Forecast Update

September 29, 2021

The Honourable Allan MacMaster
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 unprecedented impacts of the COVID-19 pandemic on public health and the economy. Public Health Orders have been in place since March 13, 2020, to contain the spread of COVID-19 in Nova Scotia. The province has been in a State of Emergency since March 22, 2020.

This Forecast Update shows government's commitment to making key investments in priority areas such as healthcare, seniors, students and roads.

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 deficit position of $444.5 million, an improvement of $140.4 million from the Budget's deficit position of $584.9 million.

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 position.

Overview

The Province of Nova Scotia is forecasting a deficit of $444.5 million. This is an improvement of $140.4 million from the budgeted deficit in the 2021–22 Budget Estimates.

Total Revenue, including Ordinary Revenue, Recoveries, and Net Income from Government Business Enterprises (GBEs), is forecast to be $12.2 billion, an increase of $406.8 million from the Budget Estimates.

Forecast changes in Ordinary Revenue include an $86.1 million increase in Provincial Tax Revenue, a $0.7 million increase in Other Provincial Revenue Sources, a $6.0 million increase for Investment Income, and a $210.1 million increase in Federal Revenue Sources.

Ordinary Recoveries Revenue is forecast to increase by $111.3 million from Budget. Net Income from GBEs is expected to decrease by $7.4 million.

Total Expenses are forecast to be $12.8 billion, which is $354.9 million higher than the Budget Estimates. Expenses are forecast to be higher due to projected increases in Departmental Expenses of $397.1 million and Refundable Tax Credits of $2.0 million and are partially offset by decreases in the Pension Valuation Adjustment of $22.0 million and Debt Servicing Costs of $22.2 million.

Consolidation and Accounting Adjustments are expected to positively impact the provincial deficit by $194.6 million, which is $88.5 million more than budgeted.

Fiscal Summary 2021–22

($ thousands)

General Revenue Fund	**Budget**	**Forecast**	*Increase (Decrease)* **from Budget**
Revenues			
Ordinary Revenue	10,696,926	10,999,858	302,932
Ordinary Recoveries	684,998	796,324	111,326
Net Income from Government Business Enterprises	399,896	392,474	(7,422)
Total - Revenue	**11,781,820**	**12,188,656**	**406,836**
Expenses			
Departmental Expenses	11,509,399	11,906,527	397,128
Refundable Tax Credits	144,698	146,697	1,999
Pension Valuation Adjustment	107,833	85,856	(21,977)
Debt Servicing Costs	710,886	688,685	(22,201)
Total - Expenses	**12,472,816**	**12,827,765**	**354,949**
Consolidation and Accounting Adjustments for Governmental Units	106,051	194,576	88,525
Provincial Surplus (Deficit)	**(584,945)**	**(444,533)**	**140,412**

Note: Totals may not add due to rounding.

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 May 14, 2021. The economic outlook incorporates data and events from 2021 released on or before this date. The projections make assumptions about the impacts and recovery of the COVID-19 pandemic on key industries in the Nova Scotia economy.

External Outlook

Global economic activity declined significantly in the first half of 2020 as countries across the world introduced lockdowns and shut down certain sectors to limit the spread of the COVID-19 pandemic. Governments provided fiscal and monetary support to limit the slowdown in economic activity. Economic recovery started in the second half of 2020 and accelerated with the roll out of vaccination programs. Following an estimated 3.2 per cent decline in global real Gross Domestic Product (GDP) during 2020, the International Monetary Fund's (IMF) July World Economic Outlook projected expansion of 6.0 per cent in 2021 followed by 4.9 per cent growth in 2022. The trajectory of economic recovery is expected to vary across regions depending on factors such as access to vaccines, fiscal stimulus, and monetary support.

Annual inflation rates are expected to increase over the short-term driven by increases in commodity prices (particularly oil prices), as well as temporary effects related to the pandemic. Inflation is expected to return to pre-pandemic ranges in most countries by 2022 as these temporary factors subside. However, there is a risk that transitory factors become more persistent, requiring central banks to take pre-emptive actions to keep inflation within target ranges.

In the United States (US), real GDP contracted sharply during the initial wave of the pandemic during 2020. The US economy rebounded in the second half of the year. A rapid vaccination campaign along with additional fiscal stimulus at the beginning of 2021 supported US economic recovery. US household spending has benefitted from relaxed COVID-19 restrictions as well as improving labour markets, rising wages, more government transfers, and strong household savings. Accommodative US monetary and fiscal policies supported domestic demand while recovery among trading partners boosted US export growth. The economic outlook assumes that the US economy contracted by 3.5 per cent in 2020, which will be followed by growth of 6.1 per cent in 2021 and 4.0 per cent in 2022.

