Forecast Update

December 17, 2020

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Minister of Finance and Treasury Board

NOVA SCOTIA

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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. 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's priority is protecting Nova Scotians and controlling the spread through strong public health measures, while making investments to support economic recovery. This requires a careful balance and has resulted in significant changes to the Budget outlook this year.

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 $778.8 million, a deterioration of $833.9 million from the Budget's surplus position of $55.0 million.

The Forecast Update shows that Nova Scotia, like the rest of Canada and the world, is continuing to experience an unprecedented economic shock due to the COVID-19 pandemic. 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 updates to assess Nova Scotia's fiscal progress.

Overview

The Province of Nova Scotia is forecasting a deficit of $778.8 million. This is a deterioration of $833.9 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 $11.4 billion, a decrease of $186.6 million from the Budget Estimates.

Forecast changes in Ordinary Revenue include a $598.5 million decrease in Provincial Tax Revenue, $7.9 million increase in Other Provincial Revenue, $21.7 million decrease for Investment Income, and $421.2 million increase in Federal Revenue Sources.

Ordinary Recoveries revenue is forecast to increase by $48.5 million from Budget. Net Income from GBEs is expected to decrease by $43.9 million.

Total Expenses are forecast to be $12.3 billion, which is $708.7 million higher than the Budget Estimates.

Fiscal Summary 2020–21

($ thousands)

General Revenue Fund	Budget	July *Update*	December *Update*	*Increase (Decrease)* from Budget	*Increase (Decrease)* from July
Revenues					
Ordinary Revenue	10,538,506	10,086,425	10,347,399	(191,108)	260,974
Ordinary Recoveries	666,720	664,734	715,178	48,458	50,444
Net Income from Government Business Enterprises	391,814	313,732	347,906	(43,908)	34,174
Total - Revenue	**11,597,040**	**11,064,891**	**11,410,483**	**(186,558)**	**345,591**
Expenses					
Departmental Expenses	10,650,274	11,142,242	11,363,718	713,444	221,476
Refundable Tax Credits	131,451	131,451	133,166	1,715	1,715
Pension Valuation Adjustment	75,832	76,078	84,993	9,161	8,915
Debt Servicing Costs	758,393	736,473	742,815	(15,578)	6,342
Total - Expenses	**11,615,950**	**12,086,244**	**12,324,692**	**708,742**	**238,448**
Consolidation and Accounting Adjustments for Governmental Units	73,936	168,487	135,363	61,427	(33,124)
Provincial Surplus (Deficit)	**55,026**	**(852,866)**	**(778,847)**	**(833,873)**	**74,019**

Note: Totals may not add due to rounding.

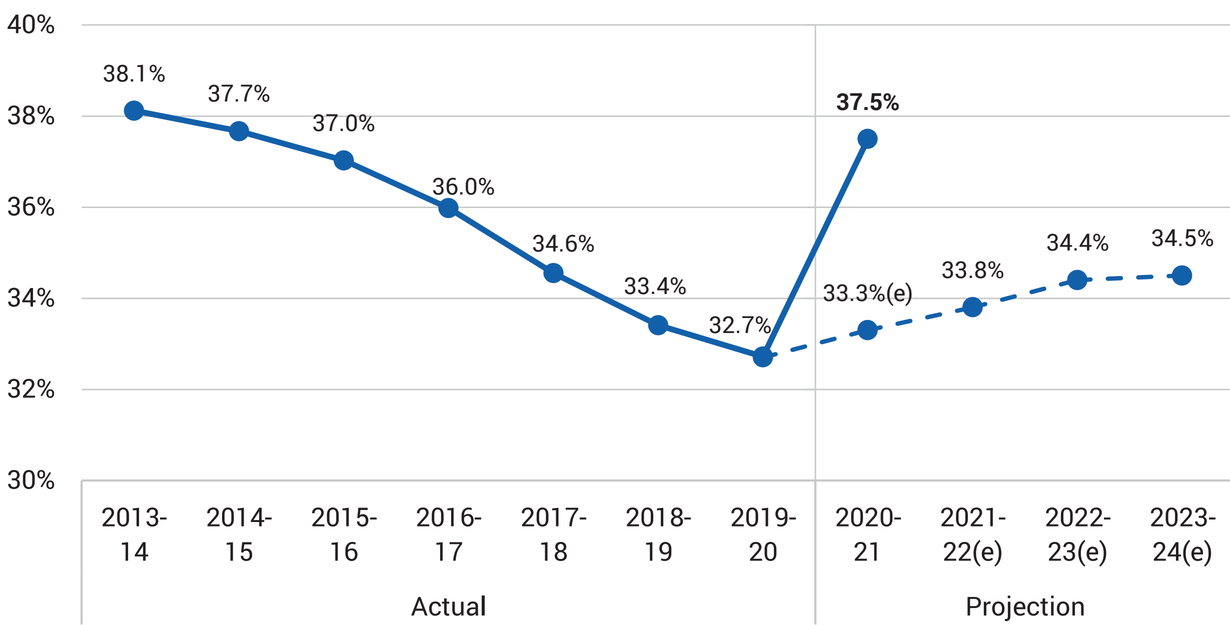
Expenses are predicted to be higher due to projected increases in Departmental Expenses of $713.4 million, an increase in the Pension Valuation Adjustment of $9.2 million, and an increase of $1.7 million in Refundable Tax Credits. These increases are partially offset by an expected decrease in Debt Servicing Costs of $15.6 million.

Consolidation and Accounting Adjustments are forecast to positively impact the bottom line by $135.4 million, which is $61.4 million more than budgeted.

Nova Scotia's Net Debt is forecast to increase by $1.1 billion to $16.8 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: (e) = Budget 2020–21 estimate for 2020–2024.

The revised Net Debt to Gross Domestic Product (GDP) ratio is forecast to be 37.5 per cent, up 4.2 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

Global: The economic downturn triggered by the COVID-19 pandemic has put the global economy into a severe recession. The recession's depth and composition are unlike any economic shock in recent history. The public health measures to slow viral transmission, together with restrictions on consumer spending opportunities, have resulted in unprecedented declines in employment, income, and spending. The impacts have been especially hard on service industries. The scale of economic disruption indicates that the path to recovery is highly dependent on the wide distribution of an effective vaccine.

Following a global lockdown in March and April 2020, many economies registered strong rebounds in the third quarter as businesses started to reopen. However, economic momentum is slowing down entering the fourth quarter, reflecting re-imposition of restrictions and lockdowns amidst the second wave of the virus.

Significant fiscal and monetary supports provided by many governments averted the worst economic damage from the pandemic. The International Monetary Fund (IMF) notes that discretionary revenue and spending measures in advanced economies amount to more than 9 per cent of nominal GDP, with another 11 per cent in liquidity support. For emerging and developing economies, discretionary budget measures amount to about 3.5 per cent of GDP with another more than 2.0 per cent in liquidity support.

