HANSARD

NOVA SCOTIA HOUSE OF ASSEMBLY

COMMITTEE

ON

PUBLIC ACCOUNTS

Wednesday, December 19, 2018

Legislative Chamber

Nova Scotia's Finances from 2018 Public Accounts:
October 2018 Report of the Auditor General - Financial, Chapter 2

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Public Accounts Committee

Mr. Eddie Orrell (Chairman)
Mr. Gordon Wilson (Vice-Chairman)
Mr. Ben Jessome
Ms. Suzanne Lohnes-Croft
Mr. Brendan Maguire
Mr. Hugh MacKay
Mr. Tim Halman
Ms. Lisa Roberts
Ms. Susan Leblanc

In Attendance:

Ms. Kim Langille
Legislative Committee Clerk

Mr. Gordon Hebb
Chief Legislative Counsel

WITNESSES

Department of Finance and Treasury Board

Mr. Byron Rafuse,
Deputy Minister

Ms. Lilani Kumaranayake,
Executive Director - Fiscal Policy, Economics and Budgetary Planning

Mr. Rob Bourgeois,
Director - Financial Accounting

Office of the Auditor General

Mr. Michael Pickup,
Auditor General

Mr. Mike MacPhee,
Assistant Auditor General

Mr. Morgan McWade,
Audit Principal

HALIFAX, WEDNESDAY, DECEMBER 19, 2018

STANDING COMMITTEE ON PUBLIC ACCOUNTS

9:00 A.M.

CHAIRMAN
Mr. Eddie Orrell

VICE-CHAIRMAN
Mr. Gordon Wilson

MR. CHAIRMAN: Good morning everybody. I'd like to call the meeting of the Public Accounts Committee to order. Today we have the Office of the Auditor General and the Department of Finance and Treasury Board. Before we start, I'll ask everybody in attendance to place their phones on vibrate or silent.

We'll start with introductions to the committee, starting with Mr. MacKay.

[The committee members introduced themselves.]

MR. CHAIRMAN: As we just mentioned, on today's agenda we have officials from the Department of Finance and Treasury Board and the Office of the Auditor General with us to discuss Chapter 2 of the October 2018 Report of the Auditor General regarding Nova Scotia's finances from the 2018 Public Accounts.

If I could now I'll ask the witnesses to introduce themselves, please.

[The witnesses introduced themselves.]

MR. CHAIRMAN: We'll now have the witnesses make their opening remarks, please. Mr. Rafuse.

MR. BYRON RAFUSE: Thank you Mr. Chairman and committee members, and good morning to staff in the Auditor General's Office. I'd like to make some brief opening remarks regarding Nova Scotia's finances in the Public Accounts for 2018 and the subsequent chapter of the Auditor General's Report of October of this year.

The Department of Finance and Treasury Board works to preserve the financial capacity of government to provide public programs and services to Nova Scotia by achieving fiscal sustainability for the province. Our core responsibilities as a department are establishing a sound fiscal framework and control over our public finances, and providing meaningful, transparent financial reporting. We do this by preparing the government's fiscal plan and presenting it annually in the provincial budget documents and forecast updates throughout the year. In fact, our December forecast for this year will happen later on today.

The actual year-end results are provided annually through the province's Public Accounts, which reports results compared to the original budget. These Public Accounts are intended to provide information about the government's finances in a transparent and objective manner for Nova Scotians. We recognize, though, that for the most part they are accounting documents and they are not simple for everybody to understand.

On that point, I would like to mention that my department in the past has provided sessions to members of the Public Accounts Committee to better understand how to read and use these documents; I think the last time we did this was in October 2017. I think there are new committee members and if you would like to have that session again, we'd be more than welcome to do that for you. It will not be me - it will be somebody more knowledgeable than I am on the details of it all - but we do have the ability to walk you through that. We have done it for the media in the past as well and both groups have found it helpful. As I say, they are meaty documents to get your head around.

Over the last 10 years, the province's cumulative annual surpluses and deficits have resulted in a net deficit of $663 million. Through tough decisions and sound fiscal management, Nova Scotia has returned to balanced budgets and is trending in the right direction to return to fiscal health. We closed 2017-18 with a surplus of $230 million and a net position of $120 million. This was in part due to positive prior year adjustments which were unknown when we built our budget.

The department works hard to ensure that the fiscal plan is flexible enough so that we can respond to the volatility in public finances even when they are not in our favour, although last year they were.

We have seen the results of these efforts over the last five years. Public Accounts 2017-18 has also shown consolidated revenues were up $445 million from budget, to $11.98 billion. This is mostly due to increased revenue from income taxes, petroleum royalty awards and equalization. Consolidated expenses were up $356 million, to $11.75 billion - primarily due to increases and estimated costs for the remediation of Boat Harbour and funding for the Nova Scotia Internet Funding Trust and the Nova Scotia Research Trust. It resulted in a net debt of $14.96 billion at year end.

Net debt to GDP was 34.6 per cent - down 1.2 percentage points from 2016-17. I would like to note that net debt to GDP is an important performance measure and is a key indicator used by all provinces in the federal government as an indication of their financial health. This measure has been reduced by 3.6 percentage points over the last five years and is trending in the right direction to meet the One Nova Scotia goal of 30 per cent by the year 2024.

Our fiscal health is improving, as was noted in the most recent Standard and Poor's credit report. Nova Scotia has actually received its highest-ever credit rating from that agency. Our sound fiscal management will be needed in future years to continue on this path towards sustainability.

We do appreciate the work that the Auditor General and his staff - as well as this committee - has done to focus on the fiscal health of this province and to highlight it for Nova Scotians. I thank you and look forward to your questions.

MR. CHAIRMAN: Are there any other opening remarks? Mr. Pickup.

MR. MICHAEL PICKUP: Thank you for the opportunity to be here today. In Chapter 2 - when we do Chapter 2 - unlike most work that we do, this is not an audit answering an audit question. So there are no conclusions here, like somebody is doing something well or somebody is not doing something well. It really is a chapter meant to encourage public discussion. There are a lot of numbers and analyses in there. There are only selected numbers in an analysis.

I indicate in that chapter that these numbers are only one set of numbers and actually we have commended the Department of Finance and Treasury Board who provide very detailed analysis - a lot more information, a lot more numbers in the Public Accounts. They have enhanced that over the years and I think that is commendable.

We have an excellent relationship with the department and all we're trying to achieve here through this chapter is generate the type of discussion that you're having today and to encourage and foster that public discussion around the numbers. It really is very much about that, so I'm more than pleased to answer any questions you may have in relation.

MR. CHAIRMAN: We will now open the floor to questions, beginning with the PC caucus for about 20 minutes. Mr. Halman.

MR. TIM HALMAN: Thank you, Mr. Rafuse and Mr. Pickup for your opening comments. Mr. Pickup, I am certainly happy to hear that you want to encourage a discussion on the financial health of our province.

Last night in my community of Dartmouth East, I visited a local church and between 12:00 p.m. and 7:00 p.m., they handed out 450 bags of toys to people in need in Dartmouth-Cole Harbour. The experience kind of rocked me because it really speaks to the need that exists out there and also, in many regards, I think a lot of Nova Scotians feel that our economy is not better off than it was 10 years ago. I think for my colleagues who are MLAs, they see that quite frequently - the need that's out there.

So I'm really glad, Mr. Pickup, that you've encouraged a discussion on our financial health because this is a conversation we really need to have. Let's not forget, as we delve into this conversation over the next two hours, when we speak of deficits and debt, this has a huge impact on the future of this province, along with just day to day living for Nova Scotians.

In Chapter 2, Mr. Pickup and the Auditor General's team characterized the province's finances as increasingly unsustainable - "worsening sustainability" is the direct quote. As you're probably aware, the Parliamentary Budget Office has indicated a few days before the chapter that our finances are not sustainable.

Am I correct in saying that there is a surplus for this year and am I correct in saying that there will be a surplus for next year?

MR. RAFUSE: Thank you for the question. I beg to differ on some of the conclusions you made there. I do believe that - well, first of all, I'll answer the question. The province tabled a balanced budget for this year and a four-year fiscal plan, each showing a surplus. There's nothing to indicate to me that that will not change. Later on this afternoon, you'll see how the province is doing towards the forecasted position it has in the current year. Government has stated that surpluses are an important public policy objective of theirs, and I believe they will be maintaining that policy objective.

On the other notion about whether or not it's sustainable, the Auditor General's comments or even the Parliamentary Budget Officer, as indicated in the Auditor General's Report - you have to get some context about looking at some indicators over others.