Economic activity in the Euro Area started showing signs of improvement in the second quarter of 2021, following declines in the final quarter of 2020 and the first quarter of 2021. With rising vaccination rates and improved testing and tracing, containment measures are expected to be gradually lifted over the rest of the year. Continued monetary support, increased consumer spending and strong external demand are also expected to boost Europe's economic recovery. The IMF projects real GDP in the Euro Area will rebound from a 6.5 per cent decline in 2020 with an increase of 4.6 per cent in 2021 and 4.3 per cent in 2022.

China has continued strict containment measures to keep COVID-19 under control. However, slower vaccination progress has weighed on China's economic recovery. Strong fiscal stimulus that supported economic activity in 2020 (2.3 per cent real GDP growth) is expected to ease in 2021. With scaled back public investment and fiscal support, the IMF expects China's real GDP to grow 8.1 per cent in 2021 and 5.7 per cent in 2022.

The effects of the COVID-19 pandemic on the Canadian economy have been significant. Mandated business closures and a collapse in both business and consumer confidence resulted in a real GDP decline of 5.3 per cent in 2020. Federal and provincial stimulus and support spending have been essential in mitigating the impacts of the pandemic on the Canadian economy. The Bank of Canada's target for the overnight interest rate remains at the low level of 0.25 per cent.

A rapid vaccination rollout combined with strong fiscal stimulus, higher oil and commodity export prices and increased global demand are expected to boost Canada's economic recovery. The rebound in household spending is expected in part to rely on savings built up over 2020. However, the strength of Canada's economic recovery will largely depend on the path of the pandemic. Overall, the economic outlook assumes that Canada's real GDP rebounds with 6.0 per cent growth in 2021, followed by 4.1 per cent in 2022.

Current Economic Outlook for Nova Scotia

Nova Scotia's economy contracted 3.2 per cent in real terms during the COVID-19 pandemic and global recession in 2020. The province's real GDP is expected to recover in 2021 and 2022. Economic activity continues to fluctuate depending on the state of the pandemic in the province: slowing during periods of outbreak and public health restrictions, then recovering quickly after restrictions are eased. The economic forecast assumes COVID-19 restrictions continue to ease in the second half of 2021. Most industries should return to previous or higher levels of activity in 2022. However, air travel, food services, arts, recreation and accommodations are expected to experience more prolonged downturns as long as tourism remains impaired by the pandemic. Other industries such as retail, finance, insurance, real estate and professional services may face long-term changes as they adapt to work-from-home and online shopping.

Nova Scotia's real GDP contracted less in 2020 (-3.2 per cent) than was estimated in the Budget outlook (-5.3 per cent). Likewise, the decline in nominal GDP (-2.2 per cent) is now estimated to be less severe than assumed in the Budget economic outlook (-4.2 per cent). Nova Scotia's real GDP is projected to grow by 3.5 per cent in 2021 and by 2.4 per cent in 2022 with economic activity less disrupted from the COVID-19 pandemic. Nominal GDP is projected to grow 5.6 per cent in 2021 and 4.4 per cent in 2022.

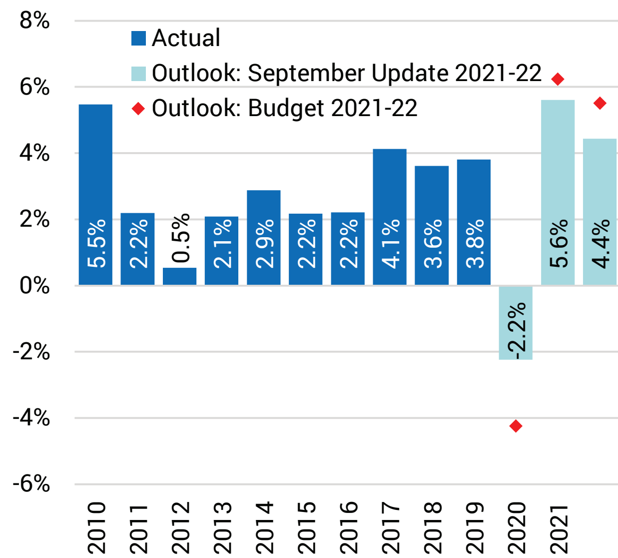
Recent Economic Performance

Population: Nova Scotia's population continued to grow, although at a slower pace, in 2020 and reached an all-time high of 982,326 as of April 1, 2021. While the number of immigrants and non-permanent residents coming to the province slowed in 2020, it is expected to pick-up over the next two years. With positive net interprovincial migration expected to continue, Nova Scotia's population is expected to return to its pre-pandemic pace of about 1 per cent annual growth after year-over-year population growth slowed to 0.4 per cent in late 2020 and early 2021.

