



Forecast Update

December 18, 2023

*The Honourable Allan MacMaster
Minister of Finance and Treasury Board*



© Crown copyright, Province of Nova Scotia, 2023

ISBN 978-1-77448-554-5

This document and other financial publications can be viewed on the
Department of Finance and Treasury Board website at:
beta.novascotia.ca/budget-forecast-updates

Introduction

The Forecast Update provides a fiscal outlook for Nova Scotia for 2023–24. This is based on updated information about the major components of revenue and expenses as set out in the 2023–24 Budget Estimates, tabled in March 2023.

Relative to the 2023–24 Budget Estimates, the forecasted budgetary deficit is expected to improve. The Province of Nova Scotia is forecasting a deficit position of \$264.3 million, a decrease of \$14.6 million from the Budget's deficit position of \$278.9 million.

There has been an accounting reclassification which has impacted revenues: \$178.7 million has been moved from the Consolidation and Accounting Adjustments to Net Income from Government Business Enterprises. In addition to this accounting change, revenues from other sources have increased by \$492.7 million. The change in the deficit position is attributed to this net increase in revenue, relative to increases in expenses of \$440.2 million and a net decrease in Consolidation and Accounting Adjustments of \$37.9 million.

This Forecast Update shows that the plan laid out in Budget 2023–24 is on track. While continuing to make investments in key priority areas including healthcare, housing, and healthy communities, this forecast also includes expenses known to-date of the extreme weather events in the fiscal year.

Overview

The Province of Nova Scotia is forecasting a deficit of \$264.3 million. This is an improvement of \$14.6 million from the budgeted deficit in the 2023–24 Budget Estimates.

Total Revenue, including Ordinary Revenue, Ordinary Recoveries, and Net Income from Government Business Enterprises (GBEs), is forecast to be \$14.8 billion. An accounting adjustment has resulted in a \$178.7 million increase in Net Income from Government Business Enterprises, as well as an offsetting reduction in Consolidation and Accounting Adjustments. There is a net revenue increase of \$492.7 million from Budget. These combined changes result in total revenues increasing by \$671.4 million.

Forecast changes in Ordinary Revenue include increases of \$355.9 million in Tax Revenue, \$5.3 million in Other Provincial Revenue, \$37.7 million for Investment Income, and \$9.0 million in Federal Revenue Sources.

Ordinary Recoveries revenue is forecast to increase by \$83.4 million from Budget. Net Income from GBEs is expected to increase by \$180.0 million, largely attributable to an accounting reclassification.

Total Expenses are forecast to be \$15.3 billion, an increase of \$440.2 million from the Budget Estimates. Expenses are predicted to be higher due to projected increases in Departmental Expenses of \$421.9 million, Debt Servicing Costs of \$23.4 million, and Refundable Tax Credits of \$2.5 million offset by a reduction in the Pension Valuation Adjustment of \$7.7 million.

Consolidation and Accounting Adjustments are \$216.6 million lower than budgeted, and positively improve the bottom line by \$155.9 million

Fiscal Summary 2023–24

(\$ thousands)

General Revenue Fund	Budget	September Update	December Update	Increase (Decrease) from Budget	Increase (Decrease) from Sept
Revenues					
Ordinary Revenue	12,897,256	13,031,398	13,305,251	407,995	273,853
Ordinary Recoveries	986,210	1,084,722	1,069,657	83,447	(15,065)
Net Income from Government Business Enterprises*	285,422	463,779	465,413	179,991	1,634
Total - Revenue	14,168,888	14,579,899	14,840,321	671,433	260,422
Expenses					
Departmental Expenses	13,850,652	14,184,003	14,272,540	421,888	88,537
Refundable Tax Credits	136,099	137,561	138,636	2,537	1,075
Pension Valuation Adjustment	66,639	66,639	58,968	(7,671)	(7,671)
Debt Servicing Costs	766,911	795,164	790,348	23,437	(4,816)
Total - Expenses	14,820,301	15,183,367	15,260,492	440,191	77,125
Consolidation and Accounting Adjustments for Governmental Units*	372,488	200,732	155,871	(216,617)	(44,861)
Provincial Surplus (Deficit)	(278,925)	(402,736)	(264,300)	14,625	138,436

* As a result of changes in accounting treatment for the Nova Scotia Gaming Corporation since the time of Budget, the net results from the casino and lottery operating segments are now reflected in Net Income from GBEs instead of Consolidation and Accounting Adjustments

Economic Performance and Outlook

Before receiving the results of actual tax revenues collected, the province relies on economic forecasts and statistical relationships with historical administrative data to estimate tax revenues.

External Outlook

Global Economy: Growth has been slow and uneven for the global economy following the COVID-19 pandemic. Russia's ongoing invasion of Ukraine and subsequent high inflation raised the cost-of-living and triggered a sharp rise in interest rates. Thus far, monetary tightening is slowing inflation without wider recessionary impacts, though core inflation has persisted. It is now expected that inflation will return to target by 2025. The International Monetary Fund (IMF) World Economic Outlook report released in October 2023 estimates that global real Gross Domestic Product (GDP) growth will soften to 3.0 per cent in 2023 and 2.9 per cent in 2024.

Europe: Labour markets remain strong in the Euro Area, although signs of weakness have emerged in recent months. Unemployment remains low at 6.5 per cent as of October although job creation is slowing. Inflation has continued to decline from a peak of 10.6 per cent in October 2022 to 2.9 per cent in October 2023. Ongoing exposure to the war in Ukraine and tighter monetary conditions will keep Euro Area growth subdued. The IMF projects the Euro Area GDP to grow 0.7 per cent in 2023 and 1.2 per cent in 2024 in real terms.

China: Following strength in the first quarter, China's economic growth has been subdued. The residential sector in China is facing significant challenges. Consumer confidence has been impacted by funding constraints on property developers and labour market uncertainty. Industrial production, business investment and exports have also weakened due to lower demand and geopolitical uncertainty. According to the IMF, China's real GDP is forecast to grow 5.0 per cent in 2023 and 4.2 per cent in 2024.

United States: The United States (US) economy has been stronger than expected in 2023, largely due to robust consumer spending. The US economy has seen five consecutive quarters of strong growth. Consumers have continued to draw down excess savings that were accumulated during the pandemic. US inflation slowed to 3.2 per cent in October 2023, down from its peak of 9.1 per cent in June 2022.

