



**Department of Finance**

Honourable Peter Christie  
 Minister of Finance  
 September 15, 2004

**FISCAL 2004-2005 FORECAST UPDATE**

**Overview**

The Government of Nova Scotia's first forecast update for fiscal 2004-2005 shows the province's budget is on target in most categories and a slightly larger surplus is projected.

Revenues are projected to be higher overall compared to the budget estimate in April. These are sufficient to cover current spending pressures in health care and economic development. Current trends suggest the province will have a surplus of \$2.3 million in fiscal 2004-2005.

If salary pressures exceed budget assumptions, the government will need to find additional savings to avoid a deficit. This forecast does not incorporate potential results of federal/provincial/territorial health care and equalization funding discussions currently underway.

<b>2004-2005 FISCAL SUMMARY</b> <i>(\$ thousands)</i>	<b>Budget</b>	<b>Forecast</b>	<b>Increase (Decrease) from Budget</b>
<b>Consolidated Fund</b>			
Revenue	<u>5,557,572</u>	<u>5,565,472</u>	<u>7,900</u>
Expenses			
Net Program Expenses	5,077,630	5,085,372	7,742
Pension Valuation Adjustment	(9,400)	(9,400)	---
Net Debt Servicing Costs	877,821	877,821	---
Total Expenses	<u>5,946,051</u>	<u>5,953,793</u>	<u>7,742</u>
Debt Retirement Plan	10,000	10,000	---
	<u>(398,479)</u>	<u>(398,321)</u>	<u>158</u>
<b>Consolidation and Accounting Adjustments for Governmental Units</b>			
Consolidated Fund Consolidation Adjustments	36,000	36,000	---
Health Authorities Operations	1,500	1,500	---
Other Organizations	4,395	4,395	---
	<u>41,895</u>	<u>41,895</u>	<u>---</u>
<b>Net Income (Loss) for Government Business Enterprises</b>			
Nova Scotia Gaming Corporation	169,000	169,000	---
Nova Scotia Liquor Corporation	181,715	181,715	---
Other Enterprises	8,000	8,000	---
	<u>358,715</u>	<u>358,715</u>	<u>---</u>
<b>Provincial Surplus (Deficit)</b>	<u>2,131</u>	<u>2,289</u>	<u>158</u>

## Revenues

Overall, revenues are forecasted to be \$7.9 million higher than the 2004-2005 budget.

Offshore forfeitures are forecasted to be \$40.0 million while royalty revenues are now expected to be \$3.0 million higher than estimated at budget. These revenues are being offset, in part, by a decrease in equalization of \$21.5 million. In its 2004 budget, the Government of Canada announced that it would reset the offshore offset start date from fiscal 1992-1993 to 2000-2001. This reset establishes a clawback rate of 50 per cent for fiscal 2004-2005.

In addition, Fuel and Tobacco tax revenues are each expected to be \$5.0 million less than anticipated at budget. These revenue sources have been adjusted to reflect the most recent consumption data.

Expected interest revenues are being adjusted downward by \$3.6 million to reflect a revised forecast.

Data on federal transfers and income taxes will be available in late October. Although the provincial revenue estimate is generally on target for fiscal 2004-2005, it is still early in the fiscal year and changes could occur with new information. Federal transfer are affected by many variables, including the performance of other provincial economies.

<b>REVENUE</b> <b>Fiscal 2004-2005</b> <i>(\$ thousands)</i>	<b>Budget</b>	<b>Forecast</b>	<b>Increase (Decrease) from Budget</b>
<b>Provincial Revenue Sources</b>			
Personal Income Taxes	1,465,695	1,465,695	---
Corporate Income Taxes	263,753	263,753	---
Harmonized Sales Tax	1,015,336	1,015,336	---
Motive Fuel Taxes	255,872	250,872	(5,000)
Tobacco Tax	180,217	175,217	(5,000)
Interest Revenues	64,898	61,297	(3,601)
Registry of Motor Vehicles	80,381	80,381	---
Royalties - Petroleum	20,000	23,000	3,000
Other Provincial Revenues	228,675	268,676	40,001
<b>Total - Provincial Revenue Sources</b>	<b>3,574,827</b>	<b>3,604,227</b>	<b>29,400</b>
<b>Federal Revenue Sources</b>			
Equalization Payments	1,202,851	1,181,351	(21,500) *
CHST	703,998	703,998	---
Health Reform Fund	44,109	44,109	---
Other Federal Sources	31,787	31,787	---
<b>Total - Federal Revenue Sources</b>	<b>1,982,745</b>	<b>1,961,245</b>	<b>(21,500)</b>
<b>Total Revenue</b>	<b>5,557,572</b>	<b>5,565,472</b>	<b>7,900</b>

