

# Chapter 2

## Nova Scotia's Finances from 2019 Public Accounts

### Key Messages

- This 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 by Government in the Public Accounts of Nova Scotia.
- Over the past 10 years, financial indicators show worsening trends; however, over the past 5 years, many indicators show improvement such as a decreasing net debt to GDP and recent surpluses
- The Province's expenses increased by 28% from 10 years ago to deliver services to roughly the same population (3% increase). These numbers can generate valuable public discussion on Nova Scotia'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 indicators are suggested by CPA Canada's Public Sector Accounting Board.

**Sustainability** indicators 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 \$575 million
- net debt increased by \$2.7 billion (22%)
- net debt to GDP decreased by 0.6% points
- net long-term debt increased by \$3.3 billion (32%)

#### Past 5 years

- cumulative net surplus of \$340 million
- net debt increased by \$200 million (1%)
- net debt to GDP decreased by 4.1% points
- net long-term debt increased by \$529 million (4%)

#### Overall:

- The past decade, taken as a whole, shows a trend of worsening sustainability
- Much of this worsening sustainability occurred in the first 5 years of the past decade
- Over the past 5 years, indicators such as the cumulative net surplus and net debt to GDP show improvement
- Tangible capital asset acquisitions increased the net debt by \$6.1 billion in the past decade

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

#### 10-year trend

- interest on long-term debt averaged \$742 million annually
- interest on long-term debt per capita averaged \$786 per Nova Scotian

#### Past 5 years

- interest on long-term debt had minor fluctuations averaging \$741 million annually
- interest on long-term debt per capita averaged \$784 per Nova Scotian

#### Overall:

- Annual interest paid on long-term debt was relatively constant over the past 10 years
- The Province paid \$7.4 billion in interest during the last decade
- The average long-term debt per capita per Nova Scotian shows little change

**Vulnerability** indicators show the Province's reliance on revenues outside its control

#### 10-year trend

- Federal government transfers went from 32.6% to 31.8% of total revenues

#### Past 5 years

- Federal government transfers went from 33.7% to 31.8% of total revenues

#### Overall:

- Nearly \$1 of every \$3 of the Province's revenue comes from the federal government



## Selected Financial Highlights

Expenses	Highlights
Overall	<ul style="list-style-type: none"> <li>• Annual expenses up \$2.5 billion (28%) from 10 years ago to provide services to a population that increased by 3% in the past decade</li> <li>• Government spending \$12,245 per Nova Scotian in 2019 (2009 - \$9,834); up 25% in the past decade</li> <li>• Executive Council approved an additional \$347 million in expenses above the 2019 budgeted amount; \$98 million related to cleanup of contaminated sites</li> </ul>
Health and Wellness	<ul style="list-style-type: none"> <li>• Increased by \$1.2 billion (36%) over the past 10 years</li> <li>• 40% of the Province's 2019 expenses (2009 - 38%)</li> <li>• \$4,891 per Nova Scotian in 2019 (2009 - \$3,691); up 33% in past decade</li> </ul>
Education and Early Childhood Development	<ul style="list-style-type: none"> <li>• Increased by \$328 million (23%) over the past 10 years</li> <li>• 15% of the Province's 2019 expenses (2009 - 16%)</li> <li>• \$1,832 per Nova Scotian in 2019 (2009 - \$1,527); up 20% in past decade</li> </ul>

Revenues	Highlights
Overall	<ul style="list-style-type: none"> <li>• Annual revenues up \$2.6 billion (28%) from 10 years ago</li> <li>• Revenue growth mainly from increased tax revenues               <ul style="list-style-type: none"> <li>• Tax revenues up \$1.7 billion (43%) from 10 years ago</li> <li>• Personal tax filers pay on average 30% more personal income tax than 10 years ago partially as a result of an increase in taxable income</li> </ul> </li> <li>• Federal transfers up \$813 million (27%) from 10 years ago</li> </ul>

### 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 Nova Scotia's aging population impact future revenues, spending on healthcare, and other costs and what is the Government doing about it?
3. How do healthcare costs of \$4,891 per Nova Scotian compare to other provinces and what does this mean for the future?
4. Why is interest on long-term debt over \$30 million more in 2018-19 than in 2017-18?
5. Is the Province's practice of using new debt to repay old debt sustainable?
6. What are the plans on handling the Province's debt?
7. What does a decreasing net debt to GDP ratio mean for me?
8. Will more money be needed to clean up other abandoned mine sites and how will this impact other services?

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## 2 Nova Scotia's Finances from 2019 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 and to promote discussion.
- 2.2 We look at 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, including economic highlights, is presented in the Financial Statement Discussion and Analysis section in Volume 1 of the 2019 Public Accounts of Nova Scotia where there are 55 pages of detailed analysis and explanations.

### Financial Indicators – What they show



Selected indicators have worsened over the past 10 years, yet many of these indicators show improvement in the past 5 years

- 2.3 There are various indicators that can be used to assess the Province's financial condition. The indicators 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 or fiscal management.
- 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 in this chapter provide an overview of the Province's financial performance for the 10-year period ending March 31, 2019. 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 over the past 5 years, many indicators show improvement.

