



Forecast Update

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*The Honourable Karen Casey
Minister of Finance and Treasury Board*



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Introduction

The Forecast Update provides revised information about Nova Scotia's fiscal outlook, including updated information about the major components of revenue and expenses as set out in the 2020–21 Budget Estimates.

Since the introduction of the 2020–21 Budget Estimates, Nova Scotia has faced the impact of the global COVID-19 pandemic. Public Health Orders have been in place since March 13, 2020, to contain the spread of COVID-19 in Nova Scotia. Nova Scotia has been in a State of Emergency since March 22, 2020. Prior to the COVID-19 pandemic, Nova Scotia had a growing economy, with gains in population and the lowest unemployment rate in 45 years. Budget 2020–21 continued the province's track record of strong fiscal management.

The pandemic has led to unprecedented impacts on public health and the economy. Government has made priority investments for the health and safety of Nova Scotians and to position the province for economic recovery.

Relative to the 2020–21 Budget Estimates, the province is projecting a weakening of the provincial budget position. The Province of Nova Scotia is forecasting a deficit position of \$852.9 million, a deterioration of \$907.9 million, from the Budget's surplus position of \$55.0 million.

The Forecast Update shows that Nova Scotia, like most other jurisdictions in Canada and around the world, is facing the challenges of a difficult fiscal position, due to the impact of COVID-19. This impact will take time to unwind. Given the continuing uncertainty around the future epidemiology of the pandemic and pace of economic recovery, the forecast may not unfold as assumed. Subsequent information will be used in future fiscal updates to assess Nova Scotia's return to fiscal sustainability.

Overview

The Province of Nova Scotia is forecasting a deficit of \$852.9 million. This is a decrease of \$907.9 million from the budgeted surplus in the 2020–21 Budget Estimates.

Total Provincial Revenue, including Ordinary Revenue, Recoveries, and Net Income from Government Business Enterprises (GBEs), is forecast to be \$11.1 billion, a decrease of \$532.1 million from the Budget Estimates.

Forecast changes in Ordinary Revenue include a \$497.1 million decrease in Provincial Tax Revenue, a \$1.7 million decrease in Other Provincial Revenue Sources, \$22.3 million decrease for Investment Income, and a \$69.0 million increase in Federal Revenue Sources.

Ordinary Recoveries revenue is forecast to decrease by \$2.0 million from Budget. Net Income from GBEs is expected to decrease by \$78.1 million.

Total Expenses are forecast to be \$12.1 billion, which is \$470.3 million higher than the Budget Estimates. Expenses are predicted to be higher due to projected increases in Departmental Expenses of \$492.0 million and the Pension Valuation Adjustment of \$0.2 million, and are partially offset by a decrease in Debt Servicing Costs of \$21.9 million.

Fiscal Summary 2020–21

(\$ thousands)

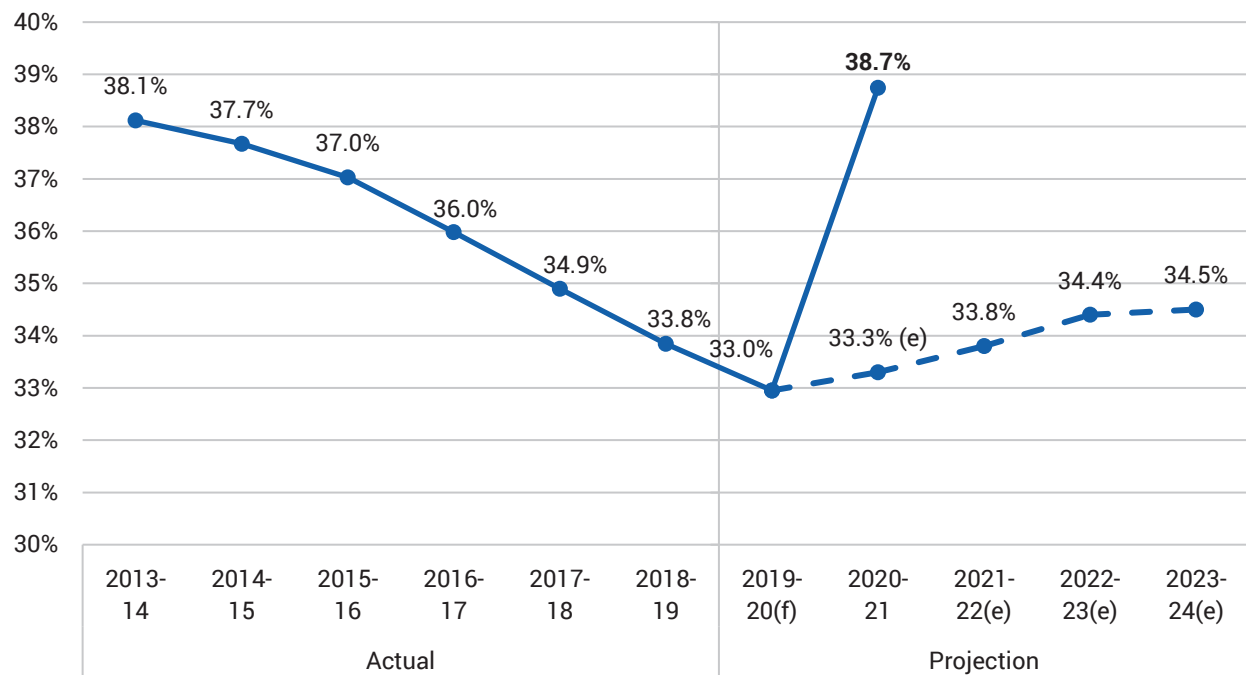
General Revenue Fund	Budget	Forecast	<i>Increase (Decrease)</i> from Budget
Revenues			
Ordinary Revenue	10,538,506	10,086,425	(452,081)
Ordinary Recoveries	666,720	664,734	(1,986)
Net Income from Government Business Enterprises	391,814	313,732	(78,082)
Total - Revenue	11,597,040	11,064,891	(532,149)
Expenses			
Departmental Expenses	10,650,274	11,142,242	491,968
Refundable Tax Credits	131,451	131,451	---
Pension Valuation Adjustment	75,832	76,078	246
Debt Servicing Costs	758,393	736,473	(21,920)
Total - Expenses	11,615,950	12,086,244	470,294
Consolidation and Accounting Adjustments for Governmental Units	73,936	168,487	94,551
Provincial Surplus (Deficit)	55,026	(852,866)	(907,892)

Note: Totals may not add due to rounding.