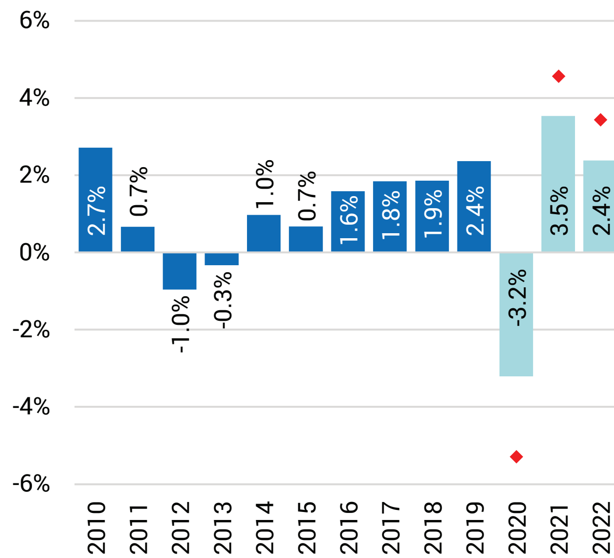
Labour Markets: Employment levels had nearly returned to their pre-pandemic levels by March 2021. Employment fell again during Nova Scotia's April-May 2021 wave of the coronavirus. Employment has subsequently recovered but remained 0.4 per cent below pre-pandemic level as of August 2021. In addition, an elevated number of persons continue to work less than their regular hours. The current labour market effects of COVID-19 are most apparent in Nova Scotia's accommodation and food services, wholesale and retail trade, information, culture and recreation and manufacturing industries. Employment among women and youth have experienced larger impacts over the course of the pandemic. Employment in 2021 is projected to return to 2019 levels before growing in 2022.

Nova Scotia GDP Growth

Nominal GDP



Real GDP



Consumption and Prices: Government pandemic support programs are expected to be scaled down as labour markets normalize. Household consumption is expected to grow in 2021 and 2022. Higher prices for energy and other goods are expected to lift nominal expenditures in the short run while savings return to more typical levels. Over the first seven months of 2021, retail sales have exceeded the average 2020 level by 14.4 per cent and the average 2019 level by 11.8 per cent. Most retail sectors have returned to sales that are consistent with or above 2019 levels. Local purchases of personal services, recreation, travel and food services are expected to have a slower recovery. Nova Scotia's food service and drinking receipts have not yet recovered and were 7.0 per cent below pre-pandemic levels in July 2021. As in other advanced economies, Nova Scotia's inflation (5.1 per cent year-over-year in August 2021) is elevated because of commodity price rebounds as well as base period effects. This is expected to be transitory.

Investment: Residential investment expanded by an estimated 4.7 per cent in 2020. Residential investment is projected to continue growing in 2021; low vacancy rates, rising population and shifting preferences for single dwelling units have significantly increased demand for housing in the province. For the first seven months of 2021, residential building construction was up 30.3 per cent over the same period in 2020 while new housing starts averaged 14.4 per cent higher over the first eight months of 2021. Nova Scotia's residential investment growth has come more from single dwelling units and renovations while multiple dwelling units are just recovering after less activity in 2020. For 2022, residential investment is projected to decline (-5.3 per cent) as material prices fall and additional supply comes to market. Business investment slowed during the pandemic but is expected to recover in the next few years. Ongoing capital projects in the transportation and health care sectors are expected to support growth in the near term and beyond.

Exports: After declining amid the global slowdown and closures of 2020, Nova Scotia's international goods exports have nearly returned to 2019 levels. For January to July 2021 compared to the same months of 2020, international merchandise shipments were up 24.3 per cent, with recovering shipments in seafood and tires. Shipments of gypsum and frozen food declined after growing in 2020. Lumber shipments have had further growth in 2021 with average prices rising further in the first half of the year. However, over the summer lumber prices have fallen to less than one third of their peak in May.

