Year End Forecast Update

PROVINCE OF NOVA SCOTIA
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YEAR END FORECAST UPDATE
for Fiscal 1998-1999 and 1999-2000
Released September 28, 1999

Summary 1998 -1999

The Government of Nova Scotia is making significant changes in the way it presents its budgets and financial statements. The commitment is to present the information in a complete and straightforward manner, consistent with the way most businesses present their accounts. These changes will result in financial statements prepared in accordance with Generally Accepted Accounting Principles, with one consolidated final "bottom line"; consistent with recommendations made by the Auditor General and many others familiar with accounting practices. The Department of Finance reviewed its Year End Forecast results for 1998-1999 with the Auditor General and has now made significant changes compared to results reported on June 1, 1999.

The normal year-end process also identified a number of adjustments. As a result of these two processes, the Province now expects the final Audit Report in the Public Accounts to show a Provincial Deficit of approximately $385 million. The Province is also recording a change in Pension Liabilities of $251 million and Prior Period Adjustments of $564 million. The Prior Period Adjustments are expenditures that would have been included in the accounts of the Province in prior years, if the current accounting standards had been in place. As a result of these changes, the Net Direct Debt of the Province is forecast to total $9.6 billion as of March 31, 1999.

It should be noted that a significant portion of the increase in the Net Direct Debt had been previously reported (June 99). This included $116 million in Sysco/NSRL current year losses; $226 million of the $280 million in accumulated deficits of hospital boards; and the impact of the Pension Contribution Holiday Restatement and the change in unfunded pension liabilities which together total $306 million. Also, an increase in the Net Direct Debt and the cost of servicing that debt is not directly connected. eg. the increase in pension unfunded liabilities does not affect debt service payments and the majority of the health and hospital board deficits were in the form of non-interest bearing loans from the province, and so expense had already been included in debt servicing costs.

Reconciliation of Financial Results for the Fiscal Year ending March 31, 1999

	Estimate	Forecast
Revenue	4,382,718	**4,525,896**
Net Program Expenditures *	3,690,824	3,761,576
Net Debt Servicing Costs	690,742	741,692
Total Expenditures	**4,381,566**	**4,503,268**
Budgetary Surplus (Deficit) as reported 01-June-99	**1,152**	**22,628**
Adjustments since 01-June-99 Forecast		
Year End Review Adjustments:		
Adjustments to Revenue		24,727
Adjustments to Expenditures		(10,985)
Adjustments to Debt Servicing Costs		8,525
New School Construction Costs (P3 Capital Leases)		(55,652)
Recognition of Foreign Exchange Losses		(71,470)
Restatement of Pension Contribution Holiday		(54,996)
Surplus(Deficiency) for Government Organizations		
Health and Hospital Board deficits in fiscal 1998-1999		(123,647)
School Board deficits and pension obligations		(31,783)
Other Organizations		9,600
Surplus(Deficiency) for Government Business Enterprises		
Nova Scotia Resources Limited		(75,600)
Sydney Steel Corporation		(40,431)
Other Enterprises		14,979
Total Adjustments		**(406,733)**
Provincial Surplus (Deficit)		**(384,105)**

* Net Program Expenditures include both Current and Capital Account Expenditures and Restructuring Costs.

Details - Fiscal 1998-1999

Year End Adjustments

General Adjustments

The previous forecast released June 1, 1999, showed a Budgetary Surplus of $22.6 million. As a result of regular year-end adjustments, revenues increased by $24.7 million and Net Debt Servicing Costs were reduced by $8.5 million. However, some program expenditures came in higher than forecast, for a negative impact of $11 million. The total change was a positive $22.2 million.

New School Construction Costs - (P3 Capital Leases)

The construction of a new school creates an asset that will have a life well beyond a single fiscal year. How to account for such an expenditure becomes quite complex when the financing is done through a lease and the issue of ownership and financing arrangements arise. In this case, if the government is taking on most of the risks normally associated with ownership, accounting standards require the government to show the capital cost of the lease as a liability on the Balance Sheet and an expense on the Statement of Revenue and Expenditures. If a significant portion of these risks is transferred to the private partner, then only the annual lease operating cost is included as part of the government's expense.