Consolidation and Accounting Adjustments positively impact the bottom line by \$168.5 million, which is \$94.6 million more than budgeted.

Nova Scotia’s Net Debt is forecast to increase by \$1.2 billion to \$16.9 billion in 2020–21, relative to the Budget Estimate. This results from the change in projected surplus to projected deficit, along with the additional capital stimulus added to the 2020–21 Capital Plan.

Nova Scotia Net Debt to GDP (per cent)



Note: 2019–20(f) is from Budget 2020–21. (e) = Budget 2020–21 estimate for 2020–2024

The revised Net Debt to Gross Domestic Product (GDP) ratio is forecast to be 38.7 per cent, up 5.4 percentage points from the 2020–21 Budget Estimate of 33.3 per cent. The increase in the Net Debt to GDP ratio reflects the projected decrease in nominal GDP in this Forecast Update, as well as the result of the additional debt.

Economic Performance and Outlook

Before receiving results of actual tax revenues collected, the province relies on economic forecasts and statistical relationships with historical administrative data to estimate tax revenues.

External Outlook

The global economic outlook has changed dramatically since the beginning of March 2020 as the COVID-19 pandemic intensified and spread. The supply and demand shocks resulting from COVID-19 have put the global economy into severe recession, as social distancing measures and business closures resulted in falling employment, income, and consumer spending.

The International Monetary Fund (IMF) World Economic Outlook in June 2020 estimates that global real GDP will decline 4.9 per cent in 2020. This level of economic activity is about 7.9 per cent lower than the pre-COVID projections of January 2020. The IMF projections assume a large shock to the economy in the first half of 2020, followed by a slower recovery period in the second half of 2020. To limit the slowdown in their economies, many governments are implementing significant fiscal and monetary easing. With consumption and investment expected to firm up, global economic growth is expected to strengthen to 5.4 per cent in 2021. In 2021 advanced economy real GDP is projected to rebound by 4.8 per cent but remain about 4 per cent below its 2019 level.

In the United States (US), to manage the negative impact of a sharp economic decline, the Federal Reserve cut the interest rate by a total of 150 basis points to a range of 0-25 basis points. Congress approved \$2.9 trillion in coronavirus relief, amounting to 14 per cent of GDP. US consumer spending had been the foundation of economic growth over the last couple years but is now expected to decline sharply in the first half of 2020. Employment, income, retail sales and industrial production are all reporting significant declines. The Department of Finance and Treasury Board (FTB) outlook assumes that the US economy will contract by 5.6 per cent in 2020 before growing 5.7 per cent in 2021.

In Europe, recent economic indicators signal the deepest economic recession in the history of the European Union. Even though most member states began lockdowns in mid-March, economic activity was slower than expected in the first quarter of 2020. With a longer period of disruption and lockdown in the second quarter of 2020, economic output is expected to have contracted by even more than in the first quarter. For 2020, the Euro Area economy is expected to decline 10.2 per cent. The pandemic has hit all member states, but the fall in output in 2020 and the strength of rebound in 2021 will differ across the region. The IMF estimates that economic activity in the Euro Area will increase 6.0 per cent in 2021.

As the first country to experience COVID-19, China is several weeks ahead of many other countries in the progression of the virus. Although China's lockdown measures have been lifted, many businesses remain closed and tourism-related industries as well as firms heavily dependent on foreign demand are far from returning to full capacity. COVID-19 has triggered an increase in China's precautionary saving as well as erosion in consumer confidence. China's economic activity fell by 6.8 per cent year over year in the first quarter of 2020, posting the steepest quarterly collapse on record. The slowdown in global demand is expected to bring a second downturn for the Chinese economy with real GDP growth slowing to 1.0 per cent in 2020. Infrastructure investment is expected to support China's economic growth amid weak private investment and foreign demand. The IMF estimates China's economy to grow by 8.2 per cent in 2021.

The effects of the COVID-19 pandemic on the Canadian economy have been severe. Mandated business closures and a collapse in both business and consumer confidence has resulted in an 8.2 per cent annualized decline in the first quarter of 2020. This outlook assumes that the Canadian economy will decline 6.2 per cent in 2020. To limit the negative impacts of COVID-19 on the economy, the federal government is implementing more than \$200 billion in direct supports and \$85 billion in tax and custom duty deferrals. The Bank of Canada lowered its benchmark interest rate to 0.25 per cent and expanded bond purchasing.

The trajectory of Canada's economic recovery depends largely on the success of economic re-opening and on the speed of withdrawal of the federal government support programs. With slower global demand, exports and private investment are expected to limit Canada's economic growth in 2021. Canada's employment recovery will be constrained by low consumer confidence, keeping the unemployment rate above 7 per cent until late 2021. Overall, FTB assumes that Canada's real GDP rebounds with 5.3 per cent growth in 2021.

Current Economic Outlook for Nova Scotia

FTB has revised its economic outlook, incorporating information and data released through May 22, 2020. The economic outlook includes monthly and quarterly data from 2020 released on or before this date. The projections make assumptions about the impacts of COVID-19 on key industries in the Nova Scotia economy during the lockdown period that ended in early June as well as during the second half of 2020.

Nova Scotia's economy has been impacted from both the global recession and the disruptions to domestic economic activity caused by COVID-19. This economic disruption in recent months (March-June 2020) is unprecedented, with sharp declines in activity across many sectors. Travel rules, social distancing measures, falling consumer demand, mandated business closures and additional safety costs have been particularly hard on local services such as accommodations, food services, personal care (e.g. hair salons), daycares and retail stores. These impacts are concentrated in the first half of the year and reopening of the economy is expected to fuel a partial rebound during the second half of 2020. The economic shock is expected to persist longer for tourism, amusement and recreation, universities, and export industries.

