FORECAST UPDATE

September 29, 2022

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Minister of Finance and Treasury Board

NOVA SCOTIA

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Introduction

The Forecast Update provides a fiscal outlook for Nova Scotia for fiscal year 2022-23. This is based on updated information about the major components of revenue and expenses as set out in the 2022–23 Budget Estimates, tabled in March 2022.

Relative to the 2022–23 Budget Estimates, the forecasted deficit is expected to increase slightly. The Province of Nova Scotia is forecasting a deficit position of $554.2 million, an increase of $48.0 million from the Budget's deficit position of $506.2 million. The change in the budgetary position is attributed to expenses anticipated to increase by $110.8 million relative to a revenue increase of $71.8 million.

This Forecast Update shows that Government is following the plan laid out in Budget 2022–23. Government is continuing to make investments in key priority areas including healthcare, education, long-term care and a sustainable future.

Overview

The Province of Nova Scotia is forecasting a deficit of $554.2 million. This is an increase of $48.0 million from the budgeted deficit in the 2022–23 Budget Estimates.

Total Revenue, including Ordinary Revenue, Ordinary Recoveries, and Net Income from Government Business Enterprises (GBEs), is forecast to be $12.7 billion, an increase of $71.8 million from the Budget Estimates.

Forecast changes in Ordinary Revenue include increases of $21.2 million for Investment Income and $86.6 million in Federal Revenue Sources. These increases are partially offset by decreases in Provincial Tax Revenue of $73.3 million and Other Provincial Revenue of $7.0 million.

Ordinary Recoveries revenue is forecast to increase by $32.0 million from Budget. Net Income from GBEs is expected to increase by $12.4 million.

Total Expenses are forecast to be $13.4 billion, an increase of $110.8 million from the Budget Estimates. Expenses are predicted to be higher due to projected increases in Departmental Expenses of $97.1 million, Debt Servicing Costs of $11.5 million, and Refundable Tax Credits of $5.3 million. Partially offsetting these increases is a decrease of the Pension Valuation Adjustment of $3.1 million.

Consolidation and Accounting Adjustments positively impact the bottom line by $115.4 million, which is $9.0 million less than budgeted.

Fiscal Summary 2022–23

($ thousands)

General Revenue Fund	Budget	Forecast Update	*Increase (Decrease)* from Budget
Revenues			
Ordinary Revenue	11,440,457	11,467,932	27,475
Ordinary Recoveries	801,635	833,609	31,974
Net Income from Government Business Enterprises	419,818	432,181	12,363
Total - Revenue	**12,661,910**	**12,733,722**	**71,812**
Expenses			
Departmental Expenses	12,422,746	12,519,866	97,120
Refundable Tax Credits	121,828	127,079	5,251
Pension Valuation Adjustment	71,480	68,419	(3,061)
Debt Servicing Costs	676,402	687,935	11,533
Total - Expenses	**13,292,456**	**13,403,299**	**110,843**
Consolidation and Accounting Adjustments for Governmental Units	124,362	115,361	(9,001)
Provincial Surplus (Deficit)	**(506,184)**	**(554,216)**	**(48,032)**

Note: Totals may not add due to rounding.

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: At the start of 2022, the world economy was on track for another year of robust recovery. However, Russia's invasion of Ukraine, ongoing supply-chain problems and inflationary pressures have created serious economic headwinds. In addition to the humanitarian crisis, the war in Ukraine has led to higher commodity prices, putting upward pressure on inflation, and tightening financial conditions. The situation is eroding consumer purchasing power and driving households to cut back on other items to pay for basic energy and food needs.

Inflation is expected to peak later and at higher levels than previously expected. Major central banks have started to tighten monetary policies. Monetary policy in many countries will need to continue a tightening path to curb inflation pressures and fiscal policy will be operating with more limited space. The International Monetary Fund (IMF) World Economic Outlook report in July 2022 estimates that global real Gross Domestic Product (GDP) growth will soften to 3.2 per cent in 2022 and 2.9 per cent in 2023 due to the risks associated with downturns in China and the war in Ukraine.

Europe: The war in Ukraine has impacted major European economies more negatively than expected, due to higher energy prices, weaker consumer confidence and slower momentum in manufacturing. Escalation of sanctions on fossil fuels are expected to have adverse effects on countries that are the most dependent on Russian energy. A strong tourism season and robust labour market are expected to support economic activity in the second half of the year. In 2023, moderating inflation and support from the Recovery and Resilience Facility are expected to increase economic growth. The IMF estimates the Euro Area real GDP to grow 2.6 per cent in 2022 and 1.2 per cent in 2023.

