

**Report of the Auditor General
to the Nova Scotia
House of Assembly**

**2024
Financial Report**



Independence • Integrity • Impact


February 11, 2025

Honourable Danielle Barkhouse
Speaker
House of Assembly
Province of Nova Scotia

Dear Madam Speaker:

I have the honour to submit herewith my Report to the House of Assembly under Section 18(2) of the *Auditor General Act*, to be laid before the House in accordance with Section 18(4) of the *Auditor General Act*.

Respectfully,



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Chapter 1

Financial Audit Work and Other Topics of Interest

Key Messages

- Province received a clean audit opinion in 2023-24 providing reliable financial information within the legislated deadline
- Transparency and accountability over additional appropriations still not addressed by Government
- Auditor General adds two additional recommendations to improve accountability and transparency over spending of all public funds
- Auditor General repeats concern of significant uncertainty impacting 2024-25 Revenue Estimates
- The Province and Nova Scotia Health used alternative procurement for over \$2.4 billion in contracts over the last five years

Why We Did This Chapter

- To provide insights into the results of the financial audits of the Province and government organizations
- To report on significant control weaknesses identified within government
- To highlight important financial matters impacting the Province

Details Around Key Messages

Government provided reliable financial information for 2023-24 within the legislated deadline of September 30th

- For the 24th year in a row, the Province of Nova Scotia received a clean audit opinion on its financial statements
 - The financial statements meet Canadian public sector accounting standards
 - Users can place reliance on the Province's financial statements
 - Accounting standards related to the fair and reliable presentation of financial information have been met, however some underlying control weaknesses exist
 - Significant control weaknesses at Service Nova Scotia and Nova Scotia Health may increase the risk of unreliable financial reporting and misuse of assets

Key audit matters reported in the 2023-24 Independent Auditor's Report

- Key audit matters are those matters that were of most significance in the audit and include matters that are complex, have a high degree of uncertainty, or are important to the public
- Key audit matters in 2023-24:
 - Major tax revenues of \$7.8 billion including personal income tax, corporate income tax, and harmonized sales tax account for 47% of the Province's total revenues
 - Pension, retirement and other obligations totaled \$3 billion and include various employee future benefit plans where responsibility rests with the Province
 - Liabilities for the clean up of contaminated sites including Boat Harbour and abandoned mine sites have grown significantly over the past five years and are now \$600.3 million
 - Boat Harbour remediation cost grew while the project awaited federal approval

Revenue Estimates:

- Section 20 of the *Auditor General Act* requires the Auditor General to review the estimates of revenue in Province's annual budget
- The Auditor General expresses no opinion as to whether the Revenue Estimates will be met as budgeted
- 2024-25 Revenue Estimates included a significant inherent limitation by the Auditor General reminding users that actual major tax revenues have proven to vary significantly from budget
- Actual revenue has exceeded the budgeted amount for four of the past five years by \$4.7 billion

Additional Appropriations:

- Additional appropriations process in Nova Scotia lacks accountability and transparency through the Legislature
- Nova Scotia's *Finance Act* does not require House of Assembly approval for budget overspending unlike other jurisdictions in Canada
- New recommendation from the Auditor General to remove the distinction regarding a new program or activity in the *Finance Act* similar to other Canadian jurisdictions will provide accountability and transparency over the spending of all public funds
- New recommendation from the Auditor General to better inform the public as to why additional appropriations are needed with more details in the Orders in Council and factsheets

Alternative Procurement:

- The Province and Nova Scotia Health used alternative procurement for over \$2.4 billion in contracts over the last five years
- The reliance on alternative procurement may carry certain risks, including increased vendor reliance, reduced transparency, lack of competition, and diminished value for money
- Province's Procurement Portal missing millions of dollars in procurement disclosures

Health Spending:

- The Province's health spending and capital asset acquisitions totaled \$7.5 billion in 2023-24 (\$6.7 billion in 2022-23)
- Annual healthcare operating expenses are up \$2.13 billion over the last five years
- In 2023-24, \$278 million was spent on Health Transformation Office operating initiatives, including virtual care support and the YourHealthNS app
- Travel nursing costs increased by \$95 million in 2023-24 to \$154 million
- The Province is paying travel nurses up to double the hourly rate of full-time nurses working for Nova Scotia Health



Questions Nova Scotians May Want to Ask

1. How will the Government improve budgeted revenue estimates to better reflect actual revenues going forward?
2. When will the Government of Nova Scotia accept Auditor General recommendations to provide more transparency and accountability through the *Finance Act*?
3. Why is Nova Scotia Health using Alternative Procurement for large multi-million-dollar contracts?
4. How will the Government of Nova Scotia recruit and retain full-time permanent nurses to counter the high cost of travel nurses?
5. What would be considered a new program or activity under the *Finance Act*?
6. Why is the Province's Procurement Portal missing millions of dollars in procurement disclosures?

Reference Guide – Chapter 1: Financial Audit Work and Other Topics of Interest

Reporting on Financial Audit Engagements

- 1.8 Government provided Nova Scotians with financial information they can rely on
- 1.12 Key audit matters communicated in auditor's report provide additional information
- 1.14 Major Tax Revenues – \$7.8 billion in 2023-24
- 1.17 Pension, Retirement and Other Obligations – stable for the last three years at \$3 billion
- 1.20 Liabilities for Contaminated Sites is increasing – \$600 million in 2023-24
- 1.22 \$384.4 million Boat Harbour remediation cost grew while project awaited federal approval
- 1.29 Liability for cleanup of abandoned mines now \$146 million

Significant Control Weaknesses at Service Nova Scotia and Nova Scotia Health

- 1.34 Seven significant control weaknesses at Service Nova Scotia remain unfixed
- 1.35 Number of significant control weaknesses reported at government organizations has decreased however new weakness identified at Nova Scotia Health

Other Topics of Interest

Review of the Province's Revenue Estimates

- 1.46 Significant uncertainty impacting revenue estimates

Additional Appropriations

- 1.51 Increasing Government use of additional appropriation process to spend billions of dollars over and above the approved budget
- 1.53 \$1.38 billion in additional appropriations in 2023-24
- 1.55 \$7 billion in additional appropriations approved in the last 10 years
- 1.56 Nova Scotia's *Finance Act* defines how additional funding can be obtained if a department cannot stay within its annual appropriation
- 1.59 Nova Scotia's additional appropriations process lacks accountability and transparency through the legislature
- 1.61 *Finance Act* lacks clarity on what constitutes a new program or activity
- 1.67 Additional appropriations of \$1.4 billion were approved in 2023-24 and \$1.7 billion in 2022-23
- 1.69 Auditor General's recommendation on additional appropriations not addressed

Alternative Procurement

- 1.73 In certain circumstances the Alternative Procurement approach is legitimate
- 1.78 The Province and Nova Scotia Health used alternative procurement for over \$2.4 billion in contracts over the last five years
- 1.79 \$291 million in alternative procurement awarded at Nova Scotia Health in 2023-24
- 1.83 Province's Procurement Portal missing millions of dollars in procurement disclosure
- 1.86 Significant deficiencies related to procurement unaddressed since 2018-19, and new deficiencies for Alternative Procurement added in 2023-24

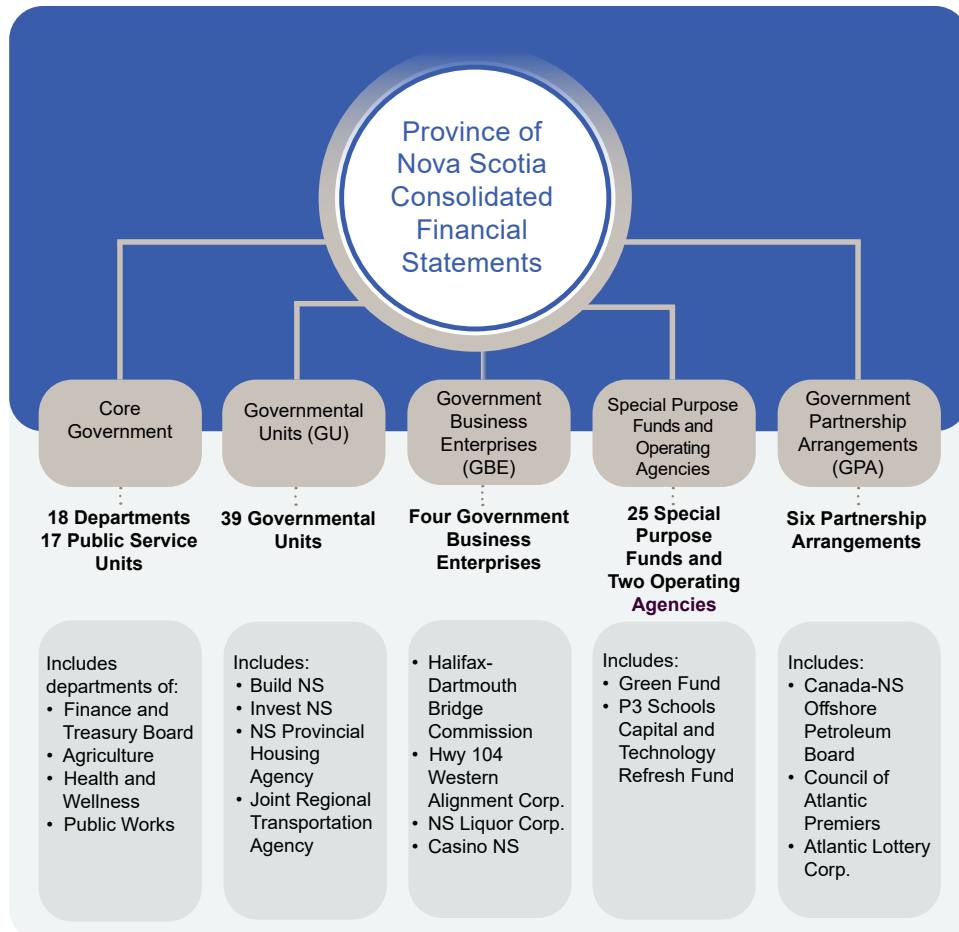
Health Spending

- 1.89 Province incurred \$7.5 billion in health-related spending and capital asset acquisitions in 2023-24
- 1.90 Health-related operational spending increased \$2.13 billion over five years
- 1.97 In 2023-24, \$278 million was spent on Health Transformation initiatives
- 1.100 In 2023-24, \$457 million was spent on health-related capital assets
- 1.103 Majority of health-related Provincial capital spend in 2023-24 by Department of Health and Wellness
- 1.106 Travel nursing costs increased by \$95 million in 2023-24 to \$154 million
- 1.115 Canada Health Transfer increased by \$123 million in 2023-24 to \$1.36 billion

1 Financial Audit Work and Other Topics of Interest

Reporting on Financial Audit Engagements

- 1.1 The objective of this chapter is to provide information on the results of the financial audit of the Province's Consolidated Financial Statements and of the many organizations that are part of the Province of Nova Scotia, as well as provide updates on important matters impacting the Province.
- 1.2 The *Auditor General Act* establishes the Auditor General's mandate, responsibilities, and powers. It provides the Office with the mandate to audit all parts of the provincial public sector, which includes government departments and organizations. The Act also stipulates that the Auditor General shall audit the annual Consolidated Financial Statements of the Province.
- 1.3 The Consolidated Financial Statements of the Province present an accumulation of the assets, liabilities, revenues, and expenses of all the activities and organizations under its control. The statements are published annually as part of the Public Accounts. The following diagram provides an overview of the many operations and organizations that are captured in the Consolidated Financial Statements of the Province.



Note: The Province has gone through some restructuring during the year, the numbers shown in the above diagram are based on the organization existing during the fiscal year and Schedule 10 as presented in the 2023-24 Public Accounts.

- 1.4 In addition to conducting the audit of the Province's Consolidated Financial Statements, we also perform financial statement audits of the Nova Scotia Health Authority (Nova Scotia Health) and the Izaak Walton Killam Health Centre (IWK Health Centre).
- 1.5 For each of these engagements, we provide information about the results of our work through communications to those charged with governance and management. An Independent Auditor's Report is attached to the financial statements that includes our audit opinion on the presentation of the financial statements. We issued unmodified, or "clean" audit opinions on the financial statements of each organization for the year ended March 31, 2024.
- 1.6 We also issue a report to those charged with governance that provides information on the results of our audit and can include significant control weaknesses that management should address to protect the financial reporting and controls of the organization. These areas for improvement are also then detailed in a letter to management with recommendations that when implemented often lead to an improved financial control environment.
- 1.7 To meet our mandate, we rely on private accounting firms to conduct the financial statement audits of most government organizations. As part of the Office's audit of the Consolidated Financial Statements of the Province, we review the results of the financial audit work, including the results provided by private accounting firms for the audits they complete. Appendix I shows how the financial audit results are ultimately reported to the House of Assembly.

Government provided Nova Scotians with financial information they can rely on

- 1.8 The Province of Nova Scotia received an unmodified opinion on its Consolidated Financial Statements from the Auditor General of Nova Scotia in each of the past 24 years. An unmodified opinion, or what is commonly referred to as a "clean" audit opinion, means that an auditor has no significant concerns regarding the reliability of the information reported in the financial statements. This is an accomplishment that governments over the past 24 years should take pride in. We believe it is reasonable for all Nova Scotians, including elected officials, to expect a clean audit opinion on the Province's Consolidated Financial Statements.
- 1.9 In addition, we would like to highlight that the Province released its annual Public Accounts within the legislated deadline of September 30th. These statements showed a surplus of \$143.6 million. More information on the Province's finances and this year's surplus is provided in Chapter 2.
- 1.10 The Province's Consolidated Financial Statements were prepared in accordance with Canadian public sector accounting standards and we conducted our audit in accordance with Canadian auditing standards. Under these standards, an organization can receive a clean opinion while at the same time have weaknesses in its financial controls. This is because the objective of a financial statement audit is to provide an opinion on whether the financial statements are fairly presented and are free from material misstatement(s). The clean audit opinion provided indicates we are satisfied that users can place reliance on the numbers and information contained within the financial statements.
- 1.11 We would like to take this opportunity to express our appreciation to the Government for the cooperation, time, and effort provided to us by management and staff during the audit.

Key audit matters communicated in auditor's report provide additional information

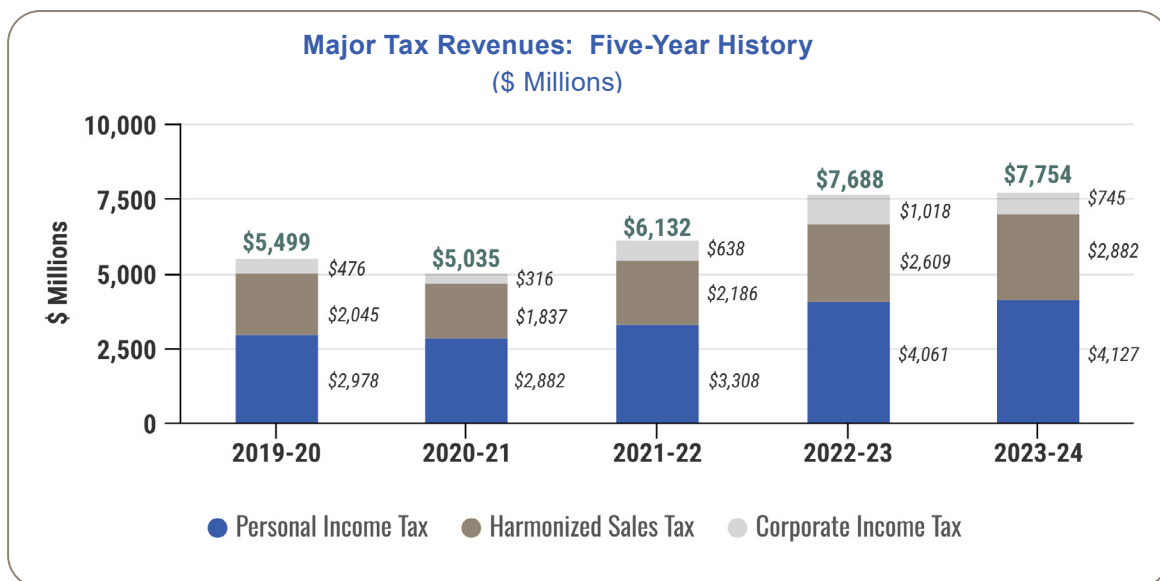
- 1.12 As auditors of the Province's Consolidated Financial Statements, we communicate key audit matters to provide greater transparency about our audit and additional insight into how important

items were addressed during the audit. Key audit matters are those matters that, in the auditor’s professional judgment, were of most significance in the audit of the financial statements. Matters that are complex, have a high degree of uncertainty, or are important to the public are highlighted as key audit matters.

- 1.13 Below are the key audit matters addressed in the 2023-24 Independent Auditor’s Report of the Province’s Consolidated Financial Statements. The key audit matters were addressed in the context of the Auditor General’s clean audit opinion on the Province’s Consolidated Financial Statements; the Auditor General does not provide a separate opinion on these matters.

Major Tax Revenues – \$7.8 billion in 2023-24

- 1.14 Major tax revenues, which include personal income tax (PIT), corporate income tax (CIT), and harmonized sales tax (HST) were reported as a key audit matter due to their significance and the degree of uncertainty, as they involve estimating tax revenues based on assumptions that reflect historical trends, economic conditions and expected outcomes. The chart below shows major tax revenues for the last five years.

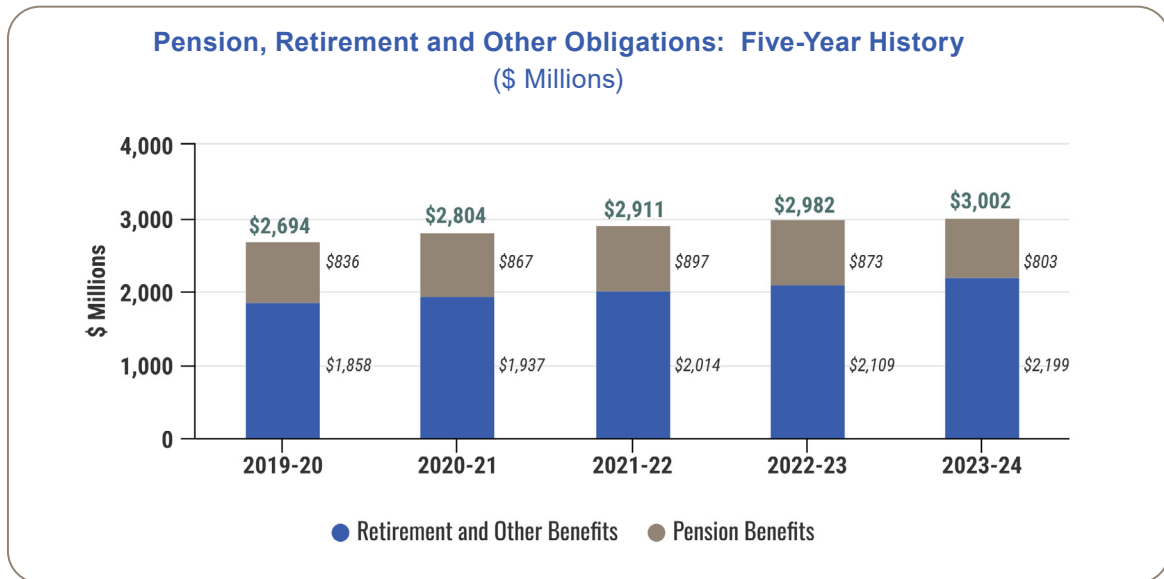


Source: 2023-24 Public Accounts (Independent Auditor’s Report)

- 1.15 Since there is a delay in timing regarding when the Province receives actual tax filing data (i.e. once personal tax returns are filed), major tax revenues are calculated based on management’s best estimates. These estimates use complex forecasting models that rely considerably on historical data and trends, including data from the Federal Government, as well as the Province’s economic forecast. In 2023-24, major tax revenues totaled \$7.8 billion and accounted for 47 per cent of the Province’s total revenues.
- 1.16 We addressed this matter in our Public Accounts audit by confirming the underlying data the Province inputs into its tax revenue models and reviewing evidence to support key assumptions. Based on our audit work we were able to conclude that actual tax revenues were fairly presented in the Province’s Consolidated Financial Statements and were disclosed in accordance with Canadian public sector accounting standards. More information on the Province’s finances and changes in major tax revenues from budget is provided in Chapter 2 – Nova Scotia’s Finances from the 2024 Public Accounts.

➔ Pension, Retirement and Other Obligations – stable for the last three years at \$3 billion

1.17 Pension, retirement and other obligations were reported as a key audit matter because the Province’s \$3 billion liability at March 31, 2024 is significant and is susceptible to uncertainty due to actuarial assumptions that are subject to change in the future. Pension, retirement and other obligations include various employee future benefits where the Province is responsible for the provision of benefits.



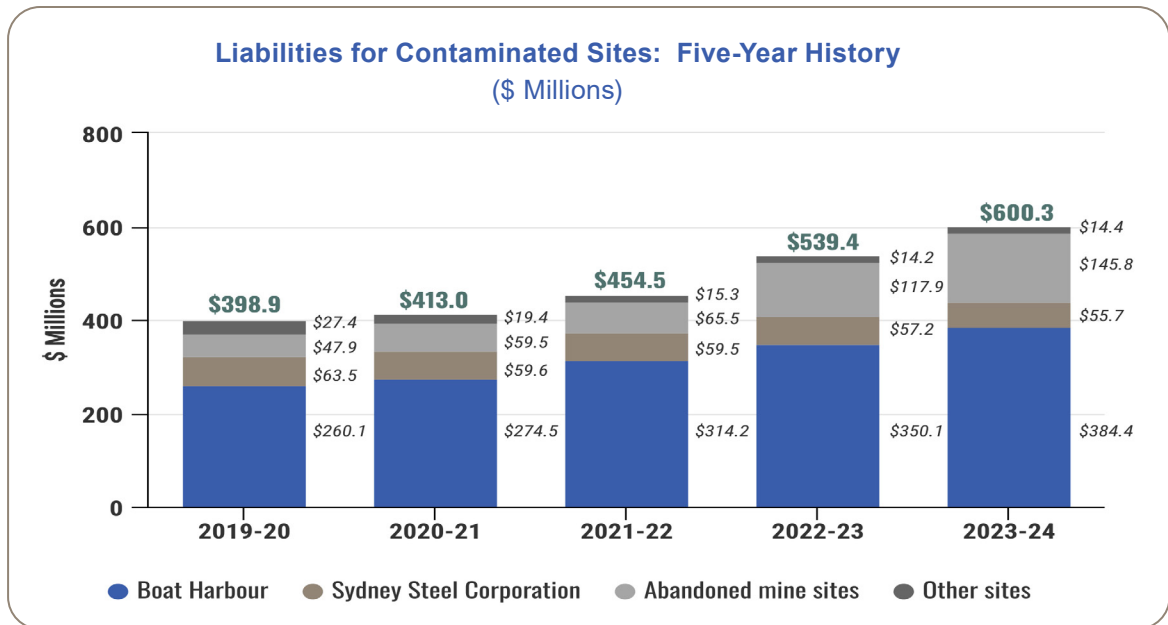
Source: 2023-24 Public Accounts (Independent Auditor’s Report)

1.18 Actuarial assumptions are used in the estimating of these significant liabilities. Actuarial assumptions include estimates for the future rate of inflation, future salary increases, retirement ages, life expectancy, and other variables. Calculating liabilities for pension, retirement and other obligations requires the use of actuarial experts.

