

Chapter 2

Nova Scotia's Finances from 2018 Public Accounts

Key Messages:

- Chapter provides highlights to encourage public discussion on the Province's financial results. This is not a commentary on government policy or decisions. More analysis is provided in the Public Accounts of Nova Scotia.
- For the last 10 years, financial indicators show a worsening position; indicators for the last 5 years show that these worsening results continue but the decline has slowed.
- The Province's expenses increased by 32% over the past 10 years to deliver services to roughly the same population (2% increase). These numbers can generate valuable public discussion on NS's future finances.

Financial Condition of the Province of Nova Scotia

One picture of a government's financial condition is the use of ratios and analysis to generate discussion on sustainability, flexibility, and vulnerability. These elements of financial condition are those suggested by Canada's Public Sector Accounting Board.

Sustainability indicators are meant to show the Province's ability to maintain existing services and financial requirements without needing to increase revenues or debt

10-year trend

- cumulative net deficit of \$663 million
- net debt increased by \$2.9 billion
- net long-term debt increased by \$4.1 billion

5-year trend

- cumulative net deficit of \$453 million
- net debt increased by \$1.1 billion
- net long-term debt increased by \$500 million

Overall: The past decade shows a trend of worsening sustainability. However, the past 5 years has been less so with long-term debt increasing by only 4% as opposed to a 44% increase over 10 years. The current net debt per Nova Scotian increased over the past 10 years from \$12,946 to \$15,682.

Flexibility indicators are meant to show the Province's ability to increase revenues or debt borrowings within its economy

10-year trend

- interest on long-term debt constant at an average of \$742 million annually; no significant increase or decrease
- interest on long-term debt per capita ranged between \$744 and \$825 per Nova Scotian

5-year trend

- interest on long-term debt decreased from \$756 million to \$719 million per year
- interest on long-term debt per capita decreased from \$802 to \$754 per Nova Scotian

Overall: Interest paid on long-term debt has remained relatively constant over 10 years. The Province paid over \$7.4 billion in interest during the last decade.

Vulnerability indicators demonstrate how reliant the Province is on revenues outside its control. A key measure is federal transfers as a percent of total revenues, demonstrating the Province's reliance on the federal government.

10-year trend

- Federal government transfers as a % of total Provincial revenues decreased slightly
- Nearly \$1 of every \$3 of the Province's revenue comes from the federal government

5-year trend

- Federal government transfers as a % of total Provincial revenues decreased slightly
- Nearly \$1 of every \$3 of the Province's revenue comes from the federal government

Overall: Nova Scotia continues to rely on equalization payments and other federal transfers.



Selected Financial Highlights

Expenses	Highlights
Overall	<ul style="list-style-type: none">• Annual expenses up \$2.9 billion (32%) since 2008 to provide services to a population that increased by 2% in the decade• Spending \$12,318 per Nova Scotian in 2018 (2008 - \$9,488); up 30%• Executive Council approved an additional \$479 million in expenses above the 2017-18 budget
Health and Wellness	<ul style="list-style-type: none">• Increased \$1.4 billion (42%) over the past 10 years• 39% of the Province's 2018 expenses (2008 - 37%)• \$4,825 per Nova Scotian in 2018 (2008 - \$3,471); up 39%• 52% of healthcare costs¹ are for the 20% of Nova Scotians aged 65+
Education and Early Childhood Development	<ul style="list-style-type: none">• Increased \$335 million (25%) over the past 10 years• 14% of the Province's 2018 expenses (2008 - 15%)• \$1,751 per Nova Scotian in 2018 (2008 - \$1,427); up 23%• Student enrolment declined 12% over the past 10 years

Revenues	Highlights
Overall	<ul style="list-style-type: none">• Annual revenues up \$2.7 billion (29%) over the past 10 years and there was a cumulative annual deficit of \$663 million over this same period• Revenue growth mainly from increased tax revenues<ul style="list-style-type: none">• Tax revenues increased by \$1.8 billion (46%) over the past 10 years• Personal tax filers pay on average 45% more personal income tax than 10 years ago• Federal transfers increased by \$685 million (22%) over the past 10 years

5 Questions Nova Scotians may want to ask:

1. What do the financial indicators mean for the Province going forward in terms of revenue and expense plans?
2. How will the increasingly aged population of Nova Scotia impact future revenues and spending on healthcare and other costs?
3. How do healthcare costs of \$4,825 per Nova Scotian compare to other provinces and what does this mean for the future?
4. What did Nova Scotia get for \$4.1 billion more in net long-term debt over the past 10 years?
5. How much of the income tax increases over the past 10 years relates to income growth, tax policy change, and inflation?

