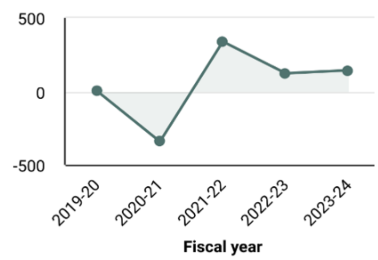
Chapter 2

Nova Scotia's Finances from the 2024 Public Accounts

Financial Condition of the Province of Nova Scotia



Operating surpluses in four of the past five years

2023-24 surplus $144 million

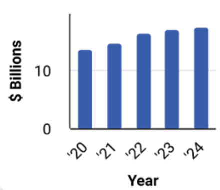
Net debt to GDP ratio is relatively stable

A low ratio indicates a level of economic output that supports debt repayment.

32.5% 32.8%

At 32.8%, 2023-24 ratio remains consistent with five years ago

Net debt increased for fifth year in a row



- 2023-24 net debt $18.5 billion
- Increase of $773 million over last year
- Driven by $1.45 billion in net capital acquisitions

Unmatured debt increased

- 2023-24 unmatured debt **$17.6B**
- Increase of $1 billion over last year
- $4 billion to be repaid over the next five years

Interest on unmatured debt second highest in past five years

Interest on unmatured debt for 2023-24 was **$671 million**

Increased **$96 million** over last year

Provincial source revenues $1 billion more than budgeted

$1 billion

- 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 in net debt; most of which is financed through unmatured debt.
- With the increase in unmatured 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?

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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.

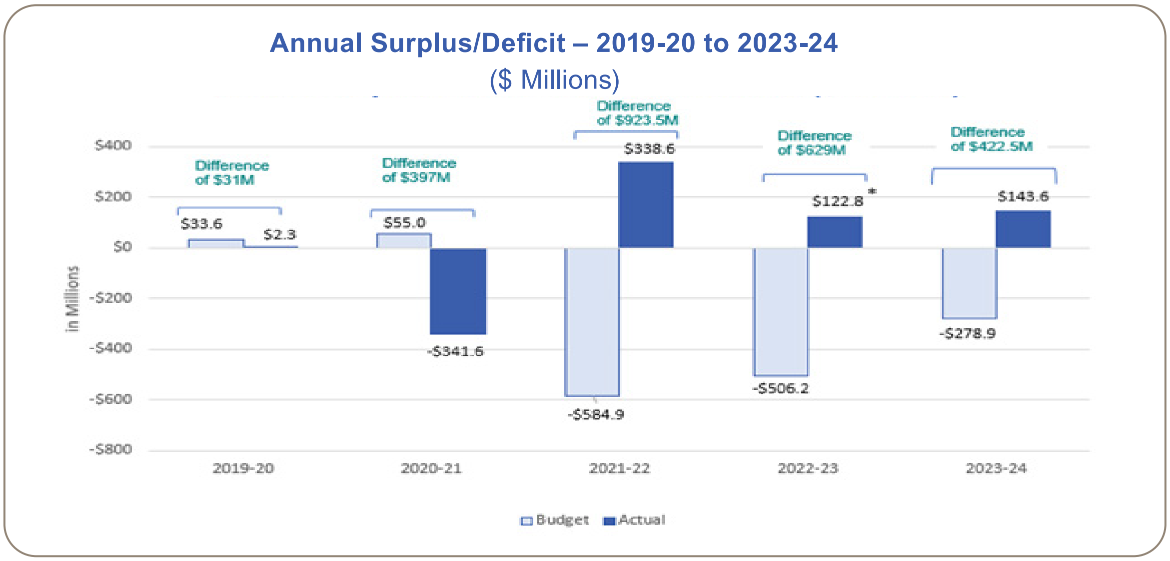
Financial Highlights	
Indicator	**Five-Year Trend**
Sustainability	
Annual surplus or deficit	Favourable
Net debt	Unfavourable
Net debt to GDP	Favourable
Net debt to total revenue	Favourable
Unmatured Debt	Unfavourable
Flexibility	
Interest on unmatured debt	Unfavourable
Provincial source revenue to 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.

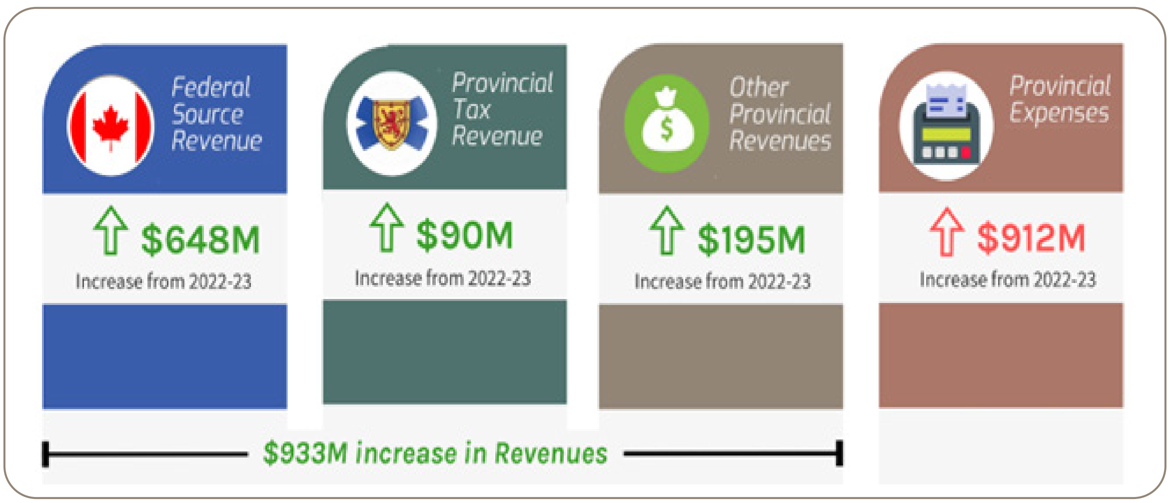
The Province reported an annual operating surplus of $143.6 million for 2023-24

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.

