

# Year End Forecast Update

Fiscal 2000-2001. Released December 14, 2000

Honorable Neil J. LeBlanc, Minister of Finance

## OVERVIEW 2000-2001

Higher than anticipated revenues are forecast to result in a lower deficit than estimated in the 2000-2001 budget. The deficit for 2000-2001 is now forecast to be \$259.8 million, \$8.2 million less than budgeted.

Revenues are forecast to be \$105.2 million higher than budgeted. The revised economic forecast and new data relating to Canadian and Nova Scotia personal income indicate personal income tax revenues will be \$28.2 million higher than budgeted in April. Harmonized Sales Tax revenues are expected to be \$8.5 million higher than budgeted due to revisions made by the federal government to the estimated total of the national GST and HST revenue pool. Petroleum royalties are forecast to be \$3.0 million higher than budgeted due to the expectation that gas prices will remain strong in 2001. Lower than expected fuel sales and a large, single rebate have resulted in motive fuel tax revenue to be forecast at \$12.3 million less than budgeted.

Updated population data from Statistics Canada have resulted in higher than budgeted federal equalization payments of \$28.8 million, and Canada Health and Social Transfer payments of \$3.1 million. The updated population statistics and revised tax base information have also lead to increased revenue of \$45.0 million based on prior year's adjustments.

<b>2000-2001 FISCAL SUMMARY</b> <i>(\$ thousands)</i>	<b>Budget</b>	<b>Forecast</b>	<b>Per Cent (%) Change from Budget Fav (Non-Fav)</b>
<b>Consolidated Fund</b>			
Revenue	<u>4,794,941</u>	<u>4,900,211</u>	<u>2.20</u> %
Net Program Expenses			
Health	1,686,140	1,713,327	(1.61) %
Education and Universities	1,060,064	1,068,821	(0.83) %
Community Services	575,989	583,623	(1.33) %
Other Net Program Expenses	735,784	737,108	(0.18) %
Restructuring Costs	<u>88,035</u>	<u>78,023</u>	<u>11.37</u> %
Total - Net Program Expenses	<u>4,146,012</u>	<u>4,180,902</u>	<u>(0.84)</u> %
Net Debt Servicing Costs	899,122	909,182	(1.12) %
Total Expenses	<u>5,045,134</u>	<u>5,090,084</u>	<u>(0.89)</u> %
	<u>(250,193)</u>	<u>(189,873)</u>	
<b>Consolidation and Accounting Adjustments for Government Service Organizations</b>			
Health and Hospital Boards	---	(34,589)	
School Board Operations	---	(2,543)	
	<u>---</u>	<u>(37,132)</u>	
<b>Net Income (Losses) for Government Business Enterprises</b>			
Nova Scotia Resources Limited	(25,900)	(40,800)	
Sydney Steel Corporation	---	---	
Other Enterprises	<u>8,000</u>	<u>8,000</u>	
	<u>(17,900)</u>	<u>(32,800)</u>	
<b>Provincial Surplus (Deficit)</b>	<u>(268,093)</u>	<u>(259,805)</u>	<u>3.09</u> %

## OVERVIEW 2000-2001 (continued)

Higher revenues are off-setting increases in program expenses (\$34.9 million), debt servicing costs (\$10.0 million), and increased costs in health, hospital and school boards (\$37.1 million).

The \$10.0 million forecast increase in net debt servicing costs is attributable primarily to the lower Canadian dollar. The lower Canadian dollar has also increased foreign exchange losses for Nova Scotia Resources Limited. The provision for losses at NSRL has also been revised to reflect a change in forecasted year end results.

Economic growth remains stronger than the 1.8 percent estimated in the April budget. In the previous update report, the outlook for the province's real Gross Domestic Product (GDP) growth for 2000 was increased to 2.4 percent. Statistics Canada's most recent releases on key economic data indicate that the GDP growth rate for the year will be even higher.

## REVENUES

Several revenue sources are forecast to result in higher than budgeted revenues in 2000-2001: personal income tax, harmonized sales tax, Equalization and CHST. In addition the province is expecting a positive prior years' adjustment of \$45.0 million.

Personal income tax revenues are expected to be \$28.2 million higher than budget due to revised economic indicators relating to Canadian and Nova Scotia personal income.

<b>REVENUE SUMMARY</b> <i>(\$ thousands)</i>	<b>2000-2001</b> <b>Budget</b>	<b>2000-2001</b> <b>Forecast</b>	<b>Fav (Non-Fav)</b> <b>Change from</b> <b>Budget</b>
<b>Provincial Revenue Sources</b>			
Personal Income Taxes	1,144,925	1,173,136	28,211
Corporate Income Taxes	161,653	161,653	---
Harmonized Sales Tax	786,309	794,792	8,483
Motive Fuel Taxes	232,335	220,035	(12,300)
NS Gaming Corporation	175,119	175,119	---
NS Liquor Commission	141,000	141,000	---
Other Provincial Revenues	343,212	347,062	3,850
<b>Total - Provincial Revenue</b>	<b>2,984,553</b>	<b>3,012,797</b>	<b>28,244</b>
<b>Federal Revenue Sources</b>			
Equalization	1,279,630	1,308,480	28,850
CHST	522,928	526,043	3,115
Other Federal Sources	7,830	7,830	---
<b>Total - Federal Revenue</b>	<b>1,810,388</b>	<b>1,842,353</b>	<b>31,965</b>
<b>Prior Years' Adjustments</b>	<b>---</b>	<b>45,061</b>	<b>45,061</b>
<b>Total Revenue</b>	<b>4,794,941</b>	<b>4,900,211</b>	<b>105,270</b>