¹ Canadian Institute for Health Information – 2015 Health spending data tables

2 Nova Scotia's Finances from 2018 Public Accounts

Purpose

- 2.1 The Province's finances are an area that all Nova Scotians likely 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. Of course, numbers and indicators are only one aspect to inform a discussion.
- 2.2 We look at the numbers from the perspective of sustainability, flexibility, and vulnerability and provide information on the current level of revenues, expenses, and population changes against levels from 10 years ago to provide insight into the Province's financial condition. We are not commenting on the financial decisions made by Government. The information presented below is only part of the story and does not consider such factors as policy decisions, actual programs and services, inflation, performance of the provincial economy, and other elements that may impact revenues and expenses. Additional information and context, including economic highlights, is presented in the Financial Statement Discussion and Analysis section in Volume 1 of the 2018 Public Accounts of Nova Scotia where there are 55 pages of detailed analysis and explanations.

Financial Indicators

 Indicators show the Province's financial condition has worsened over the past 10 years; however, the rate of worsening has slowed in the last 5 years

- 2.3 There are various indicators that can be used to assess the Province'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 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.
- 2.4 The Statement of Recommended Practice recommends that, at a minimum, indicators related to sustainability, flexibility, and vulnerability be considered. We have included these types of indicators, along with other information we feel is useful in demonstrating the Province's financial condition. These are tools that can assist users of the Province's consolidated financial statements to interpret its financial information.
- 2.5 The financial indicators presented below provide an overview of the Province's financial performance for the 10-year period ending March 31, 2018. The



following table presents overall financial indicators to give a picture of the Province's financial condition. The table shows the condition has worsened over the past 10 years, but the rate of decline has slowed over the past five years.

Financial Highlights		
Indicator	10-Year Trend	5-Year Trend
Sustainability		
Annual surplus or deficit	Fluctuating	Improving
Net debt	Increasing	Increasing
Net debt per capita	Increasing	Increasing
Net long-term debt	Increasing	Slightly increasing
Net long-term debt per capita	Increasing	Slightly increasing
Flexibility		
Interest on long-term debt	Constant	Decreasing
Interest on long-term debt per capita	Constant	Decreasing
Vulnerability		
Federal government transfers as a percentage of total revenues	Slightly decreasing	Slightly decreasing

Sustainability

2.6 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.

➡ 10-year sustainability indicators worsened but less so over the past 5 years

2.7 The financial indicators related to government sustainability demonstrate that the overall financial condition of the Province has worsened over the past 10 years, but that the rate of decline has slowed in the past 5 years. Worsening sustainability is primarily caused by a government taking on more debt.

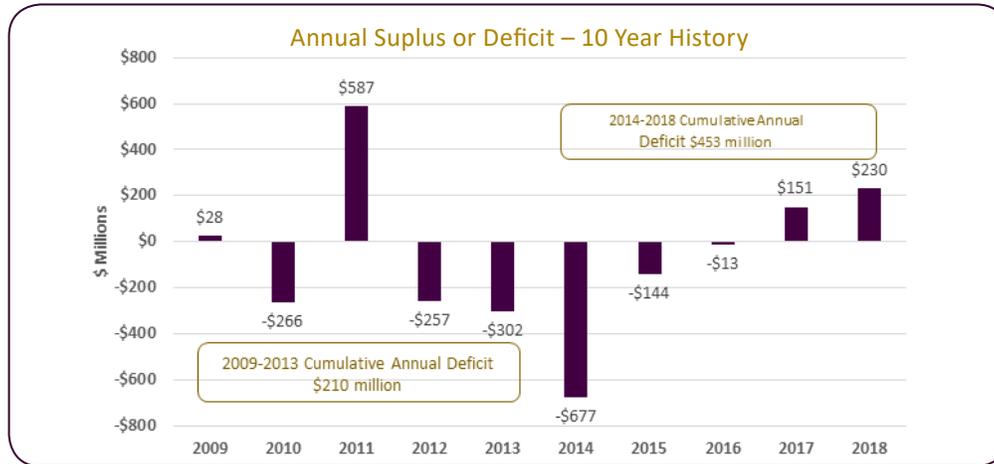
➡ Over the past 10 years, the net of all annual financial results (annual surplus or deficit) is a \$663 million deficit