1.19 We addressed this key audit matter by testing the underlying data used in the calculation of these liabilities and by reviewing the evidence to support the key actuarial assumptions. We also relied on the work of the Province’s consulting actuary. This year we engaged the services of our own consulting actuary to assist with the review of assumptions and reports provided by the Province’s actuarial experts that are used to calculate these liabilities. We were able to conclude that pension, retirement and other obligations were fairly and appropriately disclosed in accordance with Canadian public sector accounting standards.

➔ Liabilities for Contaminated Sites is increasing – \$600 million in 2023-24

1.20 Liabilities for contaminated sites are a key audit matter as these liabilities are significant estimates of future costs required to complete the necessary cleanup of contaminated sites falling under the Province’s responsibility. On March 31, 2024, liabilities for contaminated sites were estimated at \$600 million. The chart below shows the five-year history of the liabilities for contaminated sites. This liability has grown significantly over the past five years driven mainly by increases associated with liabilities for cleaning up Boat Harbour and certain abandoned mine sites.



Source: 2023-24 Public Accounts (Independent Auditor's Report)

1.21 We addressed this key audit matter by obtaining a detailed understanding of the method for identifying and evaluating contaminated sites and assessing the reasonability of the cleanup costs for a sample of sites. This included ensuring that:

- an environmental standard exists
- contamination had been identified and likely exceeds the environmental standard
- the government is either directly responsible for and/or accepts responsibility for the contamination liability
- it is reasonable to expect that future economic benefits will be given up
- a reasonable estimation of these costs can be determined

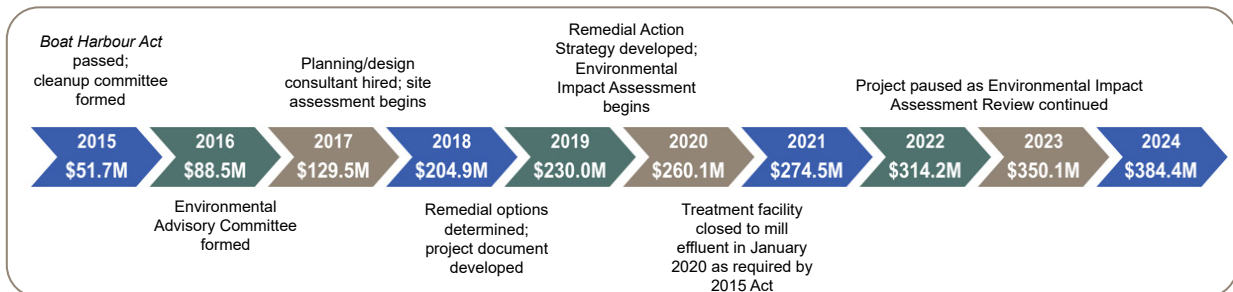
\$384.4 million Boat Harbour remediation cost grew while project awaited federal approval

1.22 Boat Harbour is a former tidal estuary which was dammed off to receive and treat effluent discharged by the Northern Pulp mill. Responsibility for the cleanup of the resulting contamination rests with the Province as established by various historical agreements between the Province and Northern Pulp. The liability for Boat Harbour represents the estimated cost to clean up the contaminated site to a level which would conform with environmental standards. As indicated in the five-year trend for liabilities for contaminated sites, the Boat Harbour liability has significantly increased over the past few years while the project has been essentially on hold, pending studies and reviews. There are two main parts of the 2023-24 \$34.3 million increase to the liability while the project has been on hold since last year:

- \$13.3 million adjustment for inflation; and

- \$20.4 million was reclassified from accounts payable to liabilities for contaminated sites. Under the historical agreements, the mill operator Northern Pulp Nova Scotia Corporation had responsibility for removal of sludge from the aeration stabilization basins at the effluent treatment facility. The Province had previously recorded an accrued liability for this work as the project as a whole was unable to move forward without it. The settlement agreement between the Province and Northern Pulp Group of Companies verified that this liability belongs to the Province and it will be completed as part of the Boat Harbour remediation work.

1.23 The following historical timeline illustrates the Boat Harbour liability growth over time along with key project milestones.



1.24 The Province started project development in 2015 and reached out to the Federal Government with an application for project funding in November 2018. The Federal Government approved funding of \$100 million in May 2019 under the Canada-Nova Scotia Integrated Bilateral Agreement for the Investing in Canada Infrastructure Program (the agreement). Under the agreement, the Federal Government stipulated that no site preparation, vegetation removal or constructions could occur and that it would not pay eligible capital costs until:

- Federal environmental impact assessment requirements as outlined in the agreement are met and continue to be met; and
- Aboriginal consultation and accommodation requirements are met and continue to be met in accordance with the agreement.

1.25 On May 31, 2024, a settlement agreement between the Province and the Northern Pulp Group of Companies was approved by the Supreme Court of British Columbia. As a result, the Province has agreed to discharge Northern Pulp with respect to any present or future claims, including a \$20.4 million claim for post-1995 contamination.

1.26 The Federal Government’s Impact Assessment Agency of Canada (IAAC) started the assessment of the Boat Harbour Remediation Project (BHRP) in early 2019. The Province indicated that it submitted its project plan to the IAAC and subsequently provided compliant responses to follow-up questions and satisfied the technical requirements. However, the project remained on hold subject to the resolution of one outstanding issue associated with the long-term management and storage of contaminated waste. Management indicated that, aside from this single issue, the Province responded to more than 100 information requirements with technical clarifications. There were no other outstanding IAAC questions or requirements remaining.

- 1.27 The Province was unable to move forward with the project, procure construction contractors, or start the remediation work without IAAC approval of the proposed project plan. While the project was pending approval, inflationary costs continued to increase.
- 1.28 We have seen this liability grow significantly over the past few years with \$95.1 million in increases due to inflation alone since 2019. On January 24, 2025, the IAAC released its Decision Statement for the Boat Harbour remediation project. The Province is reviewing the Decision Statement and working to move the project forward.

Liability for cleanup of abandoned mines now \$146 million

- 1.29 A liability of \$48 million for abandoned mines was first recorded in 2018-19 when site investigations were completed at two former gold mine sites – Goldenville and Montague. As a result of further environmental investigation and assessment, as well as recognition of additional sites, the liability grew to \$146 million by March 31, 2024 and is likely to grow further as additional site investigations are completed, and more information becomes available.
- 1.30 For example, the liability increased in 2023-24 due to the Province gaining enough information on six high risk sites to record an additional liability of \$24 million for those sites based on the risk profile, site characteristics and experience at other similar sites. The Province also recorded a \$5 million increase to the liability for five abandoned mine sites where detailed site investigations were performed and results became available. These increases were offset by a decrease of \$1 million due to the results from other detailed assessments.

Significant Control Weaknesses at Service Nova Scotia and Nova Scotia Health

- 1.31 As stated before, the presence of significant control weaknesses in an organization does not mean that its financial statements are materially misstated. A significant weakness in internal controls is a weakness or combination of weaknesses that are deemed by the auditor to be important enough to be reported to an organization's audit committee or those charged with governance. Even though we reported significant control weaknesses, we were able to address the associated risks through our audit work and provide a clean audit opinion on the Province's 2023-24 Consolidated Financial Statements.
- 1.32 The longer a significant weakness in internal control remains unaddressed, the higher the risk that financial statements could be misstated due to fraud, error, and/or the misuse of assets, both now and in the future. Internal control weaknesses that remain unaddressed over multiple years can diminish an organization's internal control culture; therefore, significant weaknesses in internal controls should be addressed in a timely manner.
- 1.33 The table below summarizes the number of significant control weaknesses identified in Government. Appendix II provides details of each weakness still outstanding, including its potential impact and management's response.

| Government Departments and Organizations with Significant Control Weaknesses in 2023-24 | | | | |
|---|--|--|--|--|
| Government Department/ Organization and Nature of Significant Control Weaknesses | Number Identified in Prior Years | Less: Number Resolved or No Longer Significant in 2023-24 | Plus: Number Identified in 2023-24 | Total Outstanding at March 31, 2024 |
| Service Nova Scotia <ul style="list-style-type: none"> • Insufficient purchase and payment processing controls, including purchasing goods and services without pre-approval and not monitoring established procedures • Insufficient scrutiny of alternative procurement requests and not tracking alternative procurement requests that were not supported by Service Nova Scotia | 6 | (1) | 2 | 7 |
| Housing Nova Scotia | 3 | (3) | - | - |
| Perennia Food & Agriculture Corporation | 1 | (1) | - | - |
| Nova Scotia Education Common Services Bureau | 4 | (4) | - | - |
| Nova Scotia Health <ul style="list-style-type: none"> • Non-compliance with Public Procurement Act and the Sustainable Procurement Policy | - | - | 1 | 1 |
| Totals | 14 | (9) | 3 | 8 |

Seven significant control weaknesses identified at Service Nova Scotia remain unfixed

1.34 As detailed in Appendix II, Service Nova Scotia has a total of seven unresolved significant control weaknesses. Five of which relate to prior years, with one dating back to fiscal 2016-17. Service Nova Scotia made some progress this year by making continuous improvements to address the observations. However, based on testing completed as part of the financial audit of the Province's Consolidated Financial Statements, issues continue to be observed and additional work is required to resolve these findings.

Number of significant control weaknesses reported at government organizations has decreased however new weakness identified at Nova Scotia Health

1.35 In our 2023 report, we noted three government organizations had reported significant control weaknesses. This year, both Perennia Food & Agriculture Corporation and Nova Scotia Education Common Services Bureau have made enough progress to their control environments for the previously identified weakness to no longer be deemed significant.

1.36 Effective April 1, 2023, Housing Nova Scotia's assets and liabilities have been transferred to the Minister of Municipal Affairs and Housing, and weaknesses previously identified at this government organization have been resolved or are no longer deemed significant.

- 1.37 One government organization included in the Province's 2023-24 Consolidated Financial Statements, Nova Scotia Health had a significant control weakness reported as part of its March 31, 2024, year-end audit work. Appendix II provides details of the weakness identified including its potential impact and management's response.
- 1.38 Although some of the organizations noted above are not financially significant to the Province's Consolidated Financial Statements, these control weaknesses were still significant to their own individual operations, mission, and mandate.

Other Topics of Interest

Review of the Province's Revenue Estimates

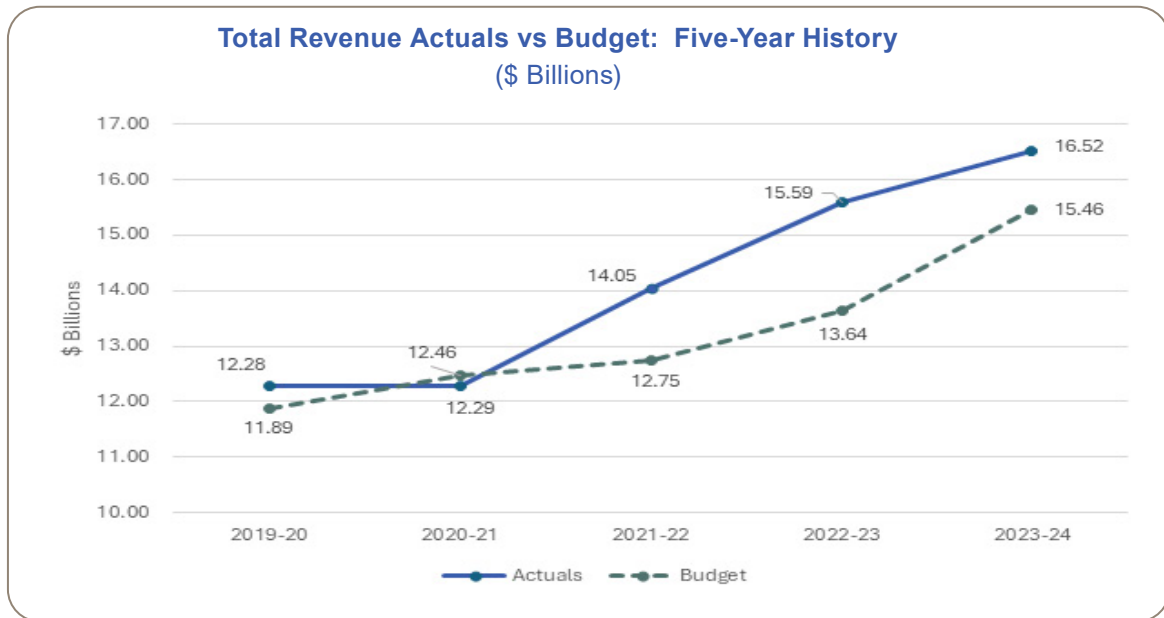
- 1.39 One of the significant engagements performed by our office is the review of the Province's revenue estimates as part of its preparation of the annual budget. Section 20 of the *Auditor General Act* requires the Auditor General to review the estimates of revenue used in the preparation of each budget address of the Minister of Finance and Treasury Board. The Act requires the Auditor General to submit a report to the House of Assembly of Nova Scotia that provides a conclusion as to whether the revenue estimates used by the Province to prepare its annual budget are reasonable and presented fairly.
- 1.40 However, the Provincial revenue estimates are future oriented financial information and the most significant of these estimates are Personal Income Tax (PIT), Corporate Income Tax (CIT) and Harmonized Sales Tax (HST).
- 1.41 Given the forecasted nature of the revenue estimates, the Auditor General carries out a limited assurance engagement conducted in accordance with the Canadian Standard on Assurance Engagements (CSAE) 3000 – *Attestation engagements other than audits or reviews of historical financial information*. The level of assurance obtained in a limited assurance engagement is lower than the assurance level obtained in an audit.
- 1.42 In order to estimate major tax revenues, management determines its best estimate using statistical models based on assumptions that reflect historical trends, economic conditions, and Government's planned courses of action. The Public Accounts provide further information on the estimation of tax revenues and uncertainty around these estimates.
- 1.43 We obtained an understanding of the systems, processes, and controls over tax revenue. We confirmed the underlying data in the various tax revenue estimation models and reviewed evidence and considered external information used to support the key assumptions.
- 1.44 The Auditor General's conclusion as to whether the revenue estimates are reasonable and presented fairly is limited based on the following criteria:
 - the revenue estimates are prepared on a basis consistent with the accounting policies to be used by Government in its preparation of the consolidated financial statements of the Province of Nova Scotia, consistent with Canadian public sector accounting standards; and
 - the assumptions underlying the revenue estimates reflect a reasonable set of economic conditions and Government's planned courses of action for the fiscal year.

1.45 The Auditor General does not express a conclusion as to whether the revenue estimates will be achieved as budgeted. In addition, no conclusion is expressed on the Government’s overall results, estimated expenses, any resulting surplus or deficit, or the budget speech. The conclusion also does not cover the prior year’s forecast or actual information provided for comparative purposes.

Significant uncertainty impacting revenue estimates

1.46 The Province has experienced unprecedented economic conditions and levels of growth over the past few years which have impacted the reliability of the Province’s revenue estimates. Based on this fact, the Auditor General took the step of including a Significant Inherent Limitation paragraph in the 2024-25 report to provide context about the environment in which the estimates are prepared, and to caution Nova Scotians of the significant uncertainty impacting the Province’s revenue estimates. This uncertainty has resulted in significant revenue increases compared to budget for the last three years, which total more than \$3 billion. There were budget-to-actual increases to major tax revenues of \$845 million in 2023-24, \$1.7 billion in 2022-23, and \$660 million in 2021-22. The limitation paragraph further reminds the user that the report is not meant to opine on whether the revenue estimates will be achieved as budgeted, but that the information used by management in their estimation process was reasonable at the time.

1.47 Actual revenue has significantly exceeded the budgeted amount for four of the past five years by \$4.7 billion. In 2023-24, the increase from the original estimate was mostly attributable to increases in major tax revenues and other federal transfer revenues.



Source: Public Accounts 2023-24

1.48 As a result of the significant variances between budgeted and actual revenues over the past three years, we discussed with management how they were assessing the differences between budgeted revenues and actual revenues and incorporating this information into their model going forward.

1.49 Management evaluates its major tax revenue models on a continuous basis in an effort to accurately estimate major tax revenues. To address the significant budget-to-actual fluctuations in recent years, management noted they have implemented the following:

- PIT revenue – management has noted that the economic volatility of recent years has been a significant factor in differences between estimated and actual PIT revenues. To address this, they have identified variances and swings related to the pandemic and adjusted the model as needed. Management continues to evaluate and update the model for any specific identifiable issues.
- CIT revenue – management implemented performance monitoring on the national taxable income forecasts from federal finance, which impacts the CIT revenue estimate.
- HST revenue – management continues to have open discussions with the Department of Finance Canada and other HST provinces on the causes for large swings in the calibration factor (which impacts the HST revenue estimate) and continues to carefully monitor for sources of variation and updates the model accordingly.

1.50 The Province has used the increased revenue to advance additional spending. The accountability process for over-budget spending in Nova Scotia is not in line with best practices in other provinces across Canada, where legislatures are required to review, vote on, and approve the extra amounts. To address this, the Auditor General has recommended a change to the *Finance Act* but the Minister of Finance and Treasury Board has so far refused to implement the recommendation.

Additional Appropriations

Increasing Government use of additional appropriation process to spend billions of dollars over and above the approved budget

1.51 Responsible government is when the Government, or Executive Council, is held accountable to the people.

Accountability of Executive Council/Government by House of Assembly



Legislature

The Legislature's purpose is to make laws, control provincial public spending, question the Government's policies and actions, and monitor the Province's finances including Revenues.



Responsible Government

The ruling Government (Executive Council) is held accountable for its decisions through the elected MLAs (Members of the Legislative Assembly) who represent the constituents in Nova Scotia's 55 ridings.



Executive Council

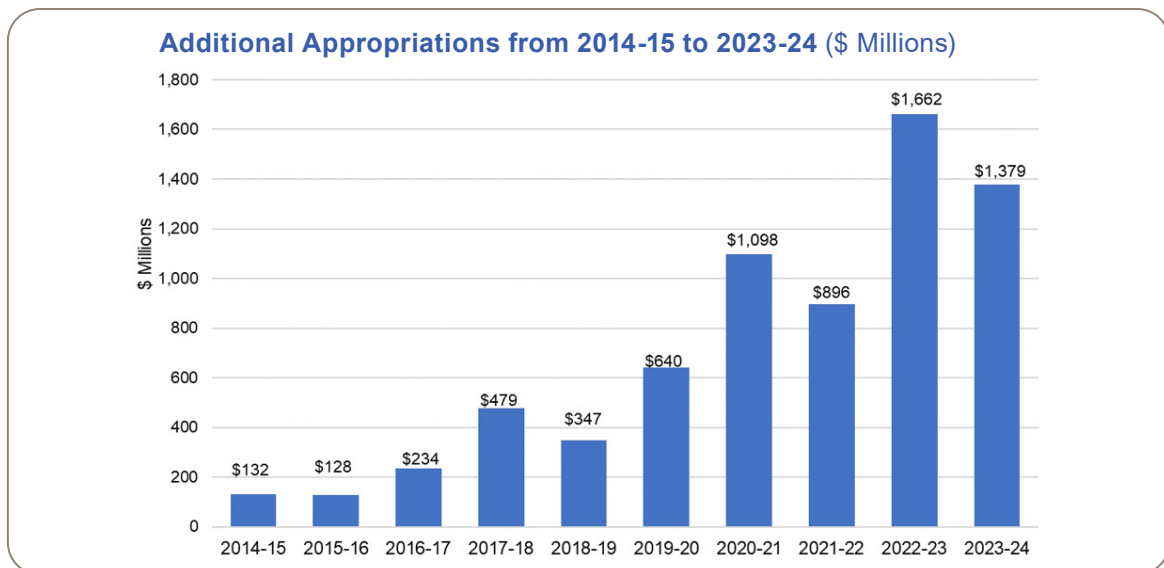
Includes all the Ministers of ruling Government, chaired by the Premier. The Executive Council determines the Government's policies and priorities and is responsible for their execution.

1.52 Nova Scotia's *Finance Act* requires the Province to prepare an annual budget which includes estimates of the expenses for each department and public service unit for the next fiscal period.



\$1.38 billion in additional appropriations in 2023-24

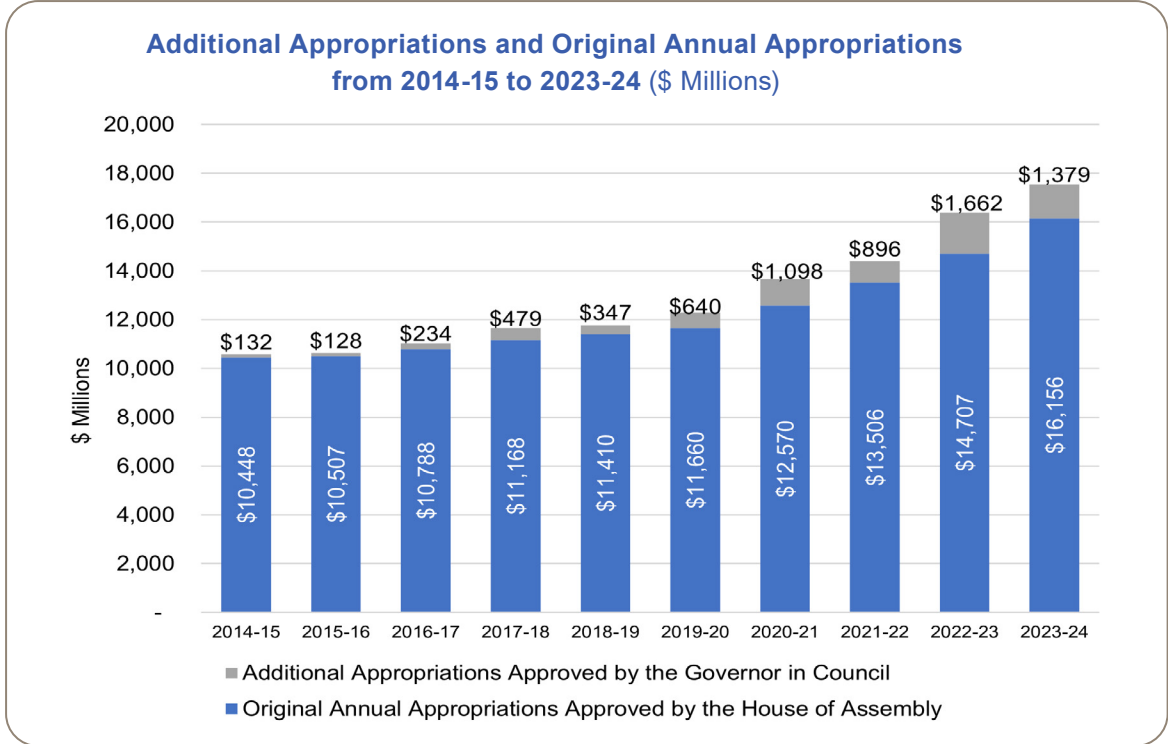
- 1.53 In fiscal 2023-24, there was \$1.38 billion in additional appropriations approved, which represents significant spending. In 2023-24 additional appropriations were 8.2 per cent of the Province's total expenditures compared to 1.3 per cent a decade ago, in 2014-15.
- 1.54 Higher than anticipated Provincial revenues impact spending and can lead to increases in the use of additional appropriations. We recognize it is not unusual for Governments to increase spending to address unanticipated needs from time to time. However, as Auditor General, the issue of concern is that there is no official opportunity for debate on the spending of such large amounts of public funds.