In the case of the first four P3 School leases, an accounting review revealed the risk transfer from the public partner to the private partner was insufficient to classify the expenditure as an operating lease. Accordingly, the current year construction cost of $56 million is recorded as an expense in 1998-1999. A capital lease liability is recorded and will be reduced over the term of the lease payments. An additional $7 million adjustment is made for capital costs in prior years.

Accounting Policy Changes

To be consistent with Generally Accepted Accounting Principles, the Province has made major changes in the way it accounts for Foreign Exchange Gains and Losses. The policy of consolidated accounting results in improved disclosure of the Province's assets, liabilities and financial results for each fiscal year.

Foreign Exchange Gains and Losses

The Province's presentation of Foreign Exchange Gains and Losses is now consistent with Generally Accepted Accounting Principles. The previous accounting policy amortized the gains and losses over a 20 year period. The new accounting policy amortizes the gains and losses over the remaining term of an issue. As the average remaining term is less than 20 years, the accumulated losses are now amortized over a shorter period of time. Accordingly, the Net Debt Servicing Costs for 1998-1999 have been increased by $71.5 million. An additional $185.0 million should have been amortized in prior years and is shown as a prior year's adjustment on the Statement of Net Direct Debt.

Consolidation of Accounting

The government's decision to create a "single bottom line" means it must identify all entities that are accountable to a Minister of the Legislature, and their financial results become part of the consolidated Provincial Surplus/(Deficit). Once the accounting adjustments are complete, it is expected that all the revenues and expenditures of the Province will be counted, with this annual change in financial position being the only transaction that is added or subtracted from the Net Direct Debt.

Government Organizations

Regional Health Boards and Non-Designated Organizations

Over the past four years, Regional Health Boards and Non-Designated Organizations (the QEII, the IWK-Grace, the NS Hospital and the Cape Breton Healthcare Complex) had annual shortfalls in funding amounting to a total of $226 million. The June Forecast was prepared using the assumption that those liabilities would be absorbed by the Province, but would not be recorded as part of the deficit/surplus calculation. Having received audited financial statements from the Boards, a review indicates further adjustments and accruals for vacation pay liabilities of $54 million. The proper presentation of the results shows an expense in 1998-1999 of $124 million. The balance of the liabilities ($156 million) is allocated to the years the spending took place.

School Boards and Other Organizations

School Boards are required by law to balance their budgets each year. However, some boards have recorded deficits with plans to recover the loss in future years. Their operations for 1998-1999 impacted the consolidated deficit by $31.8 million. The Boards also have $194 million in liabilities with respect to the Early Retirement Program established in 1994, of which $154 is recorded as an adjustment to prior years. An additional $26 million is also recorded in prior years to account for school board deficits in those years and other consolidation adjustments.

Government Business Enterprises

Sysco - Nova Scotia Resources Limited

The most significant change is the inclusion of the annual operating deficiencies of Nova Scotia Resources Limited and Sydney Steel. The changes noted are for the Year Ending 1998 as both entities report on a calendar year basis. The current year deficiency noted has been previously reported as a direct charge to the Net Direct Debt of the Province.

Other Government Business Enterprises and Organizations

The Province now accounts for a total of 38 major organizations and business enterprises. Detailed work on the Net Change in Financial Position for these entities is not yet complete, but the current forecast calls for a positive impact of $24.6 million. The work toward full consolidation will be completed in time for the publication of the Audited Financial Statements in the Public Accounts for 1998-1999. The budget for 1999-2000 will include an estimate for the current year's change in financial position for these organizations and enterprises.

Other Accounting Changes

Tangible Capital Assets

The Province is currently completing research on an evaluation of the Tangible Capital Assets of the Province. In previous years, equipment, bridges, buildings etc. were fully expensed in the year they were acquired, despite the fact that they had significant value for years to come. It is the intention of the government to adopt Generally Accepted Accounting Principles for the accounting of such purchases with the tabling of the Financial Statements for 1999-2000.

Pension Cost Accounting

With respect to pension cost accounting, the Province currently records the cash cost of pension plan contributions as the expense for the current year. The generally accepted practice would be to record the actual cost of the pensionable service earned by the employees in the current year. This change will likely result in a relatively minor increase in costs in the order of several million dollars. However, the Province also intends to adopt new accounting principles with respect to the change in the unfunded liabilities of the pension plans. The full impact of these accounting change needs to be researched further. Until the research is complete and the full policy is implemented for 1999-2000, other pension fund valuations will continue to be shown as a change in Net Direct Debt for 1998-1999.