2.8 The annual surplus or deficit indicates the extent to which revenues are more or less than yearly expenses. A surplus occurs when revenues exceed expenses. The Province reported a surplus of \$230 million in 2018. Changes in revenues and expenses are discussed in detail in Volume 1 of the Public Accounts.

2.9 Although the Province realized a \$230 million surplus in 2018, the cumulative annual surpluses and deficits over the past ten years show a net deficit of \$663

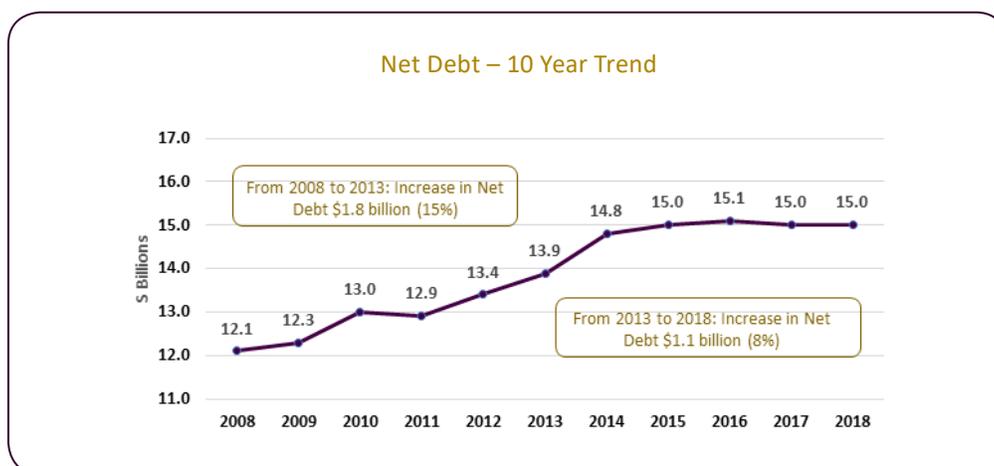


million. This 10-year cumulative annual deficit may impact sustainability, as it shows that the Province's revenues have not kept pace with its expenses.



2.10 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. Further information about net debt is provided on pages 13 and 14 of the Financial Statement Discussion and Analysis section of Volume 1 of the Public Accounts.

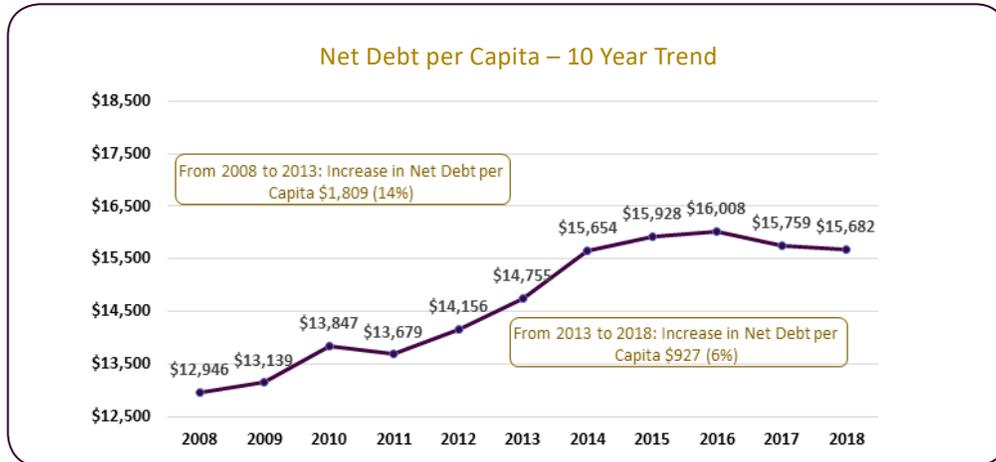
2.11 While net debt in 2018 did not increase from 2017, net debt has increased by \$2.9 billion (24%) since 2008. The following chart shows that in the 2008 to 2013 period, net debt increased by \$1.8 billion, and in the 2013 to 2018 period net debt increased by an additional \$1.1 billion.