The IMF World Economic Outlook report in October 2020 estimates that global real GDP will decline 4.4 per cent in 2020. This pace of economic growth is about 7.7 percentage points lower than the pre-COVID projections of January 2020. The IMF's baseline projection assumes that social distancing measures will continue into 2021 and will be eased over time as vaccine coverage expands. Global economic activity is expected to increase in real terms by 5.2 per cent in 2021, but this is only 0.6 per cent above that of 2019.

United States: COVID-19 has triggered the most severe recession in the United States (US) since the Great Depression. The Federal Reserve cut the benchmark interest rate by a total of 150 basis points to a range of 0-25 basis points, while Congress approved $2.9 trillion in coronavirus relief (14 per cent of nominal GDP), to support households and businesses. With the US presidential election over, a new stimulus package is under consideration. New stimulus could provide a positive impulse to economic growth, but the pace of recovery could also be limited by the public health measures needed to limit the second wave of the pandemic. The economic outlook presented here assumes that US real GDP contracts by 4.0 per cent in 2020 before increasing by 3.6 per cent in 2021.

Europe: European economic activity suffered a severe set-back in the first half of 2020. While economic activity started to show strong signs of rebound in the third quarter, the recent surge in COVID-19 cases has interrupted recovery. The impacts of COVID-19 have differed across the European Union's Member States and it is expected that the trajectory of economic recovery will also differ across the region. The IMF estimates that real GDP in the Euro Area will decline 8.3 per cent in 2020 followed by 5.2 per cent growth in 2021.

China: There has been a quick recovery from the pandemic in China. Production rebounded rapidly following the removal of containment measures. Public investment and net exports have supported demand in the Chinese economy. Limited tourism and falling commodity prices have caused imports to decline. Economic activity in China in the third quarter of 2020 was back above pre-pandemic levels. China's fiscal policy response focused on mitigating negative impacts on firms and supporting public investment. Support to households has been limited. Despite soft prospects for consumer spending, the IMF projects China's real GDP to grow 1.9 per cent in 2020 followed by 8.2 per cent growth in 2021.

Canada: The COVID-19 pandemic caused a sharp decline in Canada's economic activity in the first half of 2020. As provinces lifted lockdowns and eased social distancing measures, economic activity started to gain traction with real GDP increasing 40.5 per cent (annualized) in the third quarter of 2020. While economic activity is almost back to pre-pandemic levels in some areas, sectors that rely on personal interactions are not expected to fully recover until a vaccine is available nation-wide. Additionally, a surge in the number of COVID-19 cases in many provinces is limiting the pace of recovery in the fourth quarter of 2020.

Federal and provincial monetary stimulus packages have supported households and businesses during the lockdowns. Continued recovery in the labour market, combined with household income and ongoing stimulus packages, are expected to support economic recovery in Canada. Overall, the Finance and Treasury Board (FTB) economic outlook assumes that Canada's real GDP will contract 5.8 per cent in 2020 and projects a rebound of 4.4 per cent in 2021.

Current Economic Performance and Outlook for Nova Scotia

The economic outlook has been revised to incorporate information and data released through November 9, 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 periods of lockdown and subsequent recovery periods. The projections also include assumptions about restricted output in 2021, which are the equivalent of a 4 week full or 8-12 week partial lockdown period (though these impacts may take different forms in timing, industries affected and geographic areas under restriction). Unless noted, all economic growth rates are stated in nominal terms.

There have been significant impacts on Nova Scotia's economy from both the global recession and the disruptions to domestic economic activity caused by COVID-19. Economic activity contracted sharply in local service industries during the initial months of the pandemic because of mandated closures, travel restrictions, social distancing measures, and uncertainty. Nova Scotia exports declined because of lower global demand, particularly for seafood. As lockdown measures eased in summer 2020, economic activity rebounded swiftly though it remains below normal levels. Economic conditions in tourism, arts, recreation, and export industries are expected to continue at reduced levels in the short-term. As COVID-19 second waves emerge around the world (including in Canada), economic activity will continue to fluctuate based on the course of the pandemic.

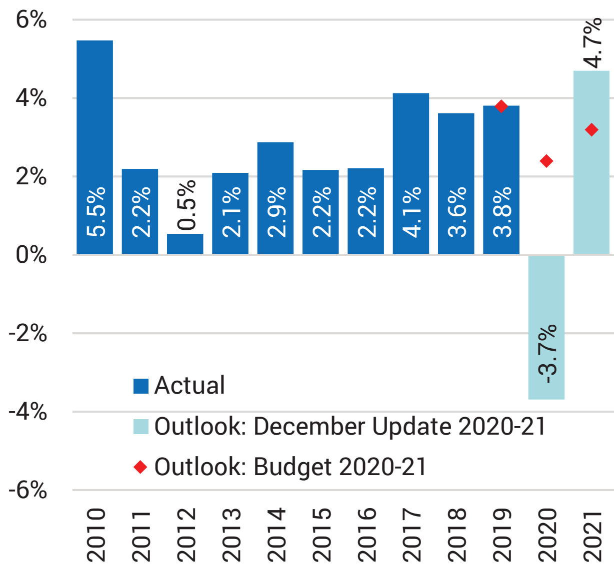
GDP Growth: Over the past six years, Nova Scotia's economy had been seeing accelerating growth. Nominal GDP expanded 3.8 per cent in 2019. Real GDP grew by 2.4 per cent, its fastest pace since 2010. Rising household consumption, residential investment, and exports had contributed to faster growth in recent years.

The outlook for Nova Scotia's nominal and real GDP growth has been revised based on economic data that reveal how the economy evolved through the first three quarters of 2020. Conditions going forward will remain highly uncertain until the pandemic is well contained. Any economic recovery in Nova Scotia ultimately depends on stabilizing the public health situation through vaccination, treatment, and effective containment of the spread of COVID-19.

