



What is the Real Fiscal Situation in Nova Scotia?

Nova Scotians are being threatened with another round of budget cuts. Premier John Hamm has claimed, "over the next two years, we need to find another \$260 million to get rid of that deficit altogether...It's going to be tough." Not content with previous cuts, the Halifax Chamber of Commerce recently urged the premier to cut deeper and faster.

Is this necessary? In this brief CCPA-NS shows that, rather than cutting budgets, Nova Scotia can now start providing much needed investments in services. Increased revenues due to economic growth and increased federal transfers will eliminate the deficit.

Revenue Increases for 2001-2002

Increased revenue in 2001-2002 from federal transfers and from provincial taxes can balance the province's books. The federal government projects equalization payments will increase \$95 million over 2000-2001 levels to \$1,375 million.¹ Canada Health and Social Transfer will increase \$63 million to \$586 million resulting in a total increase in transfers of \$158 million.

Based on a consensus of the forecasts of the 5 major chartered banks, Informetrica has forecast that the Nova Scotia economy will grow by 2.4 % in real terms in 2001, resulting in a 4.4% increase in GDP when

inflation is taken into account. If the provincial economy grows at this rate, revenue from income tax will increase by \$109 million in 2001-2002. Other sources of revenue, such as sales tax, will also increase as the economy grows resulting in an additional \$83 million in revenue.

Adding these increases in revenue together, one can expect Nova Scotia's revenues to increase by over \$350 million in 2001-2002 alone, more than enough to eliminate the deficit.

How Big is the Deficit for 2000-2001?

The provincial government has been using a number of figures in preparation for its 2001 budget. The table on page two presents the provincial government's numbers and the CCPA-NS estimates. The Budget Estimates (April 2000) show that the government estimated that the province would run a deficit of \$268 million in 2000-2001.² The province's most recent "Year End Forecast Update" (December 2000) shows an \$8 million decrease in the deficit. The Update estimates revenues in 2000-2001 to be \$4,900 million, \$105 million above the initial Budget estimates.³ The increase in estimated revenue was almost entirely offset by increases in net expenses totalling \$97 million.⁴ The net result was a new estimated overall pro-

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- 1 These estimates of federal transfers are from the Federal Department of Finance document "Major Federal Transfers to Provinces and Territories 2000-2001 to 2004-2005" (web page: <http://www.fin.gc.ca/FEDPROVE/mtpe.html>).
 - 2 Budget Estimates, 2000-2001, is taken from the "Budget Address, Province of Nova Scotia for the fiscal year 2000-01," Nova Scotia House of Assembly, April 11, 2000. This key document will be referred to simply as the Budget.
 - 3 Personal income tax receipts increased \$28 million. An adjustment arising from prior year activity added \$45 million, and federal equalization payments increased \$29 million.
 - 4 Program expenses increased by \$13 million, while debt servicing costs (\$10 million), health and hospital boards (\$35 million) and Nova Scotia Resources Limited (projected deficit up by \$15 million from \$26 million to \$41 million) contributed to a total increase of \$97 million.

Budget Estimates Provincial Government and CCPA-Nova Scotia
(Figures in \$ millions)

	Column 1	Column 2	Column 3	Column 4
	Provincial Budget Estimates 2000-2001	Provincial Mid-year Revisions 2000-2001	Provincial Fiscal Plan Estimates for 2001-2002	CCPA-NS Estimates for 2001-2002
Personal income tax	1,145	1,173		1,254
Corporate income tax	162	162		169
Harmonized sales tax	786	795		821
Tobacco tax	80	80		84
Motive fuel taxes	232	220		242
Gaming corporation profits	175	175		183
Liquor commission profits	141	141		147
Interest revenues	36	36		36
Registry of motor vehicles	61	61		64
Royalties-petroleum	6	9		9
Other provincial sources	160	160		167
Adjustments-provincial		45		
Equalization	1,280	1,309		1,375
Canada health and social transfer	523	526		586
Other federal sources	8	8		8
Total ordinary revenues	4,795	4,900	4,859	5,145
Total net program expenses	4,146	4,181	4,094	4,228
Debt servicing costs-net	899	909	861	861
Total net expenses	5,045	5,090	4,955	5,089
Estimated surplus from above	-250	-190	-96	56
Financial and other adjustments	-18	-70	6	6
Overall Provincial Surplus	-268	-260	-91	61

Sources:

Column 1, "Nova Scotia Budget Address," 2000-01, Schedule 10 p. A26

Column 2, "Year End Forecast Update" Nova Scotia Department of Finance, December 14, 2000

Column 3, "Nova Scotia Budget Address," 2000-01, Schedule 15, p. A34

Column 4, CCPA-NS and "Major Transfers to Provinces and Territories," Federal Department of Finance.

vincial deficit of \$260 million, the figure the premier is now using as he prepares Nova Scotians for the 2001 budget.