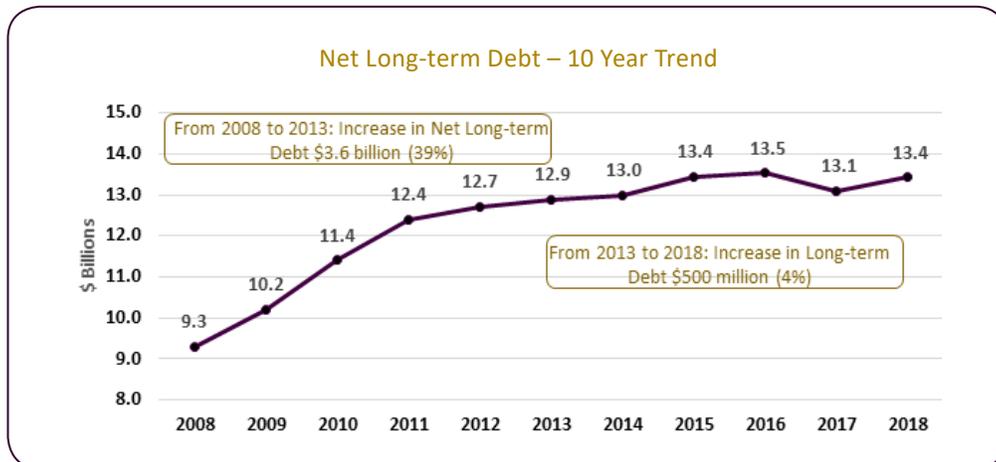
2.12 Net debt per capita shows the amount of net debt attributable to each person living in Nova Scotia. The Province owes \$15,682 for each Nova Scotian from past decisions that resulted in spending exceeding revenues. Despite a marginal reduction in net debt per capita in the current year, since 2008, net



debt increased \$2,736 per capita, with 34 percent of this increase occurring in the 2013 to 2018 period and the remaining 66 percent occurring in the 2008 to 2013 period.