I always point back to the net debt to GDP ratio. It is not only an indicator of the level of the debt but whether or not the economy can afford that debt. That's really what that indicator is trying to get at. One Nova Scotia put a benchmark down as to what they thought that should be in achieving it. If you look at other provinces, they all report on that and various degrees are on the continuum of that ratio. The important thing is to look at how that ratio is trending. In Nova Scotia that ratio is trending down. It has trended down for the last number of years, our projections in the budget and our four-year fiscal plan - in fact, beyond that.

It shouldn't be a surprise to you that as any prudent organization, we do look beyond our four-year fiscal plan to see where we're going as a province. That indicates to us that the ratio continues to go down, given our understanding and assumptions around surpluses and even our understanding about the level of capital investments that the province is committed to make. Those are very important capital investments that have been announced, like the QEII or the redevelopment of the Cape Breton hospital, both of which have impact on net debt. Those investments and capital assets increase as the size in a debt. That's the way the math works.

That indictor, that ratio indicates that we can afford that as an economy. Likewise, I would say that Standard & Poor's rating of the province being the highest rating ever - what that's really saying is that they believe that the province can afford, from a debt servicing perspective, the size of its net debt, its borrowing program. It's indicating that it doesn't believe from what it knows now into businesses, that governments have to increase taxes to do that. To me, that says that we're on a sustainable path or getting towards sustainability. We can all pick certain indices and make an argument, but to me that one there is the most important one.

[9:15 a.m.]

That's not an index that we came up with ourselves as a province. It's actually a recommended index as indicated by the Auditor General's Report, and it came out of the Public Sector Accounting Board in their indices. They have a list of number indices that they want all provinces to report but I think they indicated that the leading one would be that net debt to GDP - I happened to be on PSAP when that recommended practice came out. And you see all provinces - including the federal government - using that as an indicator as to the ability to afford the level of debt. I would say that would tell me that our sustainability is improving.

MR. HALMAN: Mr. Rafuse, is it fair for me to conclude then that you dispute the Parliamentary Budget Office, in terms of what they're stating?

MR. RAFUSE: I wouldn't say dispute. I just believe as with any organization, we have better insight into our public finances and to the projection of the future than the Parliamentary Budget Office. All they would have are historical records and a look at our fiscal plan. So I don't dispute that, but I just believe that we have a better insight. Our indices as we report them indicate that since that ratio is going down, our ability to afford the level of services is improving.

MR. HALMAN: At the last fiscal update, $34.5 million was indicated to be the surplus. From the perspective of the department, what are the threats to that surplus? Is that surplus in any jeopardy?

MR. RAFUSE: I know when we say a surplus of $30 million or $50 million - that's a lot of money, especially if you look at it from an individual perspective or even from a departmental perspective. But $30 million on an $11 billion organization, to me you're on the head of a needle there. It's not a lot of wiggle room, to be honest with you. So yes, there are always risks associated with that.

We could have a revision in GDP numbers. We could have a revision in prior year income taxes because, as you may know, most of our revenues are driven from models of which we don't have certainty about what they are until five to seven years after that year actually occurs. So we're driven by models, and if input needs to be adjusted, that can change our revenues quite significantly. A small change in an input on a large base can change your revenues quite substantially. You may see some of that over the next little while. So those are the types of risks

What is needed when you have that level of risk is the ability to be flexible, the ability to adjust, to maintain not only your program objectives - either social or economic, but also your fiscal policy objectives to the remaining balance. That requires, as I indicated, diligence and keeping your eye on the direction, but the ability to be flexible and to adjust when those things occur.

MR. HALMAN: What types of indications should Nova Scotians look to when we're looking at the possibility that sustainability is worsening? What are the indications for that? Conversely, what are the indications that sustainability is improving?

MR. RAFUSE: The net debt to GDP ratio is a good indicator. Also, you can look at every one of the indices in isolation and it does give you some insight. I always caution you to use context even when you're using the net debt to GDP ratio, which happens to be my favorite - is to put it in context.

Certainly if you look at some things that the Auditor General reported on, the cost per citizen has gone up over the last little while, and certainly services cost more. Actually, more services are being provided, so that in itself would cost more. You also have to balance it off with the needs that have been addressed through public policy decisions.

I would say that if you were looking at things, the biggest thing would be whether or not the province as an entity hasn't planned for changes that would impact sustainability. If we had not anticipated a plan - changes in interest rates or if we hadn't changed or anticipated change in demography - if we haven't built that into our fiscal outlooks and provided some flexibility or a contingency to deal with those things, then that would be an indicator of things you should be looking at.

MR. HALMAN: How sensitive is the province to an increase with interest rates? Certainly to my colleague's point, I think most Nova Scotians when they listen to this discussion, they often relate it to, "This is how much I owe on my credit card", and certainly a slight change in interest rate can really impact the bottom line of any budget. How sensitive is the province to an increase in interest rates?

MR. RAFUSE: The province has, as you can well imagine, a very complex and very mature borrowing program. It has a lot of policies and guidelines around our borrowing, both short- and long-term. In one of those indices, we actually monitor - as an entity - how a change in interest rate would impact us. We have a policy that says that an unanticipated interest rate of less than a percentage point has to be under $20 million as one of the things which we manage our debt.

As you know, our debt has a mix of fixed and variable, so when there is a change in interest rate, it doesn't necessarily have an immediate impact to our debt servicing cost or to the province because we have fixed in some of our debt. A lot of our debt is fixed in. We actually have maturity dates out 40 years, as we took advantage of a low-interest environment or worked to diversify our debt portfolio. We do manage to be able to withstand that level of volatility.

Also, as you would know, we would actually anticipate rate increases. Our staff are well-attuned to what's going on in the market. They're constantly talking to the banks and other lenders about what we see and trying to anticipate where the Bank of Canada goes with our benchmark interest rates. When we see interest rates rising, we actually build that into our models. We build that into our debt-servicing cost both from a budget perspective and a fiscal plan perspective. We are pretty prudent on that.

But as I say, we do manage the debt portfolio to be able to withstand an unplanned change in interest rate to keep that interest charge under $20 million on an annual basis. That's really our benchmark.

MR. HALMAN: One of the things that the Auditor General's Report indicates is that our province has become slightly less reliant on federal transfers, but it cited that one out of every three dollars we receive is through transfer payments. I understand that the province is expecting a small bump in payments this year and possibly even more next year. With that being said, how does that change the analysis? Are we in Nova Scotia essentially becoming more reliant on federal transfer payments?

MR. RAFUSE: Certainly, as a province, we do have a reliance on federal transfers. It is a big part of our revenue base, equalization being a big part of that. I'm not going to try to explain the equalization formula, but it goes towards our capacity to generate our own revenue compared to other provinces. Yes, we do have a reliance on that. A lot of other government transfers, I would say, are more about their participation or their responsibilities in certain programs, which means all provinces are recipients of them.

I don't know if that's a reliance on it per se. It's just a recognition of the dual responsibilities either in health care, social programs, or even on cost-share infrastructure. I don't see that changing in the foreseeable future. Even as we run surpluses, we will still be an eligible recipient of equalization, and we will be including those in our fiscal forecast.

I don't think that trending is going to go up or down, unless Lilani tells me otherwise. Do you have any insight on this?

MS. LILANI KUMARANAYAKE: As the deputy has pointed out, equalization actually stems from the constitutional requirement that Canadians get the same level of basic services. Based on that, the formula looks at what the fiscal capacity of each province is, and then compares that to the average.

For the foreseeable future, we would anticipate Nova Scotia remaining with equalization payments. But the Canada Health Transfer and the Canada Social Transfer - which are also substantial transfers from the federal government - are provided to all governments, and that really recognizes the partnership that the federal and provincial governments have in terms of delivering core services.

MR. HALMAN: How much do we receive through the Canada Health Transfer?

MS. KUMARANAYAKE: I'm just going to look it up - it's about $1 billion. Sorry, I'm just going to correct. It was $965 million.

MR. HALMAN: Am I correct in saying that an increase in federal transfer payments could be interpreted as an indication that our economy is lagging behind other provinces? Is that a fair statement?

MR. RAFUSE: Not necessarily so. If you look at the Canada Health Transfer, it's actually a by-product of our percentage of population. So as those transfers go up, it's because our population as a percentage of Canada's population has gone up, so that's actually an indicator of population growth and nothing else.

MR. HALMAN: The Conference Board of Canada has indicated that they expect Nova Scotia's economy to grow at 1 per cent next year. Essentially my understanding is that places us last in the country for economic growth. Would the department's forecasting for the coming year concur with the Conference Board - that we're in a precarious situation in terms of economic growth in this province?

