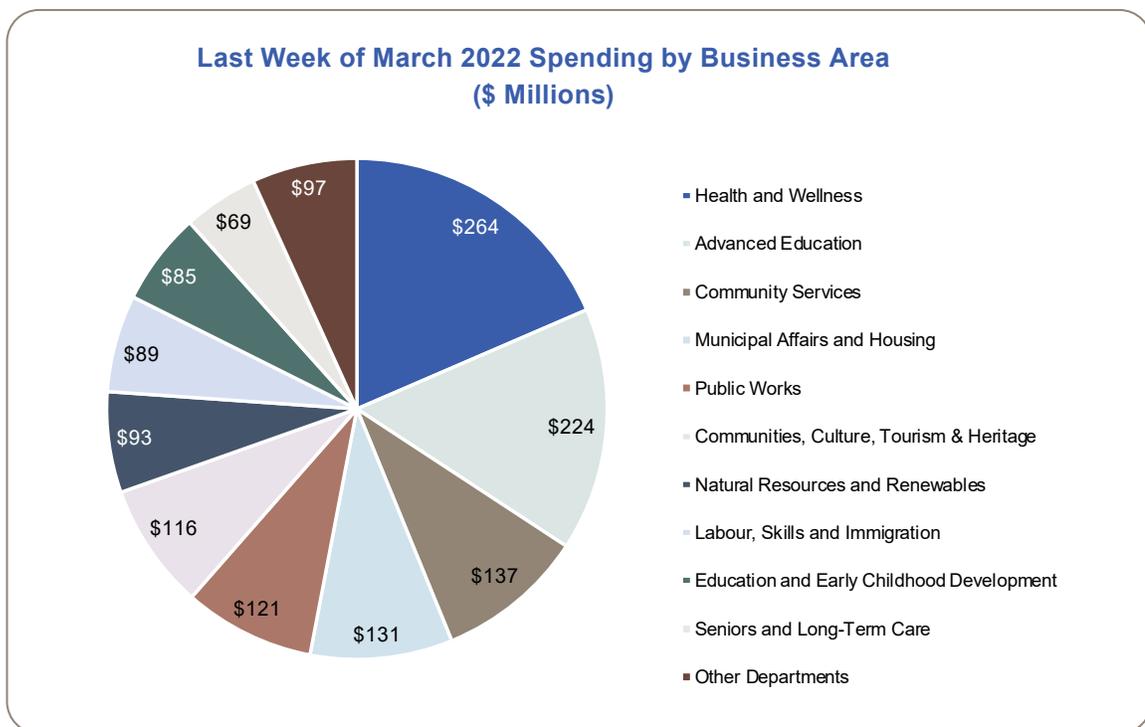


Source: Office of the Auditor General analysis

2.31 As part of our audit of the 2021-22 financial statements, in response to the increased year-end spending transactions recorded during the last week of March, we performed additional procedures that included analysis and testing. Specific emphasis was placed on transactions recorded close to the Province's fiscal year end and those which are not related to salaries and

employee benefits or amortization. The purpose of this analysis was to identify any unusual transactions and ensure that transactions were properly approved, recorded in the appropriate period at the correct amount, and aligned with Canadian Public Sector Accounting Standards.

- 2.32 We tested a sample of the transactions recorded in the last week of fiscal 2021-22 and found that all transactions tested were recorded appropriately, approved, and in accordance with Canadian Public Sector Accounting Standards.
- 2.33 We limited our analysis to General Revenue Fund transactions. The General Revenue Fund is comprised of the core operations of government and includes transactions of all government departments and public service units, but excludes other governmental units owned or controlled by the Province and government partnership arrangements. Financial results from other governmental units and government partnership arrangements, such as the health authorities and regional centres for education, are brought into the Province's financial statements upon consolidation and were not part of this analysis.
- 2.34 The following chart summarizes by business area the \$1.4 billion in year-end spending that was part of our analysis.



Source: Office of the Auditor General analysis

- 2.35 The largest portion of this year-end spending was recorded by the departments of Health and Wellness, Advanced Education, Community Services, Municipal Affairs and Housing, and Public Works, with less than half of these expenses being made up by other departments within the General Revenue Fund. Individually significant transactions within these departments have been highlighted below.

 **Department of Health and Wellness recorded transactions worth \$264 million in the last week of March 2022**

2.36 The Department of Health and Wellness made up 19 per cent, or \$264 million, of \$1.4 billion in spending in the last week of March 2022, primarily due to year-end adjustments of \$73 million for COVID-19 rapid test kit inventory consumption and \$24 million for inventory revaluation of personal protective equipment (PPE) to recognize decreased value since the time of purchase or receipt as part of the Province's ongoing response to the COVID-19 pandemic. Health spending for the entire 2021-22 fiscal period is discussed in greater detail later in this chapter.

Department of Advanced Education recorded transactions worth \$224 million in the last week of March 2022

2.37 The Department of Advanced Education made up 16 per cent, or \$224 million, of \$1.4 billion in spending recorded in the last week of March 2022. It provided funding for the following:

- \$35 million to the Centre for Discovery and Innovation at Cape Breton University for efforts to improve infrastructure, foster research, and enhance healthcare and training at the University, as well as \$14 million for infrastructure maintenance
- \$25 million to the Research Opportunities Fund managed by Research Nova Scotia to support research opportunities in Nova Scotia linked to government priorities like economic growth, population growth, health innovation, and mental health
- \$23 million to St. Francis Xavier University for infrastructure maintenance which will allow the rural university to address a significant backlog of infrastructure upgrades and improvements such as electrical upgrades, roof replacements, and accessibility and mechanical upgrades

Provincial funding to universities for the entire 2021-22 fiscal period is discussed in greater detail later in this chapter.

Department of Municipal Affairs and Housing recorded transactions worth \$131 million in the last week of March 2022

2.38 The largest component of the Department of Municipal Affairs and Housing March transactions relates to an \$89.5 million grant to Housing Nova Scotia for housing programs covering items such as home repairs, rent supplements, and affordable housing.

Department of Public Works recorded transactions worth \$121 million in the last week of March 2022

2.39 The Department of Public Works recorded spending and accruals for work performed onsite related to infrastructure improvements throughout the province for buildings, healthcare sites, highways, and restoration and maintenance projects.

Other departments recorded \$686 million in the last week of March 2022

2.40 The largest component relating to the expenses of the Department of Natural Resources and Renewables is a \$57 million accrual to Efficiency Nova Scotia to expand its energy efficiency programs for homes and businesses across the province to become more energy efficient and reduce greenhouse gas emissions.

- 2.41 Communities, Culture, Tourism and Heritage accrued \$51 million for eligible productions based on project costs under the Nova Scotia Film and Television Production Incentive Fund. The fund, which is administered by the Department, provides support for productions in film within Nova Scotia.
- 2.42 The Department of Labour, Skills and Immigration accrued \$67 million for the firefighters' cancer liability in response to changes in the Firefighters Compensation Regulations arising from the Province's commitment to protect firefighters. The increase includes coverage of thirteen additional cancers to a total of nineteen, as well as heart attacks that occur within 24 hours of an emergency call. With these legislative changes, the Province is responsible to cover the cost of treatments for firefighters who suffer from these ailments.
- 2.43 Other items which contribute to the increase in transactions noted at year end include inter-entity items such as year-end funding to government units, as well as the absorption of Tourism Nova Scotia by the Department of Communities, Culture, Tourism and Heritage.

P3 Projects and Net Debt

- 2.44 A Public-Private Partnership (P3) is a contract between government and a private sector entity to deliver services or to build infrastructure such as roads, hospitals, or schools. P3s integrate multiple phases of a project into one contract where the private sector partner is obligated to design, build, acquire, or improve new or existing infrastructure; finance the transaction; and/or operate and maintain the infrastructure. This differs from a traditional project where the government entity is responsible for all phases of the project and the associated risks. With a P3 arrangement, risks and responsibilities for the different phases are allocated to the private sector partner who typically bears the risk of construction delays. To date, all of the Province's P3 projects require the private sector partner to also maintain and/or operate the asset upon completion of construction.
- 2.45 A P3 arrangement is typically structured so that a government entity makes payments to the private sector partner based on project milestones and contract specified timelines. This differs from traditional procurement arrangements where payments are made to contractors as work is completed and billed. Ultimately, the type of arrangement and timing of payment does not change the impact on government's net debt when accounting for infrastructure. Under traditional procurement, the infrastructure is recognized as an asset as the costs for construction are incurred. Similarly, under a P3 arrangement the infrastructure is typically recognized as an asset as it is constructed, with an offsetting liability recognized at the same amount as the related asset.

