

August 25, 2008

Overview

The Province of Nova Scotia is forecasting a 2008–2009 budget surplus of \$355.4 million, an increase of \$165.7 million over the estimate at budget time.

Total revenues, including net income from Government Business Enterprises, are forecast to be \$8.7 billion, \$188.3 million more than budget. This is primarily due to higher petroleum royalties and the federal crown share adjustment payment.

Total expenses are forecast to be \$8.4 billion, \$18.3 million more than budget, as additional spending in key program areas is offset by lower debt servicing costs.

Although the forecast includes \$128 million more than budgeted for debt reduction, budget pressures from high and volatile energy costs could cause a reduction in the final amount.

Fiscal Summary Fiscal 2008–2009

(\$ thousands)

	Budget	Forecast	Increase (Decrease) from Budget
CONSOLIDATED FUND			
Revenue			
Ordinary Revenues	7,476,037	7,663,042	187,005
Fees and Other Charges	60,834	60,693	(141)
Ordinary Recoveries	456,375	457,838	1,463
Sinking Fund Earnings	114,400	114,400	---
Total Revenues	8,107,646	8,295,973	188,327
Expenses			
Departmental Expenses	7,360,889	7,381,394	20,505
Pension Valuation Adjustment	67,590	69,270	1,680
Debt Servicing Costs	904,522	900,586	(3,936)
Total Expenses	8,333,001	8,351,250	18,249
	(225,355)	(55,277)	170,078
Consolidation and Accounting Adjustments for Governmental Units			
	56,800	52,406	(4,394)
Net Income for Government Business Enterprises			
Nova Scotia Gaming Corporation	136,200	136,200	---
Nova Scotia Liquor Corporation	210,021	210,021	---
Other Enterprises	12,000	12,000	---
	358,221	358,221	---
Provincial Surplus	189,666	355,350	165,684
Components of the Debt Reduction Plan			
Debt Retirement—Contingency	6,365	49,226	42,861
Offshore Offset Agreement	105,884	105,884	---
Restricted Surplus —TCA	65,072	59,990	(5,082)
Other	12,345	140,250	127,905
	189,666	355,350	165,684

Revenues

Total revenues, including net income from Government Business Enterprises of \$358.2 million, are forecast to rise by \$188.3 million to \$8.7 billion.

Provincial source revenues are forecast to increase by \$97.0 million. Petroleum royalties are expected to rise \$71.8 million due to higher natural gas prices and increased production. A prior year's adjustment for petroleum royalties in 2007–2008 is projected to generate an extra \$19.0 million.

Other provincial source revenues are forecast to be up \$8.2 million, as a result of a \$5.4 million legal settlement for tobacco smuggling and higher revenues at Service Nova Scotia and Municipal Relations.

Higher revenues are offset by an anticipated drop of \$3.1 million in motive fuel tax revenue as higher fuel prices result in lower consumption.

Federal source revenues are projected to grow by \$90 million. This increase is attributed to the forecasted crown share payment of \$95.1 million offset by a small decline in Tangible Capital Asset revenue of \$5.1 million.

The forecast for net income from Government Business Enterprises has not changed.

Ordinary Revenue Fiscal 2008–2009

(\$ thousands)