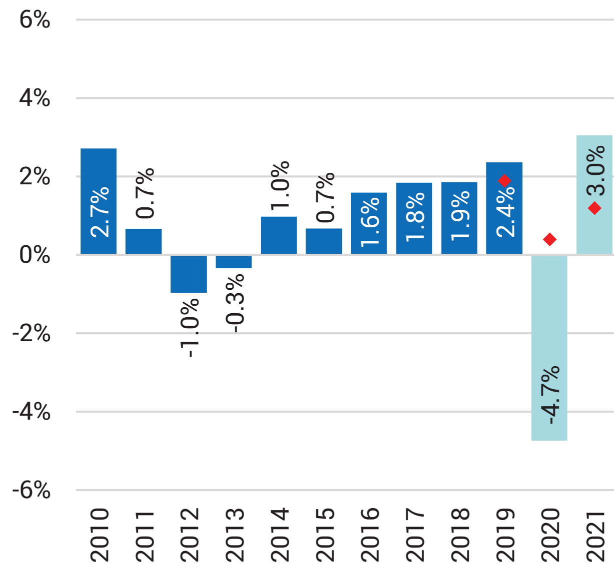
Nova Scotia GDP Growth

(per cent change)

Nominal GDP



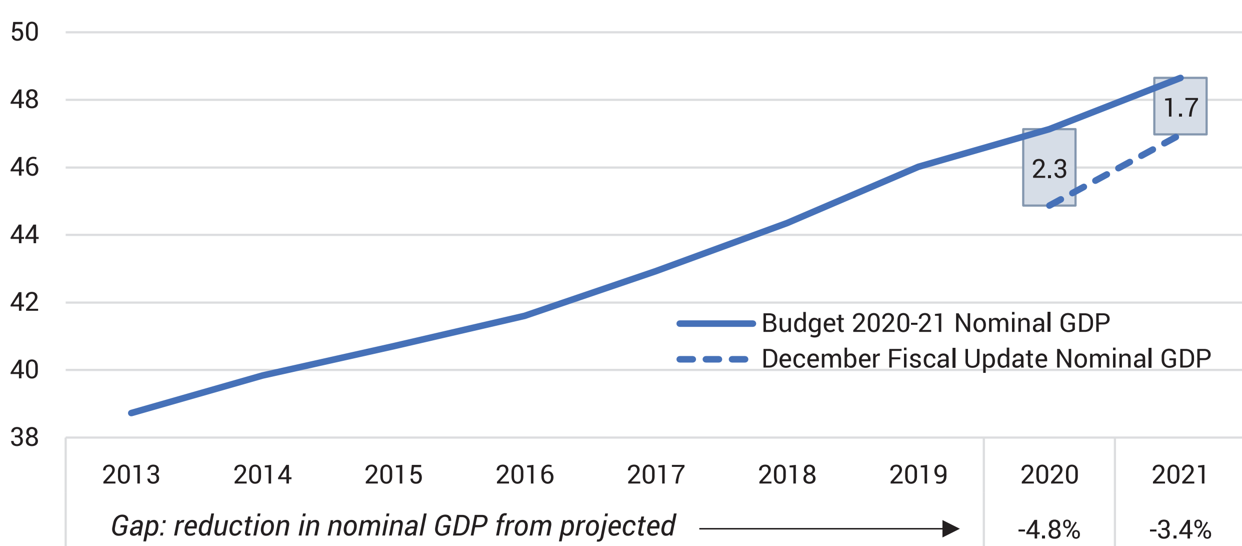
Real GDP



Nova Scotia's nominal GDP is forecast to decline 3.7 per cent through 2020, followed by growth of 4.7 per cent in 2021. Real GDP is projected to decline 4.7 per cent in 2020 before rising by 3.0 per cent in 2021. Contracting household consumption, non-residential and residential investment, and exports are projected to be partially offset by increases in government expenditure, transfers, and capital projects in 2020.

Nova Scotia Nominal GDP

($ billions at current prices)



This economic forecast shows that COVID-19 reduces the projected level of nominal GDP by 4.8 per cent or $2.3 billion compared to the Budget projection for 2020. While nominal GDP growth is projected to be 4.7 per cent in 2021, this will still lead to projected GDP levels being $1.7 billion dollars less than projected in the 2020–21 Budget forecast.

Population: Nova Scotia's population has been growing since 2015, rising by over 42,000 persons to be at a record of 979,351 as of July 1, 2020. The COVID-19 pandemic has disrupted international and interprovincial migration, and this is expected to continue over the short-term. The demographic outlook has been revised and population growth is expected to moderate in 2021, rising by 0.2 per cent, its slowest pace since 2015.

Labour Markets: Nova Scotia's economic contraction was accompanied by the largest monthly employment declines ever seen in the Labour Force Survey data: -24,800 in March and -50,600 in April 2020. Since then employment has recovered every month through November, regaining 97 per cent of the employment losses from March and April. As of November, employment in Nova Scotia was 0.5 per cent below levels in February 2020 though many are facing reduced work hours. Private sector employment remains 4.8 per cent below February 2020 with persistent employment declines in wholesale and retail trade, transportation, business, building, and other support services, culture and recreation, accommodation and food services, manufacturing and forestry, fishing, mining, oil and gas. Through 2020, employment is expected to fall by 4.8 per cent before rising by 2.9 per cent in 2021.

Consumption and Prices: Retail sales contracted significantly during the initial lockdown period (March-June 2020), but have since recovered to pre-pandemic levels. On average during January to September 2020, retail sales were 4.6 per cent lower than the same months in 2019. Overall, household consumption is projected to decline 5.2 per cent in 2020 because of diminished service activity during the lockdown, lower energy prices, and weak consumer confidence. Government support programs created during the pandemic have supported household incomes and offset a significant proportion of income losses for the year. It appears that discretionary purchases have been delayed, including sharp declines in motor vehicle and durable goods sales. Tourism as well as local purchases of personal services, arts, recreation, and food services have contracted sharply in 2020. Food services and drinking place receipts were down 19.3 per cent January through September compared to the first three quarters of 2019. In 2021, consumer spending is projected to rise by 4.9 per cent, along with a 4.1 per cent increase in retail sales.

Inflation in 2020 has been modest with lower energy prices leading to only a 0.3 per cent increase through the first ten months of the year. Underlying inflation measures have been higher but are still below 2 per cent. Inflation is projected to average 0.3 per cent in 2020 and 1.7 per cent in 2021.

Investment: The recession caused by COVID-19 differs from previous contractions that have been more concentrated in falling investment than in declining consumer spending. Non-residential building construction increased 1.4 per cent for the first three quarters of 2020 as work continued on Halifax commercial buildings. Building permit data indicates lower building construction activity going forward. Business investment in machinery and equipment declined 17.8 per cent in the first three quarters of 2020. Ongoing stimulus capital spending by the provincial government on transportation, health care, and other infrastructure is expected to support the economy in the near term and beyond.

After declining sharply during the spring, residential building construction activity has not fully recovered to 2019 levels of activity (as of September). For the first three quarters of 2020, renovation activity and Halifax multiple unit building construction declined, though single unit construction has risen. The tight housing market in Halifax has increased home prices and housing starts are up 5.3 per cent January through November. Residential investment is projected to decline 7.6 per cent in 2020 before rising by 6.0 per cent in 2021.

