

December 14, 2005

Overview

The Province of Nova Scotia is forecasting a modest increase in its budget surplus for 2005-2006, as rising offshore gas royalties provide a boost to provincial revenues.

This will allow government to proceed with investments in energy efficiency, low-income heating rebates, and other key programs.

The surplus is expected to rise to \$78.4 million, \$15.1 million higher than budgeted. The budget

includes \$57.1 million, which is a legislated surplus to be allocated to the debt.

Total revenues are up \$112.9 million, largely due to positive changes in provincial own-source revenues, including an increase in offshore royalties to \$119.0 million, \$89.0 million more than budgeted.

Net program spending is projected to increase by \$69.9 million, including \$28.0 million for energy-related investments.

Fiscal Summary 2005–2006

(\$ thousands)

	Budget	Forecast	Increase (Decrease) from Budget
Consolidated Fund			
Revenue	6,097,580	6,210,526	112,946
Expenses			
Net Program Expenses	5,496,275	5,566,142	69,867
Pension Valuation Adjustment	24,379	52,070	27,691
Net Debt Servicing Costs	897,468	900,788	3,320
Total Expenses	6,418,122	6,519,000	100,878
	(320,542)	(308,474)	12,068
Consolidation and Accounting Adjustments for Governmental Units	37,191	45,013	7,822
Net Income for Government Business Enterprises			
Nova Scotia Gaming Corporation	160,900	155,400	(5,500)
Nova Scotia Liquor Corporation	177,070	177,070	---
Other Enterprises	8,664	9,392	728
	346,634	341,862	(4,772)
Provincial Surplus	63,283	78,401	15,118

Components of the Debt Reduction Plan

Debt Retirement - Contingency	4,000	4,000	---
Offshore Offset Agreement	57,100	57,100	---
Other	2,183	17,301	15,118
	63,283	78,401	15,118

Revenues

Total revenues are forecasted to be \$112.9 million higher than the 2005-2006 Budget.

Exclusive of any prior years' adjustments, provincial own-source revenues are forecasted to be \$85.6 million higher than budget. This is due to adjustments in several areas.

The forecast for Offshore Petroleum Royalties is \$89.0 million higher as a result of the continued strength of natural gas prices.

Corporate Income Tax revenues are projected to be up \$26.1 million, in part due to stronger national corporate taxable income.

Harmonized Sales Tax revenues are also forecasted to be \$9.4 million higher than budget due to higher-than-anticipated national consumer expenditure growth.

These increases are offset, in part, by a \$21.4 million decline in Personal Income Tax, primarily as a result of a change in Nova Scotia's share of national taxable income. Motive Fuel Tax revenues are projected to be \$12.9 million

lower than budget. This reduction is the result of lower consumption of both gasoline and diesel oil, as higher prices affect consumer demand.

In addition, the Province is projecting other provincial source revenues to decrease by \$4.6 million. This includes a drop in Large Corporation Tax revenues of \$8.9 million, mainly due to a decline in the growth of the asset base and lower revenues from the Levy on Used Vehicles. These decreases are offset by a \$6.0 million increase in Offshore Forfeitures revenues.

Prior years' adjustments from provincial sources are \$27.7 million. Increases in Personal Income Tax and Harmonized Sales Tax have been offset by a negative adjustment to the Large Corporation Tax.

National levels for equalization have been pre-set for 2005-2006. The equalization panel will report to the federal government in the spring on the future determination of allocation entitlements.

Revenue Fiscal 2005–2006

(\$ thousands)

	Budget	Forecast	Increase (Decrease) from Budget
Provincial Revenue Sources			
Personal Income Tax	1,553,568	1,532,129	(21,439)
Corporate Income Tax	350,177	376,282	26,105
Harmonized Sales Tax	1,068,935	1,078,380	9,445
Tobacco Tax	177,567	176,151	(1,416)
Motive Fuel Taxes	256,895	243,948	(12,947)
Interest Revenues	72,413	73,850	1,437
Registry of Motor Vehicles	87,716	87,758	42
Royalties - Petroleum	30,000	119,000	89,000
Other Provincial Revenues	239,333	234,720	(4,613)
Prior Years' Adjustments	---	27,671	27,671
Total - Provincial Revenue Sources	3,836,604	3,949,889	113,285
Federal Revenue Sources			
Equalization Payments	1,343,527	1,343,527	---
Offshore Oil and Gas Payments	57,100	57,100	---
Canada Health Transfer	578,410	578,051	(359)
Canada Social Transfer	257,408	257,306	(102)
Wait Times Reduction Fund	18,201	18,201	---
Other Federal Sources	6,330	6,330	---
Prior Years' Adjustments	---	122	122
Total - Federal Revenue Sources	2,260,976	2,260,637	(339)
Total Revenue	6,097,580	6,210,526	112,946

Net Program Expenses

Net Program Expenses are now forecast to be \$69.9 million higher than budgeted, an increase of \$47.2 million since the August update. Various factors have contributed to the increase.

