

**Second Forecast Update – 2011-2012 Budget
Minister Steele’s Speaking Notes
December 15, 2011**

Please check against Delivery

This is the second Forecast Update I have delivered for the 2011-12 budget.

The budget was delivered in April, and the first Forecast Update was in September.

As the year moves along, we receive and analyze more revenue data about how the previous year’s revenue has come in, how revenue sources are shaping up compared with our forecast, and whether we receive prior-year adjustments for past years.

Nearing the end of the third-quarter, we also have a better sense of how departments are implementing their programs within their allocated budgets and what changes might impact spending.

And, the province’s year-to-date economic performance gives us a better base for forecasting and planning.

Today, I am sharing the best information we have on all of these fronts.

We continue to be on target with our four-year Back to Balance plan. Despite some new initiatives, such as the Bowater plan, and despite continuing uncertainty in the national and international economies, we are where we expected to be.

We are now forecasting a deficit for this fiscal year of \$365.2 million, compared to \$389.6 million at budget time.

On the expenditure side, departmental spending is coming in under budget, by about \$42.8 million. Most departments are either on target or slightly under budget.

We are continuing to demonstrate tight control and good management of the public purse.

We are on track to have a third consecutive year where the province’s spending comes in below the budget estimate.

Nous continuons de contrôler étroitement et de gérer judicieusement les fonds publics.

Nous sommes sur la bonne voie pour garder les dépenses à un niveau inférieur aux prévisions budgétaires, et ce, pour une troisième année consécutive.

This is a significant accomplishment, something that the previous Conservative government didn't achieve in its 10 years, and the previous Liberal government didn't achieve in the six years before that.

This fiscal update reflects our planned investment in the Bowater mill. The land purchase is approved up to \$23.8 million, most of which will be covered within the current capital budget. As Diana has noted, an additional appropriation of about \$7 million more is needed. The loan program, valued at up to \$25 million will be paid out, as costs are incurred by Bowater expected to be over this and next year.

Today's update also includes the \$2.4 million for the Nova Scotia College of Art & Design, announced on Tuesday by the minister of Labour and Advanced Education.

Accounting for nearly one-tenth of our spending is debt servicing costs, so I am pleased this expenditure is running below budget, by about \$55.1 million.

For the current fiscal year, we are forecasting \$80.1 million less in revenue than what we had projected on Budget day.

We now expect to collect a little more than anticipated from offshore royalties, personal income taxes, fees, and net income from Government Business Enterprises.

These increases are offset by small reductions in Corporate Income Tax, HST, Tobacco Tax, Motive Fuel taxes, interest revenues, and recoveries. Federal source revenues will also decline slightly.

The largest variance within revenue is a negative "Prior Years' Adjustment" or PYA. As I have explained before, the PYA represents the Canada Revenue Agency's ongoing recalculations of amounts owing to the province. They cannot be budgeted and they cannot be predicted. You'll recall that last year, we had a large, positive PYA, just over \$200 million, which was a significant part of the year-end surplus. Now, we seem to be "giving some of it back" with a negative PYA in the amount of \$92.5 million.

In September I noted that it was becoming more likely that the Canadian economy, and therefore the Nova Scotia economy, will see more modest growth than previously anticipated due to global economic factors.

Since then, almost all provinces, and the federal government, have revised their growth forecasts downwards. The major banks, and economic observers like the Conference Board of Canada, have also revised downwards their growth forecasts for the provinces and the country. Of course Nova Scotia is not immune from the economic forces that have led to these downward revisions across the country.

We are therefore revising downwards our real GDP growth forecast for 2011 to 1.4% from 1.9%, and for 2012 from 1.9% to 1.7%.

This downward revision has a relatively small impact on the overall budget. One example flowing from this revision is a decrease in anticipated HST revenue of \$28 million.

The forecast update document includes an analysis of the province's economics section, and I won't go over it here. We are encouraged by good growth in construction, both residential and non-residential, and manufacturing output. These are important sectors in all areas of the province. Still Nova Scotia's outlook is affected by global economic uncertainties in the short run.

The outlook brightens in 2013. This positive outlook is shared by all the major banks, who participated in the economic policy conference that I held last week.

In closing: We are where we expected to be at this point, halfway through our four-year Back to Balance plan. We are still on target to get back to balance in 2013.

Nous sommes où nous espérons être à ce point, c'est-à-dire à mi-chemin de notre plan quadriennal visant à rétablir l'équilibre.

Nous sommes toujours sur la bonne voie pour rétablir l'équilibre en 2013.

There is still a need for discipline in getting back to balance, but also for thoughtful flexibility in responding to economic conditions as they actually are.

As the Conference Board of Canada said in this week's report on Nova Scotia's economic outlook, there are "Brighter Days Ahead".