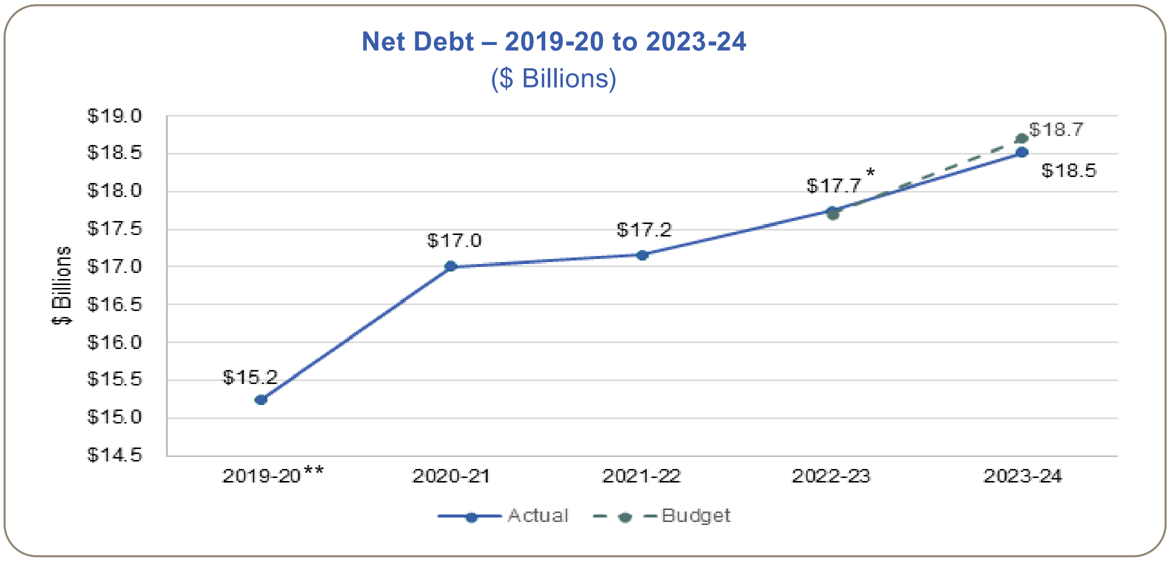


Source: 2023-24 Public Accounts

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

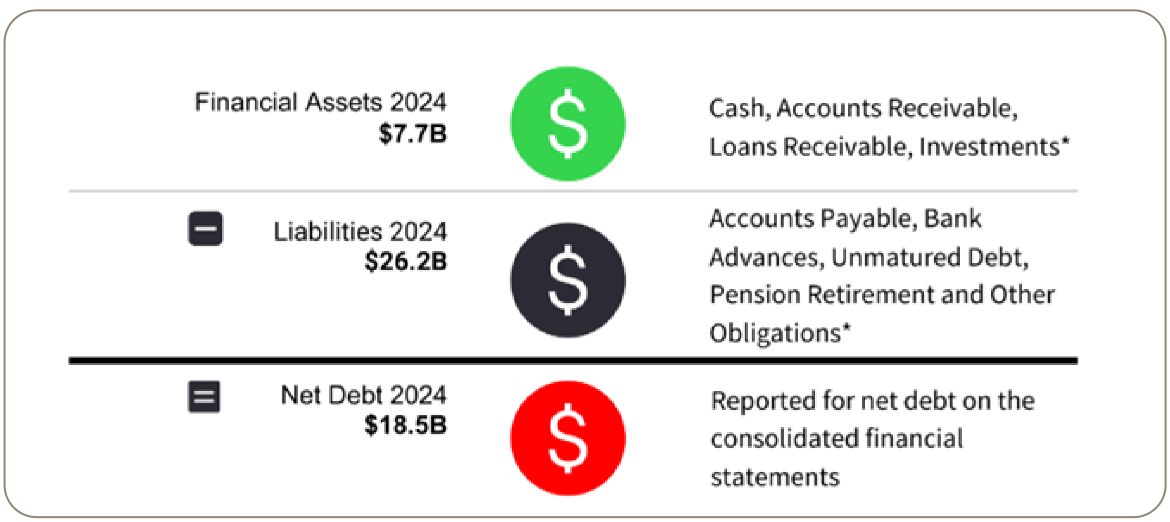
2.7 Nova Scotia's net debt continues to grow despite recent reported surpluses and was $18.5 billion at the end of 2023-24. A trend of increased net debt weakens a government's financial position.

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.



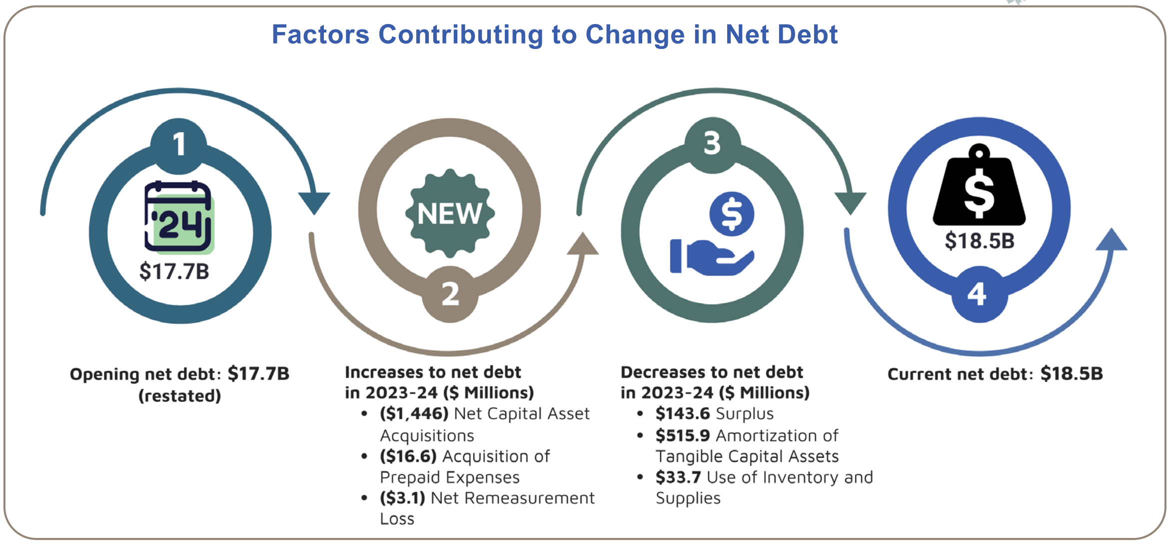
Source: 2023-24 Public Accounts, and 2023-24 Nova Scotia Budget
**See Note 2 of the 2023-24 Consolidated Financial Statements: 2022-23 value was restated from $17.8 B to $17.7 B.*
*** 2019-20 has not been restated for the impacts of PS 3280 Asset Retirement Obligations*