China: In China, COVID-19 outbreaks, and mobility restrictions as part of the zero-COVID strategy have disrupted economic activity. The impacts of the war in Ukraine have mostly been felt through the impact on global markets. While imported energy and raw material prices have increased, the pass-through to consumer price inflation is limited due to the structure of consumption. Reflecting the impacts of pandemic-related shutdowns and a slowdown from the strong rebound in 2021, real economic growth is expected to moderate to 3.3 per cent in 2022. With infrastructure investment picking up and fiscal policy support, China's real GDP is expected to increase 4.6 per cent in 2023.

United States: Following strong growth of 5.7 per cent in 2021, the pace of US real GDP expansion moderated in the first half of 2022 with slower private inventory investment, higher inflation, and a decline in government spending. US inflation peaked at 9.1 per cent in June and slowed to 8.3 per cent in August, well above the US Federal Reserve's 2 per cent target. The Federal Reserve increased its target range for the federal funds rate to 2.25-2.50 per cent as of July 2022. Further increases are expected in an effort to contain inflationary pressures. The Department of Finance and Treasury Board outlook assumes that the US economy will grow by 3.3 per cent in 2022 and 2.4 per cent in 2023.

Canada: The Canadian economy reported strong real GDP growth in the first half of 2022 with the removal of most remaining public health restrictions, strong labour markets, solid foreign demand and higher commodity prices. Real GDP grew 3.3 per cent in the second quarter of 2022 from increases in non-residential investment, exports, and household consumption expenditures. Consumer spending on durable goods declined, but this was offset by rebounding service expenditures. Housing market activity moderated from exceptionally high levels as mortgage rates increased.

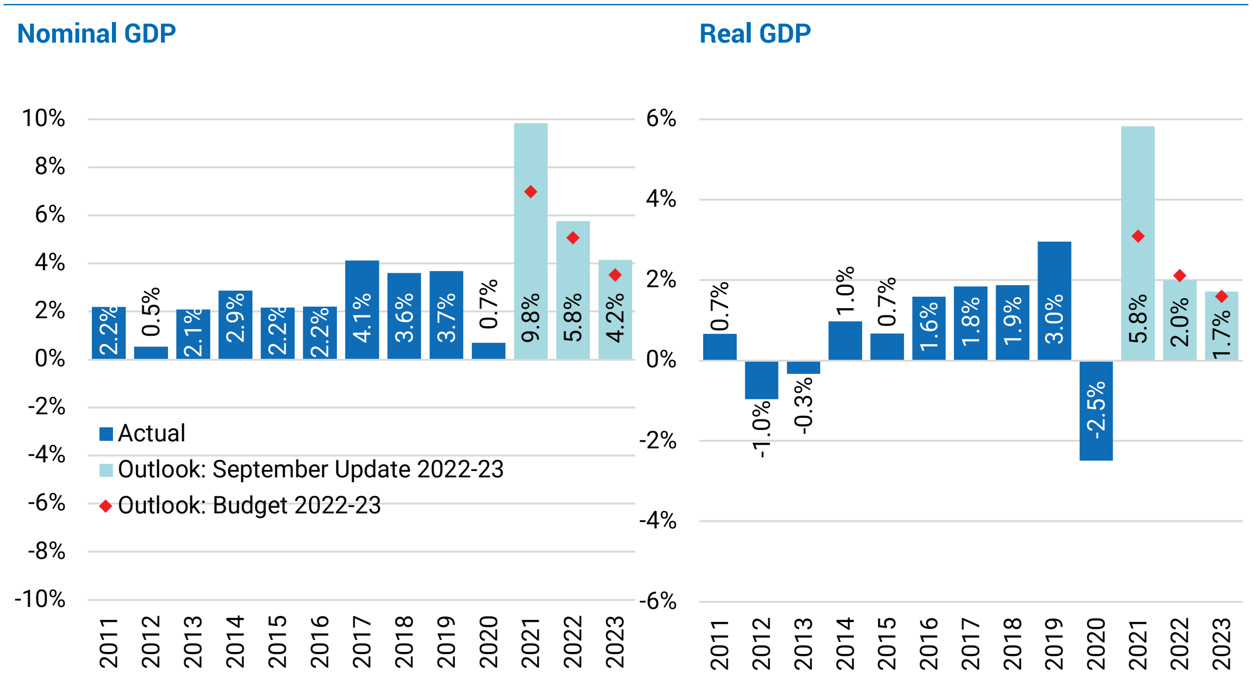
Canada's inflation was 7.0 per cent in August 2022 after reaching a peak of 8.1 per cent in June. The Bank of Canada forecasts inflation to average 7.2 per cent in 2022, 4.6 per cent in 2023 and 2.3 per cent in 2024. The Bank of Canada increased its policy rate to 3.25 per cent in September 2022 and is expected to raise the policy rate further to curtail inflationary pressures.

