

Year End Forecast Update

Fiscal 1999-2000. Released March 3, 2000


Honourable Neil J. LeBlanc, Minister of Finance

OVERVIEW 1999-2000

The Department of Finance is revising its deficit forecast for 1999-2000. The October 1999 provincial budget estimated a deficit of \$496.6 million. An extraordinary item will now be included in the 1999-2000 fiscal year which will significantly increase this figure. Provision for pension liability and environmental clean-up costs at Sydney Steel Corporation (Sysco) will be included in this forecast in the amount of \$378.5 million. The total provincial deficit is now forecast to be \$767.0 million. Net direct debt for 1999-2000 now stands at \$10.8 billion.

This Sysco provision recognizes the liabilities that the government will incur under either a sale or closure scenario for the company.

1999-2000 FISCAL SUMMARY <i>(\$ thousands)</i>	Budget	Forecast	Per Cent (%) Change from Budget
Consolidated Fund			
Revenue	4,622,985	4,763,196	3.03 %
Net Program Expenditures *			
Health	1,770,630	1,763,956	(0.38) %
Education and Universities	1,070,978	1,075,517	0.42 %
Community Services	580,173	581,780	0.28 %
Other Net Program Expenditures	809,396	827,661	2.26 %
Total - Net Program Expenditures	4,231,177	4,248,914	0.42 %
Net Debt Servicing Costs	799,552	808,451	1.11 %
Total Expenditures	5,030,729	5,057,365	0.53 %
	(407,744)	(294,169)	
Net Income (Losses) for Government			
Business Enterprises			
Nova Scotia Resources Limited	(65,100)	(32,211)	
Sydney Steel Corporation	(31,800)	(38,606)	
Other Enterprises	8,000	8,000	
	(88,900)	(62,817)	
Consolidated Fund Accounting Adjustments			
Long Term Service Awards	---	(5,500)	
Pension Funds	---	(26,000)	
	---	(31,500)	
Provincial Surplus (Deficit) before Extraordinary Item	(496,644)	(388,486)	
Extraordinary Item			
Sydney Steel Corporation	---	(378,500)	
Provincial Surplus (Deficit)	(496,644)	(766,986)	



OVERVIEW 1999-2000 (Continued)

The pension amount of \$60 million is the portion of the liability as estimated by Sysco's actuaries that will be expensed in 1999-2000. The environmental remediation consists of \$250.0 million for the Sysco site and \$68.5 million for the Nova Scotia share of the Muggah Creek site, which includes the Tar Ponds and the coke ovens. Both pension and environmental provisions are based upon independent third party reports.

The Sysco provision does not represent an immediate cash expenditure in 1999-2000. However, the liability must be booked in the fiscal year it becomes known even though the cash may be spent over a number of future years.

Revenues are forecast to increase by \$140.0 million, including a prior years' adjustment of \$17.3 million. Most of this increase is due to higher provincial income tax revenues. This increase in revenues has offset increases in net debt servicing costs and program expenditures.

The Department of Finance estimates that real GDP growth of 3.4 per cent for 1999 that was forecast in the October budget has been achieved. Underlying growth assumptions for key economic indicators for employment, personal income and retail sales have all exceeded budget expectations. This growth momentum is expected to carry over into 2000.

REVENUES

The Province is currently forecasting a revenue increase of \$140.0 million over the original budget estimate for this fiscal year and \$95.7 million higher than the December 1999 forecast update. Updated information has shown an increase in Nova Scotia income tax revenues. This has resulted in Nova Scotia's forecasted 1999-2000 personal income tax revenues to be \$91.7 million higher than estimate. Corporate income tax revenues are forecast to increase by \$10.9 million.

Net Harmonized Sales Tax revenues reflect modeling changes which ensure the formula more closely reflects changes in the pool of taxes actually collected. As such, the HST forecast has been revised downward by \$13.2 million from the 1999 estimate.

Federal transfers have responded to the overall growth in national income tax levels. Equalization has increased by \$18.0 million versus estimate and CHST has increased by \$6.4 million. Prior years' adjustments are now forecast to be \$17.3 million. This is due to the increases in income tax revenues and the corresponding changes in federal transfers.

Nova Scotia Gaming Corporation profits are up \$7.3 million, primarily as a result of the new arrangement between the Province and Atlantic Lottery Corporation. Nova Scotia Liquor Commission profits are anticipated to be up \$2.4 million due to stronger sales through the fall. Health Services Tax, the former provincial sales tax in Nova Scotia, is expected to wind down this year. Assessments have climbed by \$6.6 million versus estimate due to ongoing audits.

NET PROGRAM EXPENDITURES

All but four departments have been spending at or below their budget estimates. Savings of \$12.9 million have been offset by expenditure increases at Community Services, Economic Development, Education and Justice. The increases at Education and Economic Development were reported in the December 1999 forecast update. Community Services is forecasting an over-expenditure of \$1.6 million, primarily due to the recently announced heating oil assistance program and increased income assistance expenditures. Justice has experienced increased costs associated with the institutional abuse investigation and compensation program.

