

Chapter 2: Nova Scotia's Finances from 2017 Public Accounts



Key Messages:

2017 Results

- Financial condition improved
 - Surplus of \$150 million
 - Net long-term debt down \$400 million
 - Annual interest costs down \$28 million
- For each Nova Scotian:
 - \$550 decrease in debt
 - \$34 decrease in interest
- Departments got extra \$234 million
- Better government reporting on finances

Over the Last 10 Years

- Trend concerning
 - Net results show \$486 million deficit
 - Net long-term debt up \$3 billion
 - \$7.5 billion interest on long-term debt
- For each Nova Scotian:
 - Increase of \$2,986 in debt
 - Decrease of \$102 in interest
- Revenues not keeping pace with expenses

Key Observations:

Analysis of 2008-2012 Results

- \$502 million surplus
- Net debt up \$1.0 billion (8%)
- Net debt per person up \$940 (7%)
- Long-term debt up \$2.6 billion (26%)
- \$746 million average annual interest on long-term debt

Analysis of 2013-2017 Results

- \$988 million deficit
- Net debt up \$1.6 billion (12%)
- Net debt per person up \$1,594 (11%)
- Long-term debt up \$400 million (3%)
- \$754 million average annual interest on long-term debt

Revenues: From 2007 to 2017

- Revenues up \$2.9 billion (35%)
- HST and other taxes up \$854 million (57%)
- Per tax filer, personal income tax up \$1,134 (49%)
- Federal transfers relatively consistent as a percentage of total revenues

Expenses: From 2007 to 2017

- Expenses up \$3 billion (37%)
- Expenses up \$2,997 (35%) per person
- Health expenses are 40% of total
- Health expenses up \$1.4 billion (46%)
- Education expenses up \$109 million (7%)



2 Nova Scotia's Finances from 2017 Public Accounts

Purpose

- 2.1 The Province's finances are an area that all Nova Scotians should have an interest in. The purpose of this chapter is to inform Nova Scotians on some aspects of the Province's finances to promote discussion.
- 2.2 Providing information on the Province's current level of revenues and expenditures against levels from 10 years ago provides insight into how the Government is fostering sustainability. The information presented below is only part of the story. Additional information and context is presented in Volume 1 of the Public Accounts of Nova Scotia.

Financial Condition and Trends



Province's annual expenditures up \$3 billion (37%) from 10 years ago

- 2.3 The Province's annual expenditures increased by 37% over the past 10 years from \$8 billion in 2007 to \$11 billion in 2017.



Government spends 40% of its annual budget on health

- 2.4 \$7 billion of the Province's \$11 billion annual expenditure is incurred by the departments of Community Services, Education, and Health; health-related expenses account for 40% of total provincial expenditures.
- 2.5 The table below shows health-related expenses have increased by \$1.4 billion since 2007. The increase in expenses may be attributable to the 36% increase in the number of Nova Scotians over the age of 65 (see Appendix I for Nova Scotia population changes since 2007).

Change in Total Expenses from 2007 to 2017				
Expenses by Function	2007 \$ millions	2017 \$ millions	Change \$ millions	Change %
Community Services	\$836	\$1,079	\$243	29%
Education	\$1,510	\$1,619	\$109	7%
Health	\$3,055	\$4,462	\$1,407	46%
Other	\$2,710	\$3,919	\$1,209	45%
Total Expenses	\$8,111	\$11,079	\$2,968	37%

- 2.6 The Province's expenses per Nova Scotian have increased by \$2,997 (35%) from 2007. Expenses per capita changes were primarily driven by changes in the expense amounts because Nova Scotia's population increased only 2% since 2007.