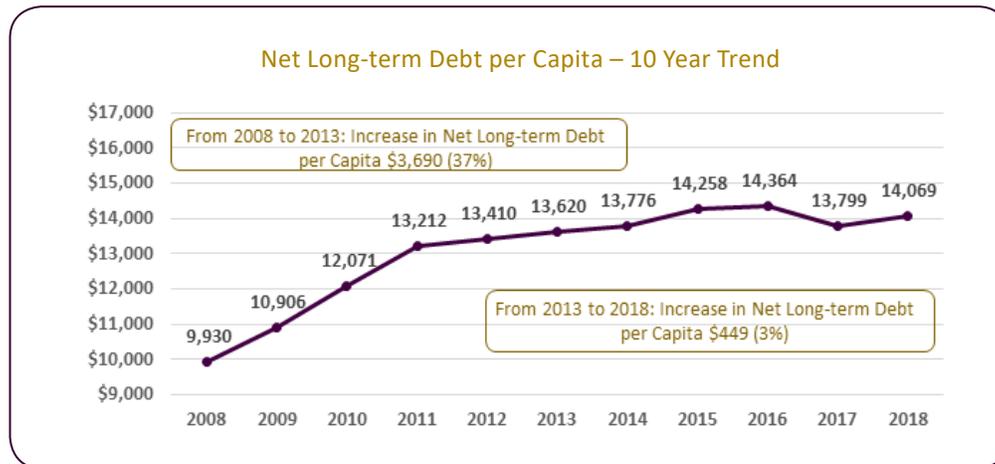


- 2.13 Unmatured debt is the total debt the Province owes to outsiders and consists primarily of debentures and long-term loans. Net long-term debt is the Province's unmaturred debt less the amount that is set aside to fully fund specific debt when it becomes due. Schedule 4 in Volume 1 of the Public Accounts contains more details on unmaturred debt.
- 2.14 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 Province's ability to expand services or reduce taxes.
- 2.15 Net long-term debt increased by \$300 million over the prior year; however, over the past 10 years, net long-term debt increased by \$4.1 billion (44%) since 2008. 88 percent of this \$4.1 billion increase in net long-term debt occurred in the 2008 to 2013 period.





- 2.16 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 increased in 2018 by \$270 to \$14,069 per person. Over the past 10 years, net long-term debt per capita increased by \$4,139 (42%) per Nova Scotian with 89 percent of this increase occurring in the 2008 to 2013 period.



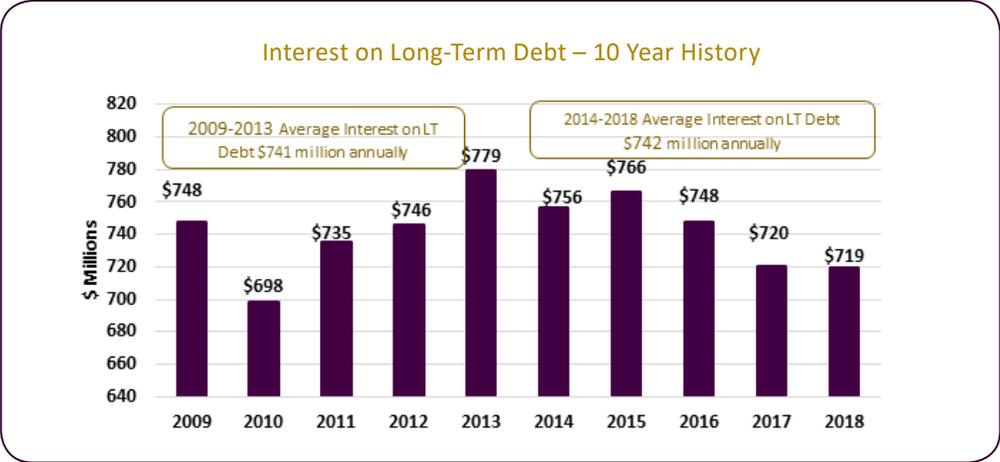
Flexibility

- 2.17 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.

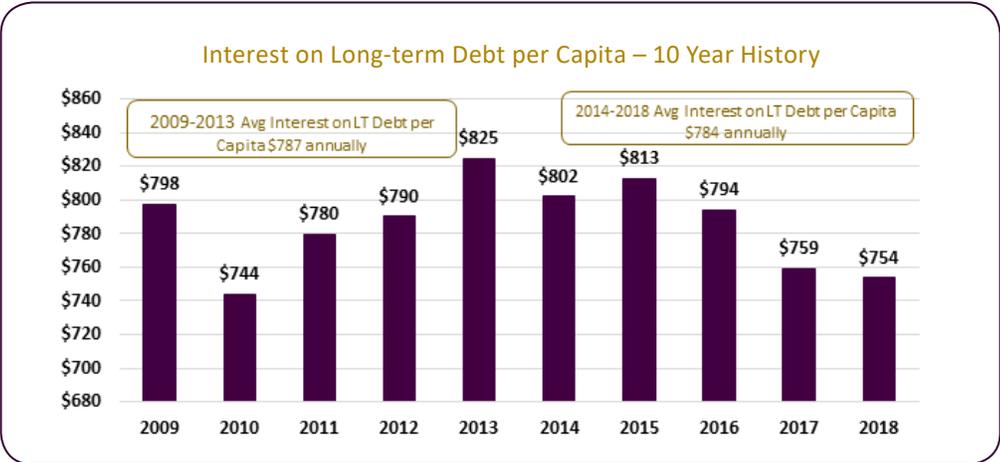


Costs to service long-term debt constant over the past 10 years

- 2.18 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 \$7.4 billion in interest on long-term debt in the past 10 years.
- 2.19 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 5 years is about the same as what was paid between 2009 and 2013. However, the annual interest on long-term debt, for the most part, declined over the past five years.