To help Nova Scotians deal with the high cost of fuel, Government has introduced two programs that are expected to cost \$28.0 million. The Department of Energy will spend an additional \$10.0 million to implement the Energy Efficiency Plan and an additional \$18.0 million is forecast for the Keep the Heat Program under Service Nova Scotia and Municipal Relations.

The Public Service appropriations are forecasting an increase of \$20.9 million. The Office of Economic Development is projecting \$17.4 million more than budgeted for innovation incentives, economic development grants, and loan valuation allowances for forgivable loans. The Emergency Measures Organization will spend an additional \$1.3 million to cover the cost of the May 2005 floods. Another \$3.3 million is required in Legislative Services to update the provincial enumeration list.

The Department of Health's forecast has increased by \$6.4 million, to cover additional District Health Authority spending on emergency rooms and critical care intensive care units, as well as staffing and operating costs in the Amherst and Valley hospitals.

The Department of Transportation and Public Works forecast is up \$5.1 million to cover \$2.8 million in highway maintenance and to account for a \$1.8 million write down of the Shelburne Youth Centre's assets.

The Department of Justice's forecast has increased by \$2.6 million. This will cover this year's projected costs of the Nunn Commission, an increase in the cost of the RCMP contract, and the increase in judges salaries as directed by the Judges Salary Tribunal. The approval of the Hog Industry Support Program has added \$1.0 million to Agriculture and Fisheries.

Wage settlements in the health care sector that exceeded the original budget are the primary reason for the net variance of \$7.6 million in the Restructuring Costs appropriation. A number of departments have achieved savings that partially offset the increases noted above.

Net Program Expenses Fiscal 2005–2006

(\$ thousands)

	Budget	Forecast	Increase (Decrease) from Budget
Agriculture and Fisheries	44,113	45,097	984
Community Services	716,174	716,174	---
Education and Universities	1,281,088	1,281,037	(51)
Energy	9,619	19,616	9,997
Environment and Labour	27,947	26,990	(957)
Finance	16,858	16,135	(723)
Health	2,559,740	2,566,159	6,419
Justice	107,847	110,406	2,559
Natural Resources	63,098	63,098	---
Public Service	183,455	204,382	20,927
Service Nova Scotia and Municipal Relations	96,384	114,400	18,016
Tourism, Culture and Heritage	42,383	42,383	---
Transportation and Public Works	263,954	269,054	5,100
Restructuring Costs	83,615	91,211	7,596
Total - Net Program Expenses	5,496,275	5,566,142	69,867

Net Income for Government Business Enterprises

Net Income from Government Business Enterprises is down \$4.8 million overall.

The Nova Scotia Gaming Corporation is now forecasting a reduction of \$5.5 million in net income for fiscal 2005-2006. Video Lottery revenues have decreased by \$4.6 million and casino revenues are projected to be \$1.4 million lower than budget. These decreases are partially offset by a decrease in operating costs of \$0.6 million.

The Halifax-Dartmouth Bridge Commission is forecasting an increase in net income of \$0.7 million as a result of general operation savings.

Pension Valuation Adjustment

A negative adjustment of \$27.7 million in the Pension Valuation Adjustment is now being forecasted, due to a recent actuarial review. The calculation of pensionable service is tied to certain accounting assumptions. Under generally accepted accounting principles, the current forecast recognizes pension expense to include the cost of pensionable service earned by employees and amortization of experience gains or losses in the pension plans.

Net Debt Servicing Costs

The latest forecast for Net Debt Servicing Costs reflects a net increase of \$3.3 million compared to budget. Interest on pension, retirement and other obligations is expected to grow by \$24.7 million due to accounting assumption changes in the pension plans. This is offset by savings in interest on long-term debt of \$21.4 million, due to lower short-term interest rates and the receipt of the \$830.0 million from the Government of Canada for the Offshore Offset Accord in June 2005.

Economic Performance and Outlook—2005

Nova Scotia's real Gross Domestic Product (GDP) continues to grow but at a slower pace than projected in the budget. Real GDP growth is forecast to be 1.6 per cent for 2005, which is 0.5 per cent below the rate assumed at budget time.

A slower pace for exports, combined with higher imports, has put downward pressure on GDP growth. This has been further reduced by higher prices.

The high value of the Canadian dollar has a dual impact on the Nova Scotia economy. It dampens exports but supports imports of machinery and equipment, which helps to boost productivity in the long run.

While employment growth is slower than expected at budget time, it is growing at a faster pace than the labour supply. The net result is an unemployment rate of 8.4 per cent for the first eleven months of 2005, which is slightly below the budget projection. Labour income is performing well, reflecting, to some degree, the increase in military pay.

Retail sales growth remains healthy and residential capital investment is stronger than expected. While the budget projection had anticipated a decline in residential capital spending, it grew at a moderate rate of 3.9 per cent during the past three quarters. This growth was led by a 5.8 per cent increase in expenditures for home renovations.

Manufacturing shipments remain positive with the help of high commodity prices and low interest rates.

Inflation, as measured by the Consumer Price Index, has been running above the budget projection due to high energy prices and an increase in electric utility rates.

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