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

### 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 increase debt or tax rates. Sustainability indicators provide insight into how a government balances its commitments and debts.

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. However, over the past five years, many sustainability indicators show improvement. Worsening sustainability is primarily caused by a government taking on more debt.

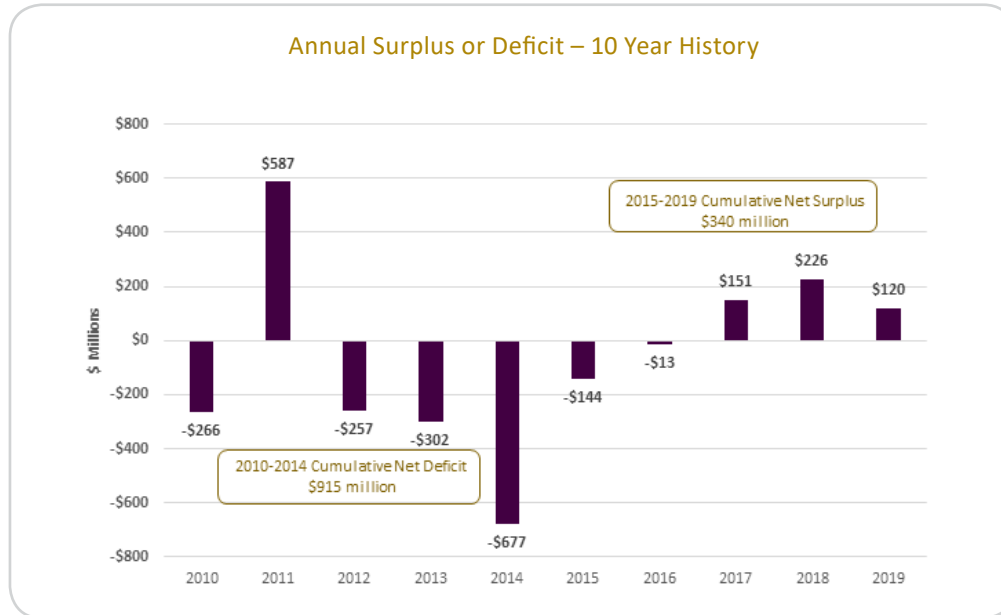
➡ While the last 5 years show a cumulative net surplus of \$340 million, over the last decade there is a cumulative net deficit of \$575 million

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 \$120 million in 2019. Changes in revenues and expenses are discussed in detail in Volume 1 of the Public Accounts.

2.9 Although the Province realized a \$120 million surplus in 2019, the cumulative annual surpluses and deficits over the past 10 years is an overall deficit of

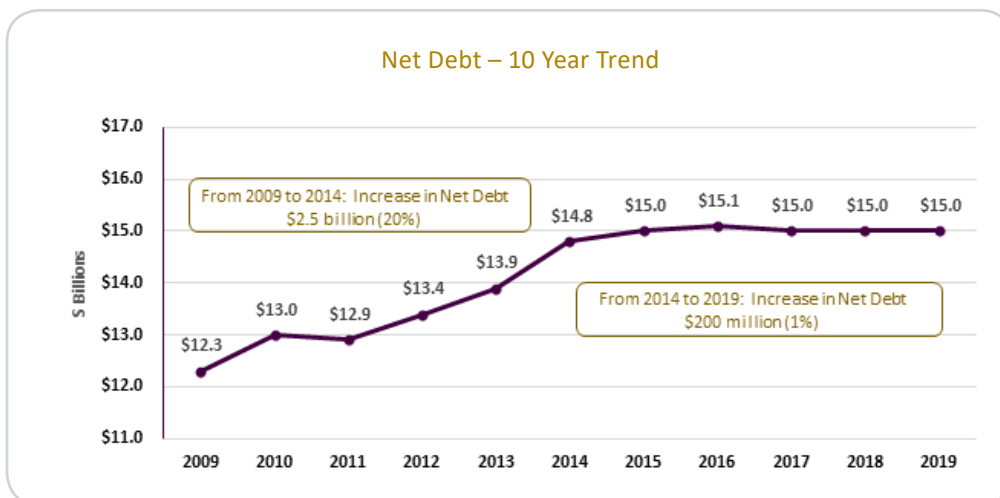


\$575 million. This 10-year cumulative net deficit may impact sustainability, as it shows that the Province's revenues have not kept pace with its expenses. Over the past five years, the cumulative result is a net \$340 million surplus, but this is offset by a \$915 million deficit in the first half of the last decade.



➔ Since 2009 the Province's net debt increased by \$2.7 billion

- 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. 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 Net debt remained stable at \$15.0 billion in 2019 and has been relatively stable over the last five years with an overall increase of \$200 million. The following chart shows that over the past 10 years the Province's net debt increased by \$2.7 billion (22%).