The outlook for Nova Scotia's nominal and real GDP growth has been revised down substantially for 2020, reflecting the shocks to local supply from business closures, local demand as households restrict spending and falling global export demand. The extent of Nova Scotia's economic downturn and recovery ultimately depends on stabilizing the public health situation through vaccination, treatment, or effective containment of the spread of COVID-19. Nova Scotia's nominal GDP is forecast to fall 5.5 per cent in 2020 and then to grow by 6.9 per cent in 2021. Real GDP is projected to decline 6.0 per cent in 2020 before rising 4.8 per cent in 2021. However, by the end of 2021, the level of nominal GDP is projected to be 4.3 per cent (\$2.1 billion) below what was projected in the Budget forecast.

Recent Economic Performance

GDP Growth: Prior to 2020, Nova Scotia's economy had been seeing steady growth over the past six years. Economic growth in 2019 is expected to be solid and above the average annual growth from 2013 to 2018. This outlook estimates Nova Scotia's nominal GDP grew 3.9 per cent and real GDP was up 2.0 per cent in 2019. Nominal growth in 2019 is being driven from strong indicators during the year from employment, employee compensation, residential investment, and exports.

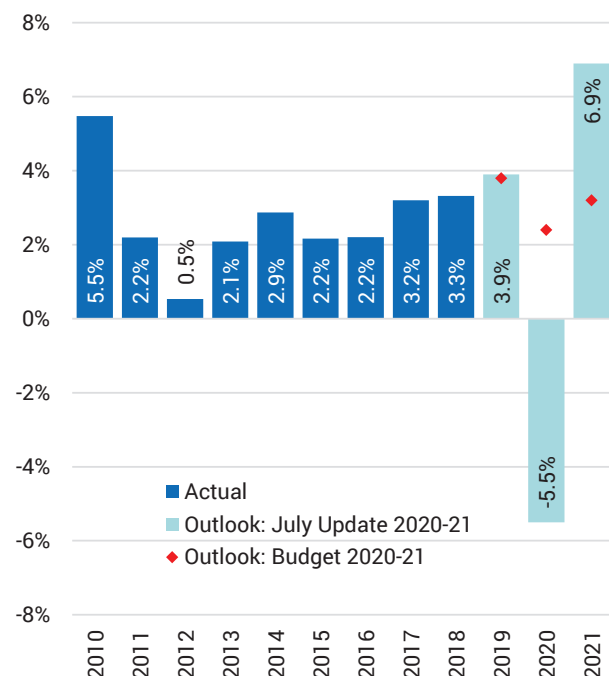
Population: Nova Scotia's population has been growing since 2015, rising by over 42,000 persons to be at a record of 978,274 as of April 1, 2020. Because of travel restrictions during COVID-19, immigration, interprovincial migration, and net change in non-permanent residents are expected to slow for a period of time.

Labour Markets: The economic decline has been accompanied by the largest monthly employment declines ever seen in the Labour Force Survey data: 24,800 in March and 50,600 in April. Signs of returning employment occurred with an increase of 8,600 in May and 28,900 in June. Including those working fewer hours in April 2020, one in four of persons employed prior to COVID-19 have been impacted. The largest employment declines are reported in service-producing sectors, notably accommodations, food services, arts, culture, recreation, retail trade and personal care services. Significant employment declines were also apparent in manufacturing, agriculture and transportation impacted by declines in global demand and travel. Construction employment has contracted along with building construction activity.

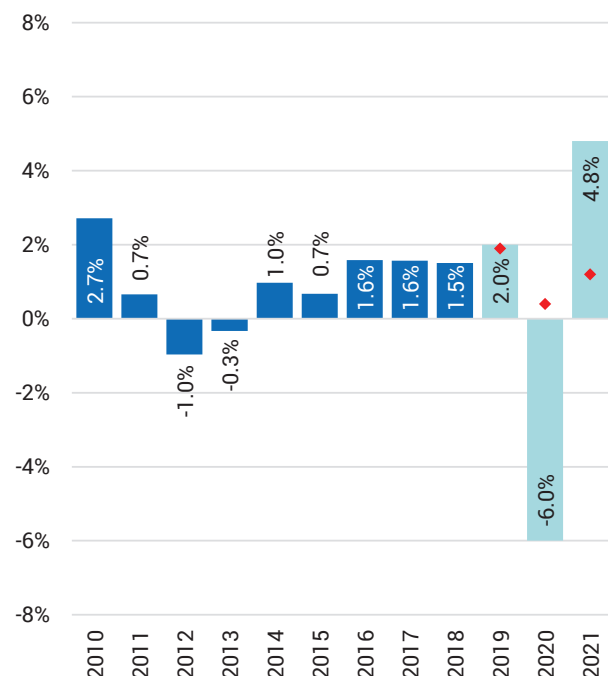
Nova Scotia GDP Growth

(per cent change)

Nominal GDP



Real GDP



Consumption and Prices: Household consumption is expected to contract significantly in 2020 with a decline in consumer confidence, weaker incomes, and lower energy prices. Government support programs should help to maintain a floor under household income. However, discretionary purchases have been delayed as evident by the sharp declines in motor vehicles and other durable goods sales. April retail sales were down 31.6 per cent compared with February levels. Local purchases of personal services, amusement, travel, and food services have not occurred and are less likely to be offset with higher future spending in the same area. Food services and drinking place receipts are down 61.3 per cent from February to April. Inflation expectations for 2020 are modest with lower energy prices and generally weaker price pressures amid the disruptions to many sectors.

Investment: The recession caused by COVID-19 differs from previous contractions that have been more concentrated in falling investment than in declining consumer spending. Although building construction activity is down 41.0 per cent from February to April (particularly in renovation activity), building permit values are down more modestly at 10.2 per cent (comparing April and May with February). Nova Scotia's construction activity is forecast to decline in 2020. Residential investment is forecast to fall by 18.1 per cent in 2020 with declining housing starts and renovation activities offset by ongoing work to complete multi-unit projects. Tighter housing market conditions in Halifax signal potential near term recovery in 2021.

