

**December 14, 2009**

## Overview

The Province of Nova Scotia is forecasting a 2009-2010 budget deficit of \$525.2 million, an improvement of \$66.9 million over the estimate at budget time.

Total revenues, including net income from Government Business Enterprises are forecast to be \$8.5 billion, an increase of \$78.8 million from budget. The revenue increase is primarily due to increases in personal income

tax, tobacco tax, and prior year adjustments, offset by minor declines in several revenue sources.

Total expenses, including consolidation and accounting adjustments, are forecast to be \$9.0 billion, \$11.9 million higher than budget. The total expense increase is attributable to increases in the pension valuation adjustment, and program expenses, offset by lower debt servicing costs.

## Fiscal Summary Fiscal 2009–2010

(\$ thousands)

	Budget	Forecast	Increase (Decrease) from Budget
<b>CONSOLIDATED FUND</b>			
<b>Revenue</b>			
Ordinary Revenues	7,295,210	7,364,335	69,125
Fees and Other Charges	61,235	60,906	(329)
Ordinary Recoveries	606,895	617,807	10,912
Sinking Fund Earnings	91,623	90,759	(864)
<b>Total Revenues</b>	<b>8,054,963</b>	<b>8,133,807</b>	<b>78,844</b>
<b>Expenses</b>			
Departmental Expenses	8,115,994	8,123,841	7,847
Pension Valuation Adjustment	88,990	95,425	6,435
Debt Servicing Costs	889,076	882,543	(6,533)
<b>Total Expenses</b>	<b>9,094,060</b>	<b>9,101,809</b>	<b>7,749</b>
	<b>(1,039,097)</b>	<b>(968,002)</b>	<b>71,095</b>
<b>Consolidation and Accounting Adjustments for Governmental Units</b>			
	<b>90,207</b>	<b>86,089</b>	<b>(4,118)</b>
<b>Net Income for Government Business Enterprises</b>			
Nova Scotia Gaming Corporation	128,100	129,600	1,500
Nova Scotia Liquor Corporation	217,000	217,000	---
Other Enterprises	11,697	10,126	(1,571)
	<b>356,797</b>	<b>356,726</b>	<b>(71)</b>
<b>Provincial Surplus (Deficit)</b>	<b>(592,093)</b>	<b>(525,187)</b>	<b>66,906</b>

**Ordinary Revenue** Fiscal 2009–2010

(\$ thousands)

	<b>Budget</b>	<b>Forecast</b>	<b>Increase (Decrease) from Budget</b>
<b>Provincial Revenue Sources</b>			
Personal Income Tax	1,781,057	1,831,493	50,436
Corporate Income Tax	322,325	320,201	(2,124)
Harmonized Sales Tax	1,181,534	1,180,459	(1,075)
Tobacco Tax	169,061	181,413	12,352
Motive Fuel Taxes	247,493	250,575	3,082
Interest Revenues	93,178	90,935	(2,243)
Registry of Motor Vehicles	103,332	106,952	3,620
Royalties—Petroleum	151,011	148,764	(2,247)
Other Provincial Revenues	275,176	275,099	(77)
Prior Years' Adjustments	---	14,699	14,699
TCA Cost Shared Revenue	12,027	12,027	---
<b>Total—Provincial Revenue Sources</b>	<b><u>4,336,194</u></b>	<b><u>4,412,617</u></b>	<b><u>76,423</u></b>
<b>Federal Revenue Sources</b>			
Equalization Payments	1,464,935	1,464,935	---
Offshore Oil and Gas Payments	180,072	180,072	---
Crown Share Adjustment Payment	79,352	79,352	---
Canada Health Transfer	700,137	700,137	---
Canada Social Transfer	304,089	301,978	(2,111)
Wait Times Reduction Fund	7,005	6,956	(49)
Other Federal Sources	34,056	34,056	---
C48 Trust Funds	1,500	1,500	---
C52 Trust Funds	21,961	20,502	(1,459)
Budget 2008 Trusts	22,627	22,581	(46)
Knowledge Infrastructure Program	18,094	18,094	---
Prior Years' Adjustments	---	(5,831)	(5,831)
TCA Cost Shared Revenue	125,188	127,386	2,198
<b>Total—Federal Revenue Sources</b>	<b><u>2,959,016</u></b>	<b><u>2,951,718</u></b>	<b><u>(7,298)</u></b>
<b>Total—Revenue</b>	<b><u>7,295,210</u></b>	<b><u>7,364,335</u></b>	<b><u>69,125</u></b>

## Revenues

Total revenues, including net income from Government Business Enterprises of \$356.7 million, are forecast to be \$8.5 billion, \$78.8 million more than the 2009-2010 budget estimate. The increase is attributed to Consolidated Fund revenues, with net income from Government Business Enterprises remaining essentially unchanged.