2.12 Over the past 10 years, acquisitions of \$6.1 billion for highways, buildings, vehicles, and other assets, were the largest contributor to the Province’s increase in net debt. This is important to consider because it shows that net debt increased over the past decade as the Province continued to invest in infrastructure. The following table shows the annual level of tangible capital acquisitions over the past 10 years.

Tangible Capital Asset Acquisitions from 2010 to 2019 (\$ millions)											
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Tangible Capital Acquisitions	\$775	\$703	\$610	\$691	\$546	\$542	\$466	\$459	\$671	\$588	<b>\$6,051</b>

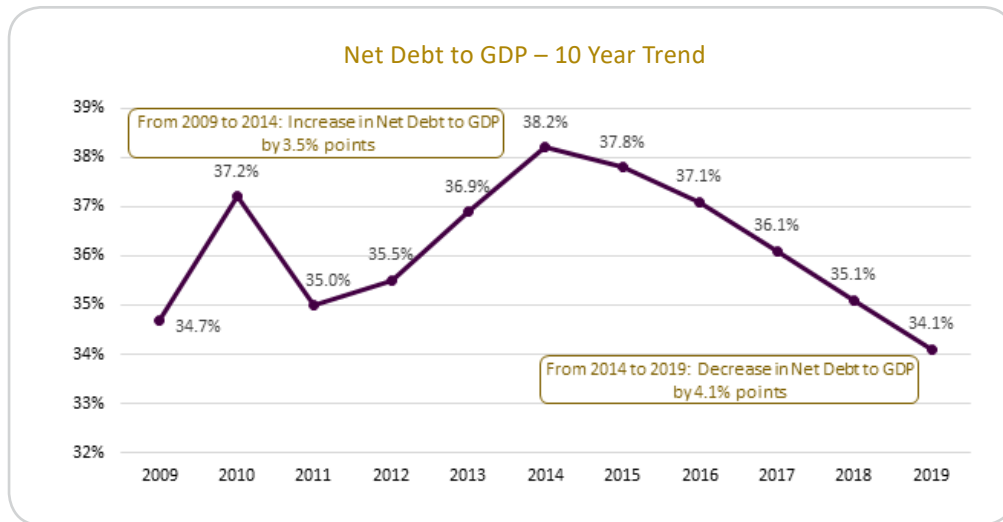


In 2019 net debt to GDP reached its lowest point since 2009

2.13 Gross domestic product (GDP) is the total value of all goods and services produced within the Province in a given year and is one of the primary measures used when evaluating the financial condition of a province or country.

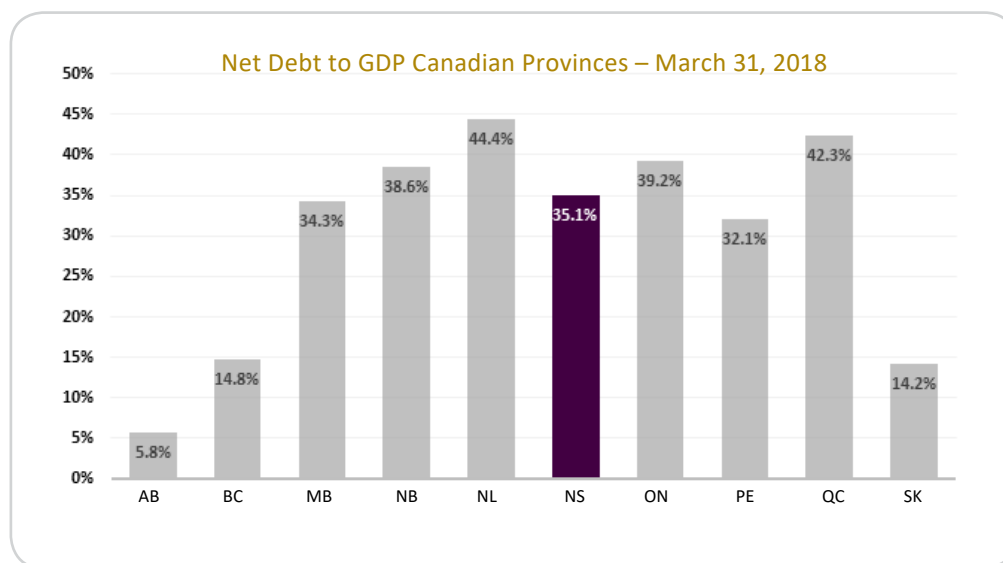
2.14 Net debt to GDP is used to assess the Province’s ability to pay down its financial obligations. A low ratio indicates a level of economic output that supports debt repayment. The higher the ratio, the more difficult it may be for the Province to pay its debt.

2.15 The following chart shows that while net debt as a percentage of GDP has steadily decreased in the last 5 years, over the last 10 years, net debt to GDP decreased by 0.6% to 34.1%.



2.16 For comparison, the following table shows the net debt to GDP by province at March 31, 2018 and provides context to where Nova Scotia stands in comparison to other Canadian provinces.

