At a Glance

3 Indicators of Financial Condition

Summary

The purpose of this chapter is to provide further information on the province's financial health by reporting on certain accepted indicators of financial condition. Although the province's consolidated financial statements provide a fair snapshot of its financial position at its fiscal year end (March 31) and the results of its operations for that year, they do not provide a complete indication of the province's health nor how well it is performing in relation to its economic and fiscal environment. The indicators reported in this chapter are meant to provide additional information on the province's financial condition, but are not intended to comment on the impact of government policies on financial results.

Ten key indicators show that Nova Scotia is in poor financial condition. There was a serious decline in the financial position of the province from the prior year, particularly with respect to budget to actual operating results. Budget to actual results is a measure of financial performance and shows the extent to which government adhered to its fiscal plan as detailed in its budget. The province's deficit of $679 million for the year ended March 31, 2014 was a $695 million variance from the $16 million surplus included in the 2013-14 budget. Of this variance, $318 million was attributed to changes in the governance structure of the Public Service Superannuation Plan which resulted in the removal of the liability for the Plan from the province's consolidated financial statements. This necessitated the one-time recognition of previously deferred Plan losses. The variance can also be explained by a $313 million downward revision in estimated tax revenue.

Net debt continues to increase. Since 2011, net debt has increased by $2 billion, or 16%. Net debt per capita also increased by 6% to $15,659 per capita, the largest annual increase in the past five years. Further, there was a significant increase during the year in the percentage of net debt to total revenue, going from 138% in 2013 to 147% in 2014, a concerning increase of 9%. Finally, because provincial net debt is at 38% of the province's GDP, it is placing an increasing burden on the economy. These sustainability indicators demonstrate that there are real risks to future programs and services provided to Nova Scotians.

Although debt servicing costs as a percentage of total revenue have remained fairly constant over the past five years, Nova Scotia's debt servicing costs – to – revenues compares unfavourably to four of the five jurisdictions we selected for comparison purposes. The level of debt servicing costs is an indicator of government's limited flexibility in improving programs and services because of the annual impact of outstanding debt.

Finally, federal government transfers as a percentage of total provincial revenues have stayed constant over the past five years. Although stable, this demonstrates that Nova Scotia is vulnerable to changes in federal policies which may change the amount and timing of these transfers.

3 Indicators of Financial Condition

NOVA SCOTIA

Introduction

3.1 One factor in assessing the financial condition of the government is the province's consolidated financial statements. The statements provide a snapshot of the province's financial position at its fiscal year end (March 31) and the results of its operations, and changes in both cash flow and net debt for the preceding fiscal year. However, they do not provide a complete indication of the province's health nor how well it is performing in relation to its economic and fiscal environment. Although there is information on the economy, including several indicators, in Volume 1 of the Public Accounts, there is no comparison with other jurisdictions.

3.2 The purpose of this chapter is to provide further information on the province's health through reporting on certain indicators of financial condition. These indicators are among those recommended for reporting by the Public Sector Accounting Board's Statement of Recommended Practice 4: Indicators of Financial Condition. The Statement is not part of generally accepted accounting principles for the public sector, and there is no requirement for government to implement its recommendations.

3.3 Our report includes a comparison, where appropriate, to five other provinces. New Brunswick, Prince Edward Island, and Newfoundland and Labrador, are compared because they operate in the same regional economic environment; Manitoba and Saskatchewan are compared because of similar population. The information in this chapter's exhibits has been taken from these jurisdictions' Public Accounts from 2010 to 2014 for all provinces except Prince Edward Island which has not yet released its Public Accounts for the year ended March 31, 2014.

3.4 There are numerous indicators to assess a government's financial condition. The Statement of Recommended Practices recommends that, at a minimum, indicators related to sustainability, flexibility and vulnerability are considered. We have included several of these indicators as well as other information we feel is useful in demonstrating the province's financial condition. Definitions of sustainability, flexibility and vulnerability follow, as well as a selection of indicators related to each.

Overall Financial Condition

Indicators show that Nova Scotia is in poor financial shape

3.5 The following table provides an overview of the province's financial performance for the year ended March 31, 2014, and a summary of the financial indicators included in this chapter. As can be seen, the trend in the majority of indicators is unfavourable.