With tighter monetary policy, elevated inflation as well as weaker global demand, Canada's real economic growth is expected to moderate in the second half of 2022. Canada's GDP is expected to increase 3.6 per cent in 2022 before slowing to 2.5 per cent in 2023.

Current Economic Outlook for Nova Scotia

The Department of Finance and Treasury Board has revised its economic outlook, incorporating information and data released through May 13, 2022. The economic outlook incorporates data and events from 2022 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)



After renewed real GDP growth of 5.8 per cent in 2021, Nova Scotia's economic growth is expected to slow in 2022 and 2023, returning to similar rates of growth to those observed prior to the pandemic. Nominal GDP growth in 2021 is estimated at 9.8 per cent as inflation bounced back after a pandemic slow-down.

Nova Scotia's growing population, inflationary pressures and a recovery in service industries are expected to contribute to rising household consumer expenditures. Residential investment grew over the first half of 2022 but is expected to slow as interest rates rise. Housing construction is still expected to remain elevated until supply and demand are more in balance. Export growth is expected to continue at a moderate pace but faces headwinds from a slowing global economy. Tourism's recovery progressed in 2022 and is expected to continue in 2023.

The updated projections for real GDP growth are 2.0 per cent in 2022 and 1.7 per cent in 2023, little changed from Budget 2022-23 projections. However, the preliminary real GDP estimate for 2021 was above previous expectations. This results in a larger Nova Scotia economy than in the previous projections. Nominal GDP is projected to grow 5.8 per cent in 2022 and 4.2 per cent in 2023, higher than previous projections because of persistent inflation.

Recent Economic Performance

Population: Nova Scotia's population growth accelerated in the first quarter of 2022 with the latest year-over-year growth rates surpassing any period since the 1950s. The population from April 1, 2021 to April 1, 2022 increased by 2.16 per cent or 21,273 people to an all-time high of 1,007,049 people. A growing immigrant population and positive net interprovincial migration are projected to continue and help support the size of the working-age population as the baby-boomer cohort continues to move into retirement.

Labour Markets: Over the first eight months of 2022, employment growth of 3.6 per cent outpaced labour force growth of 1.6 per cent, resulting in the unemployment rate falling to an average of 6.7 per cent over this period. Declining unemployment rates, rising job vacancies, and reports of labour shortages all signal significantly tighter labour market conditions. Employment in most sectors has recovered and grown from pre-pandemic levels, though employment in accommodation and food services, wholesale and retail trade, and information, culture and recreation has not fully recovered. Average weekly earnings rose 4.1 per cent in the first half of 2022 compared to the first half of 2021, outpacing national wage increases.

Consumption and Prices: Nova Scotia's retail sales increased 6.7 per cent in the first half of 2022, compared to the first half of 2021. All major store types reported growth except motor vehicles and parts dealers as new motor vehicle sales declined 16.8 per cent. The fastest growth in retail sales was in clothing stores and furniture stores, which recovered from diminished sales during the pandemic. Gasoline station sales were lifted by higher fuel prices. Food service and drinking place receipts increased 21.8 per cent for the first half of 2022 compared to the first half of 2021.

In a similar manner as other advanced economies, Nova Scotia's Consumer Price Index (CPI) accelerated during the first half of 2022. Over the first eight months of 2022 compared to same months in 2021, the inflation rate has averaged 7.4 per cent. Higher energy prices (+32.5 per cent) were the largest contributor to accelerating inflation after Russia's invasion of Ukraine generated a sharp rise in global crude oil prices. The food and shelter indices have increased 8.5 per cent and 8.0 per cent respectively in the first eight months of 2022, while the CPI index excluding food and energy prices increased 3.9 per cent over the same period. The inflation rate in the province is expected to decline from the current elevated levels over the projection horizon as energy prices moderate and domestic demand slows because of tighter monetary policy.

Investment: Residential building construction increased 39.8 per cent in the January-July 2022 period compared to the January-July 2021 period, continuing its upward trend of recent years. New construction (both single-unit and multiple-unit buildings) and renovation activity have increased. Growth has been stronger in Halifax than outside the city. Home sales declined in the first half of 2022 and resale prices in Halifax declined in June, July and August 2022 – the first consecutive monthly declines since 2018.