Growth in US real GDP is expected to slow in 2024 as the impacts of higher interest rates fully materialize. US consumer spending is forecast to slow as households reach the end of accumulated savings. Job creation has slowed in the US through 2023 and is expected to weaken further into 2024. US housing markets are also expected to slow. The Department of Finance and Treasury Board (FTB) outlook assumes that in real terms the US economy will grow by 2.1 per cent in 2023 and 1.0 per cent in 2024.

Canada: Growth has been uneven in Canada through 2023 with weaker global demand, tight financial conditions, and extreme weather across the country. Consumer spending has not been as resilient in Canada as in the US. Household purchasing power has been diminished by high interest rates and rising prices (especially for food and shelter). The Canadian housing market has cooled, and business investment has been weak due to high borrowing costs. Tightness in the labour market has eased somewhat as job vacancies have declined, while unemployment remains historically low.

Inflation across Canada has slowed from its peak of 8.1 per cent in June 2022 to 3.1 per cent in October 2023. However, prices are proving to be sticky. The Bank of Canada forecasts inflation to average 3.9 per cent in 2023, 3.0 per cent in 2024, and expects that inflation will return to target by the end of 2025. Given

the easing of inflation and overall softness of economic growth, the Bank of Canada maintained the policy rate at 5.0 per cent in December 2023.

Higher interest rates are expected to weigh on household consumption and business activity through 2024. The slowdown in the US will also impact Canada's exports. As the effects of tighter financial conditions wane, business investment is expected to pick up later in 2024. The FTB outlook assumes that Canada's real GDP will grow by 1.1 per cent in 2023 and 0.8 per cent in 2024.

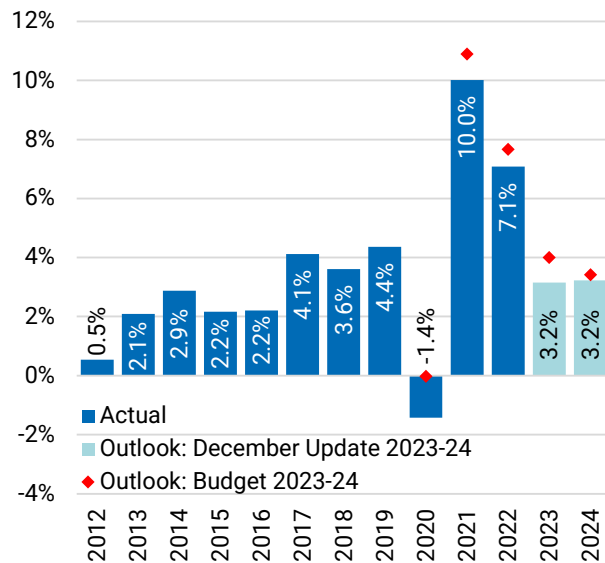
Current Economic Outlook for Nova Scotia

FTB has revised its economic outlook, incorporating information and data released through November 8, 2023. The economic outlook incorporates data and events from 2023 released on or before this date, however some of the discussion below refers to more recently released data.

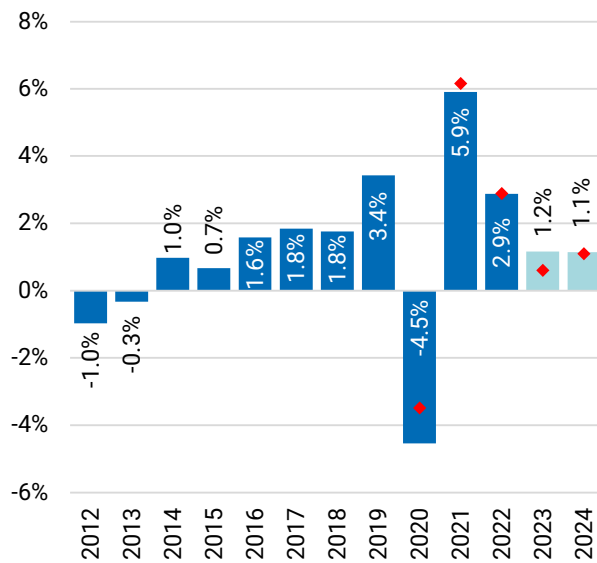
Nova Scotia GDP Growth

(per cent change)

Nominal GDP



Real GDP



Source: Statistics Canada. Table 36-10-0222-01. Gross domestic product, expenditure-based, provincial and territorial, annual (x 1,000,000); Nova Scotia Department of Finance and Treasury Board projections

With new data available, real GDP growth in 2020 was revised down to -4.5 per cent from -3.5 per cent in the September update. In 2021, real GDP was revised down to 5.9 per cent growth from 6.2 per cent in the September update. Real GDP grew 2.9 per cent in 2022, with an outlook of 1.2 per cent growth in 2023 and 1.1 per cent growth in 2024. Although Nova Scotia's inflationary pressures intensified in 2022, these are expected to moderate in 2023 and 2024, before returning to long run trends.

Slowing inflation is expected to contribute to slower growth of household consumption expenditure in 2023 and 2024. Exports of goods and services are expected to decline in 2023, followed by a rebound to 3.5 per cent growth in 2024. Imports are forecast to slow to 4.4 per cent growth in 2023 and 3.9 per cent growth in 2024. With stronger employment projected for 2023, the unemployment rate is expected to decline. Stronger growth in employee compensation is expected to contribute to stronger retail sales

growth compared to Budget 2023–24 projections. Tourism’s recovery progressed in 2023 and is expected to continue in 2024.

Population growth is forecast to remain strong in 2023 and 2024, faster than the pre-pandemic pace. Rising population contributes to a larger labour force and expanding employment, with the unemployment rate expected to fall to 6.3 per cent on average in 2023. Employment growth is expected to slow from 2.7 per cent in 2023 to 1.5 per cent in 2024. As employment growth slows, the unemployment rate is expected to rise to 7.4 per cent in 2024.

