



Forecast Update

September 28, 2023

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Minister of Finance and Treasury Board*



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ISBN 978-1-77448-545-3

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Introduction

The Forecast Update provides the 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 deficit is expected to increase moderately. The Province of Nova Scotia is forecasting a deficit position of \$402.7 million, an increase of \$123.8 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 \$232.3 million. The change in the deficit position is attributed to anticipated increases in expenses of \$363.1 million.

This Forecast Update shows that the Government is following the plan laid out in Budget 2023–24. 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 \$402.7 million. This is an increase of \$123.8 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 \$14.6 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 \$232.3 million from Budget. These combined changes result in total revenues increasing by \$411.0 million.

Forecast changes in Ordinary Revenue include increases of \$90.4 million in Tax Revenue, \$2.7 million in Other Provincial Revenue, \$31.9 million for Investment Income, and \$9.1 million in Federal Revenue Sources.

Ordinary Recoveries revenue is forecast to increase by \$98.5 million from Budget. Net Income from GBEs is expected to increase by \$178.4 million, largely attributable to the above noted accounting reclassification.

Total Expenses are forecast to be \$15.2 billion, an increase of \$363.1 million from the Budget Estimates. Expenses are predicted to be higher due to projected increases in Departmental Expenses of \$333.4 million, Debt Servicing Costs of \$28.3 million, and Refundable Tax Credits of \$1.5 million.

Consolidation and Accounting Adjustments positively impact the bottom line by \$200.7 million, which is \$171.8 million lower than budgeted.

Fiscal Summary 2023–24

(\$ thousands)

General Revenue Fund	Budget	Forecast Update	Increase (Decrease) from Budget
Revenues			
Ordinary Revenue	12,897,256	13,031,398	134,142
Ordinary Recoveries	986,210	1,084,722	98,512
Net Income from Government Business Enterprises	285,422	463,779*	178,357
Total - Revenue	14,168,888	14,579,899	411,011
Expenses			
Departmental Expenses	13,850,652	14,184,003	333,351
Refundable Tax Credits	136,099	137,561	1,462
Pension Valuation Adjustment	66,639	66,639	---
Debt Servicing Costs	766,911	795,164	28,253
Total - Expenses	14,820,301	15,183,367	363,066
Consolidation and Accounting Adjustments for Governmental Units	372,488	200,732*	(171,756)
Provincial Surplus (Deficit)	(278,925)	(402,736)	(123,811)

Note: Totals may not add due to rounding.

* 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 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: Pandemic recovery, along with Russia's invasion of Ukraine triggered unexpected inflationary pressures in 2022. Although commodity price pressures have subsequently declined, underlying inflation has proven more persistent. Core inflation remains stubbornly above the target levels set by most central banks. Many central banks have maintained higher interest rates, limiting activity in property and financial markets. The International Monetary Fund (IMF) World Economic Outlook report released in July 2023 estimates that global real Gross Domestic Product (GDP) growth will soften to 3.0 per cent in each of 2023 and 2024.

United States: US economic activity has maintained momentum in the first half of 2023. US real GDP growth was 2.1 per cent (annualized) in Q2 2023 while housing investment has declined as financial conditions tightened. The US labour market has remained tight, with job gains averaging 235,000 per month during the first eight months of 2023 while the unemployment rate remained near historic lows. Nominal wage gains continued to slow in the first half of 2023.

US Inflation slowed to 3.7 per cent in August 2023 from its peak of 9.1 per cent in June 2022 with continued monetary tightening. The collapse of several regional banks in March 2023 prompted the Federal Reserve to introduce a new facility to provide short-term liquidity support to financial institutions. The Department of Finance and Treasury Board outlook assumes that the US economy will grow by 1.1 per cent in 2023 and 0.9 per cent in 2024.

Europe: Despite a slower start in the first half of 2023, the Euro Area's economy has proven resilient to extraordinary shocks in its energy markets. The European labour market remains strong, with an unemployment rate of 6.4 per cent in July 2023. Overall inflation has come down from a high of 10.6 per cent in October 2022 to 5.3 per cent in August 2023, but core inflation is still climbing. The uncertainty caused by the ongoing conflict in Ukraine as well as the effects of a tight monetary policy are poised to extend subdued growth momentum into 2024. The IMF estimates the Euro Area GDP to grow 0.9 per cent in 2023 and 1.5 per cent in 2024.