Type	Indicator	1-year Trend	5-year Trend	Page #
Financial Performance	Budget-to-actual Variance	Unfavourable	N/A	32
	Actual-to-actual Variance	Unfavourable		33
Sustainability	Net Long-term Debt	Unfavourable	Unfavourable	34
	Net Debt	Unfavourable	Unfavourable	35
	Net Debt Per Capita	Unfavourable	Unfavourable	35
	Net Debt as a Percentage of Total Revenues	Unfavourable	Unfavourable	36
	Annual Surplus or Deficit	Unfavourable	Unfavourable	37
	Net Debt as a Percentage of Provincial GDP	Unfavourable	Stable	39
Flexibility	Debt Servicing Costs as a Percentage of Total Revenues	Stable	Stable	40
Vulnerability	Federal Government Transfers as a Percentage of Total Revenues	Unfavourable	Favourable	41

Favourable/Unfavourable – theoretical concept due to nature and direction of indicator, not a comment on performance
N/A – increase or decrease of this indicator is not considered indicative of either favourable or unfavourable
Stable – a change of 1% or less

Financial Performance 2013-14

Budget-to-actual deficit variance of $695 million

Budget-to-actual Variance ($ millions)			
Element	**2013-14 Estimates**	**2013-14 Actual**	**Variance**
Provincial Source Revenue	$6,570	$6,292	($278)
Federal Source Revenue	$3,346	$3,392	$46
Expenses	($10,250)	($10,714)	($464)
Government Business Enterprises (Net Income)	$350	$351	$1
Deficit	**$16**	**($679)**	**($695)**

3.6 *Budget-to-actual variance* – One measure of financial performance is the extent to which government adhered to the fiscal plan detailed in its budget. For the year ended March 31, 2014, the Province of Nova Scotia estimated a surplus of $16 million. The actual result for the year was a deficit of $679 million, an unfavourable variance of $695 million. The table above provides an overview of the variance by significant financial element, after consolidation adjustments, that contributed to the negative result.

Tax revenue was under budget by $313 million

3.7 Provincial source revenue decreased by $278 million from the 2013-14 Estimates, due mainly to a $313 million downward adjustment to tax revenue estimates. Actual expenses were $464 million over budget. A significant portion of this is due to a one-time, $318 million increase to the pension valuation adjustment resulting from the change in the governance structure of the Public Service Superannuation Plan at April 1, 2013 which eliminated the province's obligation for the Plan. These variances were offset by a $46 million increase in federal-source revenue.

3.8 *Actual-to-actual variance* – The following table details variances in revenues and departmental expenses to explain the $375 million change in operating results, from a deficit of $304 million in 2012-13 to a deficit of $679 million in 2013-14.

Actual-to-actual Variance ($ millions)			
Revenues and Departmental Expenses	**Revenues**	**Expenses**	**Surplus (Deficit)**
2012-13 Deficit	**$10,104**	**$10,408**	**($304)**
Decreased Provincial Tax Revenue	($110)		
Increased Federal Revenue	$129		
Decreased Net Income from GBEs	($3)		
Decreased Other Provincial Revenue	($93)		
Increased Investment Income	$8		
Decreased Economic and Rural Development Expenses		($24)	
Increased Education Expenses		$19	
Increased Health and Wellness Expenses		$115	
Increased Restructuring Costs		$12	
Restructuring of NSAC *		($37)	
Increased Pension Valuation Adjustment		$280	
Decreased Debt Servicing Costs		($35)	
Decrease – Other		($24)	
2013-14 Deficit	**$10,035**	**$10,714**	**($679)**

* Operations of the Nova Scotia Agricultural College (NSAC) were included in the Department of Agriculture to March 31, 2012, at which time they were transferred to Dalhousie University

$318 million write-off of deferred losses of the Public Service Superannuation Plan increased the deficit

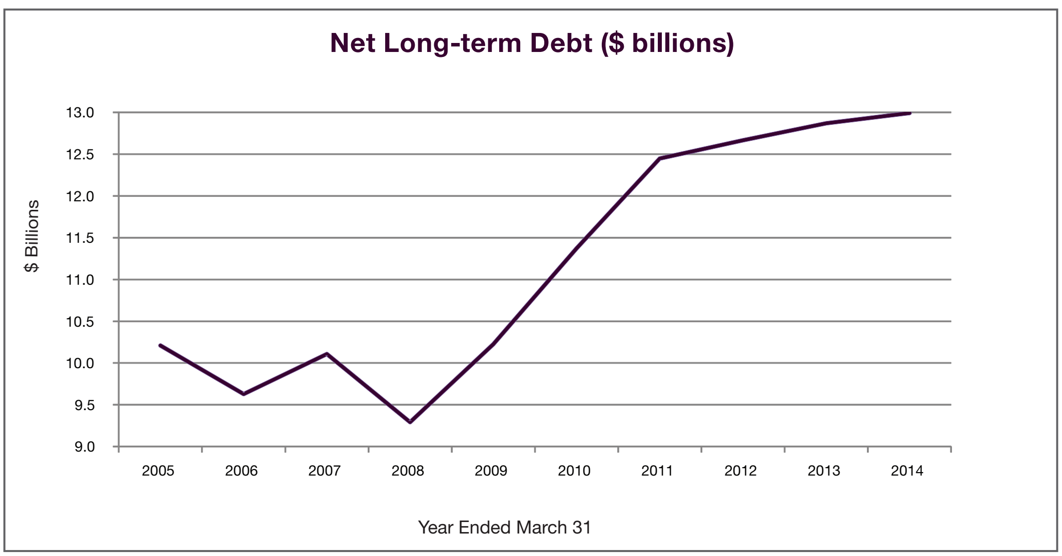
3.9 The province's March 31, 2014 deficit was $679 million. This was an increase of $375 million over the prior year deficit of $304 million. The most significant variance related to the pension valuation adjustment which increased $280 million from the previous year. This was due mainly to the $318 million adjustment to fully recognize deferred losses of the Public Service Superannuation Plan, as discussed above, offset by reduced valuation adjustments in other obligations. Provincial-source revenue also declined by $206 million; this was partially offset by a $129 million increase in federal transfers.