2.20 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 \$754 in interest costs on long-term debt for every Nova Scotian.



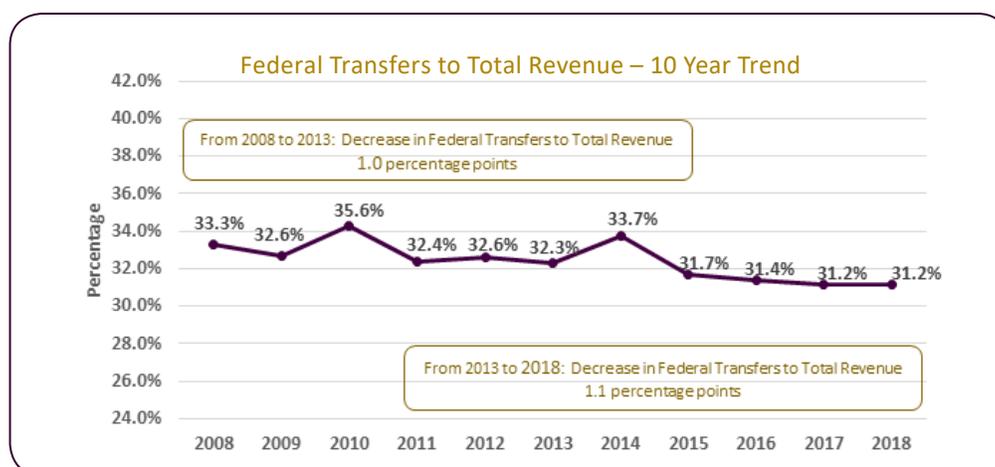
Vulnerability

2.21 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 more a government relies on revenue from other sources, the more dependent it is on the fiscal decisions of others.



Dependency on federal government transfers slightly decreasing over the past 5 and 10-year periods

2.22 As illustrated below, Nova Scotia continues to rely on federal government equalization payments and other transfers. Nearly \$1 in every \$3 dollars of the Province's revenue comes from the federal government.



Financial Highlights

2.23 The financial trends and comparisons presented below do not consider such factors as policy decisions, actual programs and services, inflation, performance of the provincial economy, and other elements that may impact revenues and expenses.

➡ Province's annual expenses up \$2.9 billion (32%) from 10 years ago; revenue up \$2.7 billion (29%)

2.24 The Province's annual expenses increased by 32 percent over the past 10 years from \$8.9 billion in 2008 to \$11.8 billion in 2018 and revenues increased by 29 percent from \$9.3 billion to \$12.0 billion. The Province is spending \$2.9 billion (32%) more than 10 years ago to provide services to roughly the same number of Nova Scotians (Appendix I Nova Scotia's Population).

➡ Health and Wellness accounts for 39 percent of the Province's total expenses

2.25 \$7.4 billion of the Province's \$11.8 billion annual expenses are incurred by Community Services, Education and Early Childhood Development, and Health and Wellness. Health-related expenses account for 39 percent (2008 - 37 percent) of the Province's total expenses, while education-related expenses account for 14 percent (2008 - 15 percent).

Change in Total Expenses from 2008 to 2018				
Expenses	2008 \$ millions	2018 \$ millions	Change \$ millions	Change %
Community Services	\$892	\$1,098	\$206	23%
Education and Early Childhood Development	\$1,335	\$1,670	\$335	25%
Health and Wellness	\$3,248	\$4,602	\$1,354	42%
Remaining departments	\$2,267	\$3,291	\$1,024	45%
Other non-departmental costs	\$1,136	\$1,089	-\$47	-4%
Total Expenses	\$8,878	\$11,750	\$2,872	32%



2.26 The table above shows health-related expenses increased by \$1.4 billion (42%) since 2008. The increase in expenses is noteworthy given that the total number of Nova Scotians is roughly the same as in 2008. Also, education-related costs have increased by 25 percent over the past 10-year period while student enrolment declined 12 percent over the same period.