Current Economic Outlook Assumptions

	Budget 2020-21		December Forecast Update	
Per cent change, except where noted	**2020**	**2021**	**2020**	**2021**
Real GDP ($2012 chained)	0.4%	1.2%	-4.7%	3.0%
Nominal GDP	2.4%	3.2%	-3.7%	4.7%
Compensation of Employees	2.2%	3.5%	-2.1%	1.6%
Household Income	2.6%	3.1%	5.5%	-2.3%
Household Final Consumption	2.8%	3.3%	-5.2%	4.9%
Retail Sales	2.1%	2.5%	-5.9%	4.1%
Consumer Price Index	2.0%	1.9%	0.3%	1.7%
Investment in Residential Structures	2.3%	2.6%	-7.6%	6.0%
Non-Res, Machinery, Intellectual Property	5.8%	3.2%	-3.0%	6.0%
Net Operating Surplus: Corporations	3.2%	3.7%	-16.6%	9.7%
Net Mixed Income: Unincorporated	1.8%	2.5%	3.4%	1.7%
Exports of Goods and Services	2.1%	3.7%	-14.5%	8.1%
Exports of Goods to Other Countries	-1.7%	3.1%	-14.8%	7.1%
Imports of Goods and Services	3.2%	3.1%	-7.7%	4.6%
Population at July 1 (thousands)	980.4	988.5	a979.4	981.2
Labour Force (thousands)	506.5	509.4	491.8	496.7
Employment (thousands)	465.6	470.6	443.7	456.6
Unemployment Rate, Annual Average	8.1%	7.6%	9.8%	8.1%

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; a~actual

Exports: Nova Scotia's exports are projected to decline in 2020 due to the global recession, COVID-19-related work stoppages, and the closure of wood pulp production. Through the first ten months of the year shipments of most major commodities were down, including seafood, tires, wood pulp and paper products. Higher shipments to world markets were reported for lumber, frozen fruit, and gypsum. Shipments from Nova Scotia are lower to the largest markets: US (-12.4 per cent), China (-33.5 per cent), and European Union (-1.0 per cent). Reduced economic activity in Canada is expected to impair interprovincial trade as well, particularly in travel and tourism activities. Trade recovery in 2021 could be hampered by second wave outbreaks in many regions.

The tourism sector faces significantly diminished demand in 2020 and 2021, weighing heavily on the exports of services. Overall exports are projected to decline by 14.5 per cent in 2020 and to rebound with 8.1 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 7.7 per cent in 2020 and to grow by 4.6 per cent in 2021.

Revenue

Total Revenue is forecast to be $11.4 billion, $186.6 million or 1.6 per cent less than the 2020–21 Budget Estimates. Revenue estimates are based on administrative data up to November 21, 2020. Information received after this date will be incorporated in future forecasts.

The decline in expected Total Revenue includes decreases of $598.5 million or 9.7 per cent in Provincial Tax Revenue, $21.7 million or 14.2 per cent in Investment Income, and $43.9 million or 11.2 per cent in Net Income from GBEs. These decreases are partially offset by an increase of $48.5 million or 7.3 per cent in Ordinary Recoveries, $7.9 million or 2.3 per cent in Other Provincial Revenue, and $421.2 million or 10.9 per cent in Federal Revenue Sources.

Ordinary Revenue — Provincial Revenue Sources

Tax Revenue

Personal Income Tax (PIT) revenue is forecast to be down $90.7 million or 3.0 per cent from Budget Estimates as a result of lower than expected taxable income and slower growth in yield. Personal taxable income is projected to be down by $646.1 million in 2020 and by $1.1 billion in 2021. The yield rate on personal taxable income is now projected to decline by 2.2 per cent in 2020 and by 2.7 per cent in 2021. Federal emergency program benefits, such as the Canada Emergency Response Benefit (CERB) and the Canada Emergency Student Benefit (CESB), are taxable and will partially offset reductions in compensation of employees in 2020.

Corporate Income Tax (CIT) is forecast to be down $146.1 million or 27.0 per cent from Budget Estimates as a result of a decline in corporate taxable income allocated to the province. National corporate taxable income has been revised downward including a provision for corporate losses expected to be realized as a result of the pandemic. The province's corporate taxable income is projected to decline by $1.8 billion or 32.6 per cent in 2020 and by $806.2 million or 14.0 per cent in 2021.

Harmonized Sales Tax (HST) revenue is forecast to be down $88.3 million or 4.4 per cent from Budget Estimates, primarily due to lower consumer expenditures but partially offset by higher levels of new residential housing sales. Taxable consumer expenditures are projected to be down $1.4 billion or 8.6 per cent in 2020 and $1.1 billion or 6.6 per cent in 2021. Sales of new residential housing investment are projected to be up by $361.6 million or 11.9 per cent in 2020 and by $485.8 million or 15.6 per cent in 2021.

Motive Fuel Tax revenue is forecast to be down $43.0 million or 15.5 per cent from Budget Estimates primarily due to lower levels of fuel consumption as a result of COVID-19 restrictions put in place. Consumption of gasoline is projected to be 195 million litres or 14.6 per cent lower than expected while diesel oil consumption is projected to be down 36 million litres or 7.9 per cent.

Tobacco Tax revenue is forecast to be $7.6 million or 3.9 per cent higher than Budget Estimates primarily due to cigarette consumption not decreasing as fast as projected. Cigarette consumption is higher by 1.3 per cent, compared to Budget Estimates, while the year-over-year downward trend continues. Consumption for 2020–21 is now expected to be down 1.8 per cent from 2019–20.

Cannabis Tax revenue and Vaping Products Tax revenue are forecast to be in line with Budget Estimates.

Total Revenue 2020–21

($ thousands)