Source: 2014-15 to 2023-24 Public Accounts

\$7 billion in additional appropriations approved in the last 10 years

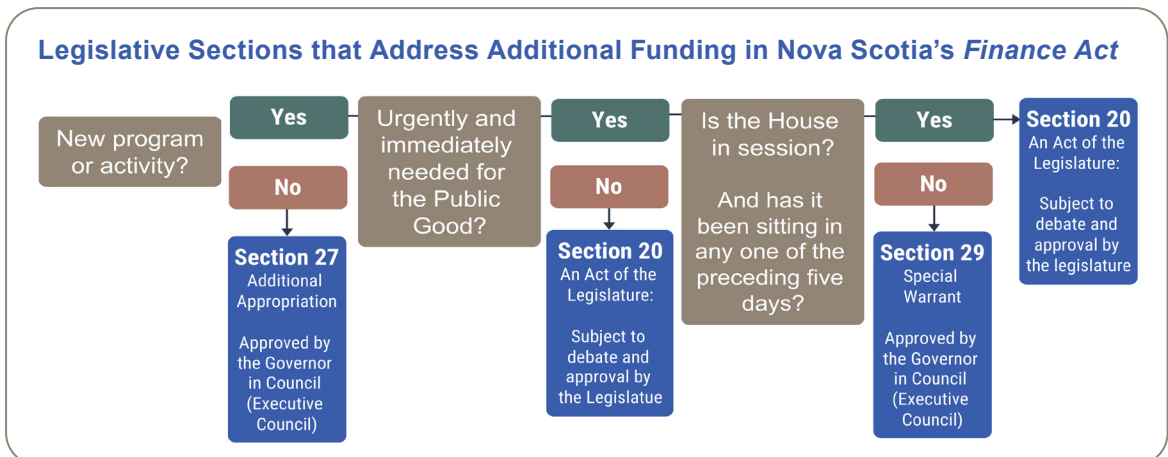
1.55 In the last 10 years, a total of \$7 billion in additional appropriations were approved with \$5.7 billion approved over the last five fiscal years.



Source: 2014-15 to 2023-24 Public Accounts
 Note: The Original Annual Appropriations include departmental expenses, debt servicing costs, refundable tax credits, pension valuation adjustments, capital purchase requirements, and sinking fund instalments and serial retirements.

Nova Scotia's Finance Act defines how additional funding can be obtained if a department cannot stay within its annual appropriation

1.56 During the year, if a department determines it cannot stay within its annual appropriation, the provincial Finance Act states that additional funding can be obtained through the following mechanisms:



- 1.57 Governments past and present have used additional appropriations approved by Governor in Council under Section 27 of the *Finance Act* to authorize over-budget spending. In recent years, this one section has been repeatedly cited as the basis to approve billions of dollars of over-budget spending.
- 1.58 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 published 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 only and, unlike the budget, are not voted on by all of the members of the House of Assembly.

 **Nova Scotia’s additional appropriations process lacks accountability and transparency through the legislature**

- 1.59 Nova Scotia’s *Finance Act* does not have a requirement for the legislature to review, vote on, or approve additional appropriations. As reported by this office in 2022, many jurisdictions across Canada (this includes provinces and the Federal Government), have a requirement for additional appropriations to return to the legislature for debate and approval. However, in Nova Scotia, the legislature has limited ability to hold the government accountable for over-budget spending.
- 1.60 During the Nova Scotia budgetary process there are several rounds of questioning and debate that ultimately lead to the House of Assembly voting on whether to pass the year’s annual appropriations. Since additional appropriations are not subject to debate, there is limited accountability and transparency on these additional expenditures through the legislature. A sitting government in Nova Scotia can, and has, approved large amounts of spending outside of the budget process, and without being questioned by opposing elected representatives.

 ***Finance Act* lacks clarity on what constitutes a new program or activity**

- 1.61 While there are nuances in legislation across Canada, in many jurisdictions there is a requirement for over-budget spending to return to the legislature for debate and approval through a Supplementary Estimate, Additional Appropriation or a Special Warrant. Elsewhere, the process and accountability is the same whether it is for new, or ongoing programs and activities. See examples below where the *Finance Act* requires all over-budget spending to be submitted to the Legislature for debate and approval.

| Jurisdiction | Does all over-budget spending get debated and approved by the Legislature? | Over-budget spending approval process | Does the <i>Finance Act</i> distinguish requirements for new and ongoing programs? |
|--------------|--|---|--|
| Federal | Yes | Appropriation bills are introduced in the House of Commons and proceed through three readings before consideration and adoption by the Senate | No |
| Saskatchewan | Yes | Supplementary estimates which are submitted as part of an <i>Appropriations Act</i> to be tabled and voted on by the Legislative Assembly | No |

| Jurisdiction | Does all over-budget spending get debated and approved by the Legislature? | Over-budget spending approval process | Does the <i>Finance Act</i> distinguish requirements for new and ongoing programs? |
|------------------|--|---|--|
| British Columbia | Yes | All over-budget spending is presented to the Legislative Assembly as Supplementary Estimates to be voted on and passed as supplementary <i>Supply Acts</i> | No |
| New Brunswick | Yes | Over-budget spending is tabled with the Legislative Assembly as a <i>Supplementary Appropriations Act</i> and proceeds through three readings before receiving royal ascent | No |
| Nova Scotia | No | Over-budget spending is approved by Governor in Council under Section 27 of the <i>Finance Act</i> | Yes |

- 1.62 Under the Nova Scotia *Finance Act*, authorization of over-budget spending for “new programs or activities” must not be requested and may not be made under section 27 – additional appropriations. Authorization for “new programs or activities” would need to be obtained under section 29 – special warrant, or under section 20 by an Act of the Legislature. However, the term “new programs or activities” is not defined within the *Finance Act*, or in other Government policies, which leaves the constitution of a “new program or activity” up to interpretation under the Act.
- 1.63 Historically, Government has interpreted a new program or activity as any program or activity that is inconsistent with the purpose of the appropriated entity’s appropriation. This has been the Province’s working interpretation given the *Finance Act* itself has no specific definition. Subsection 27(4) of the *Finance Act* discusses new as “a program or activity that has not previously been included in Estimates for a fiscal year.” While subsection 29(1)(a) refers to a new program or activity as one “where funds have not previously been provided.”
- 1.64 The lack of clarity on what constitutes a “new program or activity” presents an opportunity for improvement to the *Finance Act* to remove the ambiguity and significant interpretation surrounding this term. This is important due to the fact that the Province funds a wide variety of programs and activities through this mechanism and has authorized \$5.7 billion in the past five years in additional spending outside of the budget process – all without debate or challenge in the legislature. As noted above, per our review of other jurisdiction’s Finance Acts, other Provinces do not make a distinction between new and existing programs or activities.
- 1.65 Below are some examples of significant budget overspending over the last five years that were **not considered** new programs or activities and were ushered through under Section 27. Had they been considered a new program or activity, the *Finance Act* would require authorization by an Act of the Legislature under Section 20 of the *Finance Act*, or a special warrant under Section 29.

- On March 7, 2023, the Premier announced \$58.9 million in funding to Cape Breton University for a new medical school campus. Opening a new medical school campus in Cape Breton allows the University to offer a new education program which was previously unavailable and was not included in the fiscal 2022-23 budget.
- On March 9, 2023, the Nova Scotia Department of Agriculture (NSDA) announced funding of \$15 million to the Horticulture Nova Scotia Association (Hort NS), to administer programs to help support fruit growers whose crops were affected by the polar vortex in February 2023. This funding was established for a specific, unexpected, one-time event that took place in February 2023 and was not included in the fiscal 2022-23 budget.
- On March 21, 2023, an additional appropriation of \$140.3 million was approved for the Department of Health and Wellness for healthcare recognition and retention incentives. This bonus and retention incentive was to thank healthcare workers for all their contributions through and beyond the pandemic. This retention incentive was not included in the fiscal 2022-23 budget.
- On April 6, 2023, the Province announced a new online learning program for training medical laboratory technologists. An additional appropriation of \$1.1 million for the Department of Advanced Education was approved on December 18, 2023 for this new program.

1.66 In our view, over-budget spending has been authorized as additional appropriations for a variety of initiatives announced over the past few years which could be considered by the public a new program or activity; indeed, many were announced as new items. Government authorized these expenditures as additional appropriations based on the rationale the expenses were consistent with a particular department’s mandate and original appropriation as there are no specific criteria for what qualifies as a “new program or activity” under the *Finance Act*.

 **Additional appropriations of \$1.4 billion were approved in 2023-24 and \$1.7 billion in 2022-23**

1.67 Additional appropriations are allocated to individual departments as required. The departments with the greatest additional appropriations in 2023-24 were the departments of Health and Wellness; Seniors and Long-term Care; and Municipal Affairs and Housing. These additional appropriations of \$1.4 billion in total were approved by Governor in Council through OICs dated September 27, 2023, December 18, 2023, February 28, 2024, and July 25, 2024.

1.68 Final additional appropriations are the difference between the departments’ actual expenditures for the year and the sum of the original estimates and additional appropriations approved during the fiscal year. The *Finance Act* requires approval through OIC within 15 days of the tabling of the Public Accounts.

| Additional Appropriations (\$ Millions) | | | |
|---|---|---|--|
| Appropriation by Department and Other | Total 2023-24 Additional Appropriations | Explanation for 2023-24 Additional Appropriations | Total 2022-23 Additional Appropriations (for comparison) |
| Advanced Education | \$36 | <ul style="list-style-type: none"> • \$13.9 million to the Acadia University nursing program • \$15.1 million in grants to universities for program updates | \$166 |

| Additional Appropriations (\$ Millions) | | | |
|--|---|---|--|
| Appropriation by Department and Other | Total 2023-24 Additional Appropriations | Explanation for 2023-24 Additional Appropriations | Total 2022-23 Additional Appropriations (for comparison) |
| Agriculture | 12 | <ul style="list-style-type: none"> \$9.5 million for disaster response grants and <i>Animal Protection Act</i> supports | 44 |
| Communities, Culture, Tourism and Heritage | 37 | <ul style="list-style-type: none"> Primarily due to increased funding for community support grants and initiatives | 110 |
| Community Services | 97 | <ul style="list-style-type: none"> \$49.7 million for increased costs to support Employment Support and Income Assistance for homelessness initiatives, pharmacare programs, and food security \$55 million to supportive housing, shelters, and poverty reduction | 50 |
| Cyber Security and Digital Solutions | 6 | <ul style="list-style-type: none"> \$4.7 million for IT costs related to SAP modernization | - |
| Economic Development | 23 | <ul style="list-style-type: none"> Final additional appropriation related to increases in the Nova Scotia Jobs Fund | 6 |
| Education and Early Childhood Development | 25 | <ul style="list-style-type: none"> \$34.4 million for wage settlements offset by \$10 million due to updated estimates for implementing the ECE compensation framework across NS | 56 |
| Environment and Climate Change | 11 | <ul style="list-style-type: none"> \$5.1 million in expenses related to federal agreements \$5 million for Sustainable Communities Challenge Fund | 162 |
| Finance and Treasury Board | - | | 69 |
| Fisheries and Aquaculture | 1 | <ul style="list-style-type: none"> Primarily due to increases for wildfire emergency response, recoverable expenses under the <i>Fish Harvester Organization Support Act</i>, and recoverable expenses under a federal agreement for Hurricane Fiona relief | - |
| Health and Wellness | 378 | <ul style="list-style-type: none"> \$135.9 million for the settlement of the Nursing Union Agreement \$127.5 million for increased operational expenses at Nova Scotia Health \$81.2 million for the ratification of the Physician's Agreement \$35 million for NS Health/IWK Health Transformation Initiatives | 275 |
| Justice | - | | 24 |
| Labour, Skills, and Immigration | 27 | <ul style="list-style-type: none"> \$20.7 million for the Labour Market Federal Transfer Agreement (fully recoverable) and other additional programs \$4.4 million for Nova Scotia Apprenticeship Agency Modernization Program | 24 |

| Additional Appropriations (\$ Millions) | | | |
|---|---|---|--|
| Appropriation by Department and Other | Total 2023-24 Additional Appropriations | Explanation for 2023-24 Additional Appropriations | Total 2022-23 Additional Appropriations (for comparison) |
| Municipal Affairs and Housing | 379 | <ul style="list-style-type: none"> \$78.3 million for disaster assistance \$102 million for Municipal Capital Growth Fund \$25 million for modular housing for healthcare \$223 million final appropriation for the transfer of Housing Nova Scotia assets and associated liabilities to the department | 107 |
| Natural Resources and Renewables | 47 | <ul style="list-style-type: none"> Primarily due to increases related to large scale wildfire and flood responses, increases in fully recoverable expenses related to a federal agreement, and additional remediation of abandoned mine sites | 60 |
| Office of Addictions and Mental Health | 14 | <ul style="list-style-type: none"> For the settlement of the Nursing Union Agreement offset by savings in other areas | 20 |
| Public Service Votes | 1 | <ul style="list-style-type: none"> Additional requests from Elections Nova Scotia and Public Prosecution | 1 |
| Public Works | 48 | <ul style="list-style-type: none"> \$9.6 million for grants to Build Nova Scotia for <i>More, Faster - Action for Health Build</i> \$13.5 million for July 2023 flood damage \$6.5 million for healthcare redevelopment intellectual property \$10 million for Boat Harbour clean-up \$6.2 million for snow clearing and ice control \$5.9 million for Hurricane Fiona damage | 84 |
| Seniors and Long-term Care | 107 | <ul style="list-style-type: none"> \$22.7 million in recruitment expenses \$20.2 million for increased participation in the <i>Expanded Home First Program</i> \$32 million in Nova Scotia Nurses' Union settlement costs \$16.5 million for Aging with Dignity \$15 million for travel nursing costs | 217 |
| Service Nova Scotia | 100 | <ul style="list-style-type: none"> \$2.9 million for credit monitoring and identity theft protection for individuals impacted by the MOVEit cyber breach \$71.5 million for Enhanced Heating Assistance Rebate Program \$5 million in trail repairs after July 2023 floods \$7.5 million for Trunk Mobile Radios for volunteer public safety providers \$5.1 million in insurance and risk claims \$3 million for the Heating Assistance Rebate Program | 155 |

| Additional Appropriations (\$ Millions) | | | |
|---|---|--|--|
| Appropriation by Department and Other | Total 2023-24 Additional Appropriations | Explanation for 2023-24 Additional Appropriations | Total 2022-23 Additional Appropriations (for comparison) |
| Debt Servicing Costs | 28 | • To fund increased debt servicing costs due to higher than-anticipated interest rates | 12 |
| Refundable Tax Credits | 1 | • Primarily due to Digital Media Tax Credit utilization | 14 |
| Sinking Fund Instalments and Serial Retirements | - | | 6 |
| Total | \$1,378 | | \$1,662 |

Auditor General's recommendation on additional appropriations not addressed

- 1.69 In our 2022 Financial Report, we issued a recommendation for the Department of Finance and Treasury Board to assess whether the current practice for the authorization of additional appropriations provides adequate accountability and transparency over expenditure of public funds by Members of the Legislative Assembly and to consider whether changes are necessary to align with legislated practices elsewhere in Canada. In response, additional support and details of additional appropriations by department are now available electronically. However, the overall recommendation was not addressed or accepted.
- 1.70 The Department of Finance and Treasury Board now makes fact sheets available as part of the budget forecast updates detailing additional appropriations by department along with a short explanation. While there has been some improvement over past practices the level of detail provided could be expanded so Nova Scotians can better understand what the additional appropriations were for, and why the additional spending was necessary.
- 1.71 In our 2023 Financial Report, we issued an updated recommendation to amend the *Finance Act* to align the additional appropriations process with the legislated practices of other Canadian jurisdictions to provide accountability and transparency over the spending of all public funds. In response, the Department of Finance and Treasury Board indicated that then-Minister Allan MacMaster was satisfied the current parameters of the *Finance Act* ensured accountability and transparency over the spending of all public funds. The Public Accounts Committee at its January 10, 2024 meeting did not support the recommendation of the Auditor General.
- 1.72 In this latest Financial Report, we continue to repeat our recommendation on the need for legislative review and approval for additional appropriations. These funds represent significant spending on programs and services impacting Nova Scotians.

Recommendation 1.1

We recommend the Minister of Finance and Treasury Board amend the *Finance Act* to align the additional appropriations process with legislated practices elsewhere in Canada and provide accountability and transparency over the spending of all public funds.

Minister of Finance and Treasury Board Response from 2023: The Minister of Finance and Treasury Board, Hon. Allan MacMaster, appreciates the work of the Auditor General on this matter. The Minister is satisfied that the current parameters of the *Finance Act* ensure accountability and transparency over the spending of all public funds.

Minister of Finance and Treasury Board Response for 2024: The Minister of Finance and Treasury Board, Hon. John Lohr, remains satisfied that the current parameters of the *Finance Act* ensure accountability and transparency over the spending of all public funds. The Province's entire fiscal reporting cycle, from Budget Estimates to public Forecast Updates and Public Accounts, provides a high standard of public financial reporting.

Recommendation 1.2

We recommend the Minister of Finance and Treasury Board amend the *Finance Act* to remove the distinction regarding a new program or activity, similar to other Canadian jurisdictions and provide accountability and transparency through the Legislature over all over budget spending.

Minister of Finance and Treasury Board Response: The Minister of Finance and Treasury Board is satisfied that the current parameters of the *Finance Act* ensure accountability and transparency over the spending of all public funds. The Province's entire fiscal reporting cycle, from Budget Estimates to public Forecast Updates and Public Accounts, provides a high standard of public financial reporting. Retaining the distinction of a new program or activity in the *Finance Act* ensures that any additional funding is consistent with the purpose of the appropriated entity's appropriation.

Recommendation 1.3

We recommend the Department of Finance and Treasury Board better inform the public by providing more details in the Orders in Council and factsheets on the use for the additional appropriations and outlining reasons they were needed.

Minister of Finance and Treasury Board Response: The Minister of Finance and Treasury Board appreciates the work of the Auditor General on this matter and agrees to continue to enhance communication regarding the nature of and need for additional appropriations. In addition to the Orders in Council and fact sheets, the Department also provides public Forecast Update documents containing detailed explanations of shifts in economic forecast, revenue, and departmental expenses. Additional appropriations are approved by Governor in Council concurrent with the public Forecast Updates, at which time changes in the Province's financial position are explained publicly. The additional appropriations are tabled in the House of Assembly, or with the Clerk of the Assembly, within 15 days of obtaining an order in council.

Alternative Procurement

In certain circumstances the Alternative Procurement approach is legitimate

- 1.73 The Province's procurement activities are guided by the *Public Procurement Act* and the Sustainable Procurement Policy. The Act aims to ensure the procurement of goods, services, and construction results in best value; encourages competition and innovation; and promotes sustainable procurement. The Sustainable Procurement Policy supports these objectives by promoting competition, adopting commercially reasonable business practices, and conducting open, fair, and transparent procurement processes. The Minister of Service Nova Scotia is responsible for promoting and implementing the policy, which applies to all public sector entities (i.e. Departments, Crown corporations, health authorities, and any other entity designated in the regulations under the *Shared Services Act*). The policy prescribes the method of procurement in accordance with the following tables:

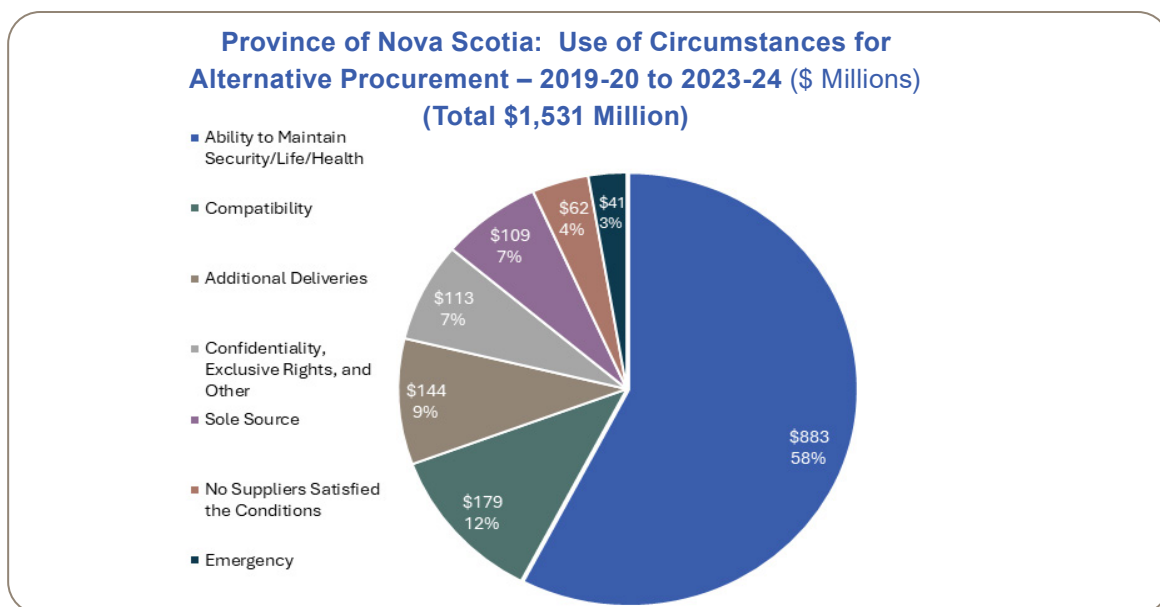
| Departments | LOW VALUE | | HIGH VALUE |
|--------------------------------------|-----------|--------------------------|---------------------|
| | Quotes | Invitational Competition | Open Competition |
| Goods | <\$10,000 | N/A | \$10,000 and above |
| Services | <\$10,000 | \$10,000 - \$49,999 | \$50,000 and above |
| Construction | <\$10,000 | \$10,000 - \$99,999 | \$100,000 and above |
| PROCUREMENT PLANNING REQUIRED | | | ✔ |

| All Other Public Sector Entities | LOW VALUE | | HIGH VALUE |
|--------------------------------------|-----------|--------------------------|---------------------|
| | Quotes | Invitational Competition | Open Competition |
| Goods | <\$10,000 | \$10,000 - \$24,999 | \$25,000 and above |
| Services | <\$10,000 | \$10,000 - \$49,999 | \$50,000 and above |
| Construction | <\$10,000 | \$10,000 - \$99,999 | \$100,000 and above |
| PROCUREMENT PLANNING REQUIRED | | | ✔ |

Source: Sustainable Procurement Policy
 Note: Quotes are not required for procurement under \$2,500.