China: Monetary policy from the People's Bank of China has become more accommodating through a series of interest rate reductions and reserve requirement cuts. The capital outflows and significant currency depreciation observed in 2022 have started to reverse course since the economy's reopening. China's GDP growth is anticipated to gradually return to its estimated potential rate, supported by investments in infrastructure and real estate. According to the IMF, China's real GDP is forecast to grow by 5.2 per cent in 2023 and 4.5 per cent in 2024.

Canada: Canadian economic activity has been supported by a strong job market, rapid population growth, and expenditure of the substantial household savings accumulated during the pandemic. Growth in manufacturing, construction, and services has more than compensated for declines in natural resource production. However, the housing market has been slowed by higher borrowing costs. Recent job additions have generally kept pace with the growth in the labour force, keeping the unemployment rate historically low.

Inflation in Canada dropped to 3.3 per cent as of July 2023. This decrease from its peak of about 8.0 per cent in June 2022 is due to significant declines in oil prices along with base year effects. The Bank of Canada anticipates inflation to average 3.7 per cent in 2023, 2.5 per cent in 2024, and 2.1 per cent in 2025. The Bank of Canada increased the target for the overnight rate several times over the past year. Given recent signs of slowing demand in the economy and the lagged effects of monetary policy, the Bank of Canada held its policy rate at 5.0 per cent in September 2023.

The slower U.S. economy is expected to have an impact on Canada's exports. Higher borrowing costs and a less robust demand outlook are expected to delay businesses' investment plans. Contracting housing investment during the first half of the year is also expected to reduce private capital investment. Canada's real GDP is expected to grow by 0.8 per cent in 2023 and 1.3 per cent in 2024.

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 15, 2023. The economic outlook incorporates data and events released on or before this date, however some of the discussion below refers to more recently released data.

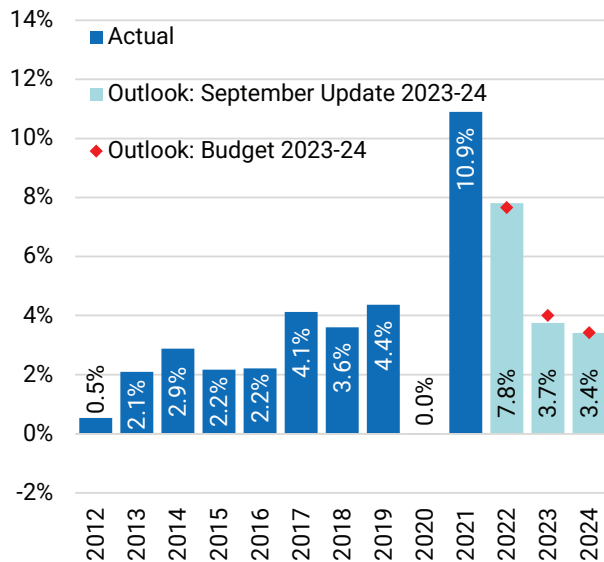
After real GDP rebounded with a 6.2 per cent increase in 2021, Nova Scotia's economy is expected to slow, returning to pre-pandemic growth rates. Slowing growth was evident in 2022 with preliminary real GDP (at basic prices) growth at 2.6 per cent, though strong construction activity kept the pace of expansion above pre-pandemic levels. Although inflation pressures intensified in 2022, these are expected to moderate in 2023 and ultimately return to long run trends.

Slowing inflation is expected to contribute to slower growth of household consumption expenditure in 2023 and 2024. Export growth is expected to continue at a moderate pace but faces headwinds from a slowing global economy. Exports of goods and services are expected to grow at 3.9 per cent and 4.7 per cent in 2023 and 2024 respectively. Imports of goods and services are forecast to grow 4.1 per cent in 2023 and at 3.0 per cent in 2024, like their pre-pandemic growth. Tourism's recovery progressed in 2023 and is expected to continue in 2024. Retail sales growth is expected to slow in 2023 and to return to the pre-pandemic pace of growth in 2024.

