



Forecast Update

December 21, 2021

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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 2021–22 Budget Estimates.

Since March 2020, 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. The pandemic has led to unprecedented impacts on public health and economic uncertainty.

Relative to the 2021–22 Budget Estimates, the province is projecting an improvement of the provincial budget position. The Province of Nova Scotia is forecasting a surplus position of \$108.2 million, an increase of \$693.2 million from the Budget's deficit position of \$584.9 million. This is largely attributed to better-than-expected economic performance, resulting in additional revenue for the province, including significant one-time prior year adjustments.

This Forecast Update also shows government's commitment to making investments in priority areas, such as healthcare, seniors, housing, the economy and climate change in order to have a lasting impact on our province.

Given the continuing uncertainty around the future epidemiology of the pandemic and the continued pace of economic recovery, the forecast may not unfold as assumed. Subsequent information will be used in future updates to report Nova Scotia's fiscal position.

Overview

The Province of Nova Scotia is forecasting a surplus of \$108.2 million. This is an improvement of \$693.2 million from the budgeted deficit in the 2021–22 Budget Estimates.

Total Provincial Revenue, including Ordinary Revenue, Recoveries, and Net Income from Government Business Enterprises (GBEs), is forecast to be \$12.8 billion, an increase of \$1.0 billion from the Budget Estimates.

Forecast changes in Ordinary Revenue include increases of \$699.2 million in Provincial Tax Revenue, \$10.1 million for Investment Income, and \$206.6 million in Federal Revenue Sources. These increases are partially offset by a \$11.3 million decrease in Other Provincial Revenue.

Ordinary Recoveries revenue is forecast to increase by \$94.0 million from Budget. Net Income from GBEs is expected to increase by \$3.6 million.

Total Expenses are forecast to be \$12.9 billion, an increase of \$379.1 million from the Budget Estimates. Expenses are predicted to be higher due to projected increases in Departmental Expenses of \$429.2 million, which are partially offset by expected decreases in Debt Servicing Costs of \$21.8 million and Pension Valuation Adjustment of \$28.1 million.

Consolidation and Accounting Adjustments positively impact the bottom line by \$176.0 million, which is \$70.0 million more than budgeted.

Fiscal Summary 2021–22

(\$ thousands)

General Revenue Fund	Budget	September Update	December Update	Increase (Decrease) from Budget	Increase (Decrease) from Sept
Revenues					
Ordinary Revenue	10,696,926	10,999,858	11,601,653	904,727	601,795
Ordinary Recoveries	684,998	796,324	778,957	93,959	(17,367)
Net Income from Government Business Enterprises	399,896	392,474	403,497	3,601	11,023
Total - Revenue	11,781,820	12,188,656	12,784,107	1,002,287	595,451
Expenses					
Departmental Expenses	11,509,399	11,906,527	11,938,583	429,184	32,056
Refundable Tax Credits	144,698	146,697	144,513	(185)	(2,184)
Pension Valuation Adjustment	107,833	85,856	79,724	(28,109)	(6,132)
Debt Servicing Costs	710,886	688,685	689,079	(21,807)	394
Total - Expenses	12,472,816	12,827,765	12,851,899	379,083	24,134
Consolidation and Accounting Adjustments for Governmental Units	106,051	194,576	176,036	69,985	(18,540)
Provincial Surplus (Deficit)	(584,945)	(444,533)	108,244	693,189	552,777

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.

The Department of Finance and Treasury Board has revised its economic outlook, incorporating information and data released through November 9, 2021. The economic outlook incorporates data and events from 2021 released on or before this date. Some of the data referred to in the discussion was released after this date and will be incorporated into future updates.

External Outlook

Global: While global economic momentum has weakened due to the Delta variant of COVID-19 and the uncertainty of the Omicron variant, the world economy continues to recover from the short and sharp recession at the beginning of the pandemic in early 2020. Differences in vaccine coverage as well as fiscal and monetary policy support are creating gaps in economic prospects across countries.

Pandemic-induced mismatches in supply and demand and supply chain distribution problems have put upward pressure on prices. Headline inflation rates are increasing in both advanced and emerging economies. While core inflation has increased less than headline rates, it has also increased in recent months. This increase in inflation is largely driven by temporary factors. Inflation is expected to peak in the final months of 2021 and return to pre-pandemic levels by 2023.

The International Monetary Fund (IMF) World Economic Outlook in October 2021 projects global real Gross Domestic Product (GDP) to grow 5.9 per cent in 2021 and 4.9 per cent in 2022. Advanced economies real GDP is projected to increase by 5.2 per cent in 2021 and by 4.5 per cent in 2022. For emerging and developing economies, real GDP is expected to increase by 6.4 per cent in 2021 and by 5.1 per cent in 2022.

United States: The United States (US) economy is rebounding after contracting 3.4 per cent in 2020. Early vaccination roll out, elevated household savings and accommodative monetary policy are expected to benefit the economy in 2021. This economic outlook assumes that US real GDP will grow 5.8 per cent in 2021 and 4.1 per cent in 2022. Further growth is expected as service consumption returns, and labour market participation rises. Inflation rates in the United States have risen substantially in 2021. Rising energy prices and supply chain bottlenecks have contributed, but underlying inflation expectations have thus far risen only modestly.

Europe: In Europe, economic growth picked up speed in the spring and summer as vaccination campaigns progressed and restrictions were lifted. The European Union economy reached its pre-pandemic output level in the third quarter (Q3) of 2021 and moved into expansion phase. Improved labour market conditions and strong domestic demand are expected to boost economic growth over the short term, although global supply disruptions (particularly in manufacturing) could weigh on economic activity. Annual inflation in the Euro Area increased from -0.3 per cent in Q4 2020 to 2.8 per cent in Q3 2021, mainly due to higher energy prices and post-pandemic economic adjustments. The IMF estimates that economic activity in the Euro Area will increase 5.0 per cent in 2021 and 4.3 per cent in 2022.