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 vaccination 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

	Budget 2021-22		September Forecast Update	
Per cent change, except where noted	**2021**	**2022**	**2021**	**2022**
Real GDP ($2012 chained)	4.6%	3.4%	3.5%	2.4%
Nominal GDP	6.2%	5.5%	5.6%	4.4%
Compensation of Employees	3.2%	4.9%	2.1%	3.0%
Household Income	-1.5%	3.3%	-0.6%	1.4%
Household Final Consumption	5.3%	5.4%	4.9%	6.5%
Retail Sales	4.5%	4.6%	4.2%	5.8%
Consumer Price Index	1.7%	2.0%	2.3%	2.0%
Investment in Residential Structures	6.0%	2.4%	12.2%	-5.3%
Non-Res., Machinery, Intellectual Property	8.0%	7.4%	7.0%	5.7%
Net Operating Surplus: Corporations	9.7%	15.1%	11.9%	2.7%
Net Mixed Income: Unincorporated	1.6%	4.2%	4.2%	2.6%
Exports of Goods and Services	8.1%	8.8%	7.9%	8.3%
Exports of Goods to Other Countries	7.1%	9.1%	8.8%	3.2%
Imports of Goods and Services	4.6%	4.9%	5.8%	5.9%
Population at July 1 (all ages, thousands)	981.2	989.4	981.2	989.4
Population at July 1 (ages 18-64, thousands)	600.6	600.9	600.6	600.9
Labour Force (thousands)	496.7	503.1	501.4	509.0
Employment (thousands)	456.6	470.6	461.2	470.0
Unemployment Rate, Annual Average	8.1%	7.5%	8.0%	7.7%

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 $12.2 billion, $406.8 million or 3.5 per cent higher than the 2021–22 Budget Estimates. Revenue estimates are based on administrative data up to May 28, 2021. Information received after this date will be incorporated in future forecasts.

The increase in expected Total Revenue includes increases of $111.3 million or 16.3 per cent in Ordinary Recoveries, $86.1 million or 1.4 per cent in Provincial Tax Revenue, $0.7 million or 0.2 per cent in Other Provincial Revenue, $6.0 million or 5.7 per cent in Investment Income, and $210.1 million or 5.1 per cent in Federal Revenue Sources. These increases are partially offset by a decrease of $7.4 million or 1.9 per cent in Net Income from GBEs.

Ordinary Revenue — Provincial Revenue Sources

Tax Revenue

Personal Income Tax (PIT) revenue is forecast to be up $101.6 million or 3.4 per cent from Budget Estimates, primarily due to improved projections for taxable income and yield. Personal taxable income is projected to be up $779.9 million in 2021 and $323.9 million in 2022. The yield rate on taxable income is now projected to be higher by 0.14 percentage points in 2021 and 0.1 percentage points in 2022.

Corporate Income Tax (CIT) revenue is forecast to be down $7.6 million or 1.5 per cent from Budget Estimates due to the impact of federal budget measures passed in the spring of 2021 being incorporated into the forecast.

Harmonized Sales Tax (HST) revenue is forecast to be down $5.0 million or 0.2 per cent from Budget Estimates, mainly attributable to lower projections of consumer spending offset by improved investment in new residential housing. Taxable consumer expenditures are projected to be down $315.8 million or 2.1 per cent in 2021 and $160.4 million or 1.0 per cent in 2022. New residential housing investment is projected to be up by $251.4 million or 6.8 per cent in 2021 and down by $45.0 million or 1.2 per cent in 2022.

Motive Fuel Tax revenue is forecast to be down $3.0 million or 1.2 per cent from Budget Estimates due to lower levels of fuel consumption because of COVID-19 related restrictions put in place. Consumption of gasoline is projected to be 15.6 million litres or 1.4 per cent lower than expected while diesel fuel consumption is projected to be down 3.5 million litres or 0.8 per cent.

Tobacco Tax revenue is forecast to be up $2.3 million or 1.2 per cent from Budget Estimates primarily because of cigarette consumption being higher than projected.

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

Other Tax Revenue is forecast to be down $1.2 million or 0.6 per cent from Budget Estimates due to a reduction in the casino win tax, which is associated with a suspension of casino operations by Public Health Order.