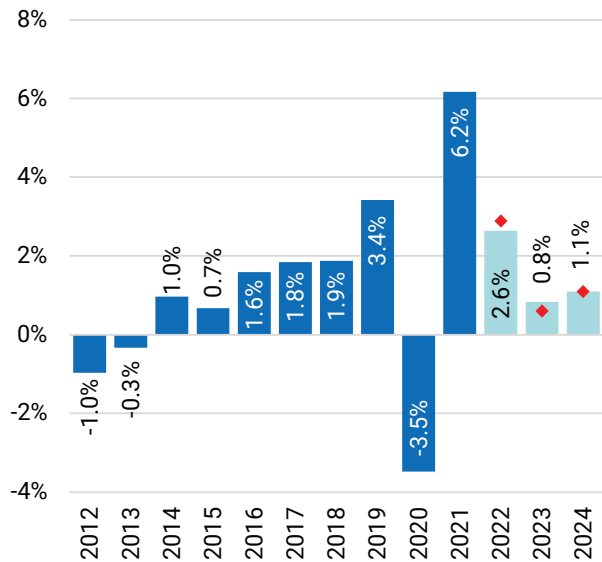
Nova Scotia GDP Growth

(per cent change)

Nominal GDP



Real GDP



Population growth is forecast to be 2.1 per cent in 2023 and 1.7 per cent in 2024, faster than pre-pandemic growth rates, but not as rapid as observed in 2022. Rising population feeds a larger labour force and expanding employment, with the unemployment rate expected to fall to 6.4 per cent in 2023. Employment growth is expected to slow to 0.5 per cent in 2024 while the unemployment rate is expected to rise to 6.9 per cent.

The updated projections for real GDP growth are 0.8 per cent in 2023 and 1.1 per cent in 2024, little changed from Budget 2023–24 projections. Nominal GDP is projected to grow 3.7 per cent in 2023 and 3.4 per cent in 2024, as slowing inflation brings growth back towards historical trends.

Recent Economic Performance

Population: Nova Scotia’s population growth accelerated further in the first quarter of 2023 with the growth rate surpassing that of any period since the 1950s. Nova Scotia had the third fastest population growth among provinces. From April 1, 2022 to April 1, 2023, Nova Scotia’s population increased by 39,872 or 3.96 per cent to an all-time high of 1,047,232 people. A growing immigrant population is lifting the size of the working-age population despite the baby-boomer cohort’s move into retirement.

Labour Markets: Nova Scotia’s tight labour market continued in 2023. Over the first eight months of the year, employment growth of 2.7 per cent outpaced labour force growth of 2.2 per cent, resulting in the unemployment rate falling to an average of 6.2 per cent over this period. Employment in most sectors has recovered and grown from pre-pandemic levels, though employment in accommodation and food services has not fully recovered to pre-pandemic levels. Average weekly earnings rose 3.8 per cent in the first six months of 2023 compared to the same period in 2022, with growth in most sectors and outpacing average

national wage growth. Total compensation of employees, combining growth in average wages and higher employment, was up 7.0 per cent in the first half of 2023.

Consumption and Prices: Nova Scotia's retail sales increased 4.7 per cent in the first half of 2023, compared to the first half of 2022. Growth in retail trade was fastest in health and personal care stores, miscellaneous retail, and motor vehicles and parts dealers. After lower sales in 2022, new motor vehicle unit sales are up 2.9 per cent for the first half of 2023. Through the first six months of the year, food service and drinking place receipts grew 3.1 per cent compared to the first half of 2022.

Nova Scotia's Consumer Price Index (CPI) accelerated, peaked and began to ease in 2022. Inflation continued to fall in 2023, averaging 4.2 per cent year-over-year in the first seven months of 2023. Global energy prices have eased in 2023, though the introduction of the federal carbon tax in Nova Scotia has added to energy costs during the second half of the year. Nova Scotia's food and shelter price indices increased 9.1 per cent and 5.2 per cent respectively in the first seven months of 2023, while the CPI index excluding food and energy prices increased 4.7 per cent over the same period. The inflation rate in the province is expected to continue to ease through 2024.