China: Robust investment and strong exports driven by the re-opening of global economies supported China's economic rebound in 2021. Following high rates of economic growth in the first half of the year, real GDP in China increased 4.9 per cent year-over-year in Q3. Investment growth is slowing due to weaknesses in real estate and infrastructure. Chinese consumer spending is gradually improving but is still held back by low confidence. Inflation in China has been low due to the limited pass-through of higher energy and commodity prices to consumer prices. Chinese monetary policy is expected to remain neutral while the economy is supported by more targeted fiscal policy measures. The IMF estimates China's economy to grow by 8.0 per cent in 2021 and by 5.6 per cent in 2022.

Canada: The Canadian economy has grown through the first half of 2021, rebounding from the historic drop in activity experienced in the first half of 2020. Widespread vaccinations allowed easing of public health restrictions, and subsequent waves of infection have had less severe economic impacts. Canada's labour market is recovering in high-contact service industries most affected by COVID-19 restrictions. Government programs that supported households and businesses through the worst part of the pandemic have largely ended, though there will be continued support for industries with ongoing challenges, including tourism. The Bank of Canada's target for the overnight interest rate remains at 0.25 per cent.

Canada's domestic demand has recovered as consumers and businesses regain confidence. Households are expected to draw down precautionary savings over the next two years. However, global supply chain disruptions and the bounce back in energy prices have resulted in elevated inflation. These temporary factors are expected to keep inflation elevated in the short term before slowing back into the Bank of Canada's 2 per cent target toward the end of 2022. The Finance and Treasury Board economic outlook assumes that Canada's real GDP will grow 5.1 per cent in 2021, followed by 3.9 per cent in 2022.

Current Economic Outlook for Nova Scotia

Nova Scotia's real GDP contracted 2.5 per cent in 2020 during the initial waves of the COVID-19 pandemic. The decline in economic activity was the second smallest among the provinces, but still the largest annual contraction in recent decades. Most sectors reported lower levels of activity with the sharpest declines in high-contact service sectors including arts, entertainment and recreation, accommodation and food services, and transportation. Residential structure investment continued growing for a sixth consecutive year and COVID-19 support programs lifted household income. Nominal GDP grew 0.7 per cent in 2020.

Economic activity in 2021 continues to fluctuate with the state of the pandemic, slowing during periods of public health restrictions and then picking up quickly after restrictions ease. The economic forecast assumes that restrictions will continue to ease over time with no return to widespread lockdowns. A more prolonged downturn in tourism is expected to continue to affect service exports. Rising prices are expected to increase expenditures in household consumption, residential structures, exports, and imports.

Nova Scotia's real GDP is projected to grow 3.0 per cent in 2021 and 1.5 per cent in 2022 with economic activity less disrupted by the COVID-19 pandemic. Nominal GDP is projected to grow 6.9 per cent in 2021 and 3.8 per cent in 2022.

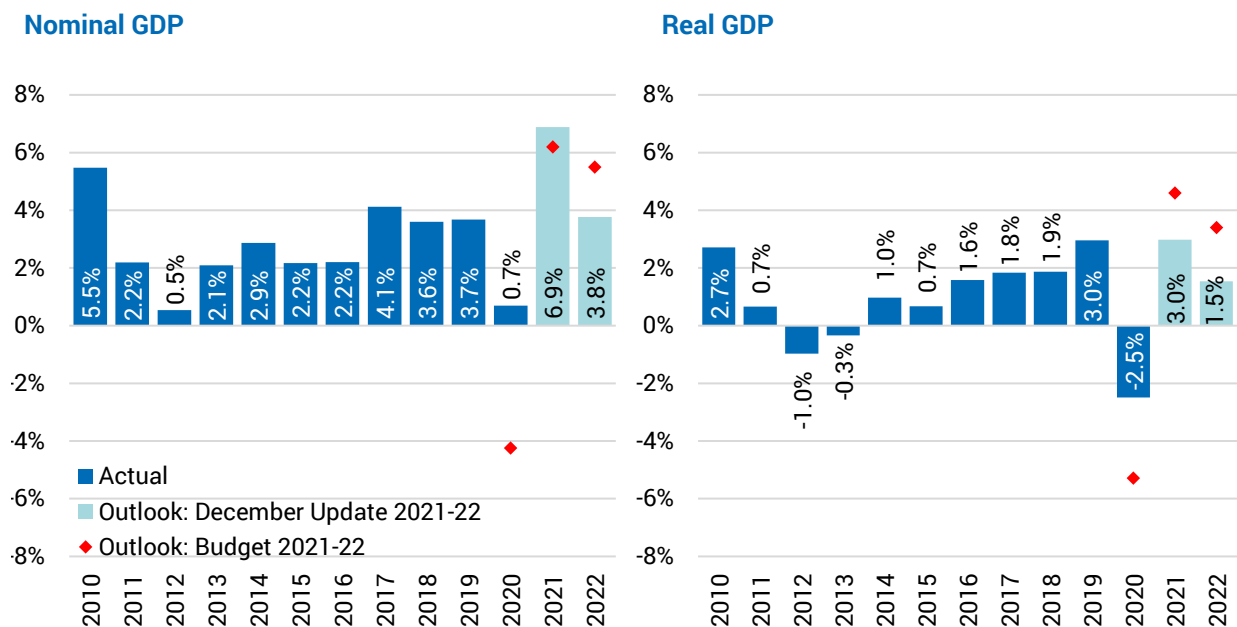
Recent Economic Performance

Population: Nova Scotia’s population continued to grow and reached an all-time high of 998,832 as of October 1, 2021, and is estimated to have reached one million people as of December 16, 2021. The pace of immigrant arrivals to the province reached a new high and the non-permanent resident population rebounded. Strong net inter-provincial migration to the province continues, especially from Ontario.