Total Revenue 2021–22

($ thousands)

General Revenue Fund: Revenue	Budget	Forecast	Increase (Decrease) from Budget
Provincial Revenue Sources			
Tax Revenue:			
Personal Income Tax	2,945,359	3,046,943	101,584
Corporate Income Tax	500,223	492,638	(7,585)
Harmonized Sales Tax	2,025,505	2,020,500	(5,005)
Cannabis Tax	7,756	7,756	---
Vaping Tax	4,305	3,337	(968)
Motive Fuel Tax	238,632	235,660	(2,972)
Tobacco Tax	185,850	188,138	2,288
Other Tax Revenue	193,224	192,024	(1,200)
Prior Years' Adjustments - Taxes	---	---	---
	6,100,854	6,186,996	86,142
Other Provincial Revenue:			
Registry of Motor Vehicles	136,985	136,985	---
Other Provincial Sources	150,841	151,805	964
TCA Cost Shared Revenue	7,833	7,833	---
Other Fees and Charges	60,036	59,790	(246)
Prior Years' Adjustments - Other Revenue	---	---	---
	355,695	356,413	718
Investment Income:			
Interest Revenues	70,978	75,735	4,757
Sinking Fund Earnings	34,929	36,165	1,236
	105,907	111,900	5,993
Total - Provincial Sources	**6,562,456**	**6,655,309**	**92,853**
Federal Revenue Sources			
Equalization Payments	2,315,000	2,315,000	---
Canada Health Transfer	1,109,000	1,212,022	103,022
Canada Social Transfer	398,000	398,000	---
Offshore Accord Offset Payments	44,000	129,626	85,626
Other Federal Sources	60,458	96,075	35,617
TCA Cost Shared Revenue	208,012	193,826	(14,186)
Prior Years' Adjustments	---	---	---
Total - Federal Sources	**4,134,470**	**4,344,549**	**210,079**
Total - Ordinary Recoveries	**684,998**	**796,324**	**111,326**
Net Income from Government Business Enterprises (GBEs)			
Nova Scotia Liquor Corporation	246,126	256,528	10,402
Nova Scotia Gaming Corporation	138,700	127,200	(11,500)
Halifax-Dartmouth Bridge Commission	5,440	4,616	(824)
Highway 104 Western Alignment Corporation	9,630	4,130	(5,500)
Total - Net Income from GBEs	**399,896**	**392,474**	**(7,422)**
Total - Revenue	**11,781,820**	**12,188,656**	**406,836**

Note: Totals may not add due to rounding.

Other Provincial Revenue

Other Provincial Revenue is forecast to be $0.7 million or 0.2 per cent higher than Budget Estimates. The variance is largely driven by an increase in Other Provincial Sources due to higher than expected Resource Recovery Board revenues and increased Infoway funding at the Department of Health and Wellness.

The increase in Other Provincial Sources is slightly offset by an expected decrease in Other Fees and Charges, driven primarily by decreases in ground ambulance fees and museum admission and program fees.

Investment Income

Investment Income is predicted to be $6.0 million or 5.7 per cent higher than Budget Estimates. This variance is largely driven by an increase in interest revenues, including increases in short-term revenues and Fisheries Loan Board interest. Sinking fund earnings are also expected to increase due to higher than expected interest rates.

Ordinary Revenue — Federal Revenue Sources

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

The Offshore Accord payment is forecast to be $85.6 million or 194.6 per cent higher than Budget Estimates because the balance anticipated for 2020–21 was not authorized by the federal government until the 2021–22 fiscal year.

The Canada Health Transfer is forecast to be up by $103.0 million or 9.3 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.

The Canada Social Transfer is unchanged from Budget Estimates.

TCA Cost Shared Revenue is forecast to be down by $14.2 million or 6.8 per cent from Budget Estimates mainly because of delays in having environmental approvals in place for various projects at the Department of Transportation and Active Transit.

Other Federal Sources is forecast to be up $35.6 million or 58.9 per cent from Budget Estimates. The variance is due to federal funding for the Safe Restart Agreement and COVID-19 vaccination roll-out.

Ordinary Recoveries

Ordinary Recoveries Revenue is forecast to be $111.3 million or 16.3 per cent higher than the 2021–22 Budget Estimates.

The Department of Education and Early Childhood Development is forecast to be $47.8 million or 193.1 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 Energy and Mines is forecast to be $5.8 million or 16.9 per cent higher than Budget Estimates primarily due to higher than anticipated partially recoverable expenses under the Investing in Canada Infrastructure Program.

The Department of Justice is forecast to be $1.6 million or 1.2 per cent lower than Budget Estimates primarily due to lower than anticipated recoveries from the federal government for Access to Justice in Both Official Languages ($0.9 million), Cannabis training ($0.7 million), and Victim Services Surcharge fund recoveries from Summary Offence Ticket collections ($0.7 million). These decreases are partially offset by higher than anticipated recoveries from the federal government for the Public Inquiry into the mass shooting ($0.8 million.)