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.*

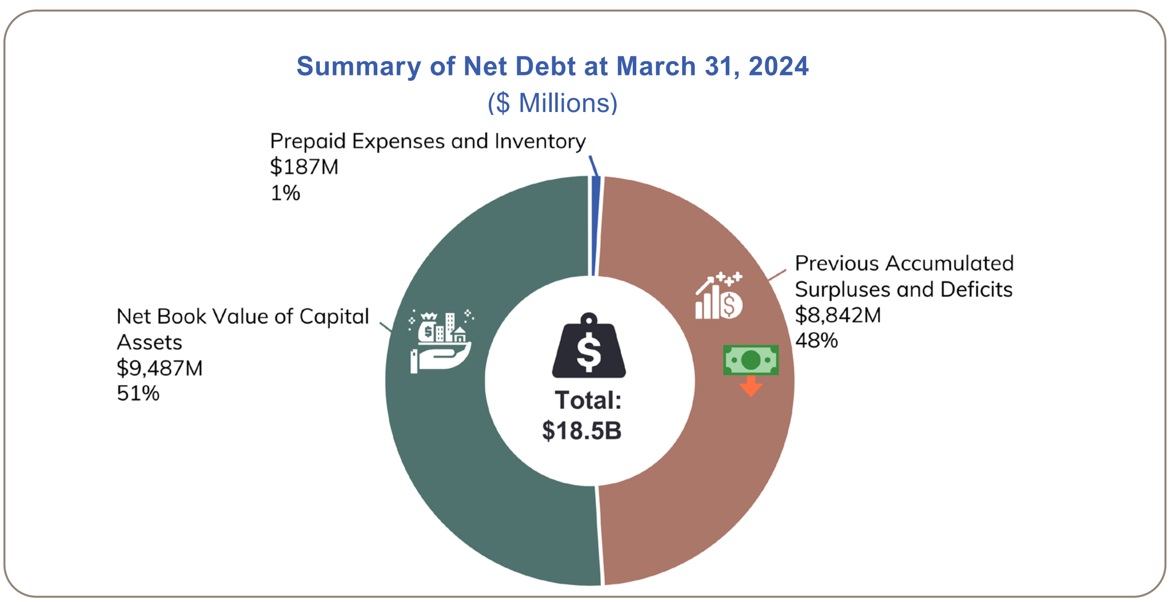
2.9 The following chart shows the factors contributing to the change in net debt from prior year. The largest contributing factor to the $773 million increase in net debt was the capital asset net investments of $930 million, which was offset slightly by the $143.6 million surplus.



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

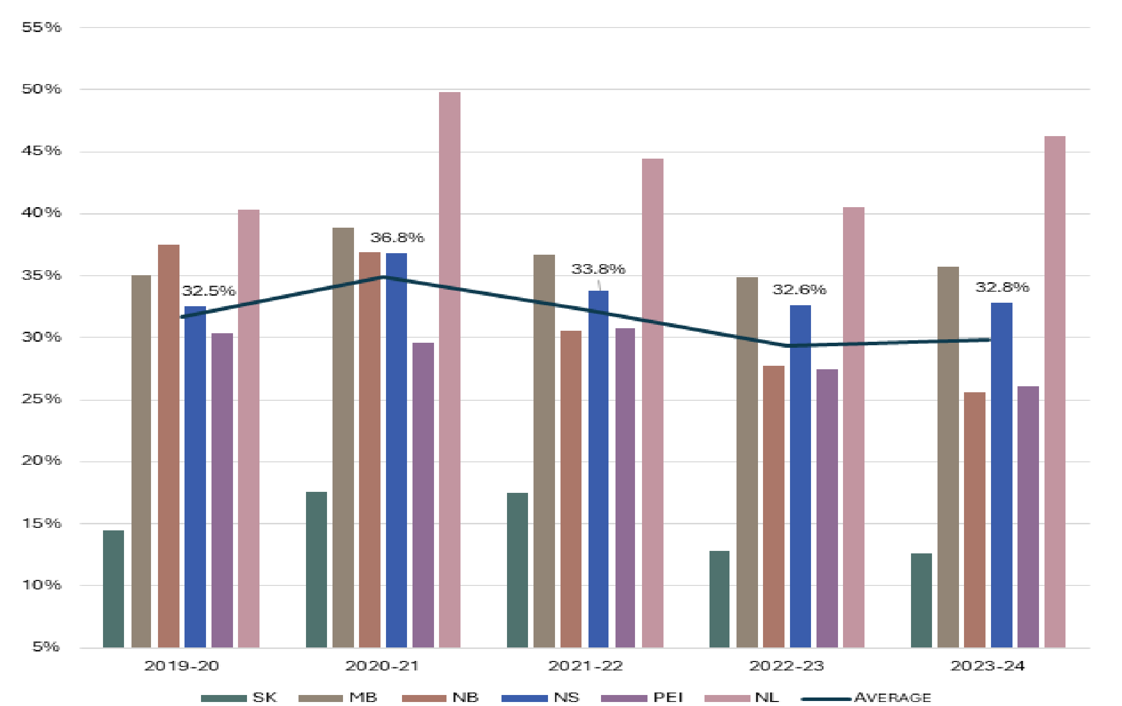
2.11 The net debt to GDP ratio is used to assess the Province's ability to pay its financial obligations and render services.

