NOVA SCOTIA Finance

Forecast Update

The Honourable Graham Steele, Minister of Finance

March 20, 2012

Overview

The Province of Nova Scotia is forecasting a deficit of $260.8 million for 2011–2012, a reduction of $128.8 million from the estimate at budget time. This is the result of lower-than-estimated expenses and an increase in net income from Government Business Enterprises, partially offset by lower-than-expected revenues.

Total revenues, including net income from Government Business Enterprises, are forecast to be $8.9 billion, an increase of $7.1 million from budget. Total expenses, including consolidation and accounting adjustments, are forecast to be $9.2 billion, $121.7 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	7,760,174	(11,375)
Fees and Other Charges	64,896	71,575	6,679
Ordinary Recoveries	582,751	581,554	(1,197)
Sinking Fund Earnings	104,803	105,596	793
Total Revenues	**8,523,999**	**8,518,899**	**(5,100)**
Expenses			
Departmental Expenses	8,344,763	8,272,597	(72,166)
Tax Credits and Rebates	74,943	70,000	(4,943)
Pension Valuation Adjustment	31,761	42,991	11,230
Debt Servicing Costs	885,485	838,124	(47,361)
Total Expenses	**9,336,952**	**9,223,712**	**(113,240)**
	(812,953)	**(704,813)**	**108,140**
Consolidation and Accounting Adjustments for Governmental Units	**68,817**	**77,280**	**8,463**
Net Income from Government Business Enterprises			
Nova Scotia Gaming Corporation	112,900	133,100	20,200
Nova Scotia Liquor Corporation	228,066	220,548	(7,518)
Other Enterprises	13,613	13,088	(525)
	354,579	**366,736**	**12,157**
Provincial Surplus (Deficit)	**(389,557)**	**(260,797)**	**128,760**

Ordinary Revenue Fiscal 2011–2012

($ thousands)

	Budget	Forecast	Increase (Decrease) from Budget
Provincial Revenue Sources			
Personal Income Tax	1,981,275	2,061,800	80,525
Corporate Income Tax	393,743	369,445	(24,298)
Harmonized Sales Tax	1,621,243	1,581,800	(39,443)
Tobacco Tax	213,112	211,100	(2,012)
Motive Fuel Taxes	253,653	251,900	(1,753)
Interest Revenues	96,617	73,416	(23,201)
Registry of Motor Vehicles	110,897	115,038	4,141
Royalties—Petroleum	110,352	117,955	7,603
Other Provincial Sources	285,186	304,635	19,449
Prior Years' Adjustments	---	(77,411)	(77,411)
TCA Cost Shared Revenue	3,150	2,956	(194)
Total Provincial Revenue Sources	**5,069,228**	**5,012,634**	**(56,594)**
Federal Revenue Sources			
Equalization Payments	1,342,552	1,407,243	64,691
Offshore Oil and Gas Payments	167,755	167,755	---
Crown Share	21,666	26,726	5,060
Canada Health Transfer	758,947	759,934	987
Canada Social Transfer	315,047	315,916	869
Wait Times Reduction Fund	6,840	6,859	19
Other Federal Sources	16,410	10,354	(6,056)
C52 Trust Funds	700	700	---
Knowledge Infrastructure Program	4,641	5,329	688
Prior Years' Adjustments	---	(436)	(436)
TCA Cost Shared Revenue	67,763	47,160	(20,603)
Total Federal Revenue Sources	**2,702,321**	**2,747,540**	**45,219**
Total Ordinary Revenue	**7,771,549**	**7,760,174**	**(11,375)**

Revenues

Total revenues, including net income from Government Business Enterprises of $366.7 million, are forecast to be $8.9 billion, $7.1 million more than the 2011–2012 budget estimate. This represents a decrease in general revenues of $5.1 million, and an increase in net income from Government Business Enterprises of $12.2 million. Provincial source revenues are down $56.6 million from the 2011–2012 budget, while federal source revenues are up $45.2 million.

Personal Income Taxes—Estimates have been revised upwards for both 2011 and 2012. This reflects continued strength in labour market conditions and marginal growth in employment income compared to the budget estimate. In addition, the expected cost of personal income tax credits has been reduced based upon lower take-up rates.

Corporate Income Taxes—Although federal estimates of national corporate taxable income have been revised upward, this is offset by the share of taxable income assessed at the Province's small business rate rising sharply above budget estimates.

Harmonized Sales Tax—Consumer expenditures on goods and services accounts for approximately 71 per cent of the province's tax base and projected growth in this base for 2011 and 2012 has declined since the budget estimate. This is partially offset by stronger-than-anticipated growth in residential housing investment.

Tobacco Tax—Cigarettes account for 91 per cent of consumption volume in the forecast, and their expected consumption has declined by 1.1 per cent since the budget estimate. Consumption is on the decline as a result of tobacco price increases and long-term cessation trends.