Non-residential building construction rose 34.2 per cent over the first seven months of 2022 compared to first seven months of 2021 with rising investment in commercial and industrial buildings in Halifax. Business sector investment in machinery and equipment has also been recovering in 2022. Government investment, including in transportation and health sector projects, is expected to be supportive of economic activity throughout the forecast period.

Exports: International merchandise exports grew 7.5 per cent from January-July 2022 compared to January-July 2021. Shipments have increased in most categories including seafood, frozen fruit, plastics, paper, and machinery and equipment. Through the first seven months of 2022, shipments have increased to the United States, Europe and Asia. Relative to pre-pandemic benchmarks, tourism tracker activity has improved every month during the first half of 2022. As of June 2022, domestic tourism activity was 8.6 per cent below and international tourism activity was 48.8 per cent below pre-pandemic levels.

Current Economic Outlook Assumptions

	Budget 2022-23		September Forecast Update	
Per cent change, except where noted	**2022**	**2023**	**2022**	**2023**
Real GDP ($2012 chained)	2.1%	1.6%	2.0%	1.7%
Nominal GDP	5.1%	3.5%	5.8%	4.2%
Compensation of Employees	4.6%	3.3%	5.3%	3.6%
Household Income	1.5%	3.2%	2.2%	3.6%
Household Final Consumption	6.2%	3.7%	7.0%	3.8%
Retail Sales	-1.1%	2.4%	3.5%	1.9%
Consumer Price Index	4.2%	2.3%	5.5%	2.5%
Investment in Residential Structures	-3.8%	2.0%	1.0%	-0.7%
Non-Res., Machinery, Intellectual Property	9.3%	3.9%	13.2%	5.5%
Net Operating Surplus: Corporations	-8.5%	3.2%	-5.2%	5.0%
Net Mixed Income: Unincorporated	4.3%	3.1%	5.5%	3.9%
Exports of Goods and Services	5.8%	4.8%	5.8%	6.1%
Exports of Goods to Other Countries	5.3%	3.8%	6.6%	5.7%
Imports of Goods and Services	3.7%	3.4%	5.5%	3.1%
Population at July 1 (all ages, thousands)	1,004.3	1,014.9	1,004.3	1,014.9
Population at July 1 (ages 18-64, thousands)	613.6	615.5	613.6	615.5
Labour Force (thousands)	510.4	515.1	511.1	515.7
Employment (thousands)	473.1	479.2	474.5	478.8
Unemployment Rate, Annual Average	7.3%	7.0%	7.2%	7.2%

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 $12.7 billion, $71.8 million or 0.6 per cent higher than the 2022–23 Budget Estimates. Revenue estimates are based on administrative data up to June 30, 2022. Information received after this date will be incorporated in future updates.

The growth in expected Total Revenue includes increases of $21.2 million or 18.9 per cent for Investment Income, $86.6 million or 2.0 per cent in Federal Revenue Sources, $32.0 million or 4.0 per cent in Ordinary Recoveries and $12.4 million or 2.9 per cent in Net Income from Government Business Enterprises. These increases are partially offset by decreases in Provincial Tax Revenue of $73.3 million or 1.1 per cent and Other Provincial Revenue of $7.0 million or 2.0 per cent.

Ordinary Revenue — Provincial Revenue Sources

Tax Revenue

Personal Income Tax (PIT) revenue is forecast to be down $59.3 million or 1.8 per cent from Budget Estimates, due to lower projections for taxable income and yield. Personal taxable income is projected to be down $446.0 million in 2022 and $563.2 million in 2023. The yield rate on taxable income is now projected to be lower by 0.6 per cent in 2022 and 0.8 per cent in 2023.

Corporate Income Tax (CIT) revenue is forecast to be up $2.8 million or 0.5 per cent from Budget Estimates due to the incorporation of federal budget measures announced after the provincial Budget.

Harmonized Sales Tax (HST) revenue is forecast to be up $45.3 million or 2.1 per cent from Budget Estimates, mainly attributable to higher projections for consumer spending. Taxable consumer expenditures are projected to be up $397.3 million or 2.5 per cent in 2022 and $428.4 million or 2.6 per cent in 2023. New residential housing investment is projected to be up by 1.7 per cent in 2022 but down by 1.8 per cent in 2023. The tax bases for public sector body spending, business, and financial institutions are also projected to be stronger.

Cannabis Tax revenue is forecast to be $0.7 million or 5.0 per cent higher than Budget Estimates on the basis of increased remittances of the province's additional duty from licensed producers.

Non-resident Deed Transfer Tax is forecast to be in line with Budget Estimates.