General Revenue Fund: Revenue	Budget	July *Update*	December *Update*	*Increase (Decrease)* from Budget	*Increase (Decrease)* from July
Provincial Revenue Sources					
Tax Revenue:					
Personal Income Tax	2,979,575	2,929,540	2,888,862	(90,713)	(40,678)
Corporate Income Tax	541,872	381,096	395,753	(146,119)	14,657
Harmonized Sales Tax	2,004,070	1,769,634	1,915,773	(88,298)	146,139
Cannabis Tax	7,205	7,216	7,216	11	---
Vaping Tax	2,332	2,332	2,332	---	---
Motive Fuel Tax	277,161	243,080	234,148	(43,013)	(8,932)
Tobacco Tax	196,501	191,236	204,138	7,637	12,902
Other Tax Revenue	182,654	170,096	173,596	(9,058)	3,500
Prior Years' Adjustments - Taxes	---	---	(228,979)	(228,979)	(228,979)
	6,191,370	5,694,230	5,592,839	(598,532)	(101,392)
Other Provincial Revenue:					
Registry of Motor Vehicles	135,380	135,380	127,316	(8,064)	(8,064)
Petroleum Royalties	---	---	---	---	---
Other Provincial Sources	140,264	142,035	147,146	6,882	5,111
TCA Cost Shared Revenue	3,721	3,059	5,828	2,107	2,769
Other Fees and Charges	64,023	61,198	55,991	(8,032)	(5,207)
Prior Years' Adjustments - Other Revenue	---	---	14,993	14,993	14,993
	343,388	341,672	351,274	7,886	9,602
Investment Income:					
Interest Revenues	87,084	78,212	79,293	(7,791)	1,081
Sinking Fund Earnings	65,373	51,975	51,461	(13,912)	(514)
	152,457	130,187	130,754	(21,703)	567
Total - Provincial Sources	**6,687,215**	**6,166,089**	**6,074,867**	**(612,349)**	**(91,223)**
Federal Revenue Sources					
Equalization Payments	2,145,883	2,145,883	2,145,883	---	---
Canada Health Transfer	1,080,690	1,080,690	1,078,379	(2,311)	(2,311)
Canada Social Transfer	387,762	387,762	386,932	(830)	(830)
Offshore Accord Offset Payments	86,000	86,000	86,000	---	---
Crown Share	---	---	---	---	---
Other Federal Sources	39,177	110,518	459,832	420,655	349,314
TCA Cost Shared Revenue	111,779	109,483	117,995	6,216	8,512
Prior Years' Adjustments	---	---	(2,489)	(2,489)	(2,489)
Total - Federal Sources	**3,851,291**	**3,920,336**	**4,272,532**	**421,241**	**352,196**
Total - Ordinary Recoveries	**666,720**	**664,734**	**715,178**	**48,458**	**50,444**
Net Income from Government Business Enterprises (GBEs)					
Nova Scotia Liquor Corporation	242,625	236,615	246,159	3,534	9,544
Nova Scotia Gaming Corporation	131,000	79,600	94,200	(36,800)	14,600
Halifax-Dartmouth Bridge Commission	7,559	(5,113)	1,047	(6,512)	6,160
Highway 104 Western Alignment Corporation	10,630	2,630	6,500	(4,130)	3,870
Total - Net Income from GBEs	**391,814**	**313,732**	**347,906**	**(43,908)**	**34,174**
Total - Revenue	**11,597,040**	**11,064,891**	**11,410,483**	**(186,558)**	**345,591**

Note: Totals may not add due to rounding.

Prior Year Adjustments for provincial tax revenues are forecast to be -$229.0 million. PIT is -$74.6 million based upon lower than anticipated taxable income and yield growth for the 2019 taxation year. CIT is -$101.7 million as the result of both lower national corporate taxable income and the province's share for the 2019 taxation year. HST accounts for -$52.8 million due to downward data revisions to the 2019 consumer expenditure base as a result of lower growth estimates released by Statistics Canada in its Provincial Economic Accounts.

Other Provincial Revenue

Other Provincial Revenue is forecast to be $7.9 million or 2.3 per cent higher than Budget Estimates. The variance is largely driven by Prior Year Adjustments for Offshore Royalties (+$15.0 million), associated with a settlement from a joint cost audit with the Sable Offshore Energy Project interest holders, offset by anticipated reductions in Registry of Motor Vehicles and Other Fees and Charges. COVID-19 is leading to lower fees and charges being collected by several departments throughout this fiscal year.

Provincial Tangible Capital Assets (TCA) is forecast to be higher than Budget Estimates mainly due to capital projects under the Department of Health and Wellness as well as the Department of Transportation and Infrastructure Renewal.

Investment Income

Investment Income is predicted to be $21.7 million or 14.2 per cent lower than Budget Estimates. This variance is driven by a decrease in sinking fund earnings due to lower forecasted and actual interest rates. Interest revenues are also expected to decline because of a decrease in interest rates and lower interest from student loans due to the COVID-19 pause in payments.

Ordinary Revenue — Federal Revenue Sources

Equalization and the Offshore Accord payments are based upon a one-estimate, one-payment approach and as a result the forecast is equal to the Budget Estimates.

The Canada Health Transfer (CHT) is forecast to be down by $2.3 million or 0.2 per cent from the Budget Estimates as a result of new population estimates released by Statistics Canada in September 2020. The Canada Social Transfer (CST) is forecast to be down by $0.8 million or 0.2 per cent from the Budget Estimates as a result of new population estimates released by Statistics Canada in September 2020.

Federal TCA Cost Shared Revenue is forecast to be up by $6.2 million or 5.6 per cent from Budget Estimates mainly because of non-budgeted capital projects under the Department of Education and Early Childhood Development.

Other Federal Sources is forecast to be up $420.7 million or 1,073.7 per cent from Budget Estimates. The variance is due to federal funding including the Essential Workers Wage Program, Safe Return to Class Fund, and Safe Restart Agreement.

Ordinary Recoveries

Ordinary Recoveries Revenue is forecast to be $48.5 million or 7.3 per cent higher than the 2020–21 Budget Estimates.

The Department of Agriculture is forecast to be $1.0 million or 15.1 per cent higher than Budget primarily due to additional recoverable expenses related to On-Farm Support Fund programs, funded by Agriculture and Agri-Food Canada.

The Department of Communities, Culture and Heritage is forecast to be $6.2 million or 98.7 per cent higher than Budget, primarily due to a $3.8 million increase in the federal Sport Canada Bilateral Agreement for Emergency Support Funding, $1.4 million increase for Meals on Wheels, and a $1.0 million increase to the Atlantic Compassion Fund, both recoverable from Efficiency Nova Scotia.

The Department of Community Services is forecast to be $7.0 million or 44.1 per cent higher than Budget primarily due to increased recoveries of $6.7 million in additional COVID-19 response federal funding under the Workforce Development Agreement.

The Department of Education and Early Childhood Development is forecast to be $6.4 million or 26.1 per cent higher than Budget primarily due to a $4.4 million recovery related to a surplus in the Nova Scotia Teachers 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 $3.1 million or 9.9 per cent lower than Budget due to a $2.2 million COVID-19 related underspend in recoverable expenditures under the Investing in Canada Infrastructure Program, and a $1.0 million reduction in Low Carbon Economy Fund recoveries.

The Department of Labour and Advanced Education is forecast to be $34.3 million or 24.2 per cent higher than Budget primarily due to increased recoveries of $28.5 million in additional COVID-19 response federal funding under the Workforce Development Agreement, $3.9 million for the Apprenticeship Management System through the Council of Atlantic Premiers and $3.0 million in increased incremental funding under the federal Labour Market Development Agreement.

The Department of Health and Wellness is forecast to be $16.8 million or 12.9 per cent lower than Budget primarily due to a decrease in out-of-province patients resulting from COVID-19 travel restrictions.