- 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.

Net Debt as a Percentage of GDP – 2019-20 to 2023-24



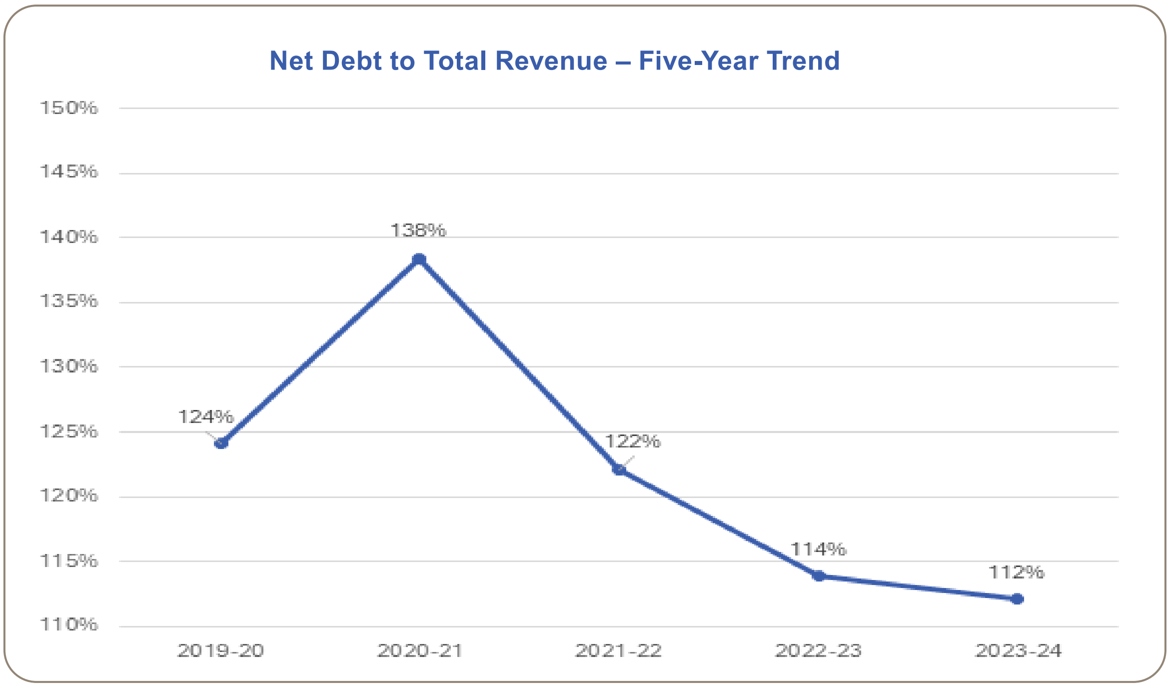
Source: 2023-24 Public Accounts of Saskatchewan, Manitoba, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador

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.