Options for the 2001-2002 Budget

Estimates in the provincial government's "Fiscal Plan" for 2001-2002 (April 2000; column 3 of table) exemplify the government's approach to budgeting – revenues are underestimated and budget cuts are prescribed to solve the resulting deficit.⁵ Total ordinary revenue for 2001-2002 was estimated at \$4,859 million, an increase of only 1.3 % which is **even below the mid-year estimate for 2000-2001**. In the Fiscal Plan total program expenses at \$4,094 million are 1.2% below the 2000-2001 Budget estimates. The overall provincial deficit estimated in the fiscal plan for 2001-2002, is \$91 million.

Balancing the Books and Improving Services

The estimates prepared by the Canadian Centre of Policy Alternatives – Nova Scotia for 2001-2002 (column 4) show a radically different bottom line, one that balances the books and improves services with a surplus of \$61 million. (As will be seen below, the CCPA-NS is not proposing that the government run a budget surplus, given the pressing needs in many social programs in the province.)

The estimates for revenue are based on 2.4% real GDP growth and 2% inflation for 2001-2002.⁶ Equalization transfers to Nova Scotia will increase by \$95

million to \$1,375 million in 2001-2002, and Canada Health and Social Transfer payments from the federal government will increase by \$63 million to \$586 million.

The net program expenses in column 4 were calculated by adjusting the Budget estimates for 2000-2001 by the expected rate of inflation of 2%. Net debt servicing costs are as estimated in the province's Budget. These calculations show that the province, without changing its tax policy, and without reducing departmental budgets, can eliminate its \$260 million deficit in one year, and still have resources to devote to priority needs in the province. These calculations do not take account of a possible one-time addition to revenue of \$140 million, and annual savings in interest rates of \$25 million per year, resulting from the sale of Nova Scotia Resources Limited, reported recently. Nor do they factor in other revenue enhancing options, such as the possible increase in tobacco taxes mooted by the premier.

On the other side of the ledger, the estimates in column 4 are based on projections of economic growth in Nova Scotia that may prove optimistic in the light of current concerns about the performance of the economy. Two points are relevant. First, many commentators are predicting an economic slow down for Canada, but significant economic growth is still present in their forecasts for 2001. Second, if growth in Nova Scotia in 2001 turns out to be a full 1% less than projected, the revenue estimates in column 4 would be reduced in the order of \$30 million, certainly significant but not enough to generate a deficit.

5 The numbers can be found the 2000-2001 Budget Address on page A34 presenting the provinces "Fiscal Plan." They are not broken down in the "Fiscal Plan" by source of revenue or by department.

6 Most of the revenue figures in column 4 were calculated by increasing the Budget figures for 2000-2001 by 4.4 % (2.4% real GDP growth and 2% inflation). There is one significant exception to this calculation. Personal income tax was increased by a higher percentage to take account of the fact that the Budget showed virtually no increase in personal income tax receipts between 1999-2000 and 2000-2001, despite rapid growth in the province. The calculation for income tax revenue therefore starts with the government's 1999-2000 forecast \$1,145 million ("Budget Address 2000-01") and uses a real growth rate of 3.1% plus 2% inflation for 2000-2001 and the 4.4% for 2001-2002. In the province's estimates this factor is probably reflected in the Provincial Adjustment of \$45 million in column 2.

Managing the Debt

The current ratio of debt to GDP is high, and can be reduced. When the budget is balanced, the level of the debt remains constant.⁷ If the budget is balanced over a number of years, the burden of the debt will fall in relative terms as provincial GDP rises. This effect can be quite pronounced over time. At present, the debt is about \$11 billion, and GDP in Nova Scotia \$22 billion, for a ratio of 50%. If the debt remains constant for 4 years and the economy increases by 5% (nominal GDP), a year over this period, the debt to GDP ratio will fall to 41%. Similarly, the proportion of provincial revenue devoted to servicing the debt will fall.

Moving Forward

The purpose of this paper is to put the budget discussion on a factual basis, starting with a status quo surplus. We do not suggest that the Province of Nova

Scotia run a surplus at this time. The government can, and should, begin to meet the most pressing needs in health, education, community services, and elsewhere. These needs have been generated by cutbacks, by a growing population, and in the health sector by some technological changes that improve service but also tend to increase costs. There is also a need to invest in areas that will save resources in the long run, such as attention to the needs of children living in poverty, better home care health services, and improved environmental enforcement.

CCPA-NS in collaboration with Cho!ces and other organizations in Nova Scotia, is producing an Alternative Budget that invests in priority areas in order to bring government services in the province closer to Canadian standards. Only when these social investments have been made would it be at all reasonable to advocate a substantial income tax cut in Nova Scotia.

7 Recent changes to the accounting procedures used with respect to provincial finances, which in themselves are a welcome addition to transparency in the provincial budgets, have led to a situation in which the change in the provincial debt need not equal the overall provincial surplus. This results from the treatment of tangible capital assets, but is ignored in this discussion.

The Nova Scotia branch of the CCPA was formed, in the Fall of 1999, to produce quality, independent and non-partisan research and analysis of government policies and to develop workable and equitable alternatives.

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