Non-resident Property Tax is forecast to be down $65.5 million, or 100 per cent from Budget Estimates due to government's decision to not move forward with implementing the tax, as announced on May 5, 2022.

Vaping Products Tax revenue is forecast to be in line with Budget Estimates.

Motive Fuel Tax revenue is forecast to be up $4.6 million or 1.8 per cent from Budget Estimates due to higher levels of fuel consumption. Consumption of gasoline is projected to be 28.7 million litres or 2.4 per cent higher than expected while diesel fuel consumption is projected to be up 9.2 million litres or 2.1 per cent.

Tobacco Tax revenue is forecast to be down $11.4 million or 6.7 per cent from Budget Estimates as consumption declines. Cigarette consumption is projected to be 3.9 per cent lower than projected and fine cut tobacco consumption is 30.8 per cent lower than projected.

Other Tax Revenue is forecast to be $9.4 million or 4.7 per cent higher than the Budget Estimates primarily due to higher-than-expected revenues from the insurance premium tax and the Levy on Private Sale of Used Vehicles.

Total Revenue 2022–23

($ thousands)

General Revenue Fund: Revenue	Budget	Forecast Update	*Increase (Decrease)* from Budget
Provincial Revenue Sources			
Tax Revenue:			
Personal Income Tax	3,282,916	3,223,655	(59,261)
Corporate Income Tax	535,713	538,467	2,754
Harmonized Sales Tax	2,176,660	2,222,009	45,349
Cannabis Tax	13,442	14,118	676
Vaping Tax	3,416	3,416	---
Non-resident Deed Transfer Tax	15,497	15,497	---
Non-resident Property Tax	65,544	---	(65,544)
Motive Fuel Tax	255,100	259,746	4,646
Tobacco Tax	170,631	159,267	(11,364)
Other Tax Revenue	200,633	210,079	9,446
Prior Years' Adjustments - Taxes	---	---	---
	6,719,552	6,646,254	(73,298)
Other Provincial Revenue:			
Registry of Motor Vehicles	135,816	135,816	---
Petroleum Royalties	---	---	---
Other Provincial Sources	150,129	150,614	485
TCA Cost Shared Revenue	12,871	6,487	(6,384)
Other Fees and Charges	58,692	57,583	(1,109)
Prior Years' Adjustments - Other Revenue	---	---	---
	357,508	350,500	(7,008)
Investment Income:			
Interest Revenues	93,610	112,350	18,740
Sinking Fund Earnings	18,454	20,919	2,465
	112,064	133,269	21,205
Total - Provincial Sources	**7,189,124**	**7,130,023**	**(59,101)**
Federal Revenue Sources			
Equalization Payments	2,458,356	2,458,356	---
Canada Health Transfer	1,175,357	1,227,157	51,800
Canada Social Transfer	414,378	414,378	---
Offshore Accord Offset Payments	47,772	47,772	---
Crown Share	---	---	---
Other Federal Sources	45,314	63,032	17,718
TCA Cost Shared Revenue	110,156	127,214	17,058
Prior Years' Adjustments	---	---	---
Total - Federal Sources	**4,251,333**	**4,337,909**	**86,576**
Total Ordinary Revenue	**11,440,457**	**11,467,932**	**27,475**
Total - Ordinary Recoveries	**801,635**	**833,609**	**31,974**
Net Income from Government Business Enterprises (GBEs)			
Nova Scotia Liquor Corporation	270,446	274,826	4,380
Nova Scotia Gaming Corporation	138,300	146,200	7,900
Halifax-Dartmouth Bridge Commission	8,476	8,559	83
Highway 104 Western Alignment Corporation	2,596	2,596	---
Total - Net Income from GBEs	**419,818**	**432,181**	**12,363**
Total - Revenue	**12,661,910**	**12,733,722**	**71,812**

Note: Totals may not add due to rounding.

Other Provincial Revenue

Other Provincial Revenue is forecast to be $7.0 million or 2.0 per cent lower than Budget Estimates. The variance is largely driven by reductions in Provincial Tangible Capital Assets (TCA) Cost Shared Revenue, and Other Fees and Charges.

The decrease in Provincial TCA Cost Shared Revenue is primarily due to lower-than-expected TCA revenue at the Department of Public Works related to the Provincial Arts District project being put on hold. Other Fees and Charges revenue is lower primarily due to lower-than-expected ambulance fee revenue at the Department of Health and Wellness.

Investment Income

Investment Income is predicted to be $21.2 million or 18.9 per cent higher than Budget Estimates. This variance is driven by increases in Interest Revenues and Sinking Fund Earnings due to higher forecasted and actual interest rates.