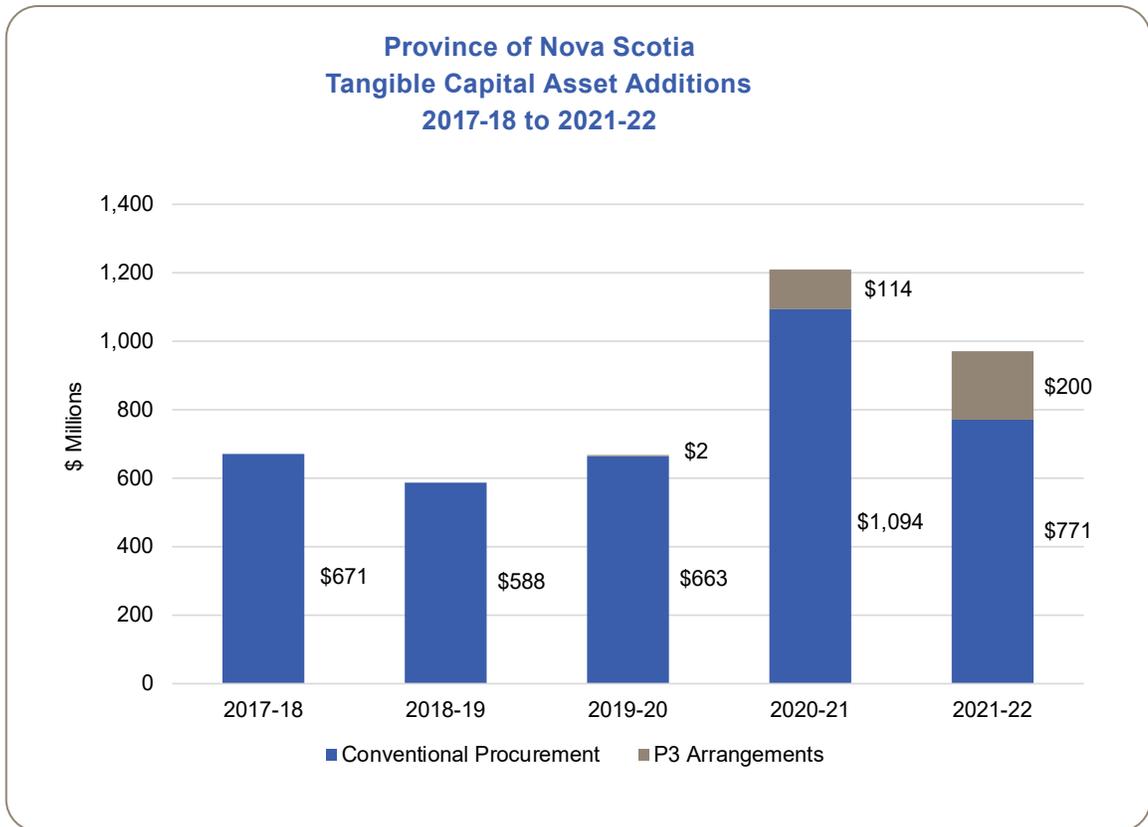


The Province currently has two major P3 projects underway

- 2.46 The QEII Health Sciences Centre New Generation project consists of many phases, including the redevelopment of the Halifax Infirmary and expansions and renovations at various locations around the province. The Province has entered into a P3 contract for the construction of the outpatient clinic phase of the New Generation Project. The redevelopment of the Halifax Infirmary is still in the procurement stage but is also expected to be a P3 arrangement. It was announced in October of 2018 that the total New Generation project would have an estimated cost of over \$2 billion. However, due to inflation, supply chain issues, and general labour availability, the cost of all construction projects have significantly risen over the last two years, and will mean that the New Generation project could be well above the current estimate. A second major P3 project underway is the twinning of Highway 104 from Sutherland's River in Pictou County to Antigonish, with an estimated cost of \$718 million as of April 2021.

The Province spent \$200 million on P3 projects in 2021-22

2.47 The Province acquired a total of \$971 million of tangible capital assets (TCA) in 2021-22, of which \$200 million (20.6 per cent) was related to P3 arrangements. Of the \$200 million, \$41 million related to the QEII Health Sciences New Generation Project and \$159 million related to the twinning of Highway 104. The chart below illustrates the Province's total TCA acquisitions broken down by conventional procurement and P3 arrangements from 2017-18 to 2021-22.



Source: 2017-18 to 2021-22 Public Accounts

Contractual obligations related to P3 projects totaled \$632.7 million in 2021-22

2.48 P3s also impact the Province's contractual obligations. Contractual obligations are not accrued as a liability but are disclosed in the notes to the financial statements. They are not accrued because these obligations relate to the terms of a contract that have not yet been completed by the private partner. The contractual obligations will become liabilities in the future when the terms of the contracts or agreements are met. Contractual obligations of the Province in 2021-22 include \$233 million for the capital portions (\$45 million for health and \$188 million for highways) and \$400 million in operating/maintenance portions of P3 projects (\$149 million for health and \$251 million for highways).

The Province currently has \$333 million in unmatured debt related to P3 Projects

2.49 In a P3 arrangement, the costs to construct the asset are recorded by the Province based on the percentage of completion as the asset is constructed. This can differ from the cash outflow

of payments to the private partner which are made according to contract terms, which are not necessarily on the same basis as the percentage completion of the project. As work is completed and the asset is constructed, the province recognizes an asset and an offsetting liability as unmatured debt to represent its financial obligation to the private sector partner.

- 2.50 The Province has accrued \$333 million in unmatured debt as at March 31, 2022 related to P3 projects. With significant work remaining on both the QEII Health Sciences New Generation Project and the twinning of Highway 104, the ultimate financial impact to the Province in future years will be much higher.

Health Spending



Province incurred \$6 billion in health spending and capital asset acquisitions in 2021-22

- 2.51 While healthcare-related spending is taking place by entities throughout government in its consolidated financial statements, there are six entities that together reported \$5.7 billion in healthcare operational expenses for 2021-22. Additionally, \$222 million was spent on health-related capital assets during that same period, bringing the total spending to almost \$6 billion.

Health Spending (\$ Millions)	2021-22
Nova Scotia Health	\$2,726
Department of Health and Wellness	1,640
Department of Seniors and Long-term Care	1,031
Izaak Walton Killam Health Centre	310
Office of Mental Health and Addictions	35
Office of Healthcare Professionals Recruitment	1
Total Healthcare Operating Spending 2021-22	5,743
Health-related Capital Asset Acquisitions	222
Total	\$5,965

Source: 2021-22 Public Accounts

- 2.52 Nova Scotia Health provides health services through the operation of hospitals, health centres and community-based programs across Nova Scotia. Some of the \$2.7 billion in spending for 2021-22 was to establish COVID-19 assessment centers across the province, increase virtual care, further enhance lab testing capacities, ensure personal protective equipment supply was sufficient to meet demand, and coordinate vaccination clinics throughout the province. Additional costs were incurred to implement mandatory screening protocols and visitor restrictions at health facilities across the province.
- 2.53 The Department of Health and Wellness provides leadership to the provincial health system as a whole and played a significant role in the Province's response to COVID-19. The expenses incurred by the Department were \$1.6 billion in 2021-22. COVID-19 related expenses cover various items including personal protective equipment supplies, rapid test kits, additional COVID-19 testing, vaccination costs, and salaries and wages in continued response to COVID-19 relief efforts. It also includes non-COVID specific services to the public, such as Physician Services Alternative Payment Plan contracts and Emergency Health Services (including a new Emergency Medical transport contract).