MR. RAFUSE: Certainly the province's economic growth historically is on the lower end of the spectrum for Canada. That has always been a challenge for Nova Scotia. Recently, as part of our budget development process for the upcoming year, we have a process where we have external economists, bankers in the Conference Board of Canada look at our indicators to see if there was an agreement with our outlook. All of those bodies indicated that they thought they were a reasonable basis for fiscal planning purposes, and therefore obviously, if they're indicating that, then they're agreeing with our projections and we would be in line with them on that.

MR. CHAIRMAN: That ends the time for the PC caucus. We'll now move on to the NDP caucus with Ms. Leblanc.

MS. SUSAN LEBLANC: Thank you all for being here today. I'm feeling like I now have questions from all over the place following what I've heard so far, but I'll just begin with what I have prepared and then we'll go there. I just wanted to start by putting my questions into some context for you.

I understand that the purpose of the Auditor General's Report and of the committee meeting is not to assess the value of government policy, and I will do my best to keep to that rule as a new person on this committee, but I feel like it's very difficult to separate them in many ways because it's hard to ask questions about the effectiveness of spending and not spending and surpluses and all of those things - and I'll echo Mr. Halman's comments here - when on the ground I see a very different viewpoint, in my constituency at least, and in my role as critic for Community Services actually.

I understand that we all look at budgets as a way of looking at financial health, but also as a way of establishing priorities. Believe it or not, I actually have a little bit of experience - although the budgets I used to manage were about $300,000 compared to this province's, but it's all about priorities still, even at $300,000. I'll get to that later.

In my opinion - and I think in the opinion of our caucus - we want to see spending that supports the development of inclusive and prosperous communities, and a province where we have an environment that will actually be sustainable, speaking of sustainability. We need to address the inequality and insecurity that many people in the province are feeling right now.

[9:30 a.m.]

When we're talking about sustainability, we also looking at a province where we see 40,000 people going to the food banks right now and people who are holding unprecedented levels of personal debt. I need to question the excitement around this great assessment we've got from Standard and Poor's. If we are talking about seniors who are in hospital beds because they are waiting for long-term care beds and we're talking about child poverty rates over 30 per cent, then I need to question what you mean by sustainable. That's where I'm going to start my questioning.

As I mentioned, I used to run a small, not-for-profit theatre company, and we were really proud of the fact that we were often able to pull off a little surplus at the end of the year when we would do our financial statements. We'd get a surplus year of $1,800 or $2,000 - again, remember the budget was $300,000. That surplus began to accumulate over years and years and I started saying well what are we doing with that, what does it mean? We didn't ever have an accumulated debt so I know that the conversation is a little bit different.

I realized - or we realized because we were in it and we were paying ourselves with this money - that we were not paying ourselves a sustainable rate. So we were making $550 a week and we had this big, giant, accumulated surplus. We finally made the hard decision of spending some of that surplus on salaries for the people who worked for us. Then we were able to work more full time with this company. We were then able to reinvest our personal hours into making the company grow. I think right now, although I haven't been there in two years, it's in an excellent financial position.

I want to bring that small, microcosmic example to the province and ask you, number one, about the surplus that the government is posting now in the last year and is anticipating these four years of surpluses, what is going on with that surplus? Is it being slapped onto the debt? Is it being reinvested? Or is it sitting in a pot doing nothing?

MR. RAFUSE: I'll try to peel that back. It's certainly not sitting in a pot anywhere. When we run surpluses, what the math actually does - we have a huge accumulated deficit from the beginning of the province's time and that is in a deficit position on an accumulated basis. So it does bring that down. It doesn't go and pay off a bond or anything like that, if that's where you're going, but it does reduce the growth of our net debt. Therefore, if our net debt is going down, by default, indicators are improving but it also means that we're less likely to have to borrow for operating capacity which occurs when you're running deficit.

If you are running deficits, what it means is that you are spending more than the revenue you are taking in that year. To put it in a household perspective - or into a small organization which you are used to - when you are running a deficit, you are borrowing money to buy your groceries. It's kind of different than when you're borrowing money to buy a building or buy your home, so we get into these concepts of good debt/bad debt kind of concept.

What the province runs surpluses, what they do is try to grind down their accumulated deficits in the past results. At the same time, as I indicated in my opening remarks, you would have seen in the budget last year a net position. Really what government was saying is that we're trying to create some capacity for future projects because on the horizon the province knows there's a large need for some large capital projects and that's what they're trying to get at - to increase their capacity to finance those projects with a minimal amount of impact on the future operating budgets.

That's where Standard and Poor's comes in. When they increased our rating, what they're saying is that from their analysis, the province has a really good ability to pay off its outstanding debts. That's what they're looking at. They're looking at it from a market perspective, and they're also looking at it from our ability to go to the markets to borrow.

Even when you're running surpluses, you do need to go to the market for large capital programs. They had insight into that. What they're saying is that Nova Scotia is a good place for bond buyers to go and buy bonds, compared relatively to other provinces or - in their world, they actually have corporate and other sovereign debt points of view. They're saying that Nova Scotia is a good place for people to invest their bonds. There's great certainty that those bonds will be repaid is what they're saying. That's what we mean by sustainability.

You do need to run surpluses for two reasons. You need to run surpluses to get rid of your accumulated deficits which are on there - at some point you need to deal with those. As well, running surpluses will have a positive impact on your ability to go to market and has a positive impact on the amount of money you need to set aside on an annual basis for debt servicing costs.

As is indicated in the Auditor General's Report, and as we had said in the past - when you're paying on debt, that means it's not going into a program. It's not providing a service that's direct to an individual. That's a trade-off of our priorities that governments need to make. They need to deal with those things so that they can provide the capacity to address other service demands.

MS. LEBLANC: Thank you for that. I'm going to skip what I was just going to say and continue on here.

In the September 2018 forecast update, it was reported that the total value of the compensation for labour - so including wages and salaries and employers' social contributions - grew 2.7 per cent during the first half of 2018. Then the Consumer Price Index increased by 2.3 per cent. We saw that the wages are just keeping up with increased costs. We know that other jurisdictions across the country are making significant changes in wages so that they can deal with this and that Nova Scotia is still at the back of the pack in terms of minimum wages. I'm wondering if you can talk a little bit about how you think higher minimum wages in the rest of the country will impact our economic performance.

MR. RAFUSE: I'm not sure. I don't think I have a view about how minimum wage in another province would impact us. We would look at what wages are in Nova Scotia and how that impacts us. I'm sorry.

MS. LEBLANC: I guess what I'm getting at is, given that we are at the low end of minimum wages in Nova Scotia, do you think that there is a risk that we will lose workers to other jurisdictions and therefore have an economic impact because of that?

MR. RAFUSE: I now understand your question. Actually, when workers are making their decisions as to where they go for work, I believe they would look at the relative cost of living. Certainly there are jurisdictions that have a higher minimum wage where the cost of living is higher. It's hard to compare minimum wage from one province to another.

If you look at the cost of housing in Toronto versus the cost even in Halifax, there's quite a bit of difference there, so minimum wages have different impact and should be different from those different market perspectives. There are certain demands for certain skilled labour in Nova Scotia, but it's not at the minimum wage level.

MS. LEBLANC: Can you talk then about how a minimum wage increase here would affect our economic - or higher than what we've seen the increase. For instance, a $15 minimum wage or a leap to something higher like other jurisdictions. Can you talk about your impression on what that would do for economic development?

MR. RAFUSE: don't think I have an impact analysis about what raising the minimum wage would be. I'm sorry.

MS. LEBLANC: That's okay, thank you. In the September 2018 forecast, there were identified elevated levels of debt among Canadian households, lower personal income tax revenues and lower HST revenues. As a province, the median individual after tax income is about $28,000, so with low wages, increasing debt, and increasing costs of carrying that debt, it would be suspected or not surprising if consumer spending was to decline.

I'm wondering, how is the department working to address the risks posed by low wages and high private debt levels and the impact of those factors on the provincial budget?

MR. RAFUSE: Certainly from an individual perspective on the level of debt, that's really a concern that has been addressed nationally. As you may be aware, there have been changes in the banking requirements for what they refer to as a stress test on an individual basis, on an individual perspective of affordability of a mortgage.

I believe those tests were designed for markets other than the Nova Scotia markets, particularly in the housing markets that were designed for the Montreal, Toronto, and Vancouver markets where people were overextending themselves. You wouldn't see it to that extent in Nova Scotia. But high levels of debt are a concern and we do monitor that from a perspective of what that means from a spending perspective and then in turn on our revenues. I don't believe that national concern is actually the one that would be prevalent here in Nova Scotia.