	Budget	Forecast	Increase (Decrease) from Budget
Provincial Revenue Sources			
Personal Income Tax	1,828,653	1,829,403	750
Corporate Income Tax	415,902	416,152	250
Harmonized Sales Tax	1,151,027	1,151,027	---
Tobacco Tax	138,127	138,127	---
Motive Fuel Taxes	246,926	243,843	(3,083)
Interest Revenues	81,823	81,823	---
Registry of Motor Vehicles	98,122	98,122	---
Royalties—Petroleum	513,775	585,600	71,825
Other Provincial Revenues	284,338	292,583	8,245
Prior Years' Adjustments	---	19,000	19,000
TCA Cost Shared Revenue	2,692	2,692	---
Total—Provincial Revenue Sources	4,761,385	4,858,372	96,987
Federal Revenue Sources			
Equalization Payments	1,464,935	1,464,935	---
Offshore Oil and Gas Payments	105,884	105,884	---
Crown Share Adjustment Payment	---	95,100	95,100
Canada Health Transfer	664,185	664,185	---
Canada Social Transfer	296,869	296,869	---
Wait Times Reduction Fund	17,056	17,056	---
Other Federal Sources	40,029	40,029	---
C48 Trust Funds	38,767	38,767	---
C52 Trust Funds	24,547	24,547	---
Prior Years' Adjustments	---	---	---
TCA Cost Shared Revenue	62,380	57,298	(5,082)
Total—Federal Revenue Sources	2,714,652	2,804,670	90,018
Total—Ordinary Revenue	7,476,037	7,663,042	187,005

Expenses

Total expenses for 2008–2009 are forecast to be \$8.4 billion, \$18.3 million higher than budget. Additional program spending and higher pension expenses are offset by lower debt servicing costs.

Departmental expenses have increased by \$20.5 million, primarily to cover rising energy costs, storm damage, and grants to locally managed museums.

Some \$2.8 million of the additional departmental spending is offset by recoveries from other governments, agencies, and fees.

Another \$2.2 million relates to the move to gross departmental expenses. The revised accounting treatment is applied to administration fees for federal collection of taxes through the Department of Finance; credit card fees at Service Nova Scotia and Municipal Relations; and bad debt expenses for uncollectible fines at Justice. Corresponding increases are shown in revenues to offset these expenses.

Departmental Expenses Fiscal 2008–2009

(\$ thousands)

	Budget	Forecast	Increase (Decrease) from Budget
Agriculture	59,563	59,563	---
Community Services	912,570	912,570	---
Economic Development	91,645	92,670	1,025
Education and Universities	1,492,255	1,493,593	1,338
Energy	21,817	21,817	---
Environment	44,607	45,362	755
Finance	29,871	30,871	1,000
Fisheries and Aquaculture	7,463	7,463	---
Health	3,205,939	3,205,700	(239)
Health Promotion and Protection	87,526	87,526	---
Justice	262,244	263,253	1,009
Labour and Workforce Development	62,443	62,115	(328)
Natural Resources	84,638	85,641	1,003
Public Service	156,350	156,350	---
Seniors	2,127	2,127	---
Service Nova Scotia and Municipal Relations	254,539	255,850	1,311
Tourism, Culture and Heritage	56,727	58,952	2,225
Transportation and Infrastructure Renewal	350,875	354,281	3,406
Restructuring Costs	177,690	185,690	8,000
Total—Departmental Expenses	<u>7,360,889</u>	<u>7,381,394</u>	<u>20,505</u>

Departmental Expenses — Major Variances

Restructuring — \$8.0 million has been established as a contingency for increased energy costs for school boards.

Transportation and Infrastructure Renewal: \$3.4 million

- \$1.5 million in highway programs primarily related to storm damage
- \$1.0 million in amortization due to increased capital spending
- \$0.9 million relates to costs that are offset by increased recoveries from municipalities and third parties

Tourism, Culture and Heritage: \$2.2 million for grants to locally managed museums.

Education: \$1.3 million

- \$2.0 million for the preventive maintenance program
- \$1.0 million for increases in the NSTU insurance premiums
- The additional expenses are partially offset by various savings across the department

Natural Resources: \$1.0 million for additional fire fighting costs including the Porters Lake/Lake Echo fire.

Economic Development: \$1.0 million for Industrial Expansion Fund initiatives.

Tangible Capital Assets

Increased spending of \$37.4 million on tangible capital assets is primarily due to increases of \$31.9 million for Highways and Bridges, \$0.5 million for ferries and boats, and \$2.6 million for Public Works and Special Projects at the Department of Transportation and Infrastructure Renewal.