- 2.54 The Department of Seniors and Long-term Care supports the social and economic well being of older adults including the implementation of initiatives that help them live healthy lives in their own communities. In 2021-22, the Department incurred \$83 million in expenses to support ongoing COVID-19 response efforts by using Long-term Care nurses and assistants to cover the shortage of Continuing Care Assistants, paying for Travel Nursing to ensure appropriate staffing was available throughout the province, and securing additional personal protective equipment. Non-COVID-19 health costs relate to the Seniors Care Grant; Expanded Home First and Direct Funding Programs; the Work and Learn Initiative; and wage increases.
- 2.55 The Izaak Walton Killam Health Centre provides highly specialized healthcare and primary care services to children, women, and families in the Maritime provinces and beyond. Almost \$310 million was spent in 2021-22 and included costs related to enhanced lab testing for COVID-19, screening protocols for visitors to the centre, and vaccination clinics.
- 2.56 Health-related funding to the Office of Mental Health and Addictions provides mental health and addictions education, prevention, treatment, and recovery programs throughout the province.
- 2.57 The Office of Healthcare Professionals Recruitment is mandated to support the environment for recruitment and retention of healthcare professionals in Nova Scotia.

 **The Province incurred \$661 million in expenses related to COVID-19**

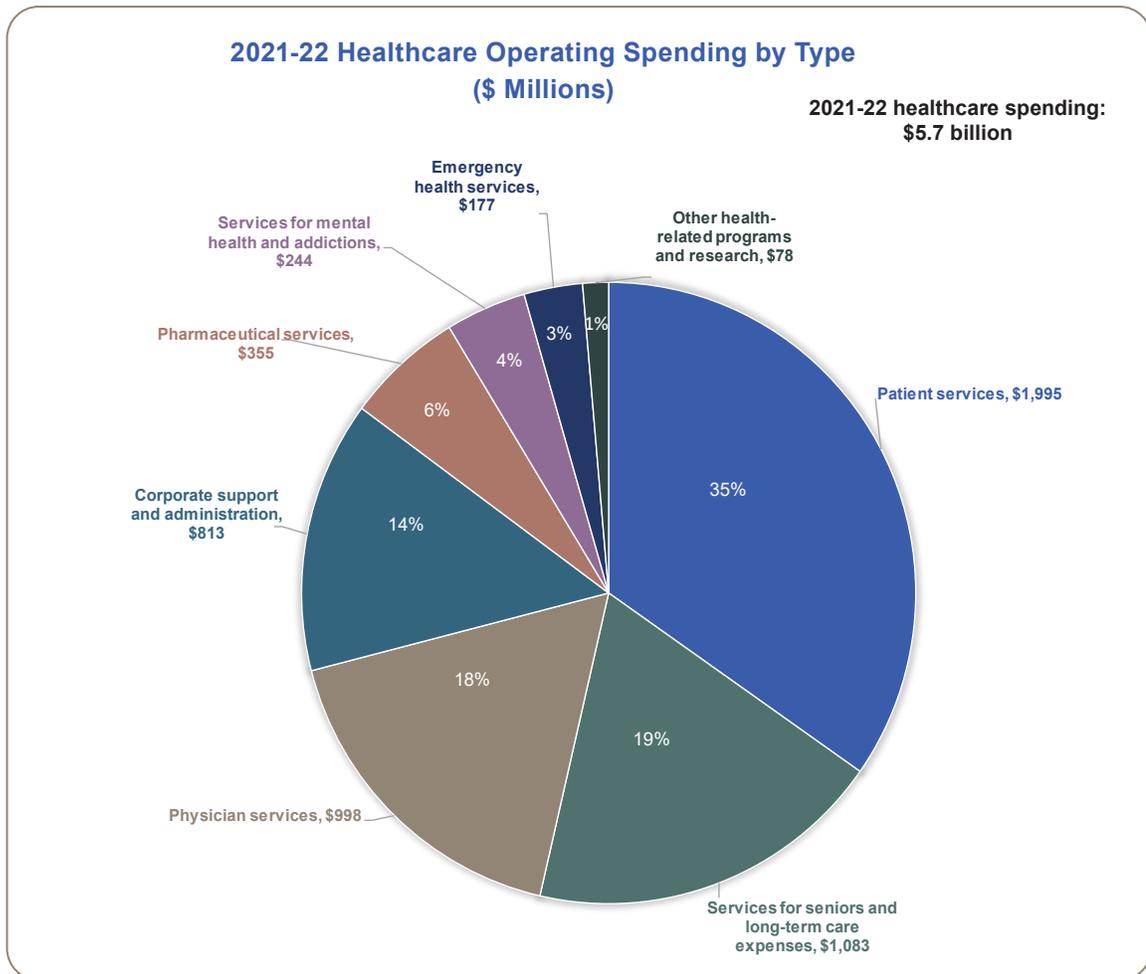
- 2.58 The Province continued to experience operational impacts and costs in 2021-22 due to COVID-19, including delays and deferrals in most non-urgent healthcare services, and surgeries and clinic closures. The following table details COVID-19 related expenses by Department for 2021-22.

COVID-19 Expenses by Department (\$ Millions)	
Health and Wellness	\$414
Seniors and Long-term Care	\$83
Education and Early Childhood Development	\$41
Communities, Culture, Tourism and Heritage	\$34
Economic Development	\$34
Community Services	\$24
Other Departments	\$31
Total COVID-19 Related Expenses	\$661

Source: 2021-22 Public Accounts

 **Healthcare operating spending by service type**

- 2.59 The following chart provides insight into healthcare operating spending by type of service based on information from the Province's financial accounting system and the consolidated financial statements (Public Accounts).

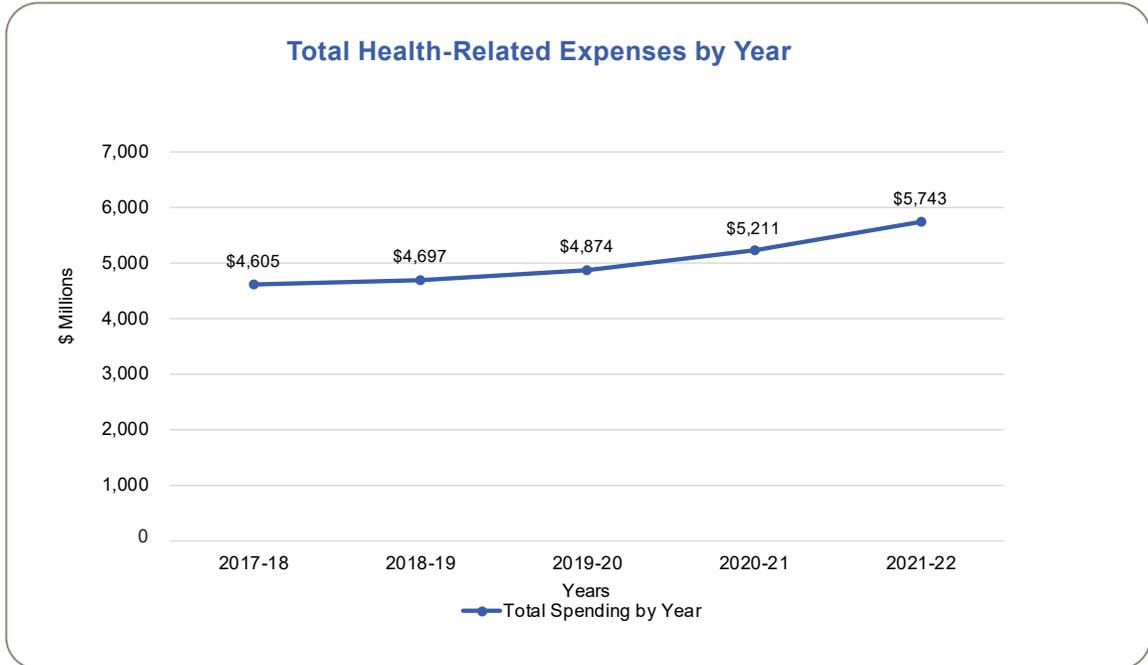


Source: Breakdown of funding obtained from the Province's financial accounting system; Office of the Auditor General analysis

- 2.60 The majority of healthcare spending, 35 per cent, (\$2 billion) is to fund patient related services at the Nova Scotia Health and the Izaak Walton Killam Health Centre. Services provided by the health authorities include but are not limited to the following: inpatient services, ambulatory care, diagnostic imaging and therapy, acute care expenses, public health services, and primary health care.
- 2.61 The Province spent 19 per cent (\$1.1 billion) of total healthcare spending for 2021-22 on services such as adult protection, home care, grants to facilities, and other program supports for those individuals under the Department of Seniors and Long-term Care's mandate.
- 2.62 Physician services amounted to 18 per cent (\$1 billion) of healthcare related expenditures. Physician services represent payments to physicians for radiology/pathology/internal medicine diagnostics, academic funding plans, alternative payment plans, fees for service, patient visits with primary care physicians, physician residents, on call services, and other Master Agreement initiatives.
- 2.63 The remaining 28 per cent (\$1.6 billion) of spending was on administrative costs, pharmaceutical services, provision of emergency services via ground ambulance and air transportation, mental health and addictions programs, and other health-related programs.