It should be noted however, that the province had originally recorded two years of pension contribution holidays as cost recoveries in 1998-1999. The contribution holiday reduced the pension plan assets (cash) and correspondingly increased the plan's net unfunded liability. To more accurately reflect this overall change, the Province will now record the total of the contribution holiday and the increase in pension liability as a single charge to Net Direct Debt instead of as a cost reovery.

Forecast Update Budget 1999-2000

As a result of the spending decisions set in place in the spring of 1999, and the change in accounting policies requiring the accounting for all government entities, the budget to be placed before the legislature in October for 1999-2000 will forecast a substantial deficit. The government has received a mandate in the election on July 27, 1999 to bring the Province's finances into full balance in the third year of its mandate. The plans to accomplish this task will begin to be outlined in the budget this fall, with the first full year of the plans reflected in Budget 2000-2001. Where required, legislation will be introduced or amended to reflect the government's mandate.

In the meantime, there is no budget approved by the legislature for the fiscal year 1999-2000. Under these circumstances, the Provincial Finance Act allows for the spending by Departments in an amount up to 50% of their authority in the budget estimate for the previous year (Estimate 1998-1999) In addition, the Lieutenant-Governor has approved special warrants that allow for a total spending authority of $3.7 billion, which was the forecast maximum requirement to December 31, 1999. However, those expenditure plans are expected to be revised in the new budget. Accordingly, a more detailed forecast of revenues and expenditures will be available upon the tabling of the new budget in mid-October.

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Restated Consolidated Financial Summary for the Fiscal Year ending March 31, 1999 ($ thousands)	Budget	Forecast (01-June-99)	REVISED Forecast
Revenue	**4,382,718**	**4,525,896**	**4,550,623**
Net Program Expenditures *	3,690,824	3,761,576	3,882,113
Surplus (Deficiency) for Government Organizations:			
Health and Hospital Board deficits in fiscal 1998-1999			123,647
School Board deficits and pension obligations			31,783
Other			(9,600)
Net Debt Servicing Costs	690,742	741,692	734,263
Recognition of Foreign Exchange Losses	---	---	71,470
Total Expenditures	**4,381,566**	**4,503,268**	**4,833,676**
Surplus (Deficit) before Government Business Enterprises	**1,152**	**22,628**	**(283,053)**
Surplus (Deficiency) for Government Business Enterprises			
Nova Scotia Resources Limited			(75,600)
Sydney Steel Corporation			(40,431)
Other Enterprises			14,979
			(101,052)
Provincial Surplus (Deficit)			**(384,105)**

* Net Program Expenditures include both Current and Capital Account Expenditures and Restructuring Costs.

Net Direct Debt

As a result of accounting policy changes, the Net Direct Debt of the Province has been restated for previous years. It should be also noted that a number of the items now included as part of the Annual Surplus (Deficit) had been previously reported directly as a change in the Net Direct Debt. The Statement below reconciles the Net Direct Debt as a result of these changes. The reported number for March 31, 1999 is $574.0 million higher than reported previously. The difference is largely due to the consolidated accounting adjustments for School and Health Boards, the Foreign Exchange Losses from accelerated amortization and the capitalizing of P3 School Construction Costs. It should be noted that while the move to full accrual accounting will more properly disclose the change in the consolidated financial position, there is not a direct relationship between debt servicing costs and the change in Net Direct Debt.

PROJECTED NET DIRECT DEBT
($ millions)

Net Direct Debt as at March 31, 1998 - as orignally reported		**8,369.1**
Prior Period Adjustments:		
Correction of HST Revenue	21.9	
New School Construction Costs	7.2	
Foreign Exchange Losses	185.0	
Deficits of the Health and Hospital Boards	156.0	
School Boards' obligation for ERP and Consolidation Adjustments	180.2	
Other	14.0	564.3
Net Direct Debt as at March 31, 1998 - as restated		**8,933.4**
Provincial Deficit for fiscal 1998-1999	384.1	
Change in Net Unfunded Liability for Pension Obligations	251.0	635.1
Net Direct Debt as at March 31, 1999 as reported September 28, 1999		**9,568.5**