The Department of Labour and Advanced Education is forecast to be $10.1 million or 7.0 per cent higher than Budget Estimates, primarily due to $8.5 million in carry forward COVID-19 response funding under the Workforce Development Agreement and $2.2 million in incremental Labour Market Development Agreement funding.

The Department of Municipal Affairs is forecast to be $49.2 million or 54.3 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 $0.8 million related to the New Building Canada Fund. These increases are offset by a decrease of $7.4 million in the Invest in Canada Infrastructure Program due to a change in cash flow requirements.

Net Income from Government Business Enterprises (GBEs)

Total Net Income from GBEs is down $7.4 million or 1.9 per cent from Budget Estimates.

Net income from the Nova Scotia Liquor Corporation is forecast to be $10.4 million or 4.2 per cent higher than Budget Estimates. The higher forecast is mainly due to increased sales in retail and agency channels.

Net income from the Nova Scotia Gaming Corporation is forecast to be down $11.5 million or 8.3 per cent from Budget. This decrease is largely driven by the suspension in operations of casinos and video lottery terminals due to COVID-19 in spring 2021.

Net income from the Halifax-Dartmouth Bridge Commission is forecast to be $0.8 million or 15.1 per cent lower than Budget Estimates. This is due to reduced toll revenue from lower amounts of bridge traffic because of the public health restrictions in spring 2021.

Net income from Highway 104 Western Alignment Corporation is forecast to be $5.5 million or 57.1 per cent lower than Budget Estimates because of a make whole payment that is due with the early repayment of the senior toll revenue bonds.

Expenses

Total Expenses for 2021–22 are forecast to be $12.8 billion, $354.9 million or 2.8 per cent higher than the Budget Estimates.

Increases in Departmental Expenses of $397.1 million or 3.5 per cent and Refundable Tax Credits of $2.0 million or 1.4 per cent are partially offset by decreases in the Pension Valuation Adjustment of $22.0 million or 20.4 per cent and in Debt Servicing Costs of $22.2 million or 3.1 per cent.

Departmental Expenses

Total Departmental Expenses for 2021–22 is forecast to be $397.1 million or 3.5 per cent higher than the Budget Estimates. Reporting for departments reflect government structure as of August 30, 2021. Departmental structure changes that came into effect August 31, 2021, will be reported in the next forecast update.

Departmental Expenses 2021–22

($ thousands)

	Budget	Forecast	*Increase (Decrease)* from Budget
Agriculture	40,613	40,874	261
Communities, Culture and Heritage	117,098	144,947	27,849
Community Services	1,124,314	1,124,314	---
Education and Early Childhood Development	1,591,394	1,644,336	52,942
Energy and Mines	70,768	78,020	7,252
Environment and Climate Change	44,379	46,140	1,761
Finance and Treasury Board	25,031	25,031	---
Fisheries and Aquaculture	19,493	17,243	(2,250)
Health and Wellness	5,332,752	5,449,925	117,173
Inclusive Economic Growth	125,594	182,413	56,819
Infrastructure and Housing	132,782	156,521	23,739
Justice	392,342	397,143	4,801
Labour and Advanced Education	407,450	425,806	18,356
Assistance to Universities	443,590	443,590	---
Lands and Forestry	79,033	79,180	147
Municipal Affairs	213,184	295,172	81,988
Public Service	142,347	160,881	18,534
Seniors	2,916	2,911	(5)
Service Nova Scotia and Internal Services	328,485	331,065	2,580
Transportation and Active Transit	554,192	563,192	9,000
Restructuring Costs	321,642	297,823	(23,819)
Total - Departmental Expenses	**11,509,399**	**11,906,527**	**397,128**

The Department of Communities, Culture and Heritage is forecast to be $27.8 million or 23.8 per cent higher than Budget Estimates primarily due to COVID-19 costs of $10.2 million including: $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 revenue. In addition, other operating cost increases include $14.9 million in new productions under the NS Film and Television Production Incentive Fund, $2.5 million for tourism initiatives and $1.0 million for Rink Revitalization Fund.

The Department of Community Services is forecast to be on Budget with decreases of $16.2 million net COVID-19 related reductions fully offset with additional operational costs in other areas.

The Department of Education and Early Childhood Development is forecast to be $52.9 million or 3.3 per cent higher than Budget Estimates primarily due to $33.0 million in fully recoverable universal childcare initiatives, $10.9 million in fully recoverable Early Childhood Workforce programming, $7.7 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 $2.0 million for the Healthy Schools Grant.