Business investment has slowed, awaiting economic recovery before investments in new production capacity are initiated. Ongoing and stimulus capital spending by the provincial government on transportation, health care and other infrastructure are expected to support the economy in the near term and beyond.

Exports: Including the end of wood pulp production as well as falling seafood and tire shipments, Nova Scotia's exports contracted 38.9 per cent in April and May (compared with unadjusted results from 2019). Exports to the US are down 35.3 per cent while shipments to China are down 48.3 per cent. Shipments to the European Union have fallen by 19.9 per cent. Goods exporters face challenges as they retool production to accommodate new safety practices while global demand and export prices remain low.

Current Economic Outlook Assumptions

<i>Per cent change, except where noted</i>	Budget 2020-21		July Forecast Update	
	2020	2021	2020	2021
Real GDP (\$2012 chained)	0.4%	1.2%	-6.0%	4.8%
Nominal GDP	2.4%	3.2%	-5.5%	6.9%
Compensation of Employees	2.2%	3.5%	-4.9%	5.9%
Household Income	2.6%	3.1%	1.1%	1.3%
Household Final Consumption	2.8%	3.3%	-7.5%	7.0%
Retail Sales	2.1%	2.5%	-8.2%	6.2%
Consumer Price Index	2.0%	1.9%	0.9%	2.3%
Investment in Residential Structures	2.3%	2.6%	-18.1%	15.1%
Non-Res, Machinery, Intellectual Property	5.8%	3.2%	-0.8%	7.8%
Net Operating Surplus: Corporations	3.2%	3.7%	-21.3%	23.2%
Net Mixed Income: Unincorporated	1.8%	2.5%	-2.1%	4.7%
Exports of Goods and Services	2.1%	3.7%	-13.1%	11.4%
Exports of Goods to Other Countries	-1.7%	3.1%	-12.7%	10.2%
Imports of Goods and Services	3.2%	3.1%	-8.6%	8.1%
Population at July 1 (thousands)	980.4	988.5	975.0	979.0
Labour Force (thousands)	506.5	509.4	493.8	503.1
Employment (thousands)	465.6	470.6	439.5	456.7
Unemployment Rate, Annual Average	8.1%	7.6%	11.0%	9.2%

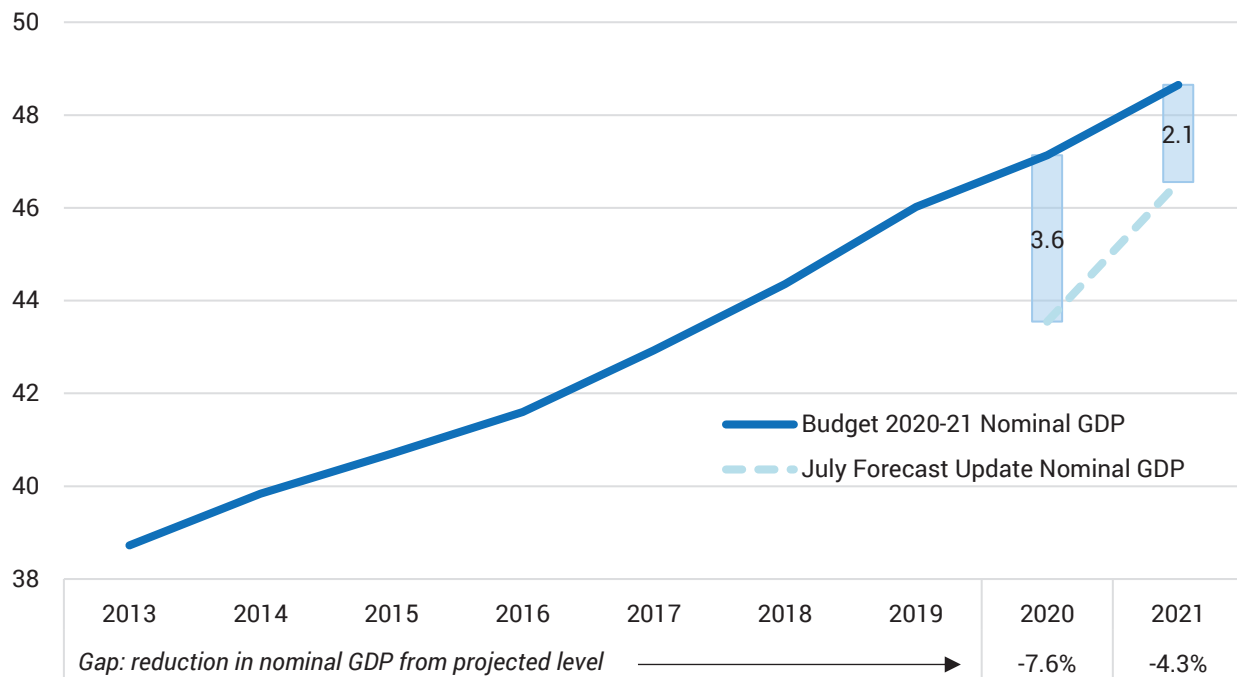
Note: Non-residential, machinery, intellectual property refers to all categories of gross fixed capital formation except residential structures. This includes business as well as non-profit and government investment.

Shocks to the global economy are projected to persist, reducing Nova Scotia's international goods exports by 12.7 per cent in 2020. Contraction across Canada is expected to reduce Nova Scotia's interprovincial exports as well (which are typically larger than international exports). The tourism sector faces significantly diminished demand throughout 2020, weighing heavily on the exports of services. Overall exports are projected to decline by 13.1 per cent in 2020 and to rebound with 11.4 per cent growth in 2021. Some of the impacts from falling consumer spending and investment are expected to be muted by declining imports, which are projected to drop 8.6 per cent in 2020 and to grow by 8.1 per cent in 2021.