Labour Markets: Employment levels fluctuated dramatically with the imposition and easing of COVID-19 restrictions. Employment in high-contact service sectors experienced greater impacts in 2020 and 2021, meaning greater employment swings for the women and youth who make up a disproportionate share of workers in these industries. Overall employment has returned to pre-pandemic levels in 2021 and is expected to grow in 2022. As of November 2021, employment was 0.7 per cent above the pre-pandemic February 2020 levels. Rising job vacancies suggest a tightening labour market, but the number of unemployed and those working reduced hours remains slightly elevated.

Inflation: Like other advanced economies, consumer prices in Nova Scotia have risen sharply in 2021. In part the increase is due to weaker inflation in 2020 and now rising energy costs, supply chain issues, and shifts in demand towards durable goods and housing. Nova Scotia’s Consumer Price Index (CPI) increased 4.0 per cent in January to November 2021 compared to January to November 2020. However, since January to November 2019, Nova Scotia’s inflation averaged 2.1 per cent per year. Nova Scotia’s core CPI excluding food and energy products rose 2.5 per cent in the first 11 months of 2021. New and resale prices for housing in Halifax have risen faster than many other Canadian cities since 2019. Inflation is expected to continue to be elevated into 2022 before slowing to its usual 2 per cent trend.

Nova Scotia GDP Growth



Consumption and Income: Government pandemic support programs were scaled down as labour markets normalized. Nova Scotia's employee compensation increased 7.8 per cent over the first nine months of 2021 compared to the same period in 2020. With growing labour income and elevated household savings, household consumption expenditures are expected to rebound in 2021 and 2022. Retail sales have had a strong rebound in 2021, rising 18.7 per cent over the first nine months of the year compared to the same months in 2020. Sales growth in most sectors has been strong. Purchases of services – particularly personal services, recreation, travel, and food services are expected to see a more gradual return to pre-pandemic levels of activity. Nova Scotia's food services and drinking places receipts have returned to pre-pandemic levels in recent months, but for January through September 2021 receipts were 9.5 per cent below January to September 2019 levels.

Investment: Investment in residential structures (including new housing, repair, and renovation) has increased for six consecutive years including growth of 9.0 per cent in 2020. Further increases in spending and activity are expected for 2021 as housing demand is supported by low vacancy rates, population growth and low interest rates. Residential building construction has increased 27.9 per cent for January to September 2021 compared to January to September 2020. Investment in single dwelling units, multiple dwelling units and renovations are all higher. Business non-residential investment has increased 3.1 per cent over first three quarters of 2021 but remains below 2019 investment. Ongoing capital projects in the transportation and health care sectors are expected to support economic activity in the near term and beyond.

Exports: After declining during the global economic slowdown and closures in 2020, Nova Scotia's international goods exports have returned to 2019 levels. From January to October 2021 compared to the same months of 2020, international merchandise shipments were up 18.9 per cent with rising volumes and prices. Shipments in 2021 have increased for seafood, tires, wood products and paper. Some products that grew in 2020 have declined in 2021, notably frozen fruit and gypsum.

The tourism sector has been one of the most severely impacted sectors during the COVID-19 pandemic. Nova Scotia's tourism activity tracker shows that both international and domestic tourism had a small initial recovery after the first wave of the pandemic, but this progress stalled and retreated with new restrictions in April-May 2021. With widespread vaccine distribution and less restrictive travel, tourism spending is expected to increase substantially in 2022 but not recover fully in the near term.

Current Economic Outlook Assumptions

<i>Per cent change, except where noted</i>	Budget 2021-22		December Forecast Update	
	2021	2022	2021	2022
Real GDP (\$2012 chained)	4.6%	3.4%	3.0%	1.5%
Nominal GDP	6.2%	5.5%	6.9%	3.8%
Compensation of Employees	3.2%	4.9%	6.4%	3.9%
Household Income	-1.5%	3.3%	2.1%	1.2%
Household Final Consumption	5.3%	5.4%	6.1%	6.4%
Retail Sales	4.5%	4.6%	14.0%	-0.9%
Consumer Price Index	1.7%	2.0%	3.8%	2.9%
Investment in Residential Structures	6.0%	2.4%	18.4%	-3.8%
Non-Res., Machinery, Intellectual Property	8.0%	7.4%	-2.6%	6.3%
Net Operating Surplus: Corporations	9.7%	15.1%	-17.6%	-8.4%
Net Mixed Income: Unincorporated	1.6%	4.2%	3.7%	4.5%
Exports of Goods and Services	8.1%	8.8%	6.6%	5.5%
Exports of Goods to Other Countries	7.1%	9.1%	19.7%	5.5%
Imports of Goods and Services	4.6%	4.9%	4.8%	3.7%
Population at July 1 (all ages, thousands)	981.2	989.4	992.1	1,004.3
Population at July 1 (ages 18-64, thousands)	600.6	600.9	610.4	613.6
Labour Force (thousands)	496.7	503.1	505.3	510.4
Employment (thousands)	456.6	465.3	463.0	472.3
Unemployment Rate, Annual Average	8.1%	7.5%	8.4%	7.5%

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.

