

September 22, 2010

Overview

The Province of Nova Scotia is forecasting a budget deficit of \$203.2 million for 2010–2011, an improvement of \$18.9 million over the estimate at budget time. The variance is made up of lower than expected expenses, which have been partially offset by lower than expected revenues.

Total revenues, including net income from Government Business Enterprises are forecast to be \$8.7 billion, a decrease of \$16.2 million from budget. Total expenses, including departmental expenses, tax credits and rebates, pension valuation, debt servicing costs and consolidation and accounting adjustments are forecast to be \$8.9 billion, \$35.3 million lower than budget.

Fiscal Summary Fiscal 2010–2011

(\$ thousands)

	Budget	Forecast	Increase (Decrease) from Budget
GENERAL REVENUE FUND			
Revenue			
Ordinary Revenue	7,623,118	7,608,688	(14,430)
Fees and Other Charges	62,537	62,721	184
Ordinary Recoveries	616,284	612,113	(4,171)
Sinking Fund Earnings	89,092	91,726	2,634
Total Revenues	8,391,031	8,375,248	(15,783)
Expenses			
Departmental Expenses	8,021,916	8,012,490	(9,426)
Tax Credits and Rebates	54,800	54,800	---
Pension Valuation Adjustment	8,448	9,012	564
Debt Servicing Costs	959,197	932,905	(26,292)
Total Expenses	9,044,361	9,009,207	(35,154)
	(653,330)	(633,959)	19,371
Consolidation and Accounting Adjustments for Governmental Units			
	82,674	82,551	(123)
Net Income from Government Business Enterprises			
Nova Scotia Gaming Corporation	116,400	116,400	---
Nova Scotia Liquor Corporation	223,459	223,459	---
Other Government Business Enterprises	8,714	8,346	(368)
	348,573	348,205	(368)
Provincial Surplus (Deficit)	(222,083)	(203,203)	18,880

Ordinary Revenue Fiscal 2010–2011

(\$ thousands)

	Budget	Forecast	Increase (Decrease) from Budget
Provincial Revenue Sources			
Personal Income Tax	1,896,905	1,879,875	(17,030)
Corporate Income Tax	343,620	343,620	---
Harmonized Sales Tax	1,413,115	1,420,106	6,991
Tobacco Tax	193,847	200,467	6,620
Motive Fuel Taxes	248,594	250,677	2,083
Interest Revenues	93,461	90,908	(2,553)
Registry of Motor Vehicles	108,720	109,538	818
Royalties—Petroleum	173,640	161,389	(12,251)
Other Provincial Revenues	264,569	277,408	12,839
Prior Years' Adjustments	---	(3,446)	(3,446)
TCA Cost Shared Revenue	9,650	9,780	130
Total—Provincial Revenue Sources	<u>4,746,121</u>	<u>4,740,322</u>	<u>(5,799)</u>
Federal Revenue Sources			
Equalization Payments	1,360,722	1,360,722	---
Offshore Oil and Gas Payments	227,225	227,225	---
Crown Share	33,498	33,498	---
Canada Health Transfer	724,564	724,564	---
Canada Social Transfer	307,575	307,575	---
Wait Times Reduction Fund	6,879	6,879	---
Other Federal Sources	42,742	42,742	---
C52 Trust Funds	3,415	3,415	---
Budget 2008 Trust Funds	16,283	16,436	153
Knowledge Infrastructure Program	38,003	37,611	(392)
TCA Cost Shared Revenue	116,091	107,699	(8,392)
Total—Federal Revenue Sources	<u>2,876,997</u>	<u>2,868,366</u>	<u>(8,631)</u>
Total—Revenue	<u>7,623,118</u>	<u>7,608,688</u>	<u>(14,430)</u>

Revenues

Total revenues, including Net Income from Government Business Enterprises of \$348.2 million are forecast to be \$8.7 billion, \$16.2 million less than the 2010–2011 budget estimate. This represents a decrease in general revenues of \$15.8 million, with Net Income from Government Business Enterprises declining by \$0.4 million. Provincial source revenues are down \$5.8 million from the 2010–2011 budget.

Personal Income Taxes (PIT) are forecast to decline by \$17.0 million from the budget estimate due to a forecast decrease in national taxable personal income.

Harmonized Sales Taxes (HST) are projected to increase by \$7.0 million as a result of a modest increase in the provincial tax base as determined through federal estimates received in May 2010.

Tobacco tax revenues are up \$6.6 million from budget, due primarily to higher than expected consumption of legal tobacco products.

Motive Fuel taxes are forecast to be up from the budget estimate by \$2.1 million due to increased consumption, particularly diesel oil.

Offshore Royalties are forecast to decline by \$12.3 million from estimate primarily as a result of natural gas prices being lower than projected at budget time. The price related decline is partially offset by reduced operating costs forecasted for 2011.

Interest revenues have declined \$2.6 million from budget, mainly due to a decline in projected interest associated with Housing Development Corporation loans.

Registry of Motor Vehicles revenues are up \$0.8 million due primarily to increases in both commercial and passenger vehicle registrations.

There is a negative Prior Year Adjustment from provincial sources of \$3.4 million, due to new federal estimates for prior years' taxes, and the timing of royalty revenues.

Overall federal source revenues are forecast to decline \$8.6 million from the 2010–2011 estimate, mainly (\$8.4 million) 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.

Ordinary recoveries are forecast to be \$4.2 million lower than budget. This is primarily due to a \$6.5 million reduction for Labour Market agreements at Labour and Workforce Development, and a \$2.1 million decrease at Community Services for Housing services, which are partially offset by additional recoveries of \$2.4 million at Transportation and Infrastructure Renewal for road and bridge work, and \$1.7 million at Education.