Financial Indicators

Sustainability

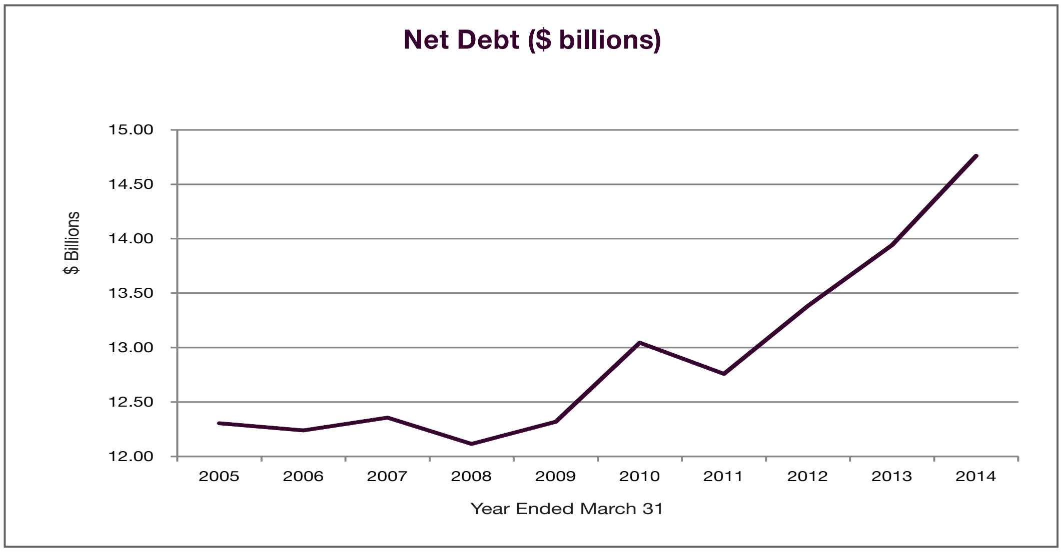
3.10 Sustainability measures the ability of a government to maintain its existing programs and services, including maintaining its financial obligations to creditors, without having to introduce revenue and expenditure adjustments such as increased debt or tax rates. Sustainability indicators provide insight into how a government balances its commitments and debts. The following indicators have been selected to assess sustainability.

Indicators of Debt Position



3.11 *Net long-term debt* – Details of the province's long-term debt are included in Schedule 4 of the March 31, 2014 Public Accounts. Gross long-term debt is $16 billion which is consistent with the prior year. This includes the debt of all organizations in the government reporting entity. The majority of this debt ($15 billion or 93%) is assumed by core government, i.e. not through government agencies. Gross long-term debt is offset by sinking fund assets of $3.4 billion.

