

A Guide: **Getting Back to Balance**

The Government of Nova Scotia has a serious problem—and needs your help to solve it.

As a province, we are spending more than we are taking in.

The resulting shortfall, or deficit, must be covered each year by borrowing money. This adds to the large debt the province already has.

If nothing is done, the deficit will grow each year reaching \$1.4 billion by 2013. As more money is used to pay our debt, the province's ability to deliver critical services like health care and education will be dramatically reduced.

Over the next two or three years, the province won't get as much money from sources like federal transfer payments and offshore natural gas royalties.

At the same time, the cost of programs and services will continue to rise steadily.

Graph – Funding Gap

Why is this a problem?

Borrowing money costs money. The more we borrow, the more we pay. Deficits add to the debt.

Graph – Projected Deficit Growth

Interest on the debt is already the fourth largest government expense, after health care, education, and community services.

Call out - Interest payments have cost us \$10 billion in the last 10 years.

If government continues to borrow money at this rate, the province won't have enough to pay for services like health care and education.

Borrowing more and more money to pay for services just isn't sustainable. If we are to protect our health care, education, roads, and other vital services—something has to change.

Doing nothing is not an option.

Graph – How Big is the Gap?

Closing the gap

To close the gap, Nova Scotia's finances must be brought back into balance.

To protect programs and services, the province must close the gap between what it spends and what it takes in.

The Back to Balance dialogue is about getting advice from Nova Scotians on the way forward.

Government has three “tools” to work with:

- reduce the amount of money spent on programs and services
- increase the amount of money taken in through taxes, fees, and other sources
- invest money to grow the economy over the long term

The problem can't be fixed by one approach alone. A sustainable solution will require a combination of measures in all three areas.

Reduce spending

To get back to balance, government needs to spend less. But, reducing spending isn't an easy matter.

People count on the programs and services government provides—like health care, education or road paving. Changes to public services need to be carefully thought out. Sudden, drastic cuts have a negative impact on quality of life and they can harm the economy. Across the board spending reductions have failed to produce lasting savings.

Another challenge is that the cost of delivering programs and services goes up every year.

Graph – Projected Spending Growth

To close the gap, we have to slow down the growth of expenses. For example, if spending were to grow at 3% per year instead of the historical rate of 5%, in three years there would be an annual saving of about \$500 million. This would go a long way towards closing the gap.

Unfortunately, many of the things that cause costs to go up aren't under the control of government. Demographic changes, competition with other provinces and countries for skilled workers and professions, energy costs, and the cost of things like new medications - all these factors drive costs higher.

To reduce spending we need to think about the programs and services government can deliver more efficiently, or perhaps not at all. Government is already looking at all areas of spending to do exactly that and welcomes your views.

Increase revenues

We can't get back to balance just by cutting. Government also needs to increase its revenues.

This year, our government will take in around \$8.5 billion in revenues. Money comes from taxes and fees, federal transfers, offshore royalties, and government-owned businesses, such as the Nova Scotia Liquor Corporation.

Over the past 10 years, revenues increased thanks to good economic times along with short-term revenues such as royalties from offshore resources.

But in the years ahead, revenue is not expected to increase as much. Revenue will lag behind rising costs.

No one wants to pay more taxes or fees. But if other revenues aren't keeping up, government may have to look at increasing things like the harmonized sales tax (HST) or personal income tax.

Graph – Where government money comes from (2009–2010)

Grow the economy over the long term

Getting back to balance—and staying there—requires that our economy grow. A strong economy generates tax and other revenues that help pay for programs and services like health care, education, and roads.

Government will work with the private sector to promote economic growth. Currently, government spends or lends up to \$500 million annually on economic development through agencies like Nova Scotia Business Inc (NSBI), and departments which support economic development, tourism, energy and natural resources. In addition, our government has approximately \$540 million in outstanding loans with business and industry in the province.

To further grow the economy, investment is needed in business development, workplace training, literacy, innovation, research and development, and other measures.

Today's investments in economic development will not affect the economy right away—but rather in the years ahead.

How do we get back to balance?

Government is looking for your advice on the way forward. We have to look at

- Increasing revenues
- Reducing spending
- Growing the economy over the long term

Each choice will affect the others, so all must be considered together.

The following chart shows the impact that some possible measures could have on closing the gap. Remember—these are examples only and not proposed measures.

Graph – Closing the Gap

Increase revenues

Government can try to generate higher revenues to minimize the impact on programs and services people use. Taxes and fees are the kind of revenues that the government can adjust on its own. However, getting more money from citizens and businesses may be a burden for many people, and may also harm the economy.

Reduce spending

Reducing spending helps the government avoid increasing taxes. However, it means limiting services or stopping programs that Nova Scotians are now using. This also affects the economy and our standard of living.

Grow the economy over the long term

Government should promote growth in the economy. A strong economy adds to tax and other revenues. However, investments in the economy today will reduce money available for other areas of spending—and will produce results only in the long term.

The Government of Nova Scotia believes that it is essential to bring the province back to balance—doing nothing is not an option.

We want advice from Nova Scotians on the choices before us. In your view,

- 1. What should the government do to increase revenues and reduce spending?**
- 2. What changes should be made to programs and services? Are there things government should do better, stop doing, or do more of?**
- 3. What investments should be made today that will help to grow the economy in the long term?**
- 4. How soon should government bring Nova Scotia's finances back to balance?**

Join the Back to Balance Dialogue

The Honourable Graham Steele, Minister of Finance, is encouraging all Nova Scotians to provide their views on how to get the province Back to Balance.

Take part in the dialogue!

- 1. In person—Attend a dialogue session.**

The Minister of Finance will be hosting sessions in communities across the province from January to March. A schedule for upcoming sessions will be posted each Thursday on the website and advertised in each community.

Please let us know if you are coming by signing up on the website; www.gov.ns.ca/finance/backtobalance/. If you do not have access to the web and want to find out about meetings in your region, call

Toll-Free: 1-800-670-4357.

Telephone: (in metro) (902) 424-5200

2. Go Online

Learn more and share your ideas on the Department of Finance website at <http://www.gov.ns.ca/finance/backtobalance/>

3. By Mail—Answer these questions:

1. What should the government do to increase revenues and reduce spending?

2. What changes should be made to programs and services? Are there things government should do better, stop doing, or do more of?

3. What investments should be made today that will help to grow the economy in the long term?

4. How soon should government bring Nova Scotia's finances back to balance?

Mail your answers to these questions to:

Finance Minister
Back to Balance
PO Box 187
1723 Hollis St.
Halifax, NS
B3J 2N3

To request a copy of this document by mail,

call: Toll-Free: 1-800-670-4357

Telephone: (in metro) (902) 424-5200