1.74 The Sustainable Procurement Policy allows the Province to purchase or contract for goods, services or construction using alternative procurement (ALTP). ALTP deviates from the normal procurement process because it permits the awarding of contracts without a competitive bidding process; untendered contracts can be awarded. To promote transparency, all contracts awarded under limited competition or high value non-competitive procurement must be publicly disclosed, with some exceptions. They must only be awarded if specific conditions are met, such as: when only one contractor is qualified, in emergency situations, or when a public bid could compromise a confidential process. Refer to Appendix III for a list of all 23 circumstances which allow for the use of ALTP.

1.75 The most-cited high value ALTP circumstance depends on the year; however, ability to maintain security/life/health, compatibility, and additional deliveries consistently rank among the top reasons.



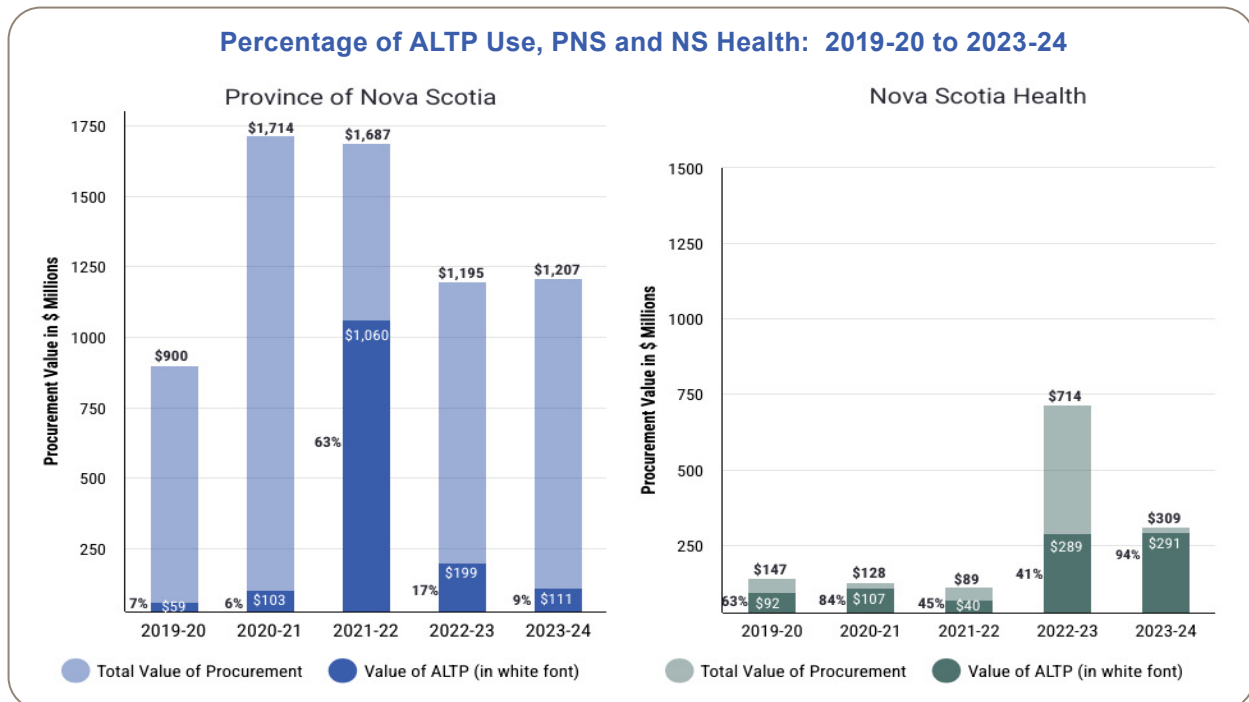
Source: Unaudited data provided by Procurement, September 4, 2024
 Note: 98% of Ability to Maintain Security/Life/Health is the Emergency Medical Care Inc. contract

1.76 In order to use high value alternative procurement, entities are required to complete an alternative procurement form which is submitted for review by the procurement group under the Department of Service Nova Scotia. Service Nova Scotia will assess whether it supports the use of ALTP in accordance with the policy and associated guidance. Approved and awarded ALTP contracts are then posted to the procurement portal where applicable. It must be noted that Departments do have the ability to procure without the support of Service Nova Scotia. Senior administrative officers at the various departments are responsible for, and must be prepared to justify, any alternative procurement carried out without Service Nova Scotia’s support.

1.77 Traditional procurement and alternative procurement differ significantly. Standard procurement emphasizes fairness, transparency, and competition, making it the preferred method for most procurement scenarios. ALTP is reserved for urgent, specialized, or exceptional circumstances where direct approach to a single supplier or limited competition may be necessary. However, use of ALTP may also come with certain risks, which can include inappropriate sole sourcing, unfavourable contract terms and not achieving value for money. While ALTP may be faster and more flexible, it may lead to higher costs due to less competition. As per the policy, ALTP must never be used to avoid competition or to discriminate against specific suppliers. In certain circumstances, the ALTP approach is legitimate; however, its use must be adequately scrutinized, well supported and defensible, with risks carefully mitigated.

➡ The Province and Nova Scotia Health used alternative procurement for over \$2.4 billion in contracts over the last five years

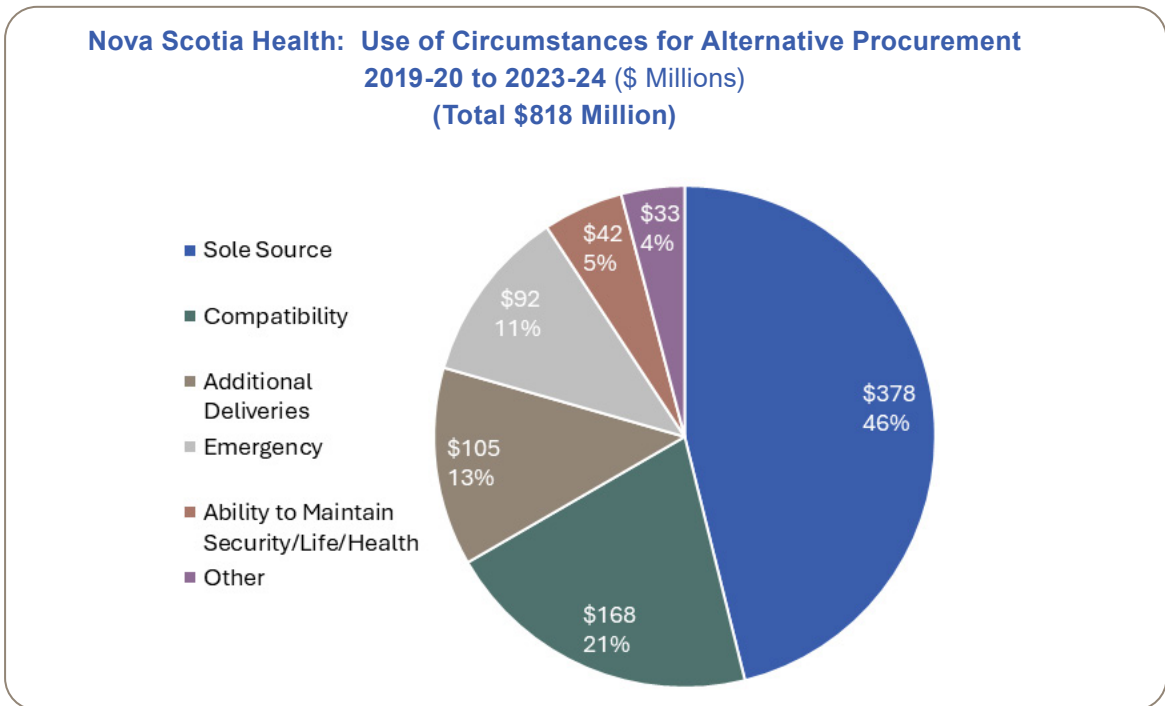
1.78 The total value of alternative procurement has fluctuated over the last five years. According to unaudited information provided by the Department of Service Nova Scotia, there was \$2.4 billion in alternative procurement contracts awarded between 2019-20 and 2023-24 by the Province and Nova Scotia Health. The graphic below shows the total value of high value procurement contracts awarded per entity along with the amount awarded through the ALTP process. Management indicated that in some cases these contracts can span multiple years, and Government may have an option to terminate early.



Source: Unaudited data provided by Procurement, September 4, 2024

\$291 million in alternative procurement awarded at Nova Scotia Health in 2023-24

- 1.79 For Nova Scotia Health, alternative procurement represents a significant portion of high value procurement awards. Nova Scotia Health has procured millions in goods and services such as construction and professional services without a competitive process.
- 1.80 In 2023-24, \$291 million (2022-23 – \$289 million) in goods, services and construction that Nova Scotia Health procured was through alternative procurement. It should be noted that the procurement values in the above graph include significant multi-year contracts for which the total contract value is included in the year of the contract award. Additionally, the information above is only related to high value procurement conducted through Service Nova Scotia, it does not include certain procurement types which are not conducted through Service Nova Scotia, for example low value procurement.
- 1.81 The two most frequently used alternative procurement circumstances by Nova Scotia Health are sole source and compatibility. The Province’s guidance indicates that sole source should only be used when there is only one vendor that can meet the requirements. For compatibility, the guidance states that the compatibility ALTP circumstance should not be used if another vendor could do the work or offer the same outcome.



Source: Unaudited data provided by Procurement, September 4, 2024

- 1.82 The major ALTP contracts listed on the portal in the last five years are healthcare-related:

| Fiscal Year Awarded | Entity | Vendor | Description | Maximum Award Value* | Circumstance |
|---------------------|-----------------------------------|----------------|---|----------------------|-----------------------|
| 2023-24 | Nova Scotia Health | Varian | Medical diagnostic imaging and nuclear medicine products | \$152 million | Sole Source |
| 2021-22 | Department of Health and Wellness | Medavie | Provision of Medical Services Insurance | \$109.6 million | Compatibility |
| 2022-23 | Public Service Commission | Medavie | Health insurance and retirement services for NS Public Servants | \$100 million | Additional Deliveries |
| 2022-23 | Nova Scotia Health | Think Research | YourHealthNS app and Virtual Urgent Care | \$49.6 million | Sole Source |

* In some instances, the maximum award value may be related to multi-year contracts

Province's Procurement Portal missing millions of dollars in procurement disclosure

1.83 During our analysis, we identified several transactions which did not go through the standard procurement process that were either missing from the data provided by Service Nova Scotia or not publicly disclosed on the portal; below are three examples. Some of the ALTP awards identified as not being publicly disclosed have been posted to the portal subsequent to our office flagging them as missing.

| Fiscal Year Awarded | Entity | Vendor | Description | Maximum Award Value* | Circumstance |
|---------------------|--------------------|----------------|---|----------------------|--|
| 2023-24 | Nova Scotia Health | Shannex | Five-year agreement to operate the transitional care facility in West Bedford | \$67.5 million | Sole Source |
| 2022-23 | Nova Scotia Health | Think Research | YourHealthNS and Virtual Urgent Care | \$49.6 million | Sole Source |
| 2020-21 | Nova Scotia Health | Ernst & Young | Master services agreement for consulting | \$24.8 million | None provided, as no ALTP form created |

* In some instances, the maximum award value may be related to multi-year contracts

1.84 The Department of Service Nova Scotia and Nova Scotia Health indicated they are using the health and social services exemption under the Canada Free Trade Agreement to support the award of millions of dollars in health contracts without a competitive process. However, at the time of our March 31, 2024 audit there was no specific exemption for health and social services under the Province's Sustainable Procurement Policy.

1.85 In 2021, the Department of Health and Wellness signed a \$864 million ALTP contract with Emergency Medical Care Inc. This contract remained undisclosed until our Ground Ambulance performance audit. We continue to have concerns about the transparency and completeness of ALTP data managed by the Procurement Group, as significant deficiencies in the procurement

process remain. These deficiencies are detailed in Appendix II.

Significant deficiencies related to procurement unaddressed since 2018-19, and new deficiencies for Alternative Procurement added in 2023-24

- 1.86 While there may be valid reasons for using alternative procurement, this practice can carry certain risks, including increased vendor reliance, reduced transparency, potential misuse, and diminished value for money. Strong controls are required to mitigate these risks.
- 1.87 Appendix II details the significant deficiencies we identified relating to the use of alternative procurement at the Province and Nova Scotia Health, as well as the other remaining procurement-related deficiencies. One key deficiency remaining relates to the ongoing lack of documentation around internal controls and procedures. Despite our previous efforts to bring this matter to the attention of the Procurement Group, the issue remains unaddressed since 2018-19. It is critical that the Province address these deficiencies, especially given the use of ALTP. These deficiencies point to a need for stronger oversight, more accountability, better documentation, and more rigorous enforcement of procurement rules.
- 1.88 Within our Transitional Care Facilities performance audit in February 2024, we indicated addressing the issues in the healthcare system should not promote a culture where expediency takes precedence over appropriate due diligence. The growing use of alternative procurement combined with insufficient scrutiny of ALTP circumstances and the use of undefined rationale to avoid a competitive process raises concerns about transparency and accountability over Provincial spending. We are currently assessing these matters as part of a broader performance audit engagement on Alternative Procurement and Management of Selected Health Contracts that will be released in 2025.

Health Spending

Province incurred \$7.5 billion in health-related spending and capital asset acquisitions in 2023-24

- 1.89 There are six entities that together reported \$7.1 billion in healthcare operational expenses during 2023-24. Additionally, \$457 million was also spent on health-related capital assets during that same period, bringing the total spending to \$7.5 billion.

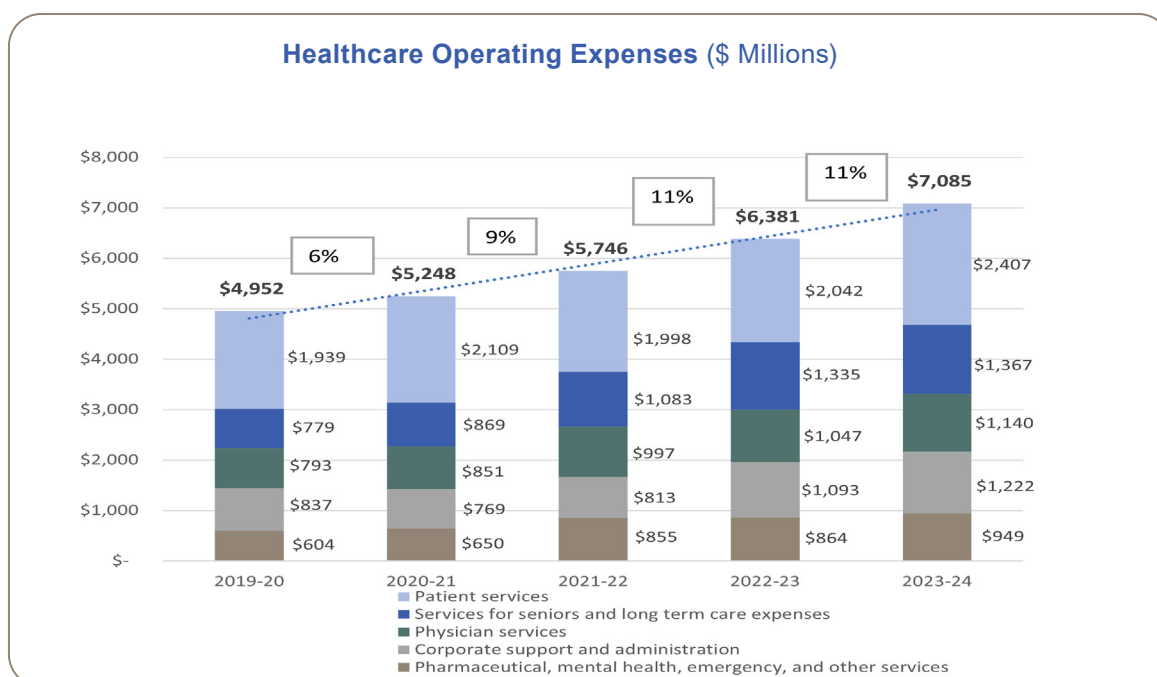
| 2023-24 Health-Related Spending in Six Entities | | | |
|---|---------|---------|---|
| Department/Entity (\$ Millions) | 2022-23 | 2023-24 | Comments |
| Nova Scotia Health | \$3,128 | \$3,617 | Nova Scotia Health provides health services through the operation of hospitals, health centres and community-based programs across Nova Scotia. |
| Department of Health and Wellness | \$1,640 | \$1,782 | The Department of Health and Wellness provides leadership to the provincial health system as a whole. |
| Department of Seniors and Long-term Care | \$1,242 | \$1,266 | The Department of Seniors and Long-term Care supports the social and economic wellbeing of older adults and oversees long-term care facilities and homecare agencies throughout the province. |

| 2023-24 Health-Related Spending in Six Entities | | | |
|---|----------------|----------------|---|
| Department/Entity (\$ Millions) | 2022-23 | 2023-24 | Comments |
| Izaak Walton Killam Health Centre | \$345 | \$390 | 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. |
| Office of Addictions and Mental Health | \$22 | \$25 | Health-related funding to the Office of Addictions and Mental Health provides mental health and addictions education, prevention, treatment, and recovery programs throughout the province. |
| Office of Healthcare Professionals Recruitment | \$4 | \$5 | The Office of Healthcare Professionals Recruitment is mandated to support the environment for recruitment and retention of healthcare professionals in Nova Scotia. |
| Total Healthcare Operating Spending | \$6,381 | \$7,085 | |
| Health-related Capital Asset Acquisitions | \$335 | \$457 | |
| Total | \$6,716 | \$7,542 | |

Source: 2022-23 Public Accounts and 2023-24 Public Accounts

Health-related operational spending increased \$2.13 billion over five years

- 1.90 Since 2019-20, annual healthcare operating spending has increased by \$2.13 billion. Year-over-year growth remains consistent at 11 per cent for the past two years.
- 1.91 The following chart provides insight into healthcare operating spending by type of service for the last five years based on information from the Province’s financial accounting system and the Public Accounts.



Source: Breakdown of funding obtained from the Province’s financial accounting system and Nova Scotia Health analysis

- 1.92 The majority of the current year-over-year growth is attributable to patient services, which increased by \$365 million (18 per cent) mainly due to increases at Nova Scotia Health of:
- \$88 million in increased travel nurse costs
 - \$103 million on increased payroll-related costs for full-time equivalent (FTE) growth
 - \$138 million in collective bargaining agreement wage increases.
- 1.93 The majority of expenses for 2023-24, \$2.4 billion (34 per cent) of the \$7.1 billion of operational healthcare spend, is to fund patient-related services at 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.
- 1.94 The Province spent \$1.4 billion (19 per cent) of healthcare spending for 2023-24 on services such as adult protection, home care, facility-based care, and other program supports for individuals under the Department of Seniors and Long-term Care's mandate.
- 1.95 Physician services amounted to \$1.1 billion (16 per cent) of healthcare related expenditures for 2023-24. 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.
- 1.96 The remaining \$2.2 billion (31 per cent) of 2023-24 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.

In 2023-24, \$278 million was spent on Health Transformation initiatives

- 1.97 The Province spent \$278 million (4 per cent) of total healthcare spending for 2023-24 on Health Transformation initiatives.

| Health Transformation Spending by Department/Entity | | |
|---|---------------|----------------|
| Department/Entity (\$ Millions) | 2022-23 | 2023-24 |
| Nova Scotia Health | \$41.3 | \$204.8 |
| Department of Health and Wellness | \$0.1 | \$54.8 |
| Izaak Walton Killam Health Centre | \$0.9 | \$6.5 |
| Office of Addictions and Mental Health | \$0.2 | \$12 |
| Total | \$42.5 | \$278.1 |

Source: Department of Health and Wellness

- 1.98 The Health Transformation Office established in 2022-23 supports the Provincial Government's investment in healthcare by implementing the priority initiatives outlined in the Action for Health Plan. Action for Health is the strategic plan set forward by the Government to invest in people, tools, technology, and infrastructure to provide solutions for better healthcare for Nova Scotians over both the short and long term.