2.17 Nova Scotia's net debt to GDP was 35.1% at March 31, 2018. As the table below shows, three provinces had net debt to GDP that was significantly less than Nova Scotia (net debt to GDP less than 15%). There were also three provinces with net debt to GDP that was significantly higher than Nova Scotia (net debt to GDP greater than 39%). The remaining four provinces, including Nova Scotia, had net debt to GDP ratios ranging between 32.1% and 38.6%.

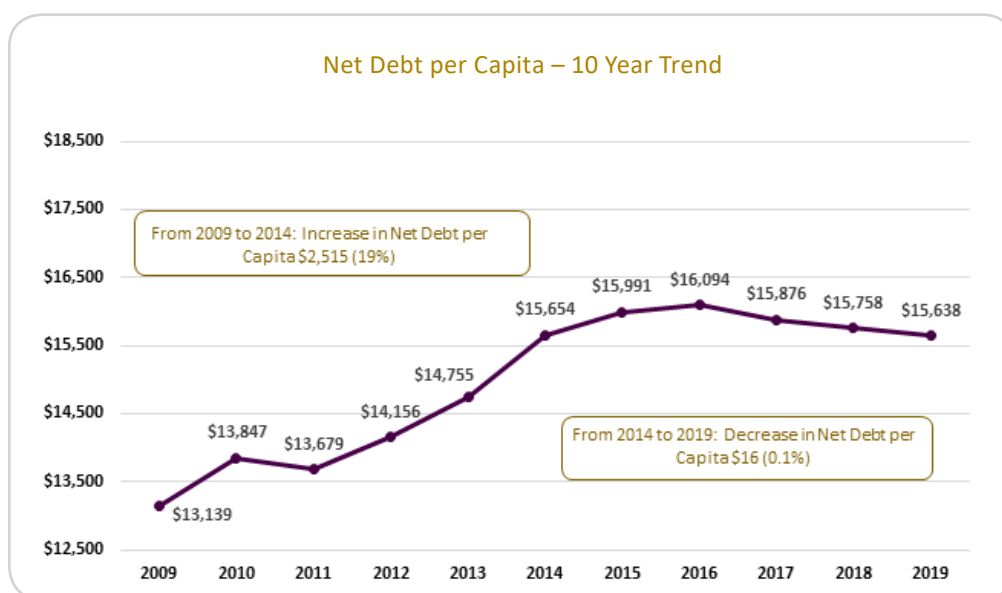


Source: Net debt derived from each province's consolidated financial statements at March 31, 2018. GDP data from Statistics Canada.

Note: We have not included the three territories in this comparison.



2.18 Net debt per capita shows the amount of net debt attributable to each person living in Nova Scotia. As the following chart shows, as at March 31, 2019, the Province of Nova Scotia owed \$15,638 for each Nova Scotian from past financial decisions. Despite a marginal reduction in net debt per capita in the current year, since 2009, net debt increased \$2,499 per capita, which is 19 percent over the past decade.

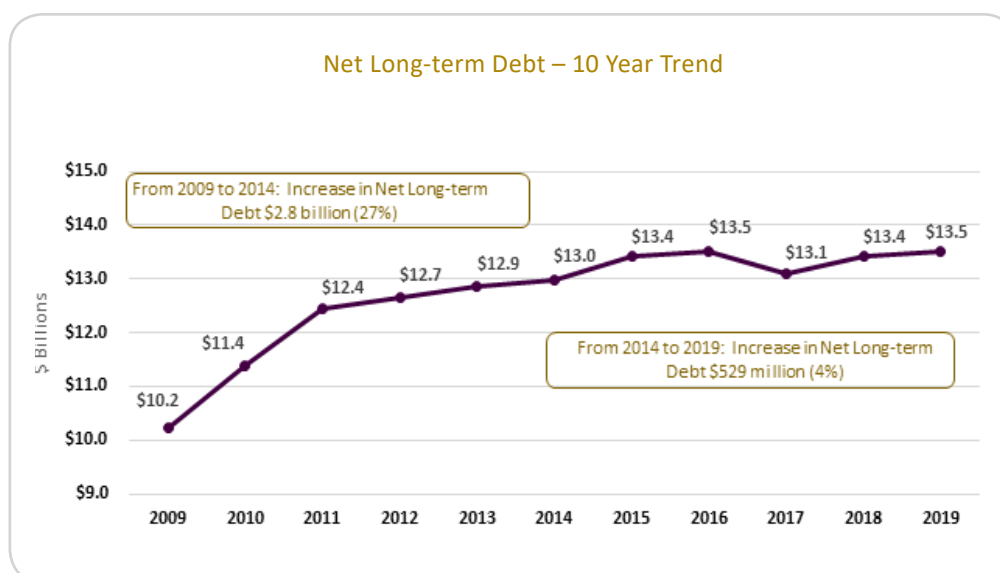


2.19 Unmatured debt is the total debt the Province owes to external parties and consists primarily of debentures and long-term loans. Net long-term debt is the Province's unmaturred debt less the amount that is set aside to fully fund specific debt when it becomes due. Schedule 4 of Volume 1 of the Public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

2.20 In prior years, we commented 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.

2.21 Net long-term debt increased by \$100 million over the prior year and by \$3.3 billion (32%) over the past 10 years. 85% of this \$3.3 billion increase in net long-term debt occurred between 2009 and 2014.