MS. LEBLANC: More than 50 per cent of persons in Nova Scotia have an income of $30,000 per year or less, and 2.4 per cent have incomes of $100,000 or higher. The Gini coefficient - if I'm saying that correctly - measures the relative degree of inequality in the distribution of income.

In 2016, Nova Scotia's Gini coefficient was tied for third highest in Canada. What impact does this level of income inequality have on the financial sustainability on economic growth in the province?

MR. RAFUSE: Since I'm not an economist, I'm going to pass that off to Lilani.

MS. KUMARANAYAKE: The way that we deliver economic growth - you can have strategies, for example. We've seen in the U.S. where there are tax cuts, which typically favour the better off. We've seen in a number of economic strategies in southeast Asian countries which were much more inclusive. As economic growth progressed, the impacts of that growth came relatively quickly to those who were at the lower end.

As you can see, government's current policy is to focus on what they've called inclusive economic growth. Part of the work that some of the other departments are doing is really looking at saying, how do we promote growth and involvement of these kinds of communities - particularly the First Nations, et cetera - in terms of building economic strategies?

That's really the way that you can build in growth that doesn't rely on trickling down. It's actually saying that folks can prosper as we have economic growth, and the current government strategy of inclusive growth is aimed to do that.

MS. LEBLANC: Just to clarify, you're saying that our current government strategy is aimed to do that - not that it's a possibility, but that is what is happening currently.

MS. KUMARANAYAKE: There are four pillars that the government is focusing on, one of which is inclusive economic growth.

MS. LEBLANC: Keeping on that topic, tax revenues have increased by $1.8 million, so 46 per cent over the past 10 years. What proportion of tax revenues are coming from the 2.4 per cent of Nova Scotians with the $100,000 salaries or above, and what proportion of tax revenue is coming from the 50 per cent earning the $30,000 or less?

MS. KUMARANAYAKE: I can get you the exact figures with respect to each threshold. What I will say is in Chapter 2 of the Auditor General's Report, there were some numbers related to the growth of taxes paid, 45 per cent. Again, context is important.

The background to that is that we actually have taxable income growing around 35 per cent and we have, as many other jurisdictions do, a progressive tax system, so that really, as you earn more you have a higher proportion of the tax you pay.

A large reason why we saw that increase in terms of the 45 per cent was really because taxable incomes were going up as well.

[9:45 a.m.]

MS. LEBLANC: Thank you.

MR. CHAIRMAN: Ms. Roberts.

MS. ROBERTS: Just to follow up on that question, does the Department of Finance and Treasury Board have goals in terms of generating revenue? Or is the goal of inclusive development, like you were just discussing, exclusively the domain of the Department of Community Services, the Department of Economic Development? Or are there goals and policy instruments that are pursued by the Department of Finance?

MR. RAFUSE: When we look at our revenues, we look at first of all, I'm going to say - based on current tax policies and revenue policies, this is what we are, our projections of what our revenues would be.

Certainly when there are government priorities, all departments would be looking to find initiatives to support those policies and inclusive economic development is one of this government. We would be looking to find options to enhance that objective.

We also look at objectives actually to reach our fiscal policy, too, and that is where you know a balanced budget is a fiscal policy, so we would also find measures to help enhance and achieve that, so it's kind of a dual role from that perspective.

There are levers you can pull in the tax system. Ours would mostly be in the tax system. Other inclusive economic development activities could be on through other means, but ours would particularly be through the tax system which we would provide options for consideration.

MS. ROBERTS: Just to loop back to the minimum wage discussion on Page 29 of this chapter that we're examining of the Auditor General, we can see that our HST and other tax revenues are approaching the same amount as the amount that is collected through income tax. Clearly if there is more income available to spend, particularly amongst Nova Scotians who tend to spend most of any additional income on actual consumer goods, then that has the potential to create more revenue for the province and that also contributes to sort of the long-term sustainability of our finances, does it not?

MR. RAFUSE: It would be a trade-off, I think, if we're saying there is capacity to tax higher earners more. Is that what you're saying?

MS. ROBERTS: No, I'm saying that given that the HST and other taxes that are generated through consumer spending is a significant portion of the province's revenue, if we create conditions where . . .

MR. CHAIRMAN: Order, please. We'll continue that later. We ran out of time. We'll move to the Liberal caucus and Mr. Wilson.

MR. GORDON WILSON: Thank you, Mr. Chairman, and thank you, Mr. Rafuse and your team, Mr. Pickup and your team, for being here today. I understand we're going to be seeing more of you. We have to apologize upfront about that - it wasn't planned, it was more of the way things laid out.

In saying that, sometimes it's not easy when you get 40 minutes of questioning it gets to us for our 20 minutes - a lot of our questions have been taken up. Certainly I appreciate a lot of your comments around debt and the GDP. I think that is an extremely important thing for people to understand.

I do want to reflect on what I hear. Everybody gets to talk about what they hear in their riding. In rural Nova Scotia, our riding is concerned about how we act as a province is the same way as how we act as a family - we don't spend more money than we make. I hear that everywhere. Everywhere I go, that is one of the primary comments that they say - spend what you earn, don't go in debt more. We are all concerned about the size of our debt.

I would assume by the numbers that a 44 per cent increase over 10 years, when 4 per cent of that was in the last five years - that would mean that 40 per cent of that was 10 years ago to five years ago, which concerns me. That would certainly question sustainability, I think.

In saying sustainability, I would like to get back to the original question that was asked by my colleague. I would like to ask the Auditor General, what is sustainability? What is your definition of sustainability?

MR. PICKUP: The concept of sustainability that we're using here and the indicators that we're looking at are meant to show the ability to maintain existing services by the level of debt you have, any interest that is being paid on that, for example.

We indicate in here that - as the numbers show - the interest on the long-term debt over the 10-year period is $7.4 billion. That would generate the starting point for a discussion for what has happened over that 10 years and, as you indicated at the beginning of that, there is a significant difference between the last five years and the five years before that. I think that is why we split the 10 years down.

I think as the deputy minister explained, that leads to the question in terms of what that means for the future, in terms of what are the plans for the net debt going forward. We see the trend over 10 years, we see the trend in the last five years. We see the amounts that have been paid in interest over that period. Then it gets into the question that you have raised and that the deputy minister has addressed in terms of the ability to pay that debt.

The reason why we look at sustainability here as one set of indicators to is inform that discussion. To say, in terms of the sustainability aspect, the numbers are what they are. We can't change the historical numbers that over a 10-year period there was $7 billion paid in interest, and we do indicate that if you sort of chunk the last five years and the five years before that and look at the averages of the interest on the long-term debt, we do show two sets of averages. On Page 26 of the report, in 2.19 and 2.20, we look at average interest on the debt over the period of the last five years and the five years before that.

They are only numbers, but they are numbers and we can't change the fact that that is the amount of debt that has been paid. I think the point of some of that, as the deputy minister indicated, with the $740 million in interest a year, that means that $740 million that you can't spend on other things - recognizing that that's an interest cost that bought you something. So then the question, as the deputy posed is, what did you get for that - similar to what you would do in a household to say, what did you get? It's a long answer. I can probably cut it off at that.

MR. WILSON: I think it's important for Nova Scotians - and I think that is important that the role that the Public Accounts Committee brings as an opportunity for clarity. Certainly, nobody disputes a witness when a witness speaks here. That's an interesting thing to always remember - when a deputy minister speaks or when an AG speaks, they're speaking to facts and we have to be cognizant of that.

I think it's important that the role that we play here at Public Accounts is a conduit for the general public to be able to get real information of what's really happening in Nova Scotia.

Again, I go back to my community. Sometimes it's funny enough - I gauge the health of the community by how many half ton trucks there are at the car dealership. I will tell you right now that the amount has grown exponentially in rural Nova Scotia. I always count the amount of cranes there are in Halifax that are up, that's another indicator. I do know that we are challenged also. I have those people who are marginalized who are in my office all the time, and I think it's important for us to always be cognizant of that.

I have an outside-of-the-box question. One thing we're discussing a lot in the news today and yesterday and down the road is oil prices. It concerns me how that can touch on the financial health of a country. What is being done in the Department of Finance and Treasury Board in regard to oil prices? I know that seems a little bit of a strange question to ask, but I'm concerned, and how are we protecting ourselves from that?

MR. RAFUSE: I think there's two ways in which we're looking at oil prices or commodity prices, or maybe three ways in which we kind of monitor that to make sure that we understand it and therefore we can accommodate or be flexible within the fiscal plan.