The Department of Energy and Mines is forecast to be $7.3 million or 4.0 per cent higher than Budget Estimates due to an increase in partially recoverable Investing in Canada Infrastructure Projects.

The Department of Environment and Climate Change is forecast to be $1.8 million or 10.2 per cent higher than Budget Estimates due to additional costs related to the extension of the COVID-19 Response Staff Redeployment program until March 31, 2022.

The Department of Fisheries and Aquaculture is forecast to be $2.3 million or 11.5 per cent lower than Budget due to lower than anticipated spending under the Atlantic Fisheries Fund to align spending as per the associated agreement.

The Department of Infrastructure and Housing is forecast to be $23.7 million or 17.9 per cent higher than Budget Estimates primarily due to the implementation of the Affordable Housing Commission Recommendations.

The Department of Health and Wellness is forecast to be $117.2 million or 2.2 per cent higher than Budget Estimates primarily due to $52.2 million in net COVID-19 related expenses. This is mainly for additional costs of $36.1 million mostly for testing in the third wave, $8.2 million for immunization costs, $8.0 million for partially recoverable Investing in Canada Infrastructure Projects, partially offset by $8.1 million in lower than anticipated physician sessional costs. Other operational cost increases include $32.0 million for the new Senior's Care Grant, $11.8 million for the newly settled Nova Scotia Council of Health-Care Unions collective agreement, $9.0 million in CAR-T cell therapy treatment, $8.1 million increase in Physician Services primarily due to physicians choosing Academic Funding Plan contracts and $7.8 million for the Truth and Reconciliation Day holiday.

The Department of Inclusive Economic Growth is forecast to be $56.8 million or 45.2 per cent higher than Budget Estimates, primarily due to pressures related to COVID-19 supports including $31.5 million for the Small Business Impact Grant, $15.5 million for the Tourism Restart package, $7.3 million in Tourism Accommodations Real Property Tax Rebate Program and $2.4 million for stimulus capital projects through Develop NS carried over from 2020-21.

The Department of Justice is forecast to be $4.8 million or 1.2 per cent higher than Budget Estimates due to establishing and operating the African Nova Scotian Justice Institute for a three-year period.

The Department of Labour and Advanced Education is forecast to be $18.4 million or 4.5 per cent higher than Budget Estimates primarily due to $9.5 million in COVID-19 related costs. This is mainly comprised of $8.5 million recoverable expenses related to the Federal Workforce Development Agreement, other operational costs of $4.3 million for the Nova Scotia Community College Marconi relocation project, $2.5 million for the Medical Laboratory Technologist program, and $2.2 million in incremental Labour Market Development Agreement funding.

The Department of Municipal Affairs is forecast to be $82.0 million or 38.5 per cent higher than Budget Estimates primarily due to $55.8 million in one-time funding for the Canada Community Building Fund (formerly named Federal Gas Tax Fund) transfer to municipalities which is fully recoverable from the Federal government, $32.0 million for the doubling of the Municipal Financial Capacity Grants to municipalities, and $3.2 million in additional funding for the New Building Canada Fund due to changing cash flow requirements on infrastructure projects. These increases are partially offset by a $9.1 million decrease in spending on Investing in Canada Infrastructure Projects (ICIP) due to changing cash flow requirements.

Public Service is forecast to be $18.5 million or 13.0 per cent higher than Budget Estimates primarily due to $13.0 million for the 41st Provincial General Election, $3.3 million related to severance pay of Deputy Ministers, Associate Deputy Ministers and Premier's Office staff, and $1.7 million in additional staffing for the Office of Equity and Anti-Racism.

The Department of Service Nova Scotia and Internal Services is forecast to be $2.6 million or 0.8 per cent higher than Budget Estimates due to $2.1 million in COVID-19 expenses. This is primarily driven by additional staffing and other costs of $0.5 million for a technology software solution.

The Department of Transportation and Active Transit is forecast to be $9.0 million or 1.6 per cent higher than Budget Estimate due to increased spending on the Rural Impact Mitigation Program.

Restructuring is forecast to be $23.8 million or 7.4 per cent below Budget Estimates primarily due to lower than anticipated budget requirements for corporate initiatives.

Refundable Tax Credits

Refundable Tax Credits are forecast to be $2.0 million or 1.4 per cent higher than Budget Estimates primarily due to an increase in the projection for the Scientific Research and Experimental Development tax credit.

Pension Valuation Adjustment

The Pension Valuation Adjustment is forecast to be down $22.0 million or 20.4 per cent from Budget Estimates. The decrease is primarily attributed to favorable claims experience and updated actuarial assumptions for the Public Service Superannuation Plan and Teachers' Pension Plan, and changes in the market value of plan assets.