Expenses per Capita from 2007 to 2017				
Expenses by Function	2007	2017	Change	Change %
Community Services	\$891	\$1,136	\$245	27%
Education	\$1,610	\$1,705	\$95	6%
Health	\$3,257	\$4,700	\$1,443	44%
Other	\$2,913	\$4,127	\$1,214	42%
Total Expenses per Capita	\$8,671	\$11,668	\$2,997	35%

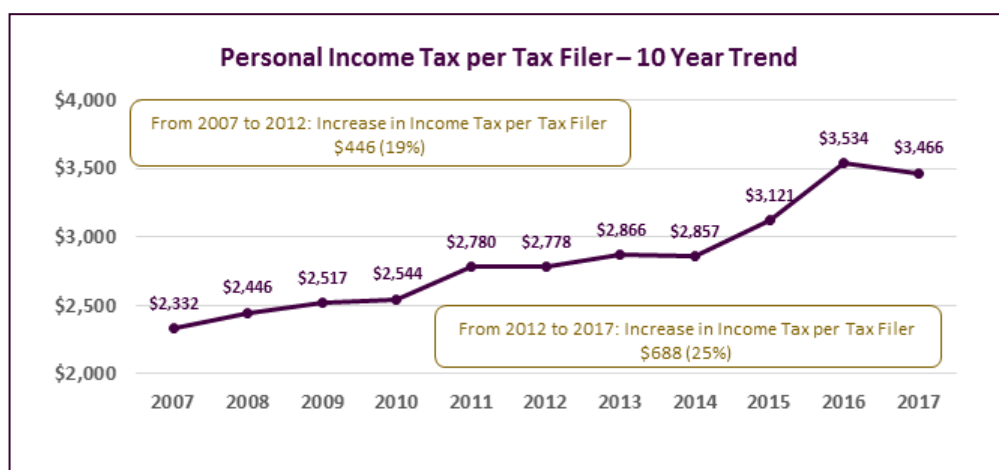
➔ Increase in revenues over past 10 years not enough to cover increase in expenses

2.7 The table below shows revenue by type for 2007 and 2017. The Province's revenues increased by \$2.9 billion (35%) from 2007. This 35% increase in revenue growth is not keeping pace with the 37% increase in expenses over the same 10-year period and has been financed partially through an increase in long-term debt.

Change in Total Revenues from 2007 to 2017				
Revenue Type	2007 \$ millions	2017 \$ millions	Change \$ millions	Change %
Personal Income Tax	\$1,679	\$2,617	\$938	56%
Corporate Income Tax	\$393	\$610	\$217	55%
HST and Other Taxes	\$1,495	\$2,349	\$854	57%
Other Revenues	\$2,120	\$2,152	\$32	2%
Federal Transfers	\$2,606	\$3,500	\$894	34%
Total Revenues	\$8,293	\$11,228	\$2,935	35%

➔ Province receives 49% more in personal income tax revenues than 10 years ago

2.8 Personal income tax revenue per capita is the average amount of personal income tax collected from each tax filer. During 2017, the Province earned, on average, \$3,466 from each tax filer, which is a 49% increase over the past 10 years.



Source: Tax filer data provided by the Department of Finance and Treasury Board



The Province's financial condition improved in 2017, but overall it has worsened since 2007

- 2.9 There are numerous indicators that can be used to assess a government's financial condition. The indicators we have included in this chapter are among those recommended for reporting by the Public Sector Accounting Board's Statement of Recommended Practice 4: Indicators of Financial Condition. 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.
- 2.10 The Statement of Recommended Practice recommends that, at a minimum, indicators related to sustainability, flexibility, and vulnerability are considered. We have included these types of indicators, along with other information we feel is useful in demonstrating the Province's financial condition.
- 2.11 The following table provides an overview of the Province's financial performance for the year ended March 31, 2017. Further information is found in the Financial Statement Discussion and Analysis section of the 2017 Public Accounts Volume 1. Although the following table shows that the overall financial condition of the Province improved over the past year, the 10-year trend reveals an overall worsening condition in net debt and net long-term debt.

Financial Highlights		
Indicator	1-Year Trend	10-Year Trend
Sustainability		
Annual surplus or deficit	Surplus this year	Fluctuating
Net debt	Slight decrease	Increasing
Net debt per capita*	Slight decrease	Increasing
Net long-term debt	Slight decrease	Increasing
Net long-term debt per capita*	Slight decrease	Increasing
Flexibility		
Interest on long-term debt	Decreasing	Fluctuating
Interest on long-term debt per capita*	Decreasing	Fluctuating
Vulnerability		
Federal Government Transfers as a Percentage of Total Revenues	Decreasing	Stable