Investment: Residential building construction maintained elevated activity in the first half of 2023 with a shift in construction to areas outside Halifax. A decrease in construction of multiple-unit buildings has been offset by an increase in single-unit buildings. Housing starts declined 5.2 per cent for the January-July 2023 period compared to January-July 2022, more modest than the national decline of 8.1 per cent. Halifax home resale prices peaked in May 2022 and declined by 9.8 per cent by October 2022.

Non-residential building construction rose 3.0 per cent over the first six months of 2023 compared to the first six months of 2022, with declines in Halifax offset by gains outside the city. Overall business sector capital investment grew 7.1 per cent in the first half of 2023 with gains in building construction, engineering infrastructure, machinery/equipment and intellectual property.

Exports: Nova Scotia's international goods exports declined by 1.9 per cent from January-July 2023 compared to January-July 2022. The US and China continue to be Nova Scotia's largest trade partners. In the first seven months, exports to the US decreased by 0.4 per cent while exports to China grew 27.5 per cent. Exports to the European Union were down by 27.2 per cent. Seafood exports were down 1.1 per cent with lower shipment values for crab.

Tourism in Nova Scotia has continued its recovery with visitors up 52 per cent in the first five months of 2023 compared to same period in 2022, however, this was 10 per cent below the pre-pandemic January to May 2019 period. A slow return of visitors from Atlantic Canada and weather disruptions in 2023 may impact recovery.

Current Economic Outlook Assumptions

<i>Per cent change, except where noted</i>	Budget 2023-24		September Forecast Update	
	2023	2024	2023	2024
Real GDP (\$2012 chained)	0.6%	1.1%	0.8%	1.1%
Nominal GDP	4.0%	3.4%	3.7%	3.4%
Compensation of Employees	4.8%	4.0%	5.3%	3.0%
Household Income	4.4%	4.0%	5.0%	3.7%
Household Final Consumption	3.7%	4.1%	3.5%	3.7%
Retail Sales	1.8%	2.1%	0.8%	1.5%
Consumer Price Index	3.7%	2.1%	3.8%	2.4%
Investment in Residential Structures	5.4%	2.6%	1.5%	4.8%
Non-Res., Machinery, Intellectual Property	8.9%	1.2%	10.0%	2.3%
Net Operating Surplus: Corporations	1.8%	2.7%	-9.5%	1.9%
Net Mixed Income: Unincorporated	4.0%	1.8%	4.3%	2.2%
Exports of Goods and Services	5.3%	3.4%	3.9%	4.7%
Exports of Goods to Other Countries	5.7%	1.8%	2.5%	3.5%
Imports of Goods and Services	4.7%	2.4%	4.1%	3.0%
Population at July 1 (all ages, thousands)	1,040.5	1,057.7	1,040.5	1,057.7
Population at July 1 (ages 18-64, thousands)	638.1	644.8	638.1	644.8
Labour Force (thousands)	521.4	527.2	529.7	535.5
Employment (thousands)	482.9	486.6	496.0	498.4
Unemployment Rate, Annual Average	7.4%	7.7%	6.4%	6.9%

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 \$14.6 billion, \$411.0 million or 2.9 per cent higher than the 2023–24 Budget Estimates. Revenue estimates are based on federal administrative data up to June 30, 2023, and provincial administrative data up to August 16, 2023. Information received after these dates will be incorporated in future updates.

The growth in expected Total Revenue includes increases of \$90.4 million or 1.2 per cent in Tax Revenue, \$2.7 million or 0.7 per cent in Other Provincial Revenue, \$31.9 million or 23.3 per cent for Investment Income, \$9.1 million or 0.2 per cent in Federal Revenue Sources, \$98.5 million or 10.0 per cent in Ordinary Recoveries, and \$178.4 million or 62.5 per cent in Net Income from Government Business Enterprises.