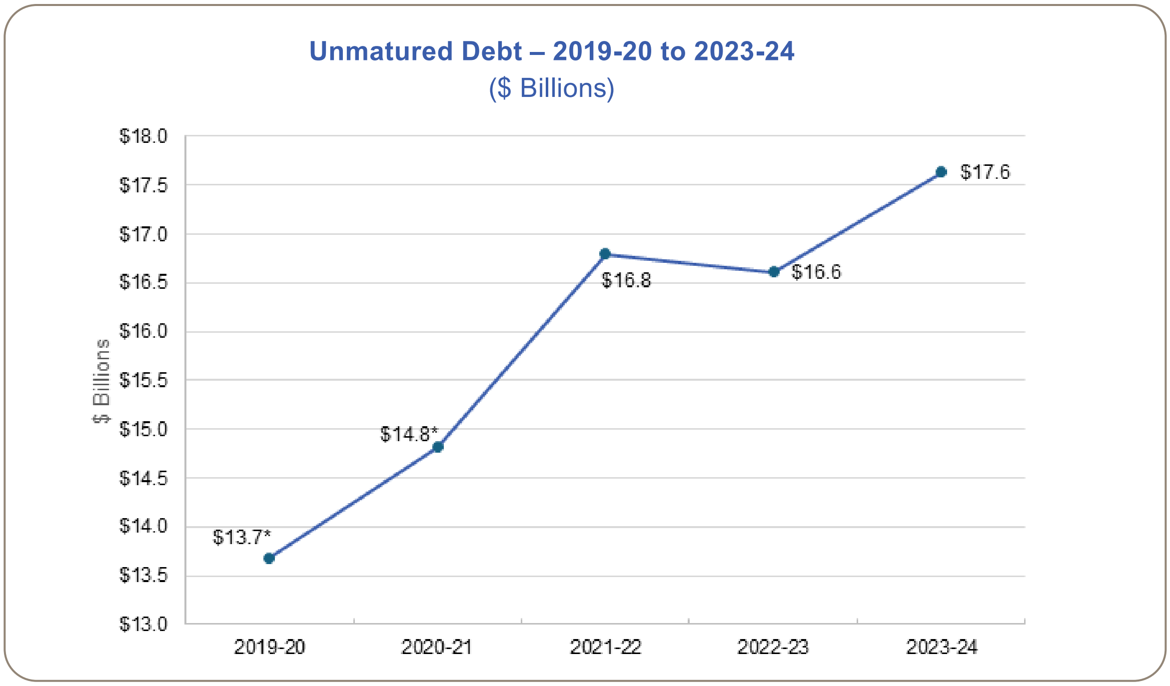


Source: 2023-24 Public Accounts

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

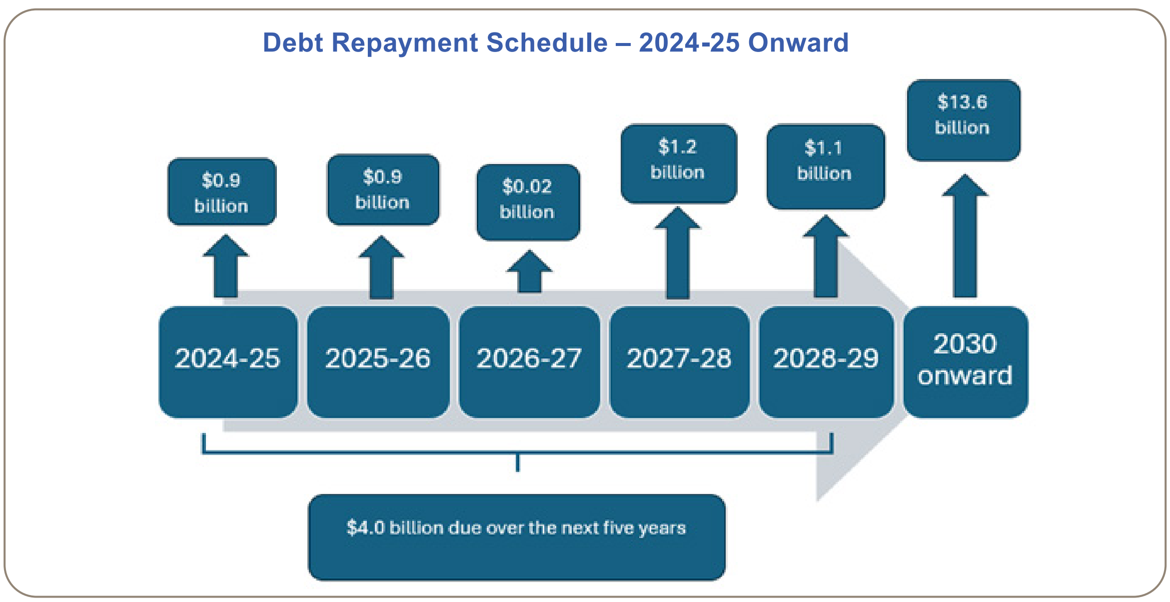
2.16 The Province's unmatured debt is primarily made up of long-term debentures and various loans. It includes new debt issuances and those from prior years.

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.

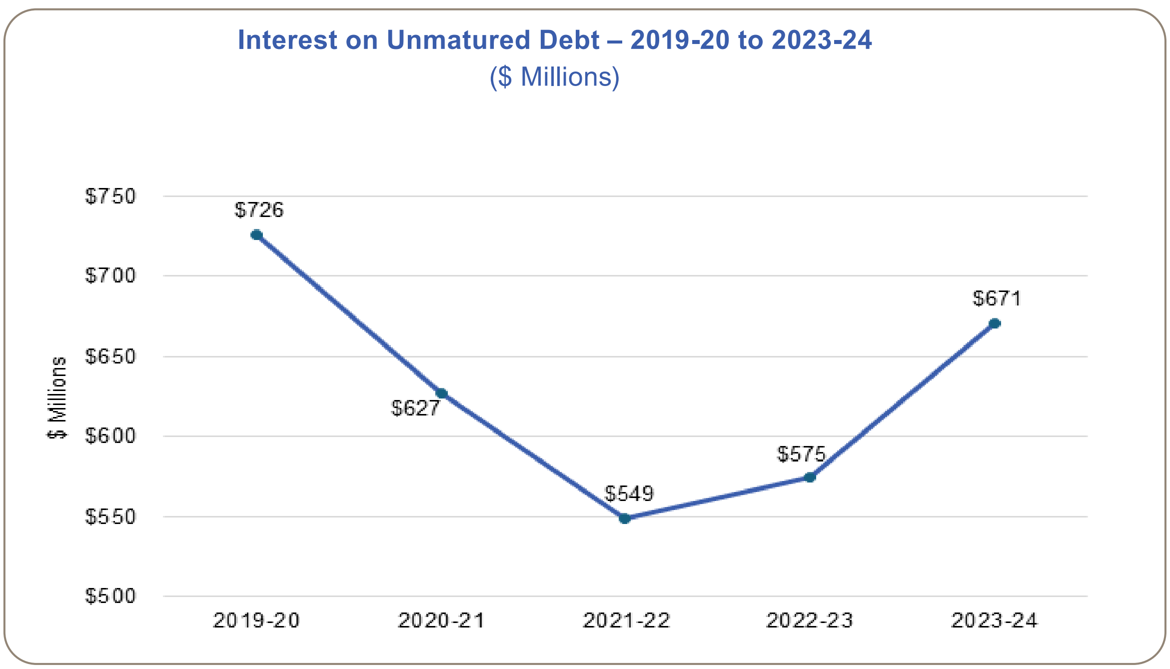
Interest on unmatured debt increased $96 million in 2023-24

