

September 13, 2011

Overview

The Province of Nova Scotia is forecasting a deficit of \$319.2 million for 2011-2012, an improvement of \$70.4 million from the estimate at budget time. This is primarily the result of lower than expected expenses.

Total revenues, including net income from Government Business Enterprises, are forecast to be \$8.9 billion, a decrease of \$11.1 million from budget. Total expenses and consolidation and accounting adjustments are forecast to be \$9.2 billion, \$81.4 million lower than budget.

Fiscal Summary Fiscal 2011–2012

(\$ thousands)

	Budget	Forecast	Increase (Decrease) from Budget
GENERAL REVENUE FUND			
Revenue			
Ordinary Revenues	7,771,549	7,756,517	(15,032)
Fees and Other Charges	64,896	66,786	1,890
Ordinary Recoveries	582,751	584,722	1,971
Sinking Fund Earnings	104,803	104,918	115
Total Revenues	<u>8,523,999</u>	<u>8,512,943</u>	<u>(11,056)</u>
Expenses			
Departmental Expenses	8,344,763	8,319,990	(24,773)
Tax Credits and Rebates	74,943	74,943	---
Pension Valuation Adjustment	31,761	31,761	---
Debt Servicing Costs	885,485	835,896	(49,589)
Total Expenses	<u>9,336,952</u>	<u>9,262,590</u>	<u>(74,362)</u>
	<u>(812,953)</u>	<u>(749,647)</u>	<u>63,306</u>
Consolidation and Accounting Adjustments for Governmental Units			
	<u>68,817</u>	<u>75,873</u>	<u>7,056</u>
Net Income for Government Business Enterprises			
Nova Scotia Gaming Corporation	112,900	112,900	---
Nova Scotia Liquor Corporation	228,066	228,066	---
Other Enterprises	13,613	13,613	---
	<u>354,579</u>	<u>354,579</u>	<u>---</u>
Provincial Surplus (Deficit)	<u>(389,557)</u>	<u>(319,195)</u>	<u>70,362</u>

Ordinary Revenue Fiscal 2011–2012

(\$ thousands)

	Budget	Forecast	Increase (Decrease) from Budget
Provincial Revenue Sources			
Personal Income Tax	1,981,275	2,011,481	30,206
Corporate Income Tax	393,743	411,297	17,554
Harmonized Sales Tax	1,621,243	1,621,243	---
Tobacco Tax	213,112	206,638	(6,474)
Motive Fuel Taxes	253,653	253,660	7
Interest Revenues	96,617	70,476	(26,141)
Registry of Motor Vehicles	110,897	112,405	1,508
Royalties - Petroleum	110,352	110,352	---
Other Provincial Revenues	285,186	286,207	1,021
Prior Years' Adjustments	---	(29,543)	(29,543)
TCA Cost Shared Revenue	3,150	3,150	---
Total - Provincial Revenue Sources	<u>5,069,228</u>	<u>5,057,366</u>	<u>(11,862)</u>
Federal Revenue Sources			
Equalization Payments	1,342,552	1,342,552	---
Offshore Oil and Gas Payments	167,755	167,755	---
Crown Share	21,666	21,666	---
Canada Health Transfer	758,947	758,947	---
Canada Social Transfer	315,047	315,047	---
Wait Times Reduction Fund	6,840	6,840	---
Other Federal Sources	16,410	15,958	(452)
C52 Trust Funds	700	700	---
Knowledge Infrastructure Program	4,641	4,641	---
Prior Years' Adjustments	---	---	---
TCA Cost Shared Revenue	67,763	65,045	(2,718)
Total - Federal Revenue Sources	<u>2,702,321</u>	<u>2,699,151</u>	<u>(3,170)</u>
Total Ordinary Revenue	<u>7,771,549</u>	<u>7,756,517</u>	<u>(15,032)</u>

Revenues

Total revenues, including net income from Government Business Enterprises of \$354.6 million, are forecast to be \$8.9 billion, \$11.1 million less than the 2011-2012 budget estimate. This represents a decrease in Ordinary Revenues of \$15.0 million, an increase in Fees and Other Charges of \$1.9 million, and an increase in Ordinary Recoveries of \$2.0 million.

Personal Income Taxes (PIT) are forecast to increase by \$30.2 million from the budget estimate. While federal estimates of national personal taxable income in 2011 and 2012 have been revised downward, Nova Scotia's share of taxable income is expected to increase compared to budget estimates.

Corporate Income Taxes (CIT) are up by \$17.6 million from budget. Federal estimates of national corporate taxable income have been revised upward. Growth in corporate profits and taxable income in the province continue to lag behind the national growth rates.

