

August 9, 2007

## Overview

The Province of Nova Scotia is forecasting a modest decrease in its projected budget surplus for the 2007–2008 fiscal year. Lower petroleum royalties, declining tobacco revenue and a slight increase in program spending are offset by lower pension costs and minor revenue increases.

The surplus is expected to decrease by \$3.1 million to \$115.3

million, down from \$118.4 million in the 2007–2008 budget. The forecast includes a \$68.2 million legislated surplus (Offshore offset) and an additional \$45.6 million to satisfy the debt reduction commitment. The total amount to be allocated to the debt is \$113.8 million. The unallocated surplus is now \$1.5 million, down \$13.9 million from the budgeted \$15.4 million.

## Fiscal Summary Fiscal 2007–2008

(\$ thousands)

	Budget	Forecast	Increase (Decrease) from Budget
<b>CONSOLIDATED FUND</b>			
<b>Revenue</b>			
Ordinary Revenues	7,029,569	7,015,028	(14,541)
Fees and Other Charges	60,883	61,709	826
Ordinary Recoveries	469,662	474,380	4,718
Sinking Fund Earnings	113,529	113,529	---
<b>Total Revenues</b>	<b><u>7,673,643</u></b>	<b><u>7,664,646</u></b>	<b><u>(8,997)</u></b>
<b>Expenses</b>			
Departmental Expenses	6,917,294	6,924,568	7,274
Pension Valuation Adjustment	68,603	59,937	(8,666)
Debt Servicing Costs	954,338	949,810	(4,528)
<b>Total Expenses</b>	<b><u>7,940,235</u></b>	<b><u>7,934,315</u></b>	<b><u>(5,920)</u></b>
	<b><u>(266,592)</u></b>	<b><u>(269,669)</u></b>	<b><u>(3,077)</u></b>
<b>Consolidation and Accounting Adjustments for Governmental Units</b>			
	<b><u>40,977</u></b>	<b><u>40,977</u></b>	<b><u>---</u></b>
<b>Net Income for Government Business Enterprises</b>			
Nova Scotia Gaming Corporation	139,600	139,600	---
Nova Scotia Liquor Corporation	197,070	197,070	---
Other Enterprises	7,374	7,374	---
	<b><u>344,044</u></b>	<b><u>344,044</u></b>	<b><u>---</u></b>
<b>Provincial Surplus</b>	<b><u>118,429</u></b>	<b><u>115,352</u></b>	<b><u>(3,077)</u></b>

### Components of the Debt Reduction Plan

Debt Retirement—Contingency	17,885	26,050	8,165
Offshore Offset Agreement	68,238	68,238	---
Restricted Surplus—TCA	16,882	19,501	2,619
Other	15,424	1,563	(13,861)
	<b><u>118,429</u></b>	<b><u>115,352</u></b>	<b><u>(3,077)</u></b>

## Revenues

Total revenues, including net income from Government Business Enterprises of \$344.0 million, are forecast to fall slightly to \$8.01 billion.

Total ordinary revenues are forecast to be \$7.015 billion, \$14.5 million lower than the 2007–2008 budget.

Petroleum royalties are expected to decrease by \$11.0 million primarily as a result of a higher US/Canadian exchange rate. This decline is partially offset by increases in petroleum rentals of \$1.1 million.

Tobacco revenues are forecast to be \$8.4 million lower

than budget. Smoking rates are expected to continue declining, and the rise in the illegal distribution of cigarettes continues, reflecting a national trend.

Motive fuel revenue is expected to fall by \$2.8 million because of lower consumption.

Interest revenues are projected to increase by \$3.8 million as a result of an increase in short term interest rates.

Tangible Capital Asset cost shared revenue is expected to increase marginally from budget by \$2.6 million due to an increase in revenues anticipated from third parties.

## Ordinary Revenue Fiscal 2007–2008

(\$ thousands)

	Budget	Forecast	Increase (Decrease) from Budget
<b>Provincial Revenue Sources</b>			
Personal Income Tax	1,718,283	1,718,283	---
Corporate Income Tax	386,905	386,905	---
Harmonized Sales Tax	1,095,822	1,095,822	---
Tobacco Tax	150,948	142,504	(8,444)
Motive Fuel Taxes	252,235	249,387	(2,848)
Interest Revenues	75,975	79,798	3,823
Registry of Motor Vehicles	94,488	94,488	---
Royalties—Petroleum	420,500	410,600	(9,900)
Other Provincial Revenues	283,990	284,199	209
Prior Years' Adjustments	---	---	---
TCA Cost Shared Revenue	6,151	8,770	2,619
<b>Total—Provincial Revenue Sources</b>	<b>4,485,297</b>	<b>4,470,756</b>	<b>(14,541)</b>
<b>Federal Revenue Sources</b>			
Equalization Payments	1,464,528	1,464,528	---
Offshore Oil and Gas Payments	68,238	68,238	---
Canada Health Transfer	638,954	638,954	---
Canada Social Transfer	280,335	280,335	---
Wait Times Reduction Fund	34,389	34,389	---
Other Federal Sources	2,319	2,319	---
C48 Trust Funds	44,778	44,778	---
Prior Years' Adjustments	---	---	---
TCA Cost Shared Revenue	10,731	10,731	---
<b>Total—Federal Revenue Sources</b>	<b>2,544,272</b>	<b>2,544,272</b>	<b>---</b>
<b>Total—Revenue</b>	<b>7,029,569</b>	<b>7,015,028</b>	<b>(14,541)</b>

## Expenses

Total expenses are forecast to fall \$5.9 million to \$7.93 billion. Marginally higher program expenses are offset by a decrease in pension and debt servicing costs.

Departmental gross expenses have increased by \$7.3 million, of which \$5.5 million is program spending that will be offset through related fees & other charges and ordinary recoveries as explained below.