Debt Servicing Costs

Total Debt Servicing Costs are forecast to be down $22.2 million or 3.1 per cent from Budget Estimates due to lower than anticipated interest rates.

Consolidation and Accounting Adjustments

Consolidation and Accounting Adjustments for government units are forecast to be $88.5 million or 83.5 per cent higher than Budget Estimates primarily due to a $101.0 million one-time gain on the sale of shares in an early-stage technology company by Innovacorp. The one-time net gain is partially offset by $6.7 million in higher than budgeted amortization on healthcare assets, a decrease of $4.4 million due to changing cash flow requirements on healthcare and other capital projects, and a decrease of $1.4 million in various special purpose funds and other organizations.

Capital

Total Capital Spending is forecast to be $1.2 billion, which is $4.8 million or 0.4 per cent lower than Budget.

Tangible Capital Assets

The province is forecasting Capital Purchase Requirements to be $0.4 million or 0.1 per cent lower than Budget Estimates. This is primarily due to an increase in the gravel road program and land purchases, which are offset by changes in building construction cash flows and a reduction in contingency.

Capital Grants

The province is forecasting Capital Grant Requirements to be $4.4 million or 2.7 per cent lower than Budget primarily due to changes in building construction on cash flows for the Department of Health and Wellness.

Capital Spending 2021–22

($ thousands)

	Budget	**Forecast**	*Increase (Decrease)* **from Budget**
Highways & Structures	481,833	503,683	21,850
Buildings	450,090	441,494	(8,596)
Information Technology	13,565	16,472	2,907
Land Purchases	3,486	13,271	9,785
Vehicles and Equipment	16,820	16,982	162
Contingency	50,000	23,500	(26,500)
Total - Capital Purchase Requirements	**1,015,794**	**1,015,402**	**(392)**
Capital Grants	160,176	155,784	(4,392)
Total - Capital Spending	**1,175,970**	**1,171,186**	**(4,784)**

Key Risks

Economic

The epidemiology of the COVID-19 pandemic remains the key risk to economic projections. The resurgence of new cases and variants both domestically and abroad remains a substantial risk to the economic recovery in Nova Scotia and around the world. Increases in case numbers and the reintroduction of public health measures would slow recovery. Positive developments around containment, treatment, and vaccinations would support faster growth. Although this outlook makes assumptions about the potential progress of COVID-19 in 2021 and 2022, these are highly uncertain.

The outlook for Nova Scotia's trade is sensitive to the pace of economic decline and recovery in the province's major trading partners. Most major trade partners have yet to see activity return to pre-pandemic levels. Beyond COVID-19, trade protectionism and restrictions targeted at Canadian trade have the potential to impact Nova Scotian exports.

In the near term, 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 COVID-19 situation may persist, altering demand for some products and even changing how they are produced or delivered.

The recovery may be slower than anticipated with permanent business closures, frictions with employer-employee matching as labour markets normalize, debt defaults and financial institution impairments in an uncertain economic environment.

Sustaining the economic recovery may require continuing fiscal measures but repairing government balance sheets will eventually require these measures to be withdrawn. Monetary policy in Canada and around the world has been eased with the global recession and accommodative conditions are expected throughout the near-term. The timing and extent of fiscal and monetary tightening are notable risks to the economic outlook, particularly if inflation pressures do not turn out to be transitory and are sustained over a longer period.

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 are highly susceptible to the epidemiology of COVID-19.

The forecast of PIT tax revenue is dependent on performance of the labour market, direct federal program benefits provided to help offset negative shocks associated with the COVID-19 pandemic as well as any restrictions or lockdowns required by emergency health orders.

The forecast of CIT revenues is highly dependent upon national corporate taxable income and the province's share. Any downward adjustment to national corporate taxable income estimates, including those associated with realized losses, or a decline in the province's share presents a substantial risk to CIT revenues. Any additional lockdowns or restrictions on business activity 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

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

The pandemic has caused considerable variance and uncertainty in government expenditures when benchmarked against the Budget Estimates presented earlier this year. While this forecast update has outlined several known variances in department expenditures, there are substantive remaining uncertainties that are early in development or have not yet come to fruition.

The Department of Health and Wellness continues to work with the Nova Scotia Health Authority, the IWK, and various other health sector partners to respond to the ongoing pandemic. Uncertainty remains in health care expenditures due to additional system-wide responses to the continual evolution of COVID-19's epidemiology.

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