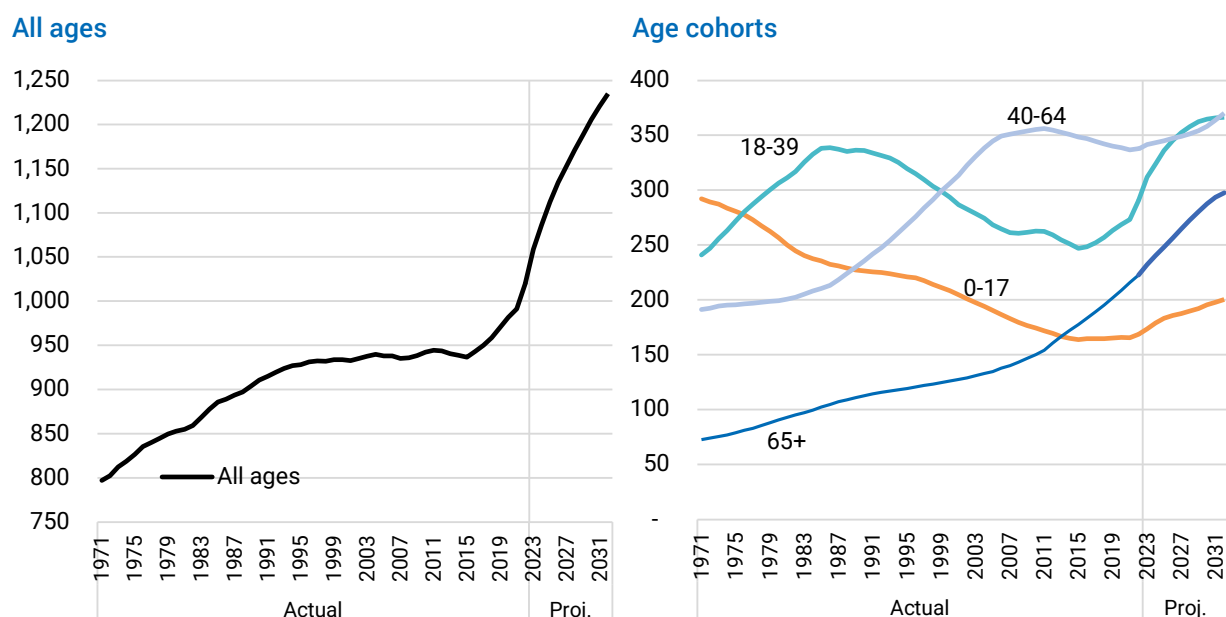
Recent Economic Performance

Population: Nova Scotia’s population reached 1,058,694 as of July 1, 2023, up 33,249 from July 2022. This growth of 3.24 per cent was faster than in any other period on modern record. Net non-permanent residents, immigration and interprovincial migration drove accelerating population growth. The inflow of non-permanent residents was 27,238, offset by an outflow of non-permanent residents of 11,720. The number of immigrants coming to the province was 12,303, the second highest level of immigration in records that started after the Second World War. Interprovincial in-migration added a further 26,189 people to Nova Scotia’s population with a large number of those arriving from Ontario. This was offset by out-migration of 17,663. The natural population change continues to be negative.

FTB has updated its population projections to incorporate the latest results, as well as revised federal immigration targets. However, further revisions to the population outlook will follow new post-censal updates on age and sex composition of the population expected in early 2024. Current population projections anticipate that Nova Scotia’s population growth rate will slow to around 1 per cent per year by 2034. The recent strong growth coming from migration is expected to moderate in the short-term.

Nova Scotia Population Growth

(thousands as of July 1)



Source: Statistics Canada. Table 17-10-0009-01 Population estimates on July 1st, by age and sex; Nova Scotia Department of Finance and Treasury Board projections

Labour Markets: Nova Scotia's labour market began to slow in the second half of 2023. Over the first eleven months of the year, employment growth of 2.6 per cent outpaced labour force growth of 2.4 per cent, resulting in a falling unemployment rate that averaged 6.3 per cent over this period. Nova Scotia's job vacancy rate peaked in May 2022 at 5.1 per cent. The job vacancy rate has since declined, reaching 3.3 per cent in September 2023. In the first eleven months of 2023, wholesale/retail, information/culture/recreation and personal, repair services had the largest employment growth among industries. Construction along with health care and social assistance industries experienced the largest declines in employment over this period. Private sector employment grew 4.9 per cent while public sector employment declined 2.0 per cent. Average weekly earnings rose 5.0 per cent in the first nine months of 2023. Agriculture and wholesale/retail trade industries had the largest growth in weekly wages. Total compensation of employees, combining growth in average wages and higher employment, was up 7.5 per cent in the first nine months of 2023.

Prices: Inflation has eased through 2023, slowing to 3.2 per cent year-over-year growth in October. The energy price index in October declined 1.5 per cent compared to the same period last year. Nova Scotia's year-over-year price decline of 8.7 per cent for fuel oil was more substantial than the decline of 0.4 per cent for gasoline. The food price index grew 6.3 per cent year-over-year, faster than the national average. Inflation for all items excluding food and energy in Nova Scotia slowed to 3.3 per cent in October 2023. The shelter price index rose 6.0 per cent in October and was close to the increase at the national level.

Income and Consumption: On a year-to-date basis (January-June 2023 vs January-June 2022), Nova Scotia's household income was up 7.5 per cent – the same as the national pace. Nova Scotia's employee compensation was up 7.0 per cent year-to-date, outpacing the national gain of 6.4 per cent. In Nova Scotia, final consumer expenditure per household amounted to 89.9 per cent of the national average in the second quarter (Q2) of 2023. Retail trade increased by 4.0 per cent in the first nine months of 2023 compared to the same period a year ago, outpacing the national average. Lower oil prices led to a year-to-date decline in gas station sales.

Investment: Residential building construction declined in the first nine months of 2023 with increases in construction in areas outside Halifax offset by a decline in residential construction in the Halifax area. There was a decline in construction of multiple-unit buildings and single-unit buildings in Halifax. Housing starts increased 9.5 per cent in Nova Scotia in the first ten months of 2023 compared to the same period last year. Ontario and British Columbia were the only other provinces that reported rising housing starts. Halifax home resale prices have resumed their upward trend, with year-over-year growth above the national average in October 2023.

Non-residential building construction rose 9.6 per cent in the first nine months of 2023 compared to same period last year, with increased Halifax construction offsetting declines in the rest of the province. Higher building construction in commercial and government sectors has offset a decline in industrial building construction. Overall business sector capital investment grew 7.1 per cent in the first half of 2023 with gains in building construction, engineering infrastructure, machinery and equipment and intellectual property.