Provincial source revenues are up \$76.4 million from the 2009-2010 budget.

Personal Income Taxes (PIT) are forecast to grow by \$50.4 million from the budget estimate due to a forecast increase in national taxable personal income. Growth in national taxable person income in 2010 is projected to be stronger than originally anticipated.

Corporate Income Taxes (CIT) are forecast to decline by \$2.1 million from budget. This decline is due to downward revisions to national corporate taxable income as a result of a more sluggish recovery in the national economy and higher loss carry forwards, offset by stronger corporate growth in Nova Scotia relative to the rest of Canada.

Harmonized Sales Taxes (HST) are forecast to fall slightly by \$1.1 million. A decline in the forecasted growth of consumer expenditures in 2009 is offset by a higher growth rate in 2010.

Tobacco tax revenues are up \$12.4 million from budget. The growth in revenues is a result of increased consumption of legal tobacco products.

Motive Fuel taxes are forecast to be up from the budget estimate by \$3.1 million as summer consumption was slightly higher than anticipated. World oil prices have risen since the summer and will put downward pressure on consumption for the remainder of the year.

Offshore Royalties are forecast to decline by \$2.2 million from estimate as a result of increased capital costs associated with the drilling of a new well for the Sable Offshore Energy Project, offset by higher natural gas prices.

Interest revenues have declined \$2.2 million from budget, mainly due to a decline in projected interest associated with the Student Loan program. Registry of Motor Vehicles revenues are up \$3.6 million due to increases in both commercial and passenger vehicle registrations.

Prior Year Adjustments from provincial sources are forecast to grow by \$14.7 million, due to new federal estimates for prior years' taxes, and the timing of royalty revenues.

Overall federal source revenues have declined \$7.3 million from the 2009-2010 estimate.

Equalization and the Offshore Oil and Gas Payments are based upon the province's election 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 the budget estimate.

The Crown Share Adjustment Payment is forecast to be \$79.4 million. The 2009-10 payment is contained in federal legislation and is not subject to change during the fiscal year.

Canada Social Transfer (CST) is forecast to decrease by \$2.1 million from budget due to revised population estimates.

Bill C52 Trust Fund draw-downs are forecast to be \$1.5 million lower than estimate, as the HPV immunization program has been delayed due to the H1N1 immunization program.

Prior Year Adjustments (PYA's) from federal sources are forecast to be \$5.8 million less than estimate as a result of new population estimates for the open years of the Canada Health Transfer and Canada Social Transfer.

Ordinary Recoveries are forecast to be \$10.9 million higher than budget. This is primarily a result of increased recoveries at Community Services for housing, at Education for student assistance expenses and at Transportation and Infrastructure Renewal for buildings and highways. This is partially offset by a decrease in program recoveries at Labour and Workforce Development.

## Net Income for Government Business Enterprises

Total Net Income from Government Business Enterprises is forecast to be \$356.7 million, virtually unchanged from 2009-2010 estimates.

Administrative savings have resulted in the Nova Scotia Gaming Corporation forecasting an increase in net

income of \$1.5 million. This amount is offset by a decline in net income of \$1.4 million at the Halifax Dartmouth Bridge Commission, due to changes in amortization rates of capital assets, and a \$0.2 million decrease at Highway 104 Western Alignment Corporation.