First of all, we look at it as a consumer of oil products and what it means to the programs and services in which we offer, from the buildings we heat, and we actually get an understanding about what is an appropriate allocation in those budgets that have - from schools to hospitals to whatever. That would be one aspect which we would look at.

We do look at it from what it means to the economy of Nova Scotia. We are a confederation, and whether we like it or not, what one does impacts the other. When a province such as Alberta, because of the struggles that they are struggling, that does impact us. It impacts us from the businesses that we have in Nova Scotia that have a business relationship with the oil industry and also, quite frankly, it makes our offshore more difficult because our offshore is a very high cost production and with oil prices supressed, it means that exploration or development there is quite problematic.

On a more immediate basis, we do participate in a national corporate tax sharing agreement on corporations and therefore, as the national pool goes down, that impacts our tax revenue. We do try to keep abreast of it. You'll see things, the first aspect we do try is ways to encourage exploration through other means other than our long-term means.

I say the final way we look at it is, commodity prices have an impact that flows in through the bond market actually, and as commodity prices fluctuate, it impacts not only our borrowing costs or our borrowing ability but also impacts our investment portfolio either from ourselves or from the pension plans in which we have obligations that may have investments in there. If they're supressed, that has an impact on us.

What we try to do is kind of keep an eye on all that. Then if there was a particular Nova Scotia sector industry, there would be discussions with them about what the province could do.

MR. WILSON: Mr. Pickup, if it's short.

MR. PICKUP: It's very short and only because I think it's relevant. It's a bit unusual. We give some audit assurance every year to the House on the revenue estimates that the Department of Finance and Treasury Board prepares. That doesn't happen in every jurisdiction. We have found that it's a reasonable process. Yes, they're going to vary but we will be doing that again as part of the budget.

The other thing I would point out is of course revenue is an estimate, but something that gives me some faith when we do that work is that if you look at the actual number for 2018 for example, $11.9 billion of revenue - the estimate was $11.5 billion. In my opinion that's not a huge swing and we do give an opinion. It's very quick, and thank you for that chance.

MR. WILSON: Seafood exports, for example, a huge generator for the province - do we track money from all the different sectors, that's new money that's coming into the province? Is that something that's watched? It's one thing to just keep spinning money around in an economy; it's another thing to have new money coming in.

[10:00 a.m.]

MR. RAFUSE: Certainly, we do track exports for all our sectors and see where the growth is, actually both international exports and also interprovincial exports. I'm going to ask Lilani if she has any information that she would like to share on that. But we definitely track all of that.

MS. KUMARANAYAKE: In fact, our economics division is what's known as a national statistical agency representative. We are the holders of all the very detailed Stats Canada data in the province. Part of that data would be things like what the value is of seafood exports by province. It goes down into very tiny detail in terms of sectoral definition. We maintain all that data, and we certainly do look at that quite systematically. It's part of the work that we do as we look at fiscal updates. In particular, departments will come to us and ask, can you give us a sector profile? Our economics division spends quite a bit of time doing these detailed sector profiles, which would include things like the value add from that.

MR. WILSON: Just one final question from me before I pass it on to my colleagues. You had mentioned earlier in a question, but you didn't elaborate on it - bad debt and good debt. In my house, it's all bad. I'm just curious about what that means, and is there a proportion of good debt and bad debt that we have as a province?

MR. RAFUSE: Not to overly simplify it - others get mad when I do that - but I will. To me good debt would be debt in which you are investing in an asset that has service potential into the future. If it were a business, it would be economic potential, but ours mostly is service potential. When you're investing in infrastructure - buildings, long-term assets - that's good debt. In your household, that would be your home. Bad debt would be where you're borrowing to pay your current needs, so when you're running operating deficits. In my world, we call that bad debt.

If you look at the net debt position of the province, since we are now running surpluses, the ratio of what I would call good debt to bad debt has changed. It used to be more than 50 per cent bad debt. It has gone down below that now - I forget my exact numbers on that - to good debt.

As we project into the future, based on the fiscal plan that has been given and the four-year projection as well as our internal projections into the future, we see that ratio actually improving even more as the province maintains surpluses and then makes substantial investments in projects like the QEII redevelopment, the Cape Breton health care complex, and a rather robust highway development program. Those are all long-term assets that have service potential to the citizens into the future, so therefore, good debt.

Future tax revenues for those who receive the benefit of those assets are the ones who will be paying for it, not just the current taxpayers.

MR. WILSON: Thank you.

MR. CHAIRMAN: Ms. Lohnes-Croft.

MS. SUZANNE LOHNES-CROFT: This is rather interesting. I want to talk about the aging population and its impact on health care. I represent two communities that have the largest number of seniors per capita in the province, Lunenburg and Mahone Bay. Some people would say that is a liability. We think it's an asset in Lunenburg County. Many good things come from having a large senior population.

When I look at some of the highlights on your sheet, 52 per cent of health care costs are for the 20 per cent of Nova Scotians age 65-plus. I also note on Page 49 the cost with the Department of Health and Wellness. It seems the increase in Seniors' Pharmacare is noted, ambulance increased, and also funding to long-term care seems to be some of the reasons for the higher expenses and increases in health care. I would just like to have some comments about - is there anything we're preparing for? This isn't just a trend - this is here to stay for a while. Is the department planning anything to offset some of this or how are they looking into the future with these increased costs?

MR. RAFUSE: The change in demography is one in which we and many line departments need to know and have a good understanding of as they're making their projections into the future. To change demography - I'm not sure how much I can do about that, but actually there are two ways to do that and one is an immigration strategy.

To increase the population of the province, that strategy actually for the most part is a younger cohort so it actually improves that balance, but equally important is that departments are planning - particularly Departments of Health and Wellness and Community Services - and they look at their client base getting older. That's not a phenomenon unique to Nova Scotia. That's one which many jurisdictions are dealing with. It does necessitate having the proper tools to be able to plan.

We actually help them on the projections as we look at that age cohort and how it moves through. We can see when the baby boomers are going to plateau and actually you can see a swing down in those numbers. Certainly what it means is taking different approaches at times, and certainly the investment in home care is one which was not only because of demography in the seniors, but actually it's a way which services can be provided - better provided in many instances - in an environment where the individual wants. So the idea of keeping seniors in their homes is one which has driven a lot of public policies around health care.

Seniors' Pharmacare - that is really just understanding the projectory on that. It's no great secret there are more seniors every year, there are more participants in that plan. There is a unique inflation factor around drugs that drives that cost more so than most. Really that gives us insight as to what those programs are going to look like, and then we, as the Department of Finance and Treasury Board, would find the path for the province to be able to afford those and to continue them as services and maintain other public policy and other fiscal policy objectives.

MS. LOHNES-CROFT: We know that their health care needs are more complex so just going to a doctor involves many more things to be checked and it's more complex - probably more regular visits to ongoing needs for patients. Is there any looking forward into more preventive medicine? Is that encouraged with the Department of Health and Wellness, or you don't get into those kinds of policies?

MR. RAFUSE: I have the luxury sometimes of pretending to be many things, but a health care expert is not one of them, so I'd be treading into dangerous territory, but that's actually a good question to ask my colleagues at the Department of Health and Wellness. I do believe they actually have some insight into that that would be helpful to the committee.

MR. CHAIRMAN: Order please. That concludes the 20-minute round for the Liberal caucus. We will now go to three 14-minute rounds beginning with the PC caucus - Mr. Halman.

MR. HALMAN: Let's talk a little bit about projections. When I was a classroom teacher, when I was supervising student teachers I'd always tell them to have a Plan B - project what could happen.

We know that there is a lot of global instability in terms of markets right now, specifically with our trading relationship with China. Due to that, there is talk of recession, which is something you never want to hear, but it is what it is. It's the talk that we're often hearing. That talk of recession could potentially even put the meagre projection of the Conference Board of Canada's growth rate of 1 per cent at risk.

Does the department have a position on the likelihood of a recession? What would be the plan to sort of weather that potential economic downturn?

MR. RAFUSE: I don't know if I have a perspective on whether it's going to happen. We do have it as a potential risk in our projections because it would be foolish if we did not. I mean at some point the U.S. economy is going to have to slow down, it has been on the run for a while.

One of the things that can weather us through that storm is to ensure that our businesses and our exporters diversify their markets so that they can remain profitable and look to markets other than just the U.S. or even to China, even though the China market has been a very great success rate story for Nova Scotia businesses.