## REVENUES (continued)

HST revenues are expected to be \$8.5 million higher than estimated at budget time. The change is in large part due to revisions made by the federal government to the estimated national declared revenue pool, the national total of GST and HST revenues collected by the Canada Customs and Revenue Agency (formerly Revenue Canada). The current estimate of the declared revenue pool is being adjusted upward based on actual collections in previous years.

Motive Fuels taxes have been revised downward by \$12.3 million from budget as a result of lower than expected fuel sales and a large single rebate.

The prior years' adjustments affect provincial government revenues that are paid to or collected on the province's behalf by the federal government. Adjustments for 2000-2001 are currently forecast to be \$45.0 million, and are due to a combination of personal income taxes, HST revenues, Equalization and CHST payments.

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<b>NET PROGRAM EXPENSES SUMMARY</b> <i>(\$ thousands)</i>	<b>2000-2001</b> <b>Budget</b>	<b>2000-2001</b> <b>Forecast</b>	Fav (Non-Fav) <b>Change from</b> <b>Budget</b>
Agriculture and Marketing	33,537	34,092	(555)
Business and Consumer Services	31,201	31,201	---
Community Services	575,989	583,623	(7,634)
Economic Development	49,033	49,033	---
Education and Universities	1,060,064	1,068,821	(8,757)
Environment	13,132	12,916	216
Finance	9,298	9,298	---
Fisheries and Aquaculture	5,716	5,716	---
Health	1,686,140	1,713,327	(27,187)
Housing and Municipal Affairs	88,663	88,663	---
Human Resources	3,986	3,986	---
Justice	82,293	82,293	---
Labour	8,689	8,278	411
Natural Resources	52,090	52,280	(190)
Public Service	76,244	78,514	(2,270)
Tourism and Culture	38,388	38,388	---
Transportation and Public Works	243,514	242,450	1,064
Restructuring Costs	88,035	78,023	10,012
<b>Total - Net Program Expenses</b>	<b>4,146,012</b>	<b>4,180,902</b>	<b>(34,890)</b>

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## NET PROGRAM EXPENSES

Departmental spending is forecast to be \$34.9 million higher than budgeted, primarily in Health, Education and Community Services. In Health, increases in home care, acute care, medical payments, Emergency Health Services and Canadian Blood Service costs were offset by decreases in other areas including capital grants and administration for a net forecast increase of \$27.1 million.

The Department of Education is forecast to be \$8.7 million over the amount budgeted, largely due to a change in the expected accounting treatment for the Information Economy Initiative and additional capital non-tangible capital assets costs.

## **NET PROGRAM EXPENSES (continued)**

Community Services has experienced higher than budgeted expenses in long term care, community based options rehabilitation workshops and child maintenance. These increases have been offset by decreased spending in income assistance, primarily resulting from lower case loads. The net increase at Community Services for 2000-2001 is forecast to be \$7.6 million

Responding to flooding this fall means the Emergency Measures Organization is now forecasting additional expenditures of \$2.0 million for this fiscal year. This amount is reported in the Public Service line.

These increases have been partially off-set by a forecast under-expenditure of \$10.0 million in the restructuring budget.

## **DEBT MANAGEMENT**

Net debt servicing costs (DSC) are calculated by subtracting sinking fund earnings from gross debt servicing costs. DSC in fiscal 2000-2001 were budgeted at \$899.1 million, and are now forecast to be \$909.1 million, up \$10.0 million. The increase is due to a number of factors, but largely to the recent fall in the Canadian dollar and sinking fund earnings are forecast to be less than the budget estimate. This has been somewhat offset by interest rates being favourable compared to budget assumptions. The current assumption for the Canadian dollar is \$1.549 (\$0.646 USD/CAD), for Canadian treasury bills is about 5.7 percent and for the Japanese Yen is 108.6 Yen/USD.

Debt servicing costs include the province assuming the marketable debt of Nova Scotia Resources Limited (NSRL) as of December 1, 2000. As government is proceeding with the sale of NSRL, and the proceeds are unknown at this time, only part of these costs have been included in DSC for 2000-2001.

## **BORROWING PROGRAM**

The province's borrowing requirements for 2000-2001 are projected at \$1.1 billion after taking into account the pre-borrowing accomplished in the previous year, unchanged from the budget. To date in 2000-2001, the Province has raised \$600.0 million of its planned borrowing by way of two 10-year domestic issues for \$300.0 million each, and a number of private placements totaling \$245.0 million.

## **HEALTH AND HOSPITAL BOARDS**

As previously reported, health and hospital boards are permitted to run deficits in 2000-2001 due to the delayed implementation of their business plans. These deficits are forecast to total \$34.5 million.