Ordinary Revenue – Provincial Revenue Sources

Tax Revenue

Personal Income Tax (PIT) revenue is forecast to be up \$109.6 million or 2.9 per cent from Budget Estimates due to higher projections for taxable income and yield. Personal taxable income is projected to increase by \$103.9 million in 2023 and \$125.6 million in 2024. The yield rate on taxable income is now projected to be higher by 1.0 per cent in 2023 and 1.1 per cent in 2024.

Corporate Income Tax (CIT) revenue is forecast to be down \$72.1 million or 9.7 per cent from Budget Estimates due to downward revisions in the national taxable income forecast received after the provincial Budget.

Harmonized Sales Tax (HST) revenue is forecast to be up \$47.2 million or 1.9 per cent from Budget Estimates, mainly attributable to higher projections for consumer spending. Taxable consumer expenditures are projected to be up \$466.2 million or 2.6 per cent in 2023 and \$406.4 million or 2.2 per cent in 2024. The tax base for public sector body spending is projected to be up 3.1 per cent in 2023 and 2.6 per cent in 2024. New residential housing investment is projected to be down by 0.8 per cent in 2023 and up by 1.3 per cent in 2024.

Cannabis Tax revenue is forecast to be \$2.7 million or 18.5 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 revenue is forecast to be in line with Budget Estimates.

Vaping Products Tax revenue is forecast to be down \$39 thousand or 1.1 per cent from Budget Estimates.

Motive Fuel Tax revenue is forecast to be up \$14.6 million or 5.5 per cent from Budget Estimates due to higher levels of fuel consumption. Consumption of gasoline is projected to be 105.3 million litres or 8.5 per cent higher than expected, while diesel fuel consumption is projected to be down 4.6 million litres or 1.0 per cent.

Tobacco Tax revenue is forecast to be down \$11.4 million or 8.1 per cent from Budget Estimates due to declines in consumption. Cigarette consumption is 9.0 per cent lower than projected and fine cut tobacco consumption is 16.6 per cent lower than projected.

Other Tax Revenue is forecast to be \$2.9 million or 1.2 per cent higher than the Budget Estimates primarily due to higher-than-expected Preferred Share Dividend revenue.

Total Revenue 2023–24

(\$ thousands)

General Revenue Fund: Revenue	Budget	Forecast Update	Increase (Decrease) from Budget
Provincial Revenue Sources			
Tax Revenue:			
Personal Income Tax	3,731,163	3,840,762	109,599
Corporate Income Tax	740,408	668,336	(72,072)
Harmonized Sales Tax	2,438,318	2,485,566	47,248
Cannabis Tax	14,666	17,380	2,714
Vaping Tax	3,450	3,411	(39)
Non-resident Deed Transfer Tax	12,515	12,515	---
Motive Fuel Tax	263,497	278,072	14,575
Tobacco Tax	139,681	128,303	(11,378)
Other Tax Revenue	240,827	243,711	2,884
Prior Years' Adjustments - Taxes	---	(3,084)	(3,084)
	7,584,525	7,674,972	90,447
Other Provincial Revenue:			
Registry of Motor Vehicles	143,412	146,428	3,016
Other Provincial Sources	148,832	148,664	(168)
TCA Cost Shared Revenue	9,545	10,150	605
Other Fees and Charges	59,574	58,787	(787)
Prior Years' Adjustments - Other Revenue	---	---	---
Gain on Disposal of Crown Assets	---	---	---
	361,363	364,029	2,666
Investment Income:			
Interest Revenues	118,235	146,918	28,683
Sinking Fund Earnings	19,099	22,355	3,256
	137,334	169,273	31,939
Total - Provincial Sources	8,083,222	8,208,274	125,052
Federal Revenue Sources			
Equalization Payments	2,802,849	2,802,849	---
Canada Health Transfer	1,357,760	1,357,760	---
Canada Social Transfer	433,640	433,640	---
Offshore Accord Offset Payments	---	---	---
Crown Share	---	---	---
Other Federal Sources	142,681	146,328	3,647
TCA Cost Shared Revenue	77,104	82,547	5,443
Prior Years' Adjustments	---	---	---
Total - Federal Sources	4,814,034	4,823,124	9,090
Total Ordinary Revenue	12,897,256	13,031,398	134,142
Total - Ordinary Recoveries	986,210	1,084,722	98,512
Net Income from Government Business Enterprises (GBEs)			
Nova Scotia Liquor Corporation	273,550	273,550	---
Nova Scotia Gaming Corporation	---	178,700	178,700
Halifax-Dartmouth Bridge Commission	9,143	8,800	(343)
Highway 104 Western Alignment Corporation	2,729	2,729	---
Total - Net Income from GBEs	285,422	463,779	178,357
Total - Revenue	14,168,888	14,579,899	411,011

Note: Totals may not add due to rounding.