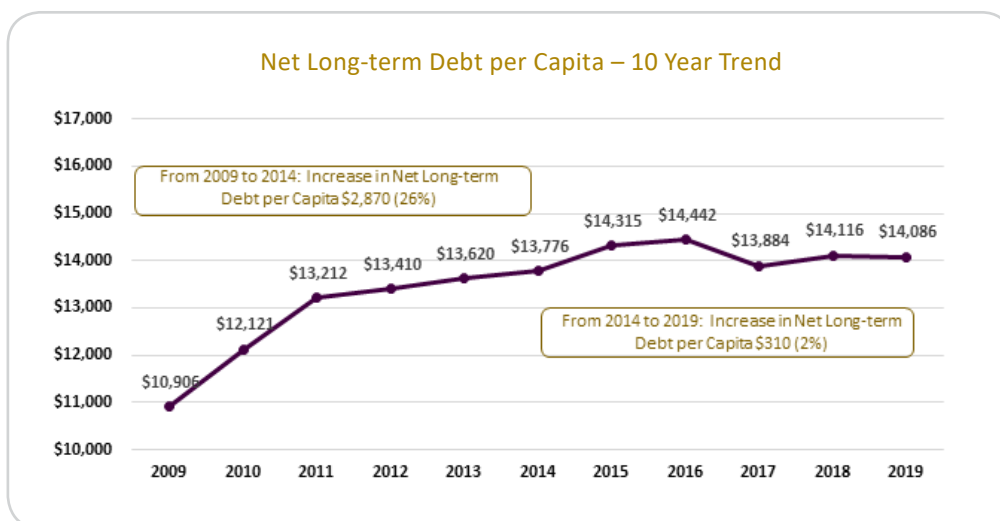




2.22 Although the increasing trend in net long-term debt is a significant indicator of fiscal sustainability, it is important to understand what the Province uses its new debt for. The following table shows that over the past five years, the Province primarily used new borrowings to refinance old debt maturing during the year.

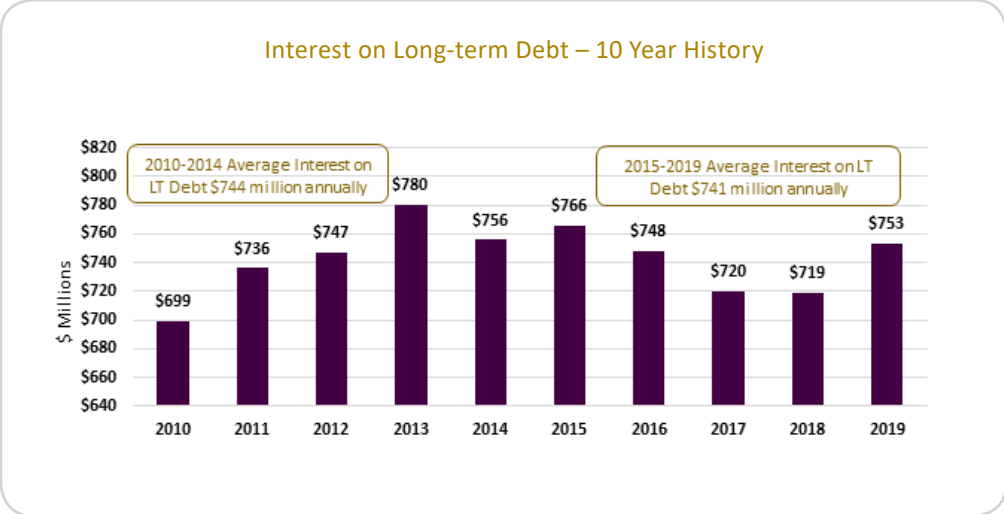
<b>Government Borrowing Requirements and Usage from 2015 to 2019 (\$ millions)</b>					
<b>Public Accounts Statement of Cash Flow</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
New debt issued in the year	\$1,187	\$1,040	\$675	\$930	\$1,305
Refinancing and repayment of old debt	\$-605	\$-1,044	\$-1,010	\$-475	\$-1,280
Sinking funds withdrawals (installments)	\$-41	\$178	\$-26	\$-26	\$174
Amortization of foreign exchange gains and other items	\$-19	\$-27	\$-21	\$-18	\$-12
<b>Remaining new debt available to finance capital acquisitions, investment activities, and operations</b>	<b>\$522</b>	<b>\$147</b>	<b>\$-382</b>	<b>\$411</b>	<b>\$187</b>

2.23 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 2019 by \$30 to \$14,086 per person. Over the past 10 years, net long-term debt per capita increased by \$3,180 (29%) per Nova Scotian with 90% of this increase occurring in the 2009 to 2014 period.