Motive Fuel Taxes—This reduced forecast reflects a decrease in the expected level of both gasoline and diesel oil consumption due to higher retail prices than anticipated in the budget estimate. The effect of the decline in consumption is partially offset by stronger labour income growth.

Offshore Royalties—The increase is primarily as a result of higher-than-anticipated levels of production and lower-than-expected capital and operating costs. World natural gas prices have declined but world market prices for oil are higher than budgeted.

Interest Revenues—This reduction results primarily from a reclassification of swaps, with the remainder resulting from decreased interest earnings at the Housing Development Corp. and in other short-term investments. The decrease in revenues associated with reclassification of swaps is offset by a corresponding similar decrease in debt servicing costs.

Registry of Motor Vehicles—The increase results from higher-than-expected revenue from fines, motor vehicle inspections and miscellaneous vehicle registrations and driver licenses.

Other provincial sources—This increase reflects higher-than-estimated corporation capital tax; increased revenue from capital tax on non-financial institutions; higher-than-expected sales of lumber cut under the forest plan, mineral royalties, and Emergency Health Service recoveries; and, an increase in revenues at the Securities Commission. These increases are partially offset by a decline in Registry of Deeds revenue, pharmacare premiums, and casino win tax, as well as a reduction in fines at Justice.

Prior Year Adjustments (PYAs) from provincial sources—The negative PYAs are related to Personal Income Tax, Corporate Income Tax, Large Corporations Tax, Offshore Royalties, and Harmonized Sales Tax. The personal income tax PYAs are the result of a lower yield on 2010 personal taxable income than forecasted at the time Public Accounts were prepared. Corporate Income tax PYAs are attributable to a reduction in 2010 taxable income.

Equalization and the Offshore Accord Payments—These payments are based on the province's election to receive payments calculated according to the Expert Panel approach. This is a one-estimate, one-payment approach and as a result the forecast for payments under the Expert Panel formula is equal to the budget estimate. In addition, the province expects to receive a cumulative best-of guarantee payment of $82.7 million, up $64.7 million from the budget estimates, which is included in the equalization forecast number. The Federal government provided a final estimate of the interim approach in December 2011.

Crown Share—Federal regulations respecting the Crown Share Adjustment Payment have been finalized. The increase reflects changes to the key assumptions involved in calculating the payment (e.g., oil and natural gas prices, exchange rates, and the operating and capital costs of interest holders).

Canada Health Transfer and Canada Social Transfer—These are forecast to increase based upon revised federal estimates of population.

Other Federal Revenue—The reduction results from reduced Building Canada funding.

TCA Cost Shared Revenue—Decreases at Transportation and Infrastructure Renewal related to funding for the World Trade Centre project being moved from 2011–2012 to 2012–2013, and at Health and Wellness due to the timing of capital projects, are partially offset by an increase at Communities Culture and Heritage for the Bluenose project.

Fees and Other Charges—The increased forecast results from higher-than-expected fees collected from the Agricultural College and for ambulance services.

Net Income from Government Business Enterprises

Net income from Government Business Enterprises is forecast to be higher because of an increase of $20.2 million at the Nova Scotia Gaming Corporation, which results from a one-time HST recovery, and a change in the implementation date of the *My Play* system. The Nova Scotia Liquor Corporation is expected to be down $7.5 million primarily because of lower-than-expected beer sales. Income from the Halifax-Dartmouth Bridge Commission is expected to improve by $1.7 million due to reduced operating costs. Accounting changes to International Financial Reporting Standards, mostly around depreciation, caused a $2.2 million reduction in income for the Highway 104 Western Alignment Corporation.

Departmental Expenses Fiscal 2011–2012

($ thousands)

	Budget	Forecast	Increase (Decrease) from Budget
Agriculture	61,115	63,907	2,792
Communities, Culture and Heritage	55,100	54,694	(406)
Community Services	985,084	976,845	(8,239)
Economic and Rural Development and Tourism	125,610	117,539	(8,071)
Education	1,135,237	1,130,023	(5,214)
Energy	30,462	30,055	(407)
Environment	27,582	26,994	(588)
Finance	36,007	34,407	(1,600)
Fisheries and Aquaculture	8,462	8,338	(124)
Health and Wellness	3,768,259	3,758,800	(9,459)
Justice	302,036	298,086	(3,950)
Labour and Advanced Education	345,211	341,532	(3,679)
Assistance to Universities	384,792	388,068	3,276
Natural Resources	92,845	99,897	7,052
Public Service	178,938	169,843	(9,095)
Seniors	1,881	1,888	7
Service Nova Scotia and Municipal Relations	274,761	260,764	(13,997)
Transportation and Infrastructure Renewal	420,362	412,415	(7,947)
Restructuring Costs	111,019	98,501	(12,518)
Total Departmental Expenses	**8,344,763**	**8,272,597**	**(72,166)**

Expenses

For a third year in a row, spending is expected to come in under budget. Total expenses for 2011–2012 are forecast to be $9.2 billion, $121.7 million under budget due to decreases in departmental spending, debt servicing costs, and consolidation and accounting adjustments, partially offset by increases to the pension valuation adjustment.