This economic forecast shows that COVID-19 reduces the projected level of nominal GDP by 7.6 per cent or \$3.6 billion compared to the Budget projection for 2020. While nominal GDP growth is projected to be 6.9 per cent, this will still lead to projected GDP being \$2.1 billion dollars less in 2021 than projected in the Budget forecast.

Nova Scotia Nominal GDP

(\$ billions at current prices)



While the economy is still growing in 2021, the economy will be below the level anticipated in Budget 2020–21.

Revenue

Total Revenue is forecast to be \$11.1 billion, \$532.1 million or 4.6 per cent less than the 2020–21 Budget Estimates. Revenue estimates are based on administrative data up to June 19, 2020. Information received after this date will be incorporated in future forecasts.

The decline in expected Total Revenue includes decreases of \$2.0 million or 0.3 per cent in Ordinary Recoveries, \$497.1 million or 8.0 per cent in Provincial Tax Revenue, \$1.7 million or 0.5 per cent in Other Provincial Revenue, \$22.3 million or 14.6 per cent in Investment Income, and \$78.1 million or 19.9 per cent in Net Income from GBEs. These decreases are partially offset by an increase of \$69.0 million or 1.8 per cent in Federal Revenue Sources.

Ordinary Revenue – Provincial Revenue Sources

Tax Revenue

Personal Income Tax (PIT) revenue is forecast to be down \$50.0 million or 1.7 per cent from Budget Estimates, primarily due to a reduction in taxable income and yield. Personal taxable income is currently projected to be down \$306.6 million in 2020 and \$842.3 million in 2021. The yield rate on taxable income is now projected to be lower by 0.06 percentage points in 2020 and 0.1 percentage points in 2021.

Federal emergency program benefits, such as the Canada Emergency Response Benefit and the Canada Emergency Student Benefit, are taxable and these will partially offset reductions in compensation of employees in 2020.

Corporate Income Tax (CIT) revenue is forecast to be down \$160.8 million or 29.7 per cent from Budget Estimates due to a decline in the amount of taxable income allocated to Nova Scotia. Federal projections of national taxable income are expected to be revised down from levels previously referenced for Budget including the provision of corporate losses being realized. Nova Scotia taxable income is projected to be down \$1.9 billion or 33.9 per cent in 2020 and \$959 million or 16.6 per cent in 2021.

Harmonized Sales Tax (HST) revenue is forecast to be down \$234.4 million or 11.7 per cent from Budget Estimates, mainly attributable to lower consumer spending and reduced investment in new residential housing. Taxable consumer expenditures are projected to be down \$1.6 billion or 9.9 per cent in 2020 and \$1.1 billion or 6.7 per cent in 2021. New residential housing investment is projected to be lower by \$529.0 million or 17.4 per cent in 2020 and \$228 million or 7.3 per cent in 2021.

Motive Fuel Tax revenue is forecast to be down \$34.1 million or 12.3 per cent from Budget Estimates due to lower levels of fuel consumption as a result of COVID-19 related restrictions put in place. Consumption of gasoline is projected to be 150 million litres or 11.2 per cent lower than expected while diesel fuel consumption is projected to be down 23.5 million litres or 5.2 per cent.

Tobacco Tax revenue is forecast to be \$5.3 million or 2.7 per cent less than Budget Estimates due to expected declines in the consumption of tobacco products primarily attributable to cigarettes, down 3.3 per cent.

Total Revenue 2020–21

(\$ thousands)

General Revenue Fund: Revenue	Budget	Forecast	Increase (Decrease) from Budget
Provincial Revenue Sources			
Tax Revenue:			
Personal Income Tax	2,979,575	2,929,540	(50,035)
Corporate Income Tax	541,872	381,096	(160,776)
Harmonized Sales Tax	2,004,070	1,769,634	(234,436)
Cannabis Tax	7,205	7,216	11
Vaping Tax	2,332	2,332	---
Motive Fuel Tax	277,161	243,080	(34,081)
Tobacco Tax	196,501	191,236	(5,265)
Other Tax Revenue	182,654	170,096	(12,558)
	6,191,370	5,694,230	(497,140)
Other Provincial Revenue:			
Registry of Motor Vehicles	135,380	135,380	---
Petroleum Royalties	---	---	---
Other Provincial Sources	140,264	142,035	1,771
TCA Cost Shared Revenue	3,721	3,059	(662)
Other Fees and Charges	64,023	61,198	(2,825)
Prior Years' Adjustments	---	---	---
	343,388	341,672	(1,716)
Investment Income:			
Interest Revenues	87,084	78,212	(8,872)
Sinking Fund Earnings	65,373	51,975	(13,398)
	152,457	130,187	(22,270)
Total - Provincial Sources	6,687,215	6,166,089	(521,126)
Federal Revenue Sources			
Equalization Payments	2,145,883	2,145,883	---
Canada Health Transfer	1,080,690	1,080,690	---
Canada Social Transfer	387,762	387,762	---
Offshore Accord Offset Payments	86,000	86,000	---
Other Federal Sources	39,177	110,518	71,341
TCA Cost Shared Revenue	111,779	109,483	(2,296)
Prior Years' Adjustments	---	---	---
Total - Federal Sources	3,851,291	3,920,336	69,045
Total - Ordinary Recoveries	666,720	664,734	(1,986)
Net Income from Government Business Enterprises (GBEs)			
Nova Scotia Liquor Corporation	242,625	236,615	(6,010)
Nova Scotia Gaming Corporation	131,000	79,600	(51,400)
Halifax-Dartmouth Bridge Commission	7,559	(5,113)	(12,672)
Highway 104 Western Alignment Corporation	10,630	2,630	(8,000)
Total - Net Income from GBEs	391,814	313,732	(78,082)
Total - Revenue	11,597,040	11,064,891	(532,149)

Note: Totals may not add due to rounding.

Cannabis Tax revenue is forecast to be in line with Budget Estimates.

Other Tax Revenue is forecast to be down \$12.6 million from Budget Estimates primarily due to a reduction in the casino win tax, which is associated with a suspension of casino operations by Public Health Order.