Exports: Nova Scotia's international goods exports declined by 1.0 per cent from January-October 2023 compared to January-October 2022. The US and China continue to be Nova Scotia's largest trading partners. In the first ten months, exports to the US increased by 1.5 per cent while exports to China grew 12.2 per cent.

Tourism in Nova Scotia has continued its recovery with visitors up 17.0 per cent in the first eight months of 2023 compared to same period in 2022. However, this was 9.0 per cent below the pre-pandemic period from January to August 2019. The return of visitors from Atlantic Canada has been slow though visitors by air transportation are estimated to already be above 2019 levels.

Current Economic Outlook Assumptions

<i>Per cent change, except where noted</i>	Budget 2023-24		December Forecast Update	
	2023	2024	2023	2024
Real GDP (\$2012 chained)	0.6%	1.1%	1.2%	1.1%
Nominal GDP	4.0%	3.4%	3.2%	3.2%
Compensation of Employees	4.8%	4.0%	6.6%	3.2%
Household Income	4.4%	4.0%	6.1%	4.3%
Household Final Consumption	3.7%	4.1%	5.9%	4.7%
Retail Sales	1.8%	2.1%	3.5%	2.3%
Consumer Price Index	3.7%	2.1%	4.0%	2.7%
Investment in Residential Structures	5.4%	2.6%	-0.4%	5.1%
Non-Res., Machinery, Intellectual Property	8.9%	1.2%	10.2%	4.5%
Net Operating Surplus: Corporations	1.8%	2.7%	-25.6%	13.6%
Net Mixed Income: Unincorporated	4.0%	1.8%	3.3%	3.2%
Exports of Goods and Services	5.3%	3.4%	-0.6%	3.5%
Exports of Goods to Other Countries	5.7%	1.8%	-1.4%	2.4%
Imports of Goods and Services	4.7%	2.4%	4.4%	3.9%
Population at July 1 (all ages, thousands)	1,040.5	1,057.7	^a 1,058.7	1,086.1
Population at July 1 (ages 18-64, thousands)	638.1	644.8	653.2	666.9
Labour Force (thousands)	521.4	527.2	531.3	545.6
Employment (thousands)	482.9	486.6	498.0	505.5
Unemployment Rate, Annual Average	7.4%	7.7%	6.3%	7.4%

Note: Non-residential, machinery, intellectual property refers to all categories of gross fixed capital formation except residential structures. This includes business as well as non-profit and government investment.

Revenue

Total Revenue is forecast to be \$14.8 billion, \$671.4 million or 4.7 per cent higher than the 2023–24 Budget Estimates. Revenue estimates are based on federal administrative data and estimates up to November 21, 2023, and provincial administrative data up to November 17, 2023. Information received after these dates will be incorporated in future updates.

The growth in expected Total Revenue includes increases of \$355.9 million or 4.7 per cent in Tax Revenue, \$5.3 million or 1.5 per cent in Other Provincial Revenue, \$37.7 million or 27.5 per cent for Investment Income, \$9.0 million or 0.2 per cent in Federal Revenue Sources, \$83.4 million or 8.5 per cent in Ordinary Recoveries, and \$180.0 million or 63.1 per cent in Net Income from Government Business Enterprises.

Ordinary Revenue – Provincial Revenue Sources

Total Ordinary Revenue from Provincial Sources is forecast to be \$8.5 billion, which is \$399.0 million or 4.9 per cent higher than Budget Estimates.

Tax Revenue

Personal Income Tax (PIT) revenue is forecast to be up \$229.2 million or 6.1 per cent from Budget Estimates, due to higher projections for taxable income and yield. Personal taxable income is projected to be up \$1.3 billion in 2023 and \$1.7 billion in 2024 due to higher-than-expected household income growth. The yield rate on taxable income is projected to be up 2.4 per cent in 2023 and 2.3 per cent in 2024.

Corporate Income Tax (CIT) revenue is forecast to be down \$98.6 million or 13.3 per cent from Budget Estimates as a result of lower national corporate taxable income. The projection for national corporate taxable income has been revised down 20.1 per cent in 2023 and 10.5 per cent in 2024. The decline in national corporate taxable income is partially offset with the Province's share of national taxable income projected to increase 2.1 per cent and the small business share of taxable income projected to be down 7.3 per cent.

Harmonized Sales Tax (HST) revenue is forecast to be up \$63.9 million or 2.6 per cent from Budget Estimates, mainly attributable to higher projections for consumer spending. The consumer expenditure base is projected to be up \$718.3 million or 4.0 per cent in 2023 and \$855.7 million or 4.5 per cent in 2024 compared to Budget. This is partially offset by lower investment spending on taxable housing, projected to be down 2.6 per cent in 2023 and 0.2 per cent in 2024. Public sector body spending is now projected to be stronger while spending by exempt supply businesses and financial institutions are projected to be down.

Cannabis Tax revenue is forecast to be \$2.1 million or 14.3 per cent higher than Budget Estimates on the basis of increased remittances of the province's additional duty from licensed producers.

Vaping Products Tax revenue is forecast to be down \$43 thousand or 1.2 per cent from Budget Estimates.

Non-resident Deed Transfer Tax is forecast to be down \$2.5 million or 19.9 per cent from Budget Estimates due to the federal ban on foreign buyers, and a reduction in the average value of transactions partially offset by an increase in the expected number of transactions.

Motive Fuel Tax revenue is forecast to be up \$19.8 million or 7.5 per cent from Budget Estimates due to higher levels of fuel consumption. Consumption of gasoline is projected to be 134.8 million litres or 10.8

per cent higher-than-expected while diesel fuel consumption is projected to be down 6.2 million litres or 1.4 per cent.

Tobacco Tax revenue is forecast to be down \$8.3 million or 6.0 per cent from Budget Estimates as consumption declines. Consumption of cigarettes is projected to be 9.1 per cent lower while that of fine cut tobacco is down 9.3 per cent.

Other Tax Revenue is forecast to be \$14.8 million or 6.2 per cent higher than the Budget Estimates primarily due to higher forecasted Financial Institutions Capital Tax (FICT) based on data for actual FICT collected.