Ordinary Revenue — Federal Revenue Sources

Equalization is based upon the province's decision to receive payments calculated according to the Expert Panel approach. This is a one-estimate, one-payment approach and as a result the forecast is equal to Budget Estimates.

The **Canada Health Transfer** (CHT) is forecast to be up by $51.8 million or 4.4 per cent from Budget Estimates due to the province's share of an additional one-time top up of $2 billion to the Canada Health Transfer by the federal government.

The **Canada Social Transfer** is forecast to be unchanged from the Budget Estimates.

The **Offshore Accord** payment is also forecast to be unchanged from the Budget Estimates.

Other Federal Sources is forecast to be up $17.7 million or 39.1 per cent from Budget Estimates. The variance is largely due to additional federal funding for the Safe Return to Class Fund, public transit, and Investing in Canada Infrastructure Program (ICIP) operating costs.

Federal TCA Cost Shared Revenue is forecast to be up by $17.1 million or 15.5 per cent from Budget Estimates mainly because of increased ICIP funding at the Department of Education and Early Childhood Development and the Department of Health and Wellness.

Ordinary Recoveries

Ordinary Recoveries Revenue is forecast to be $32.0 million or 4.0 percent higher than Budget Estimates.

The **Department of Education and Early Childhood Development** is forecast to be $6.9 million or 5.0 per cent higher than Budget primarily due to $5.1 million in federal funding related to the Official Languages Education Programming and $1.8 million in federal funding for Early Learning Child Care Agreement initiatives carried over from the prior year.

The **Department of Health and Wellness** is forecast to be $40.8 million or 38.9 per cent higher than Budget primarily due to federal supply of rapid tests.

The **Department of Labour, Skills and Immigration** is forecast to be $16.4 million or 12.4 per cent higher than Budget primarily due to a $15.1 million new federal funding agreement between the Nova Scotia Apprenticeship Agency and Employment and Social Development Canada.

The **Department of Municipal Affairs and Housing** is forecast to be $27.9 million or 16.3 per cent lower than Budget primarily due to $26.2 million in Investing in Canada Infrastructure Program (ICIP) recoveries and $1.8 million in lower New Building Canada Fund recoveries due to construction delays.

The **Department of Natural Resources and Renewables** is forecast to be $2.6 million or 15.4 per cent lower than Budget due to a transfer of some ICIP projects to the Department of Municipal Affairs and Housing.

The **Department of Public Works** is forecast to be $2.9 million or 10.1 per cent lower than Budget due to a change in timing of cash flow requirements for ICIP projects.

Net Income from Government Business Enterprises (GBEs)

Total Net Income from GBEs is up $12.4 million or 2.9 per cent from Budget Estimates.

Net income from the **Nova Scotia Liquor Corporation** (NSLC) is forecast to be $4.4 million or 1.6 per cent higher than Budget Estimates. The higher forecast is mainly due to increased sales of beverage alcohol and cannabis products at NSLC stores.

Net income from the **Nova Scotia Gaming Corporation** is forecast to be up $7.9 million or 5.7 per cent from Budget. This increase is due to the launch of iCasino in July 2022 and casinos returning to pre-pandemic trends, as well as expected negative impacts from the Cogswell Interchange Development not materializing.

Net income from the **Halifax-Dartmouth Bridge Commission** is forecast to be $0.1 million or 1.0 per cent higher from Budget Estimates primarily due to savings on expenditures.

Net income from **Highway 104 Western Alignment Corporation** is forecast to be unchanged from Budget.

Expenses

Total Expenses for 2022–23 are forecast to be $13.4 billion, $110.8 million or 0.8 per cent higher than the Budget Estimates. Expense information is based on forecast information from departments provided by September 14, 2022. Expense variances forecast past this date will be incorporated into future updates.

Increases in Departmental Expenses of $97.1 million or 0.8 per cent, Debt Servicing Costs of $11.5 million or 1.7 per cent, and Refundable Tax Credits of $5.3 million or 4.3 per cent, are partially offset by a decrease in the Pension Valuation Adjustment of $3.1 million or 4.3 per cent.

Departmental Expenses

Total Departmental Expenses for 2022–23 are forecast to be $97.1 million or 0.8 per cent higher than the Budget Estimates.