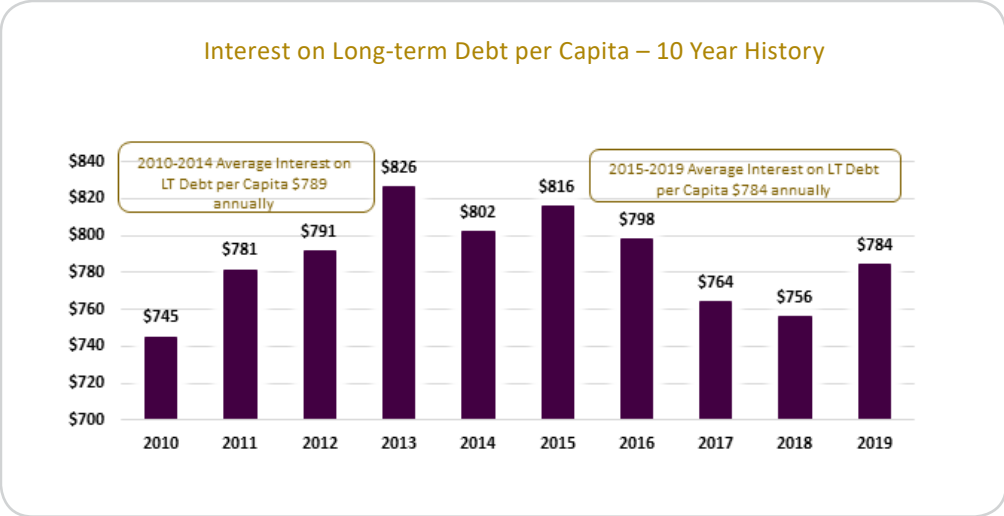


### Flexibility

- 2.24 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.
- 2.25 Interest on long-term debt assists in assessing flexibility, as it is the cost associated with servicing past borrowing decisions. These costs represent a required cost once debt is issued. Failure to pay interest impacts the ability to raise future debt and increases 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 paid over \$7.4 billion in interest on long-term debt in the past 10 years, an average of \$742 million annually.
- 2.26 Although the chart below shows fluctuations in the annual interest on long-term debt over the past 10 years, the average amount of interest paid in the past 5 years is about the same as the average paid between 2009 and 2014. Overall, the average annual interest on long-term debt over the past 10 years was \$742 million.



2.27 Interest on long-term debt per capita represents the interest the Province pays for every Nova Scotian each year on unmatured debt. Although the chart below shows fluctuations in the interest on long-term debt per capita over the past 10 years, the average amount of interest paid in the past 5 years is about the same as the average paid between 2009 and 2014. Overall, the average annual interest on long-term debt over the past 10 years was \$786 per Nova Scotian.

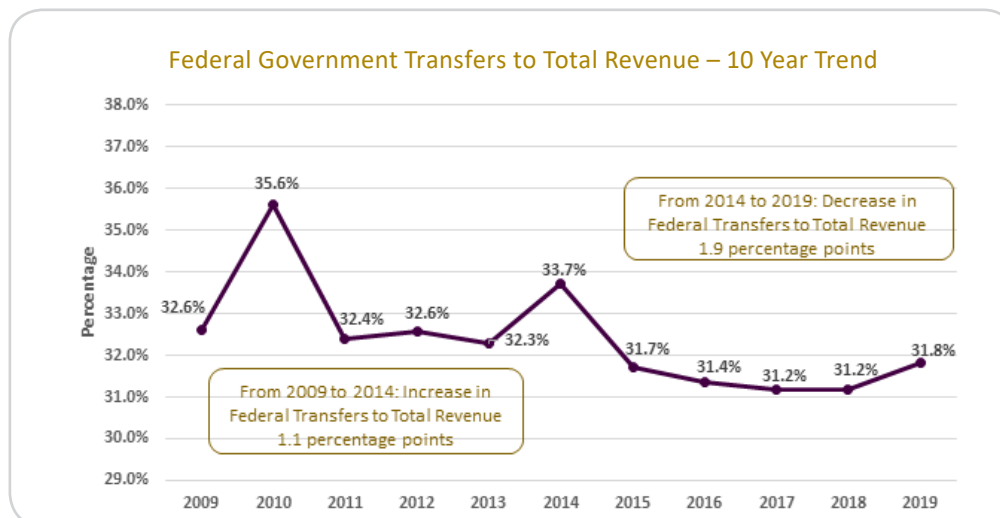


## Vulnerability

2.28 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.



2.29 As illustrated below, Nova Scotia continues to rely on federal government transfers. Overall reliance on federal government funding remains relatively consistent over the past 10 years with nearly \$1 in every \$3 of the Province's revenue coming from the federal government.



### Financial Highlights

2.30 The financial trends and comparisons presented below do not consider the impact that factors such as policy decisions, actual programs and services, inflation, and other elements have had on revenues and expenses.



Province's expenses up \$2.5 billion (28%) from 10 years ago

2.31 The Province's annual expenses increased by 28 percent over the past 10 years from \$9.2 billion in 2009 to \$11.8 billion in 2019. \$7.6 billion of the Province's \$11.8 billion annual expenditures is incurred by the Community Services, Education and Early Childhood Development, and Health and Wellness sectors. Health-related expenses account for 40 percent (2009 - 38 percent) of total provincial expenditures and education-related expenses account for 15 percent (2009 - 16 percent).