*Nova Scotia's population totals are found in Appendix I

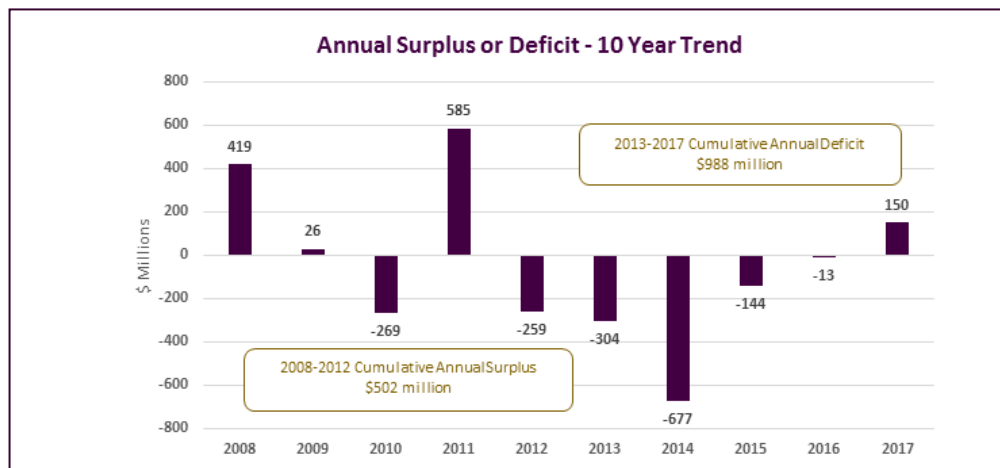
Sustainability

- 2.12 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,

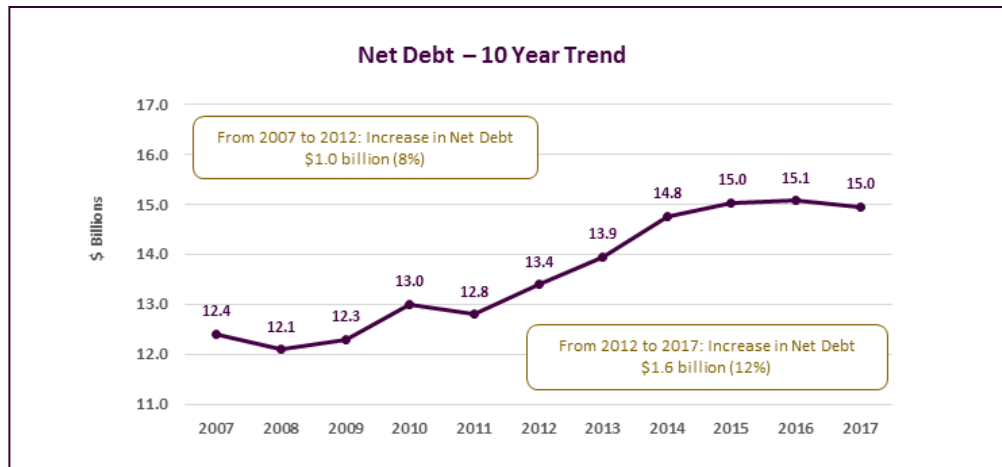


such as increased debt or tax rates. Sustainability indicators provide insight into how a government balances its commitments and debts.

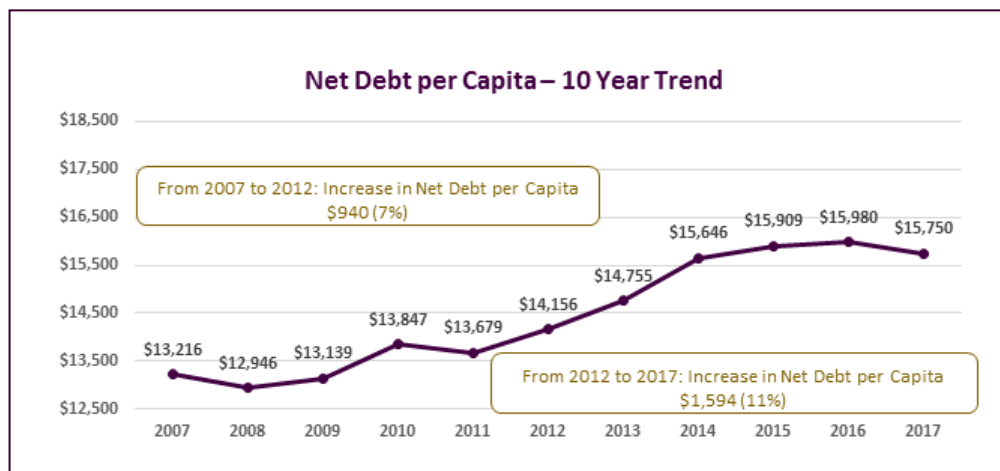
- 2.13 The annual surplus or deficit indicates the extent to which revenues are more or less than expenses during the year. A surplus occurs when revenues exceed expenses. The Province reported a surplus of \$150 million in 2017, the first since 2011. The 2017 surplus reduced the Province's borrowing needs which in turn decreased net debt and interest on long-term debt. The Government discusses changes in revenues and expenses in detail in Volume 1 of the Public Accounts.
- 2.14 Although the Government realized a \$150 million surplus in 2017, if you add up the annual surpluses and deficits during the past ten years, the total is a \$486 million deficit. This 10-year cumulative annual deficit may impact sustainability, as it shows that the Province's revenues are not keeping pace with its expenses.