Tobacco tax revenues are down \$6.5 million from budget. Expected consumption of cigarettes has declined by 3.2 per cent since the budget estimate. Cigarettes account for 92 per cent of consumption volume in the forecast. Consumption is on the decline as a result of tobacco price increases and long-term cessation trends.

Offshore Royalties are forecasted to remain at the 2011-2012 budget estimate. World natural gas prices have remained steady in 2011 and a slight decrease in prices is expected in 2012. This is offset by a forecasted increase in production and stronger world market prices for oil than originally estimated.

Interest revenues are down \$26.1 million from budget, primarily (\$21.2 million) as a result of a reclassification of asset swaps. Decreases in short-term investment income and decreased interest revenues at the Fish and Farm Loan Boards also contribute to the decline. The decrease in revenues associated with reclassification of asset swaps is offset by a corresponding decrease in debt service costs.

Revenue at the registry of motor vehicles is expected to be up by \$1.5 million, primarily as a result of higher than expected motor vehicle inspections and miscellaneous vehicle registrations.

Prior Year Adjustments (PYAs) from provincial sources are forecast to be negative \$29.5 million, primarily as a result of a lower yield on 2010 personal taxable income than forecasted at the time Public Accounts were prepared.

Overall federal source revenues are forecast to decline \$3.2 million from the 2011-2012 estimate, mainly as a result of decreased spending on cost-shared capital projects this year.

Equalization and the Offshore Oil and Gas Payments are provided on a one-estimate, one-payment approach and as a result the forecast is equal to the budget estimate.

Fees and Other Charges are expected to be \$1.9 million higher than budget, primarily as a result of higher enrollment at the Agricultural College than was expected at budget time.

Ordinary Recoveries are expected to be \$2.0 million higher than budget primarily as a result of additional highway work for municipalities at Transportation and Infrastructure Renewal. The increase is partially offset by decreases at Justice for post budget adjustments to RCMP contract rates, and reductions at Labour and Advanced Education for labour market and employment agreements and Occupational Health and Safety recoveries.

Net Income from Government Business Enterprises

Total Net Income from Government Business Enterprises is forecast to be \$354.6 million, unchanged from budget.

Expenses

Total expenses for 2011-2012 including Departmental Expenses, Tax Credits and Rebates, Pension Valuation Adjustment, and Debt Servicing Costs are forecast to be \$9.3 billion, \$74.4 million under budget, primarily due to reduced departmental expenses and debt servicing costs.

Departmental Expenses Fiscal 2011–2012

(\$ thousands)

	Budget	Forecast	Increase (Decrease) from Budget
Agriculture	61,115	61,862	747
Communities, Culture and Heritage	55,100	55,100	---
Community Services	985,084	985,084	---
Economic and Rural Development and Tourism	125,610	125,610	---
Education	1,135,237	1,135,102	(135)
Energy	30,462	30,462	---
Environment	27,582	27,582	---
Finance	36,007	35,955	(52)
Fisheries and Aquaculture	8,462	8,454	(8)
Health and Wellness	3,768,259	3,771,237	2,978
Justice	302,036	300,760	(1,276)
Labour and Advanced Education	345,211	344,085	(1,126)
Assistance to Universities	384,792	347,880	(36,913)
Natural Resources	92,845	107,845	15,000
Public Service	178,938	170,658	(8,280)
Seniors	1,881	1,881	---
Service Nova Scotia and Municipal Relations	274,761	273,948	(813)
Transportation and Infrastructure Renewal	420,362	425,466	5,104
Restructuring Costs	111,019	111,019	---
Total - Departmental Expenses	<u>8,344,763</u>	<u>8,319,990</u>	<u>(24,773)</u>

Departmental Expenses

Departmental Expenses for 2011-2012 are forecast to be \$8.3 billion, \$24.8 million less than budget.

The Department of Agriculture is forecasting to be over budget by \$747,000 due to increases in Nova Scotia Agricultural College operational expenses, including casual research staff conversion costs, international program requirements, utility cost increases, and student services increases.

The Department of Health and Wellness is over budget by \$3.0 million due to District Health Authorities emergency infrastructure and equipment requirements.

The Department of Justice is forecasting to be under budget by \$1.3 million as the result of salary savings, partially offset by increased operational spending.

The Department of Labour and Advanced Education is forecasting to be under spent by \$1.1 million primarily due to temporary vacancies and operational efficiencies.

Assistance to Universities is forecasting to be under budget by \$36.9 million due to the 2011-12 operating grant payments made to two universities late in the 2010-2011 fiscal year.

The recently announced investment for the seven-point Woodlands Plan will have an impact of \$15.0 million. The Department of Natural Resources is forecasting to be over budget by \$15.0 million due to planned measures to mitigate the economic impact caused by the shutdown and proposed sale of the Port Hawkesbury paper mill. The measures are intended to maintain critical capacity and forest management services to facilitate the potential sale and subsequent re-startup of mill operations.