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

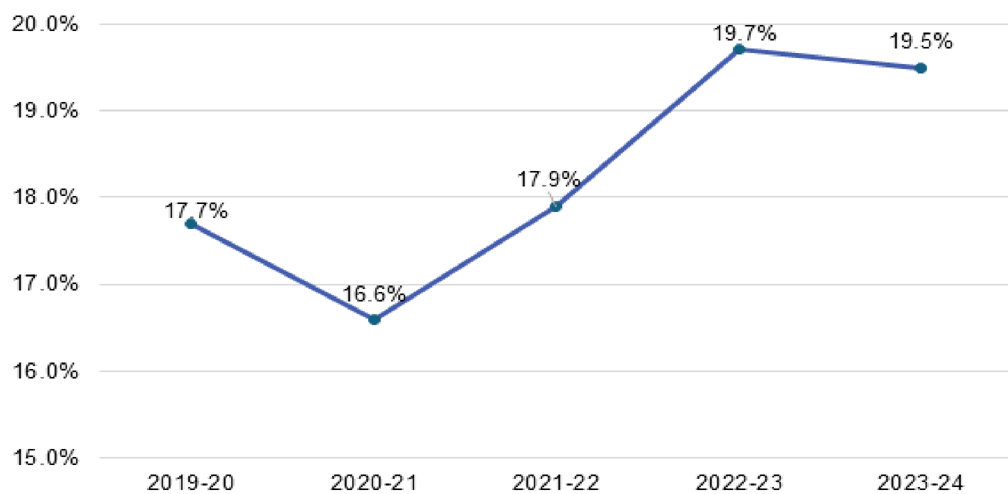
Provincial source revenue to GDP improved in 2023-24, but remains high compared to prior years

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.

Provincial Source Revenue to GDP – 2019-20 to 2023-24



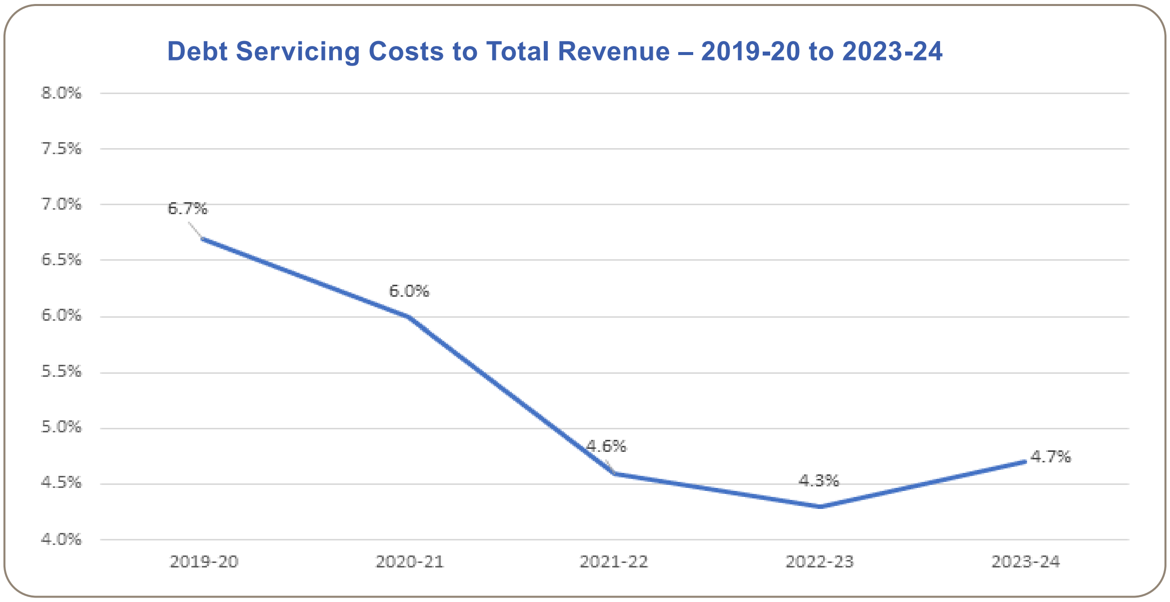
Source: 2023-24 Public Accounts

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.

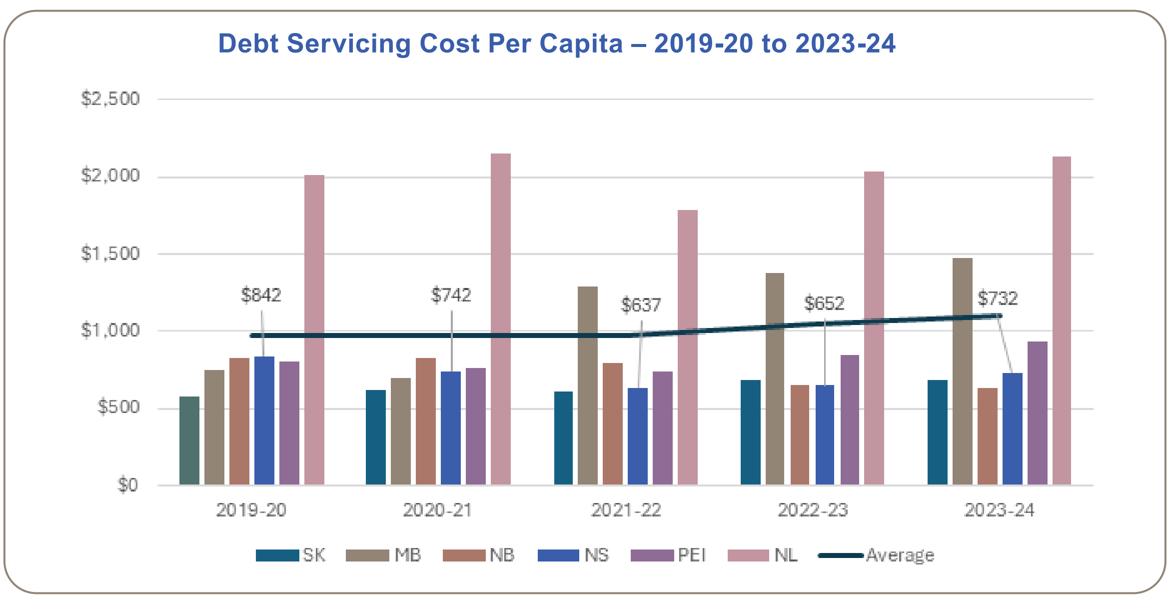


Source: 2023-24 Public Accounts

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.