Revenue

Total Revenue is forecast to be \$12.8 billion, \$1.0 billion or 8.5 per cent higher than the 2021–22 Budget Estimates. Revenue estimates are based on administrative data up to November 22, 2021. Information received after this date will be incorporated in future forecasts.

The growth in expected Total Revenue includes increases of \$699.2 million or 11.5 per cent in Provincial Tax Revenue, \$94.0 million or 13.7 per cent in Ordinary Recoveries, \$10.1 million or 9.6 per cent in Investment Income, \$206.6 million or 5.0 per cent in Federal Revenue Sources, and \$3.6 million or 0.9 per cent in Net Income from GBEs. These increases are partially offset by a decrease in Other Provincial Revenue of \$11.3 million or 3.2 per cent

Ordinary Revenue – Provincial Revenue Sources

Tax Revenue

Personal Income Tax (PIT) revenue is forecast to be up \$224.9 million or 7.6 per cent from Budget Estimates, primarily due to improved projections for taxable income and yield. Personal taxable income is projected to be up \$1.8 billion in 2021 and \$1.2 billion in 2022. The yield rate on taxable income is now projected to be higher by 0.27 percentage points in 2021 and 0.16 percentage points in 2022.

Corporate Income Tax (CIT) revenue is forecast to be up \$7.7 million or 1.5 per cent from Budget Estimates primarily because of projections for national corporate taxable income increasing by \$27.6 billion in 2021 and by \$4.7 billion in 2022. This is partially offset by a decline in the province's share by 5 basis points to 1.38 per cent and a one-half percentage point increase in the small business share of taxable income.

Harmonized Sales Tax (HST) revenue is forecast to be up \$111.5 million or 5.5 per cent from Budget Estimates, mainly attributable to higher projections for consumer spending and investment in new residential housing. Taxable consumer expenditures are projected to be up \$420.5 million or 2.7 per cent in 2021 and \$609.0 million or 3.8 per cent in 2022. New residential housing investment is projected to be up by \$601.0 million or 16.4 per cent in 2021 and by \$350.3 million or 9.3 per cent in 2022. The tax bases for public sector body spending, business, and financial institutions are also projected to be stronger.

Cannabis Tax revenue is forecast to be \$2.9 million or 37.8 per cent higher than Budget Estimates on the basis of increased remittances of the province's additional duty from licensed producers.

Vaping Products Tax revenue is forecast to be down \$0.7 million or 15.7 per cent from Budget Estimates as the market for vaping products matures.

Motive Fuel Tax revenue is forecast to be up \$12.0 million or 5.0 per cent from Budget Estimates due to higher levels of fuel consumption as COVID-19 related restrictions have largely been removed. Consumption of gasoline is projected to be 76.1 million litres or 6.8 per cent higher than expected while diesel fuel consumption is projected to be up 19.7 million litres or 4.6 per cent.

Tobacco Tax revenue is forecast to be largely unchanged from Budget Estimates (down \$0.04 million). Cigarette consumption is projected to be 2.5 per cent higher than projected and this is offset by fine cut tobacco consumption being 23.9 per cent lower than projected.

Total Revenue 2021–22

(\$ thousands)

General Revenue Fund: Revenue	Budget	September Update	December Update	Increase (Decrease) from Budget	Increase (Decrease) from Sept
Provincial Revenue Sources					
Tax Revenue:					
Personal Income Tax	2,945,359	3,046,943	3,170,270	224,911	123,327
Corporate Income Tax	500,223	492,638	507,898	7,675	15,260
Harmonized Sales Tax	2,025,505	2,020,500	2,136,988	111,483	116,488
Cannabis Tax	7,756	7,756	10,686	2,930	2,930
Vaping Tax	4,305	3,337	3,629	(676)	292
Motive Fuel Tax	238,632	235,660	250,635	12,003	14,975
Tobacco Tax	185,850	188,138	185,810	(40)	(2,328)
Other Tax Revenue	193,224	192,024	187,694	(5,530)	(4,330)
Prior Years' Adjustments - Taxes	---	---	346,454	346,454	346,454
	6,100,854	6,186,996	6,800,064	699,210	613,068
Other Provincial Revenue:					
Registry of Motor Vehicles	136,985	136,985	136,644	(341)	(341)
Petroleum Royalties	---	---	---	---	---
Other Provincial Sources	150,841	151,805	145,755	(5,086)	(6,050)
TCA Cost Shared Revenue	7,833	7,833	6,721	(1,112)	(1,112)
Other Fees and Charges	60,036	59,790	55,308	(4,728)	(4,482)
Prior Years' Adjustments - Other Revenue	---	---	---	---	---
	355,695	356,413	344,428	(11,267)	(11,985)
Investment Income:					
Interest Revenues	70,978	75,735	77,520	6,542	1,785
Sinking Fund Earnings	34,929	36,165	38,524	3,595	2,359
	105,907	111,900	116,044	10,137	4,144
Total - Provincial Sources	6,562,456	6,655,309	7,260,536	698,080	605,227
Federal Revenue Sources					
Equalization Payments	2,315,000	2,315,000	2,315,000	---	---
Canada Health Transfer	1,109,000	1,212,022	1,219,992	110,992	7,970
Canada Social Transfer	398,000	398,000	400,779	2,779	2,779
Offshore Accord Offset Payments	44,000	129,626	129,626	85,626	---
Other Federal Sources	60,458	96,075	98,539	38,081	2,464
TCA Cost Shared Revenue	208,012	193,826	174,561	(33,451)	(19,265)
Prior Years' Adjustments	---	---	2,620	2,620	2,620
Total - Federal Sources	4,134,470	4,344,549	4,341,117	206,647	(3,432)
Total Ordinary Revenue	10,696,926	10,999,858	11,601,653	904,727	601,795
Total - Ordinary Recoveries	684,998	796,324	778,957	93,959	(17,367)
Net Income from Government Business Enterprises (GBEs)					
Nova Scotia Liquor Corporation	246,126	256,528	263,507	17,381	6,979
Nova Scotia Gaming Corporation	138,700	127,200	130,300	(8,400)	3,100
Halifax-Dartmouth Bridge Commission	5,440	4,616	5,320	(120)	704
Highway 104 Western Alignment Corporation	9,630	4,130	4,370	(5,260)	240
Total - Net Income from GBEs	399,896	392,474	403,497	3,601	11,023
Total - Revenue	11,781,820	12,188,656	12,784,107	1,002,287	595,451

Note: Totals may not add due to rounding.