Service Nova Scotia and Municipal Relations is forecasting to be under budget by \$813,000 primarily due to lower than anticipated spending for the Municipal Rural Infrastructure Fund and the Build Canada Fund.

Transportation and Infrastructure Renewal is projecting to be over budget by \$5.1 million due to \$2.3 million in ongoing work related to the damage inflicted by storms in late 2010 and \$2.8 million for work done on behalf of municipalities which is fully recoverable.

Public Service

The Treasury Board Office is transferring \$6.0 million from the Innovation Fund to TCA, to fund approved capital projects for Service Nova Scotia and Municipal Relations, Finance, CIO, and Health-related initiatives.

Nova Scotia Business Inc. is forecasting savings of \$3.0 million due to a reduction in payroll rebate payments through the Strategic Investment Fund.

The Public Prosecution Service forecasts an over-expenditure of \$1.0 million primarily related to salary and operational pressures.

Gross Debt Servicing Costs

Gross Debt Servicing Costs are forecast to drop by \$49.6 million to \$835.9 million. Of this reduction \$21.2 million results from reclassifying asset swaps which is offset by the reduction in interest revenue as previously noted. The remaining \$28.4 million is primarily due to favourable interest rate movements.

Pension Valuation Adjustment

The Pension Valuation Adjustment remains unchanged from budget. Revised actuarial assumptions are expected later in the year and could result in revised expectations in future forecasts.

Economic Performance and Outlook – 2011 and 2012

It is not yet clear how emerging global, national and local economic difficulties will impact economic assumptions used as a basis for Nova Scotia's 2011-2012 budget. The global economic outlook has deteriorated and is less certain than it was when the budget was prepared. As well, Nova Scotia's year-to-date economic indicators have had mixed performance relative to budget assumptions.

External Conditions

While European and Japanese economic difficulties were anticipated at the time of the budget, the European sovereign debt crisis has intensified, a broad range of data has signaled slower global growth, and financial market volatility has increased sharply.

As well, the economic consensus on the US outlook has weakened and revised data indicates the US recession was deeper than originally estimated. Without substantial employment growth, US private households appear unable to sustain a rally in consumer spending, US business investment has stalled and the current account balance is eroding. As US fiscal stimulus diminishes, there is little apparent handoff to private demand in either domestic or international markets. As a result, the economic assumption for the US real GDP growth in 2011 faces negative risks. The Canadian economy remains fragile with economic growth having contracted slightly in the second quarter of 2011. This, however, may be attributed to temporary factors (natural disasters) that will not restrain growth through the rest of the year. The 2011-2012 budget assumption for the Canadian economy already incorporated some downside risk of this type.

Provincial Conditions

There have been conflicting signals about the performance of the Nova Scotia economy in 2011. Year-to-date results for employment and retail sales are below the budget assumption while inflation remains higher than expected. Residential construction activities and exports are better than budget assumptions while manufacturing shipments have also exhibited strong growth to date in 2011.

In the early part of the year, employment carried on an unusual pattern between growth and decline. Although employment has grown more steadily in recent months, average employment from January to August was 0.3 per cent below the same period in 2010 with average unemployment rates of 9.2 per cent. However, labour income growth (+4.1 per cent) continues to outpace employment growth in the first half of 2011, compared with the same period last year.

Nova Scotia retail sales declined through the winter, however, they recovered in the spring. From January to June retail sales averaged +1.8 per cent over the same period in 2010. Although energy and food price inflation are global phenomena, Nova Scotia has experienced more price volatility than elsewhere in Canada. Average consumer prices from January to July 2011 were +3.9 per cent above the same period last year, compared with +2.9 per cent for Canada. However, excluding globally-driven food and energy price volatility, consumer prices were up +1.7 per cent in Nova Scotia, compared to +1.6 per cent nationally.

Year-to-date manufacturing shipments (+15.5 per cent) and domestic exports (+10.4 per cent) have been strong. Residential construction investment declined -0.4 per cent in the first half of 2011 compared with the same period in 2010. However, coming off very strong growth in 2010, this is better than the budget assumption.

There are two domestic risks for the Nova Scotia economic outlook: the impacts of federal spending restraint and the shutdown of the paper mill in Port Hawkesbury. With a high proportion of federal public servants in Nova Scotia, significant federal fiscal consolidation can have an impact on provincial GDP and income. In addition, it is unclear how long the recently announced shutdown at the NewPage paper mill will last, but experience from the 2006 labour dispute illustrates that a protracted closure would have material negative impacts on the economic outlook for Nova Scotia, affecting GDP, exports, income and consumption.

This document and other financial publications can be viewed on the Department of Finance website at:

www.gov.ns.ca/finance