Prior Year Adjustments (PYAs) from Provincial Sources are \$135.6 million, comprised of the following: +\$132.7 million for Personal Income Tax due to higher personal taxable income and yield for the 2022 taxation year; +\$17.6 million for Corporate Income Tax resulting from lower national corporate taxable income offset by rising provincial share and general rate share for the 2022 taxation year; and -\$11.6 million for Harmonized Sales Tax due to a lower than projected consumer expenditure base for 2022.

Other Provincial Revenue

Other Provincial Revenue is forecast to be \$5.3 million or 1.5 per cent higher than Budget Estimates primarily due to higher-than-expected Registry of Motor Vehicles fines revenue.

Investment Income

Investment Income is predicted to be \$37.7 million or 27.5 per cent higher than Budget Estimates due to higher interest rates.

Ordinary Revenue – Federal Revenue Sources

Total Ordinary Revenue from Federal Sources is forecast to be \$4.8 billion, which is \$9.0 million or 0.2 per cent higher than Budget Estimates.

Equalization is forecast to be \$2.8 billion for 2023-2024, unchanged from Budget Estimates as the program uses a one-estimate, one-payment approach.

The **Canada Health Transfer** (CHT) is forecast to be down \$360 thousand, essentially unchanged from Budget Estimates. The forecast includes \$52.3 million from the province's share of the \$2 billion top up to assist provinces and territories with addressing immediate pressures on the health care system as well as the revised estimate of the province's share of national population released by Statistics Canada in September 2023.

The **Canada Social Transfer** (CST) is forecast to be down \$120 thousand, essentially unchanged from the Budget Estimates as a result of revised population estimates from Statistics Canada in September 2023.

Prior Year Adjustments (PYAs) from Federal Sources are \$9.2 million due to revised population estimates for the 2022-23 CHT and CST entitlement year.

Other Federal Sources is forecast to be up \$6.6 million or 4.6 per cent from Budget Estimates, primarily due to changes in the expected timing of federal revenues related to initiatives at the Department of Seniors and Long-term Care.

Total Revenue 2023–24

(\$ thousands)

General Revenue Fund: Revenue	Budget	September Update	December Update	Increase (Decrease) from Budget	Increase (Decrease) from Sept
Provincial Revenue Sources					
Tax Revenue:					
Personal Income Tax	3,731,163	3,840,762	3,960,362	229,199	119,600
Corporate Income Tax	740,408	668,336	641,790	(98,618)	(26,546)
Harmonized Sales Tax	2,438,318	2,485,566	2,502,205	63,887	16,639
Cannabis Tax	14,666	17,380	16,757	2,091	(623)
Vaping Tax	3,450	3,411	3,407	(43)	(4)
Non-resident Deed Transfer Tax	12,515	12,515	10,021	(2,494)	(2,494)
Motive Fuel Tax	263,497	278,072	283,274	19,777	5,202
Tobacco Tax	139,681	128,303	131,342	(8,339)	3,039
Other Tax Revenue	240,827	243,711	255,663	14,836	11,952
Prior Years' Adjustments - Taxes	---	(3,084)	135,639	135,639	138,723
	7,584,525	7,674,972	7,940,460	355,935	265,488
Other Provincial Revenue:					
Registry of Motor Vehicles	143,412	146,428	147,728	4,316	1,300
Other Provincial Sources	148,832	148,664	149,282	450	618
TCA Cost Shared Revenue	9,545	10,150	10,150	605	---
Other Fees and Charges	59,574	58,787	59,536	(38)	749
	361,363	364,029	366,696	5,333	2,667
Investment Income:					
Interest Revenues	118,235	146,918	152,514	34,279	5,596
Sinking Fund Earnings	19,099	22,355	22,528	3,429	173
	137,334	169,273	175,042	37,708	5,769
Total - Provincial Sources	8,083,222	8,208,274	8,482,198	398,976	273,924
Federal Revenue Sources					
Equalization Payments	2,802,849	2,802,849	2,802,849	---	---
Canada Health Transfer	1,357,760	1,357,760	1,357,400	(360)	(360)
Canada Social Transfer	433,640	433,640	433,520	(120)	(120)
Other Federal Sources	142,681	146,328	149,261	6,580	2,933
TCA Cost Shared Revenue	77,104	82,547	70,859	(6,245)	(11,688)
Prior Years' Adjustments	---	---	9,164	9,164	9,164
Total - Federal Sources	4,814,034	4,823,124	4,823,053	9,019	(71)
Total Ordinary Revenue	12,897,256	13,031,398	13,305,251	407,995	273,853
Total - Ordinary Recoveries	986,210	1,084,722	1,069,657	83,447	(15,065)
Net Income from Government					
Business Enterprises (GBEs)					
Nova Scotia Liquor Corporation	273,550	273,550	273,323	(227)	(227)
Nova Scotia Gaming Corporation	---	178,700	179,400	179,400	700
Halifax-Dartmouth Bridge Commission	9,143	8,800	8,563	(580)	(237)
Highway 104 Western Alignment Corporation	2,729	2,729	4,127	1,398	1,398
Total - Net Income from GBEs	285,422	463,779	465,413	179,991	1,634
Total - Revenue	14,168,888	14,579,899	14,840,321	671,433	260,422

Federal Tangible Capital Assets (TCA) Cost Shared Revenue is forecast to be down by \$6.2 million or 8.1 per cent from Budget Estimates, mainly because of changes in the expected timing of federal revenues related to TCA projects at the Department of Public Works.

Ordinary Recoveries

Ordinary Recoveries Revenue is forecast to be \$83.4 million or 8.5 per cent higher than Budget Estimates.

The **Department of Advanced Education** is forecast to be \$1.0 million or 8.7 per cent higher than Budget primarily due to \$700 thousand for additional Post-Secondary accessibility services and equipment, fully recoverable from the Federal Government.

The **Department of Agriculture** is forecast to be \$1.4 million or 21.4 per cent higher than Budget due to AgriRecovery federal funding for Fiona related expenses.

The **Department of Economic Development** is forecast to be \$1.6 million or 295.1 per cent higher than Budget primarily due to profit sharing contributions related to loan agreements.

The **Department of Education and Early Childhood Development** is forecast to be \$10.3 million or 5.6 per cent lower than Budget primarily due to \$9.9 million, to be carried forward to 2024-25, under the Canada Wide Early Learning and Child Care Agreement related to expansion of new spaces as a result of construction delays.