Departmental Expenses 2022–23 ($ thousands)

	Budget	Forecast Update	*Increase (Decrease)* from Budget
Advanced Education	676,617	676,617	---
Agriculture	40,499	40,499	---
Communities, Culture, Tourism and Heritage	141,951	166,875	24,924
Community Services	1,217,652	1,217,652	---
Economic Development	96,529	91,020	(5,509)
Education and Early Childhood Development	1,751,280	1,764,930	13,650
Environment and Climate Change	37,901	37,901	---
Finance and Treasury Board	28,877	28,877	---
Fisheries and Aquaculture	17,698	17,698	---
Health and Wellness	4,266,326	4,359,851	93,525
Justice	415,750	432,523	16,773
Labour, Skills and Immigration	207,493	224,472	16,979
Municipal Affairs and Housing	400,479	353,205	(47,274)
Natural Resources and Renewables	134,886	130,885	(4,001)
Public Service	415,909	414,220	(1,689)
Public Works	606,960	620,054	13,094
Seniors and Long-term Care	1,204,270	1,235,307	31,037
Service Nova Scotia and Internal Services	359,570	360,162	592
Restructuring Costs	402,099	347,118	(54,981)
Total - Departmental Expenses	**12,422,746**	**12,519,866**	**97,120**

The **Department of Communities, Culture, Tourism and Heritage** is forecast to be $24.9 million or 17.6 per cent higher than Budget primarily due to an additional $16.4 million in the Nova Scotia Film and Television Production Incentive Fund and $7.9 million for the Green and Inclusive Community Buildings program.

The **Department of Economic Development** is forecast to be $5.5 million or 5.7 per cent lower than Budget primarily due to a decrease of $6.6 million in the Nova Scotia Jobs Fund for unscheduled repayments, offset by increases of $1.1 million for Nova Scotia Business Inc. to the acquisition of land at the Port of Sheet Harbour.

The **Department of Education and Early Childhood Development** is forecast to be $13.7 million or 0.8 per cent higher than Budget primarily due to $5.1 million for fully recoverable Official Languages Education Programming spending, $4.2 million for Investing in Canada Infrastructure Program (ICIP) for Outdoor Learning Spaces spending carried forward from the prior year, $2.7 million for additional Federal Safe Return to School funding and $1.8 million in fully recoverable Early Learning Child Care Agreement initiatives carried forward from the prior year.

The **Department of Health and Wellness** is forecast to be $93.5 million or 2.2 per cent higher than Budget primarily due to $89.9 million in net COVID-19 related expenses mainly due to $40.8 million for rapid test usage supplied by the federal government, $31.2 million in Nova Scotia Health Authority (NSHA) operational costs mostly related to the extension of the province's testing strategy, $9.8 million for expired personal protective equipment, and $5.9 million for ICIP projects deferred from the prior year. In addition, other increases include $13.0 million for anticipated NSHA inflationary costs and $4.1 million for Her Majesty Queen Elizabeth II Day of Mourning. These increases are partially offset by $15.9 million net cash flow changes for capital projects.

The **Department of Justice** is forecast to be $16.8 million or 4.0 per cent higher than Budget primarily due to $10.4 million in operating expenses related to the Mass Casualty Commission public inquiry, $2.1 million for wages related to the 2017 and 2020 Judicial Compensation Tribunal Recommendations, $1.8 million in operating expenses for Courts Services, $1.7 million in additional Royal Canadian Mounted Police contract costs, and $1.0 million due to increased caseloads for the Nova Scotia Medical Examiner.

The **Department of Labour, Skills and Immigration** is forecast to be $17.0 million or 8.2 per cent higher than Budget primarily due to $15.1 million for a new federal funding agreement between the Nova Scotia Apprenticeship Agency and Employment and Social Development Canada, and a $1.0 million increase to the Federal Workforce Development Agreement.

The **Department of Municipal Affairs and Housing** is forecast to be $47.3 million or 11.8 per cent lower than Budget primarily due to $44.9 million in lower ICIP expenses and $2.5 million in lower New Building Canada Fund expenses, both due to project construction delays.

The **Department of Natural Resources and Renewables** is forecast to be $4.0 million or 3.0 per cent lower than Budget due to a transfer of some ICIP projects to the Department of Municipal Affairs and Housing.

Public Service Offices are forecast to be $1.7 million or 0.4 per cent lower than the budget primarily due to decreases of $1.1 million in the Office of Healthcare Professionals Recruitment mainly due to delay in filling all positions and $0.6M in Legislative Expenses resulting from anticipated savings in Members of the Legislative Assembly's travel and constituency allowances.

The **Department of Public Works** is forecast to be $13.1 million or 2.2 per cent higher due to $11.0 million of one-time federal transit funding and $2.1 million for repairs for November 2021 storm damage.