Prior Years' Adjustments (PYAs) from Provincial Revenue Sources are forecast to be \$346.5 million. This includes +\$136.0 million for PIT due to higher than anticipated taxable income and yield growth in the 2020 taxation year, +\$119.8 million for CIT as a result of higher than anticipated corporate taxable income for the 2020 taxation year, and +\$90.7 million for HST primarily attributable to improvements in consumer expenditures and residential housing investment in the 2020 taxation year.

Other Provincial Revenue

Other Provincial Revenue is forecast to be \$11.3 million or 3.2 per cent lower than Budget Estimates. The variance is largely driven by anticipated reductions in Other Provincial Sources, Provincial TCA Cost Shared Revenue, and Other Fees and Charges.

The reduction in Other Provincial Sources is mainly attributed to recategorizing Infoway funding as Other Federal Sources to align with revisions of Public Accounts classifications. The decrease in Provincial TCA Cost Shared Revenue is driven by delays for various projects at the Department of Public Works. Other Fees and Charges across several departments are lower than expected largely due to the ongoing pandemic.

Investment Income

Investment Income is predicted to be \$10.1 million or 9.6 per cent higher than Budget Estimates. This variance is driven by an increase in Sinking Fund Earnings due to higher forecasted and actual interest rates. Interest revenues are also expected to increase primarily due to higher interest from Short-Term Revenue and Fisheries Loan Board.

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 **Canada Health Transfer** (CHT) is forecast to be up by \$111.0 million or 10.0 per cent from Budget Estimates due to the province's share of an additional one-time top up of \$4 billion to the Canada Health Transfer by the federal government and revised estimates of the province's share of the national population released by Statistics Canada in the fall of 2021.

The **Canada Social Transfer** (CST) is forecast to be up by \$2.8 million or 0.7 per cent from Budget Estimates as a result of revised estimates of the province's share of the national population.

The **Offshore Accord** payment is forecast to be \$85.6 million or 194.6 per cent higher than Budget Estimates as a result of the 2020–21 payment being made in the 2021–22 fiscal year.

Other Federal Sources is forecast to be up \$38.1 million or 63.0 per cent from Budget Estimates. The variance is largely due to federal funding for the Safe Restart Agreement and COVID-19 vaccination roll-out.

Federal TCA Cost Shared Revenue is forecast to be down by \$33.5 million or 16.1 per cent from Budget Estimates mainly because of delays in having environment approvals in place for various projects at the Department of Public Works.

PYAs from Federal Revenue Sources are forecast to be \$2.6 million. This includes +\$1.9 million for CHT and +\$0.7 million for CST because of population revisions for the 2020–21 open fiscal year provided by Statistics Canada.

Ordinary Recoveries

Ordinary Recoveries Revenue is forecast to be \$94.0 million or 13.7 per cent higher than the 2021–22 Budget Estimates. Note that for presentation purposes, the Budget Estimates and forecast amounts have been reallocated to align with government departmental structure changes authorized by Orders in Council issued on August 31, 2021.

The **Department of Community Services** is forecast to be \$1.9 million or 10.0 per cent lower than Budget Estimates primarily due to decreased Assignment of Benefit recoveries and decreased Assignment of Maintenance and overpayment recoveries.

The **Department of Education and Early Childhood Development** is forecast to be \$47.7 million or 192.8 per cent higher than Budget Estimates primarily due to \$33.0 million in federal funding related to universal childcare initiatives and \$10.9 million in one-time Early Childhood Workforce funding from the federal government.

The **Department of Justice** is forecast to be \$2.2 million or 1.7 per cent lower than Budget Estimates primarily due to lower than anticipated recoveries from the federal government of \$0.9 million for Access to Justice in Both Official Languages, \$0.7 million for cannabis training, as well as \$1.1 million in lower than anticipated recovery of overdue court fines and \$0.8 million in lower than anticipated Victim Services Surcharge fund recoveries from Summary Offence Ticket collections. These decreases are partially offset by higher than anticipated recoveries from the federal government of \$0.9 million for the Public Inquiry into the mass shooting and \$0.4 million to Combat Internet Child Exploitation.

The **Department of Labour, Skills and Immigration** is forecast to be \$10.2 million or 7.5 per cent higher than Budget Estimates primarily due to a \$7.2 million 2020–21 carry forward of COVID-19 response funding under the Workforce Development Agreement and \$2.8 million in incremental funding under the Labour Market Transfer Agreements.

The **Department of Municipal Affairs and Housing** is forecast to be \$51.7 million or 35.9 per cent higher than Budget Estimates primarily due to \$55.8 million in one-time funding for the Canada Community Building Fund (previously named Federal Gas Tax Transfer) and \$3.2 million in Disaster Financial Assistance for the November 2021 floods. The increases are partially offset by a decrease of \$7.3 million in the Invest in Canada Infrastructure Program and the New Building Canada Fund due to changes in cash flow requirements.