The **Department of Environment and Climate Change** is forecast to be \$5.1 million or 2,752.4 per cent higher than Budget primarily due to \$3.5 million in federal funding related to the extension of the Target 1 Challenge Fund agreement, and \$1.1 million in federal funding related to the new Nature Climate Solutions agreement.

The **Department of Health and Wellness** is forecast to be \$2.8 million or 2.7 per cent lower than Budget primarily due to a \$6.0 million reduction in levies from third party claims partially offset by a \$3.0 million increase in physician reciprocal billings.

The **Department of Justice** is forecast to be \$1.1 million or 0.8 per cent lower than Budget primarily due to lower than anticipated recoveries of \$1.0 million in Victim Surcharge Fund, \$0.5 million addressing the impacts of Intimate Partner Violence Project and \$0.4 million in NS-NB SiRT agreement. This is partially offset by a \$1.0 million increase in federal services exchange of offender management.

The **Department of Labour, Skills and Immigration** is forecast to be \$20.2 million or 15.5 per cent higher than Budget primarily due to an increase in federal funding of \$15.8 million related to the Labour Market Development Agreement and \$4.9 million in the Workforce Development Agreement

The **Department of Municipal Affairs and Housing** is forecast to be \$26.7 million or 9.4 per cent higher than Budget primarily due to \$58.4 million in recoveries related to disaster assistance for May wildfires and July floods, partially offset by \$29.6 million reduction in Investing in Canada Infrastructure Program.

The **Department of Natural Resources and Renewables** is forecast to be \$5.3 million or 20.5 per cent lower than Budget primarily due to \$8.6 million decrease in federal funding for Home Heating Oil Transition recoveries due to cash flow changes. This decrease is partially offset by \$3.3 million increase in recoverable expenses related to the wildfire response.

Net Income from Government Business Enterprises (GBEs)

Total Net Income from GBEs is up \$180.0 million or 63.1 per cent from Budget Estimates, primarily due to a change in the accounting treatment of the Nova Scotia Gaming Corporation.

Net income from the **Nova Scotia Liquor Corporation** (NSLC) is forecast to be essentially unchanged from the Budget.

Due to changes in accounting treatment for the **Nova Scotia Gaming Corporation** (NSGC) since the time of Budget, the net results from the casino and lottery operating segments are now reflected in Net Income from GBEs instead of Consolidation and Accounting Adjustments. As a result, Consolidation and Accounting Adjustments have been reduced by the budgeted net income from GBEs related to NSGC of \$178.7 million. Net income from GBEs related to NSGC is now forecast to be \$179.4 million, which is \$0.7 million or 0.4 per cent higher than budget and is primarily due to higher-than-expected casino revenue.

NSGC corporate services continue to be reflected in Consolidation and Accounting Adjustments. There is no impact to the overall surplus/deficit position of the Province associated with the accounting changes.

Net income from the **Halifax-Dartmouth Bridge Commission** is forecast to be \$0.6 million or 6.3 per cent lower than Budget primarily due to lower-than-expected toll revenue.

Net income from **Highway 104 Western Alignment Corporation** is forecast to be \$1.4 million or 51.2 per cent higher than Budget primarily due to higher-than-expected interest income on investments due to higher short-term interest rates.

Expenses

Total Expenses for 2023–24 are forecast to be \$15.3 billion, \$440.2 million or 3.0 per cent higher than the Budget Estimates.

Increases are expected in Departmental Expenses of \$421.9 million or 3.0 per cent, Debt Servicing Costs of \$23.4 million or 3.1 per cent, and Refundable Tax Credits of \$2.5 million or 1.9 per cent.

Departmental Expenses

Total Departmental Expenses for 2023–24 are forecast to be \$421.9 million or 3.0 per cent higher than the Budget Estimates. Note that for presentation purposes, the Budget Estimates have been reallocated to align with government departmental structure changes authorized by Orders in Council issued in May 2023.

Departmental Expenses 2023–24

(\$ thousands)

	Budget	September Update	December Update	Increase (Decrease) from Budget	Increase (Decrease) from Sept
Advanced Education	707,234	707,534	710,169	2,935	2,635
Agriculture	45,350	45,550	47,991	2,641	2,441
Communities, Culture, Tourism and Heritage	172,009	172,009	172,941	932	932
Community Services	1,299,913	1,299,913	1,341,672	41,759	41,759
Cyber Security and Digital Solutions	229,149	235,679	235,679	6,530	---
Economic Development	95,126	95,126	95,126	---	---
Education and Early Childhood Development	1,873,505	1,898,416	1,882,581	9,076	(15,835)
Environment and Climate Change	40,445	51,020	51,037	10,592	17
Finance and Treasury Board	35,736	36,697	36,421	685	(276)
Fisheries and Aquaculture	16,633	17,046	17,046	413	---
Health and Wellness	4,854,073	5,217,781	5,217,507	363,434	(274)
Justice	453,452	453,452	453,452	---	---
Labour, Skills and Immigration	206,236	227,971	233,508	27,272	5,537
Municipal Affairs and Housing	554,398	627,627	594,180	39,782	(33,447)
Natural Resources and Renewables	142,579	156,296	148,901	6,322	(7,395)
Public Service	453,303	466,795	464,570	11,267	(2,225)
Public Works	672,290	704,296	705,456	33,166	1,160
Seniors and Long-term Care	1,331,978	1,360,891	1,383,056	51,078	22,165
Service Nova Scotia	153,369	157,910	236,005	82,636	78,095
Restructuring Costs	513,874	251,994	245,242	(268,632)	(6,752)
Total - Departmental Expenses	13,850,652	14,184,003	14,272,540	421,888	88,537

The **Department of Advanced Education** is forecast to be \$2.9 million or 0.4 per cent higher than Budget primarily due to \$1.1 million for the Medical Laboratory Technology Program.

The **Department of Agriculture** is forecast to be \$2.6 million or 5.8 per cent higher than Budget primarily due to \$1.4 million recoverable AgriRecovery expense related to Hurricane Fiona, and \$700 thousand Green Box Style Funding for NS Farm Wineries for improvements to reduce production costs.