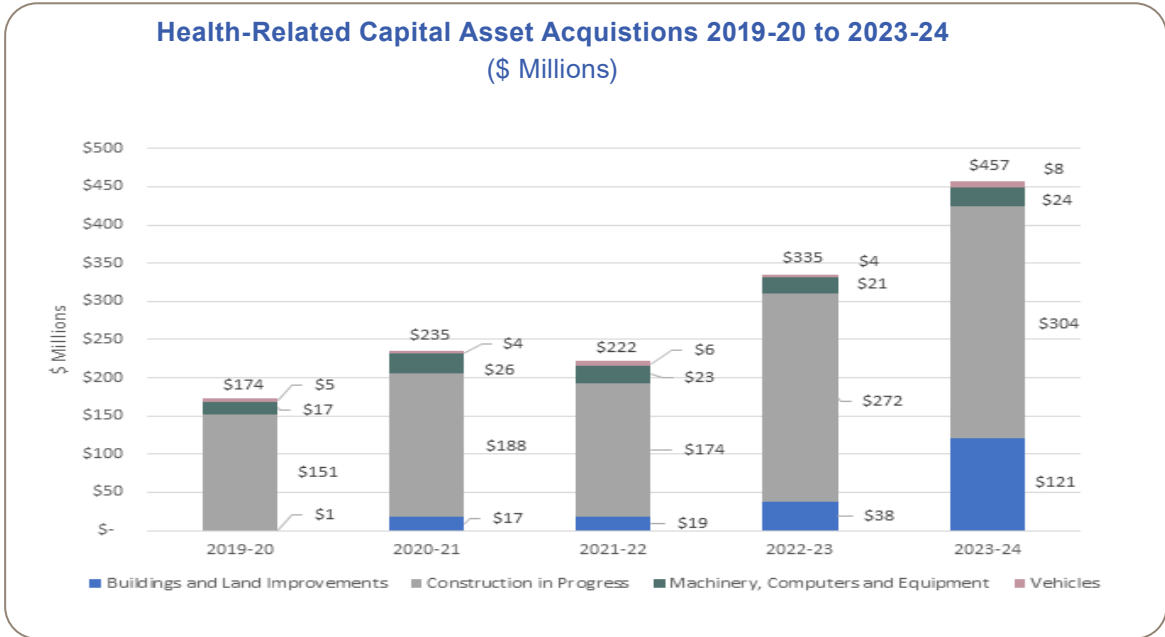
1.99 Investments include Digital Front Door, Internationally Educated Nurses, Virtual Care Support, the YourHealthNS app, and other programs. Prior to the establishment of the Health Transformation Office in 2022-23, expenditures for these programs would have been included in other categories, primarily corporate support and administration. The table below provides information on some of the initiatives coming from these investments.

| Health Transformation Initiatives (\$ Millions) | | |
|--|--|---------|
| Initiative | Explanation of Initiative | 2023-24 |
| Surgical Access & Quality Improvement Strategy | A multi-year strategy to improve access and care that will clear COVID-19 related backlogs, increase surgical and endoscopy volumes, decrease wait lists, and deliver care within wait time targets. | \$30.6 |
| Professional Services Health Transformation Office | Includes project management, change management, capability building, and other professional services for marketing and communication research. | \$14.9 |
| Care Coordination Centre (C3) | C3 improves the movement of patients throughout their healthcare journey. | \$13.4 |
| Think Research Innovations & Solutions for NS | Enables access to the right care at the right time for Nova Scotians by creating a patient navigation and chat tool for the YourHealthNS app and providing access to urgent virtual care. | \$11.6 |
| SPRINT: India & Philippines Partnership | A collaborative relationship will be established with Colleges of Nursing in India and Philippines to enhance access to skilled nurses in the province. | \$10.7 |
| SPRINT: International Professionals | A comprehensive program for the recruitment and retention of internationally educated and trained health professionals. | \$10.4 |
| Nursing Workforce Initiatives | Nursing-focused activities such as Registered Nurse Prescribing, Mentorship, Simulation Learning, Just in Time supports and Transition to Practice programs to support the workforce. | \$9.9 |
| Diagnostic Imaging (DI) Access and Quality Management System (QMS) | Implementing an electronic requisition system and stabilizing operations to meet evolving patient needs into the future. Providing the foundation for process and quality improvement. | \$8.4 |
| Patient Engagement App | Provide Nova Scotians with access to information about health services, access to health services and their personal health information from one platform. | \$6.4 |

Source: Department of Health and Wellness

In 2023-24, \$457 million was spent on health-related capital assets

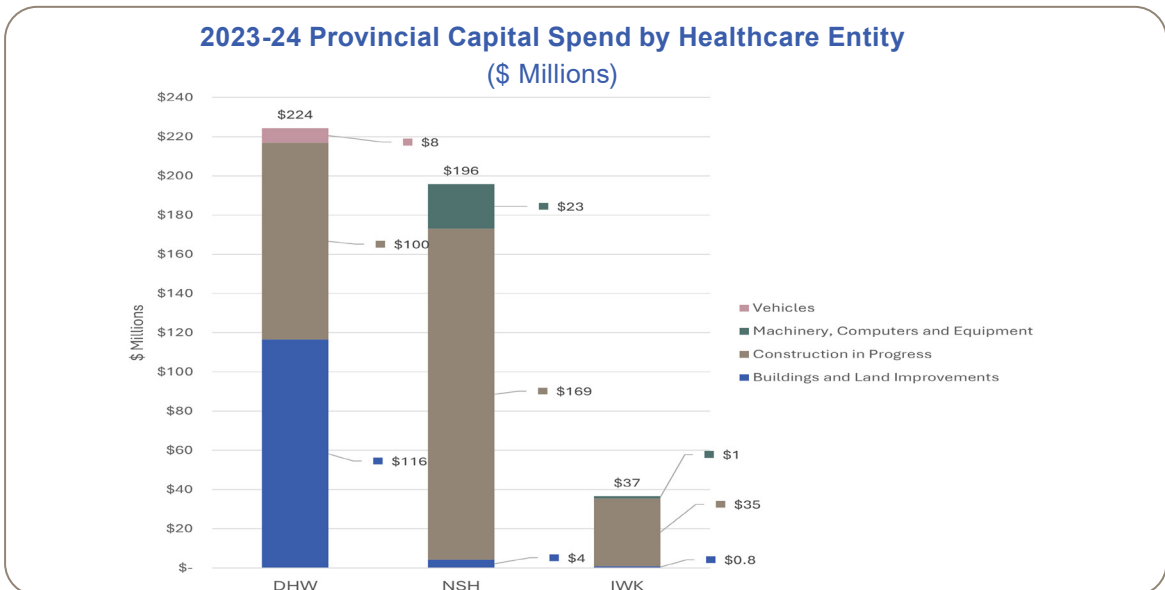
1.100 The Province spent a total of \$457 million in health-related capital asset acquisitions in 2023-24 as detailed in the chart below.



Source: Breakdown 2019-2020 to 2023-24 from Province's financial accounting system NS Health consolidated financial statements; IWK financial statements

- 1.101 Over the past five years, health-related asset acquisitions have increased by \$283 million or 163 per cent, with the most significant increase of \$153 million attributable to construction in progress.
- 1.102 In 2023-24, health-related asset acquisitions mainly consisted of ongoing construction, and building and land improvements. These acquisitions include the infrastructure redevelopment projects at Cape Breton Regional Hospital; investments to support the QEII New Generation; as well as construction, repair and renewal of other hospitals and medical facilities.

Majority of health-related Provincial capital spend in 2023-24 by Department of Health and Wellness



Source: 2023-24 Public Accounts, Audited Financial Statements of 2023-24 for Nova Scotia Health and IWK Health Centre

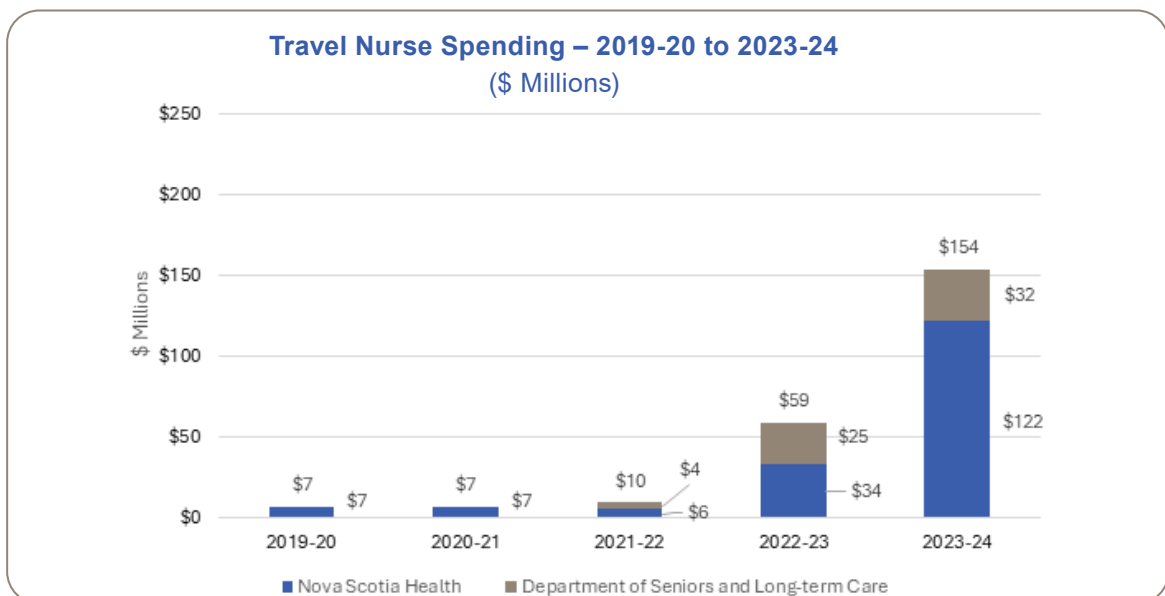
- 1.103 Newly acquired tangible capital assets for the Department of Health and Wellness totaled \$224 million in 2023-24. The majority of these additions, \$116 million or more than 50 per cent, is attributable to buildings and land improvements including:
- \$94 million of spending was related to the Halifax Infirmity Expansion Project;
 - \$10 million for the Bayers Lake Community Outpatient Centre construction;
 - \$6 million for the Transitional Care Facility in Bedford; and
 - \$3 million in initial planning and site work for the Transitional Care Facility in Bayers Lake (subsequently cancelled).
- 1.104 Nova Scotia Health spending on additions to tangible capital assets totaled \$196 million in 2023-24. The majority of these additions, \$169 million or 86 per cent, related to construction in progress. Two main components of the construction in progress additions are the South Shore Regional Hospital redevelopment project (\$39 million) and One Person One Record (\$35 million). A smaller portion of capital additions, \$23 million, was spent on machinery, computers, and equipment, to purchase items such as imaging equipment and patient monitors.
- 1.105 The Izaak Walton Killam Health Centre spent \$37 million on capital additions in 2023-24. The majority of spending, \$35 million or 95 per cent, was attributable to construction in progress. This is mostly for the construction of the new children's health emergency department which began in fiscal 2022-23. Machinery, computers, and equipment made up \$1 million of additions including for the purchase of a specimen radiology system, pharmacy server upgrade, and various other medical and laboratory equipment.

Travel nursing costs increased by \$95 million in 2023-24 to \$154 million

- 1.106 A travel nurse is a nurse who works in Nova Scotia under a contract with a staffing agency, travel nurse agency or organization that supplies nurses on a contract basis.
- 1.107 Many provinces used significantly more travel nurses during the COVID-19 pandemic as a solution to severe staffing issues. Nova Scotia saw a significant increase in the need for travel nurses in 2022-23 which may have been the result of several factors such as:
- Burnout is resulting in nurses leaving the profession or retiring early;
 - Nurses experiencing increased injuries who are unable to work; and
 - Many Nova Scotia residents have no family doctor and must visit the emergency room to receive medical treatment which increases the demand for nurses.
- 1.108 Nova Scotia has relied on travel nurses to fill vacancies while it awaits the hiring and training of more nurses. While they have been critical to maintaining the healthcare system, travel nurses have higher associated costs and do not have permanent contracts, leading to instability in staffing.
- 1.109 Travel nurses are costing, in some cases, double the hourly rate of full-time nurses working for Nova Scotia Health, IWK Health or a government-funded long-term care facility. Per the Nova

Scotia Council of Nurses Unions current collective agreement, the hourly wages of registered nurses in acute care are based on experience and their role but can range from \$40.55 to \$51.74, which does not include the cost of benefits associated with their employment. Travel nurses' hourly costs in comparison can range from \$56.50 to \$100 based on recent job postings for travel nurse positions in Nova Scotia.

- 1.110 In addition to higher hourly wages stated above, there are additional costs associated with travel nurses. Contracts with travel nurse agencies may include additional benefits such as health benefits, per diems, travel, and accommodations.
- 1.111 While the hourly rate for full-time nurses would not include all costs associated with their employment such as benefit costs including paid leave (vacation, sick leave), health benefits, and pension plan contributions, the difference in hourly costs is still significant.
- 1.112 The Province incurred a total of \$154 million in travel nurse spending in 2023-24 as detailed in the chart below.



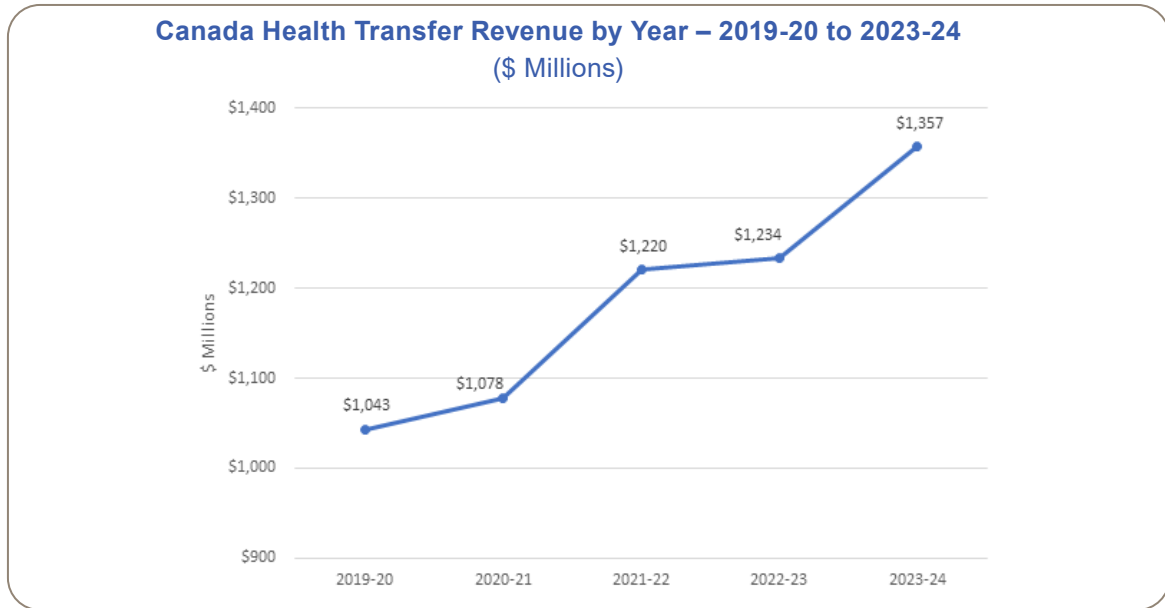
Source: Nova Scotia Health and Department of Seniors and Long-term Care

- 1.113 Over the past five years, travel nurse spending has increased by \$147 million, with the most significant increase in the past year, from 2022-23 to 2023-24. In addition, the Province provides funding to third-party organizations such as long-term care homes that may contract travel nurses. However, the Province does not track use of travel nurses at these organizations. As a result, Provincial funding of travel nurses may be higher than what has been reported in the graph above.
- 1.114 Other jurisdictions in Canada have also incurred significant travel nursing costs, and as a result Auditors General in certain provinces have planned or completed audits on these contracts.

Canada Health Transfer increased by \$123 million in 2023-24 to \$1.36 billion

- 1.115 The Canada Health Transfer (CHT) is the largest health-related transfer from the Federal Government 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.

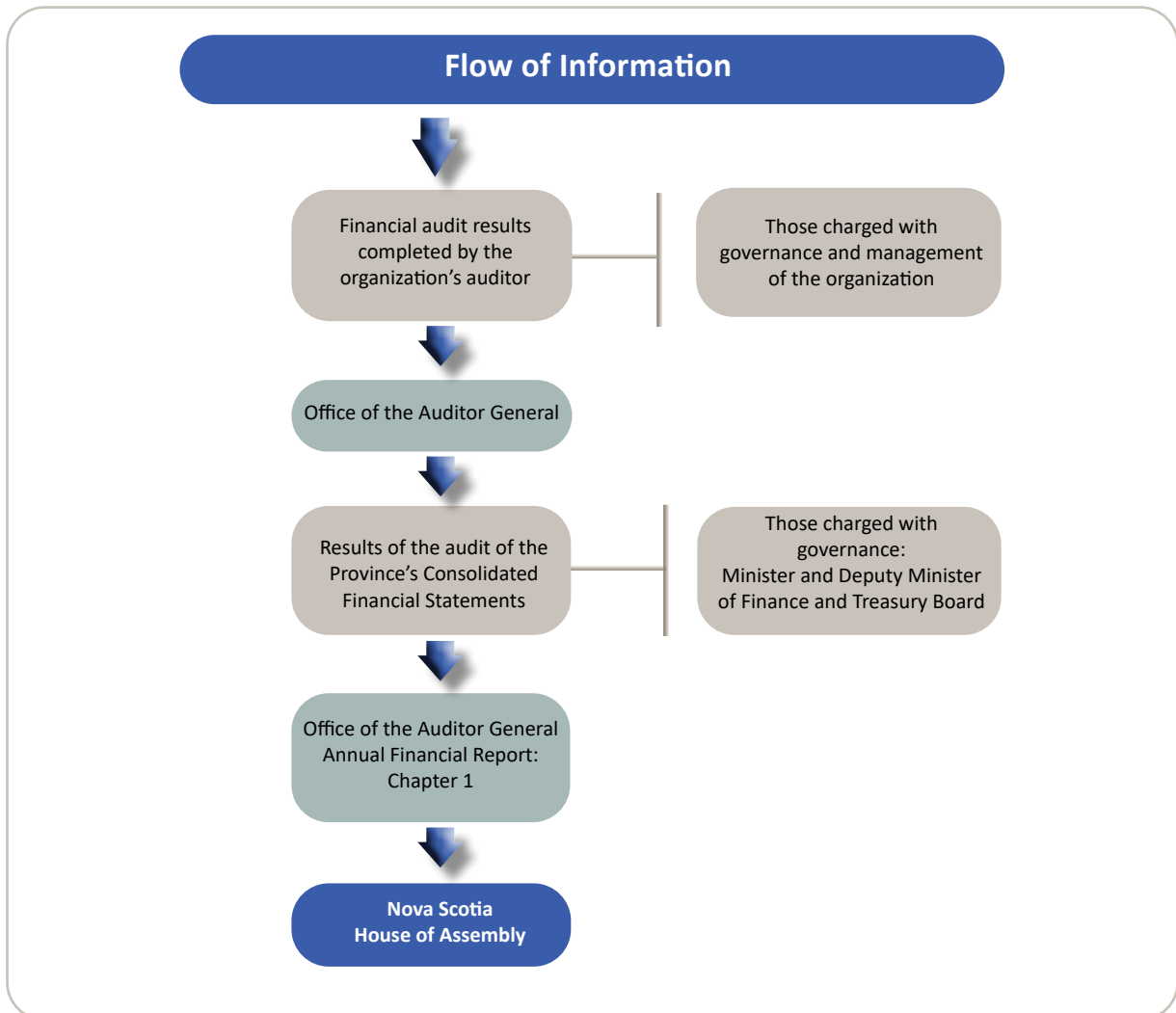
1.116 During 2023-24, the Province received CHT revenue of \$1.36 billion. This included the Province's share of a top-up payment of \$52 million from the Federal Government to assist provinces and territories with the immediate pressures on the healthcare system with a focus on pediatric hospitals, emergency rooms, and long wait times for surgeries. Over the past five years, the CHT has increased by \$314 million, with the largest growth between 2020-21 and 2021-22 (\$142 million). In 2023-24, CHT increased by \$123 million from the prior year, excluding prior year adjustments.



Source: 2019-20 to 2023-24 Public Accounts (Amounts do not include Prior Year Adjustments)

Reporting on Financial Audits

The results of the individual financial audits of government organizations are reported to their respective management teams and those charged with governance. The Office also uses this information to conduct the audit of the Province's Consolidated Financial Statements and in the Office's annual financial report to the House of Assembly.



Summary of Significant Control Weaknesses

| Department of Service Nova Scotia | | |
|---|--|-----------------|
| Significant Control Weakness | Potential Impact | Year Identified |
| 1. Need for improved implementation, monitoring, and reporting of internal control procedures for the payments process. | Internal controls may not be operating effectively on a regular basis; inappropriate or unauthorized purchases and/or payments may be made. | 2016-17 |
| 2. No formal, written policies or procedures exist for the review and processing of vendor master file changes. | Unauthorized or inappropriate changes may be made to the vendor master file; payments may be issued to inappropriate vendors. | 2019-20 |
| 3. Lack of detailed procedures, incorporating internal controls, for the procurement process. | Inappropriate or unauthorized purchases may be made. | 2018-19 |
| 4. Procurement technicians create and issue purchase orders after goods and/or services have been received. | Inappropriate or unauthorized purchases may be made; value-for-money may not be realized when purchasing goods and services. | 2018-19 |
| 5. The policy requirement, " <i>If a public sector entity anticipates making multiple purchases of the same requirement, the total value of all anticipated purchases must be used to determine the appropriate procurement process,</i> " is not being followed. | Inappropriate or unauthorized purchases may be made; value-for-money may not be realized when purchasing goods and services. | 2018-19 |
| 6. Insufficient scrutiny of alternative procurement (ALTP) requests against the Sustainable Procurement Policy and ALTP Circumstance guide. | There may be increased risk that regular procurement practices are being circumvented and, value for money is not being realized when purchasing goods, services and/or construction. | 2023-24 |
| 7. Procurement is not tracking alternative procurement requests which have been unsupported by the Department. | There is a risk that Departments and Government entities are circumventing procurement policies. This can lead to inappropriate or unauthorized purchases being made and value for money may not be realized when purchasing goods and services. | 2023-24 |

Management’s response (unaudited)

SNS is committed to addressing the Auditor General (OAG) recommendations to mitigate material risk. SNS is addressing the recommendations from 2016-2019 by updating the Public Procurement Policy (PPP) and the *Public Procurement Act* (PPA) to modernize procurement processes. SNS continues to update the Public Procurement manual and protocols and build comprehensive training modules.

The Procurement Control Excellence Program (CEP) includes a compliance framework, a supplier performance management program, and additional protocols to assist all public sector entities. The deliverables, toolkit, and training will roll out to all clients in 2025-26. On April 1, 2025, SAP S/4HANA will be implemented to help mitigate future risks with automated workflows.

SNS has updated the Alternative Procurement (ALTP) protocol to align with the recently updated PPP and PPA. These will streamline processes, enhance efficiency, transparency, and compliance with updated procurement policies and applicable trade agreements. The updated ALTP protocol will launch in 2025. SNS has already changed the ALTP process to track high value projects that do not qualify as an alternative procurement within Ariba and SAP.

SNS introduced the Purchase Order Policy in July 2023 and added the policy to the Management Manual 200. SNS conducts mandatory annual training for all budget managers in the Digital Signing Authority and employees involved in procurement processes. The new vendor management process has been fully implemented since December 2021 with the latest updates to the Vendor Management Policy added to the Management Manual 200 in November 2024. These policies help address OAG’s recommendations to mitigate the risk of inappropriate procurement.

| Nova Scotia Health | | |
|---|--|-----------------|
| Significant Control Weakness | Potential Impact | Year Identified |
| 1. Vendor Services Agreement is in violation of the <i>Public Procurement Act</i> and the Sustainable Procurement Policy. | The <i>Public Procurement Act</i> requires entities to publicly tender for goods and services, to post on the procurement web portal information on the successful bidder, and to abide by the acceptable alternative procurement exemptions. When this process is not followed there is an increased risk of value for money not being obtained for purchased goods and services. | 2023-24 |

Management’s response (unaudited)

Nova Scotia Health agrees with the recommendation to follow the *Public Procurement Act* and the Sustainable Procurement Policy as required. Nova Scotia Health has endeavored to collaborate with SNS-IS Procurement and comply with the procurement policy requirements as they relate to the procurement of advisory services. Nova Scotia Health will work closely with NS Government Procurement and the OAG in the upcoming fiscal year to improve and clarify policy and procedure.