Other Provincial Revenue

Other Provincial Revenue is forecast to be \$2.7 million or 0.7 per cent higher than Budget Estimates primarily due to higher-than-expected revenue at the Registry of Motor Vehicles.

Investment Income

Investment Income is predicted to be \$31.9 million or 23.3 per cent higher than Budget Estimates due to higher 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 unchanged from the Budget Estimates.

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

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

Other Federal Sources is forecast to be up \$3.6 million or 2.6 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.

Federal TCA Cost Shared Revenue is forecast to be up by \$5.4 million or 7.1 per cent from Budget Estimates, mainly because of changes in the expected timing of federal revenues related to TCA projects at the Department of Education and Early Childhood Development

Ordinary Recoveries

Ordinary Recoveries Revenue is forecast to be \$98.5 million or 10.0 percent higher than Budget Estimates.

The **Department of Environment and Climate Change** is forecast to be \$5.1 million or 2743.2 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 Labour, Skills and Immigration** is forecast to be \$21.2 million or 16.3 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 Justice** is forecast to be \$2.1 million or 1.4 per cent lower than Budget primarily due to lower than anticipated recoveries of \$0.7 million in Victim Surcharge Fund, \$0.4 million in RCMP Policing Program and \$0.3 million in Justice Partnership and Innovation Program (JPIP) Intimate Partner Violence Project.

The **Department of Municipal Affairs and Housing** is forecast to be \$67.6 million or 23.9 per cent higher than Budget primarily due to \$53.0 million in recoveries related to disaster assistance for wildfires and July floods and \$15.2 million in Investing in Canada Infrastructure Program (ICIP) recoveries.

The **Department of Natural Resources and Renewables** is forecast to be \$4.2 million or 16.2 per cent higher than Budget primarily due to \$3.7 million in recoverable expenses related to the wildfires response.

The **Department of Public Works** is forecast to be \$1.6 million or 5.2 per cent higher primarily due to \$1.8 million for Highway 107 Sackville-Bedford-Burnside project costs.

Net Income from Government Business Enterprises (GBEs)

Total Net Income from GBEs is up \$178.4 million or 62.5 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 unchanged from Budget.

As a result of 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. Therefore, net income from GBEs from NSGC is forecast to be \$178.7 million. As a result, the Forecast Update shows a corresponding reduction to Consolidation and Account Adjustments. The results of the corporate services segment of NSGC 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 \$0.3 million or 3.8 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 unchanged from Budget.

Expenses

Total Expenses for 2023–24 are forecast to be \$15.2 billion, \$363.1 million or 2.5 per cent higher than the Budget Estimates.

Increases are expected in Departmental Expenses of \$333.4 million or 2.4 per cent, Debt Servicing Costs of \$28.3 million or 3.7 per cent, and Refundable Tax Credits of \$1.5 million or 1.1 per cent.

Departmental Expenses

Total Departmental Expenses for 2023–24 are forecast to be \$333.4 million or 2.4 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	Forecast Update	Increase (Decrease) from Budget
Advanced Education	707,234	707,534	300
Agriculture	45,350	45,550	200
Communities, Culture, Tourism and Heritage	172,009	172,009	---
Community Services	1,299,913	1,299,913	---
Cyber Security and Digital Solutions	229,149	235,679	6,530
Economic Development	95,126	95,126	---
Education and Early Childhood Development	1,873,505	1,898,416	24,911
Environment and Climate Change	40,445	51,020	10,575
Finance and Treasury Board	35,736	36,697	961
Fisheries and Aquaculture	16,633	17,046	413
Health and Wellness	4,854,073	5,217,781	363,708
Justice	453,452	453,452	---
Labour, Skills and Immigration	206,236	227,971	21,735
Municipal Affairs and Housing	554,398	627,627	73,229
Natural Resources and Renewables	142,579	156,296	13,717
Public Service	453,303	466,795	13,492
Public Works	672,290	704,296	32,006
Seniors and Long-term Care	1,331,978	1,360,891	28,913
Service Nova Scotia	153,369	157,910	4,541
Restructuring Costs	513,874	251,994	(261,880)
Total - Departmental Expenses	13,850,652	14,184,003	333,351