The **Department of Community Services** is forecast to be \$41.8 million or 3.2 per cent higher than Budget primarily due to increases of \$49.7 million in Employment Support and Income Assistance related to initiatives to reduce homelessness and improve food security, \$5.7 million in Child and Family Wellbeing related to Foster Care, Alternative Family Care rate increase and other supports for children in care, and \$12.2 million in other programs primarily due to staffing and other operating costs. These are partially offset by decreases of \$12.4 million related to lower-than-expected NS Child Benefit and Income Assistance caseloads, and \$11.3 million related to Adult Residential Centres and Regional Rehabilitation Centres (ARC/RRC) arising from the delayed opening of Community Based Options (CBOs).

The **Department of Cyber Security and Digital Solutions** is forecast to be \$6.5 million or 2.8 per cent higher than Budget primarily due to \$4.7 million related to SAP Transformation, and \$1.8 million for implementation of new IT projects.

The **Department of Education and Early Childhood Development** is forecast to be \$9.1 million or 0.5 per cent higher than Budget primarily due to \$34.4 million for wage settlements, \$10.0 million in inflationary and enrolment growth pressures, \$5.5 million relating to Nova Scotia Teachers Union medical premiums due to significant rate increases, and \$2.8 million in teachers' pension plan. These increases are partially offset by a \$25.0 million reduction relating to the timing associated with the rollout of retirement/benefit plans for Early Childhood Educators; \$9.9 million, carried forward to 2024-25, related to Canada Wide Early Learning and Child Care Agreement, and \$8.8 million in HRCE salary savings associated with the strike.

The **Department of Environment and Climate Change** is forecast to be \$10.6 million or 26.2 per cent higher than Budget primarily due to \$5.0 million in additional funding for the Sustainable Communities Challenge Fund, \$3.5 million in fully recoverable expenses related to the extension of the Target 1 Challenge Fund agreement, and \$1.1 million in fully recoverable expenses related to the new Nature Climate Solutions agreement.

The **Department of Health and Wellness** is forecast to be \$363.4 million or 7.5 per cent higher than Budget primarily due to \$165.7 million for anticipated operational pressures for the Nova Scotia Health Authority (NSHA) mainly related to nursing expenses, overtime, and staffing costs as well as other inflationary pressures for medical and surgical supplies, drug costs, building maintenance and facility operations, \$128.3 million for the Nursing union contract settlement, \$68.4 million for the ratification of the Physicians Agreement, \$24.0 million for the ratification of the Health Administrative Professionals union contract settlement, \$20.6 million related to COVID-19 mainly rapid test inventory adjustments and test usage offset by less than anticipated immunizations, \$9.0 million Physician Services alternative payment plans, and \$8.1 million related to Action for Health initiatives. These increases are partially offset by \$46.6 million decrease in capital grants for NSHA infrastructure due to shift in cashflows, a \$19.1 million decrease in information technology projects and delays in project implementation.

The **Department of Labour, Skills and Immigration** is forecast to be \$27.3 million or 13.2 per cent higher than Budget primarily due to \$15.8 million related to the Labour Market Development Agreement and \$4.9

million in the Workforce Development Agreement, fully recoverable, \$4.4 million for “Action for Growing Skilled Trades” and \$2.2 million to support people coming from Ukraine.

The **Department of Municipal Affairs and Housing** is forecast to be \$39.8 million or 7.2 per cent higher than Budget primarily due to \$58.5 million in partially recoverable disaster assistance for May wildfires and July floods, \$32.0 million for the Municipal Capital Growth Fund, \$1.9 million in higher grants in lieu of property tax, \$1.3 million for land transfers under the Land for Housing Program, and \$1.0 million increase in fully recoverable expenses under the National Disaster Mitigation Program. These increases are partially offset by \$53.5 million decrease in spending under the Investing in Canada Infrastructure Program due to project delays.

The **Department of Natural Resources and Renewables** is forecast to be \$6.3 million or 4.4 per cent higher than Budget primarily due to \$12.0 million in partially recoverable costs related to the wildfires and \$1.6 million in partially recoverable costs related to wildfire equipment and training. These increases are partially offset by an \$8.6 million decrease in recoverable Home Heating Oil Transition due to cash flow changes.

Public Service Offices are forecast to be \$11.3 million or 2.5 per cent higher than Budget primarily due to an increase of \$11.3 million in the Office of Addictions and Mental Health mainly attributable to \$13.8 million for the Nursing union contract settlement, \$4.2 million for implementation of Mass Casualty Commission (MCC) recommendations and \$2.9 million for Health Administrative Professionals union contract settlement. These increases are partially offset by decreases of \$5.8 million due to hiring and implementation delays for some Mental Health and Addictions initiatives and \$3.2 million for lower utilization of healthcare worker retention incentives.

The **Department of Public Works** is forecast to be \$33.2 million or 4.9 per cent higher than Budget primarily due to \$13.5 million for July flood damage (partially recoverable), \$6.6 million grant to Build Nova Scotia for the Halifax Infirmary Expansion Project, \$6.5 million for intellectual property associated with healthcare infrastructure, \$4.6 million for the Highway 103 Bridgewater Interchange (partially recoverable), \$3.4 million for Hurricane Fiona damage (partially recoverable), and \$1.1 million for the Highway 107 Sackville Bedford Burnside Interchange (fully recoverable). These increases are partially offset for delays in Highway 104 Western Alignment Corporation recoverable work.

The **Department of Seniors and Long-term Care** is forecast to be \$51.1 million or 3.8 per cent higher than Budget primarily due to \$22.7 million in travel nurse expenses supporting long-term care facilities, \$20.2 million for increased participation in the Expanded Home First Program, \$7.1 million in increased funding for Long-term Care Assistants, and \$4.8 million for workforce planning and education initiatives. These increases are partially offset by a \$7.9 million decrease in home support utilization, \$5.9 million in lower than anticipated healthcare worker retention incentives and \$3.6 million in lower utilization of Home Care nursing services.

The **Department of Service Nova Scotia** is forecast to be \$82.6 million or 53.9 per cent higher than Budget primarily due to \$71.5 million for Heating Assistance Rebate Program expansion, \$5.0 million for trails repair due to July flood, \$2.9 million for credit monitoring and identity theft protection related to the MOVEit cyber breach, \$1.3 million for incremental costs related to the Shubenacadie Radio Communications Centre, and \$1.0 million for Property Tax Rebate for Seniors for increased applications.