Specific areas where Nova Scotia Health sees opportunity for improvement relevant to the observations are i) guidance on procurement protocol during a “State of Emergency”; ii) guidance on application of CFTA Article 504, 11.h.ii health and social services exemption; iii) development of policy compliant agile procurement methodology for the procurement of advisory services.

Listing of Alternative Procurement Circumstances

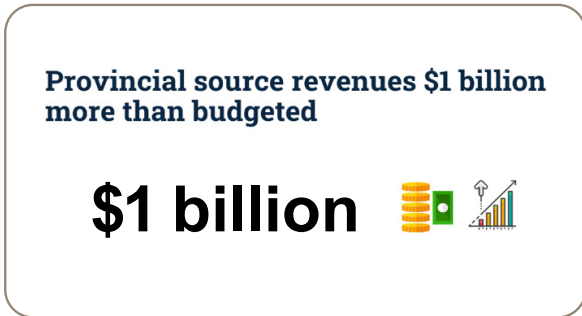
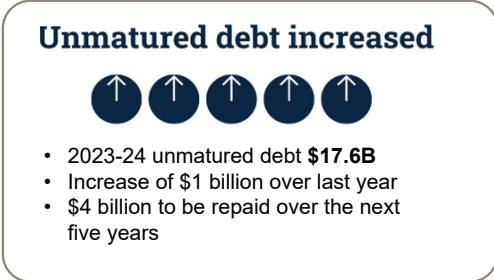
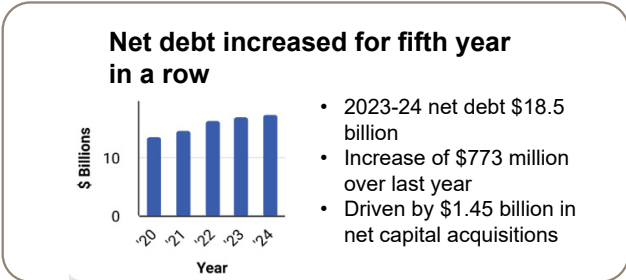
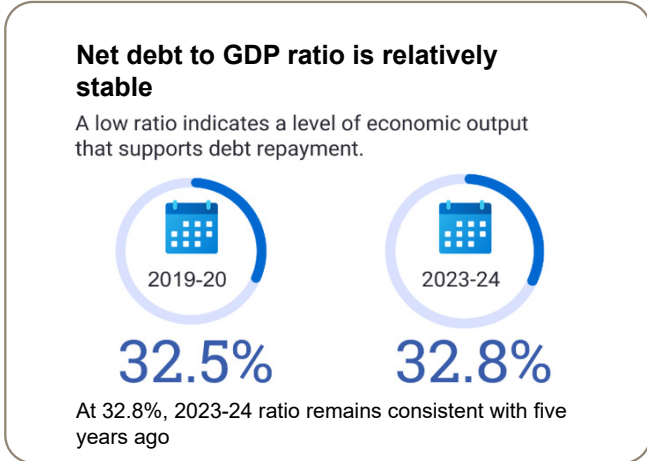
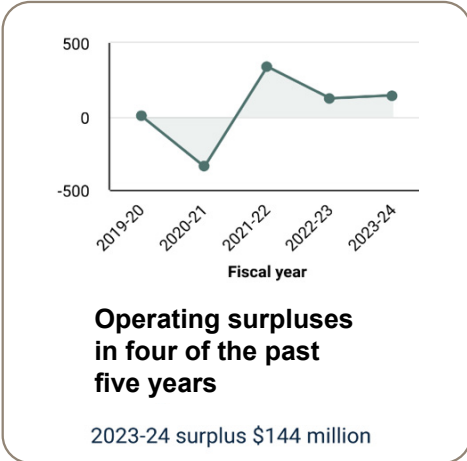
| Alternative Procurement Circumstances | |
|--|---|
| Circumstance | Examples of Applicability |
| Emergency | Bridge collapse, fuel spill, security breach, infrastructure malfunction, or to protect human lives |
| Confidentiality | Advice or goods of a privileged nature relative to sensitive information that could put the Province at risk |
| Compatibility | Original equipment manufacturer with no substitute or only this vendor can provide maintenance |
| Patents, Copyrights and Other Exclusive Rights | Original design work or one-of-a-kind goods/services |
| Sole Source | Total absence of market competition of the product or service |
| Monopoly | Nova Scotia Power, Canada Post, Heritage Gas |
| Commodity Market | Metals, Livestock, Agriculture |
| Leased Building | Renovation or maintenance provided by the landlord |
| Warranty | Equipment maintenance, repairs, or upgrades |
| Research | Fish analysis in river to determine if a new highway project can proceed based on results of local habitat analysis |
| Advantageous Circumstances | Car auction, land sale |
| Original Art | Art Gallery purchasing Maude Lewis' house and paintings |
| Design Content | NS Tourism - promotes campaign to bring visitors to NS by way of design contest to spark awareness about NS abroad and promote local talent |
| Subscriptions to Periodicals | Chronicle Herald, New York Times |
| Additional Deliveries | Additional service provided by current vendor to allow smooth transition time to a new RFP award |
| No Suppliers Satisfied the Conditions | No bids received or noncompliant, documented by Procurement |
| Financial Management Services | Bankruptcy, foreclosure, receivership |
| Goods for Resale | Clothing, promotional pins |
| Procurements Financed by Donations | QEII Foundation provides funds to NS Health for the purchase of a new piece of equipment |
| Payments to other Governments | Joint procurements, policing services |
| Equal Opportunities | Services from a social enterprise, community interest group |
| Ability to Maintain Security/Life/Health | Court ordered assessment, pandemic |
| Minority Business | Direct purchase of goods and services from Indigenous vendors |

Source: Procurement Division of Service Nova Scotia

Chapter 2

Nova Scotia's Finances from the 2024 Public Accounts

Financial Condition of the Province of Nova Scotia



- Unbudgeted revenues in 2023-24 of \$1 billion largely offset by increased in spending of \$912M, leaving a small surplus of \$144 million.
- Spending on capital asset additions had the largest impact to the increase net debt; most of which is financed through unmatrued debt.
- With the increase in unmatrued debt, the Province will be using funds in the future for debt repayment and interest costs that cannot be used for other priorities.

Questions Nova Scotians May Want to Ask

1. Why is our unmatured debt growing given \$1 billion in unbudgeted revenue in 2023-24?
2. What do the increases to unmatured debt and interest costs mean to Nova Scotians?
3. Why is Nova Scotia's net debt to GDP ratio the second highest of the Atlantic Provinces, behind only Newfoundland?
4. What is the impact of an increased reliance on federal transfers?
5. What would be the impact to the Province's finances if the Bank of Canada were to begin raising interest rates again?

Reference Guide – Chapter 2: Nova Scotia's Finances from the 2024 Public Accounts

Financial Indicators – What They Show

2.2 Indicators are showing both favourable and unfavourable trends

Sustainability

2.5 The Province reported an annual operating surplus of \$143.6 million for 2023-24

2.7 The Province's net debt continues to increase and reached \$18.5 billion in 2023-24

2.11 Province's net debt to GDP ratio remains stable in 2023-24

2.14 Net debt to total revenue improved over the past five years

2.16 Province's unmatured debt increased by \$1 billion to \$17.6 billion in 2023-24

Flexibility

2.20 Interest on unmatured debt increased \$96 million in 2023-24

2.22 Provincial source revenue to GDP improved in 2023-24, but remains high compared to prior years

2.24 Debt servicing costs to total revenue increased in 2023-24 but is 2 percentage points lower than 2019-20

2.26 Debt servicing costs per capita increased in 2023-24

Vulnerability

2.29 Dependency on federal government transfers increased

Revenue Highlights

2.31 Provincial source revenue \$1 billion higher than budget

2.35 Personal income tax revenue higher than both the budget and prior year amounts

2.37 Harmonized sales tax revenue higher than both the budget and the prior year amounts

2.39 Corporate income tax revenue exceeds pre-pandemic levels

2.41 Net income from Government Business Enterprises increased

Definitions

Annual surplus/deficit: The amount by which revenues cover expenses. A surplus occurs when revenues are greater than expenses. A deficit occurs when expenses are greater than revenues.

Debt servicing costs: These expenses include interest on unmatured debt as well as the interest on other obligations such as pensions. It represents the amount of revenue that is needed to pay interest and thus not available to provide program initiatives, tax reductions or debt reductions.

Federal government equalization payments: Amounts received from the Government of Canada as part of the program for addressing fiscal disparities among provinces.

Government Business Enterprises (GBE): These are self-sustaining government organizations that have been delegated the financial and operating authority to carry on business activities by selling goods and services outside of the government reporting entity. Government business enterprises in Nova Scotia include the Nova Scotia Liquor Corporation, Nova Scotia Gaming Corporation (casino and lottery operations), Halifax-Dartmouth Bridge Commission, and Highway 104 Western Alignment Corporation.

Gross domestic product (GDP): The amount of value added from the production of all goods and services within the Province in a given year; one of the primary measures used to evaluate a province's economic condition.

Interest on unmatured debt: This is the cost associated with servicing past borrowing obligations, including debentures, capital leases and long-term debt under Public Private Partnership (P3) arrangements.

Net Debt: This represents the extent to which a government's total liabilities exceed total financial assets. It reflects the accumulation of annual deficits, surpluses and other adjustments. It represents the liabilities that must be funded by future revenues, including taxation, and remains an obligation for future generations to fund.

Net debt to GDP ratio: The net debt to GDP ratio is used to assess the Province's ability to pay its financial obligations and render services. It shows the relationship between a government's net debt and the activity in the economy. A stable net debt-to-GDP ratio indicates a government's overall fiscal policies are sustainable, to the extent that the rate of economic growth is the same as the growth in net debt.

Unmatured debt: The unmatured debt of the Province includes Canadian debentures, long-term debt obligations arising from Public Private Partnership (P3) arrangements, and capital leases.

2 Nova Scotia's Finances from the 2024 Public Accounts

Purpose

- 2.1 The purpose of this chapter is to inform Nova Scotians on the Province's finances and to promote discussion. Additional information, including economic highlights, is presented in the Financial Statement Discussion and Analysis section in Volume 1 of the 2024 Public Accounts of Nova Scotia where there are almost 50 pages of detailed analysis and explanation.

Financial Indicators – What They Show

Indicators are showing both favourable and unfavourable trends

- 2.2 The indicators reported in this chapter are meant to provide additional information on the Province's financial condition but are not intended as commentary on the financial impact of government policies or fiscal management. Indicators included are among those recommended for reporting by the Public Sector Accounting Board's Statement of Recommended Practice – 4: *Indicators of Financial Condition*.
- 2.3 The indicators provide an overview of the Province's financial performance for the five-year period ending March 31, 2024, and are summarized in the table below.

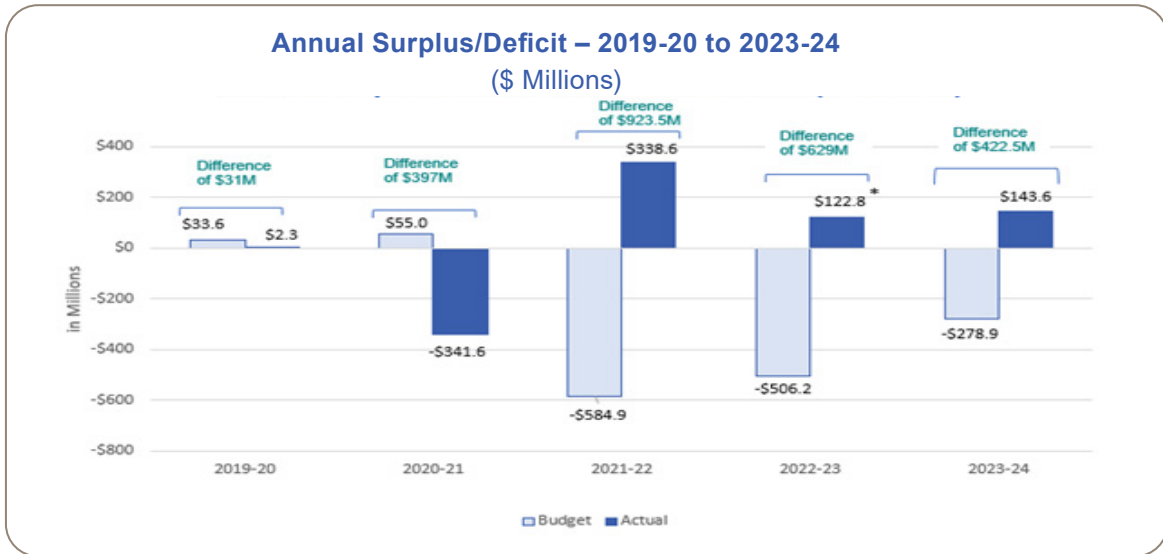
| Financial Highlights | |
|--------------------------------------|-----------------|
| Indicator | Five-Year Trend |
| Sustainability | |
| Annual surplus or deficit | Favourable |
| Net debt | Unfavourable |
| Net debt to GDP | Favourable |
| Net debt to total revenue | Favourable |
| Unmatured Debt | Unfavourable |
| Flexibility | |
| Interest on unmaturred debt | Unfavourable |
| Provincial source revenue to GDP | Unfavourable |
| Debt servicing cost to total revenue | Favourable |
| Debt servicing cost per capita | Unfavourable |
| Vulnerability | |
| Federal transfers to total revenue | Unfavourable |

Sustainability

- 2.4 Sustainability measures the ability of a government to maintain its existing programs and services, including its financial obligations to creditors, without increasing debt or tax rates.

The Province reported an annual operating surplus of \$143.6 million for 2023-24

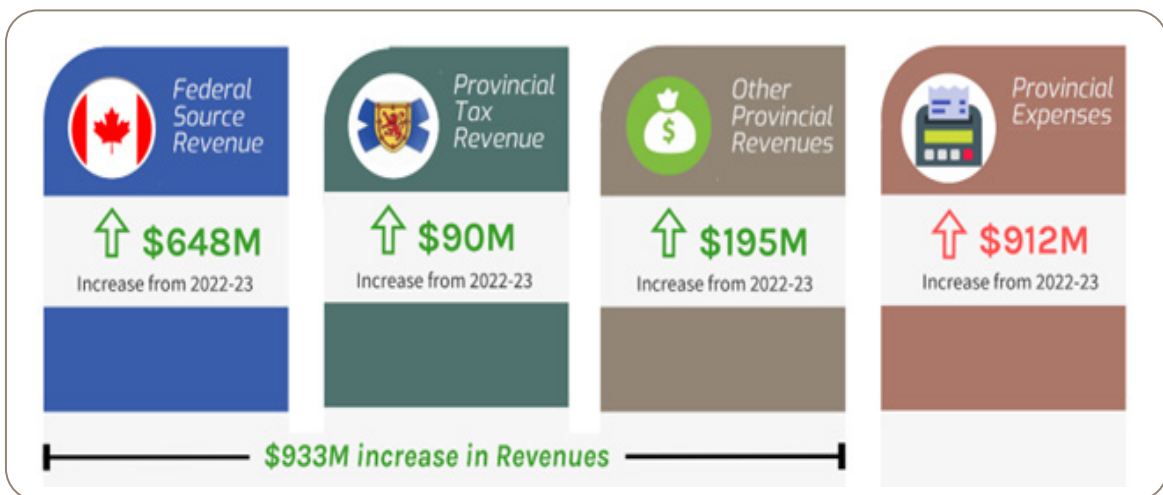
2.5 For the third year in a row, reported results in 2023-24 show improvement over the initial 2023-24 budget estimates. Additionally, the difference between budget to actual continues to decrease. The difference in 2023-24 was \$422.5 million as compared to \$629 million reported for 2022-23, and \$923.5 million reported for 2021-22.



Source: 2023-24 Public Accounts

*See Note 2 of the 2023-24 Consolidated Financial Statements: 2022-23 value was restated from \$115.7 M to \$122.8 M.

2.6 This year's audited financial statements reported a surplus of \$143.6 million which was approximately \$21 million higher than the prior year's restated surplus. The 2023-24 revenues were \$933 million higher than prior year and expenses were \$912 million higher.

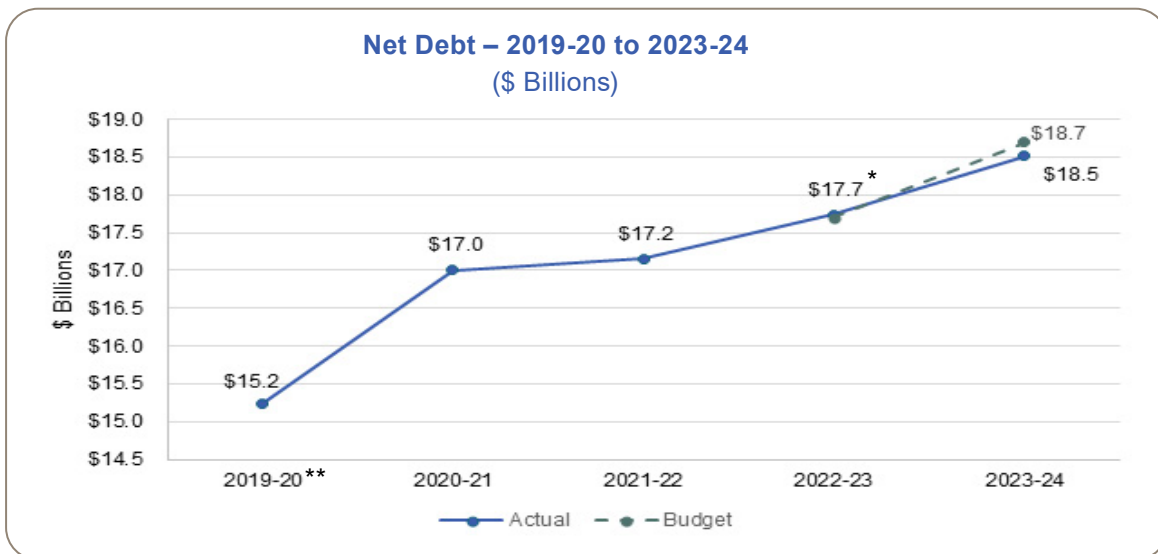


Source: 2023-24 Public Accounts

The Province's net debt continues to increase and reached \$18.5 billion in 2023-24

2.7 Nova Scotia's net debt continues to grow despite recent reported surpluses and was \$18.5 billion at the end of 2023-24. A trend of increased net debt weakens a government's financial position.

More of its future revenues will be needed to pay its past debts and could negatively impact the ability to provide the necessary level of services needed by its citizens without additional borrowing or increasing revenues. Results in 2023-24 show an increase of \$773 million in net debt over 2022-23, and a reduction of \$200 million from the forecasted amount reported by the Province with the 2024-25 budget.

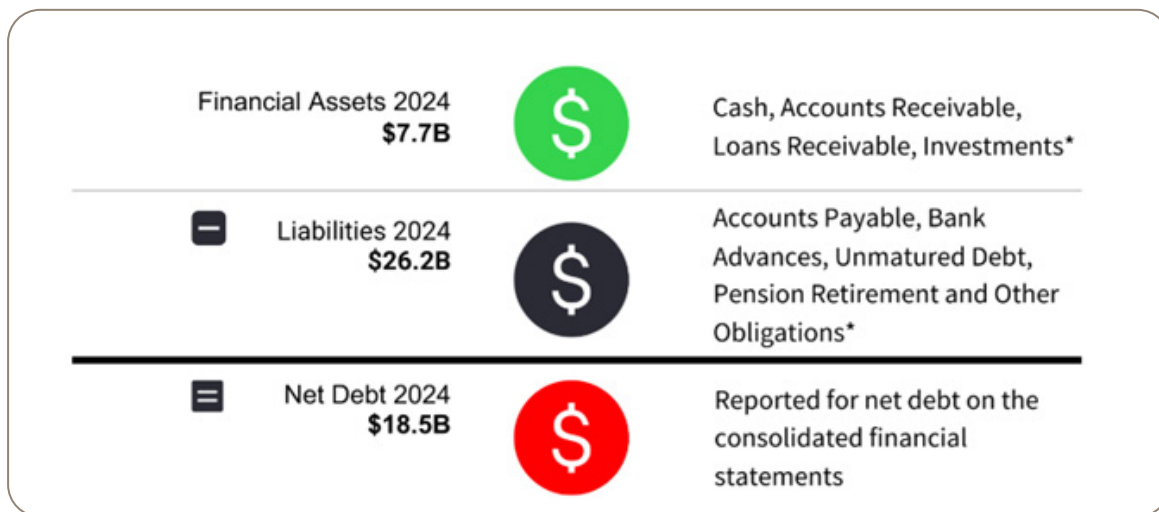


Source: 2023-24 Public Accounts, and 2023-24 Nova Scotia Budget

*See Note 2 of the 2023-24 Consolidated Financial Statements: 2022-23 value was restated from \$17.8 B to \$17.7 B.

** 2019-20 has not been restated for the impacts of PS 3280 Asset Retirement Obligations

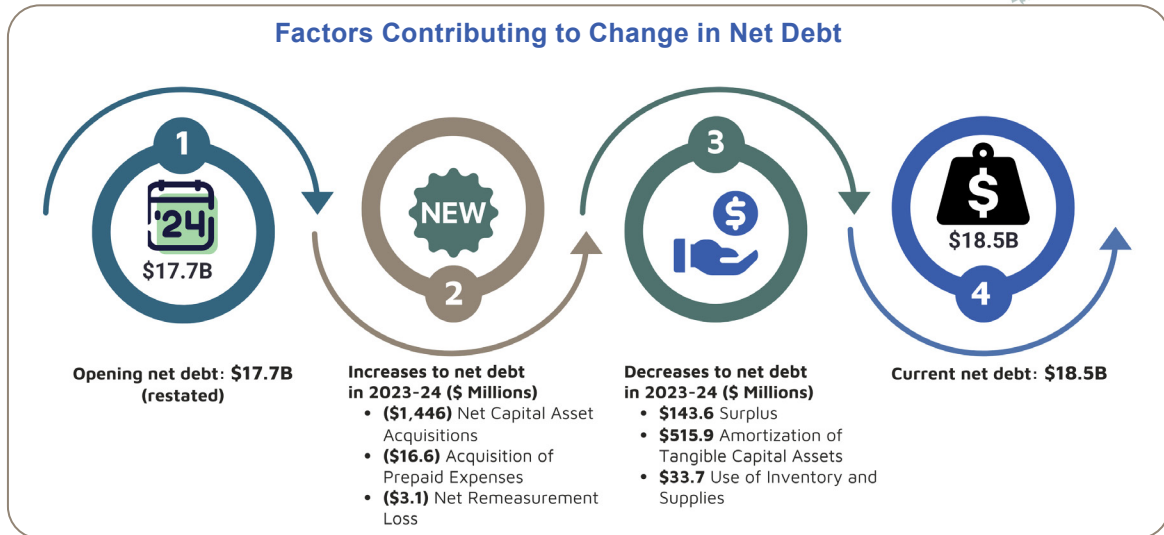
2.8 In 2023-24, Nova Scotia's \$26.2 billion in liabilities exceeded its financial assets of \$7.7 billion, resulting in \$18.5 billion reported for net debt on the consolidated financial statements.