- 2.15 Net debt is used to define the difference between financial assets and liabilities and informs the reader as to whether there are enough financial assets to cover the liabilities for future generations. In other words, it is the amount of future revenue that is needed to pay for past transactions. The Government talks further about net debt in the Financial Statement Discussion and Analysis section of Volume 1 of the Public Accounts.
- 2.16 While the 2017 change in net debt was relatively stable, net debt increased by \$2.6 billion (21%) since 2007. The following chart shows that in the 2007 to 2012 period net debt increased by \$1.0 billion, and in the 2012 to 2017 period net debt increased by an additional \$1.6 billion.



2.17 Net debt per capita shows the amount of net debt attributable to each person living in the province. The Province of Nova Scotia owes \$15,750 for each Nova Scotian for past decisions that resulted in spending exceeding revenues. Despite a marginal reduction in net debt per capita in the current year, since 2007 net debt increased \$2,534 per capita, with 63% of this increase occurring in the 2012 to 2017 period.

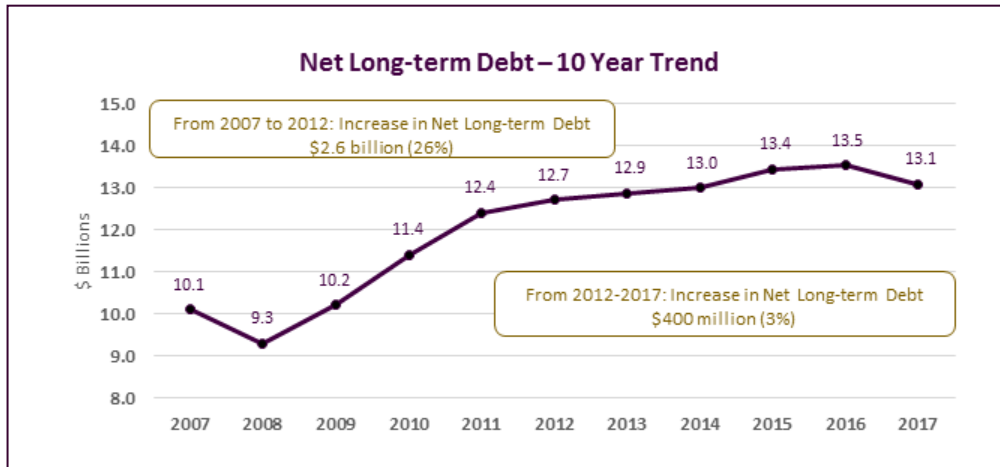


2.18 Unmatured debt is the total debt the Province owes to outsiders and consists primarily of debentures and long-term loans. Net long-term debt is the Province's unmatred debt less the amount that is set aside to fully fund specific debt when it becomes due. Schedule 4 of the 2017 Public Accounts Volume 1 contains more details on unmatred debt.