Net Income from Government Business Enterprises

Total Net Income from Government Business Enterprises is forecast to be \$348.2 million, down \$0.4 million from budget primarily as a result of changes in financial reporting for cost shared capital projects at the Halifax Dartmouth Bridge Commission.

Departmental Expenses Fiscal 2010–2011

(\$ thousands)

	Budget	Forecast	Increase (Decrease) from Budget
Agriculture	60,879	60,866	(13)
Community Services	971,562	971,562	---
Economic and Rural Development	107,978	107,978	---
Education and Universities	1,376,008	1,376,889	881
Energy	35,943	35,943	---
Environment	52,777	48,635	(4,142)
Finance	33,870	33,870	---
Fisheries and Aquaculture	13,231	13,228	(3)
Health	3,634,935	3,634,935	---
Health Promotion and Protection	88,383	88,383	---
Justice	289,487	289,365	(122)
Labour and Workforce Development	182,918	176,580	(6,338)
Natural Resources	95,441	95,441	---
Public Service	194,467	192,854	(1,613)
Seniors	1,902	1,902	---
Service Nova Scotia and Municipal Relations	312,304	311,824	(480)
Tourism, Culture and Heritage	61,065	61,065	---
Transportation and Infrastructure Renewal	397,343	399,747	2,404
Restructuring Costs	111,423	111,423	---
Total—Departmental Expenses	<u>8,021,916</u>	<u>8,012,490</u>	<u>(9,426)</u>

Departmental Expenses

Total expenses for 2010–2011 are forecast to be \$9.0 billion, \$35.2 million under budget due to both decreased departmental expenses and debt servicing costs.

Additional spending in the Department of Education of \$1.3 million is for an increase in Student Assistance expenses and new marine simulators at the Nova Scotia Community College, which are both fully recoverable. These increases are partially offset by vacancy savings.

The Environment Department is under budget by \$4.1 million primarily due to reduced spending on EcoTrust projects based on higher than expected actual spending in 2009-2010.

Labour and Workforce Development is forecast to be under spent by \$6.3 million due to reductions in the labour market agreement programs. As these expenses are recoverable from the federal government there will be a corresponding decrease in recoveries.

Service Nova Scotia and Municipal Relations is forecasting \$0.5 million under budget primarily due to amortization savings resulting from revised implementation dates of capital projects.

Transportation and Infrastructure Renewal is forecasting an increase of \$2.4 million more than budget primarily as a result of increased road work, which is completely offset by recoveries.

Public Service

Treasury Board Office is transferring \$1.3 million from the Innovation Fund to TCA, due to the approval of a capital project.

Gross Debt Servicing Costs

Gross Debt Servicing Costs are forecast to drop by \$26.3 million to \$932.9 million, compared to \$959.2 million at budget. The change is primarily as a result of favorable interest rate movements resulting in savings of \$25.4 million. These savings are partially offset by a \$0.3 million increase in General Interest costs. In addition there is an interest savings of \$1.2 million on pension and other obligations, related to final data from 2009-2010 year end.

Pension Valuation Adjustment

The Pension Valuation Adjustment is forecast to increase by \$0.6 million to \$9.0 million, as a result of final data from 2009-2010 year end.

Economic Performance and Outlook – 2010 and 2011

Since the 2010–2011 Budget assumptions were released, the global outlook has improved, but so have the risks and uncertainties.

Lacklustre US prospects continue to weigh on Canada's economic expansion. Still, Canada is expected to recover faster than other industrialized countries. A strong first quarter was followed by disappointing growth in the second quarter. Growth in the second half of this year is anticipated to be slow with unwinding stimulus and other fiscal consolidation. Still, most private sector outlooks exceed the 2.7 per cent Budget assumption.

Preliminary data from Statistics Canada suggest that Nova Scotia's economy experienced a slight contraction last year (-0.5 per cent). This recession was milder than that experienced in many provinces. Despite resilient domestic demand, Nova Scotia's trade sector remains affected by the weak global prospects. Natural gas export values are down 53.3 per cent over the first seven months of the year. Residential construction grew by 23.5 per cent and non-residential construction grew by 6.4 per cent in the first half of 2010. Retail sales have already surpassed pre-recession levels. Employment has almost recovered to pre-recession levels.

New data suggests weaker employment growth than was anticipated in the Budget, offset by stronger wage and price growth. Overall, the Budget economic assumptions remain a prudent and reasonable basis for fiscal planning. As a result, the Department of Finance has made no changes to the economic assumptions.

Risks to the Forecast

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 September 2010 update reflects data available at this time.

The province has identified potential positive and negative risks that may affect final results for 2010-2011. Changes will be reflected, if necessary in future forecasts.

Corporate income tax revenues and HST have remained relatively unchanged since budget. Early indications are that national corporate taxable income may be higher than anticipated. New federal data in late fall will provide us with a greater degree of certainty around income tax and HST forecasts.

Volatile energy prices have the potential to cause significant uncertainties for the Nova Scotia budget. Petroleum royalties will be closely monitored and forecast changes will be made where required.

Departments will continue to experience expenditure pressures particularly in Health and Community Services. Unbudgeted costs associated with the Meat Cove flooding are yet to be finalized, but will be reflected in EMO's budget forecast in the next update.

Volatility in interest rate levels and credit market conditions, given the still uncertain economic recovery, have the potential to affect debt service costs going forward.

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