Source: 2023-24 Public Accounts

*Refer to 2023-24 Public Accounts for full list of liabilities & financial assets.

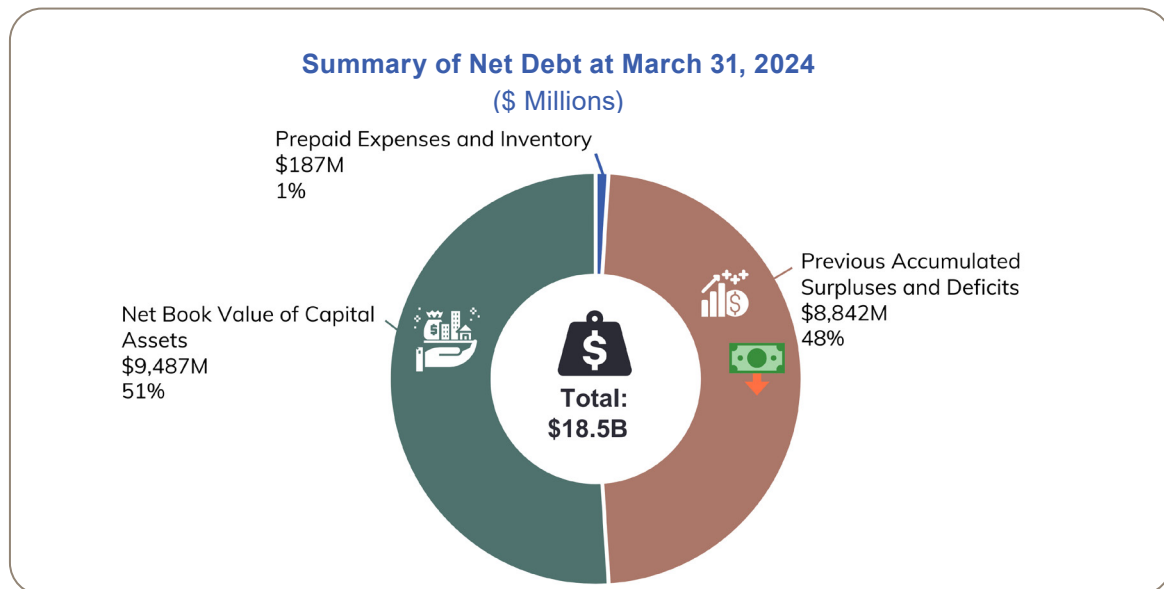
2.9 The following chart shows the factors contributing to the change in net debt from prior year. The largest contributing factor to the \$773 million increase in net debt was the capital asset net investments of \$930 million, which was offset slightly by the \$143.6 million surplus.



Source: 2023-24 Public Accounts

2.10 The chart below shows that tangible capital assets contribute to 51 per cent of the net debt. Each year, the tangible capital asset balance changes due to the additions, disposals and amortization. The most significant tangible capital assets are:

- Buildings and land improvements
- Roads, bridges and highways
- Land
- Machinery, computers and equipment



Source: 2023-24 Public Accounts

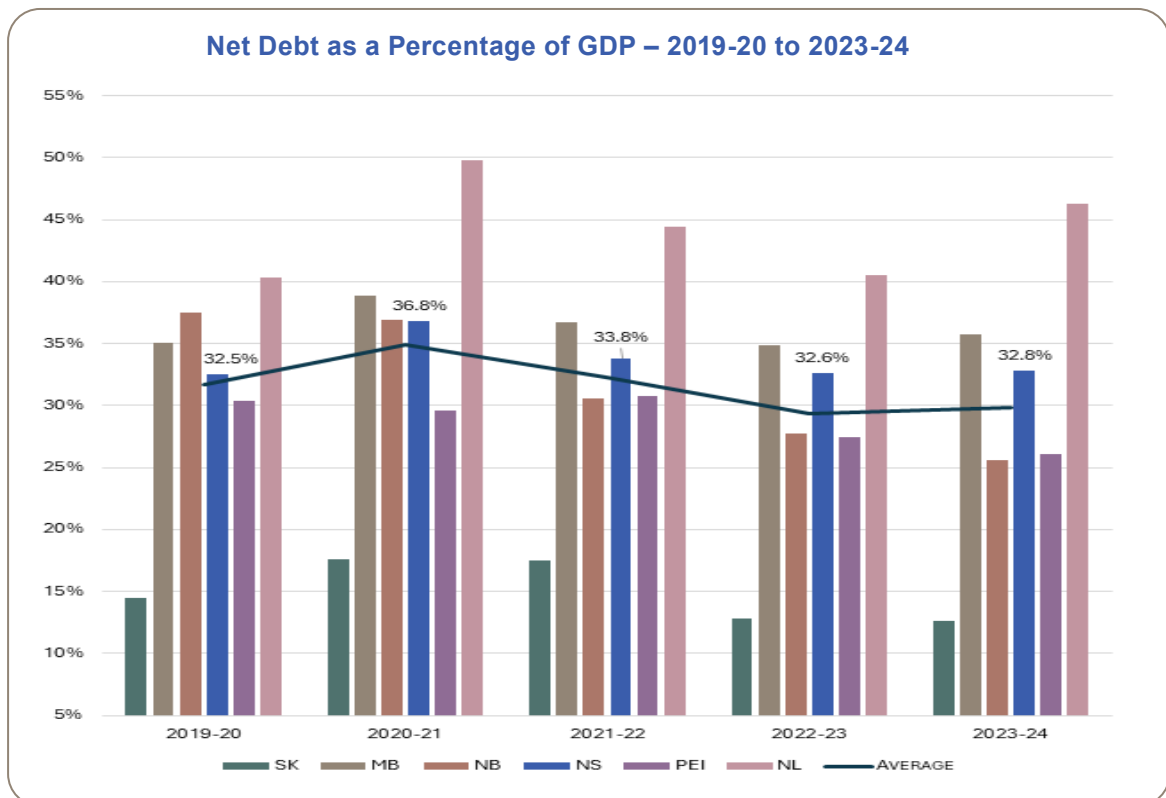
Province's net debt to GDP ratio remains stable in 2023-24

2.11 The net debt to GDP ratio is used to assess the Province's ability to pay its financial obligations and render services.

- A low ratio indicates a level of economic output that supports debt repayment.
- The higher the ratio, the more difficult it may be for the Province to pay its debt while maintaining the same service levels and tax rates.

2.12 Other than an outlier year during the COVID-19 impacts, Nova Scotia's net debt to GDP ratio has been relatively stable. It has slightly increased over 2022-23 but is still reporting a ratio consistent with Nova Scotia's economic environment before the pandemic.

2.13 The chart below shows Nova Scotia's net debt to GDP ratio against other Atlantic provinces as well as Saskatchewan and Manitoba, all of which were chosen for comparison due to either their geographic location or their similar population sizes. While the percentages are not strictly comparable between provinces due to accounting and reporting differences, Nova Scotia, similar to others, experienced a slight increase from 2022-23. Nova Scotia is still reporting a ratio above the average.



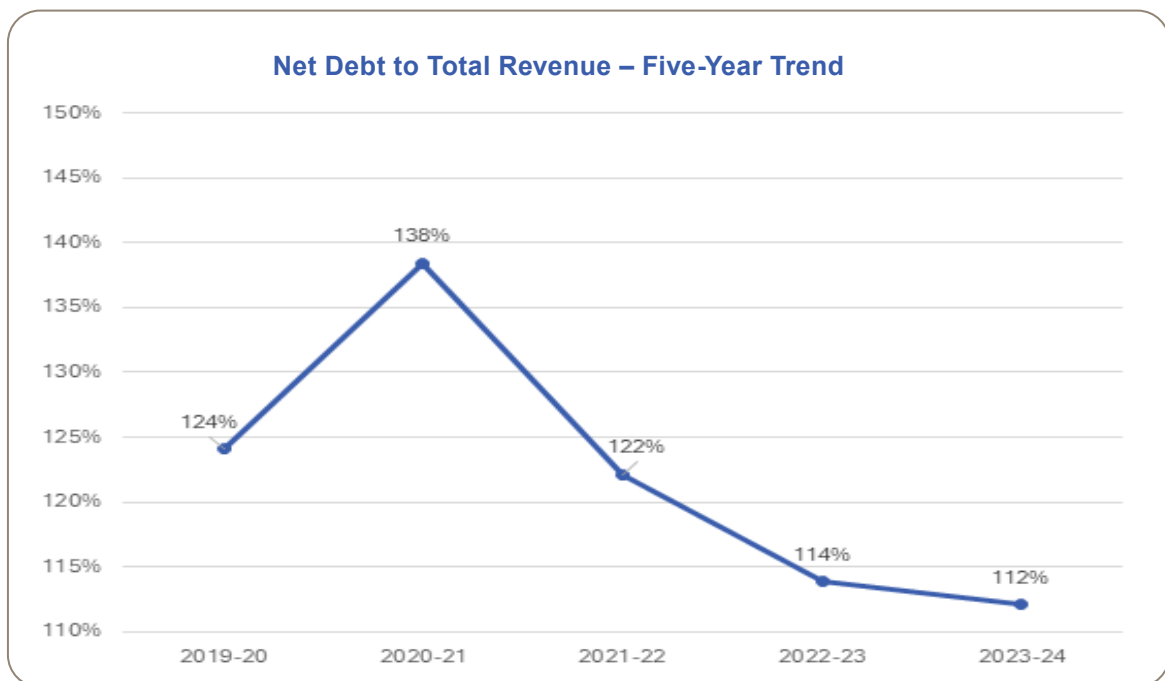
Source: 2023-24 Public Accounts of Saskatchewan, Manitoba, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador

Net debt to total revenue improved over the past five years

2.14 Net debt to total revenue provides a measure of the future revenue that is required to pay for past transactions and events.

- A decreasing net debt to total revenue ratio indicates higher sustainability, as less time may be required to repay debt.
- An increasing net debt to total revenue ratio indicates lower sustainability, as more time may be required to repay debt.

2.15 Net debt to total revenue improved in 2023-24, reaching a five-year low of 112 per cent in 2023-24.

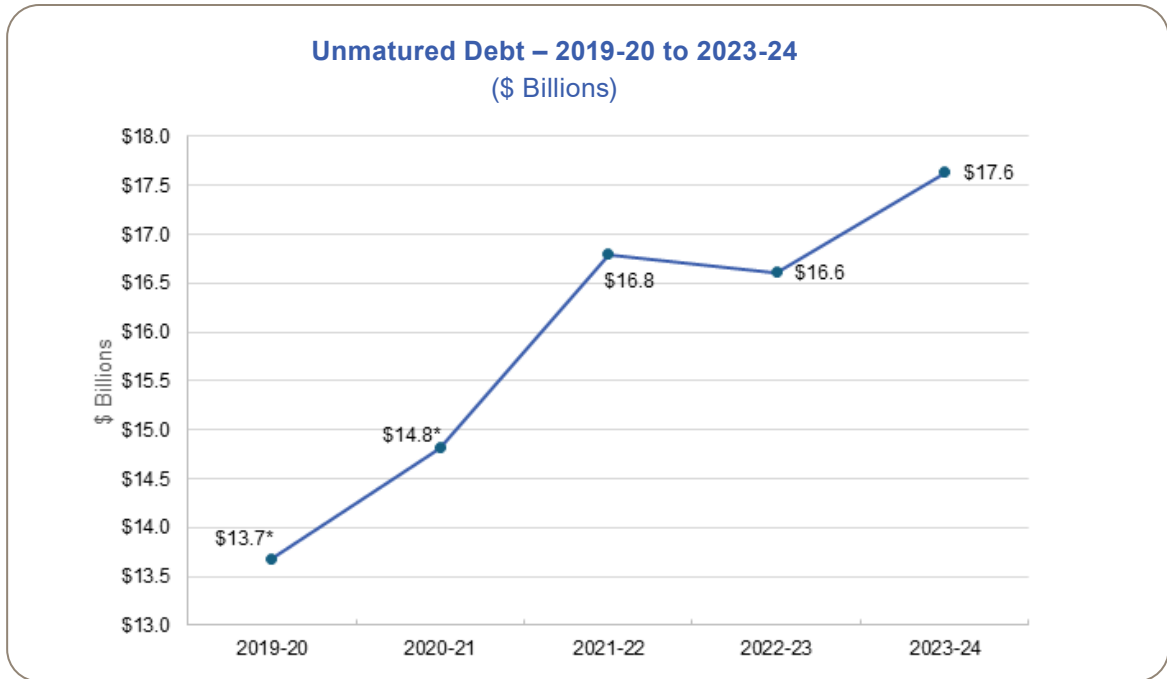


Source: 2023-24 Public Accounts

Province's unmatured debt increased by \$1 billion to \$17.6 billion in 2023-24

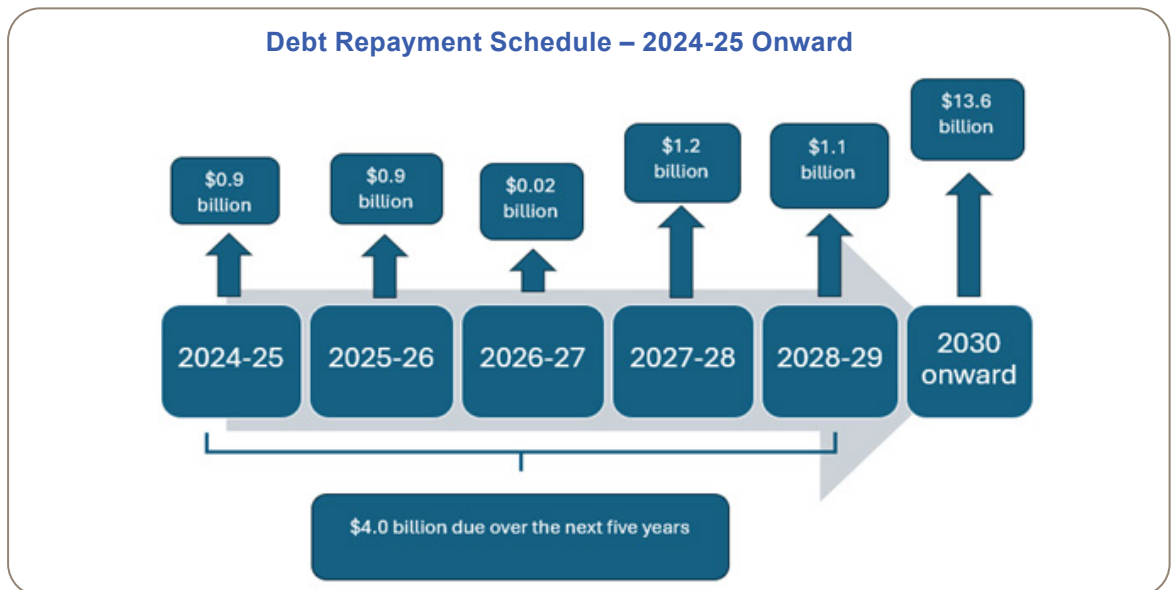
2.16 The Province's unmatured debt is primarily made up of long-term debentures and various loans. It includes new debt issuances and those from prior years.

2.17 Unmatured debt increased \$1 billion from \$16.6 billion in 2022-23 to \$17.6 billion in 2023-24 and has increased \$3.9 billion since 2019-20.



Source: 2023-24 Public Accounts
*2019-20 and 2020-21 have not been restated for the impacts of PS 3450 Financial Instruments

2.18 Future cash requirements to repay debt in the next five years and beyond are outlined in the chart below.



Source: 2023-24 Public Accounts

Flexibility

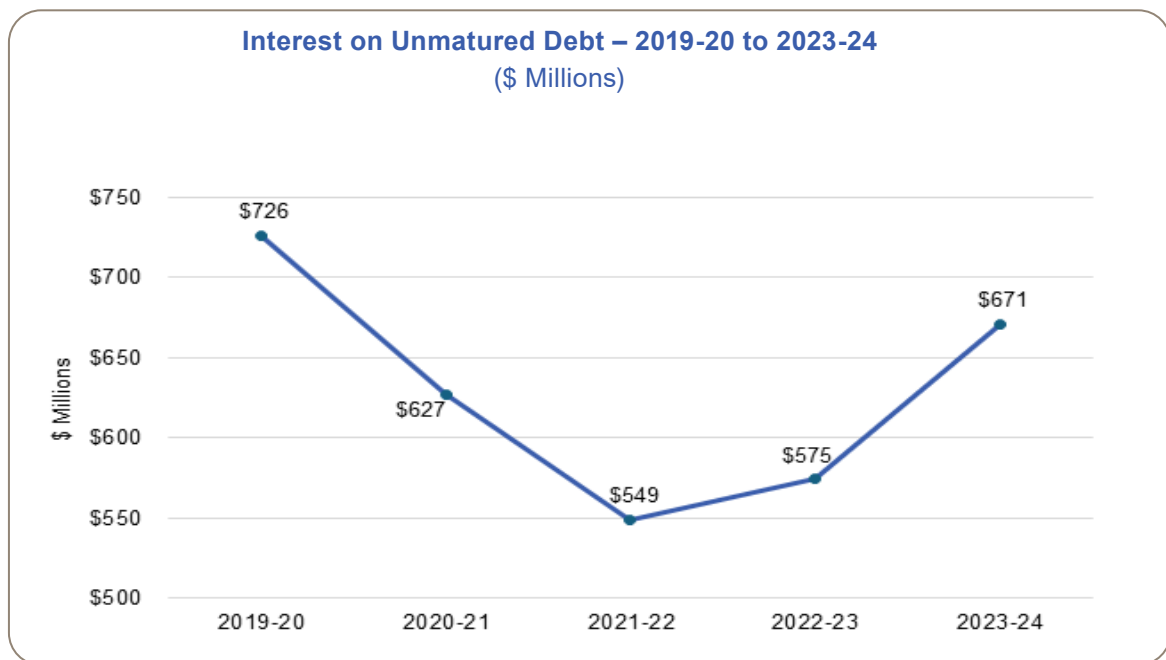
2.19 Flexibility is the degree to which a government can change its debt or tax burden on the economy to meet its existing financial obligations. Increasing debt obligations and interest costs reduce a government's future flexibility and its ability to respond to changing circumstances.

Interest on unmatured debt increased \$96 million in 2023-24

2.20 Interest on unmatured debt includes interest on outstanding debentures, loans, capital leases and other costs related to debt financing.

- Higher interest on unmatured debt means the Province is using more of its revenue to pay for interest and is therefore not able to use that money to provide services or reduce taxation.
- Lower interest on unmatured debt allows the Province greater flexibility to provide its services and meet financial commitments.

2.21 The interest on unmatured debt for 2023-24 was \$671 million; an increase of \$122 million from the five-year low of \$549 million in 2021-22.



Source: 2023-24 Public Accounts

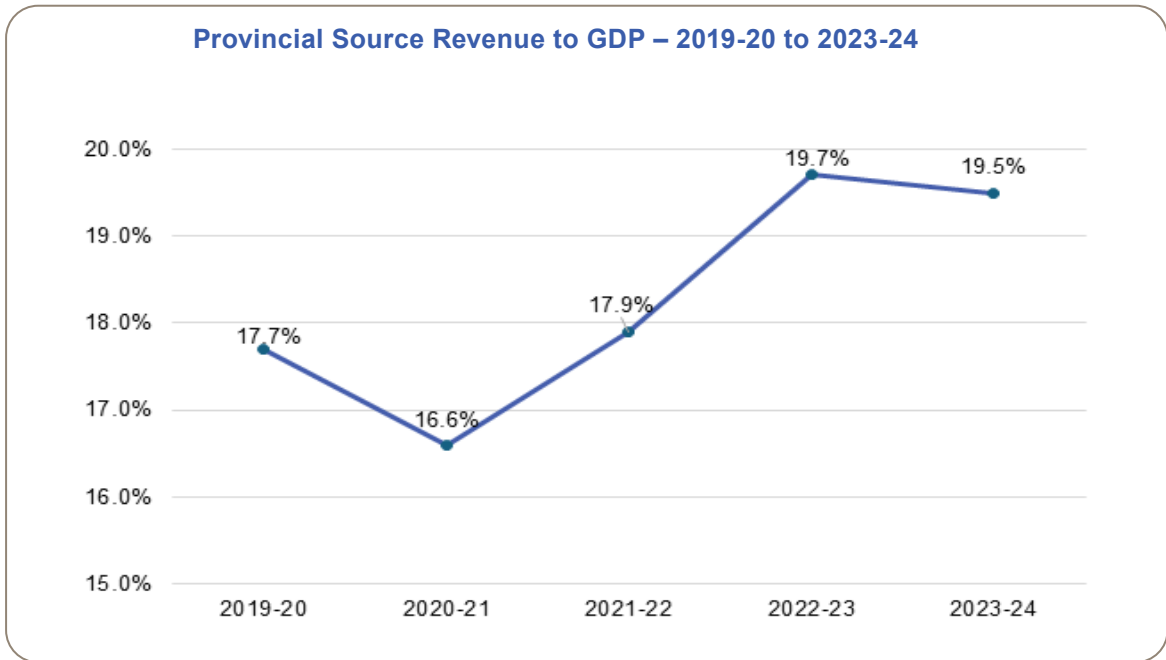
Provincial source revenue to GDP improved in 2023-24, but remains high compared to prior years

2.22 Provincial source revenue as a percentage of GDP shows the extent to which the government is leveraging funds from the provincial economy collected through taxation, user fees, and other revenue sources it controls. A high taxation burden may make a jurisdiction less competitive

and limit a government's ability to increase own-source revenues. This indicator can help a government determine the extent to which it can access provincial source revenues in the future.

- Increases in this ratio may reduce future flexibility in generating revenue.
- Decreases in this ratio may increase future flexibility in generating revenue.

2.23 The chart shows that the demands on the provincial economy have decreased from last year, however, at 19.5 per cent, the ratio is at the second highest level in the past five years.