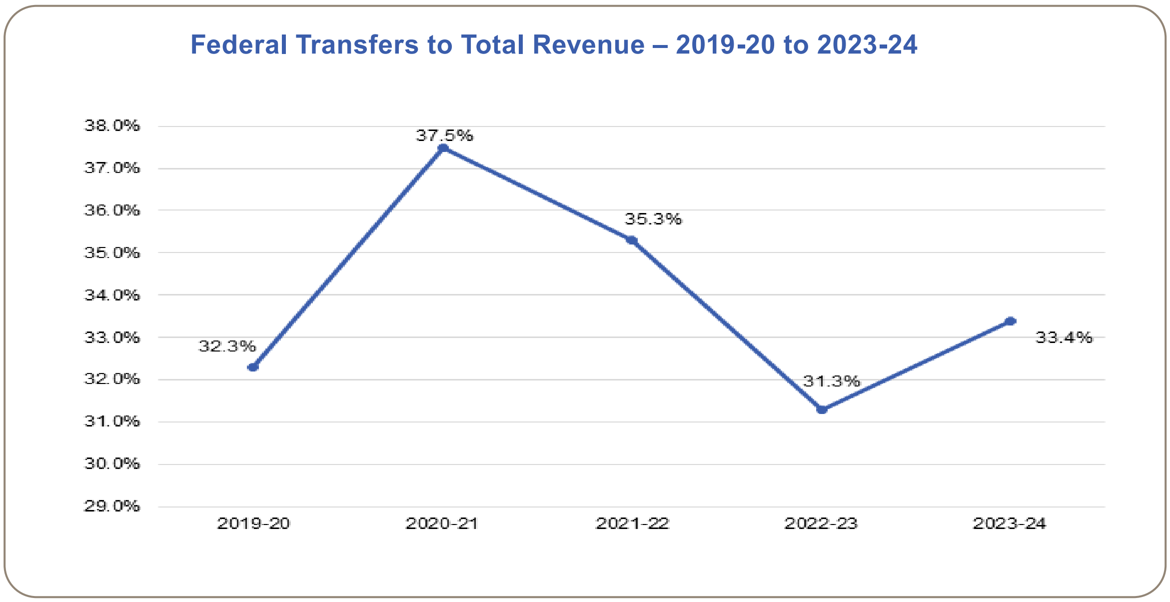
Source: Recalculated by OAG NS from the 2020-21 to 2023-2024 Public Accounts of Saskatchewan, Manitoba, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador and the population estimates from Statistics Canada.

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:

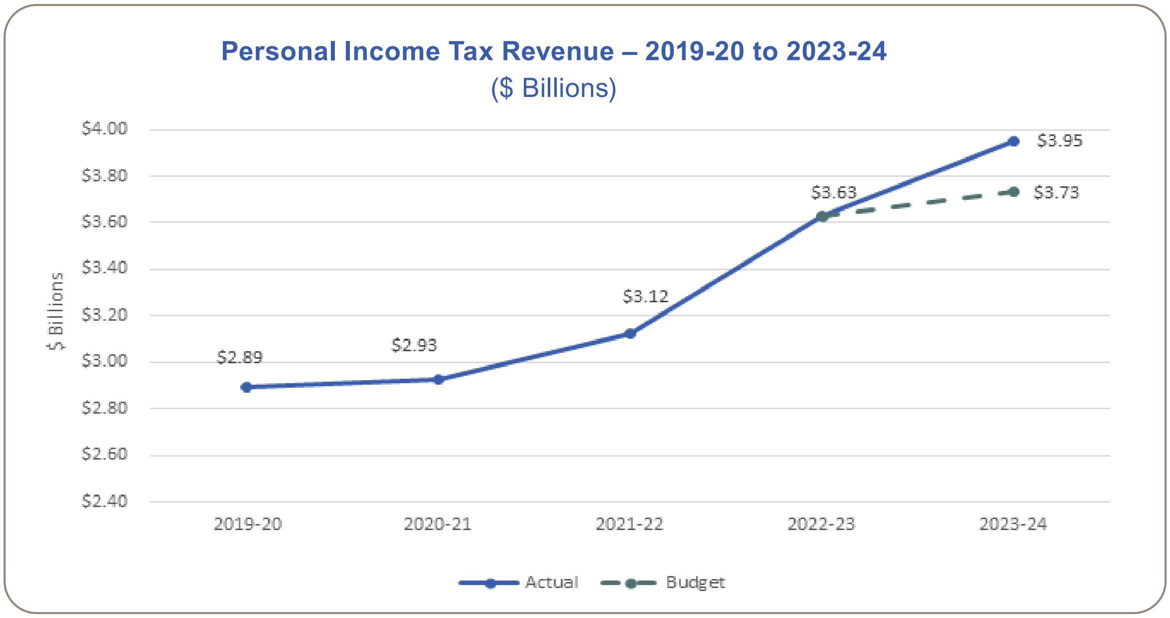
- Personal income tax revenue $3.95 billion
- Harmonized sales tax revenue $2.6 billion
- Corporate income tax revenue $673.8 million

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.