These increases mainly reflect the rising cost of asphalt and construction for previously budgeted projects. The Department of Community Services will acquire an additional \$2 million in buildings and other assets from the transfer of the four Children's Aid Societies to the Department this year.

Pension Valuation Adjustment

The Pension Valuation Adjustment is forecast to increase by \$1.7 million to \$69.3 million. This is a result of four Family and Children Services agencies entering the government pension plan.

Debt Servicing Costs

Debt Servicing Costs are forecast to drop \$3.9 million compared to budget, as the crown share adjustment payment is applied to the debt.

The \$234.4 million payment from the federal government, which represents Nova Scotia's entitlement for 2007–2008 and prior years, is expected by October.

The province committed to put \$164.4 million on the debt, with the remaining \$70.32 million attributed to funding for offshore research, protection of natural spaces, and university infrastructure in 2007–2008.

Debt Reduction Plan

The surplus is forecast to be \$355.4 million, an increase of \$165.7 million.

This includes a \$105.9 million legislated surplus from the offshore offset agreement, and a restricted Tangible Capital Asset (TCA) surplus of \$60.0 million, down \$5.1 million from budget.

There is also a debt retirement contingency of \$49.2 million, up \$42.9 million from budget. This is related to increased spending on TCA, primarily highways, and a decrease in TCA cost-shared revenue. The balance of the surplus is \$140.3 million, which includes \$95.1 million of the crown share adjustment payment.

Economic Performance and Outlook — 2008

Nova Scotia's real Gross Domestic Product (GDP) growth for 2008 continues to be forecast at 1.7 per cent, consistent with estimates of economic growth at budget. This matches the average of private sector forecasts for Nova Scotia as of August 12, 2008. Pressure from the high Canadian dollar and a slower United States economy are offset by favorable labour market conditions, and higher than anticipated retail sales.

Labour market conditions continue to improve with employment growth posting a 1.1 per cent increase for the first seven months this year, which is higher than the budgeted growth of 0.9 per cent. The unemployment rate has fallen to 7.6 per cent, a decrease of 0.5 per cent from the budgeted rate of 8.1 per cent. Labour income has grown by 5.0 per cent for the first quarter, down slightly from the budgeted growth of 5.4 per cent.

Retail sales are up 5.7 per cent in large part due to new car sales. This increase in retail sales is higher than the estimated 4.4 per cent increase at budget. Residential capital investments are up 4.8 per cent for the first quarter, 2.0 per cent higher than budget. The increase is attributed to new home construction, with renovation expenditures down.

The relatively high value of the Canadian dollar and a slower US economy are having a negative effect on export sales. Total value of international merchandise is down 3.4 per cent for the first five months, with lumber, gypsum, shellfish and newsprint being affected. There is positive growth in international exports of natural gas due to higher prices and production.

Inflation is expected to be higher than assumed at budget time, with the Consumer Price Index at 3.1 per cent compared to the budget projection of 2.0 per cent. The increase is primarily the result of higher energy prices.

2008–2009 Forecast Opportunities and Risks

Nova Scotia's budget forecasts are updated three times a year to reflect changes in data and economic trends that may affect year-end financial results. The August 2008 update reflects the data available at this time.

However, the province has identified a number of potential risks that may put pressure on final results for 2008–2009. Where new information is available, the forecast has been adjusted to reflect these risks. Other changes will be reflected, if necessary, in future forecasts.

Volatile energy costs have the potential to cause significant uncertainties for the Nova Scotia budget. These range from higher fuel costs for government funded programs and institutions to volatility in revenues from offshore natural gas resources. Government will be closely monitoring the volatile energy environment and making forecast changes where required.

Tax revenues remain unchanged since budget. However, new federal data in early winter will provide us with greater degrees of certainty around income taxes, HST, and CHT/CST forecasts.

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www.gov.ns.ca/finance