The **Department of Seniors and Long-term Care** is forecast to be $31.0 million or 2.6 per cent over budget primarily due to $19.9 million in travel nurse expenses supporting long-term care, $13.0 million for Home First program utilization, $4.1 million in funding to support access and flow activities in long-term care operations, $3.0 million in Health Workforce Planning and $3.0 million for Her Majesty Queen Elizabeth II Day of Mourning. These increases are partially offset by a $14.9 million decrease in Home Support utilization.

Refundable Tax Credits

Refundable tax credit expenditures are forecast to be $5.3 million or 4.3 per cent higher than Budget Estimates, primarily due to increases under the Scientific Research & Experimental Development tax credit.

Pension Valuation Adjustment

The Pension Valuation Adjustment is forecast to be down $3.1 million or 4.3 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 $11.5 million or 1.7 per cent from Budget Estimates, driven by higher than anticipated increases in interest rates and an increase in costs associated with pensions and other obligations.

Consolidation and Accounting Adjustments

Consolidation and Accounting Adjustments for government units are forecast to be $9.0 million or 7.2 per cent lower than budget primarily due to a decrease of $10.0 million due to changing cash flow requirements on healthcare infrastructure projects, partially offset by an increase of $1.0 million in various special purpose funds and other organizations.

Capital

Total Capital Spending is forecast to be $1.5 billion, which is $109.4 million or 6.9 per cent lower than Budget.

Tangible Capital Assets

The province is forecasting Capital Purchase Requirements to be $99.4 million or 7.2 per cent lower than Budget. This is primarily due to changes in building construction cash flows and a reduction in contingency, offset by an increase to highway construction costs due to timing of projects and price escalations.

Capital Grants

The province is forecasting Capital Grant Requirements to be $10.0 million or 5.0 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 2022–23

($ thousands)

	Budget	**Forecast Update**	*Increase (Decrease)* **from Budget**
Highways & Structures	520,492	593,570	73,078
Buildings	754,997	624,578	(130,419)
Information Technology	18,768	20,891	2,123
Land Purchases	4,990	5,021	31
Vehicles and Equipment	15,084	15,850	766
Contingency	70,000	25,000	(45,000)
Total - Capital Purchase Requirements	**1,384,331**	1,284,910	**(99,421)**
Capital Grants	200,386	190,392	(9,994)
Total - Capital Spending	**1,584,717**	**1,475,302**	**(109,415)**

Key Risks

Economic

Economic risks have shifted away from the pandemic to the impacts of commodity price shocks and higher energy prices as well as the response of monetary authorities to rising inflation. Although prices for oil and other raw materials have fallen through the summer, the situation in Ukraine remains volatile. Instability in Ukraine could still reverberate through commodity markets in the coming months.

Even with commodity prices easing, central banks around the world have been forced into rapid monetary tightening to contain a sharp acceleration in inflation. Higher interest rates are starting to cool domestic spending, but there remains uncertainty about the pace of disinflation. As the source of inflation moves from commodity prices to wage expectations, inflationary pressures could persist and require a longer period of higher interest rates. As a result, the risk that major global economies could fall into a recession rises. The likelihood of a recessionary 'hard landing' could be compounded by a swift pull back in expenditures by heavily indebted households or the Federal government.

Within Nova Scotia, higher interest rates may slow investment and cool domestic price pressures, but this impairs construction of additional residential stock needed to house the rapidly-growing population. Higher housing prices may limit the funds available for discretionary spending in the province. Further acceleration of population growth would increase these pressures. In addition, many industries in Nova Scotia are reporting difficulty finding the labour needed to operate or undertake building projects. Lack of available labour and costly inputs from global markets may restrict production in the province and slow major projects. 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

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 2021 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 forecast of PIT tax revenue is dependent on performance of the labour market. The forecast of CIT revenue is highly dependent on the province's share of national corporate taxable income. Although the province's share has declined marginally over the past couple of years, growth in national corporate taxable income has more than offset this factor.

Harmonized Sales Tax (HST) revenues are heavily reliant on consumer expenditures and residential construction. These are dependent on the pace of the economic recovery and consumer confidence.

Expenditures

Global events have created a degree of expense uncertainty in some key 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 those departments with large operations.

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 cash flow impacts of associated project delays, there are a number of market impacts such as availability within the construction industry that may cause further variances as the fiscal year advances.

Further, Nova Scotia recently experienced a significant storm event (Fiona) spanning multiple days, September 23 – 25th, 2022, that impacted many regions across the province. There are a number of associated expenses that will impact Department spending plans, which may create notable variances from budget estimates. As the storm event occurred after the forecast reporting cut-off date, associated variances are not included within this update and will be incorporated into future updates.

NOVA SCOTIA