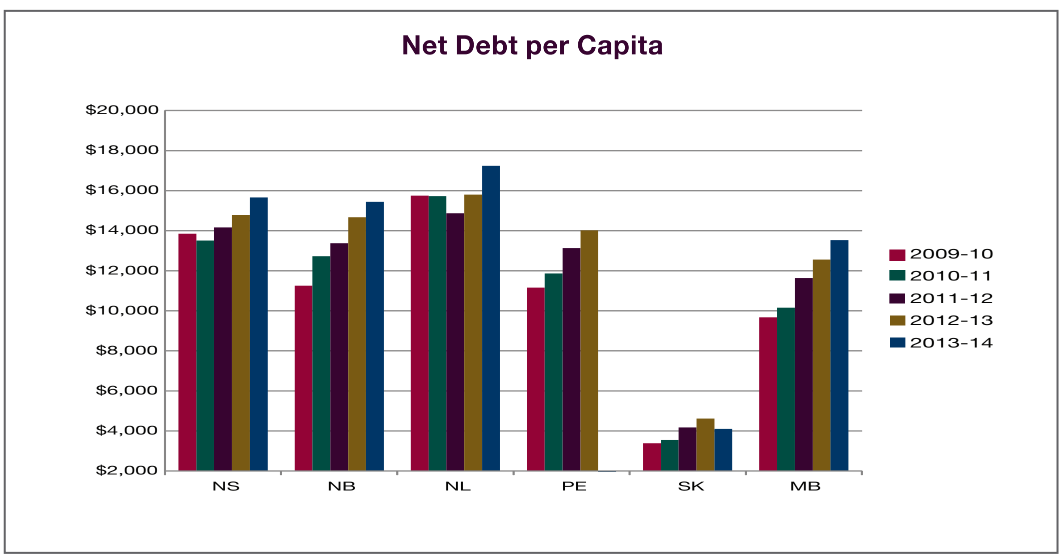
3.12 The increasing trend in net long-term debt is a significant indicator of fiscal sustainability because the cost of servicing this debt takes priority over program expenses and reduces the ability of government to expand services or reduce taxes. The graph above shows actual growth of net long-term debt over the past ten years, with an increase of approximately $4 billion since 2008.



3.13 *Net debt* – Net debt is the difference between the province's financial assets and financial liabilities. It is an indication of the government's current obligations that must be funded through future revenues, including taxation. Nova Scotia's net debt is approximately $15 billion.

Net debt increased by $2 billion or 16% since 2011

3.14 Net debt has increased by over 16% or $2 billion over the past three years, including an increase of $819 million or 6% in the current year. Net debt has grown each year since 2008 except for the year ended March 31, 2011. The surplus of $585 million reduced net debt in that year.

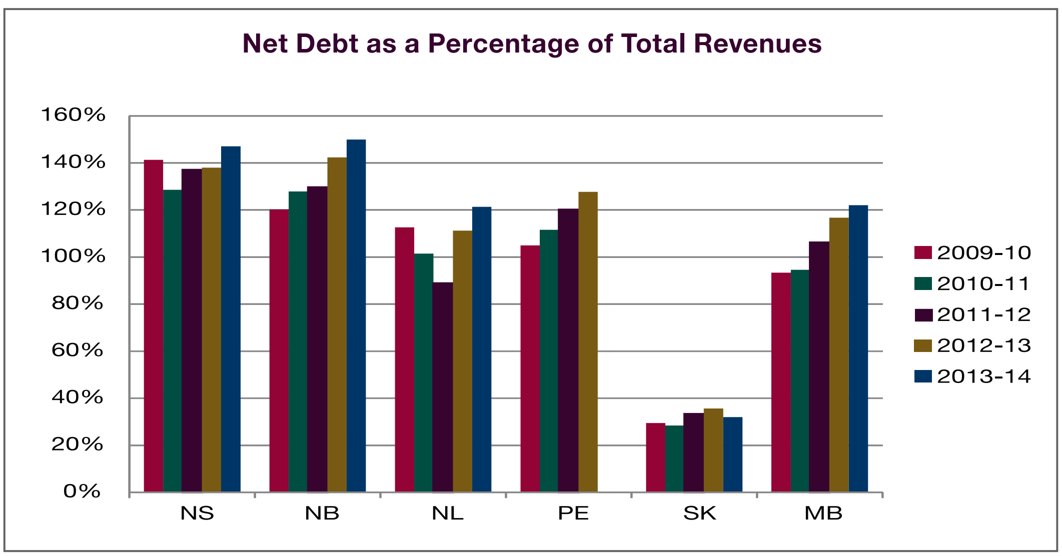


Net Debt per Capita – Nova Scotia					
	2010	2011	2012	2013	2014
Net Debt ($ thousands)	$13,045,146	$12,758,315	$13,382,946	$13,942,372	$14,761,747
Population (thousands)	942.1	944.5	944.8	942.9	942.7
Net Debt per capita	$13,847	$13,508	$14,165	$14,787	$15,659

Government of Nova Scotia debt increased almost 6% to $15,659 per Nova Scotian

3.15 *Net debt per capita* – Another indicator of sustainability is net debt per capita. This shows the amount of net debt attributable to each person living in the province. This indicator shows net debt is increasing at a rate exceeding population growth, and therefore may not be sustainable. Essentially, the indicator shows that each Nova Scotian owes the government of Nova Scotia $15,659 for past decisions that resulted in spending exceeding revenues.