Health-related operational spending increased \$1.1 billion over five years

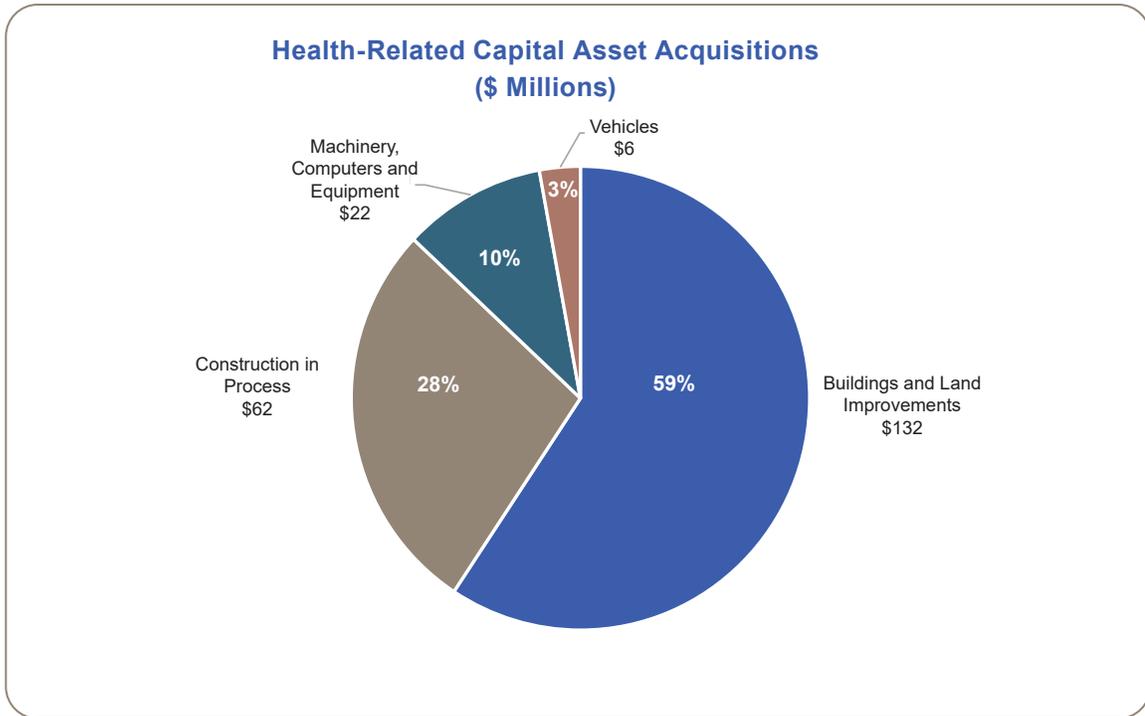
2.64 Since 2017-18, annual health-related operating spending has increased by \$1.1 billion. The chart below details the related annual spending on healthcare by the Province for the last five years. This includes funding to hospitals, long term care facilities, and payments to physicians.



Source: 2017-18 to 2021-22 Public Accounts

In 2021-22, \$222 million was spent on health-related capital assets

2.65 The Province spent a total of \$222 million in health-related capital asset acquisitions in 2021-22 as detailed in the chart below.



Source: 2021-22 Public Accounts, Audited Financial Statements of 2021-22 for Nova Scotia Health and IWK Centre

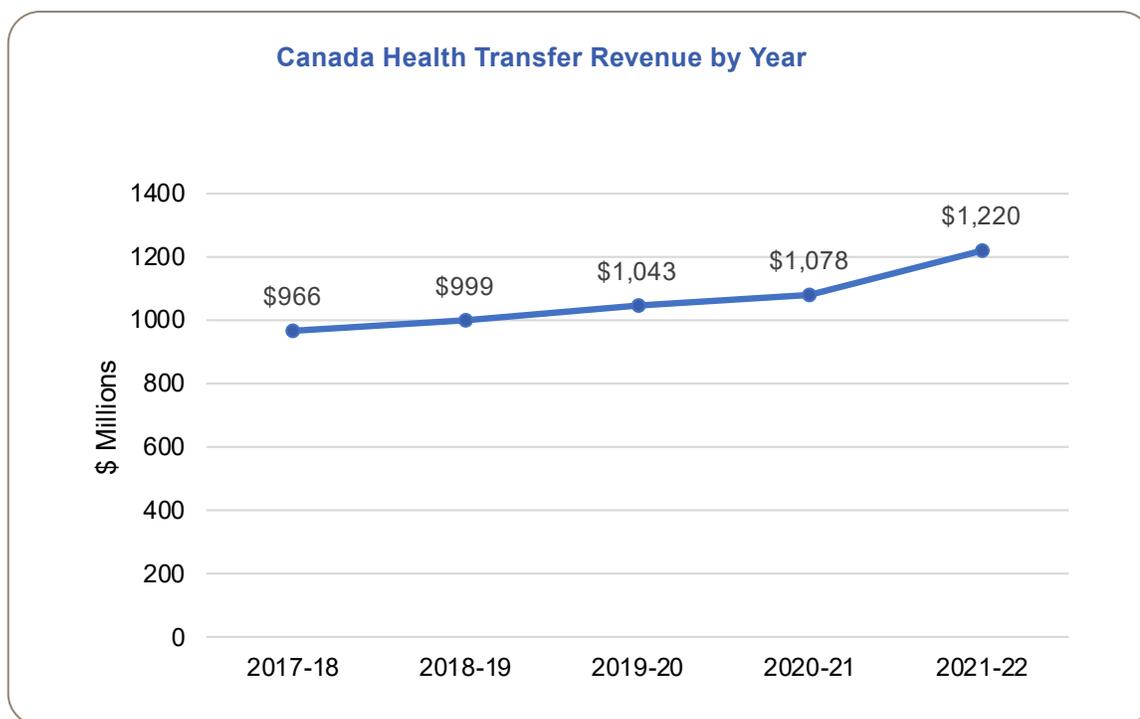
2.66 Healthcare capital acquisitions mainly consist of building and land improvements, and ongoing construction. These acquisitions include the infrastructure projects at the Cape Breton Regional Hospital, as well as the Halifax Infirmary and the outpatient clinic P3 project located within the Halifax Regional Municipality as part of the QEII Health Sciences New Generation Project (\$41 million).



Canada Health Transfer increased by \$142 million in 2021-22 to \$1.2 billion

2.67 The Canada Health Transfer (CHT) is the largest federal transfer to the Province. It provides long-term funding for healthcare and supports the principles of the Canada Health Act. CHT payments are made on an equal per capita basis to each province to provide comparable treatment for all Canadians regardless of where they live.

2.68 During 2021-22, the Province received CHT of \$1.2 billion. This included the Province's share of a one-time top up payment of \$103 million from the federal government to assist provinces and territories with increased healthcare costs in response to COVID-19. Over the past five years the CHT has increased by \$254 million, with the largest growth between 2020-21 and 2021-22 (\$142 million). Previous to 2021-22, annual increases were on average \$37 million.