The Department of Justice is forecast to be $4.2 million or 3.3 per cent lower than Budget primarily due to $2.3 million lower than anticipated recoveries from the Federal Government for the RCMP contract, $0.6 million in Exchange of Services Agreement, and $0.6 million in Access to Justice in Both Official Languages.

The Department of Municipal Affairs and Housing is forecast to be $4.8 million or 3.7 per cent higher than Budget primarily due to increased recoveries of $2.4 million for the New Building Canada Fund – Small Communities and $2.3 million in recoveries related to the National Housing Strategy.

Service Nova Scotia and Internal Services is forecast to be $3.3 million or 19.9 per cent higher than Budget primarily due to $2.3 million for risk management claims and $1.9 million for Health-related IT purchases, partially offset by $0.8 million in lower billings for SAP client projects.

The Department of Transportation and Infrastructure Renewal is forecast to be $10.2 million or 52.0 per cent higher than Budget, primarily due to increases of $6.5 million in J Class Roads, $6.4 million for the Harrietsfield remediation and $1.3 million for the Peggy's Cove Boardwalk, offset by a $3.9 million decrease 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 $43.9 million or 11.2 per cent from Budget Estimates.

Net income from the Nova Scotia Liquor Corporation (NSLC) is forecast to be $3.5 million or 1.5 per cent higher than Budget Estimates. The higher forecast is mainly due to increased sales of certain alcohol products at NSLC stores.

Net income from the Nova Scotia Gaming Corporation is forecast to be down $36.8 million or 28.1 per cent from Budget Estimates. This decrease is mainly driven by the periodic closures and interruption in operations of casinos and video lottery terminals due to the COVID-19 pandemic.

Net income from the Halifax-Dartmouth Bridge Commission is forecast to be $6.5 million or 86.1 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 $4.1 million or 38.9 per cent from Budget Estimates mainly because of a reduction in passenger vehicle traffic.

Expenses

Expense estimates are based on information to December 2, 2020. Total Expenses for 2020–21 are forecast to be $12.3 billion, $708.7 million or 6.1 per cent higher than the Budget Estimates.

Increases in Departmental Expenses of $713.4 million or 6.7 per cent and the Pension Valuation Adjustment of $9.2 million or 12.1 per cent are partially offset by a decrease in Debt Servicing Costs of $15.6 million or 2.1 per cent.

Departmental Expenses

Total Departmental Expenses for 2020–21are forecast to be $713.4 million or 6.7 per cent higher than the Budget Estimates.

Departmental Expenses 2020–21

($ thousands)

	Budget	July *Update*	December *Update*	*Increase (Decrease)* from Budget	*Increase (Decrease)* from July
Agriculture	42,075	41,749	42,733	658	984
Business	149,022	194,275	194,199	45,177	(76)
Communities, Culture and Heritage	96,890	101,116	106,665	9,775	5,549
Community Services	1,002,202	1,019,630	1,041,154	38,952	21,524
Education and Early Childhood Development	1,479,302	1,541,840	1,583,280	103,978	41,440
Energy and Mines	63,509	61,852	59,342	(4,167)	(2,510)
Environment	42,492	42,942	45,332	2,840	2,390
Finance and Treasury Board	24,282	24,175	24,194	(88)	19
Fisheries and Aquaculture	17,792	17,390	17,390	(402)	---
Health and Wellness	4,822,637	5,196,965	5,284,845	462,208	87,880
Justice	374,244	380,643	386,420	12,176	5,777
Labour and Advanced Education	400,631	408,301	440,698	40,067	32,397
Assistance to Universities	433,420	433,420	433,420	---	---
Lands and Forestry	78,215	77,949	83,105	4,890	5,156
Municipal Affairs and Housing	308,513	309,053	385,074	76,561	76,021
Public Service	136,354	135,161	135,859	(495)	698
Seniors	2,711	2,611	2,711	---	100
Service Nova Scotia and Internal Services	299,199	300,446	299,568	369	(878)
Transportation and Infrastructure Renewal	535,752	538,924	558,910	23,158	19,986
Restructuring Costs	341,032	313,800	238,819	(102,213)	(74,981)
Total - Departmental Expenses	**10,650,274**	**11,142,242**	**11,363,718**	**713,444**	**221,476**

The Department of Agriculture is $0.7 million or 1.6 per cent higher than Budget primarily due to $1.0 million in additional fully recoverable expenses related to Emergency On-Farm Support Fund programs, funded by Agriculture and Agri-Food Canada, $0.5 million in new core funding for 4-H, partially offset by $0.8 million in program and operating cost reductions resulting from COVID-19.

The Department of Business is forecast to be $45.2 million or 30.3 per cent higher than Budget, primarily due to net pressures of $50.9 million related to COVID-19 response efforts. This includes $37.9 million in additional grants to Develop Nova Scotia (DNS) for the Provincial Stimulus Program, $6.0 million for the Canada Emergency Commercial Rent Assistance Program, $2.8 million for the Halifax Convention Centre lost revenues, and $1.3 million to DNS for lost revenues. In addition, there was $4.5 million for the Tourism Accommodations Real Property Tax Rebate Program funded through underspends in tourism marketing. These COVID related increases are partially offset by $1.5 million for cash flow adjustments for capital projects at DNS.

The Department of Communities, Culture and Heritage is forecast to be $9.8 million or 10.1 per cent higher than Budget, primarily due to COVID-19 related increases of $3.8 million in fully recoverable Sport Canada Bilateral Agreement expenses, $2.4 million for Meals on Wheels and the Atlantic Compassion Fund fully recoverable from Efficiency Nova Scotia, $2.1 million for emergency funding for Arts and Culture Organizations, and $1.8 million in personal protective equipment (PPE) for public transit. In addition to these COVID related items, the department incurred an increase of $1.0 million in support to the Lebanese Red Cross. These increases are partially offset by $1.4 million in COVID-19 related savings.

The Department of Community Services is forecast to be $39.0 million or 3.9 per cent higher than Budget due to $31.8 million in net COVID-19 related expenses, primarily related to temporary Disability Support Program (DSP) placements, Essential Worker Benefit program, Workforce Development Agreement federal funding, Federal Safe Restart initiatives, PPE and capital stimulus investment for four replacement small option homes. These COVID-19 related costs are partially offset by declining caseloads in Employment Support and Income Assistance as a result of Federal COVID-19 programs and reduced utilization costs in Child, Youth and Family Services as a result of COVID-19 related restrictions. An additional $7.2 million in other costs are forecasted primarily due to $11.6 million in Disability Support Program temporary placements and extra staffing; $11.4 million in Child, Youth and Family Support Program emergency placement costs, and $5.4 million in Service Delivery to address service demand. These costs are partially offset by decreases of $8.7 million due to implementation delays in DSP programming, $6.9 million for the Nova Scotia Child Benefit due to timing of implementation, and $3.7 million in Pharmacare costs.