➔ Increasing financial challenges as Nova Scotia’s population ages

2.27 With demographic trends pointing to a growing number of individuals over the age of 65, the Province will face financial challenges. This demographic makes up 20 percent of the Province’s population (Appendix I Nova Scotia’s Population) and accounts for 52 percent of healthcare costs¹. By the year 2030, the Province expects that more than 1 in 4 Nova Scotians will be aged 65 and over. Also, tax filers over the age of 65 often pay less personal income tax due to lower income after retirement and the availability of additional tax credits. This information can generate a worthwhile discussion of the challenges facing Nova Scotia in the future.

➔ Expenses per Nova Scotian up 30 percent over the past 10-year period

2.28 The Province’s expenses per Nova Scotian have increased by \$2,830 (30%) from 2008 and now total \$12,318 per capita. This increase per capita was primarily driven by spending increases, since Nova Scotia’s population only increased by 2 percent since 2008. Healthcare costs of \$4,825 per Nova Scotian represents an increase of 39 percent from 10 years ago.

Expenses per Capita from 2008 to 2018				
Expenses	2008 \$ millions	2018 \$ millions	Change \$ millions	Change %
Community Services	\$953	\$1,151	\$198	21%
Education and Early Childhood Development	\$1,427	\$1,751	\$324	23%
Health and Wellness	\$3,471	\$4,825	\$1,354	39%
Other	\$3,637	\$4,591	\$954	26%
Total Expenses	\$9,488	\$12,318	\$2,830	30%

➔ Increase in revenues over past 10 years lower than increase in expenses; cumulative annual deficit

2.29 The table below shows revenue by type for 2008 and 2018. The Province’s revenues increased by \$2.7 billion (29%) from 2008. This 29 percent increase in revenue growth is not keeping pace with the 32 percent increase in expenses and resulted in a cumulative deficit position of \$663 million over the 10-year period, which has been financed partially through an increase in long-term debt.

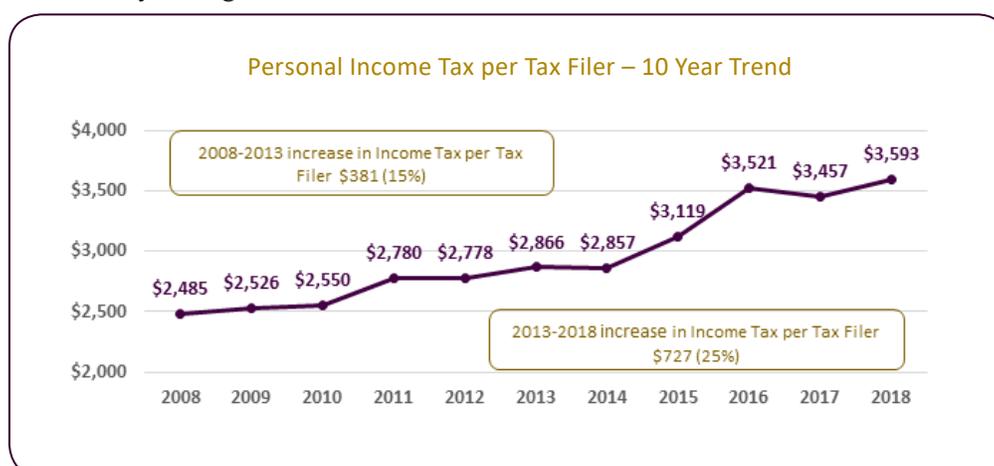
¹ Canadian Institute for Health Information – 2015 Health spending data tables



Change in Total Revenue from 2008 to 2018				
Revenue Type	2008 \$ millions	2018 \$ millions	Change \$ millions	Change %
Personal Income Tax	\$1,806	\$2,739	\$933	52%
Corporate Income Tax	\$500	\$563	\$63	13%
HST and Other Taxes	\$1,628	\$2,432	\$804	49%
Other Revenues	\$2,315	\$2,513	\$198	9%
Federal Transfers	\$3,048	\$3,733	\$685	22%
Total Revenues	\$9,297	\$11,980	\$2,683	29%

➔ Personal tax filers pay on average 45 percent more personal income tax than 10 years ago

2.30 Personal income tax revenue per capita is the average amount of personal income tax collected from each tax filer. During 2018, the Province earned, on average, \$3,593 from each tax filer, which is a 45 percent increase from 10 years ago.