Source: 2017-18 to 2021-22 Public Accounts

Provincial Funding to Universities

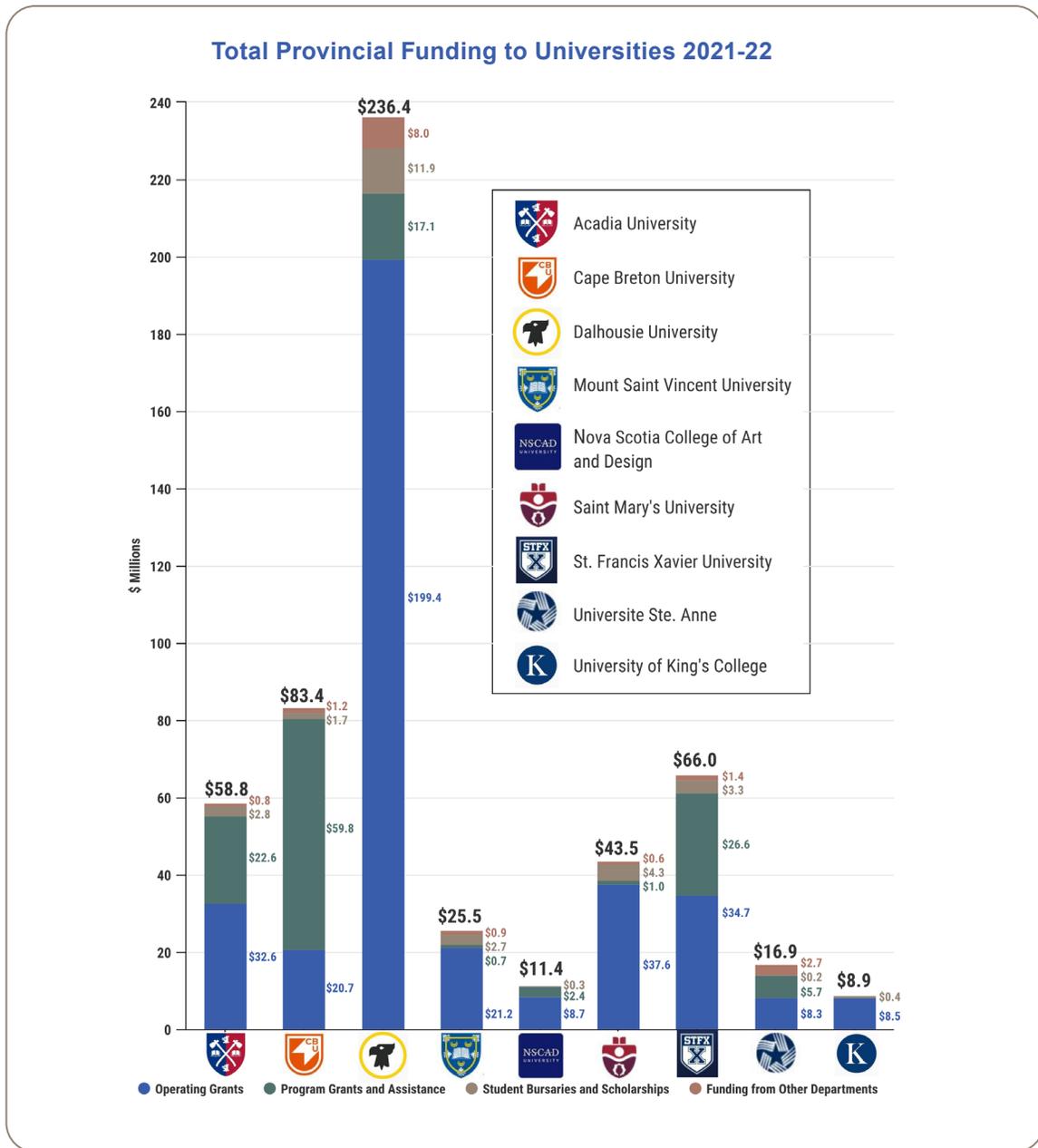
2.69 The Province of Nova Scotia provides funding to Nova Scotian universities and colleges in the form of operating grants, infrastructure grants, scholarships, and other specific project funding. This assistance is to help the university sector “contribute to quality education, inclusive economic growth, population growth, safe and connected communities and healthy population and system.” The Province recognizes that the universities play a key role in the communities and lives of Nova Scotians.

2.70 The nine significant universities of Nova Scotia discussed in this chapter are independent institutions operating separately from each other and from the Province. The Province does not have the power to govern the financial and operating policies of the universities. Funding from the Province is governed by agreements and an over-arching Memorandum of Understanding. As such, the financial statements of the universities are not consolidated into the Public Accounts of the Province.

2.71 The Nova Scotia Community College (NSCC), by contrast, is fully controlled by the Province, and its financial statements are consolidated into the Public Accounts. NSCC is not discussed in this chapter.

Province provided \$551 million in total funding to Nova Scotia universities in 2021-22

2.72 The Province provides significant funding to Nova Scotia universities through the Department of Advanced Education in combination with funding from other departments. This total funding amounted to \$551 million in total for 2021-22. The chart below shows the total provincial funding provided to each university.



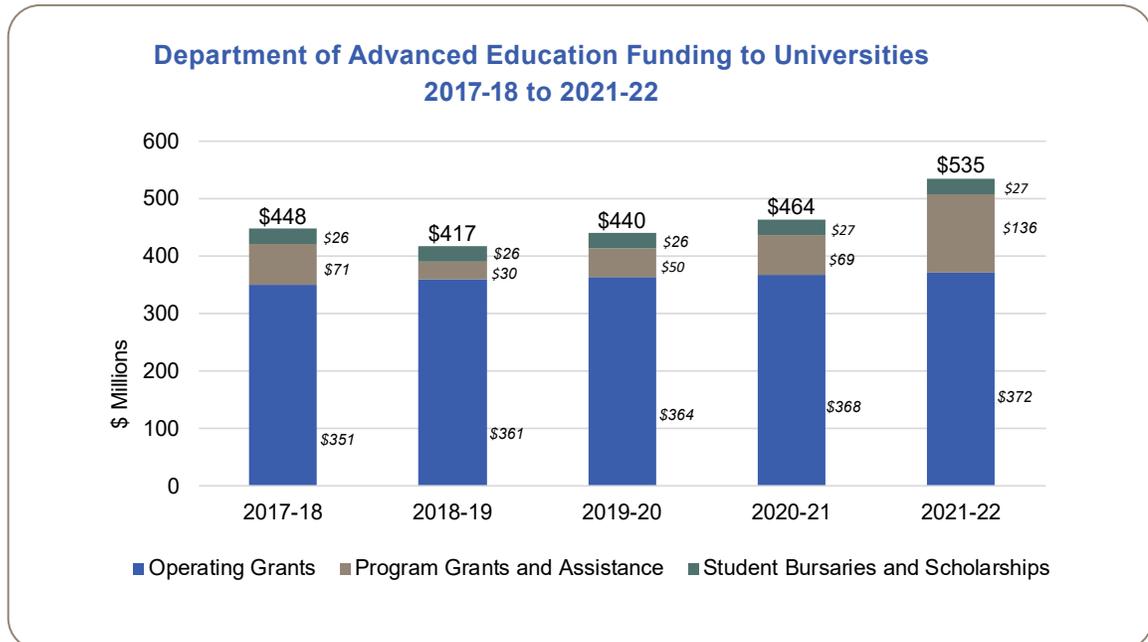
Source: 2021-22 Public Accounts Volume 3 – Supplementary Information with detail from the Province's financial accounting system



The Department of Advanced Education provided \$535 million to Nova Scotia universities in 2021-22

2.73 The Province provides funding to the universities mainly through the Department of Advanced Education. Operating grants to the universities are governed by the current Memorandum of Understanding which is valid for the years 2019-20 to 2023-24 and provides for a minimum increase of 1 per cent per year for the duration. In addition to operating grants, the Memorandum discusses support for areas including infrastructure renewal and student bursaries.

2.74 Funding provided by the Department of Advanced Education to the province's universities is shown in the chart below. From 2017-18 to 2021-22, annual funding rose from \$448 million to \$535 million, an increase of 20 per cent, the majority of which can be attributed to the increases in program grants and assistance between 2020-21 and 2021-22. As noted earlier, in 2021-22 the Department recorded transactions worth \$224 million in the last week of March 2022 and required additional appropriations of \$149 million.