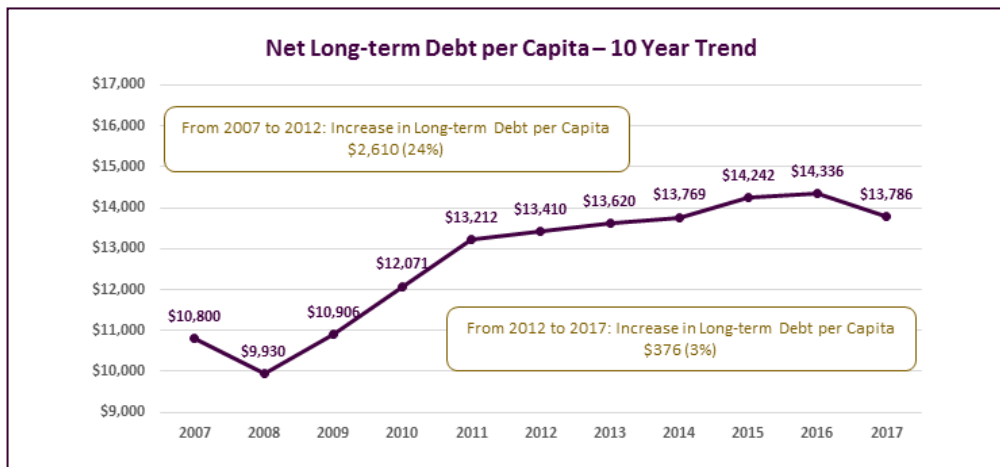
2.19 We have commented in prior years that the increasing trend in net long-term debt is a significant indicator of fiscal sustainability because the costs of servicing this debt takes priority over program expenses and reduces the ability of the Government to expand services or reduce taxes. Net long-term debt decreased by \$400 million over the prior year; however, over the past 10



years, net long-term debt increased by \$3.0 billion (30%) since 2007. 87% of this \$3.0 billion increase in net long-term debt occurred in the 2007 to 2012 period.



2.20 Net long-term debt per capita measures the burden of the Province’s debt owing to third parties attributable to each Nova Scotian. Net long-term debt per capita decreased in 2017 by \$550 to \$13,786 per person. Over the past 10 years, net long-term debt per capita increased by \$2,986 (28%) per Nova Scotian with 87% of this increase occurring in the 2007 to 2012 period.



Flexibility

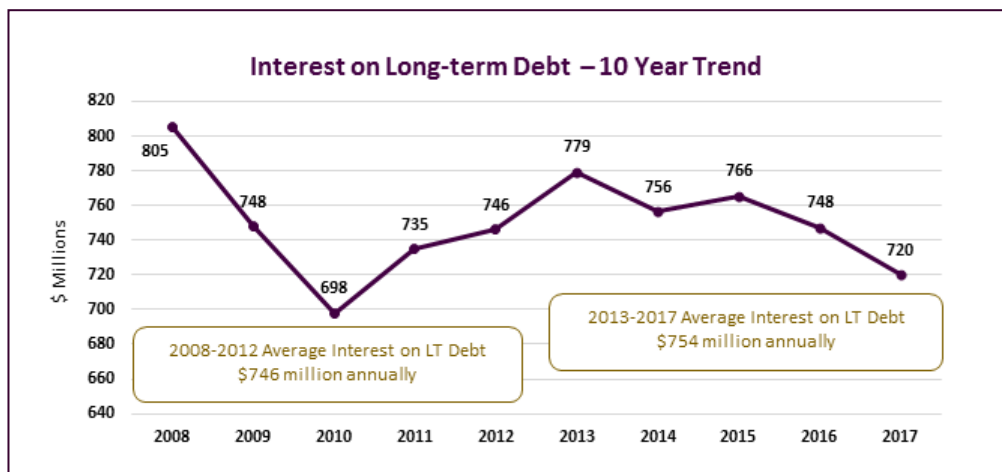
2.21 Flexibility is the degree to which a government can change its debt burden or raise taxes within its economy to meet its existing financial obligations. Flexibility provides insights into how a government manages its finances. Increasing debt obligations and interest costs reduce a government’s future flexibility and ability to respond to changing circumstances.