The **Department of Natural Resources and Renewables** is forecast to be \$2.6 million or 7.3 per cent lower than Budget Estimates primarily due to an underspend in the Investing in Canada Infrastructure Program.

The **Department of Public Works** is forecast to be \$10.6 million or 39.7 per cent lower than Budget Estimates primarily due to lower spending of \$4.0 million for Highway 103 interchange, \$3.7 million for Highway Safety improvements from the Highway 104 Corporation, and \$3.0 million due to Boat Harbour remediation.

Net Income from Government Business Enterprises (GBEs)

Total Net Income from GBEs is up \$3.6 million or 0.9 per cent from Budget Estimates.

Net income from the **Nova Scotia Liquor Corporation** (NSLC) is forecast to be \$17.4 million or 7.1 per cent higher than Budget Estimates. The higher forecast is mainly due to increased sales of beverage alcohol and cannabis products at NSLC stores.

Net income from the **Nova Scotia Gaming Corporation** is forecast to be down \$8.4 million or 6.1 per cent from Budget. This decrease is primarily driven by the seven-week closure in the first quarter of the casinos and video lottery terminals due to COVID-19.

Net income from the **Halifax-Dartmouth Bridge Commission** is forecast to be \$0.1 million or 2.2 per cent lower from Budget Estimates largely due to a reduction in traffic and toll revenue resulting from measures introduced to combat the pandemic.

Net income from the **Highway 104 Western Alignment Corporation** is forecast to be down \$5.3 million or 54.6 per cent from Budget mainly due to interest paid on the prepayment of the long-term debt, and the elimination of tolls for Nova Scotia vehicles effective December 16, 2021.

Expenses

Total Expenses for 2021–22 are forecast to be \$12.9 billion, \$379.1 million or 3.0 per cent higher than the Budget Estimates.

Increases in Departmental Expenses of \$429.2 million or 3.7 per cent are partially offset by decreases in the Pension Valuation Adjustment of \$28.1 million or 26.1 per cent and Debt Servicing Costs of \$21.8 million or 3.1 per cent.

Departmental Expenses

Total Departmental Expenses for 2021–22 are forecast to be \$429.2 million or 3.7 per cent higher than the Budget Estimates. Note that for presentation purposes, the Budget Estimates and forecast amounts have been reallocated to align with government departmental structure changes authorized by Orders in Council issued on August 31, 2021.

Departmental Expenses 2021–22

(\$ thousands)

	Budget	September Update	December Update	Increase (Decrease) from Budget	Increase (Decrease) from Sept
Advanced Education	657,803	665,450	667,021	9,218	1,571
Agriculture	40,613	40,874	40,772	159	(102)
Communities, Culture, Tourism and Heritage	137,769	188,418	191,307	53,538	2,889
Community Services	1,124,314	1,124,314	1,124,314	---	---
Economic Development	104,923	138,942	130,805	25,882	(8,137)
Education and Early Childhood Development	1,591,394	1,644,336	1,643,702	52,308	(634)
Environment and Climate Change	44,379	46,140	46,165	1,786	25
Finance and Treasury Board	26,034	26,034	26,034	---	---
Fisheries and Aquaculture	19,493	17,243	18,047	(1,446)	804
Health and Wellness	4,025,905	4,112,971	4,099,338	73,433	(13,633)
Justice	392,342	397,143	398,031	5,689	888
Labour, Skills and Immigration	203,446	214,155	217,658	14,212	3,503
Municipal Affairs and Housing	321,024	427,220	435,473	114,449	8,253
Natural Resources and Renewables	149,801	157,200	195,961	46,160	38,761
Public Service	379,118	399,151	395,263	16,145	(3,888)
Public Works	579,134	587,665	578,527	(607)	(9,138)
Seniors and Long-Term Care	1,061,780	1,090,383	1,130,494	68,714	40,111
Service Nova Scotia and Internal Services	328,485	331,065	331,275	2,790	210
Restructuring Costs	321,642	297,823	268,396	(53,246)	(29,427)
Total - Departmental Expenses	11,509,399	11,906,527	11,938,583	429,184	32,056

The **Department of Advanced Education** is forecast to be \$9.2 million or 1.4 per cent higher than Budget Estimates primarily due to \$4.3 million for the Nova Scotia Community College (NSCC) Marconi relocation project, \$3.4 million in COVID-19 related expenses (\$2.0 million to the NSCC and \$1.4 million in 2020–21 carry forward funding under the Workforce Development Agreement, fully recoverable), and \$2.5 million for the Medical Laboratory Technologist program. This increase is partially offset by \$0.9 million in lower than expected Student Assistance Program expenses due to decreased recoveries and \$0.4 million in lower than expected provincial personal protective equipment expenses.

The **Department of Communities, Culture, Tourism and Heritage** is forecast to be \$53.5 million or 38.9 per cent higher than Budget Estimates primarily due to COVID-19 costs of \$30.7 million, including \$13.0 million for the Tourism Restart package, \$7.0 million in Tourism Accommodations Real Property Tax Rebate Program, \$8.7 million in NS Film and Television Production Incentive Fund carried over from 2020–21, \$0.8 million in emergency support for non-profit recreation facilities and \$0.7 million in foregone museum and art gallery revenue. In addition, other operating cost increases include \$14.9 million in new productions under the NS Film and Television Production Incentive Fund, \$5.3 million in community grants and \$1.0 million for Rink Revitalization, which were partially offset by \$0.6 million for Land Titles Initiative transferred to the Office of Equity and Anti-Racism.