Source: 2017-18 to 2021-22 Public Accounts Volume 3 – Supplementary Information; Office of the Auditor General analysis

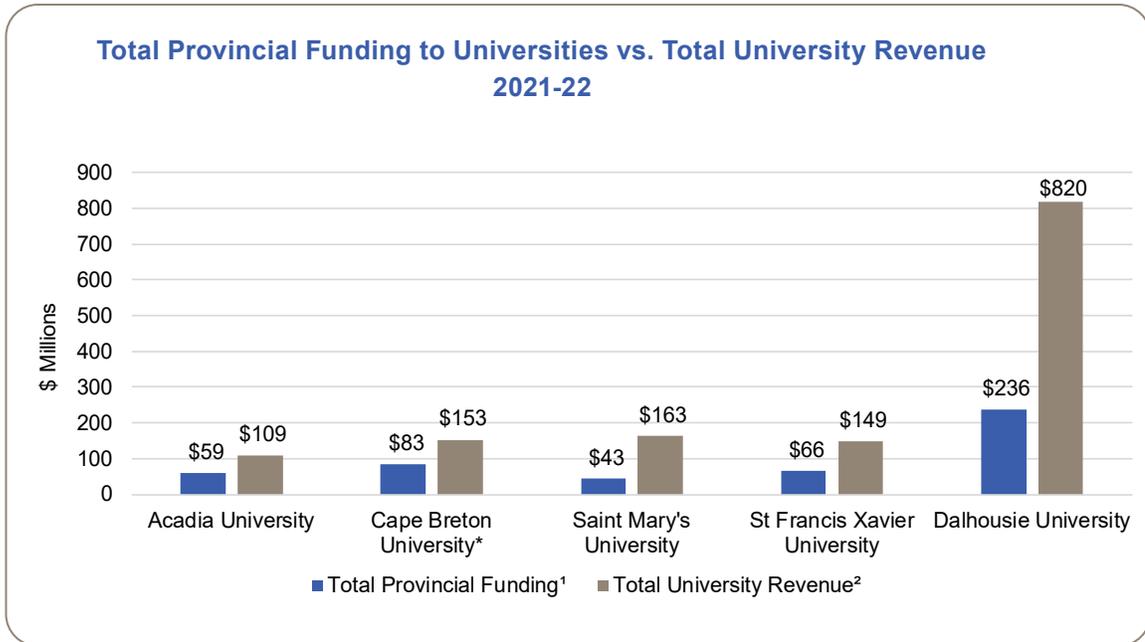
The Province paid an additional \$15.6 million to the universities in 2021-22 from departments other than Advanced Education

2.75 In addition to the Department of Advanced Education, other departments also provide funding to the universities for grants and contributions and other miscellaneous payments. In 2021-22 payments from departments other than Advanced Education totaled \$15.6 million. This includes funding for grants and contributions of:

- \$3.5 million from the Department of Health and Wellness to Dalhousie University;
- \$1.7 million from the Department of Education and Early Childhood Development to Université Sainte-Anne; and
- \$1 million from the Department of Labour, Skills, and Immigration to St. Francis Xavier University.

Provincial funding accounts for an average of 35% of the total university revenues for top five funded universities

2.76 In 2021-22 total provincial funding provided to the universities accounted for 35 per cent of the total university revenues reported by the five universities that received the most provincial funding.



¹Source: 2021-22 Public Accounts Volume 3 – Supplementary Information

²Source: Total Operating Revenue obtained from the universities' respective financial statements for 2021-22

*Total University Revenue for Cape Breton University includes \$54 million in funding from the Province recorded as deferred revenue by the university to fund capital expenditures and to develop a plan for the university's health initiatives.

2.77 Acadia University received a total of \$59 million from the Province in 2021-22. The majority of the funding is attributable to:

- \$32.6 million in operating grants;
- \$22 million in funding for infrastructure maintenance; and
- \$2.8 million in student bursaries and scholarships.

2.78 Cape Breton University received a total of \$83 million from the Province in 2021-22. The majority of this funding is attributable to:

- \$20.7 million in operating grants;
- \$14 million in funding for infrastructure maintenance;
- \$35 million for the Cape Breton University Centre for Discovery and Innovation;
- \$5 million for a strategic health initiative;
- \$4.1 million for the Nursing Education Program; and
- \$1.7 million in student bursaries and scholarships.

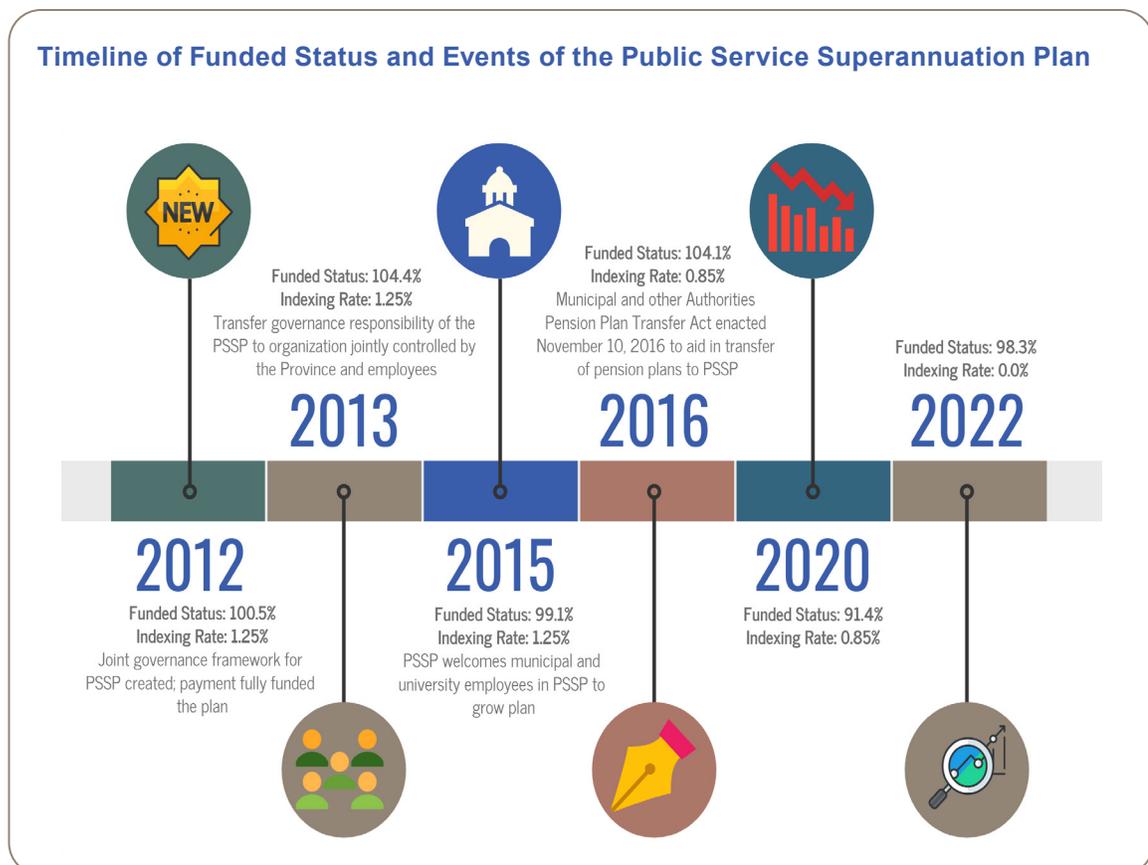
- 2.79 Saint Mary's University received a total of \$43 million from the Province in 2021-22. The majority of the funding is attributable to:
- \$37.6 million in operating grants; and
 - \$4.3 million in student scholarships and bursaries.
- 2.80 St. Francis Xavier University received a total of \$66 million from the Province in 2021-22. The majority of the funding is attributable to:
- \$34.7 million in operating grants;
 - \$23.4 million in funding for infrastructure maintenance; and
 - \$3.3 million student scholarships and bursaries.
- 2.81 Dalhousie University received a total of \$236 million from the Province in 2021-22. The majority of the funding is attributable to:
- \$199.4 million in operating grants; and
 - \$11.9 million in student scholarships and bursaries.

