Nova Scotia's 2016–17 Final Results … Regaining Black Ink

- With its *Public Accounts* confirming a $150 million surplus (0.4% of GDP) for fiscal 2016–17 (FY17), Nova Scotia joins British Columbia and Quebec as the Provinces with balanced books.
- Net debt during FY17 actually declined by $121 million, dropping from 37½% of GDP to 36.3%.
- Borrowing in FY17 totaled $750 million, with a new ten-year benchmark domestic public issue and one CORRA floating interest rate note.

OVERVIEW

The upside surprise is the size of the Nova Scotia's FY17 surplus. In April, the government anticipated some bottom line improvement and a $40 million positive balance. The final FY17 surplus exceeds the $127 million *Budget* estimate which only topped $100 million because of a $110 million capital contribution expected in FY17 from the federal government and the Halifax Regional Municipality with the substantial completion of the Halifax Convention Centre. The Centre's completion is now postponed until the Fall of 2017, pushing the capital contribution into FY18, but black ink in FY17 still soared over $100 million.

Removing the $110 million capital contribution from FY17 revenues leaves the *Budget* estimate of a $17 million positive net position the more relevant comparison to the FY17 final surplus. The $132½ million FY17 bottom line improvement is then a result of a $54 million in-year revenue gain, a $59 million saving on expenses and a $19 million increase in consolidation and accounting adjustments.

REVENUE AND EXPENDITURE SHIFTS

The in-year FY17 revenue revisions are not all positive for Nova Scotia's FY18 outlook. Personal income tax receipts in FY17 were 2.9% ahead of FY16, but $35 million less than *Budget,* dampened by employee compensation advancing just 1.7% versus the initial 2.5% estimate. Harmonized Sales Tax receipts in FY17 were $35½ million below *Budget,* advancing only 1% from FY16, primarily due to lower residential investment.

More encouraging aspects of FY17 final revenues were a $46 million gain in corporate income tax, higher ordinary revenue recoveries, improved government business enterprise results and an increase in interest income.

The rise in final FY17 expenditures was restrained to 1.4%, with program spending up only 1.9%. Departmental expenses were a modest $11½ million over *Budget*, with Health and Wellness and Education both lower than planned. The big FY17 saving was a $49 million reduction in the Pension Valuation Adjustment. As well, the debt service was $20 million less than forecast and refundable tax credits were $4 million less expensive.

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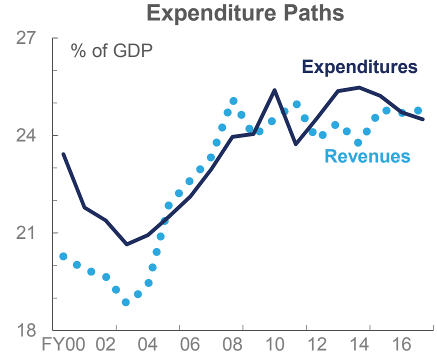
Nova Scotia's Revenue and Expenditure Paths



Sources: Scotiabank Economics, Nova Scotia Finance.

Capital investment in FY17 was $202 million below *Budget,* at $381 million. This was primarily due to the Halifax Convention Centre not being completed by March 2017. It also resulted from slower headway on information technology projects, and more positively, the unused contingency of $36½ million.

Year-end additional appropriations covered expected items such as increased funding for university operating grants, and a couple of cautionary items, such as an increase in the allowance for bad debts on loans issued by the Nova Scotia Farm Loan Board.

POLICY EVENTS

As the QEII Health Sciences Complex redevelopment proceeds, the Province has retained an outside consultant to explore options led by both the public- and private-sectors to help determine the best approach to design, construct and maintain the new facilities. Construction will proceed at several sites including the expansion of Dartmouth General Hospital.

Nova Scotia will buy 10 P3 schools from two developers for $49 million, representing a saving of $56 million over the option of 30-year leases. In 1998, the Province signed agreements with four developers committing to long-term leases for 39 P3 schools. With this purchase, the 1998 partnership is concluded, with the Province acquiring 37 of the schools.

The government this summer decided to proclaim the *Public Services Sustainability Act,* originally introduced and passed in December 2015. The *Act* ensures that third-party arbitrators cannot make decisions about public-sector contracts with unions that determine the province's future and are possibly not in the taxpayers' best interests. The government's decision to proclaim the *Act* came after recent negotiations with the Nova Scotia Government and General Employees Union (NSGEU) reached an impasse, triggering an arbitration board.

The *Public Services Sustainability Act* outlines wage increases of 0% in years 1 and 2, 1% in year 3, 1.5% in year 4 and 0.5% on the final day of the agreement. The *Act* and the new regulations establish a new three-member Public Services Sustainability Board to deal with issues arising from the interpretation and application of the legislation. The *Act* applies to all public-sector employers and employees, unionized and non-unionized, with several specific exceptions such as physicians, judges, bargaining units with settled collective agreements and non-union public sector employees already compliant with the legislative framework such as teachers. The government is referring the legislation to the Nova Scotia Court of Appeal under the *Constitutional Questions Act* to obtain the Court's opinion on the now proclaimed law.

An independent review of Nova Scotia's existing forest harvest practices is to explore the strengths and weaknesses of the current arrangement and the overall role of Crown wood supply throughout Nova Scotia. The report due by the end of February 2018 will provide recommendations for better balancing Nova Scotia's long-term environmental, social and economic interests.

OUTLOOK

Achieving balanced books in FY17 paves the way for the re-elected majority government to proceed with the initiatives it outlined in its April *Budget* before calling an election. Importantly, as new plans have been announced the government continues to maintain that fiscally responsible management is "an essential building block" as it works towards a stronger Nova Scotia.