Refundable Tax Credits

Refundable tax credit expenditures are forecast to be \$2.5 million or 1.9 per cent higher than Budget Estimates. This is due to forecasted increases for the Digital Animation Tax Credit and the Scientific Research and Experimental Development Tax Credit, partially offset by decreases in the Capital Investment Tax Credit, Digital Media Tax Credit, and Affordable Living Tax Credit.

Pension Valuation Adjustment

The Pension Valuation Adjustment is forecast to be down \$7.7 million or 11.5 per cent from Budget Estimates. The decrease is primarily attributed to updated actuarial estimates.

Debt Servicing Costs

Total Debt Servicing Costs are forecast to be up \$23.4 million or 3.1 per cent from Budget Estimates due to higher interest rates.

Consolidation and Accounting Adjustments

Consolidation and Accounting Adjustments for government units are forecast to be \$216.6 million or 58.2 per cent lower than the Budget. This is primarily due to a change in accounting treatment for the Nova Scotia Gaming Corporation whereby the net results from the casino and lottery operating segments are now reflected in Net Income from GBEs instead of Consolidation and Accounting Adjustments, resulting in a \$179.1 million decrease in Consolidation and Accounting Adjustments. In addition, there is a \$47.9 million decrease primarily due to changing cash flow requirements of the healthcare infrastructure projects. These decreases are partially offset by increases of \$4.6 million due to lower than budgeted amortization of healthcare assets, and \$5.8 million in various other organizations.

Capital

Total Capital Spending is forecast to be \$1.6 billion, which is \$53.7 million or 3.3 per cent lower than Budget.

Tangible Capital Assets

The province is forecasting Capital Purchase Requirements to be \$5.8 million or 0.4 per cent lower than Budget. This is primarily due to a reduction in contingency, IT project delays, and timing of major healthcare infrastructure projects. This decrease is partially offset by an increase in highway construction costs due to timing of projects and price escalations, and new modular housing.

Capital Grants

The province is forecasting Capital Grant Requirements to be \$47.9 million or 16.4 per cent lower than Budget primarily due to the effect of changes in building construction on cash flows for the Department of Health and Wellness.

Capital Spending 2023–24

(\$ thousands)

	Budget	September Update	December Update	Increase (Decrease) from Budget	Increase (Decrease) from Sept
Highways & Structures	485,277	540,309	557,977	72,700	17,668
Buildings	637,219	645,800	637,184	(35)	(8,616)
Information Technology	84,208	46,378	45,704	(38,504)	(674)
Land Purchases	52,500	56,865	56,865	4,365	---
Vehicles and Equipment	18,865	18,977	21,017	2,152	2,040
Contingency	52,000	11,631	5,517	(46,483)	(6,114)
Total - Capital Purchase Requirements	1,330,069	1,319,960	1,324,264	(5,805)	4,304
Capital Grants	291,307	289,818	243,395	(47,912)	(46,423)
Total - Capital Spending	1,621,376	1,609,778	1,567,659	(53,717)	(42,119)

Key Risks

Economic

Risks to the global outlook are weighted to the downside. The US economy is expected to slow while China's economy faces risks surrounding residential investment, weak consumer confidence and slowing export demand. Ongoing geopolitical conflict introduces uncertainty to the outlook. Commodity prices have stabilized following the invasion of Ukraine, but oil prices are sensitive to an escalation of conflict in the Middle East.

Inflation is easing in most major economies and is now expected to take longer to return to target. If inflation persists, interest rates may remain higher for a longer period. Inflation expectations may become unanchored, leading to prolonged inflation and further economic disruption. This could include impacts on discretionary spending, home and abroad, influencing the province's tourism outlook.

Population growth has lifted Nova Scotia's GDP in recent years. Shifts in Nova Scotia's demographic trends may occur more frequently and alter the outlook even in the short term. The province's housing market faces changing influences from: population, interest rates, labour supply, and government initiatives. Federal fiscal consolidation could also impact Nova Scotia's near-term economic conditions. Major projects and investments in Nova Scotia continue to face challenges from the uncertain effects of labour supply and supply chain constraints. Households may respond differently than forecast to the current carbon pricing regime. Extreme weather events could become more common and may be an increasing risk to the economy going forward.

As always, Nova Scotia's statistical indicators are subject to historical revision after they have been released, which would alter the estimated relationships among variables and change the economic outlook. Data revisions following the COVID-19 pandemic and 2021 Census of Population are a particular risk to the forecast.

Revenue

Provincial own-source revenues are strongly influenced by several key factors in the economic outlook. In addition, the revenue models use administrative data, external factors, and historical relationships between factors to arrive at forecasted revenues. All factors are subject to change throughout the fiscal year and can contribute to significant variations in revenues. Final Personal Income Tax (PIT) and Corporate Income Tax (CIT) assessments for the 2022 taxation year have not been received, thereby creating the possibility of additional prior year adjustments as well as influencing assumptions for the current fiscal year.

The pace of inflation slowing, and degree of economic slowdown are risks to most provincial own-source revenues.

The forecast of PIT revenue is dependent on the labour market and income benefits. With slowing inflation, indexed income benefits and average wages are expected to see slower growth. Population and employment growth are expected to continue to support the personal taxable income base.

The forecast of CIT revenue is highly dependent upon national corporate taxable income and the province's share. National taxable income is projected to grow in 2024 but faces headwinds of slowing economic growth. The share of corporate income taxed at the general rate has grown since pre-pandemic, supporting

growth in CIT during this period.

Harmonized Sales Tax (HST) revenues are heavily reliant on consumer expenditures and investment in residential construction. The degree and permanency of shifts in consumer purchases to zero-rated supplies made during the pandemic and a period of elevated inflation is a source of uncertainty in the outlook.

Expenditures

Global events continue to contribute to a degree of expense uncertainty in some areas of government due to unexpected and volatile inflation. Government departments may see expense variances if inflationary impacts remain heightened, are sustained and cannot be absorbed. The risk of inflation-related variance continues to be monitored, including with those departments with large operations.

Climate change events continue to impact the province. Given the extreme occurrences to date including flooding and wildfires, other potential events may impact the province and result in additional expense for support and/or repairs and maintenance.

Additionally, further variance may occur in construction related activity – impacting both projected capital spending and operational spending, in instances where government provides financial support to a community partner. While this forecast update has noted cashflow impacts associated with project delays, there are a number of market impacts such as availability of labour within the construction industry that may cause further variance as the fiscal year advances.