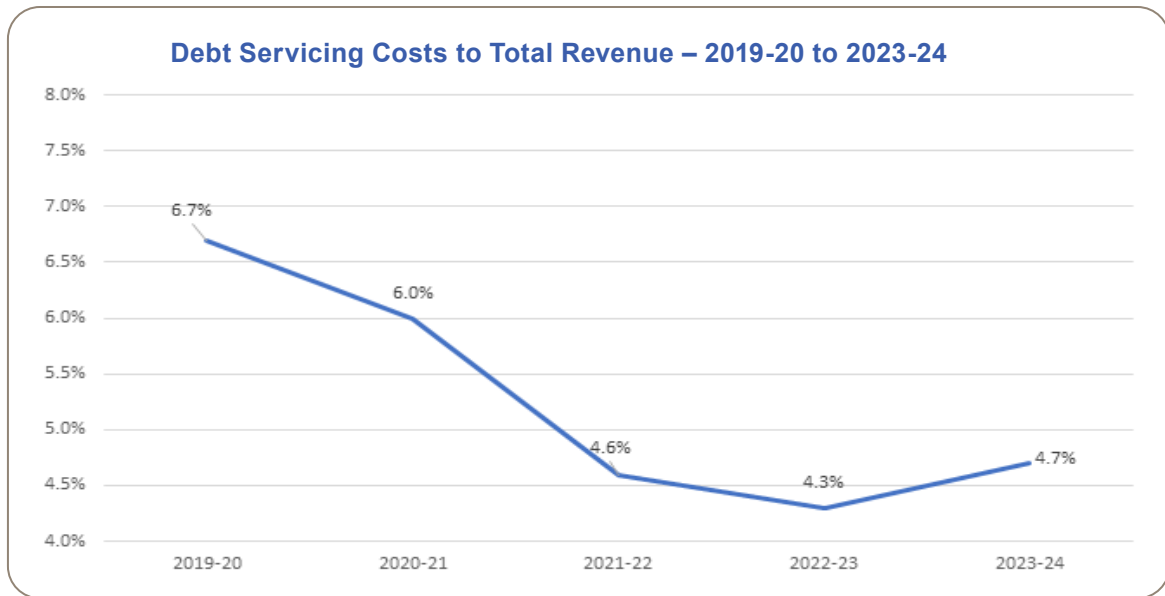
Source: 2023-24 Public Accounts

➡ Debt servicing costs to total revenue increased in 2023-24 but is 2 percentage points lower than 2019-20

2.24 Debt servicing costs to total revenue measures the proportion of every dollar of revenue that is needed to pay for debt related costs, including interest on unmatured debt, and leaves less room for program initiatives, tax reductions, or debt reduction.

- A lower ratio indicates the Province needs less revenue to meet interest costs on outstanding debt and therefore has more flexibility in meeting financial commitments.
- A higher ratio indicates the Province needs more revenue to meet interest costs on outstanding debt and therefore has less flexibility in meeting financial commitments.

2.25 The Province's debt servicing costs to total revenue increased slightly in 2023-24 but is 2 percentage points lower than 2019-20.

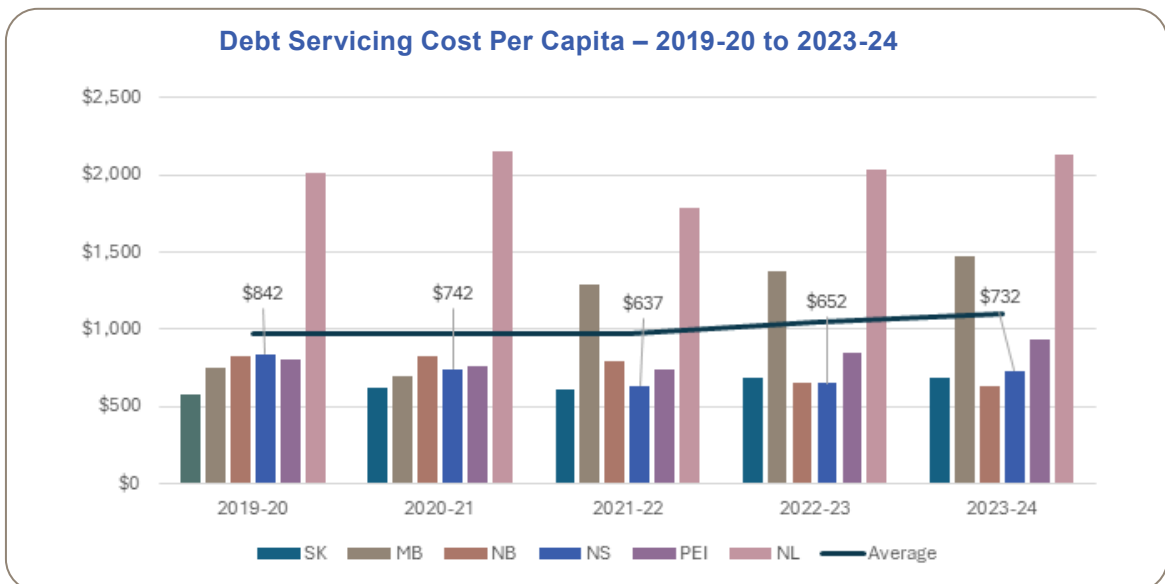


Source: 2023-24 Public Accounts

Debt servicing costs per capita increased in 2023-24

2.26 The debt servicing costs per capita chart below presents the interest on unmatured debt and other obligations the Province paid in relation to every Nova Scotian in each of the past five years. In 2023-24, the cost-per-Nova Scotian had increased for the second year in a row and now stands at \$95 more per Nova Scotian than the five-year low reported in 2021-22.

2.27 The following chart shows Nova Scotia's debt servicing costs per capita against other Atlantic provinces as well as Saskatchewan and Manitoba, all of which were chosen, again, for comparison due to either their geographic location or their similar population sizes. While the results are not strictly comparable between provinces due to accounting and reporting differences, the chart shows that Nova Scotia is one of the provinces with a lower-than-average ratio.



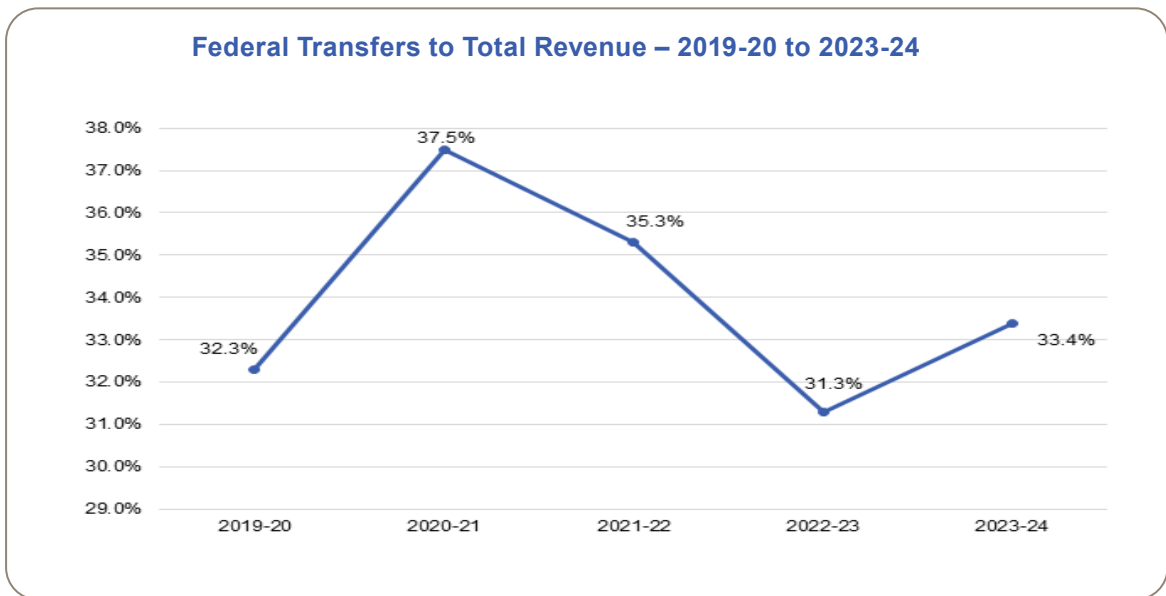
Source: Recalculated by OAG NS from the 2020-21 to 2023-2024 Public Accounts of Saskatchewan, Manitoba, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador and the population estimates from Statistics Canada.

Vulnerability

2.28 Vulnerability indicators measure a government's dependency on sources of revenue outside its control and its exposure to risks which might affect a government's ability to meet its commitments.

Dependency on federal government transfers increased

2.29 Nova Scotia continues to rely on federal government equalization payments and other transfers. Slightly more than \$1 in every \$3 of the Province's revenue comes from the federal government. The 2023-24 result increased 2.1 percentage points from prior year.



Source: 2023-24 Public Accounts

Revenue Highlights

2.30 Information presented in this section is strictly the reported financial results. It is not the intent of this office to comment on the impacts that factors such as policy decisions, actual programs and services, inflation, and other elements have had on the revenues reported in this section.

Provincial source revenue \$1 billion higher than budget

2.31 In 2023-24, the Province budgeted \$10 billion from consolidated provincial source revenue. However, actual consolidated provincial source revenue was \$11 billion, \$1 billion higher than budgeted.

2.32 A large portion of the nearly \$1 billion in revenues over budget is attributed to Prior Year Adjustments (PYAs). PYAs are recorded as more current information becomes available. For example, the tax revenues for the year are estimated based on forecasting future economic and tax filing data since there is a delay in when the Province receives actual results (i.e. once personal tax returns are filed and assessed). Once actual filing data is received, the Province records a PYA for the difference between the original estimate and the most recent actual data. The largest PYAs are generally recorded for personal income tax, corporate income tax, and harmonized sales tax

revenues. The PYAs are not budgeted; therefore, the \$529 million in PYAs recognized in 2023-24 resulted in revenues being over budget and were comprised of:

- \$266.8 million PYA for harmonized sales tax;
- \$176 million PYA for personal income tax;
- \$71.1 million PYA for corporate income tax;
- \$18.6 million PYA for financial institutions capital tax; and
- (\$3.1) million PYA for large corporations' tax

2.33 The largest provincial revenue sources are major tax revenues which in 2023-24 were:

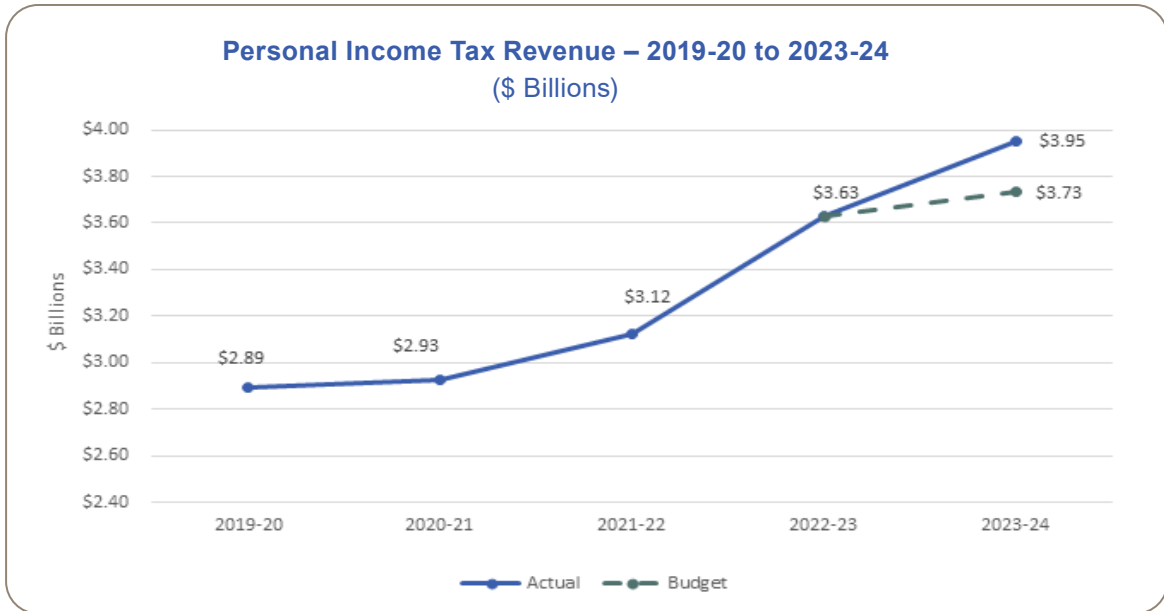
- Personal income tax revenue \$3.95 billion
- Harmonized sales tax revenue \$2.6 billion
- Corporate income tax revenue \$673.8 million

2.34 The PYAs from underestimating these major tax revenues have resulted in the Province realizing a large increase in revenue from what was budgeted. The Province continues to increase spending using a significant portion of these revenue windfalls to advance various programs and initiatives using additional appropriations. See Chapter 1 for discussion on additional appropriations.

Personal income tax revenue higher than both the budget and prior year amounts

2.35 Personal income tax revenue of \$3.95 billion was the largest source of provincial revenue reported in 2023-24. It was \$220 million or 5.9 per cent higher than the budget, primarily due to higher projections for both taxable income and the yield rate. Consideration of yield rates is important because income tax is calculated at progressively higher tax rates for incrementally higher income. For example, yield rate and tax collected from individuals earning higher income is greater than that collected from individuals with lower income. Higher-income individuals pay a higher tax rate on their higher levels of income and therefore the tax yield on their income overall is greater. The impact of this is compounded when the tax rates are not indexed for inflation. In February 2024, the Government introduced a budget that indexes provincial income tax rates to inflation starting January 2025, a practice it was not previously doing.

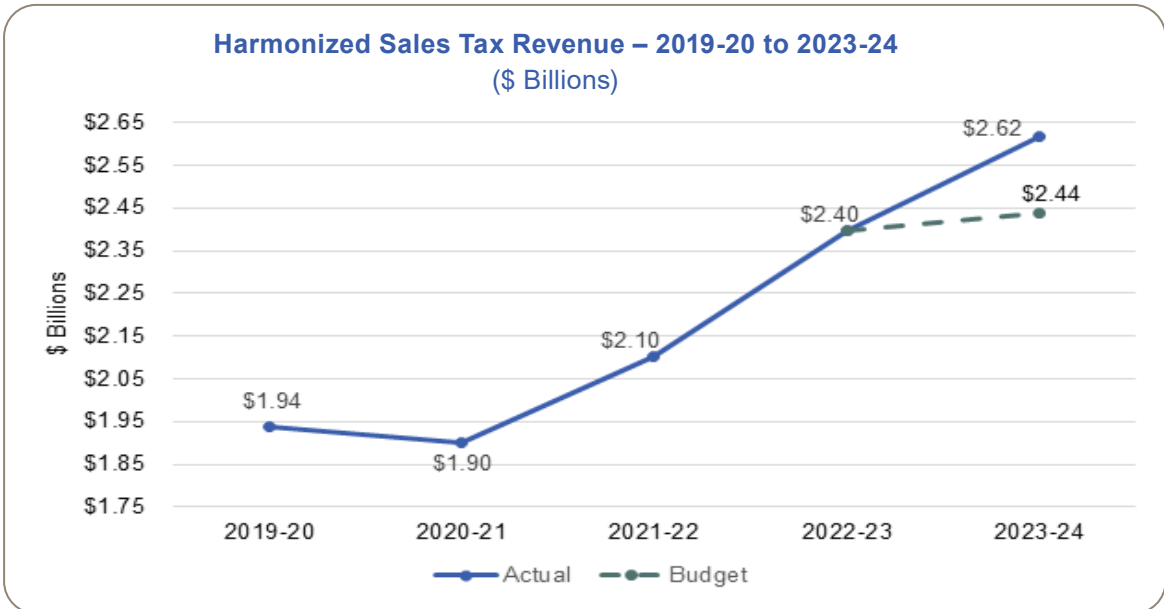
2.36 Personal income tax revenue has risen by \$1.1 billion or 37 per cent since 2019-20.



Source: Public Accounts 2019-20 to 2023-24

Harmonized sales tax revenue higher than both the budget and the prior year amounts

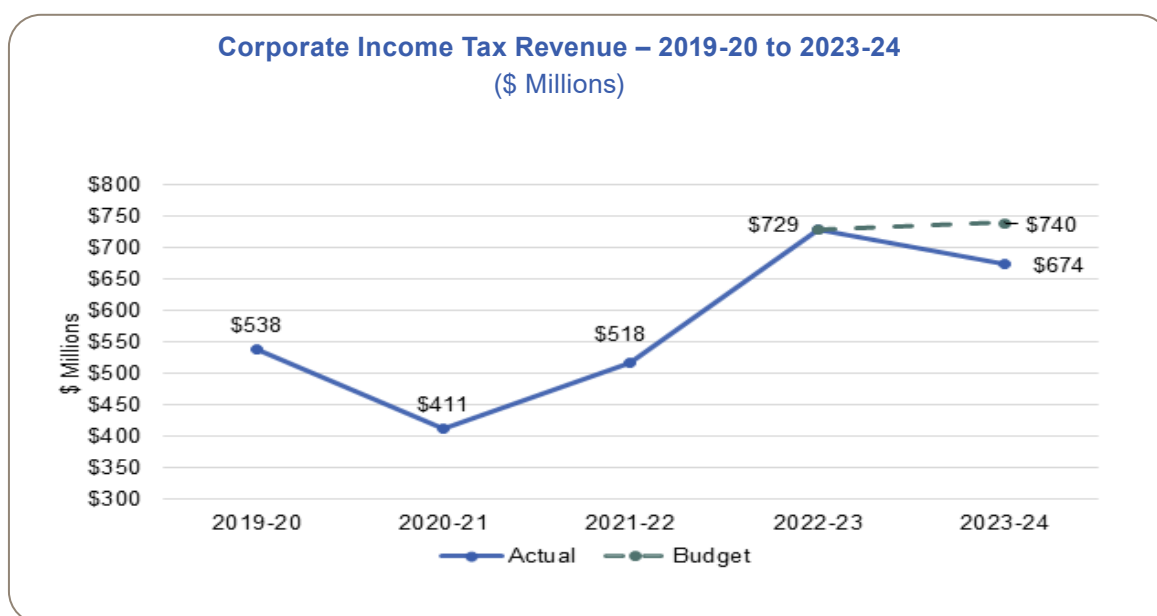
- 2.37 Harmonized sales tax revenue was \$177.3 million higher than budgeted in 2023-24, primarily due to greater residential housing investment and more consumer expenditures.
- 2.38 Harmonized sales tax revenue has been on an upward trend and has grown by \$678.8 million, or 35 per cent, since 2019-20 to \$2.62 billion in 2023-24.



Source: Public Accounts 2019-20 to 2023-24

Corporate income tax revenue exceeds pre-pandemic levels

- 2.39 Corporate income tax revenue was \$66.7 million lower than budget in 2023-24 due to a decrease in the federal estimates of national taxable income. This reduction was partially offset by an increase in the Province's share of national corporate taxable income, and a decline in the small business share of taxable income.
- 2.40 Corporate income tax revenue continues to exceed pre-pandemic levels. From 2020-21 to 2023-24 there was a \$263 million or 64 per cent increase in revenue. Over the past five years, corporate income tax revenue has increased from \$538 million in 2019-20 to \$674 million in 2023-24. This is a \$136 million or a 25 per cent increase overall, even though the tax rate was reduced by 2 per cent to 14 per cent, effective April 1, 2020.

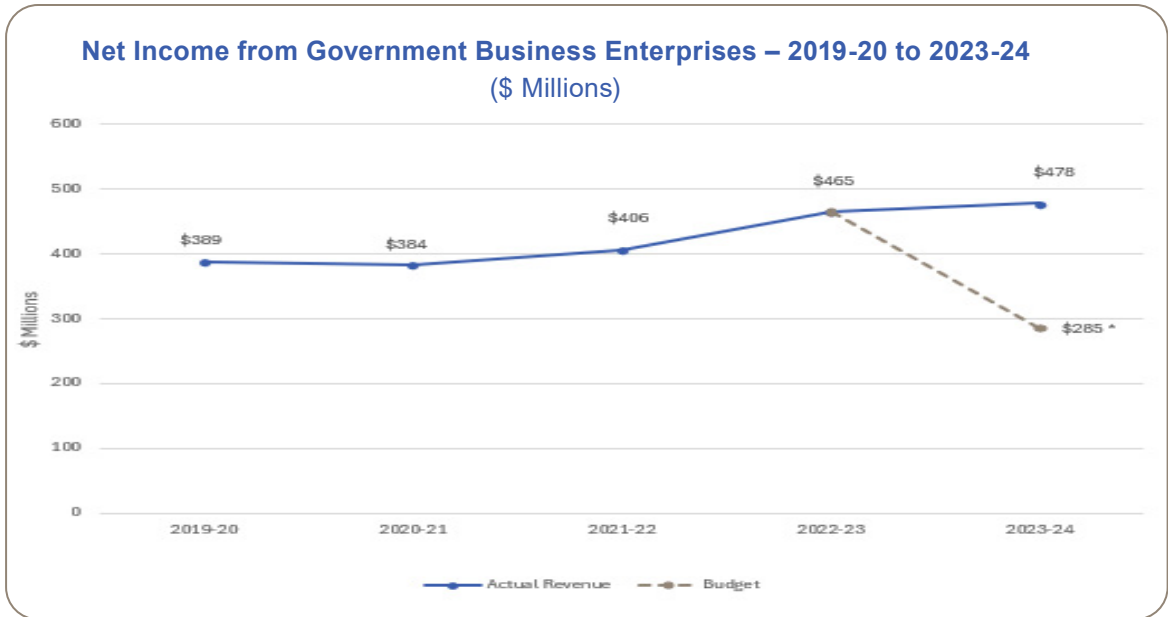


Source: Public Accounts 2019-20 to 2023-24

Net income from Government Business Enterprises increased

- 2.41 Net income for government business enterprises (GBEs) increased \$13 million or 2.8 per cent reaching a five-year high of \$478 million in 2023-24 and is comprised of the increases and decreases as follows:

| GBE | 2023-24 Financial Results |
|---|---|
| Nova Scotia Liquor Corporation | Net income of \$283.8 million. This represents a decrease of \$0.9 million from the prior year. |
| Nova Scotia Gaming Corporation | Net income of \$179 million. This is \$15.2 million or 9.3 per cent higher than the prior year. Increase is primarily due to increased revenues from a full year of online casino operations. |
| Halifax-Dartmouth Bridge Commission | Net income of \$8.9 million. This is a \$2.6 million decrease from the prior year. |
| Highway 104 Western Alignment Corporation | Net income of \$6.7 million. An increase of \$1.4 million from the prior year due to increased traffic volumes. |



Source: 2023-24 Public Accounts

Note: Adoption of a new accounting policy at the Nova Scotia Gaming Corporation accounts for the majority of the difference between budget and actual results.

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