Departmental Expenses

Total departmental expenses for 2011–2012 are forecast to be $8.3 billion, $72.2 million under budget.

Agriculture is forecasting to be over budget primarily due to increases in the Nova Scotia Agricultural College operational expenses, including casual research staff conversion costs, international program requirements, utility cost increases, and student services increases.

Community Services is forecasting to be under budget. Lower-than-expected spending in the Family Services Division is due to a combination of declining caseloads in the Child Welfare Maintenance program and delays in Early Learning and Child Care (ELCC) expansion projects. There was also lower spending in Housing Services, which was primarily due to reduced stimulus operating spending. These reductions were partially offset by increased spending in Services for Persons with Disabilities and Employment Support and Income Assistance due to rising special needs requirements and increased caseloads.

Economic and Rural Development and Tourism is forecasting to be under budget primarily due to the timing of investments in Nova Scotia Jobs Fund.

Education is forecasting to be under budget primarily due to an adjustment to school amortization to reflect delayed opening dates for several new schools, as well as delays in design and materials for dust collector repairs.

Finance is forecasting to be under budget primarily due to salary and operational savings.

Health and Wellness is under budget primarily due to some construction delays for Long Term Care beds as well as underspending in other programs and initiatives. This is expected to be partially offset by increased spending for Capital Grants for emergency infrastructure and equipment requirements for district health authorities, and increased spending for Home Care and Pharmaceutical Services.

Justice is forecasting to be under budget primarily due to salary and administrative savings. This is partially offset by increased operational spending for grants such as disaster assistance and legal aid.

Labour and Advanced Education is forecasting to be underspent primarily due to temporary vacancies and operational efficiencies.

Assistance to Universities is forecasting to be overspent primarily due to a combination of assistance provided to NSCAD, as well as the establishment of an Innovation Fund for universities. However, an advance payment to two universities eliminated the underspend reported in the September and December forecast updates.

Natural Resources is forecasting to be over budget due to ongoing measures to address 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 primarily due to lower-than-anticipated spending for the Building Canada Fund.

Transportation and Infrastructure Renewal is projecting to be under budget primarily due to reduced amortization expenses, as the result of lower-than-expected capital project spending. In addition, the mild winter resulted in lower-than-expected spending on snow and ice removal.

Public Service

The Treasury Board Office is transferring $6.0 million from the Innovation Fund to Tangible Capital Assets (TCA) for approved capital projects for Service Nova Scotia and Municipal Relations, Finance, and the Chief Information Office, offset by funding for emergency equipment and repairs.

Nova Scotia Business Inc. (NSBI) is forecasting savings of $3.3 million primarily due to a reduction in payroll rebate payments through the Strategic Investment Fund.

The Chief Information Office is forecasting savings of $1.6 million due to a reduction in both amortization and operational expenses.

The Public Prosecution Service is forecasting to be over budget by $1.6 million primarily related to salary and operational pressures.

Gross Debt Servicing Costs

Gross Debt Servicing Costs are forecast to drop by $47.4 million. Of this reduction $19.6 million results from reclassifying asset swaps, which is offset by the reduction in interest revenue as previously noted. Favourable interest rate movements have resulted in long and short-term debt servicing costs being a combined $34.5 million lower than budget. These declines are partially offset by an increase in pension debt service costs of $6.7 million as a result of lower returns on plan assets and a decrease in the discount rate.

Pension Valuation Adjustment

The Pension Valuation Adjustment is forecast to be up by $11.2 million, of which $7.0 million is the result of the recent Judges' tribunal setting indexing for the provincial judges at 75% of CPI as opposed to indexing at the legislated rate for the Public Service Superannuation Plan. The remainder is due to changes resulting from actuarial reviews.

Capital Spending

Tangible Capital Assets (TCA)

The province is forecasting to be under budget on TCA spending by $3.5 million, primarily due to reduced capital spending in: Transportation and Infrastructure Renewal ($19.0 million) for weather-related construction delays; Education ($3.5 million) for delays in new school construction; and IT project delays ($4.4 million). This was almost entirely offset by the land purchase for the Bowater Mersey investment ($25.0 million).

Capital Grants

The province is forecasting to be over budget on capital grant spending by $7.4 million. This is primarily due to additional grant funding for Health and Wellness to address funding needs for emergency equipment and infrastructure.