The most significant program expenditure savings occurred at Health (\$6.6 million) and Transportation and Public Works (\$2.0 million) In addition to reduced Y2K expenditures that Health reported in the December forecast update, both departments are forecasting lower capital expenditures for 1999-2000.



NET PROGRAM EXPENDITURES SUMMARY
(*\$ thousands*)

	1999-2000 Budget	1999-2000 Forecast	Favourable/ (Unfavourable) Change from Budget
Agriculture and Marketing	42,238	42,212	26
Business and Consumer Services	33,135	32,040	1,095
Community Services	580,173	581,780	(1,607)
Economic Development	60,268	82,119	(21,851)
Education and Universities	1,070,978	1,075,517	(4,539)
Environment	15,678	15,205	473
Finance	9,941	9,941	---
Fisheries and Aquaculture	9,396	8,880	516
Health	1,770,630	1,763,956	6,674
Housing and Municipal Affairs	101,938	101,938	---
Human Resources	4,334	4,234	100
Justice	82,582	85,258	(2,676)
Labour	11,040	10,340	700
Natural Resources	56,707	56,524	183
Public Service	86,015	85,042	973
Tourism and Culture	40,456	40,240	216
Transportation and Public Works	239,568	237,588	1,980
Restructuring Costs	16,100	16,100	---
Total - Net Program Expenditures	4,231,177	4,248,914	(17,737)

DEBT MANAGEMENT

Net debt servicing costs are calculated by subtracting sinking fund earnings from debt servicing costs. Net debt servicing costs are forecasted to be \$8.9 million higher because sinking fund earnings are forecasted to be less than budgeted. The current assumption for the Canadian dollar is \$1.4584 (\$0.6857 USD/CAD), for Canadian treasury bills is 5.02% and for the Japanese Yen is 108.7.

BORROWING PROGRAM

The Province has completed its 1999-2000 borrowing program of \$1.2 billion, which covers 1999-2000 borrowing needs and refinancing of existing debt. In January and early February the Province borrowed a total of \$312.0 million; \$240.0 million under its domestic Canadian dollar Medium Term Note program by way of three institutional transactions and the remainder under a loan denominated in the Euro currency. The latter issue was fully hedged to Canadian currency. The Province also opted to exercise its option to roll-over its \$73.9 million Canada Pension Plan debenture maturing on March 1, 2000 for a further term of 20 years.

The Sysco provision of \$378.5 million represents an estimated additional cash requirement of \$100.0 million up to March 31, 2001.





ACCOUNTING POLICY UPDATE

In the 1998-99 fiscal year, the province initiated significant changes to its stated accounting policy. This process continued as indicated below with major initiatives in accounting for long term service awards, pension plans and tangible capital assets.

Long Term Service Awards

Long term service awards are cash awards to qualified retiring public sector employees. In order to fully implement consolidated reporting, the province has reviewed the accounting policies of the organizations that form the Government Reporting Entities (school boards, hospitals, etc.). Compliance with generally accepted accounting principles (GAAP) requires that the operating results for Government Service Organizations be determined using consistent accounting policies. In the past, school boards and some health authorities did not account for the increase in liability for long term service awards. To fully reflect the proper accounting for long term service awards results in an additional expenditure in 1999-2000 of approximately \$5.0 million.

Pension Plan

In the past, the Province has recorded as pension expense the amount of contributions paid to the various pension plans. For 1999-2000, the Province will be accounting for pensions in compliance with GAAP for the public sector. Effective this year, pension expense will represent the Province's share of the benefits earned by employees in this period, including financing costs and the amortization of previous gains and losses. Because actuarial assumptions are used to calculate the value of benefits earned in the current period, gains and losses result when actual experience varies from what was expected. These gains and losses are amortized over the estimated average remaining service life of employees in the plans and are included in the pension expense for the year.

Tangible Capital Assets

In the past, the costs of tangible capital assets (i.e., equipment, bridges, buildings, etc.) have been expensed in the year the item was purchased. Effective this fiscal year, the Province has adopted GAAP for the accounting of tangible capital assets. This means the cost of purchases will be capitalized and amortized over the useful life of the asset. The budgetary impact is the amount of amortization expense as opposed to the full cost of assets in the year of purchase. For 1999-2000, no financial impact is expected as a result of this change in policy.

OUTLOOK FOR 2000-2001 PROVINCIAL BUDGET

The February 28, 2000, federal budget is not expected to have a significantly positive impact on Nova Scotia. Additional CHST transfers will account for just \$75.4 million. Preliminary estimates of Nova Scotia's share of infrastructure funds are \$30 million over three years.

Provincial income tax revenues will be maintained in 2000-2001 by switching to a tax on income system. This system is being adopted or is under consideration by most other provinces, and will replace the current provincial income tax system which is based on a percentage of federal income tax payable.

An additional pressure for 2000-2001 is a projected increase in debt servicing costs of approximately \$100 million.

This document and other financial publications may be obtained by writing to:

David F. MacNeil
Director of Communications
Department of Finance
PO Box 187
Halifax, Nova Scotia
B3J 2N3
E-Mail: Infinance@gov.ns.ca
or may be obtained on the Department's Website at:
<http://www.gov.ns.ca/finance>