Information Update on the Funded Status of Significant Public Sector Pension Plans

- 2.82 The Province of Nova Scotia participates in a variety of pension plans; the most significant of these plans are the Nova Scotia Public Service Superannuation Plan (PSSP) and the Nova Scotia Teachers' Pension Plan (TPP).
- 2.83 The Nova Scotia Public Service Superannuation Plan is a registered defined benefit pension plan; employees and employers contribute a percentage of the employee's salary and employees earn a benefit that offers PSSP members a lifetime pension benefit when they retire. The PSSP provides retirement benefits to individuals who work in a Nova Scotia government department or at a participating municipality, university, agency, board, or commission. The pension benefit is based on annual salary during employment, years of service, and if applicable, inflationary adjustments. It is one of the largest public sector pension plans in Atlantic Canada.
- 2.84 The 2012 Public Service Superannuation Act (PSSA) implemented a detailed joint governance framework for the PSSP, removing the Province's ultimate responsibility for the plan over and above their employer contributions. The impact of this change resulted in the Province making a one-time payment to fully settle the Province's obligation for past service costs to the Public Service Superannuation Plan.
- 2.85 Effective April 1, 2013, the Minister of Finance transferred sole governance responsibility of the Nova Scotia Public Service Superannuation Plan to the Public Service Superannuation Plan Trustee Incorporated (PSSPTI), a trustee organization jointly controlled by the Province and plan members. This transfer in responsibility resulted in the new trustee organization inheriting all assets and liabilities of the plan, administration of the plan, and its overall operations including

investing decisions, meaning that the Province no longer assumes responsibility for obligations associated with the plan over and above its employer contributions, nor does the Province carry a liability for the plan in its financial statements. Trustee membership is represented by both employee and employer representatives.

- 2.86 Additionally on this date, the Nova Scotia Pension Services Corporation (NSPSC) was established. NSPSC is a non-profit corporation independent from the Province which provides investment and pension administration services. The Pension Services Corporation is not controlled by the Province and thus does not form part of the Provincial Government's reporting entity and is not consolidated as part of the Province's consolidated financial statements. NSPSC administers the Public Service Superannuation Plan under the direction and oversight of the joint trustee board.
- 2.87 Growing the Public Service Superannuation Plan membership to promote long-term financial sustainability has been a key strategic focus for the trustee organization. In 2015, the plan started welcoming members from other organizations including university and municipal employees. The PSSPTI has stated that these transfers into the plan are beneficial to the long-term sustainability of the plan and cost neutral to its existing members.
- 2.88 Since the membership growth initiative began in 2015, several universities, such as Acadia University, Université Sainte-Anne, University of King's College, and Cape Breton University joined or transferred to the Public Service Superannuation Plan. Additionally, the Cape Breton Regional Municipality, South Shore Public Libraries, the Town of Truro, the DIRECTIONS Council for Vocational Services Society, and the Municipality of the District of Lunenburg also joined or transferred to the plan.

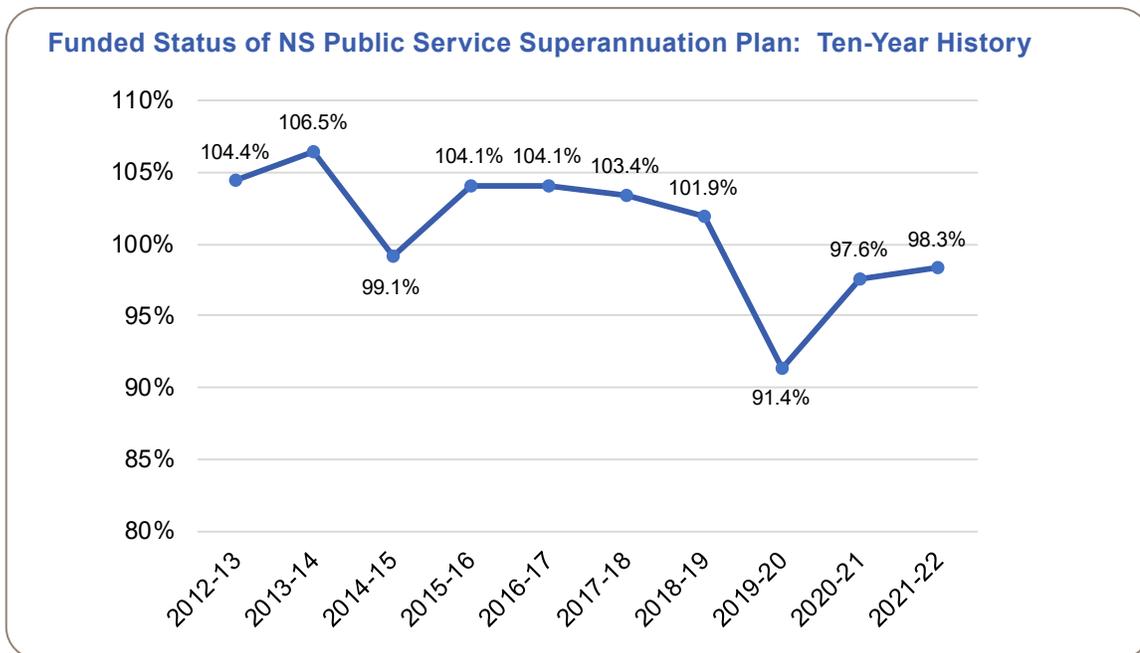


Source: Nova Scotia Public Service Superannuation Plan Annual Reports

PSSP funding status declined from 104.4% in 2013 to 98.3% in 2022

2.89 The funded status of a pension plan is a primary indicator of a pension plan's financial health. A fully funded pension plan means its plan assets can cover its pension benefit liabilities. The current funded status of the Public Service Superannuation Plan as at March 31, 2022 was 98.3 per cent, an increase of .7 per cent from March 31, 2021 when it had been 97.6 per cent.

2.90 The chart below outlines the Public Service Superannuation Plan's funded status over the previous ten years.



Source: Public Service Superannuation Plan Trustee Inc. Annual Reports 2013 to 2022

2.91 While the plan remains nearly 100 per cent funded, its funded status has declined over the past ten years. The PSSPTI indicated that the fluctuations in the funded status are attributable to market conditions, most notably a drop in asset values that began in March 2020.

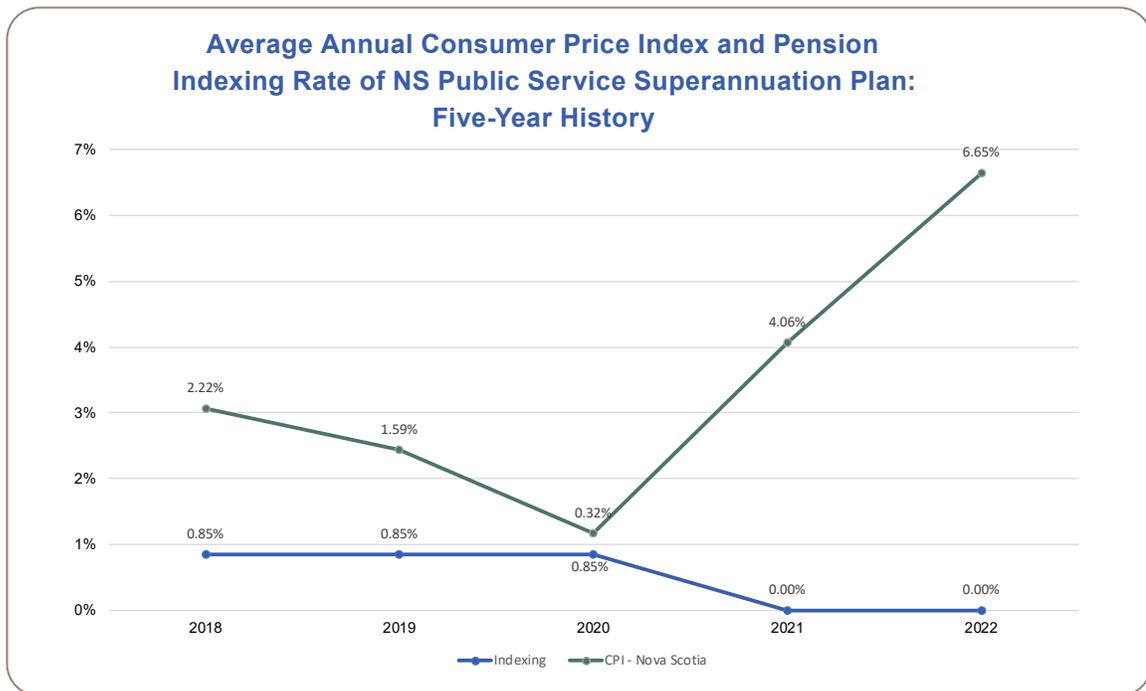
2.92 Since the Province no longer assumes responsibility for the Public Service Superannuation Plan, changes to the funded status of the plan including a funding deficit, do not have an impact on the Province's financial statements. However, the plan being in a funding deficit position does matter to public servants and retirees as the indexing of their pension payments will be impacted.

