

Back to balance by 2013-14

Highlights

- Introduction of a four-year plan to return to a balanced budget by 2013-14.
- The deficit for the year ended March 31, 2010, originally budgeted at \$592 million, is now forecast at \$488 million.
- The deficit for 2010-2011 is budgeted at \$222 million.
- Spending is projected to rise an average 0.4% annually over the next four years.
- Civil service staff is to be downsized by 10% over four years, mainly by attrition.
- The harmonized sales tax will be increased to 15% from 13% effective July 1.
- Effective January 1, 2010 and until the deficit is eliminated, the surtax on taxable income in excess of \$83,000 is suspended and the tax rate on income exceeding \$150,000 is increased to 21% from 17.5%.
- The small-business income tax rate is to be lowered 0.5% to 4.5% effective January 1, 2011.
- Major changes to the public service pension plan, which will become fully funded by December 31, 2010.
- Net debt is forecast to peak at 40.2% of GDP in 2011-12.
- The borrowing requirement is forecast at \$2 billion in 2010-11 and \$2.1 billion in 2011-12. The latter includes \$1.6 billion to refinance maturing debt.

Commentary

An expert panel reported last November that Nova Scotia was facing a structural deficit, and if no action was taken, the provincial deficit would be \$1.4 billion by 2012-13. The budget delivered today by Finance Minister Graham Steele introduces measures to address the challenges put forward in the panel's report and, in fact, to balance the books in four years.

In this four-year plan, the deficit of \$1.369 billion forecast for 2012-13 shrinks to \$187 million. Of the \$1.182-billion improvement, \$247 million will come from reduction of the public sector wage bill, \$168 million from changes to the indexing and funding of the public service pension plan (annual pension raises of 1.25% rather than indexing to inflation), and \$499 million from expenditure management.

New revenue will come mainly from a two-point increase in the harmonized sales tax to 15%. For households with income less than \$30,000, the increase will be cushioned by a tax credit. A Poverty Reduction Credit is also introduced. Children's clothing and footwear and some other goods are exempted from the provincial portion of the sales tax. Seniors receiving the guaranteed income supplement will no longer pay any provincial income tax. New revenues net of credits, rebates and other tax relief are projected to be \$248 million in 2012-13. This includes a net \$35 million from replacement of the surtax on personal taxable incomes above \$83,000 with a higher marginal rate for taxable incomes above \$150,000.

ECONOMIC AND STRATEGY GROUP – 514.879.2529

Stéfane Marion, Chief Economist and Strategist

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The finance minister's task was not easy. Natural gas revenue has been crimped by a natural decline in production and by low gas prices, compounded by the effect of an appreciating Canadian dollar. Even with the Deep Panuke site coming on stream in 2011, natural gas revenue is projected to decline.

The cumulative deficits from 2009 to 2013 and substantial government investment to support the economy will push the province's net debt to 40.2% of GDP in 2011-12. This relatively high ratio shows in the cost of debt service, projected to amount to 12.2% of government revenues at the end of the four-year plan.

Marc Pinsonneault

Nova Scotia

\$ Million	Estimate	Forecast	Estimate	Estimate	Estimate	Estimate
	2009-2010	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
Revenues	8,055.0	8,088.5	8,391.0	8,406.0	8,615.9	8,722.6
Provincial Taxation Revenues	3,701.5	3,759.4	4,096.1			
Other Revenues Provincial Sources	1,068.2	1,073.9	1,095.0			
Federal sources	3,285.3	3,255.2	3,199.9			
Net Expenses	9,094.1	9,010.6	9,044.4	9,163.9	9,205.1	9,140.0
Program Spending	8,116.0	8,045.2	8,021.9	8,085.5	8,023.2	7,918.8
Tax Credits and Rebates	-	-	54.8	73.0	73.0	73.0
Pension Valuation Adjustment	89.0	93.1	8.4	31.8	65.4	87.7
Gross Debt Servicing Costs	889.1	872.3	959.2	973.6	1,043.5	1,060.5
Sub Total	(1,039.1)	(922.1)	(653.3)	(757.8)	(589.2)	(417.4)
Consolidation Adjustments	90.2	76.1	82.7	31.4	31.4	31.4
Net Income from Government Enterprises	356.8	357.6	348.6	356.5	371.1	386.3
Provincial Surplus	(592.1)	(488.4)	(222.1)	(370.0)	(186.6)	0.3
Borrowing Requirements						
Provincial Surplus	592.1	488.4	222.1	370.0	186.6	(0.3)
tangible Capital Assets: Net Cash	577.1	507.4	460.8	231.0	107.2	(19.0)
Other Operating Requirements	467.1	168.6	1,058.5	91.1	(127.8)	(170.3)
Cash Debt Retirement	679.6	679.6	670.7	1,603.9	955.6	999.7
Change in Short-Term Borrowing	(340.0)	-	(500.0)	-	-	-
Other Requirements	(8.1)	(8.8)	83.3	(227.1)	174.3	(144.6)
Total Cash Requirements	1,967.8	1,835.2	1,995.4	2,068.9	1,295.9	665.5
Net Direct Debt						
Opening Balance	12,323.5	12,323.5	13,319.3	14,002.2	14,603.2	14,897.0
Provincial Balance	592.1	488.4	222.1	370.0	186.6	(0.3)
Increase in net book value of tangible Capital Assets	577.1	507.4	460.8	231.0	107.2	(19.0)
Closing Balance	13,492.7	13,319.3	14,002.2	14,603.2	14,897.0	14,877.7
Nominal GDP	34,833	33,831	35,335	36,304	37,232	38,213
Surplus (Deficit) / GDP	-1.7%	-1.4%	-0.6%	-1.0%	-0.5%	0.0%
Net Direct Debt / GDP	38.7%	39.4%	39.6%	40.2%	40.0%	38.9%
Gross Debt Servicing / Total revenues	11.0%	10.8%	11.4%	11.6%	12.1%	12.2%

Source: Budget Documents, Nova Scotia Department of Finance