The Department of Education and Early Childhood Development is forecast to be $104.0 million or 7.0 per cent higher than Budget primarily due to pressures related to COVID-19 which include $47.9 million in Federal funding received to support the safe re-opening of schools and support online learning options, $30.0 million in support grants provided to the child care sector, $16.7 million in additional funding for the back-to-school reopening plan, $7.1 million for P-12 personal protective equipment and $7.0 million lost revenues for the Nova Scotia International Student Program (NSISP) and Halifax Regional Centre for Education's Excel program. These pressures are partially offset by a decrease of $3.5 million in reduced spending on new inclusive education initiatives due to COVID-19.

The Department of Energy and Mines is forecast to be $4.2 million or 6.6 per cent lower than Budget due to a $5.9 million reduction in partially recoverable Investing in Canada Infrastructure Program (ICIP) expenses due to delays in ongoing projects resulting primarily from COVID-19. This is partially offset by $0.9 million in new ICIP projects, redistribution of $2.0 million in the HomeWarming program to support COVID-19 response efforts helping vulnerable Nova Scotians, $1.7 million in additional Low Carbon Economy Fund expenses, and $0.9 million reduction in other operating expenses primarily due to COVID-19.

Nova Scotia Environment is forecast to be $2.8 million or 6.7 per cent higher than Budget primarily due to additional overtime, travel and security services at border checkpoints related to COVID-19.

The Department of Health and Wellness is forecast to be $462.2 million or 9.6 per cent higher than Budget primarily due to $420.2 million in operational costs related to the COVID-19 response effort including $97.9 million in personal protective equipment, $83.9 million for Essential Workers Program, $78.2 million in Federal Safe Restart expenses, $49.3 million backfilling for employees, $49.3 million in lost revenues for Health Authorities, $46.8 million for provincial stimulus funding and Nova Scotia Health Authority (NSHA) capital purchases, and $11.5 million for Investing in Canada Infrastructure funding. In addition to these COVID-19 related items, the department incurred a $24.1 million increase for NSHA operational pressures, $17.2 million for Licensed Practical Nurse reclassification costs and $11.1million due to increased pharmaceutical utilization mainly in Seniors and Family Pharmacare. These increases are partially offset by a $21.8 million reduction in capital grants due to changes in project timelines.

The Department of Justice is forecast to be $12.2 million or 3.3 per cent higher than Budget primarily due to $8.5 million in RCMP costs mainly related to the response effort to the mass shooting and fisheries dispute, $5.1 million for Workers' Compensation Board costs primarily for correctional officers, and $4.3 million in COVID-19 related expenses primarily for PPE. These increases are partially offset by $5.7 million in vacancy and operational savings.

The Department of Labour and Advanced Education is forecast to be $40.1 million or 10.0 per cent higher than Budget primarily due to $28.5 million in additional COVID-19 response funding under the Workforce Development Agreement, $5.3 million related to the relocation of Nova Scotia Community College Marconi Campus (NSCC), $3.9 million in increased expenses related to the Apprenticeship Management System, fully recoverable from Council of Atlantic Premiers, and $3.0 million in increased incremental federal Labour Market Development Agreement funding.

The Department of Lands and Forestry is forecast to be $4.9 million or 6.3 per cent higher than Budget primarily due to $4.9 million in Forestry Transition initiatives.

The Department of Municipal Affairs and Housing is forecast to be $76.6 million or 24.8 percent higher than Budget primarily due to $77.5 million in COVID-19 related items. This includes $67.5 million in funding through the municipal stream of the Federal Safe Restart Program to help municipalities put appropriate precautions in place to support a safe restart of their economies and support critical services such as public transit, $7.2 million for Housing Authorities' increased expenditures to adhere to Public Health protocols, $2.0 million for emergency support for pop-up shelters and additional shelter beds, and $1.0 million in PPE for Municipalities. In addition to these COVID-19 related expenses, there is also $2.3 million in fully recoverable National Housing Strategy expenses. These increases are partially offset by $2.8 million in the New Build Canada Fund and $2.0 million in Invest Canada Infrastructure Program due to project delays.

Service Nova Scotia and Internal Services is forecast to be $0.4 million or 0.1 per cent higher than Budget primarily due to $1.2 million of COVID-19 related expenses including $2.6 million in various operating costs, $2.1 million to complete the Health Modernization and Sustainment of SAP Project, which is partially offset by $3.5 million in reduced spending on the SAP Modernization Program. Other costs include a $3.0 million increase in recoverable expenses offset by a $3.0 million decrease in amortization expenses and a $1.5 million reduction in operating expenses

The Department of Transportation and Infrastructure Renewal is forecast to be $23.2 million or 4.3 per cent higher than Budget, primarily due to $8.6 million for Highway 104 operating and contract costs, $6.5M for fully recoverable J Class Roads expenses, $3.3 million for Nova Scotia Lands Health Infrastructure, $2.2 million for Harrietsfield remediation, partially recoverable, $1.5 million in provincial stimulus funding, $1.3 million for wood heat conversation projects, and $1.3 million for Peggy' Cove Boardwalk, fully recoverable. 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 $102.2 million or 30.0 per cent below Budget primarily due to lower than anticipated budget requirements for corporate initiatives.

Refundable Tax Credits

Refundable Tax Credits are up by $1.7 million or 1.3 per cent due to a slight increase in the Affordable Living Tax Credit provided to Nova Scotian households.

Pension Valuation Adjustment

The Pension Valuation Adjustment is forecast to be up $9.2 million or 12.1 per cent from Budget Estimates. The increase is primarily attributed to changes in actuarial assumptions and the market value of plan assets.

Debt Servicing Costs

Total Debt Servicing Costs are forecast to be down $15.6 million or 2.1 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 $61.4 million or 83.1 per cent higher than Budget primarily due to a $64.2 million increase in capital grants to the NSHA/IWK, Develop Nova Scotia and Nova Scotia Lands Inc. for provincial stimulus funding, $21.9 million for NSHA capital equipment purchases to support the COVID-19 response, $4.0 million in capital grants under Investing in Canada Infrastructure Program's COVID-19 stream and an increase of $5.8 million in various special purpose funds and other organizations. These increases are partially offset by a change in cash flows of $21.8 million in NSHA/IWK capital projects, a decrease of $6.7 million due to the dissolution of Gambling Awareness Nova Scotia and a $6.0 million decrease in NSCC primarily due to decline in international and domestic enrolments attributed to COVID-19.

Capital

Total Capital Spending is forecast to be $1.2 billion, which is $205.0 million or 19.7 per cent higher than Budget.

