

September 8, 2006

Overview

The Province of Nova Scotia is forecasting a modest increase in its projected budget surplus for 2006–2007 fiscal year. Improved debt servicing costs and other savings offset lower tobacco revenues and a slight increase in program expenses.

The surplus is expected to increase by \$1.5 million to \$75.0 million, up from \$73.5 million in the 2006–2007 budget. The budget includes a \$57.4 million legislated surplus to be allocated to the debt.

Total revenues are forecast to be \$6.58 billion, a drop of \$8.4 million from budget. This is due primarily to a decrease in tobacco revenues.

The forecast for net debt servicing costs has been reduced by \$9.5 million.

Net program spending is forecast to be \$1.4 million higher than budgeted, as increased highway expenses are offset by savings in other areas.

Fiscal Summary Fiscal 2006–2007

(\$ thousands)

	Budget	Forecast	Increase (Decrease) from Budget
CONSOLIDATED FUND			
Revenue	6,588,838	6,580,487	(8,351)
Expenses			
Net Program Expenses	5,995,507	5,996,856	1,349
Pension Valuation Adjustment	33,213	33,213	---
Net Debt Servicing Costs	876,215	866,763	(9,452)
Total Expenses	6,904,935	6,896,832	(8,103)
	(316,097)	(316,345)	(248)
Consolidation and Accounting Adjustments for Governmental Units	54,525	54,771	246
Net Income for Government Business Enterprises			
Nova Scotia Gaming Corporation	144,200	144,200	---
Nova Scotia Liquor Corporation	184,500	184,500	---
Other Enterprises	6,364	7,904	1,540
	335,064	336,604	1,540
Provincial Surplus	73,492	75,030	1,538

Components of the Debt Reduction Plan

Debt Retirement—Contingency	4,000	4,000	---
Offshore Offset Agreement	57,421	57,421	---
Other	12,071	13,609	1,538
	73,492	75,030	1,538

Revenues

Total revenues are forecast to be \$8.4 million lower than the 2006–2007 budget.

The Province is forecasting a decrease of \$10 million in tobacco revenues. Smoking rates are expected to continue declining, and there are indications of a rise in the illegal distribution of cigarettes, reflecting a national trend.

Interest revenues in Nova Scotia Business Inc. and the Municipal Finance Corporation are projected to increase overall by \$1.5 million. Also, as a result of a slight increase in consumption, motive fuel taxes are forecasted to rise by approximately \$1.0 million.

Petroleum royalties are expected to decline marginally from budget by \$800,000.

Revenue Fiscal 2006–2007

(\$ thousands)

	Budget	Forecast	Increase (Decrease) from Budget
Provincial Revenue Sources			
Personal Income Tax	1,652,111	1,652,111	---
Corporate Income Tax	378,507	378,507	---
Harmonized Sales Tax	1,104,358	1,104,358	---
Tobacco Tax	163,004	153,000	(10,004)
Motive Fuel Taxes	247,267	248,239	972
Interest Revenues	77,312	78,844	1,532
Registry of Motor Vehicles	89,268	89,268	---
Royalties—Petroleum	280,000	279,200	(800)
Other Provincial Revenues	237,591	237,540	(51)
Total—Provincial Revenue Sources	<u>4,229,418</u>	<u>4,221,067</u>	<u>(8,351)</u>
Federal Revenue Sources			
Equalization Payments	1,385,539	1,385,539	---
Offshore Oil and Gas Payments	57,421	57,421	---
Canada Health Transfer	611,556	611,556	---
Canada Social Transfer	267,919	267,919	---
Wait Times Reduction Fund	34,666	34,666	---
Other Federal Sources	2,319	2,319	---
Total—Federal Revenue Sources	<u>2,359,420</u>	<u>2,359,420</u>	<u>---</u>
Total—Revenue	<u>6,588,838</u>	<u>6,580,487</u>	<u>(8,351)</u>

Net Program Expenses

Overall, net program spending has increased by \$1.4 million over the 2006–2007 budget.

An increase of \$3.6 in the Department of Transportation and Public Works is a result of \$1.6 million in higher amortization costs related to highway construction and an increase of \$2.0 million in highway maintenance.

The forecast for the Public Service entities reflects a reduction of \$2.2 million from the original budget primarily as a result of a reduction in the requirements for strategic investment funds through the payroll rebates at Nova Scotia Business Inc.

Net Program Expenses Fiscal 2006–2007

(\$ thousands)

	Budget	Forecast	Increase (Decrease) from Budget
Agriculture and Fisheries	38,840	38,840	---
Community Services	748,123	748,123	---
Education and Universities	1,366,094	1,366,094	---
Energy	19,712	19,712	---
Environment and Labour	30,064	30,064	---
Finance	18,517	18,517	---
Health	2,764,479	2,764,479	---
Health Promotion and Protection	36,299	36,299	---
Justice	116,467	116,467	---
Natural Resources	65,837	65,837	---
Public Service	204,521	202,307	(2,214)
Service Nova Scotia and Municipal Relations	136,261	136,261	---
Tourism, Culture and Heritage	44,401	44,401	---
Transportation and Public Works	291,955	295,518	3,563
Restructuring Costs	113,937	113,937	---
Total—Net Program Expenses	<u>5,995,507</u>	<u>5,996,856</u>	<u>1,349</u>

Net Income for Government Business Enterprises

Net income from Government Business Enterprises is slightly higher than budgeted. The Halifax-Dartmouth Bridge Commission is forecasting an increase in net income of \$1.5 million, largely due to a reduction in operating costs.

Net Debt Servicing Costs

The latest forecast for net debt servicing costs reflects a net decrease of \$9.5 million compared to budget. The government saved an additional \$5.5 million through the conversion of existing U.S. dollar debt to Canadian dollar debt. There is also a projected increase of \$3.4 million in sinking fund earnings.

Economic Performance and Outlook—2006

There have been no major releases of provincial economic information to warrant a revision to the economic forecast in the July 4, 2006, budget.

The Province continues to anticipate 2.5 per cent growth in real Gross Domestic Product in 2006. This matches the average of private sector forecasts for Nova Scotia as of August 17, 2006.

Inflation has been running at 2.9 per cent up to the end of July, which is consistent with the budget forecast. The current exchange rate is also in line with budget expectations.

According to statistics as of the end of July:

- Nova Scotia labour income remains positive, having expanded 4.0 per cent. However, employment has fallen 0.4 per cent year to date.
- Residential construction investment has been robust, expanding 9.9 per cent. Housing starts are up 14.0 per cent year to date.
- Retail trade has been buoyant, expanding 6.9 per cent.
- International merchandise exports of goods from Nova Scotia are off 7.3 per cent. The recent addition of the Sable compression deck platform is expected to boost natural gas production and exports in the months to come, helping to reverse this trend.
- Manufacturing shipments have fallen 1.0 per cent in the first half of 2006. This sector has been affected by the high exchange rate and the current shutdown at Stora Enso.

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