\* Nova Scotia's offshore revenues trigger a 50 per cent reduction in related equalization entitlements. This impact occurs, in part, through the existing equalization program and through the federal re-triggering of the Offshore Offset payments. For presentation purposes, these impacts are combined under Equalization Payments.

## Net Program Expenses

Program spending is forecasted to be \$7.7 million higher than estimated, primarily due to increased health care sector wage settlements and for job creation activities.

The Department of Health forecast has been increased by \$3.9 million to reflect the maximum budgetary pressure that could result from the recent arbitration award for the health care bargaining unit at the Capital District Health Authority. The final impact may be less, depending on the number of staff who are eligible for the additional catch-up award.

There is also a \$4.4 million net increase in the Office of Economic Development's loan valuation allowances for forgivable loans that support the government's goal of job creation.

<b>NET PROGRAM EXPENSES</b> <b>Fiscal 2004-2005</b> <i>(\$ thousands)</i>	<b>Budget</b>	<b>Forecast</b>	<b>Increase (Decrease) from Budget</b>
Agriculture and Fisheries	40,796	40,796	---
Community Services	694,145	694,145	---
Education and Universities	1,209,379	1,209,679	300
Energy	7,350	7,331	(19)
Environment and Labour	26,152	25,817	(335)
Finance	14,134	13,829	(305)
Health	2,341,690	2,345,549	3,859
Justice	99,626	99,626	---
Natural Resources	59,322	59,311	(11)
Public Service	154,146	158,521	4,375 *
Service Nova Scotia and Municipal Relations	92,352	92,352	---
Tourism, Culture and Heritage	41,055	40,933	(122)
Transportation and Public Works	241,009	241,009	---
Restructuring Costs	56,474	56,474	---
<b>Total - Net Program Expenses</b>	<b><u>5,077,630</u></b>	<b><u>5,085,372</u></b>	<b><u>7,742</u></b>

\* The Public Service entry consists of various agencies and programs. A complete list is included in the Estimates, Province of Nova Scotia for the fiscal year 2004-2005. This amount includes a \$4.4 million increase in OED's loan valuations, which was offset by other operational savings.

## **Debt Servicing**

Net Debt Servicing Costs (DSC) are calculated by subtracting sinking and debt retirement fund earnings from gross debt servicing costs. Net DSC are forecasted to remain unchanged at \$877.8 million. Although short-term interest rates have been below the budget assumption, the expectation is for rising interest rates for the remainder of the fiscal year.

To date in fiscal 2004-2005, the Province has raised \$150.0 million by way of four retail structured notes. Although this completes 44.0 per cent of fiscal 2004-2005 projected borrowing requirements, the Department of Finance remains opportunistic to financing opportunities.

All three major ratings service have increased the province's credit rating in the last year. Moody's upgraded the province on September 1, 2004 and Standard and Poor's on August 20, 2004. Dominion Bond Rating Service had upgraded the Province's credit rating to A (low) with a stable outlook last year. These improved ratings will benefit the Province in the long term.

## **Economic Performance and Outlook - 2004**

The latest forecast for Nova Scotia projects growth in real Gross Domestic Product for 2004 to remain the same as the budget forecast at 2.0 per cent.

Recent private sector economic forecasts are in line with the provincial budget forecast of 2.0 per cent real GDP growth for 2004. The average for the latest survey of private sector forecasters is 2.2 per cent.

CPI inflation is on track with the budget forecast of 1.5 per cent in 2004 as recent increases are offset by lower CPI in the early part of 2004. Growth in consumer spending is expected to remain unchanged at 4.0 per cent.

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<http://www.gov.ns.ca/finance>