Other Provincial Revenue

Other Provincial Revenue is forecast to be \$1.7 million or 0.5 per cent lower than Budget Estimates. The variance is largely driven by a decrease in Other Fees and Charges, as COVID-19 is leading to lower fees and charges being collected by several departments throughout this fiscal year. TCA Cost Shared Revenue is also forecast to be lower than Budget Estimates because of COVID-19 negatively impacting TCA revenue at the Department of Transportation and Infrastructure Renewal.

The decreases in Other Provincial Revenue are slightly offset by an expected increase in Other Provincial Sources, which mostly stems from Infoway Funding at the Department of Health and Wellness.

Investment Income

Investment Income is predicted to be \$22.3 million or 14.6 per cent lower than Budget Estimates. This variance is driven by a decrease in sinking fund earnings due to lower forecasted interest rates. Interest revenues are also expected to decline because of a decrease in short-term revenues and lower interest from student loans due to the COVID-19 pause in payments.

Ordinary Revenue – Federal Revenue Sources

Equalization is based upon the province's decision to receive payments calculated according to the Expert Panel approach. This is a one-estimate, one-payment approach and as a result the forecast is equal to Budget Estimates.

The Offshore Accord payment is based upon a one-estimate, one-payment approach and as a result the forecast is unchanged from Budget Estimates. Forecasts for the Canada Health Transfer and Canada Social Transfer are also unchanged from Budget Estimates.

TCA Cost Shared Revenue is forecast to be down by \$2.3 million or 2.1 per cent from Budget Estimates because of COVID-19 negatively impacting TCA revenue at the Department of Transportation and Infrastructure Renewal.

Other Federal Sources is forecast to be up \$71.3 million or 182.1 per cent from Budget Estimates. The variance is due to federal funding for the essential workers wage program.

Ordinary Recoveries

Ordinary Recoveries Revenue is forecast to be \$2.0 million or 0.3 per cent lower than the 2020–21 Budget Estimates.

The Department of Communities, Culture and Heritage is forecast to be \$5.2 million or 82.5 per cent higher than Budget, primarily due to a \$2.8 million increase in Sport Canada Bilateral Agreement for Emergency Support Funding, which is recoverable from the federal government, as well as a \$1.4 million increase to Meals on Wheels and \$1.0 million increase to Atlantic Compassion Fund, both of which are recoverable from Efficiency Nova Scotia.

The Department of Education and Early Childhood Development is forecast to be \$6.6 million or 26.9 per cent higher than Budget primarily due to a \$4.4 million recovery related to a surplus in the Nova Scotia Teacher Union Health and Dental plan mainly due to COVID-19, and \$1.3 million in Federal funding related to French Programs and Services.

The Department of Energy and Mines is forecast to be \$0.8 million or 2.6 per cent lower than Budget primarily due to an underspend in the Investing in Canada Infrastructure Program.

The Department of Labour and Advanced Education is forecast to be \$4.1 million or 2.9 per cent higher than Budget, primarily due to increased provincial recoveries of \$3.9 million related to the Apprenticeship Management System Agreement.

The Department of Health and Wellness is forecast to be \$12.5 million or 9.7 per cent lower than Budget primarily due to decreased out-of-province patients resulting from COVID-19 travel restrictions.

The Department of Transportation and Infrastructure Renewal is forecast to be \$3.9 million or 19.8 per cent lower than Budget, due to delays in Highway Safety improvements from the Highway 104 Corporation.

Net Income from Government Business Enterprises (GBEs)

Total Net Income from GBEs is down \$78.1 million or 19.9 per cent from Budget Estimates. All GBEs are reporting expected decreases in net income related to COVID-19.

Net income from the Nova Scotia Liquor Corporation is forecast to be \$6.0 million or 2.5 per cent lower than Budget Estimates. The lower forecast is mainly due to the pandemic continuing to negatively impact sales to restaurants and bars.

Net income from the Nova Scotia Gaming Corporation is forecast to be down \$51.4 million or 39.2 per cent from Budget. This decrease is largely driven by the suspension in operations of casinos and video lottery terminals due to COVID-19 and the negative profit impacts expected after re-opening as a result of public health directives and possible customer hesitation.

Net income from the Halifax-Dartmouth Bridge Commission is forecast to be \$12.7 million or 167.6 per cent lower from Budget Estimates due to reduced toll revenue from lower amounts of bridge traffic.

Net income from Highway 104 Western Alignment Corporation is forecast to be down \$8.0 million or 75.3 per cent from Budget mainly because of a reduction in passenger vehicle traffic.

Expenses

Expense estimates are based on information to July 8, 2020. Total Expenses for 2020–21 are forecast to be \$12.1 billion, \$470.3 million or 4.0 per cent higher than the Budget Estimates.

Increases in Departmental Expenses of \$492.0 million or 4.6 per cent and the Pension Valuation Adjustment of \$0.2 million or 0.3 per cent are partially offset by a decrease in Debt Servicing Costs of \$21.9 million or 2.9 per cent.

Departmental Expenses

Total Departmental Expenses for 2020–21 are forecast to be \$492.0 million or 4.6 per cent higher than the Budget Estimates.

Departmental Expenses 2020–21 (\$ thousands)

	Budget	Forecast	<i>Increase (Decrease) from Budget</i>
Agriculture	42,075	41,749	(326)
Business	149,022	194,275	45,253
Communities, Culture and Heritage	96,890	101,116	4,226
Community Services	1,002,202	1,019,630	17,428
Education and Early Childhood Development	1,479,302	1,541,840	62,538
Energy and Mines	63,509	61,852	(1,657)
Environment	42,492	42,942	450
Finance and Treasury Board	24,282	24,175	(107)
Fisheries and Aquaculture	17,792	17,390	(402)
Health and Wellness	4,822,637	5,196,965	374,328
Justice	374,244	380,643	6,399
Labour and Advanced Education	400,631	408,301	7,670
Assistance to Universities	433,420	433,420	---
Lands and Forestry	78,215	77,949	(266)
Municipal Affairs and Housing	308,513	309,053	540
Public Service	136,354	135,161	(1,193)
Seniors	2,711	2,611	(100)
Service Nova Scotia and Internal Services	299,199	300,446	1,247
Transportation and Infrastructure Renewal	535,752	538,924	3,172
Restructuring Costs	341,032	313,800	(27,232)
Total - Departmental Expenses	10,650,274	11,142,242	491,968

The Department of Business is forecast to be \$45.3 million or 30.4 per cent higher than Budget, primarily due to pressures resulting from the COVID-19 response efforts including \$38.0 million in additional grants to Develop Nova Scotia under the Provincial Stimulus Program, \$3.0 million in additional funding for the Canada Emergency Commercial Rent Assistance Program, and \$3.0 million to Events East Group for the Halifax Convention Centre for lost revenues.