Federal recoveries have increased by \$2.8 million in Service Nova Scotia Municipal Relations primarily for Municipal Rural Infrastructure grants and \$442

thousand in the Department of Community Services primarily for the Labour Market Agreement for persons with disabilities.

The Department of Health is forecasting an increase in recoveries from other provinces for health care costs of \$566 thousand. The Department of Tourism, Heritage and Culture is forecasting fees to be \$422 thousand higher to offset costs in Archives and Records Management, Vital Statistics Online and the Tourism Reservation Contact system.

## Departmental Expenses Fiscal 2007–2008

(\$ thousands)

	Budget	Forecast	Increase (Decrease) from Budget
Agriculture	63,195	63,275	80
Community Services	886,494	886,936	442
Economic Development	76,362	76,166	(196)
Education and Universities	1,496,544	1,498,421	1,877
Energy	21,770	21,770	---
Environment and Labour	49,664	49,843	179
Finance	29,747	29,747	---
Fisheries and Aquaculture	6,700	6,692	(8)
Health	3,045,859	3,046,425	566
Health Promotion and Protection	58,618	58,919	301
Justice	232,763	233,068	305
Natural Resources	79,242	79,259	17
Public Service	138,295	138,565	270
Service Nova Scotia and Municipal Relations	227,219	230,217	2,998
Tourism, Culture and Heritage	54,364	54,786	422
Transportation and Public Works	329,037	329,058	21
Restructuring Costs	121,421	121,421	---
<b>Total—Departmental Expenses</b>	<b>6,917,294</b>	<b>6,924,568</b>	<b>7,274</b>

## Net Program Expenses

Net program spending is up \$1.7 million. This is primarily in the Department of Education where the tuition relief program is forecast to be \$1.4 million higher than budgeted, and in the Department of

Health Promotion and Protection where an additional \$300 thousand has been allocated for the provincial mumps/measles/rubella vaccine.

## Net Program Expenses Fiscal 2007–2008

(\$ thousands)

	Budget	Forecast	Increase (Decrease) from Budget
Agriculture	49,837	49,804	(33)
Community Services	781,783	781,783	---
Economic Development	74,666	74,666	---
Education and Universities	1,439,250	1,440,587	1,337
Energy	20,261	20,261	---
Environment and Labour	34,767	34,767	---
Finance	25,619	25,619	---
Fisheries and Aquaculture	5,773	5,765	(8)
Health	2,959,112	2,959,112	---
Health Promotion and Protection	49,743	50,043	300
Justice	128,205	128,205	---
Natural Resources	76,902	76,902	---
Public Service	131,959	132,093	134
Service Nova Scotia and Municipal Relations	121,743	121,743	---
Tourism, Culture and Heritage	49,231	49,231	---
Transportation and Public Works	319,755	319,755	---
Restructuring Costs	118,143	118,143	---
<b>Total—Net Program Expenses</b>	<b><u>6,386,749</u></b>	<b><u>6,388,479</u></b>	<b><u>1,730</u></b>

## Pension Valuation Adjustment

The pension valuation adjustment is forecast to decrease by \$8.7 million to \$59.9 million, down from its original estimate of \$68.6 million. This is the result of refined pension data.

## Debt Servicing Cost

The forecast for debt servicing costs reflects a decrease of \$4.5 million compared to budget. Debt servicing costs are expected to drop \$6.0 million as a result of refined pension data and a small savings in long-term debt charges offset by an increase in short-term interest rates of \$1.5 million.

## Debt Reduction Plan

The Province of Nova Scotia is forecasting an increase of \$10.8 million in the amount of surplus to be applied to the debt. Of the forecasted surplus of \$115.3 million, \$113.8 million will be applied to the debt to satisfy the government commitment to lower the net direct debt each year beginning in 2007-2008. This is up from the budgeted amount of \$103.0 million. The increased allocation to the debt is the result of projected increased TCA spending of \$10.8 million of which \$2.6 million is recovered from other sources.

## Economic Performance and Outlook—2007

The Province continues to anticipate a 2.3 per cent growth in real Gross Domestic Product in 2007. This matches the average of private sector forecasts for Nova Scotia as of July 20, 2007.

Employment has increased 1.3 per cent for the first half of 2007. The unemployment rate is at 7.9 per cent. Nova Scotia labour income remains positive, having increased 4.7 per cent in the first quarter.

Despite declining new vehicle sales, retail sales growth remains positive, having increased to date by 3.3 per cent.

As expected, residential capital investment has declined by 1.2 per cent as people are spending less on home renovations and the number of housing starts is down.

A slower pace in commercial capital investments has resulted in a decline of 6.9 per cent in non-residential building construction.

While exports of total international merchandise goods are still positive, the slower US economy coupled with the high Canadian dollar is having an impact. The value of exports of lumber, gypsum, shellfish, and wood pulp are down. The return to production by Stora Enso along with more car and truck tire exports have helped to keep total exports positive for the first five months of 2007. The value of exports of natural gas are down for the first five months of 2007.

Manufacturing shipments have fallen 1.4 per cent in the first half of 2007. This sector has been affected by a high Canadian dollar and a slower economy in the United States.

Inflation has been running below expectations reflecting lower import prices, as a result of the appreciating Canadian dollar, and the softening of energy prices.

## 2007–2008 Forecast Opportunities and Risks

The budget forecasting process involves identifying potential opportunities and risks as the year progresses. New federal data in early winter will provide us with a greater degree of certainty around income taxes, HST, and CHT/CST forecasts. Actuaries will commence a detailed review of pension assumptions in early winter with pension obligations likely to increase. Potential forecast pressures maybe offset by federal infrastructure dollars and off shore forfeiture revenues.

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