## Departmental Expenses Fiscal 2009–2010

(\$ thousands)

	Budget	Forecast	Increase (Decrease) from Budget
Agriculture	61,686	64,061	2,375
Community Services	945,813	947,890	2,077
Economic and Rural Development	95,243	95,142	(101)
Education and Universities	1,740,949	1,742,015	1,066
Energy	40,090	40,275	185
Environment	44,334	44,728	394
Finance	30,399	29,659	(740)
Fisheries and Aquaculture	11,350	11,367	17
Health	3,422,276	3,425,645	3,369
Health Promotion and Protection	89,031	87,096	(1,935)
Justice	281,490	281,356	(134)
Labour and Workforce Development	160,859	157,829	(3,030)
Natural Resources	91,449	94,608	3,159
Public Service	182,702	187,720	5,018
Seniors	1,957	1,957	---
Service Nova Scotia and Municipal Relations	300,194	301,465	1,271
Tourism, Culture and Heritage	63,022	63,096	74
Transportation and Infrastructure Renewal	374,333	376,878	2,545
Restructuring Costs	178,817	178,817	---
Expense Mitigation	---	(7,763)	(7,763)
<b>Total—Departmental Expenses</b>	<b>8,115,994</b>	<b>8,123,841</b>	<b>7,847</b>

## Expenses

Total expenses for 2009-2010, including consolidation and accounting adjustments, are forecast to be \$9.0 billion, \$11.9 million over budget. The increase in the Pension Valuation Adjustment and departmental expenses is partially offset by a decrease in debt servicing costs.

Agriculture is forecasting \$2.4 million over budget due to an additional \$2.0 million in bad debt expense for the Farm Loan Board and \$0.4 million in salary and professional services at the NSAC which are offset by related revenues.

The Department of Community Services is forecasting a \$2.1 million over expenditure. This is attributable to increasing caseload trends in Income Assistance, increased Child Welfare costs and the increased cost of prescription drugs offered under the Pharmacare Program. The pressures have been partially offset by savings in administrative and operating costs.

The Department of Education is forecasting an over expenditure of \$1.1 million. Additional spending for public school programs and Student Assistance have been partially offset by savings across the department. Student Assistance expenses are fully recoverable.

The Department of Health is forecasting \$3.4 million over budget. This is primarily due to increased wages and funding pressures at the DHAs. These pressures are partially offset by unavoidable delays in the opening of long-term care beds, lower spending in capital grants, decreased utilization in some program areas, and savings found throughout the department.

Health Promotion and Protection is achieving savings of \$1.9 million as a result of an under-expenditure in the HPV vaccination program and administrative savings across the department. Because of H1N1, the HPV program has been delayed and will result in a reduced drawdown of the Federal C52 trust fund.

Overall, the Department of Labour and Workforce Development is forecast to be under spent by \$3.0 million, as expenses for the Labour Market Agreement (\$1.9m), Apprenticeship Training (\$0.5m) and Workplace Education (\$0.9m) programs are forecast to be under budget. A new program, the Labour Mobility Coordinating Group program funded by the Government of Canada, was recently announced and is forecast to incur expenses of \$0.3 million. As these are largely federally funded programs, related recoveries will decrease by \$2.7 million.

The Department of Natural Resources is forecasting \$3.2 million in additional spending. This is primarily due to pressures relating to conversion of seasonal and casual staff to bargaining unit positions, and increases in park maintenance, fire services and wildlife and forest protection. \$1.0 million of this amount is offset by an increase in recoveries.

Service Nova Scotia and Municipal Relations is forecasting \$1.3 million in pressures due to additional bad debt expense for Tobacco Tax and RMV fines.

Transportation and Infrastructure Renewal is forecasting an increase of \$2.5 million primarily as a result of increased work on government buildings, including energy retrofits and additional highway maintenance improvements. Almost all of this will be offset by increased recoveries.

## Public Service

The Emergency Management Office is forecasting \$4.9 million more than budget primarily due to recent Disaster Assistance Program claims received from HRM (\$3.5 million) and other small claims for weather related storm damage. All of these additional expenditures will be recovered from the federal government.

Legislative Services - Election Expenses is reporting savings of \$1.1 million due to operating cost reductions.

The Public Prosecution Service is forecasting \$1.3 million more than budget as a result of increases in professional services, salary and benefits due to a higher than normal caseload.

The Restructuring Costs appropriation remains the same as budget. The current forecast for H1N1 is unchanged from budget. It is too early to forecast total H1N1 costs given the number of months left in the flu season.

In total, department spending has increased by \$15.6 million. Some of this amount is recoverable from external sources (mainly federal); \$7.8 million of this additional expense is not recoverable from elsewhere. Departments will be tasked with finding savings to offset this additional amount through efficiencies and administrative savings in non-essential areas.