The Department of Communities, Culture and Heritage is forecast to be \$4.2 million or 4.4 per cent higher than Budget, primarily due to fully recoverable funding related to COVID-19 response efforts including \$2.8 million for the Federal Sport Canada Bilateral Agreement increase for emergency support, \$1.4 million to Meals on Wheels and \$1.0 million to the Atlantic Compassion Fund recoverable from Efficiency Nova Scotia.

The Department of Community Services is forecast to be \$17.4 million or 1.7 per cent higher than Budget due to \$10.1 million in COVID-19 related expenses, primarily related to \$12.8 million in the Disability Support Program for additional customized placements, non-residential participant program supports and one-time economic stimulus funding and \$2.4 million in Employment Support and Income Assistance. These increases are partially offset by \$6.4 million in reduced utilization costs in Service Delivery and Child, Youth and Family Services resulting from COVID-19 related public health restrictions. An additional \$7.3 million in other costs are forecast, primarily due to \$7.0 million in Child, Youth and Family Services for supports for children with complex needs and net changes in other program areas.

The Department of Education and Early Childhood Development is forecast to be \$62.5 million or 4.2 per cent higher than Budget primarily due to \$30.8 million in additional funding for the back-to-school reopening plan, \$30 million in support grants provided to the child care sector due to COVID-19 and \$1.8 million in partially recoverable expenses related to the French Programs and Services federal funding agreement, including complementary projects.

The Department of Energy and Mines is forecast to be \$1.7 million or 2.6 per cent lower than Budget primarily due to the redistribution of \$2.0 million in the HomeWarming program to support COVID-19 response efforts to help vulnerable Nova Scotians and \$1.1 million in the partially recoverable Investing in Canada Infrastructure Program due to project delays resulting from COVID-19.

The Department of Health and Wellness is forecast to be \$374.3 million or 7.8 per cent higher than Budget primarily due to \$274.0 million in operational costs related to the COVID-19 response effort, \$57.4 million in capital grants including \$35.1 million in provincial stimulus funding and \$21.9 million for Nova Scotia Health Authority (NSHA) equipment purchases supporting the COVID-19 response, \$24.1 million increase for NSHA operational pressures and \$7.8 million due to increased pharmaceutical utilization mainly in Seniors and Family Pharmacare .

The Department of Justice is forecast to be \$6.4 million or 1.7 per cent higher than Budget primarily due to \$3.8 million for Correctional Officer Workers' Compensation Board costs, \$3.2 million for RCMP costs related to the mass shooting, and \$2.6 million in COVID-19 related expenses. These increases are offset by \$3.2 million in vacancy and operational savings.

The Department of Labour and Advanced Education is forecast to be \$7.7 million or 1.9 per cent higher than Budget, primarily due to \$4.1 million for the NSCC Marconi campus relocation project, \$3.9 million in increased expenses related to the fully recoverable Apprenticeship Management System Agreement and \$1.5 million for the Nova Scotia Apprenticeship Agency Forestry Transition Initiative. These increases are partially offset by \$1.5 million in the Repayment Assistance Program due to the COVID-19 payment pause measure for a six-month period from March to September on student loans.

The Department of Service Nova Scotia and Internal Services is forecast to be \$1.2 million or 0.4 per cent higher than Budget primarily due to COVID-19 related expenses of \$2.1 million to complete the Modernization and Sustainment of SAP Project in the health sector and \$0.6 million for other various operating expenses. These increases are partially offset by a \$1.5 million reduction in operating expenses.

The Department of Transportation and Infrastructure Renewal is forecast to be \$3.2 million or 0.6 per cent higher than Budget, primarily due to \$4.3 million for Highway 104 operating and contract costs, \$1.5 million in provincial stimulus funding and \$1.3 million for wood heat conversation projects. These increases are partially offset by \$3.9 million due to delays in highway safety improvements from the Highway 104 Corporation.

Restructuring is forecast to be \$27.2 million or 8.0 per cent below Budget primarily due to lower than anticipated budget requirements for corporate initiatives.

Refundable Tax Credits

Refundable Tax Credits are unchanged from Budget Estimates.

Pension Valuation Adjustment

The Pension Valuation Adjustment is forecast to be up \$0.2 million or 0.3 per cent from Budget Estimates. The increase is primarily attributed to changes in the market value of plan assets and updated actuarial reports.

Debt Servicing Costs

Total Debt Servicing Costs are forecast to be down \$21.9 million or 2.9 per cent from Budget Estimates, driven by lower than anticipated interest rates.

Consolidation and Accounting Adjustments

Consolidation and Accounting Adjustments for Government Units are forecast to be \$94.6 million or 127.9 per cent higher than Budget Estimates primarily due to a \$74.5 million increase in capital grants to the NSHA, Izaak Walton Killam (IWK), Develop Nova Scotia and Nova Scotia Lands Inc. for provincial stimulus funding, and \$21.9 million for NSHA capital equipment purchases to support the COVID-19 response. These increases are partially offset by a decrease of \$1.8 million in various special purpose funds and other organizations.

Capital

Total Capital Spending is forecast to be \$1,290.2 million, which is \$247.8 million or 23.8 per cent higher than Budget.