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 \$24.9 million or 1.3 per cent higher than Budget primarily due to \$34.4 million for the Regional Centres for Education and Conseil Scolaire Acadien Provincial union contract settlements, \$5.0 million in Nova Scotia Teacher's Union medical and dental premiums due to rate increases and \$4.3 million related to the Teachers' Pension Plan. These increases are partially offset by \$10.0 million due to implementation of the Early Childhood Educator compensation framework and \$8.8 million in salary savings realized by the Halifax Regional Centre for Education associated with the local strike.

The **Department of Environment and Climate Change** is forecast to be \$10.6 million or 26.1 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, \$1.1 million in fully recoverable expenses related to the new Nature Climate Solutions agreement, \$530 thousand in fully recoverable expenses related to the new National Urban Park agreement and \$500 thousand in well water testing costs related to wildfire recovery efforts.

The **Department of Health and Wellness** is forecast to be \$363.7 million or 7.5 per cent higher than Budget primarily due to \$135.9 million for the July 2023 Nursing union contract settlement, \$111.9 million for anticipated operational pressures for the Nova Scotia Health Authority 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, \$65.8 million for the Physicians Agreement, \$35.0 million related to Action for Health initiatives, and \$12.5 million related to COVID-19, mainly rapid test inventory adjustments and test usage offset by less than anticipated immunizations.

The **Department of Labour, Skills and Immigration** is forecast to be \$21.7 million or 10.5 per cent higher than Budget primarily due to an increase of \$15.8 million related to the Labour Market Development Agreement and \$4.9 million in the Workforce Development Agreement, both fully recoverable.

The **Department of Municipal Affairs and Housing** is forecast to be \$73.2 million or 13.2 per cent higher than Budget primarily due to \$61.9 million in partially recoverable disaster assistance for the wildfires and July flooding, and \$8.7 million due to the timing of cash flows on federal infrastructure projects.

The **Department of Natural Resources and Renewables** is forecast to be \$13.7 million or 9.6 per cent higher than Budget primarily due to \$12.0 million in partially recoverable costs related to the wildfires, \$872 thousand in partially recoverable costs related to the 2 Billion Trees program, \$500 thousand in Forestry Nursery operating pressures and \$300 thousand due to July flood cleanup costs.

Public Service Offices are forecast to be \$13.5 million or 3.0 per cent higher than Budget Estimates primarily due to an increase of \$13.6 million in the Office of Addictions and Mental Health mainly attributable to \$17.6 million for the Nursing union contract settlement partially offset by a decrease of \$3.2 million for lower utilization of Healthcare worker retention incentives.

The **Department of Public Works** is forecast to be \$32.0 million or 4.8 per cent higher than Budget primarily due to a \$9.6 million grant to Build Nova Scotia for the Halifax Infirmary Expansion Project, \$7.5 million for July flood damage (partially recoverable), \$6.5 million associated with healthcare infrastructure, \$5.9 million for Hurricane Fiona damage (partially recoverable), and \$1.8 million for the Highway 107 Sackville Bedford Burnside Interchange (fully recoverable).

The **Department of Seniors and Long-term Care** is forecast to be \$28.9 million or 2.2 per cent higher than Budget primarily due to \$22.7 million in nurse expenses supporting long-term care facilities.

Service Nova Scotia is forecast to be \$4.5 million or 3.0 per cent higher than Budget primarily due to \$2.9 million for credit monitoring and identity theft protection related to the MOVEit cyber breach and \$1.4 million for incremental costs related to the Shubenacadie Radio Communications Centre.