Pension indexing in Public Service Superannuation Plan not expected until after 2025

2.93 The Nova Scotia Public Service Superannuation Plan is a pension plan with provisions governing employee contributions, retirement eligibility, and the determination of pension benefits for members. The financial position of a pension plan often determines if members will receive a cost of living (indexing) increase on their pension. Indexing a pension provides pensioners with an increase to their cash flow to help keep up with overall cost increases in goods and services or inflation. This plan has indexing available to its members, however there are set terms under which indexing applies.

2.94 Subject to the conditions outlined in the Public Service Superannuation Act, pension payments to retirees are subject to indexing if the Plan's funded status is above 100 per cent on the stipulated valuation date. The Public Service Superannuation Act prescribes that a review of the funded status of the plan must be completed every five years. The purpose of the review is to determine the Plan's capacity to afford indexing for the next five years and to review the adequacy of contribution rates. The recent review was based on the plan's funded status at the stipulated date of December 31, 2019, which was 98.5 per cent (below 100 per cent) and was prior to the notable drop in asset values occurring in March 2020. Therefore, retirees' pensions cannot be indexed from January 1, 2021 through to December 31, 2025. This is despite the fact that Statistics Canada has reported Nova Scotia's inflation as high as 9.3 per cent in June 2022.

2.95 The following chart shows the indexing received by retirees over the past five years.



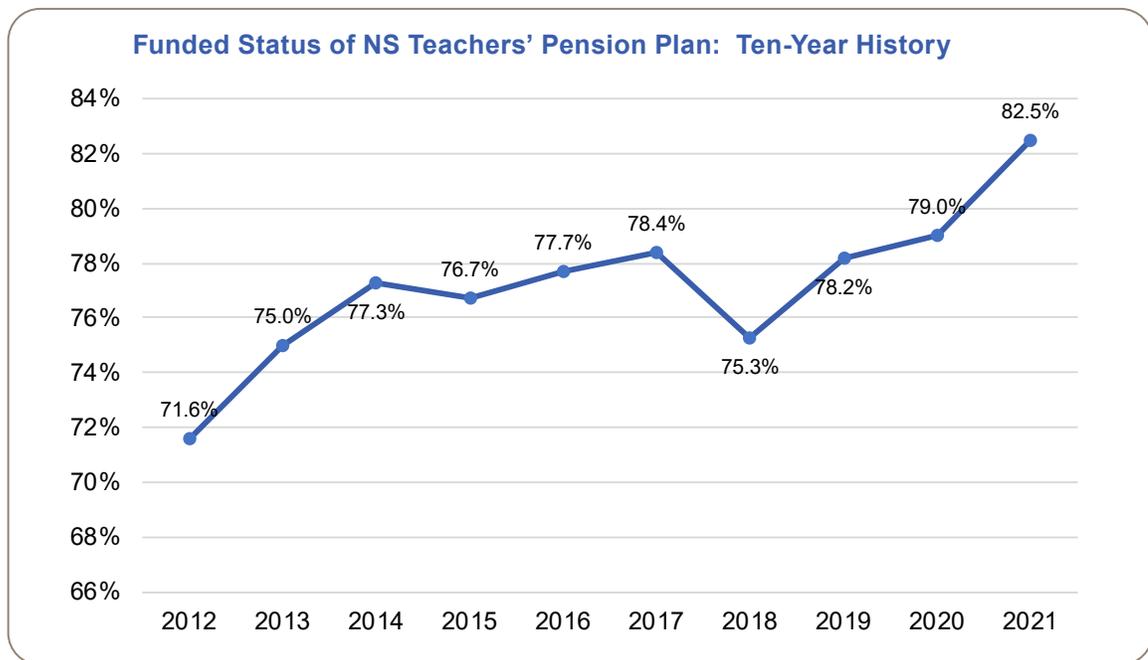
Source: Public Service Superannuation Plan Trustee Inc. Annual Reports 2018 to 2022
 Statistics Canada, Consumer Price Index Portal

2.96 The indexing rate of the Public Service Superannuation Plan should be concerning to all plan members because it directly impacts the pension payments they receive, and assists pensioners to maintain purchasing power. The Consumer Price Index (CPI) for Nova Scotia is an indicator of changes in consumer prices experienced by Nova Scotians. The Province's 2022 Public Accounts reports that the cumulative Nova Scotia Consumer Price Index increased a total of 14.8 per cent over the past five years, meaning that pensioners have been losing spending power as the PSSP pension indexing has not kept up with the rate of inflation.

2.97 Pension retirement benefits are critical to public servants, and we will continue to monitor the funded status of this plan. The PSSPTI should ensure the Public Service Superannuation Plan is properly funded to support public servants appropriately into retirement as costs increase.

Nova Scotia Teachers' Pension Plan is underfunded

- 2.98 The Nova Scotia Teachers' Pension Plan is governed by the Teachers' Pension Act. Sole governance responsibility of the Teachers' Pension Plan lies with a trustee organization jointly controlled by the Province and the Nova Scotia Teachers Union (NSTU).
- 2.99 The Teachers' Pension Plan deficit is equally shared by the Province and NSTU plan members. The plan deficit at December 31, 2021 was approximately \$1.2 billion, of which the Province's share is \$600 million. (December 31, 2020 – \$733 million). The Province's share of the TPP deficit impacts the Province's statement of financial position, increasing its net debt.
- 2.100 The funded status of the Teachers' Pension Plan as of December 31, 2021 was 82.5 per cent. As the ten-year trend below shows, funded status has improved; however, the plan remains significantly underfunded.



Source: Nova Scotia Teachers' Pension Plan Annual Report 2021

Teachers retiring on or after August 1, 2006 have not received pension indexing since 2008

- 2.101 The terms in which indexing applies under the Teachers' Pension Plan varies, and only occurs if the funded status of the plan is more than 90 per cent. As the Teachers' Pension Plan remains in a funded status below the 90 per cent threshold, teachers retiring on or after August 1, 2006 have not received an increase to their pension payments since 2008 and this is unlikely to change for the foreseeable future. Teachers who retired before August 1, 2006 continue to have their pensions indexed in accordance with their plan provisions.

The Province and NSTU have not publicly released the report from the independent panel

- 2.102 In late 2020 the Province and the Nova Scotia Teachers Union announced the creation of an independent panel of three pension experts to address the ongoing challenges facing the Teachers' Pension Plan. The creation of the panel is outside the teachers' collective agreement

with a mandate to review the pension plan, educate, and consult with stakeholders, and make non-binding recommendations to fully fund the Teachers' Pension Plan within a reasonable period.

- 2.103 The Panel's report and non-binding recommendations were submitted to the Nova Scotia Government and the Nova Scotia Teachers Union on August 15, 2022. The Province and the NSTU are responsible for the report and future communication of its content, as well as any actions to take in response to the recommendations made by the Panel. As of September 1, 2022 neither the Province nor the NSTU have publicly released details related to the report or recommendations stemming from it.
- 2.104 We will continue to monitor the funded status of the Teachers' Pension Plan including whether any corrective action is deemed necessary in the report from the independent panel. The Teachers' Pension Plan has a significant impact to the Province's financial statements since one-half of the accrued benefit liability is accounted for by the Province. As at March 31, 2022 the accrued benefit liability recorded by the Province was \$482 million (2021 – \$449 million).