LAURENTIAN BANK

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Nova Scotia Budget 2024 – Continuous efforts on healthcare, new targeted tax relief and larger deficits ahead

Excluding the pandemic, investors have been accustomed to seeing a mix of surpluses and balanced budgets from the Nova Scotia government over the last decade. This period most likely ended in FY 2023-24 with a better-than-expected financial performance. The PC government expects a tiny $40M surplus, contrasting with the $279M deficit projected in last December's fiscal update. Personal income tax and sales tax revenues meaningfully surpassed expectations and outpaced the upward revision in healthcare spending.

The path of public finances will shift according to Budget 2024. The 4-year fiscal plan reveals relatively large deficits, including a $467M shortfall in FY 2024-25 starting in one month. The net debt-to-GDP ratio will remain in manageable territory over the medium-term. However, the proposed increase is the steepest since the 1990s: from 33.6% in FY 2023-24, to 34.6% in FY 2024-25, and 38% in FY 2027-28. A 38% figure was last seen in the mid-2000s decade when most provinces and Ottawa rapidly improved their balance sheets. In comparison, BC's budget released last week proposed a higher 10pp jump in the net debt-to-GDP figure over three years, from 17% to 27%.

Details show additional funding for education and more resources for healthcare. Seeing things through a different lens, the average annual growth in total expenses of 4.4% – versus revenues at 4.7% – is not excessively elevated, considering the fast-growing population requiring public services (+31K, or 3% year-over-year as of 2023Q4). Also, Budget 2024 proposes targeted affordability-type measures. Personal income tax brackets and the basic personal amount will be adjusted to inflation starting in 2025, shaving more than $100M per year in annual taxation revenues. Furthermore, more households renting will receive the rent supplement. Halifax notably registered the largest average rent increase in its history last year, according to CMHC's latest rental survey. Recent government efforts to improve housing affordability include the launch of a 3-year pilot project, namely a financial incentive for existing homeowners to create an affordable secondary or backyard suite in their home or on their property. The government also removed last fall the portion of HST on rental construction, estimated to cost $80M-$100M per year.

Large annual deficits ranging from a minimum of $360M in FY 2027-28 to a maximum of $609M in FY 2025-26 will require additional activity in terms of bond issuance. Borrowing requirements are projected to be higher going forward compared to the $2B figure of FY 2023-24 and the small $1.4B figure of FY 2022-23. Indeed, NS plans to tap markets for a total of $2.6B in FY 2024-25 and $3.4B in FY 2025-26. Large borrowing requirements result from the large operating deficits, not changes to the capital spending program. Indeed, the capital spending plan released earlier this month stands at virtually the same amount ($1.6B) as last year, with the lion's share going to healthcare facilities in response to elevated population growth. NS has close to $1B in discretionary liquidity funds, compared to a net debt level of $18.7B today.

Time will tell if the Province will be able to record better fiscal figures than expected going forward. This has often occurred in recent years, including in FY 2022-23 and FY 2023-24, when deficits originally projected turned out to be surpluses. However, this time, the chances of registering a better-than-expected economic performance appear low since Budget 2024 assumes NS real GDP annual growth at 1.7% in 2024 and 1.9% in 2025.

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