The **Department of Economic Development** is forecast to be \$25.9 million or 24.7 per cent higher than Budget Estimates, primarily due to pressures related to COVID-19 supports including \$31.0 million for the Small Business Impact Grant and \$4.1 million in stimulus capital projects through Develop NS carried over from 2020–21. These increases are offset by \$8.8 million in repayments to the Nova Scotia Jobs Funds.

The **Department of Education and Early Childhood Development** is forecast to be \$52.3 million or 3.3 per cent higher than Budget Estimates due to \$33.0 million in fully recoverable universal childcare initiatives, \$10.9 million in fully recoverable Early Childhood Workforce programming, \$7.8 million in operating support grants paid out to the childcare sector due to public health measures taken during the third wave of COVID-19, and \$2.3 million in Public Education funding for the Healthy School Grant, Mental Health Wellness and Diversity initiatives.

The **Department of Health and Wellness** is forecast to be \$73.4 million or 1.8 per cent higher than Budget Estimates primarily due to \$84.1 million in net COVID-19 related expenses. This is primarily for additional costs of \$81.1 million for Nova Scotia Health Authority operational expenses, mainly for testing and \$28.9 million more for immunization costs, partially offset by \$27.2 million in lower than expected utilization for Personal Protective Equipment (PPE) as well as a transfer of PPE expenses to Seniors and Long Term Care. Other operational cost increases include \$11.8 million for the newly settled Nova Scotia Council of Health-Care Unions collective agreement, \$6.7 million in CAR-T cell therapy for out of province treatments and the new CAR-T program in Nova Scotia, a \$5.2 million increase in Physician Services primarily due to increases in the Academic Funding Plan and Alternative Payment Plan, \$5.1 million increase for Canadian Blood Services driven by a significant increase in global pricing for immune globulin, and \$3.7 million for the new Federal National Truth and Reconciliation Holiday. This is partially offset by \$49.5 million in capital grants, primarily due to changing cash flows.

The **Department of Justice** is forecast to be \$5.7 million or 1.5 per cent higher than Budget Estimates because of \$4.8 million in establishing and operating the African Nova Scotian Justice Institute for a three-year period and \$3.2 million in RCMP contract operating costs. These increases are offset by \$2.3 million in vacancy and operating savings.

The **Department of Labour, Skills and Immigration** is forecast to be \$14.2 million or 7.0 per cent higher than Budget Estimates primarily due to \$8.2 million in COVID-19 related expenses (\$7.2 million in additional Workforce Development Agreement funding carried forward from 2020–21 and \$1.0 million Sick Leave Program), \$2.8 million in incremental funding under the Labour Market Transfer Agreements, and \$2.5 million for an Immigration and Population Growth marketing campaign.

The **Department of Municipal Affairs and Housing** is forecast to be \$114.4 million or 35.7 per cent higher than Budget Estimates primarily due to \$55.8 million in one-time funding for the fully recoverable Canada Community Building Fund (formerly named Federal Gas Tax Fund) transfer to municipalities, \$32.2 million to address the Nova Scotia Affordable Housing Commission's recommendations, \$32.0 million for the doubling of the Municipal Operating Capacity Grants to municipalities, and \$3.5 million for partially recoverable Disaster Financial Assistance for communities impacted by the November 2021 floods. These increases are partially offset by a decrease of \$9.1 million in the Invest in Canada Infrastructure Program and the New Building Canada Fund due to changes in cash flow requirements.

The **Department of Natural Resources and Renewables** is forecast to be \$46.2 million or 30.8 per cent higher than Budget Estimates primarily due to increases of \$50.0 million related to Energy Efficiency Programming and \$7.0 million related to Energy Efficiency Programming support to small business. These increases are partially offset by a decrease of \$11.0 million in Investing in Canada Infrastructure Program spending.

Public Service Offices are forecast to be \$16.1 million or 4.3 per cent higher than Budget Estimates primarily due to \$13.0 million for the 41st Provincial General Election and \$3.3 million related to severance pay for Deputy Ministers, Associate Deputy Ministers, and Premier's Office staff.

The **Department of Public Works** is forecast to be \$0.6 million or 0.1 per cent lower than Budget Estimates primarily due to a \$9.0 million increase in the Rural Impact Mitigation program. This increase is offset by a \$3.7 million delay in a fully recoverable project from the Highway 104 Western Alignment Corporation for safety improvements, a \$3.5 million delay in a partially recoverable project for Highway 103 Bridgewater Interchange, and \$2.7 million in other operating expense decreases.

The **Department of Seniors and Long Term Care** is forecast to be \$68.7 million or 6.5 per cent higher than Budget Estimates primarily due to \$34.6 million in COVID-19 expenses. This includes \$11.4 million in additional staffing resources, \$11.1 million in travel nursing and surge capacity, \$6.0 million in COVID-19 administrative support, and \$5.2 million for temporary long-term care bed capacity. Other operational cost increases include \$32.0 million for the Seniors Care Grant, a \$11.1 million investment in Continuing Care Workforce initiatives, \$6.2 million in capital projects, \$3.2 million for the new Federal National Truth and Reconciliation Holiday, and \$1.7 million for additional resources to support the newly created department. These increases are partially offset by \$21.4 million in lower utilization in direct service hours for Home Support Agencies.

Service Nova Scotia and Internal Services is forecast to be \$2.8 million or 0.8 per cent higher than Budget Estimates due to \$2.1 million in COVID-19 expenses primarily related to staffing costs and \$0.7 million for technology software solutions.

Refundable Tax Credits

Refundable tax credit expenditures are forecast to be \$0.2 million or 0.1 per cent lower than Budget Estimates.