Refundable Tax Credits

Refundable tax credit expenditures are forecast to be \$1.5 million or 1.1 per cent higher than Budget Estimates. This is due to forecasted increases under the Digital Animation Tax Credit, which are partially offset by decreases under the Capital Investment Tax Credit, the Scientific Research and Experimental Development Tax Credit, the Affordable Living Tax Credit, and the Digital Media Tax Credit.

Pension Valuation Adjustment

The Pension Valuation Adjustment is forecast to be unchanged from Budget Estimates.

Debt Servicing Costs

Total Debt Servicing Costs are forecast to be up \$28.3 million or 3.7 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 \$171.8 million or 46.1 per cent lower than Budget primarily due to a change in accounting treatment for the Nova Scotia Gaming Corporation. 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 \$178.7 million decrease in Consolidation and Accounting Adjustments. This decrease is partially offset by increases of \$3.9 million due to lower than budgeted amortization of health care assets, and \$3.0 million in various other organizations.

Capital

Total Capital Spending is forecast to be \$1.61 billion, which is \$11.6 million or 0.7 per cent lower than Budget.

Tangible Capital Assets

The province is forecasting Capital Purchase Requirements to be \$10.1 million or 0.8 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 cost due to timing of projects and price escalations, and new modular housing in response to wildfires.

Capital Grants

The province is forecasting Capital Grant Requirements to be \$1.5 million or 0.5 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	Forecast Update	Increase (Decrease) from Budget
Highways & Structures	485,277	540,309	55,032
Buildings	637,219	645,800	8,581
Information Technology	84,208	46,378	(37,830)
Land Purchases	52,500	56,865	4,365
Vehicles and Equipment	18,865	18,977	112
Contingency	52,000	11,631	(40,369)
Total - Capital Purchase Requirements	1,330,069	1,319,960	(10,109)
Capital Grants	291,307	289,818	(1,489)
Total - Capital Spending	1,621,376	1,609,778	(11,598)

Key Risks

Economic

The impacts of monetary tightening are still unfolding in many economies around the world. Should inflation remain more persistent than expected, higher interest rates would be required for a longer period, potentially triggering a deeper or more protracted economic contraction. Further, inflation expectations may become unanchored, leading to prolonged inflation and further economic disruption. A period of weaker global demand could limit trade activity, though a financial crisis is a more distant risk.

The risk for further economic volatility and instability resulting from Russia's war on Ukraine remains. Commodity prices have returned to pre-invasion levels, but these are a continued source of economic risk. Unexpected shifts in battlefield outcomes, sanctions, and grain transportation arrangements could result in market impacts at any time. Geopolitical and trade tensions, particularly between US and China, are a further source of uncertainty in the global outlook. US economic growth is expected to slow but not face large contraction while China's economy faces risks around real estate and shifting growth out of low-yield investments.

Nova Scotia's economic growth has been accelerated by population growth in recent years. Shifts in Nova Scotia's demographic trends may occur more frequently and alter the outlook even in the short term. The housing market faces changing influences in a variety of areas including the population, interest rates, labour supply, and government initiatives. In addition, major projects and investments in Nova Scotia continue to face challenges from the uncertain effects of labour supply and supply chain constraints. Nova Scotia has recently been confronted with extreme weather events and these 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.

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 PIT and CIT tax 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.

Inflation, continues to pose significant risks to revenues. In addition, the risk of economic contraction before inflation is contained through monetary tightening adds downside risks to most sources of provincial own-source revenues.

The forecast of PIT tax revenue is dependent on performance of the labour market, which has been supported in recent years by accelerated population growth, strong demand, and recovery from the pandemic.

The forecast of CIT revenue is highly dependent upon national corporate taxable income and the province's share. 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.

HST revenues are heavily reliant on consumer expenditures and residential construction, which are dependent on the pace of the economic recovery and consumer confidence. Inflation, demographic growth and housing market pressures add additional risks to the revenue forecast.

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, and now with hurricane season well-underway, other potential events may impact the province resulting 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 several market impacts such as availability of labour within the construction industry that may cause further variance as the fiscal year advances.