2.22 Interest on long-term debt assists in assessing flexibility, as it is the cost associated with servicing past borrowing decisions. These costs represent a

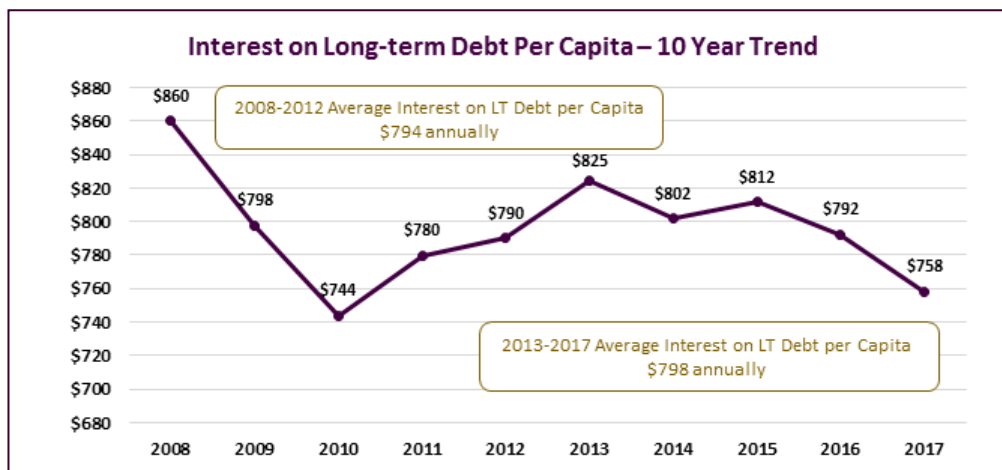


fixed cost once debt is issued. Failure to pay interest impacts the ability to raise future debt and would further increase costs of borrowing. Interest on long-term debt represents funds which cannot be used for general operations, such as providing programs and services to Nova Scotians. The Province has paid over \$7.5 billion in interest on long-term debt in the past 10 years.

2.23 Although the chart below shows fluctuations in the annual interest on long-term debt over the past 10 years, the amount of interest paid in the last five years is about the same as what was paid between 2008 and 2012. However, the annual interest on long-term debt, for the most part, declined over the past five years.



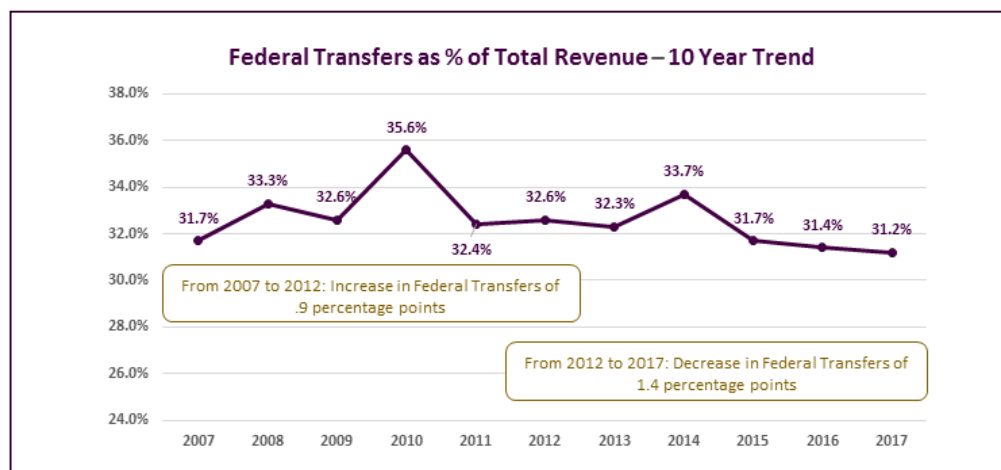
2.24 Interest on long-term debt per capita represents the interest the Province pays for every Nova Scotian each year on unmatured debt. In the current year, the Province paid \$758 in interest costs on long-term debt for every Nova Scotian.





Vulnerability

- 2.25 Vulnerability indicators measure the amount a government is dependent on sources of revenue outside its control and its exposure to risks which might affect a government's ability to meet its commitments. The lower a government's own-source revenue, the more it relies on the fiscal decisions of others.
- 2.26 As indicated below, Nova Scotia continues to rely on the federal government equalization payments and other transfers. Overall reliance on federal government funding has remained relatively consistent over the past 10 years.