Pension Valuation Adjustment

The Pension Valuation Adjustment is forecast to be down \$28.1 million or 26.1 per cent from Budget Estimates. The decrease is primarily attributed to an increase in the discount rate for the Teachers' Pension Plan (TPP), a lower special payment to the TPP in lieu of indexing, and favorable retiree claims experience.

Debt Servicing Costs

Total Debt Servicing Costs are forecast to be down \$21.8 million or 3.1 per cent from Budget Estimates, driven by a decrease in costs associated with pensions and other obligations as well as lower than anticipated interest rates.

Consolidation and Accounting Adjustments

Consolidation and Accounting Adjustments for Government Units are forecast to be \$70.0 million or 66.0 per cent higher than Budget primarily due to the \$101.0 million one-time gain on the sale of shares in an early-stage technology company by Innovacorp, \$10.0 million in lower than budgeted amortization on healthcare assets, an increase of \$3.6 million in capital grants for stimulus projects, and an increase of \$3.6 million in various special purpose funds and other organizations. The increases are partially offset by a decrease of \$48.2 million due to changing cash flow requirements on healthcare capital projects.

Capital

Total Capital Spending is forecast to be \$1,065.8 million, which is \$110.1 million or 9.4 per cent lower than Budget Estimates.

Tangible Capital Assets

The province is forecasting Capital Purchase Requirements to be \$65.9 million or 6.5 per cent lower than Budget Estimates primarily due to lower projected spending on buildings and a reduced need for contingency funding. This decrease is partially offset by greater spending on highways and structures as well as land purchases.

Capital Grants

The province is forecasting Capital Grant Requirements to be \$44.3 million or 27.6 per cent lower than Budget Estimates mainly due to lower projected spending on Nova Scotia health projects.

Capital Spending 2021–22

(\$ thousands)

	Budget	September Update	December Update	Increase (Decrease) from Budget	Increase (Decrease) from Sept
Highways & Structures	481,833	503,683	504,624	22,791	941
Buildings	450,090	441,494	377,764	(72,326)	(63,730)
Information Technology	13,565	16,472	12,800	(765)	(3,672)
Land Purchases	3,486	13,271	13,271	9,785	---
Vehicles and Equipment	16,820	16,982	17,952	1,132	970
Contingency	50,000	23,500	23,500	(26,500)	---
Total - Capital Purchase Requirements	1,015,794	1,015,402	949,911	(65,883)	(65,491)
Capital Grants	160,176	153,869	115,917	(44,259)	(37,952)
Total - Capital Spending	1,175,970	1,169,271	1,065,828	(110,142)	(103,443)

Key Risks

Economic

The epidemiology of the COVID-19 pandemic remains a risk to economic projections. Widespread vaccination has largely allowed for resumption of normal activities, but uncertainty about lasting immunity remains. The resurgence of new cases and variants leading to the reintroduction of public health measures are a downside risk. Positive developments around containment, treatment, and vaccinations would support faster economic growth.

Inflation has emerged as a risk to the outlook for most major economies. Current expectations are that prices will stabilize as global supply chains are rebalanced. Energy supply shortages could also create further supply chain disruptions, impacting production. Persistent disruption of supply chains with a continued period of elevated demand may result in a longer period of inflation than expected. Housing price growth could also erode the purchasing power of household incomes and limit growth in non-shelter expenditures.

The recovery in consumer spending depends on solidifying confidence that purchases of goods and services can be made safely while the pandemic is ongoing. Changes in consumer preferences and travel patterns caused by the pandemic may persist, altering demand for some products and even changing how they are produced or delivered.

The outlook for Nova Scotia's trade is sensitive to the pace of economic growth in the province's major trading partners. The US has returned to pre-pandemic levels of activity, but most major trade partners have yet to see activity normalize. Beyond COVID-19, trade protectionism and restrictions targeted at Canadian trade, including softwood lumber, have the potential to impact Nova Scotian exports.

The Government of Canada has started to withdraw significant fiscal support measures but rebuilding balance sheets will happen over time. Monetary policy in Canada and around the world was eased with the global recession and accommodative conditions are expected throughout the near-term. However, rising inflation presents a risk for central banks who are considering monetary policy changes. 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 2020 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.

Currently, tax revenues continue to be affected by the epidemiology of COVID-19 and the pace of economic recovery from downturns associated with the pandemic.

The forecast of PIT tax revenue is dependent on performance of the labour market as well as any restrictions required by emergency health orders associated with COVID-19.

The forecast of CIT revenue is highly dependent upon national corporate taxable income and the province's share. Although the province's share has declined, growth in national corporate taxable income has more than offset this factor. Any additional restrictions on business activity resulting from COVID-19 pose a potential downward pressure on revenues.

HST revenues are heavily reliant on consumer expenditures and residential construction. These are dependent on the pace of the economic recovery and consumer confidence. Consumer expenditures are especially sensitive to any business restrictions imposed as a result of COVID-19.

Expenditures

The pandemic has caused uncertainty in government expenditures when benchmarked against the Budget Estimates presented earlier this year. There remains a general expenditure variance risk as the COVID-19 pandemic continues. Utilization for various programs may see further variance correlated to the evolution of the pandemic. Specifically, health-related programming from government departments and various other health sector partners may continue to see impacts as they respond to the ongoing pandemic. Various other government programming may be impacted due to changes in service delivery, public health orders, or behavioural changes.

In addition, further investments may be needed to stimulate or stabilize various sectors in Nova Scotia. The pandemic's impact on areas such as consumer demand, access to markets, and supply chain disruptions will present sector-specific challenges. There remain risks that government may be required to assist through a variety of support-vehicles.