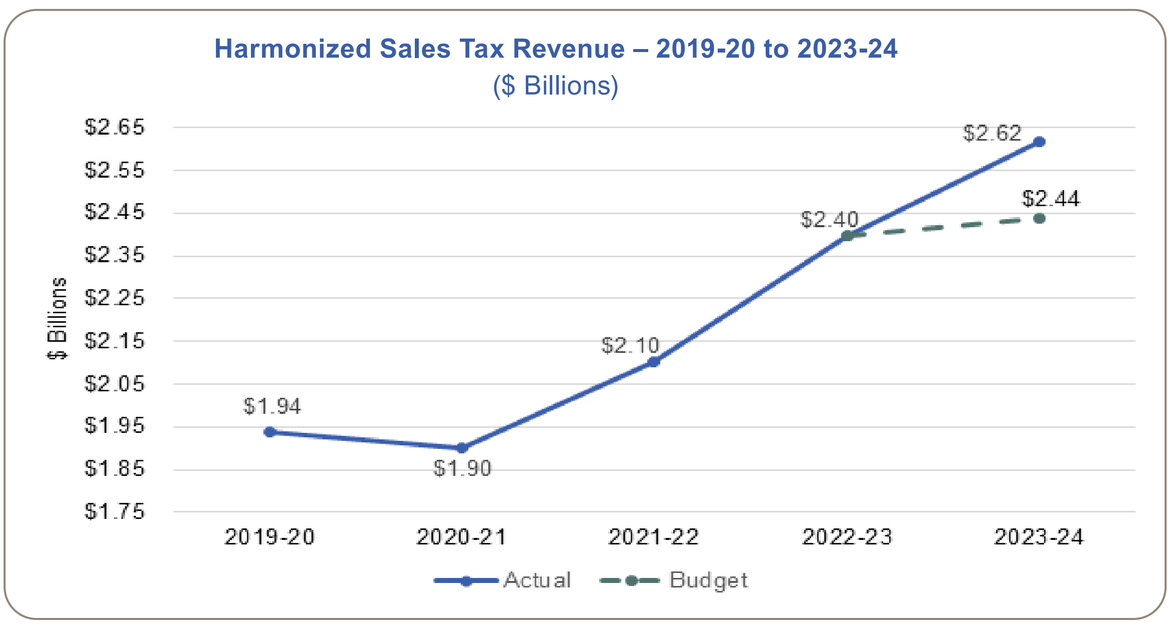


Source: Public Accounts 2019-20 to 2023-24

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.



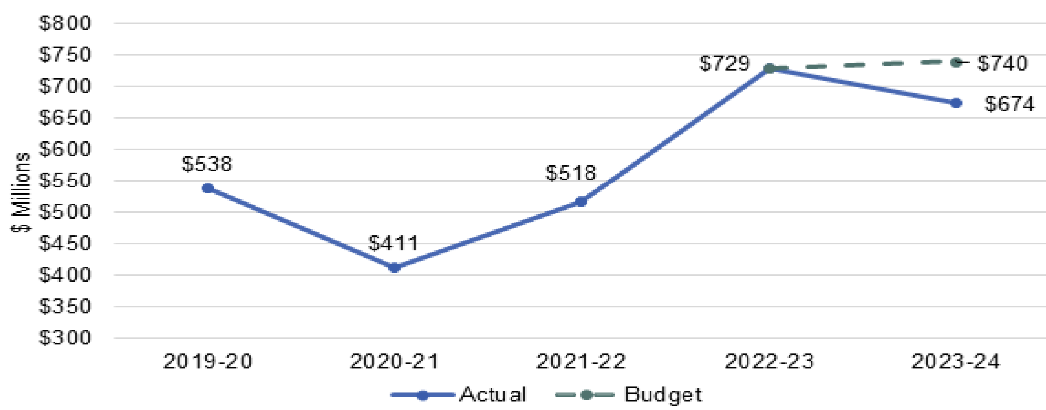
Source: Public Accounts 2019-20 to 2023-24

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.

Corporate Income Tax Revenue – 2019-20 to 2023-24
($ Millions)

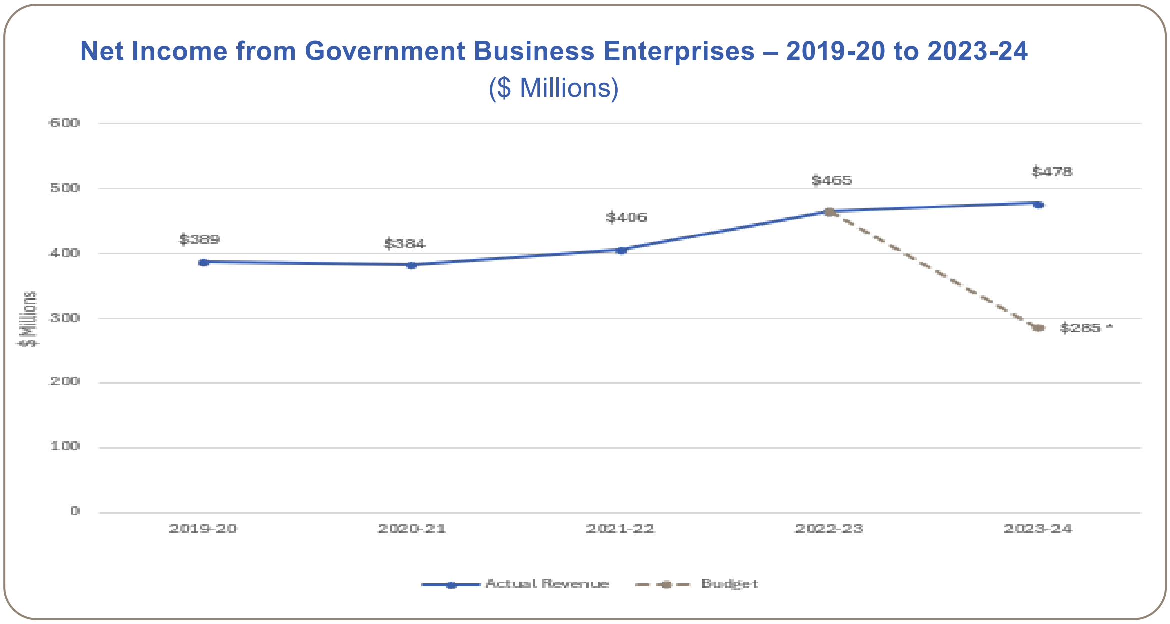


Source: Public Accounts 2019-20 to 2023-24

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.