3.16 Net debt per capita has increased every year over the past five years except 2011. The amount of net debt per capita ranges from a low of $13,508 in 2011 to a high of $15,659 in 2014. Net debt per capita increased almost 6% during 2013-14, the largest increase over the past five years. Nova Scotia has had the second highest net debt per capita for the past five years when compared to New Brunswick, Newfoundland and Labrador, Prince Edward Island, Saskatchewan and Manitoba; it is second only to Newfoundland and Labrador.

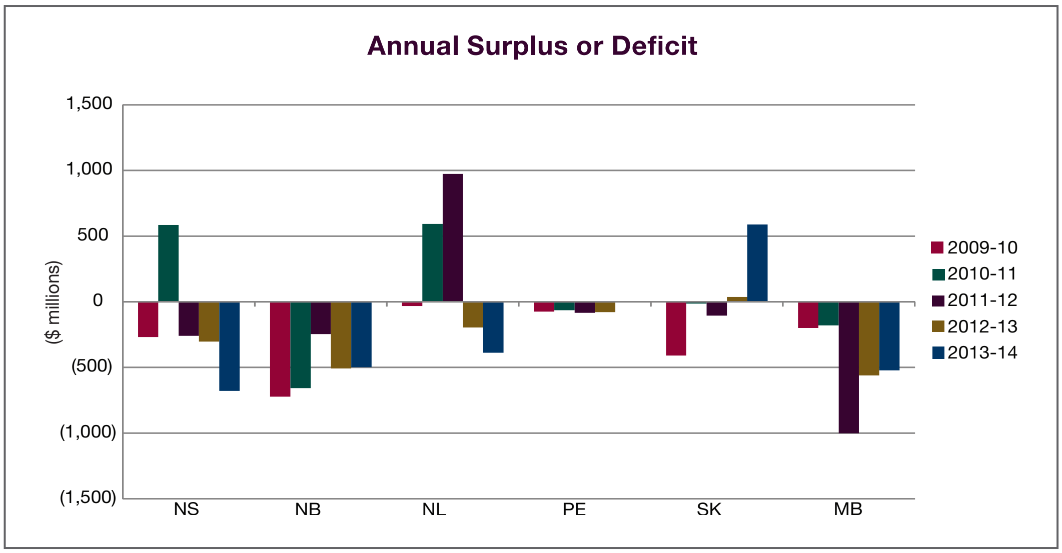


Net Debt as a Percentage of Total Revenues – Nova Scotia					
Year Ending March 31	2010	2011	2012	2013	2014
Net Debt ($ millions)	$13,045	$12,758	$13,383	$13,942	$14,762
Total Revenues ($ millions)	$9,231	$9,919	$9,760	$10,104	$10,035
Net Debt/Revenue	141%	129%	137%	138%	147%

Amount of net debt as a percentage of total revenues increased by 9% in 2014

3.17 *Net debt as a percentage of total revenues* – Net debt provides a measure of future revenue which will be required to pay for past transactions and events. Therefore, total revenues are a key indicator of substainability. An increasing trend in this ratio means it will take longer to repay this debt and shows that debt is growing faster than revenues.

3.18 During 2014, the percentage of net debt over total revenue increased by 9%. In Nova Scotia, over the past five years, net debt as a percentage of total provincial revenues has increased from 141% in 2010 to a high of 147% in 2014. This means there is $1.47 debt for every $1 revenue. Over the same period, four of the five compared jurisdictions have shown an increasing trend in this ratio as well, although results for the year ended March 31, 2014 were not yet available for Prince Edward Island. Saskatchewan's ratio is significantly lower than any of the other jurisdictions.