Change in Total Expenses from 2009 to 2019				
Sector	2009 (\$ millions)	2019 (\$ millions)	Change (\$ millions)	Change (%)
Community Services	\$864	\$1,125	\$261	30%
Education and Early Childhood Development	\$1,431	\$1,759	\$328	23%
Health and Wellness	\$3,460	\$4,695	\$1,235	36%
Remaining departments and government organizations	\$2,371	\$3,007	\$636	27%
Other non-departmental costs	\$1,093	\$1,169	\$76	7%
<b>Total</b>	<b>\$9,219</b>	<b>\$11,755</b>	<b>\$2,536</b>	<b>28%</b>



➔ Increasing financial challenges as Nova Scotia's population ages

2.32 With demographic trends pointing to a growing number of individuals over the age of 65, the Province will likely face financial and other challenges. This demographic makes up 21 percent of the Province's population (Appendix I, Nova Scotia's Population). 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 25 percent over the past 10-year period

2.33 The Province's expenses per Nova Scotian increased by \$2,411 (25%) from 2009 and now total \$12,245 per capita. This per capita change is driven primarily by spending increases. See Appendix I for Nova Scotia population changes since 2009.

Expenses per Capita from 2009 to 2019				
Sector	2009 (\$)	2019 (\$)	Change (\$)	Change (%)
Community Services	\$922	\$1,172	\$250	27%
Education and Early Childhood Development	\$1,527	\$1,832	\$305	20%
Health and Wellness	\$3,691	\$4,891	\$1,200	33%
Other	\$3,694	\$4,350	\$656	18%
<b>Total Expenses</b>	<b>\$9,834</b>	<b>\$12,245</b>	<b>\$2,411</b>	<b>25%</b>

➔ Province's revenues up \$2.6 billion (28%) from 10 years ago

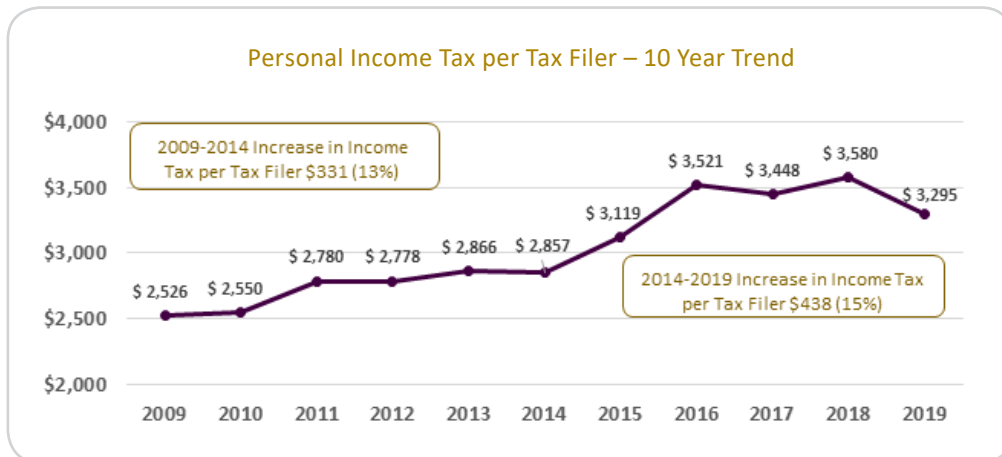
2.34 The table below shows revenue by type for 2009 and 2019. The Province's revenues increased by \$2.6 billion (28%) from 2009 with tax revenues accounting for \$1.7 billion of the increase.

Change in Total Revenue from 2009 to 2019				
Revenue Type	2009 (\$ millions)	2019 (\$ millions)	Change (\$ millions)	Change (%)
Personal Income Tax	\$1,825	\$2,550	\$725	40%
Corporate Income Tax	\$421	\$700	\$279	66%
HST and Other Taxes	\$1,764	\$2,501	\$737	42%
Other Revenue	\$2,271	\$2,347	\$76	3%
Federal Transfers	\$2,964	\$3,777	\$813	27%
<b>Total Revenues</b>	<b>\$9,245</b>	<b>\$11,875</b>	<b>\$2,630</b>	<b>28%</b>