If you look to be able to mitigate those things, you look for your businesses to diversify and to look into other markets and you can see our Nova Scotia industries looking into other southeast Asian markets. Also, through colleagues at the Department of Business and NSBI, to encourage businesses to take advantage of the opportunities that a trade agreement with Europe would have because there would be great advantages to Nova Scotia from that trade agreement. Just from the proximity to the European market, one could say that Nova Scotia is well-positioned. If you are able to do that, then you can, or as a business - therefore our tax revenues are derived from that and you can mitigate the risk of a downturn in any one country or another.

Just look at other examples. The province recently invested in the Halifax International Airport and their ability to increase their cargo capacity. That's really a way for businesses to diversify their markets, to allow them to have direct access or for other companies to have direct access to us through an international airport and looking to have direct routes into China and more direct routes into Europe. Those are the things that we can do or help encourage our businesses so that we can withstand that.

I don't think it would be a great secret that we, as a department, would also be great proponents to having contingencies in our fiscal plan to be able to withstand those types of changes. It's hard to do when you are in deficits - it's really not much sense to have a contingency when you're in debt. But when you're running operating surpluses, it is the ability to have the ability to be flexible to adjust to changes in the conditions, and we continue to promote that as a prudent thing for governments to employ.

MR. HALMAN: In the early 1990s, there was a profound downturn in the Canadian economy. I think that downturn showed Canadians that debt can be very problematic in a time of economic recession.

That being said, given the state of our debt in Nova Scotia, if there was a downturn in the Nova Scotia economy or the Canadian economy as a whole, how problematic would it be to service that debt? How problematic would it be for us to have an economic recovery when Nova Scotia is servicing a debt like we have?

MR. RAFUSE: I'm not sure how to answer that because it's kind of projecting into the future, which may or may not happen. I can tell you that one of the things that - although the economy of Nova Scotia is a slower growth rate than other economies in Canada, it doesn't have that boom/bust cycle that others have and, therefore, we are somewhat protected.

It's probably a by-product that we don't have a great reliance on resources that Alberta or Saskatchewan or Newfoundland and Labrador would have, so they have to be better prepared for those ups and downs in the cycle where we're in a more steady state. We do prepare for the unexpected, but we don't have the wild swings that others do.

MR. HALMAN: If we do prepare for the unexpected, was consideration given to using the surplus to pay down debt?

MR. RAFUSE: By math, the surplus reduces net debt. I follow the government's policy. The government of the day's policy is to run surpluses. I haven't seen any deviation from that. If need be, they will make adjustments accordingly to maintain that policy, and therefore, we'll have surpluses that will reduce the debt.

[10:15 a.m.]

MR. HALMAN: Many Nova Scotians see the Ivany report or the One Nova Scotia Commission as sort of the blueprint forward, the path forward for economic prosperity for our province. I'm just wondering if you can give me an update. Are we on a path or on pace to reach the goal of 30 per cent debt to our GDP? Would you be able to provide us an update on that?

MR. RAFUSE: When the province provided the budget in the Spring, we had the four-year plan. It indicated then, and I think the minister indicated in her Budget Address, that we continue to trend towards that goal of 30 per cent by the year 2024. Certainly whenever the government makes a decision, either from an operating perspective or from a capital investment perspective, that goal is kept in mind. Therefore, we have run projections that would indicate to us that we are continuing to trend towards that goal, and as long as the surpluses are maintained, that's an achievable goal.

MR. HALMAN: Thank you for the update. The Auditor General's chapter says that revenues have increased by $2.7 billion in the last 10 years, but expenses have increased by $2.9 billion in the same period of time. My reading of that tells me that a decade ago, in some respects, we were $200 million better off than we are now. Is that a fair statement? Is that a fair conclusion?

MR. RAFUSE: I think those numbers indicate - again, maybe a little bit of context is needed. I would look at where the trend lines are going on those lines. If you look at the 10-year period, that's what the numbers are. But if you look at the revenue projections, they are trending upward or steady. Expenditure projections are being contained. For the last couple of years, there has been a downward trend on that, comparing the last year to the first year in that analysis.

I wouldn't say that we were better off 10 years ago is what it indicated. They're just snapshots. You have to give some context behind those numbers. Revenues are up. Personal income tax revenues are up because salaries are up. HST revenues are up because people have the money to spend more so our revenues are up. Expenses are up because it does cost more to provide services, but compared to 10 years ago, there are more services that are being provided that weren't provided 10 years ago. You have to take that into the context of the public policy decision to provide those services.

Over the last while, every government has introduced an enhanced service for one area or another when the need has been identified. The projectory on those is what I would say are the more important, or the more recent projectories.

MR. HALMAN: When I was in university, I accumulated a lot of student debt, like a lot of people in my generation. In the early 1990s, we saw a lot of cuts in federal transfer payments which resulted in higher tuition. I suppose I was able to justify that debt by saying, I have an undergrad degree and now a Bachelor of Education that hopefully will give me a foot in the door to a good-paying career, a good-paying job. I think whenever you accumulate debt, you're trying to justify it by what you're getting in return for this investment.

The debt in our province over the past 10 years has increased by $4.1 billion. I do my utmost as a parent to try to ensure years from now that my children will inherit a solid financial footing on my end. But $4.1 billion over 10 years - what does our province have to show for that debt?

MR. RAFUSE: It certainly is a big number, yes. To give you some perspective on what that has provided, there is still a net accumulation of deficits over those 10 years, but if you look at what it has, the province over the last 10 years has bought $442 million of land. It has done that for various reasons from protection to other items. It has invested over $700 million in buildings and land improvements. It has put $900 million into highways, and $35 million into vehicles and ferries.

So there is a long litany of things the province has done with that money, in addition to an operating deficit. There is quite a large increase of capital assets - some of which I just mentioned - a lot of which were leveraged by taking advantage of federal infrastructure money that cost shares some of those initiatives.

So yes, there was a heavy investment in capital acquisitions. Governments decided those were priorities and Nova Scotians received the benefits of those. Those are examples of some of the things that would have been the reason why the net debt went up so much over those last years.

MR. HALMAN: As you know, the province is looking at making significant investments - billions of dollars in health care infrastructure over the next few years. Based on what we have been discussing today, based on our economic projections, based on our accounting, can the province afford those investments?

MR. RAFUSE: I always go back to that indicator of net debt to GDP ratio as an indicator of the ability to afford that debt. When government was making the decisions to advance those investments, particularly in the health care sector, the two larger ones - to be clear, when I say QEII development, that takes into account the renovations at Dartmouth General, the renovations at Hants, and the changes in the outpatient centre that will be built. We overlaid those projected costs and we overlaid them on top of the existing capital program and we ran those indicators based on our projection of where the economy is growing.

As I said, those indicators continue to trend towards that 30 per cent goal with those investments. It will require discipline for governments to make those investments and also maintain their surpluses, but that was the advice - the analysis we provided to government to let them make those decisions.

MR. CHAIRMAN: That ends the PC caucus. Ms. Roberts.

MS. ROBERTS: I'm going to start by continuing the line of questioning a little bit around our demographics in Nova Scotia. I wonder if in the department there is analysis happening about the increased proportion of our senior demographic, 65 and plus? To what extent is that driven by Nova Scotians who have spent their working lives here aging; and to what extent, if at all, is that driven by actual in-flows of older people choosing to retire in Nova Scotia because of lower real estate costs, and also because of a history of working in other provinces and then retiring here?

MS. KUMARANAYAKE: As part of the work, our economics division does do demographic modelling and so they do model both inflows and outflows by age. I don't have the exact numbers but we do maintain a sense of who is coming and who is leaving the province by age cohorts.

MS. ROBERTS: From your memory, can you speak at all - do we have net inflows or net outflows at that older age? I think that we just recently switched from a net outflow to a net inflow at the younger age bracket.

MS. KUMARANAYAKE: I don't have that with me, but I can certainly provide it. Overall, we are now in a position that we are having net inflows, and that's the first time in a long time that the province has been in that situation.

MS. ROBERTS: The deputy minister referred earlier to the health transfer and how it is reflective of our percentage of the Canadian population total. Given our particular demographic profile in Nova Scotia, the fact that our health transfer is based on just straight percentage of population - is that a risk for our finances moving forward?

MR. RAFUSE: Certainly, that's something the province has put forward to the federal government. We have been on record that a straight population one is not one which is best for Nova Scotia. It's actually not best for anybody in Atlantic Canada. It does not take into account the determinants of health or the change in demographics.