Tangible Capital Assets

The province is forecasting Capital Purchase Requirements to be $135.1 million or 14.8 per cent higher than Budget. This is primarily due to capital stimulus funding for Highways & Structures and Building Projects and Investing in Canada Infrastructure Program, offset by cash flow shifts in various building projects in the Department of Health and Wellness and the Department of Education and Early Childhood Development.

Capital Grants

The province is forecasting Capital Grant Requirements to be $69.9 million or 53.2 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 offset by cash flow shifts in various Department of Health and Wellness projects.

Capital Spending 2020–21

($ thousands)

	Budget	**July *Update***	**December *Update***	*Increase (Decrease)* **from Budget**	*Increase (Decrease)* **from July**
Highways & Structures	400,580	495,111	501,696	101,116	6,585
Buildings	443,508	483,607	466,139	22,631	(17,468)
Information Technology	10,531	13,653	11,710	1,179	(1,943)
Land Purchases	2,500	7,042	7,042	4,542	---
Vehicles and Equipment	13,843	21,771	19,458	5,615	(2,313)
Contingency	40,000	40,000	40,000	---	---
Total - Capital Purchase Requirements	**910,962**	**1,061,184**	**1,046,045**	**135,083**	**(15,139)**
Capital Grants	131,446	228,978	201,347	69,901	(27,631)
Total - Capital Spending	**1,042,408**	**1,290,162**	**1,247,392**	**204,984**	**(42,770)**

Borrowing Authority

The Department of Finance and Treasury Board has borrowed $1,650 million to date in 2020–21 relative to the $1,750 million previously approved borrowing plan. As identified through the course of this update, the province is experiencing significant operating pressures primarily related to COVID-19 (e.g. significant deterioration of revenue and increasing expenses responding to the pandemic), as well as activity associated capital stimulus spending initiatives, and the provision of a $380 million loan program to support municipalities with their individual revenue shortfalls. Given these considerations, FTB has approval for an additional appropriation of $1,000 million in borrowing authority. With the economic and fiscal uncertainties over the coming months, the Department of Finance and Treasury Board felt if prudent to seek additional authority to borrow. Monies will only be borrowed if required for operational circumstance or for risk management purposes.

Key Risks

Economic

The epidemiology of the COVID-19 pandemic is the key risk to the economic projections. The resurgence of new cases both domestically and abroad has elevated uncertainty going into 2021. Further increases in cases and greater public health measures will likely cause a downshift in the economic recovery, while positive developments around containment, treatment, and a vaccine will be supportive of growth. Although this outlook makes assumptions about further impacts of COVID-19 in 2021, these are highly uncertain.

Nova Scotia's economic outlook will also remain sensitive to external demand. Trade protectionism and restrictions targeted at Canadian trade have the potential to impact exports beyond the COVID-19 situation. While the Canada-United States-Mexico Agreement provides renewed stability, Brexit remains unresolved and trade tensions between the United States and China persist. The pace of economic recovery for the province's major trading partners is likely a greater risk factor in the near-term. US economic growth will be heavily influenced by the timing and size of a possible federal stimulus package. In addition, financial vulnerabilities and a high degree of economic uncertainty exists in many countries with elevated debt levels.

Recovery in consumer spending depends critically on confidence that purchases can be made safely during the pandemic. Across Canada, household savings have increased sharply throughout 2020, reflecting limited opportunities to spend as well as some precautionary savings. How and when these savings will be spent is uncertain. Changes in consumer preferences and travel patterns caused by COVID-19 may persist, permanently altering demand for some products and changing how they are produced. The outlook on consumer spending in the province is also sensitive to the level and targeting of policy support, and the expected level of tourism.

The recovery may be slower than anticipated because of potential economic disruptions, including severed connections between employers and employees, permanent business closures, debt defaults, financial institution impairments and negotiation of contracts in an uncertain economic environment. Business investments could be slower than anticipated if insolvencies and bankruptcies lead to tighter credit conditions and bank lending. Limited mobility of people could affect the labour force as well as interprovincial migration and international immigration to Nova Scotia. There are also considerable uncertainties on the longer-term impacts of COVID-19 on market structures and resource allocation.

Additional near-term fiscal support may be required to sustain economic recovery. However, normalization of 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 going forward. The timing and extent of fiscal and monetary tightening are notable risks to the economic outlook.

Although Statistics Canada has undertaken significant new initiatives to measure the economic consequences of the pandemic, there have been lower response rates to surveys and changes in collection methods. This may create an elevated risk that future data revisions alter the economic dimensions of the pandemic.

Revenue

Provincial own-source revenues are strongly influenced by several key factors in the economic outlook. In addition, the revenue forecasting 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 open taxation years may create prior year adjustments and influence assumptions for the current fiscal year.

The forecast of PIT revenue is dependent on performance of the labour market in the province. Federal emergency program benefits have been provided to help offset negative shocks associated with the COVID-19 pandemic, but the support is short-term in nature.

The forecast of CIT revenues is largely based upon national corporate taxable income and the province's share. Downward adjustments to the projected level of national corporate taxable income and declines resulting from increased provisions for loss carrybacks present substantial risks to CIT revenues.

HST revenues are heavily reliant on taxable consumer expenditures and residential housing investment. Growth in consumer expenditures will be dependent on the pace of economic recovery and consumer confidence.

Expenditures

As identified in the July 2020 Public Forecast Update, general expenditure risks continue related to government-wide response efforts to the evolving COVID-19 pandemic. Various government programs may be affected due to pandemic response requirements, shifting program utilization, or public health restrictions. As the second wave of the pandemic evolves throughout Nova Scotia, government continues to note the uncertainty in departmental expenditures.

The Department of Health and Wellness, the Nova Scotia Health Authority and various other health sector partners have invested considerable resource to prepare for the second wave of the pandemic, including spending plans associated with federal funding through the Safe Restart Agreement (primarily support streams related to testing, contact tracing, and data management, health system capacity, and vulnerable persons). As the pandemic's epidemiology continues to progress over time, there remains risk that additional expenditures will be required to support response efforts through infection prevention and control initiatives, while continuing to provide health care services in areas such as the acute, primary and continuing care sectors. In addition, increases in expenditures are anticipated related to vaccine distribution programs.

The post-secondary sector has experienced a decline in enrolments for the Fall Term, primarily driven by a reduction in international students. Additionally, enrolments may see further impacts in the Winter Term, which the Department of Labour and Advanced Education will continue to monitor and assess.

Several sectors of the economy have experienced considerable challenges due to the COVID-19 pandemic resulting in business model disruption, altered consumer behavior, and ongoing infection prevention costs. The first wave of the pandemic and the associated public health measures created many impacts that necessitated a strong response by government across many support programs. As the second wave of the pandemic evolves, government continues to monitor vital sectors across the province and may be required to intervene with additional stabilization supports.

NOVA SCOTIA