Tangible Capital Assets

The province is forecasting Capital Purchase Requirements to be \$150.2 million or 16.5 per cent higher than Budget. This is primarily due to capital stimulus funding for Highways & Structures and Building Projects.

Capital Grants

The province is forecasting Capital Grant Requirements to be \$97.5 million or 74.2 per cent higher than Budget primarily due to capital stimulus funding for the Department of Health and Wellness and Department of Business as well as increased capital equipment for the COVID-19 response.

Capital Spending 2020–21

(\$ thousands)

	Budget	Forecast	Increase (Decrease) from Budget
Highways & Structures	400,580	495,111	94,531
Buildings	443,508	483,607	40,099
Information Technology	10,531	13,653	3,122
Land Purchases	2,500	7,042	4,542
Vehicles and Equipment	13,843	21,771	7,928
Contingency	40,000	40,000	---
Total - Capital Purchase Requirements	910,962	1,061,184	150,222
Capital Grants	131,446	228,978	97,532
Total - Capital Spending	1,042,408	1,290,162	247,754

Key Risks

Economic

The epidemiology of the COVID-19 pandemic is the key risk to the economic projections. Potential for further outbreaks could decrease economic activity in the second half of 2020 or in 2021. Positive developments around public health measures, treatment and a vaccine would be beneficial to the economic outlook.

Trade protectionism and restrictions targeted at Canadian trade have the potential to impact exports beyond the COVID-19 situation. The Canada-United States-Mexico Agreement now in effect provides renewed stability in this relationship. However, the outlook for Nova Scotia's trade is sensitive to the pace of economic decline and recovery in the province's major trading partners. There have been frequent and large revisions to the forecasts of advanced economy recessions and recoveries.

In the near term, recovery in consumer spending depends critically on consumer confidence that purchases of goods and services can be made safely during the pandemic. Changes in consumer preferences and travel patterns caused by the COVID-19 situation may persist, permanently altering demand for some products and changing how they are produced. Additional safety and distancing measures may prove to be a shock to productivity in many industries. Further limited mobility of people could affect the labour force as well as interprovincial migration and international immigration to Nova Scotia.

The recovery may be slower than anticipated because of potential economic disruptions that can occur. These include broken linkages between employers and employees, permanent business closures, debt defaults, financial institution impairments and negotiation of contracts in an uncertain economic environment.

Additional near-term fiscal support may be required to sustain economic recovery, but repairing government balance sheets will eventually require that stimulus measures be withdrawn. Likewise, monetary policy in Canada and around the world has been eased with the global recession and accommodative conditions are expected throughout the near term. The timing and extent of fiscal and monetary tightening are notable risks to the economic outlook.

Revenue

Provincial own-source revenues are strongly influenced by several key factors in the economic outlook. In addition, the revenue models use administrative data, external factors, and historical relationships between factors to arrive at forecasted revenues. All factors are subject to change throughout the fiscal year and can contribute to significant variations in revenues. Final PIT and CIT tax assessments for the 2019 taxation year have not been received, thereby creating the possibility of additional prior year adjustments as well as influencing assumptions for the current fiscal year.

The forecast of PIT tax revenue is dependent on performance of the labour market and direct federal program benefits provided to help offset negative shocks associated with the COVID-19 pandemic. These payments are short-term in nature.

The forecast of CIT revenues is highly dependent upon national corporate taxable income and the province's share. Any downward adjustment to national corporate taxable income estimates, including those associated with realized losses, or a decline in the province's share presents a substantial risk to CIT revenues. The size of the loss carryback provisions is anticipated to be large, but not yet certain.

HST revenues are heavily reliant on consumer expenditures and residential construction. These are dependent on the pace of the economic recovery and consumer confidence. HST is also sensitive to changes in the cost of the Your Energy Rebate Program.

GBEs, similar to other businesses, have been impacted by Public Health Orders and the need to adjust for additional safety and distancing measures. Revenues will continue to be impacted by traffic volumes for the Halifax-Dartmouth Bridge Commission and Highway 104.

An agreement for federal funding for Safe Restart has been announced, but these funds have not been included in the Forecast Update because the details still need to be finalized. This agreement will be factored into future Forecast Updates.

Expenditures

There is a general expenditure risk related to government-wide future response efforts as the COVID-19 pandemic continues. Utilization for various programs may see further variance depending on how and when further impacts occur.

The pandemic has caused considerable variance and uncertainty in government expenditures when benchmarked against the Budget Estimates presented earlier this year. While this forecast update has outlined several known variances in department expenditures, there remains substantive uncertainty that is early stage in development or has not yet come to fruition. Several expenditure risks are noted below that may cause further variance to department spending plans.

The Department of Health and Wellness continues to work with the NSHA, the IWK, and various other health sector partners to respond to the ongoing pandemic, while continuing to provide traditional health care services across the province. This forecast has noted a considerable increase in health expenditures as the system has responded to the initial wave of COVID-19. However, uncertainty remains in health care expenditures due to additional preparations and system-wide response to future COVID-19 epidemiology.

The Department of Labour and Advanced Education continues to monitor the impact of student enrollments in the higher education sector. Added supports may be required to stabilize institutions if significant short-term liquidity challenges result from a sharp decline in enrollments.

Further investments may be needed to stimulate or stabilize various sectors in Nova Scotia. The pandemic's impact on consumer demand, access to markets, and supply chain disruptions will present challenges at varying times for each sector throughout the response cycle. While many adverse impacts are known, there remain risks that added expenses or significant loss in revenue will continue or intensify requiring further intervention through government support.

The childcare sector may require additional support from government to ensure the sector remains stable. Demand for childcare services remains uncertain as the economy re-opens. Childcare is a crucial component to the safe restart and recovery of the economy and will continue to be monitored closely.

Municipalities across Nova Scotia have experienced varying levels of revenue loss. If critical service delivery is disrupted, government may support through varying means. The Department of Municipal Affairs and Housing will continue to work with municipal government officials to assess and respond as deemed necessary.

Impacts of the Safe Restart Agreement have not been finalized for several departments. These expenditures will be included in a future Forecast Update.