As you may appreciate, that transfer came in from a previous federal government that didn't really negotiate. They just actually said, this is the way it's going to be, and our per population one does favour other provinces if you are not a growing population. If our population continues to grow, like it has in the last couple of years, we will see that transfer - sorry, it has to grow, and a larger percentage of the total population, not just grow. There are risks associated with that, but we would prefer - and we did advocate at the time for a transfer that was based on not solely population but took into account demographics, particularly the aging population.

MS. ROBERTS: Another risk I see but I don't see reflected in the discussion thus far is climate change. I'm struck that in the discussion about good debt, many of the investments in tangible capital assets don't actually seem to be investments in transitioning towards a low carbon economy. I think both the investment in the airport, so that we can be expanding our export markets for seafood and other products, and also the robust investment - to quote the deputy - in highway infrastructure and even my colleague's comment about the expansion of half-ton trucks in Digby - yes, that may be an investment or an indication of economic development or economic prosperity in that moment for those individuals but again, we're not transitioning.

I don't see evidence of the department at this point mitigating the risk and helping us as a province to transition to a different economy, which many people talk about as being a circular economy. I wonder if you can speak to that at all.

[10:30 a.m.]

MR. RAFUSE: Thank you for the question, actually. When I was talking about it, I was talking about our own capital infrastructure. Certainly, the notion of reducing our carbon emissions in our own assets is one which I think we are starting to turn the corner on. As we develop new buildings that are actually being built to certain standards now, LEED standards are ones that come to mind for certain schools and other infrastructures.

There are programs the province has which both from an individual and from a corporate perspective can help alleviate your emissions. To help them do that, there are programs through Efficiency Nova Scotia. There are actually ones with the Department of Energy and Mines where support is given for those to be able to help invest in reducing your emissions. There are active conversations about how to access monies at the federal level, both for our own infrastructure and for our citizens, where the federal government has made funds available to reduce emissions. This is all to help achieve the targets which we've agreed to from a national carbon reduction perspective. So there are some things but I would say it will probably be more accelerated as we go forward.

MS. ROBERTS: I ask that question at a time when Halifax is considering whether - in its municipal budget - it can actually come up with the money to invest in its active transportation infrastructure. I'm wondering if there are also conversations happening between the province and municipalities around financing those sorts of transition-friendly infrastructure projects.

MR. RAFUSE: I'm not privy to all that. Having formerly sat on the Board of the Municipal Finance Corporation, in which all municipalities - I do know there actually are funds available which they call their green funds, which allows municipalities to access a program there for those types of infrastructures. I think that municipalities as you go forward will be part of all those discussions, but I'm not really privy to all that.

MS. ROBERTS: In the Auditor General's Report on Page 30 around departments requiring additional appropriations, I'm struck that Energy was one of the departments that required additional appropriations. There was $12.2 million for energy efficiency programs, which was approximately equal to the $11.7 million for offshore growth strategy initiatives. Again it seems like we're not exactly transitioning, we're just kind of matching investments in what will be a new economy, with continued investments really in and old carbon-intensive economy.

Speaking of which, in terms of that practice of having additional appropriations following the budget process, what steps is the department taking to work with the budgeting process so that we don't see this level of appropriations approved by Executive Council without opportunity for debate or examination in the Budget Estimates process?

MR. RAFUSE: Additional appropriations occur for, I want to say, two primary reasons. One of which is when a program which has been debated in the House and where the underlying utilization of that program was greater than anticipated and therefore, more appropriation needs to be given to that entity to continue on that service. I'll just use Pharmacare - I know it's not the one but if there were more seniors than was anticipated and that caused the Department of Health and Wellness to go over, that would be one type of additional appropriation.

The other type is where it's a conscious decision to make an investment or change a parameter or a program, and that is when the government has decided that it has the means to do so. I refer to the flexibility of a plan which it was not able for certainty to do that in the budgetary process because our revenues are subject to change and didn't want to commit itself to that program until it had the opportunity to gain that certainty. In both of those circumstances, the role of the Department of Finance and Treasury Board is to take in the financial impact of that to the Treasury Board and Executive Council for consideration for approval.

With the first one, quite frankly, the discretion is probably not there a whole lot. In the second one, it's a discretionary process. Our role is not to mitigate in that, but ensure that they make an informed decision around those types of things and that they fully understand both the program and the financial impact of doing a decision that requires the approval of an additional appropriation.

MS. ROBERTS: I want to go back again one more time to this concept of good debt. Is there a point where an investment in a tangible capital asset is not seen as a good debt? I know, for example, that certainly in Nova Scotia and in the Legislature we hear a lot from rural MLAs about roads - which are tangible capital assets - that are not being maintained at a level that people can actually use them. Then we add more road infrastructure, which will also require if not immediate annual maintenance investment, but certainly within 10 years will need significant annual expenditure, which then becomes an operating expense.

Where are we in terms of considering whether we are investing good debt in what are, in fact, unsupportable tangible assets?

MR. RAFUSE: That's a subjective call. I would say for the purposes of my demonstration earlier about good debt and bad debt, I've characterized all investments in capital assets as good debt, but you're right, some decisions may not be the wisest ones.

What we had to ensure is that both through our procurement practices and our evaluation of these things is that there is a kind of close examination about whether or not those types of investments are the ones which are good value for the amount invested and how you invested.

Certainly, we rely on subject matter experts to give us advice about whether or not a road built to this standard versus another standard can be sustained and maintained longer without increased operating - and that would be part of the consideration with it. Where that tipping point is, I wouldn't want to say, but you're right - you can make a throw-away road or a road that's going to last for a long time. I trust our professionals that they're giving us the right advice about the type of assets we're recommending that government invests in.

MS. ROBERTS: Of course, there are also schools of thought that investment in social infrastructure can result in more revenue coming into the province. For example, investment in robust affordable child care, which can allow more people to enter the workforce and result in revenue that way. Even though that might be seen as an expenditure, it can also result in more revenue.

MR. RAFUSE: And that would be on our operating side. Certainly, a lot of things on the operating side would facilitate that on the social side - social housing or programs from pre-Primary to daycare, all those types of things. There is a good view that those actually do create a more prosperous Nova Scotia.

MR. CHAIRMAN: Order, please. That concludes the NDP's time. We will now move to the Liberal caucus and Mr. Jessome.

MR. BEN JESSOME: Thank you. Mr. Rafuse, do you have anything more to add to that?

I just have a quick one and then Mr. MacKay is going to play clean-up here. I'm curious about the term "net debt per capita." How are those figures realized and how relatable are they to individual Nova Scotians?

MR. RAFUSE: The term "net debt" can be a little confusing. When most of us think about our debt, we think about our mortgage, but net debt is probably a little bit more all-inclusive than that. It does take in the amount of what we refer to as our market debt, the amount that we've borrowed. It's an element of our net investment into capital assets as well. It has been deemed a more holistic view of our net debt.

The accounting term of it is the difference between our financial assets and our financial liabilities. The Auditor General's Report is a measure of the amount of financial assets we have available to us right now to pay the debts we have right now. That's really what it's trying to get at and how much of that current debt is the obligation of future tax revenues of future taxpayers.

That's where I simplistically get into the term "good debt/ bad debt" where those in capital assets are going to be used by future generations and therefore future taxpayers.

MR. JESSOME: How important is that to communicate? I guess that's subjective, perhaps.

MR. RAFUSE: It is. We tried to indicate that. In our Public Accounts, right or wrong, we're very factual. We don't provide a lot of colour commentary - I don't think our auditor would allow us to - so it's hard to give the context sometimes about what things are. We describe what they are and how they're measured, but what it really means sometimes can get a little lost.

We do try to do that through yourselves, or I mentioned earlier that we do have a session on how to read the Public Accounts that's available to members here. We do that with the media as well, so that they can understand what these measures are actually trying to get at.

MR. JESSOME: Thank you, folks. Mr. MacKay is going to wrap up now.

MR. CHAIRMAN: Mr. MacKay.

MR. HUGH MACKAY: I represent a primarily rural riding very dependent upon natural resources from the land and the sea. I would have to say that I'm shocked - I'm actually dismayed - to hear in a forum such as this that anyone would question investments in our cargo capacity at the Halifax International Airport when that is something that is going to enable my constituents and constituents all over rural Nova Scotia to not only maintain but to grow their family's economic sustainability and future. I appreciate Mr. Rafuse's response that there are many things being done to achieve a reduction in carbon footprints and so forth.

To question limiting our investments in infrastructure which will hamper our ability to get our natural resources to market since we simply do not have population base here in Nova Scotia to grow that significantly - we must get that to market and we need the infrastructure. Investments in capital for infrastructure that is going to provide for speedy and safer transportation on our highways and cargo capacity in our airports are investment and not cost. I sometimes think we forget that.