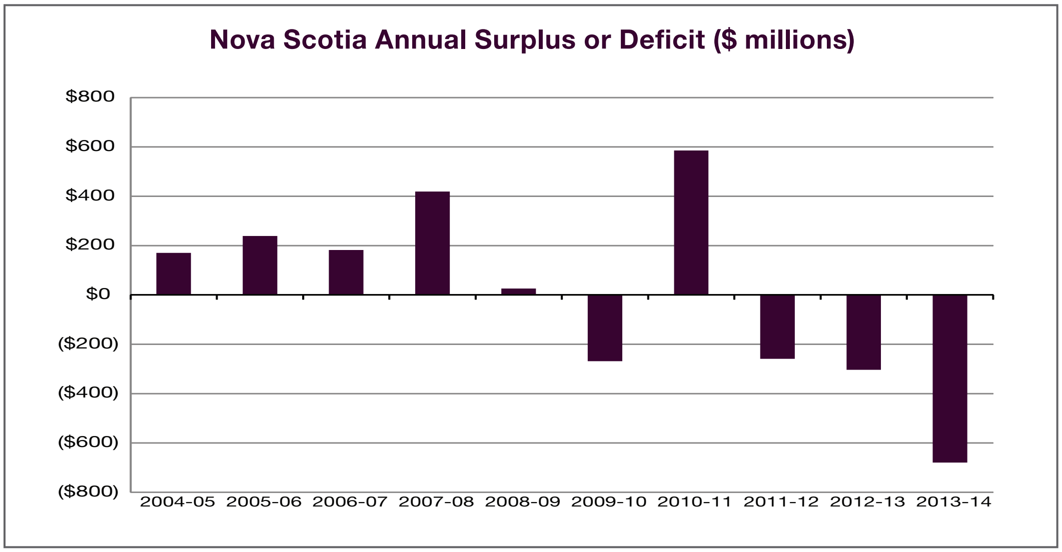


Total Expenses (in billions)					
Jurisdiction	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**
Nova Scotia	$9.5	$9.3	$10.0	$10.4	$10.7
New Brunswick	7.8	8.2	8.1	8.3	8.3
Newfoundland and Labrador	7.3	7.5	7.8	7.7	7.9
Prince Edward Island	1.6	1.6	1.7	1.7	1.6[1]
Saskatchewan	12.5	13.3	13.7	14.3	13.8
Manitoba	12.8	13.4	14.7	14.2	14.7

[1] 2013-14 estimated expenses

3.19 *Annual surplus or deficit* – This annual result indicates the extent to which the government's revenues are more or less than its expenses during the year. A surplus means revenues exceed expenses while a deficit indicates that government has overspent its budgeted targets.

3.20 The chart above shows there are significant fluctuations in jurisdictions' results or trends over the past five years. With the exception of a few years, most provinces have been experiencing deficit positions over the past five years. It is important to consider the annual surplus or deficit in relation to the amount of expenses for each jurisdiction. Therefore, we included the total expenses for each jurisdiction below the chart.

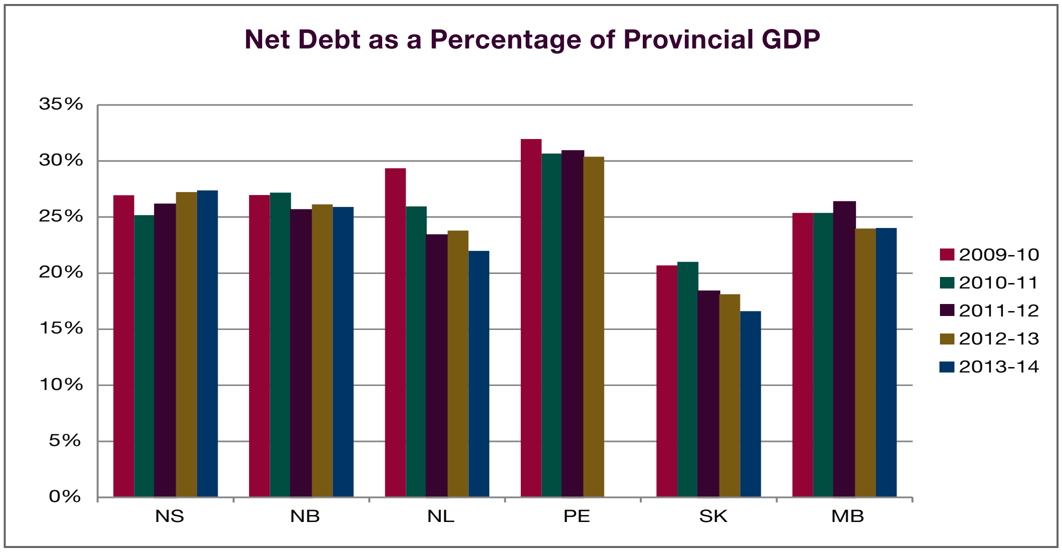


3.21 There are significant fluctuations in the Province of Nova Scotia's annual results from 2005 to 2014, ranging from a surplus of $585 million in 2011 to a deficit of $679 million in 2014. The significant deficits have occurred in four of the past five years. In 2014, Nova Scotia had the largest deficit of the six provinces we compared although expenses in both Saskatchewan and Manitoba were 40% higher than those in Nova Scotia.

Sustainability Indicators Related to GDP

3.22 Gross domestic product (GDP) is one of the primary indicators used to measure a province's or country's economy. GDP can be measured by either summing the value of the income generated in an economy (income approach) or by the total dollar value of all goods and services purchased by households and the government (expenditure measure).