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

Other Observations

➔ Executive Council approved an additional \$479 million in expenses above the 2017-18 budget

2.31 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 counts on the use of those funds to be transparent.

2.32 An Appropriations Act of Nova Scotia is passed each year and details what the Province is authorized to spend during the fiscal year. When an original budget appropriation is determined to be insufficient, the Finance Act of Nova Scotia requires that an additional appropriation be obtained. While the original budget is presented to and challenged by members of the Legislature,



additional appropriations only require Executive Council approval. Requesting additional appropriations is a normal part of the process.

2.33 Executive Council approved additional appropriations totaling \$478.8 million for the year ended March 31, 2018. The table below details \$442.4 million of the \$478.8 million in additional appropriations and the primary reasons why the departments required additional funding. Further details are found in the Financial Statement Discussion and Analysis section of Volume 1 of the 2018 Public Accounts.

Departments Requiring Additional Appropriations		
Department/Appropriation Area	Additional Funding	Why additional appropriation needed
Business	\$170.6 million	<ul style="list-style-type: none"> • \$180.0 million for NS Internet Funding Trust for rural highspeed internet • \$11.1 million for international air service to improve connections to key markets • Offset by \$20.5 million savings in other projects and investments
Transportation and Infrastructure Renewal	\$93.0 million	<ul style="list-style-type: none"> • \$82.0 million for Boat Harbour remediation • \$11.0 million for snow and ice removal, Yarmouth Ferry, and other work
Health and Wellness	\$64.3 million	<ul style="list-style-type: none"> • \$64.1 million to health authorities for various healthcare services • \$11.6 million in physician services • Offset by \$11.4 million savings in home care and other programs
Assistance to Universities	\$42.8 million	<ul style="list-style-type: none"> • \$20.0 million for Research NS Trust for post-secondary research • \$11.0 million for Saint Mary's Entrepreneurship, Discovery and Innovation Hub • \$11.8 million in other investments
Pension Valuation Adjustment	\$33.6 million	<ul style="list-style-type: none"> • \$25.6 million for early service payout of retirement allowance • \$8.0 million in changes in actuarial assumptions
Energy	\$23.9 million	<ul style="list-style-type: none"> • \$12.2 million for energy efficiency programs • \$11.7 million for Offshore Growth Strategy initiatives
Communities, Culture and Heritage	\$14.2 million	<ul style="list-style-type: none"> • \$13.8 million for community infrastructure • \$.4 million in other areas not identified
Total	\$442.4 million	



Pension and other benefit reporting enhanced with sensitivity analysis

2.34 Sensitivity analysis is an effective way to show how different events or variables can impact the financial health of a government. Some governments



demonstrate how different rate changes in GDP, interest, discount rates, and inflation will impact their budget and fiscal health.

- 2.35 We are pleased to report that the Province included sensitivity analysis in their 2018 financial reporting to show the impact of changes in certain assumptions on pension and other benefit obligations. The Province's pension obligation is a significant amount and we commend the Province for including sensitivity analysis for this obligation, but also urge them to consider sensitivity analysis in other areas.



Nova Scotia's Population

Nova Scotia's population remains relatively unchanged with an increase of 2 percent from 2008; however, the age demographics have shifted.

Change in Population from 2008 to 2018 (000s)				
Population	2008	2018	Change in Population from 2008	% Change in Population from 2008
0 to 17 years	180	162	(18)	(10%)
18 to 64 years	613	601	(12)	(2%)
65+	143	194	51	36%
Total	936	957	21	2%

Shift in Age Demographic from 2008 to 2018 (%)			
Population	% of 2008 Total	% of 2018 Total	Shift in Age Demographic
0 to 17 years	19%	17%	(2%)
18 to 64 years	66%	63%	(3%)
65+	15%	20%	5%
Total	100%	100%	0%