Anyway, that's enough of that. The chairman will probably ask me to get on to a question here fairly soon, so thank you for indulging.

I am curious about the impact of revenues derived from offshore petroleum exploration on the investments that Nova Scotia can make in the infrastructure. I'm thinking particularly of what is a national leading investment that we are making in rural high-speed Internet. If you could comment to that.

MR. RAFUSE: Let me comment on the rural Internet, and then I'm going to ask Lilani to talk about offshore royalties. Certainly the need for enhanced infrastructure for rural Internet has been widely spoken about for a while. The government's decision to invest, I would say, a substantial amount of money into the Internet Trust last year - it did end up being $190 million - will go a long way to doing that.

It does need partners to step up either on the municipal or on the service provider side of the house to lever those dollars, but I think that that will go well on its way based on my understanding of the study that was done - sorry, I forget the name of the company that did that. It would be very helpful in that perspective.

[10:45 a.m.]

The idea is that that will allow economies to grow in those areas and business to stay in those areas and still have a connection to the world, which would allow exports to occur or allow their markets to grow. It's kind of cliché to say that it's all connected, but it actually is connected. Their ability to stay will grow the local economies and actually let them connect to the outside world.

On the offshore royalties, which has kind of been on a downswing in the last little while, I'll ask Lilani to speak a little to those numbers.

MS. KUMARANAYAKE: As the deputy says, we are seeing the winding down of the existing offshore projects. In our September forecast update we actually lowered our projections and are suggesting our petroleum royalties would only be about $3 million - $2.9 million - and another $18 million in terms of offshore accord payment. So we're looking at about only $20 million and that's down from the hundreds of millions that we were seeing about 10, 12 years ago.

The fact is that our fiscal health - we've managed to have two balanced budgets and projecting out four - is not reliant on this type of revenue. It has really been looking at all of our revenue sources and as the deputy has talked about, is looking at allowing a little bit of the flexibility.

Right now we're not really dependent on any of the offshore royalties for our fiscal health.

MR. MACKAY: I applaud you for your diversification, I guess, of our revenue stream to ensure that we've mitigated that risk. However, did the offshore royalties and maybe the legacy of the offshore exploration activity have a direct impact on the rural high-speed network?

MR. RAFUSE: Indirectly, through a settlement of an arbitration dispute with our offshore partners that actually brought a revenue stream into the province last year which allowed the government to make the decision to populate the Internet Trust. Without that, there wouldn't have been the funds to do it. They are not directly related, other than the government decision to redirect those funds to that initiative.

MR. MACKAY: Just a quick question. I think many of us sometimes confuse investment versus cost. Another thing that I know my constituents and myself and other colleagues sometimes get mixed up on a little bit, is the difference between fiscal management and financial management. Could you give us the Coles Notes version of the difference of those?

MR. RAFUSE: To me, fiscal management is much more than just the current year. It is looking at it holistically about how, as an entity, we are going to sustain the programs and services we have. It is a plan that takes you into the future.

We're obligated in the Finance Act to produce a four-year fiscal plan as part of the budget documents. Quite frankly, even if it wasn't there, governments would be prudent to have that. As I've indicated to you, to the committee earlier, when we're looking at large investment decisions that have been made, we have looked beyond the four years and what it means to that. That, to me, is fiscal planning.

Financial planning, I guess you could interchange it, but to me it's more limited in focus.

MR. MACKAY: I'd like to go back to our debt and how we service that. You've indicated that the lending institutions are looking more favourably at Nova Scotia and that we've enhanced our ability to tap into those markets. What would you indicate to be Standard and Poor's reasons for upgrading Nova Scotia's credit rating?

MR. RAFUSE: I would say that what they cited in the report, other than just changing the rating, was their feeling that the government has used sound fiscal management practices, that it has demonstrated the ability to maintain a balanced area, surpluses where other governments are struggling to do so.

We provide them information, like our Public Accounts and otherwise, but they do their own analysis and they overlay - they convert us back to a cash organization is what they do in their analysis and they look at our ability to service our debt and our bonds. From all those perspectives, they believed that the investment community should be informed. They believe our rating as a place to invest or a place to buy bonds, that we are deserving of that increased rating.

MR. MACKAY: You would say that they view Nova Scotia as a good place to invest or a better opportunity for investment now than perhaps they did five years ago, 10 years ago?

MR. RAFUSE: Yes, certainly. As I say, this is the highest rating the province has ever had. We're having similar conversations with other rating agencies about this. You can actually see it in what we refer to as the spread. We do go to market and the way in which our bonds are priced are based on the baseline, which is Ontario and whether you're plus or minus Ontario, and how you are relative to other provinces.

Usually the market has already priced this in so if we can go to market and be flat to Ontario, which I've never seen us being able to do until recently, it is an indication that bond raters in the market are saying that this is a good place to invest.

MR. CHAIRMAN: Order, please. That concludes questioning for today. I would like to thank the Office of the Auditor General and the Department of Finance and Treasury Board for appearing today. If you have any closing comments before we get into other committee business, you can bring them on now. Mr. Pickup.

MR. PICKUP: Three very quick points. One, I want to thank the Public Accounts Committee for this opportunity. Thanks to the folks at the Department of Finance and Treasury Board for the great co-operation we had in doing this, and I thank my team for the hard work they've put in giving up much of their summer. I very much appreciate it. I know everybody appreciates all that they do.

The second quick point I would make is, listening to everything today - we really want to do these reports as good as we can to help you do your job. Listening to a few things, I think I will task my colleagues here on my team to work with the Department of Finance and Treasury Board perhaps over the next six or eight months to say, is there a way we can capture in this report two things I heard today? One is, how do we explain the ability to pay? How do we get that debt to GDP in there? What does that mean to people and how does that relate to all of this? Can we build something in on that?

Then this concept of what was received for the debt that you had - so how do you take that level of debt and say, these are the types of things that you receive for that - again, sticking to my belief that I'll be observational and factual, not having any opinions. I think we'll strive to work at that over the next year for next year's report to address those areas.

The last thing I wanted to say quickly was - and I don't think we should take this for granted. I'm going to end on a very positive note in this, my sixth time as witness before the committee this year, that Nova Scotia has had clean audit opinions for 18 years. That's to the credit of the preparers of those financial statements. We should never lose sight that it's not every province in Canada that prepares a set of financial statements that get a clean audit opinion. A number of them don't. There are those governments that are unable to prepare even consolidated financial statements to even be subject to an audit, including one of our biggest neighbours to the south.

I think all that discussion today wouldn't be taking place if we didn't have good numbers to start with, and I think it's easy to lose fact of that, so I give a credit to everybody over the last 18 years, and I hope very much to see that continue. Thank you.

MR. CHAIRMAN: Mr. Rafuse.

MR. RAFUSE: Quickly, I'd like to thank the committee for the questions. I did say that we would be willing to come in and give you the session regarding the Public Accounts, but as well - and this may sound a little crazy because I'm going to be back a few more times - but if you do have any questions arising out of the Public Accounts and you wish to ask those, even in the absence of a committee appearance, feel free to do so. The department would be more than willing to try to get you to understand what those numbers mean in the Public Accounts.

MR. CHAIRMAN: Thank you. We do have some quick business to take care of. In front of you, you have correspondence from the Department of Education and Early Childhood Development, and the response of the committee regarding Chapter 1 of the October 18th report. Are there any questions or discussions on that letter?

Moving on, we have one last little bit - the committee has adopted a practice of endorsing the Auditor General's recommendations. The Auditor General released his

December report last week. Could we have a motion to endorse the recommendations of the Auditor General? Mr. Wilson.

MR. WILSON: Mr. Chairman, I move that the Public Accounts Committee formally accept and endorse recommendations contained in the December 2018 Report of the Auditor General, that had been accepted by the audited departments or agencies, and ask that those departments and agencies commit to take responsibility for full and timely implementation of the recommendations accepted by those departments and agencies.

MR. CHAIRMAN: Would all those in favour of the motion please say Aye. Contrary minded, Nay.

The motion is carried.

Okay, that concludes our business for today. Our next meeting is on January 9th here in the Chamber. There will be an in camera briefing from 8:30 a.m. to 9:00 a.m., and a 9:00 a.m. to 11:00 a.m. meeting with the Departments of Agriculture; Lands and Forestry; Communities, Culture and Heritage; and Finance and Treasury Board about the grant programs in Chapter 1 of the May 2018 report.

If there is no further business, I move to adjourn the meeting.

[The committee adjourned at 10:55 a.m.]