Other Observations

➡ Additional appropriations almost doubled what was approved last year

- 2.27 Public sector entities are held to a high standard of accountability as they spend funds raised from taxpayers to provide public services. As a result, the public expects the use of those funds to be transparent.
- 2.28 An Appropriations Act of Nova Scotia is passed each year and details what the Government is authorized to spend during the fiscal year. When an original appropriation is determined to be insufficient, the Finance Act of Nova Scotia requires that an additional appropriation be obtained. The original budget is challenged by all members of the Legislature and additional appropriations are approved by Executive Council.
- 2.29 Executive Council approved additional appropriations totaling \$221 million for 10 departments during the year and a final appropriation of \$13 million for nine departments. This \$234 million in additional appropriations for 2016-17 is almost double the amount that had been approved in 2015-16.
- 2.30 The table below details \$190 million of the \$234 million in additional appropriations and the reasons why some of the departments required



additional funding. Further details are found in the Financial Statement Discussion and Analysis section of the 2017 Public Accounts Volume 1.

Departments Requiring Additional Appropriations		
Department	Additional Funding	Why additional appropriation needed
Transportation and Infrastructure Renewal	\$62 million	<ul style="list-style-type: none"> • \$45 million for Boat Harbour • \$17 million: <ul style="list-style-type: none"> • snow and ice removal • October 2016 rain storm • land purchases
Assistance to Universities	\$61 million	<ul style="list-style-type: none"> • \$25 million for Research NS Trust • \$20 million for Post-Secondary Investment Fund • \$16 million: <ul style="list-style-type: none"> • Ocean Frontier Institute • St. FX Mulroney Institute • Other post-secondary infrastructure • Operating grants
Municipal Affairs	\$46 million	<ul style="list-style-type: none"> • \$46 million: <ul style="list-style-type: none"> • October 2016 Disaster Flood Relief • Clean Water and Wastewater Fund
Labour and Advanced Education	\$21 million	<ul style="list-style-type: none"> • \$10 million investment in the Centre for Employment Innovation • \$11 million for Labour Market Programs and other commitments
Total	\$190 million	

➔ Enhanced government reporting on financial highlights

2.31 In 2017, the Government enhanced its discussion on its performance in the Financial Statement Discussion and Analysis section of the 2017 Public Accounts Volume 1 by:

- including a financial highlight summary table that shows the five-year trend of specific financial statement items categorized by performance measures (i.e., sustainability, flexibility, and vulnerability, as well as other financial indicators), and
- comparing departmental expenses to both estimates and prior year amounts.

This improved financial reporting provides the reader with more useful information concerning the Province's finances.

➔ Sensitivity analysis would enhance government's disclosure of financial information

2.32 To further enhance financial reporting, the Government could incorporate sensitivity analysis into its financial statements and in the Financial Statement Discussion and Analysis section of the Public Accounts. Sensitivity analysis



is an effective way to show how different events or variables can impact the financial health of a government. Some provinces, as well as the federal government, use sensitivity analysis to demonstrate how different rate changes in GDP, interest, discount rates, and inflation will impact their budget and fiscal health. For example, in its Public Accounts, Newfoundland and Labrador presents the impact a one cent change in foreign exchange rates would have on foreign borrowings.

- 2.33 The Province's pension, retirement, and other obligations totaled \$2.8 billion as at March 31, 2017. Assumptions, such as discount, inflation, and salary escalation rates, are used in valuing this liability. Financial reporting would be improved if the Government included an analysis on how changes in these assumptions would impact the obligation (i.e., how a 1% change in the discount rate would impact obligations).
- 2.34 We urge the Government of Nova Scotia to consider including sensitivity analysis in its Financial Statement Discussion and Analysis section of its public accounts.



Nova Scotia's Population

Nova Scotia's population remains relatively unchanged with an increase of 2% from 2007; however, the age demographics have shifted.

Change in Population from 2007 to 2017 (000's)				
Population	2007	2017 Forecast	Change in Population from 2007	% Change in Population from 2007
0 to 17 years	183	163	(20)	(11%)
18 to 64 years	612	599	(13)	(2%)
65+	140	190	50	36%
Total	935	952	17	

Shift in Age Demographic from 2007 to 2017 (%)			
Population	% of 2007 Total	% of 2017 Total	Shift in Age Demographic
0 to 17 years	20%	17%	(3%)
18 to 64 years	65%	63%	(2%)
65+	15%	20%	5%
Total	100%	100%	0%