

Year End Forecast Update

Fiscal 2001-2002
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Honourable Neil J. LeBlanc, Minister of Finance

Higher than anticipated costs, primarily in education and wage settlements, have caused the Department of Finance to revise the deficit projection for fiscal 2001-2002. The deficit is now forecast to be \$97.5 million, an increase of \$6.8 million over the deficit budgeted in March.

Restructuring costs, which include funding for wage increases, are forecast to be \$6.7 million higher than the \$53.7 million budgeted. Education and universities costs are now forecast to be \$1.1 billion, or \$10.4 million higher than in the March budget. Aside from these two areas and a forecast over-expenditure in the Petroleum Directorate, department expenses are either on track or are forecast to be less than budgeted.

Program spending increases are partially offset by a forecast increase in revenues of \$5.0 million and lower than budgeted net debt servicing costs of \$901.4 million.

Offshore energy is the main driver of Nova Scotia's economic performance in 2001 and provides a strong counterforce against effects of the slowdown in the United States and Canadian economies. The increase in the production of natural gas toward capacity operations is the chief source of the large gain in the province's merchandise export sales performance over the first five months of the year; new offshore-related contracts for fabrication work on a deep-water drilling rig and scheduled fall commencement of construction of two new supply vessels augment capital spending; and offshore exploration is expected to accelerate in the second half of the year. Additional stimulus to job creation and economic growth will result from the establishment of recently announced new call centres.

2001-2002 FISCAL SUMMARY <i>(\$ thousands)</i>	Budget	Forecast	Per Cent (%) Increase (Decrease) from Budget
Consolidated Fund			
Revenue	5,134,771	5,139,771	0.10 %
Net Program Expenses *			
Health	1,819,031	1,818,817	(0.01) %
Education and Universities	1,089,669	1,100,078	0.96 %
Community Services	626,508	626,508	---
Other Net Program Expenses	735,759	738,163	0.33 %
Restructuring Costs	53,652	60,390	12.56 %
Total - Net Program Expenses	4,324,619	4,343,956	0.45 %
Net Debt Servicing Costs	908,857	901,357	(0.83)
Total Expenses	5,233,476	5,245,313	0.23 %
	(98,705)	(105,542)	
Net Income (Losses) for Government			
Business Enterprises			
Other Enterprises	8,000	8,000	
	8,000	8,000	
Provincial Surplus (Deficit)	(90,705)	(97,542)	7.54 %

OVERVIEW 2001-2002 (continued)

A U.S. economic slowdown had been expected to weaken performance in Nova Scotia's manufacturing sector and non-energy exports in 2001. Exports sales for non-energy products, however, remain positive with an increase of 2.4 per cent for the first five months of 2001.

Consequently, the budget's economic outlook for real gross domestic product (GDP) growth for 2001 continues to remain in tact. The Department of Finance's latest survey of private sector forecasts indicates an average GDP growth rate of 2.2 per cent expected for 2001, compared to 2.3 per cent contained in the economic forecast in the budget. This latest survey represents a 0.4 percentage point drop from the average of 2.6 per cent at budget time.

REVENUES

Revenues for 2001-2002 are forecasted to be \$5.0 million higher than budgeted. This increase is due to higher than anticipated tobacco revenues with partial offsets due to lower than anticipated Harmonized Sales Tax (HST) revenues.

On April 5, 2001 tobacco taxes were increased by \$3.90 per carton of cigarettes. This increase is expected to raise an additional \$15.0 million over the 2001-2002 budget estimate.

REVENUE SUMMARY <i>(\$ thousands)</i>	2001-2002 Budget	2001-2002 Forecast	Increase (Decrease) from Budget
Provincial Revenue Sources			
Personal Income Taxes	1,250,795	1,250,795	---
Corporate Income Taxes	200,864	200,864	---
Harmonized Sales Tax	845,724	835,724	(10,000)
Motive Fuel Taxes	215,500	215,500	---
NS Gaming Corporation	170,800	170,800	---
NS Liquor Commission	139,800	139,800	---
Other Provincial Revenues	354,717	369,717	15,000
Total - Provincial Revenue	3,178,200	3,183,200	5,000
Federal Revenue Sources			
Equalization	1,394,000	1,394,000	---
CHST	560,241	560,241	---
Other Federal Sources	2,330	2,330	---
Total - Federal Revenue	1,956,571	1,956,571	---
Prior Years' Adjustments	---	---	---
Total Revenue	5,134,771	5,139,771	5,000

REVENUES (continued)

HST revenues are expected to be \$10.0 million lower than the 2001-2002 budget estimate due to a downward revision made by the federal government in the declared revenue pool. The declared revenue pool is the national total of GST and HST revenues collected by the Canada Customs and Revenue Agency (formerly Revenue Canada).

NET PROGRAM EXPENSES SUMMARY <i>(\$ thousands)</i>	2001-2002 Budget	2001-2002 Forecast	Increase (Decrease) from Budget
Agriculture and Fisheries	40,885	40,825	(60)
Community Services	626,508	626,508	---
Economic Development	34,708	34,708	---
Education and Universities	1,089,669	1,100,078	10,409
Environment and Labour	27,072	27,024	(48)
Finance	12,867	12,867	---
Health	1,819,031	1,818,817	(214)
Justice	88,883	88,883	---
Natural Resources	53,945	54,535	590
Public Service	104,236	106,378	2,142
Service Nova Scotia and Municipal Relations	100,237	100,237	---
Tourism and Culture	39,457	39,457	---
Transportation and Public Works	233,469	233,249	(220)
Restructuring Costs	53,652	60,390	6,738
Total - Net Program Expenses	4,324,619	4,343,956	19,337

NET PROGRAM EXPENSES

Net program expenses are forecast to be \$19.3 million higher than budgeted. The Restructuring Costs budget, which includes funds for expected wage increases, has increased by \$6.7 million as a result of the final offer selection process. This process resulted in higher than budgeted wage increases for nurses and other health care workers.

The Department of Education is forecasting an additional \$10.4 million in expenses. This increase is due, in large part, to \$5.5 million for school renovations, that were originally budgeted as tangible capital asset (TCA) spending but did not actually meet the TCA eligibility requirements. Also, the amortization costs for furniture, equipment and technology in new schools, which is at a higher rate than the amortization of the building itself, added to the over-expenditure. At the Petroleum Directorate, the Laurentian sub-basin boundary dispute legal process is expected to cost an additional \$2.1 million.

DEBT MANAGEMENT AND BORROWING PROGRAM

Lower short-term interest rates and a stronger than expected Canadian dollar have resulted in the forecast for net debt servicing costs being reduced to \$901.4 million, which is \$7.4 million less than budgeted.

The Province's borrowing requirements for fiscal 2001-2002 have increased \$95.0 million from budget to \$1.15 billion due to refinancing of medium term notes. To date this fiscal year, the province has raised \$775.0 million of its planned borrowing through a 10-year domestic (ie, sold within Canada) bond issue of \$350.0 million, a 30-year \$300.0 million domestic issue and \$125.0 million in medium term notes.

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