### Gross Debt Servicing Costs

Gross Debt Servicing Costs are forecast to drop by \$6.5 million to \$882.5 million, compared to \$889.1 million at budget. Savings in interest expenses of \$5.4 million are primarily a result of short term borrowing and favorable interest rates. In addition there is an interest savings of \$1.1 million on pension and other obligations, related to revised actuarial assumptions.

### Pension Valuation Adjustment

The Pension Valuation Adjustment is forecast to increase by \$6.4 million to \$95.4 million, primarily the result of actuarial assumption changes to the plans.

### Capital Spending

The Province is forecasting capital spending to be \$781.1 million in fiscal year 2009-2010, a decrease of \$14.9 million from the estimate at budget time. School and community college projects (\$7.8 million), government building projects (\$5.3 million), de-construction of Queen Elizabeth High School (\$1.5 million) and capital grants (\$2.5 million) are forecast to be under spent this year.

Savings on these projects are partially offset by a \$2.6 million increase in costs for information technology projects, primarily the roll out of the SAP Financial system to district health authorities (DHAs). The following chart shows the capital budget forecast variances by spending category.

## Capital Spending Forecast – November

(\$ thousands)

Category	Budget	Forecast	Forecast Variance
Highways	325,000	325,000	---
Buildings	207,172	194,097	(13,075)
Information Technology	38,641	41,191	2,550
Land	81,250	79,775	(1,475)
Vehicles and Equipment	22,131	21,786	(345)
Departmental Capital	674,194	661,849	(12,345)
Capital Grants	121,791	119,250	(2,541)
<b>Total</b>	<b>795,985</b>	<b>781,099</b>	<b>(14,886)</b>

## Economic Performance and Outlook—2009

Global economies are beginning to emerge from the recession, with positive growth in both the United States and the European Union. Canada's real Gross Domestic Product (GDP) grew by 0.4 percent (annualized) in the third quarter of 2009.

Nova Scotia's economy has not been affected as badly as some provinces, particularly those most dependent on manufacturing. Although there have been temporary shutdowns and layoffs, Nova Scotia's anchor industries have largely avoided permanent closures.

Real GDP is now expected to grow by 0.2 percent in 2009 while nominal GDP will fall by 0.1 percent. This revision from the budget forecast reflects lower exports (especially natural gas) plus weaker business capital investments.

To date, the consumer price index is down 0.6 percent over the same period in 2008. Lower CPI and falling natural gas prices are expected to have a negative impact on the GDP price deflator. This puts downward pressure on nominal GDP.

Employment growth has been stable so far in 2009, and labour income has grown by 1.8 percent. However, the labour force has also grown, leaving the province with a higher unemployment rate than expected at the time of the budget assumption.

To date in 2009, Nova Scotia's performance in key capital investment indicators have been mixed. Through the third quarter, residential investment in Nova Scotia has declined by 7.7 percent. This has been partially offset by stronger non-residential investments of 12.3 percent. Stimulus investments in provincial infrastructure are largely committed, but the pace of these expenditures remains a risk to the province's investment, employment and GDP.

## Economic Performance 2009–2010

### Budget Assumption

### Latest Forecast

#### Provincial Forecast Assumptions 2009

Real Gross Domestic Product (\$2002, % change)	0.3	0.2
Nominal Gross Domestic Product (% change)	0.2	-0.1
Employment (% change)	1.3	0.1
Unemployment (average, %)	8.0	9.1
Personal Income (% change)	2.1	1.4
Consumer Price Index (% change)	-0.5	-0.7
Retail Sales (% change)	-2.7	-1.5
Corporation Profits before Taxes (% change)	-25.4	-20.9
Exports of Goods and Services (% change)	-14.8	-22.5

#### Provincial Forecast Assumptions 2010

Real Gross Domestic Product (\$2002, % change)	1.8	1.8
Nominal Gross Domestic Product (% change)	3.1	3.5
Employment (% change)	0.3	1.0
Unemployment (average, %)	8.1	8.5
Personal Income (% change)	3.1	3.2
Consumer Price Index (% change)	1.8	1.8
Retail Sales (% change)	3.5	3.7
Corporation Profits before Taxes (% change)	11.6	12.0
Exports of Goods and Services (% change)	5.4	5.9

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