

A Balanced Budget

Bill Black
New Start Nova Scotia

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The Premier has announced that we are going to have a balanced budget. Good.

The outcome is determined in part by factors outside of the province's control, so both luck and management play a part. No doubt the numbers he has seen are nearly final, so we should assume he is right. Here are some of the big ticket items to watch for when we get to see the end product.

Pensions: The regular payments into pension funds (chiefly for civil servants and teachers) are covered in employment costs. But because those payments have been chronically inadequate for the benefit promises made, there have been frequent "pension adjustments" amounting to perhaps \$1 billion over the years. The current year budget is for \$71 million more.

The past calendar year was a good one for pension investments, so the upcoming year should have a much more favourable pension adjustment. Best of all, the province is about to complete the transition of the civil servant plan (PSSP) to a basis where benefits are made to align with what the current assets and future

contributions will buy. When this happens, there should be no future pension adjustments, either positive or negative.

Of course the same arrangements need to be put in place for teachers and other public sector plans.

Federal Transfers: Ongoing programs for equalization, health, and social services are relatively predictable. The expiry of a number of temporary stimulus programs (e.g. the Knowledge Infrastructure program) means that the overall total from federal sources has been decreasing.

Petroleum Royalties: Decreases in prices, decreasing production from Sable, and delayed commencement of production from Deep Panuke mean that royalties have decreased from a high of \$452 million in 2009-2010 to a relatively tiny \$28 million in the 2012-2013 budget. The commencement of Deep Panuke in 2013 and a small recovery in prices for natural gas may help in the coming year.

Interest On Debt: The government has written some big cheques, including \$536 million to bail out the PSSP and hundreds of millions more to corporate beneficiaries such as DSME Trenton, Newpage, and Bowater. These have contributed to the rapid increase in borrowing (Unmatured Debt plus Bank Advances and Short-Term Borrowings) from \$10.8 billion in 2009 to \$13.1 billion in 2012.

Nevertheless, borrowing costs have gone down slightly from \$866 million to \$840 million as more and more of our historic borrowing is renewed at lower interest rates.

The benefit of low rates should continue next year, but when rates eventually rise, the cost of so much recent borrowing will become severe.

Health and Education: Although government lost its will to control payroll costs, it has continued the meagre growth of spending on health and the severe restraint on post-secondary education. Will that persist in the next budget? Will government stop micro-managing the health system or let administrators deal with issues like money-losing coffee shops?

Civil Service: When the last budget was presented, the government had made no progress on its promise to eliminate 1,000 positions through attrition and retirement, which would save perhaps \$100 million per year. Will the next budget show any better result?

Unlike most other provinces, Nova Scotia does not present its budgets on the same basis as its public accounts, so it is very difficult to make valid comparisons of budgets to the preceding periods.

But it is still useful to look at some of the big items individually, and to focus particularly on controllable expenses. It is not the province's fault if the global economy deteriorates or if natural gas prices go down. Nor does it deserve credit for the persistently low level of interest

rates or the positive investment market conditions in 2012.

As Nova Scotians evaluate this government and the options provided by the other two parties, they should pay closest attention to the items that government can control.

Will they bring stability to the cost of all public sector pensions? Will the number of civil servants be reduced? Will the excessive borrowing come to an end? Will they stop squeezing post-secondary education? Will they enable more onshore revenue-producing resource industries?

These are the issues that government can manage. These are the issues by which they should be judged.



Atlantic Institute for Market Studies

Suite 204, Park West Centre
287 Lacewood Drive
Halifax NS B3M 3Y7
phone: (902) 429-1143 fax: (902) 425-1393
E-Mail: aims@aims.ca <http://www.aims.ca>