3.23 GDP is usually stated as a rate of change in a three-month period over the prior three-month period. An economy with two consecutive periods of reduced growth is said to be in recession. GDP values used in our analyses are expenditure-based.



Net Debt as a Percentage of Provincial GDP – Nova Scotia					
Year Ending March 31	**2010**	**2011**	**2012**	**2013**	**2014**
Net Debt ($ millions)	$13,045	$12,758	$13,383	$13,942	$14,762
Provincial GDP ($ millions)	$35,254	$37,073	$38,349	$38,214	$39,145
Net Debt/GDP	37%	34%	35%	37%	38%

Provincial net debt is placing an increasing burden on the economy

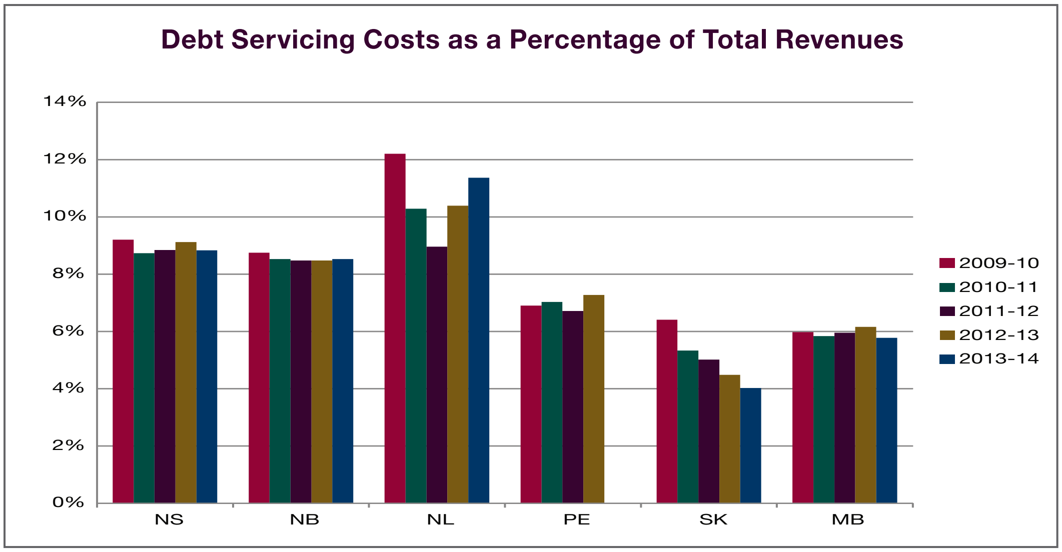
3.24 *Net debt as a percentage of provincial GDP* – Net debt as a percentage of provincial GDP provides insight into the ability of an economy to support government's debt. A higher percentage indicates that a government's debt is becoming an increasing burden on the economy and may not be sustainable. A decreasing percentage shows the growth of the net debt is equal to, or less than, the growth of the economy and is likely sustainable. In theory, a larger economy should be able to absorb a higher amount of government debt. Nova Scotia's net debt as a percentage of provincial GDP has increased to its highest rate in the past five years.

3.25 Provincial net debt is placing an increasing burden on the economy. In the past five years, two jurisdictions had an overall decrease in this ratio and the remaining jurisdictions experienced an increase. The ratio for Nova Scotia has been higher than the other jurisdictions over this time period, with the exception of 2011-12, when only one jurisdiction was higher than Nova Scotia.

Flexibility

3.26 Flexibility describes the extent to which a government can change its debt burden or raise taxes within its economy. Increasing debt and taxation reduces flexibility and the government's ability to respond to changing circumstances. Assessing flexibility provides insight as to how government manages its finances. The following indicator has been selected to assess flexibility.

3.27 *Debt servicing costs-to-revenues* – The ratio of debt serving costs-to-revenues indicates the amount of current revenue that is required to service past borrowing decisions and, as a result, is not available for current and future programs and services. Debt servicing costs are variable only to the extent they fluctuate with the amount of debt issued. However, once debt is issued, interest payments on that debt are a fixed cost of government, and are its first commitment. Failure to pay interest impacts the ability to raise future debt, and can also increase government's borrowing rate. As debt increases, government is less able to respond to economic changes.