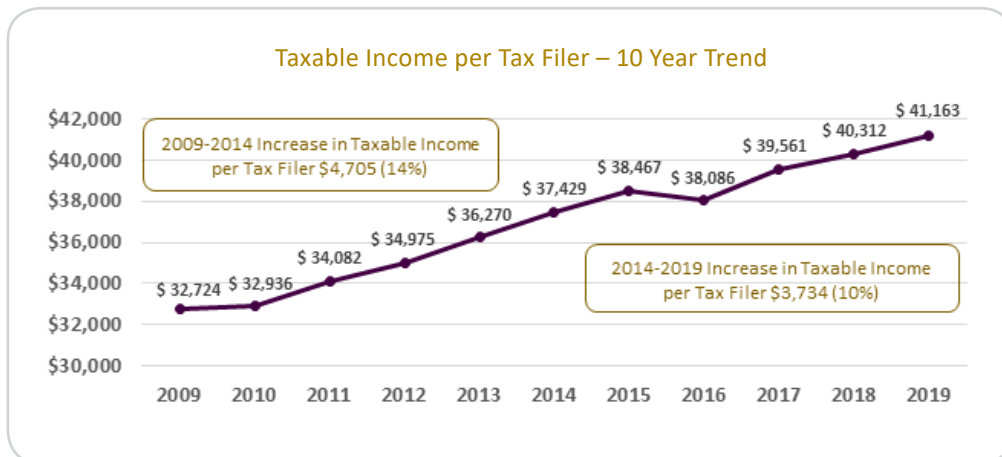
Personal tax filers pay on average 30% more personal income tax than 10 years ago

2.35 Personal income tax revenue per tax filer equals the total personal income tax collected over the total number of tax filers. During 2019, the Province earned on average \$3,295 from each tax filer, which is a 30 percent increase over 2009.



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

2.36 Increases in the number of tax filers and taxable incomes over the past 10 years, as well as the progressive nature of our income tax system assists in explaining the growth in personal income tax revenue over the same period. The graph below shows the increase since 2009 in the amount of average personal taxable income per tax filer. During 2019, the average taxable income per tax filer was \$41,163, which is a 26 percent increase from 2009.



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



## Other Observations

Executive Council approved \$347 million in additional appropriations with \$98 million related to the cleanup of contaminated sites

- 2.37 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.
- 2.38 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 government operations.
- 2.39 Executive Council approved additional appropriations totaling \$347 million for the year ended March 31, 2019. This includes \$98 million requested by the Departments of Transportation and Infrastructure Renewal and Lands and Forestry for the cleanup of contaminated sites. The table below details \$271 million of the \$347 million in additional appropriations and the primary reasons why the departments required additional funding. The remaining \$76 million in appropriations relate to various other departments who have additional appropriations not exceeding \$10 million. Further details are found in the Financial Statement Discussion and Analysis section of Volume 1 of the 2019 Public Accounts.

Departments Requiring Additional Appropriations		
Department/Appropriation Area	Additional Approved Funding	Why additional appropriation needed
Health and Wellness	\$105 million	<ul style="list-style-type: none"> <li>• \$55 million in additional funding to the Health Authorities for various healthcare services</li> <li>• \$9 million for all other health programs</li> <li>• \$58 million requested and not used</li> <li>• Offset by savings of \$17 million due to changes in timelines for major capital projects</li> </ul>
Transportation and Infrastructure Renewal	\$74 million	<ul style="list-style-type: none"> <li>• \$35 million for Boat Harbour remediation*</li> <li>• \$15 million for Harrietsfield remediation*</li> <li>• \$13 million for the Yarmouth ferry</li> <li>• \$18 million for snow and ice removal, new cargo facilities at the Halifax Stanfield International Airport, and other work</li> <li>• Offset by savings of \$7 million in amortization decreases and other activities</li> </ul>



<b>Departments Requiring Additional Appropriations</b>		
<b>Department/Appropriation Area</b>	<b>Additional Approved Funding</b>	<b>Why additional appropriation needed</b>
Lands and Forestry	\$50 million	<ul style="list-style-type: none"> <li>• \$48 million for the remediation of abandoned mine sites*</li> <li>• \$2 million for the implementation of Forestry Review initiatives and other projects</li> </ul>
Agriculture	\$16 million	<ul style="list-style-type: none"> <li>• \$10 million for implementation of the provincial Frost Loss Program</li> <li>• \$6 million requested and not used</li> </ul>
Internal Services	\$15 million	<ul style="list-style-type: none"> <li>• \$15 million primarily for modernization and sustainment of SAP and health information IT services</li> </ul>
Energy and Mines	\$11 million	<ul style="list-style-type: none"> <li>• \$14 million to support Homewarming and Affordable Renters programs</li> <li>• Offset by \$3 million in reduced recoverable expenses related to the Low Carbon Economy Fund</li> </ul>
<b>Total</b>	<b>\$271 million</b>	

\*\$98 million in total for contaminated sites





## Appendix I

## Nova Scotia's Population

Nova Scotia's population increased 3% from 2009 and age demographics shifted.

Change in Population from 2009 to 2019 (000's)				
Population	2009	2019 Forecast	Change in Population from 2009	% Change in Population from 2009
0 to 17 years	176,561	166,000	-10,561	-6%
18 to 64 years	615,029	597,258	-17,771	-3%
65+	146,618	201,699	55,081	38%
Total	938,208	964,957	26,749	3%

Shift in Age Demographic from 2009 to 2019 (%)			
Population	% of 2009 Total	% of 2019 Total	Shift in Age Demographic
0 to 17 years	19%	17%	-2%
18 to 64 years	65%	62%	-3%
65+	16%	21%	5%
Total	100%	100%	