Debt Servicing Costs as a Percentage of Total Revenues – Nova Scotia					
Year Ending March 31	**2010**	**2011**	**2012**	**2013**	**2014**
Debt Servicing Costs ($ millions)	$850	$866	$863	$921	$886
Total Revenues ($ million)	$9,231	$9,919	$9,760	$10,104	$10,035
Debt Servicing Costs as a % of Revenue	9%	9%	9%	9%	9%

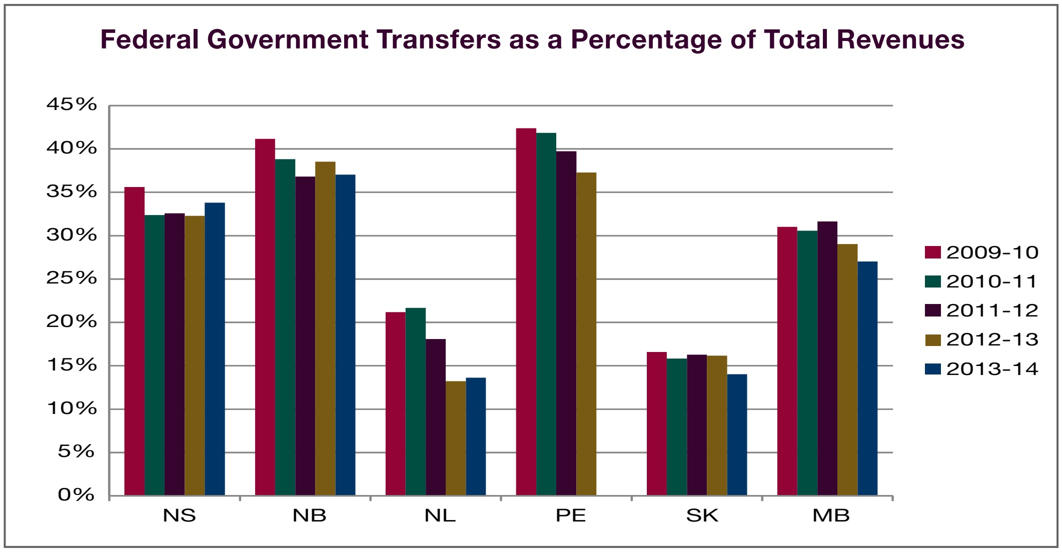
Nova Scotia's debt servicing costs-to-revenues is higher than four of the five compared jurisdictions

3.28 In Nova Scotia, this ratio has remained constant over the past five years. This indicates that debt servicing costs have increased or decreased at approximately the same rate as revenue. The ratio for Nova Scotia has been consistently higher than four of the other five jurisdictions.

Vulnerability

3.29 Vulnerability indicators can measure the amount government is dependent on sources of revenue outside its control and its exposure to risks which might affect government's ability to meet its commitments. The lower government's own-source revenue, the more it relies on fiscal decisions of others.

3.30 *Federal government transfers as a percentage of total revenues* – This indicator demonstrates the level of federal government transfers compared to total government revenues. The higher the percentage, the more reliance the provincial government puts on receipt of funds from the federal government. These transfers are dependent on policy decisions at the federal level and outside the control of the provincial government.



Federal Revenue as a Percentage of Total Revenues – Nova Scotia					
Year Ending March 31	**2010**	**2011**	**2012**	**2013**	**2014**
Federal Revenues ($ millions)	$3,287	$3,212	$3,179	$3,263	$3,392
Total Revenues ($ millions)	$9,231	$9,919	$9,760	$10,104	$10,035
Federal Revenues as a % of Total Revenue	36%	32%	33%	32%	34%

Federal government transfers have remained stable over the past five years at approximately $3 billion (34% of total revenues)

3.31 This ratio remained mostly stable for Nova Scotia over the past five years with a slight increase in the percentage of federal government transfers in 2010 and again in 2014. The province relied more on federal transfers than on its own-source revenue in 2014 than it did the previous three years. Overall, federal transfers as a percentage of the total revenues have fluctuated slightly in four jurisdictions, and more significantly in one.

3.32 As noted in the previous chart, federal transfers as a percentage of total revenues for the province can vary significantly from year to year. The percentage for Nova Scotia has been at a high of 36% in 2010 to a low of 32% in 2013.

Sources:

1. *Nova Scotia – Public Accounts for March 31, 2005 – March 31, 2014*

2. *New Brunswick, Newfoundland and Labrador, Saskatchewan, and Manitoba – Public Accounts March 31, 2010 - March 31, 2014*

3. *Prince Edward Island – Public Accounts March 31, 2010 to March 31, 2013 (2013-14 Public Accounts not released at the time this chapter was written.)*

4. *Statistics Canada – Gross domestic product, expenditure-based, by province and territory (2008-2013)*

5. *Statistics Canada – Population by year, by province and territory (July 2008 – July 2014)*

6. *Statistics Canada – Annual population estimates (July 2012 – July 2014)*

Note: Income from Government Business Enterprises has been included in the calculation of own source revenue, and total revenue for all provinces. This change ensures that information presented is comparable among provinces and is consistent with the way in which most provinces report financial indicators.