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Nova Scotia Budget

FOR THE FISCAL YEAR 2004-2005

The Honourable Peter G. Christie, Minister of Finance

Nova Scotia House of Assembly • April 22, 2004

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for the Budget Address 2004–2005

Introduction

Mr. Speaker, I am honoured to stand in this House and to present to you, my colleagues, and all Nova Scotians, my first budget address.

If I have any advice to the listening audience—it's get comfortable.

I am going to take the time needed to put things into perspective, to fully account for the dollars we have spent over the past four plus years, and as fully as possible, account for the new dollars we will invest through this year's budget to make life better and a little easier for Nova Scotia families.

And while I'm going to cover a lot of ground, I won't be able to cover it all. But rest assured, what I don't cover in my budget address will be covered in considerable detail in the numerous documents accompanying this budget.

We stuck to our plan

With that said, let's take a quick look back, before we look to the year ahead. Mr. Speaker, almost five years ago, this government laid out its long-term fiscal plan. A plan that promised to focus on Nova Scotians' priorities, to balance the budget within three years, and to provide a 10 per cent tax cut for every working Nova Scotian in year four.

And as promised, we delivered.

We increased spending for front-line health care, education, and roads in each and every year of our mandate.

We made some difficult, often agonizing, decisions to eliminate Nova Scotia's crushing $500-million deficit.

We provided Nova Scotians with the first installment on their 10 per cent tax cut.

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And, as I announced last week, we weathered the fury, as well as the unexpected $20-million bill Mother Nature threw our way in the form of floods, blizzards, and Hurricane Juan.

Despite last year's unexpected weather events, despite the impact of SARS and the mad cow scare, we committed an additional 8 million new dollars to help our universities contain rising tuition fees, as well as an additional 5 million new dollars to support research and innovation. All dollars over and above those committed in the 2003–2004 budget.

Another surplus

More importantly, we ended fiscal 2003–2004 with a $14.5-million surplus. Every penny of which goes directly to the debt.

Another balanced budget

And today, Mr. Speaker, I am proud to present to Nova Scotians their third consecutive balanced budget, a budget with a $2.1-million surplus. A budget that also provides for $10 million in debt relief, including $6 million to be deposited in Nova Scotia's first-ever Debt Retirement Fund. Another first for Nova Scotia, and another first for this government, Mr. Speaker.

Another payment on the debt

All totalled, from fiscal 2002–2003, through to this year, we have managed to the point where surpluses have contributed to over $58 million for debt repayment.

Mr. Speaker, I want to take a moment to remind Nova Scotians of the rewards of their sacrifices and of their hard work.

Nova Scotia is stronger today, more self–reliant, than it has been in decades.

The proof of this is in the sharp and steady increase in our own-source revenues. In 1999 provincial revenues accounted for 62 per cent of total revenues. Today they account for 66 per cent.

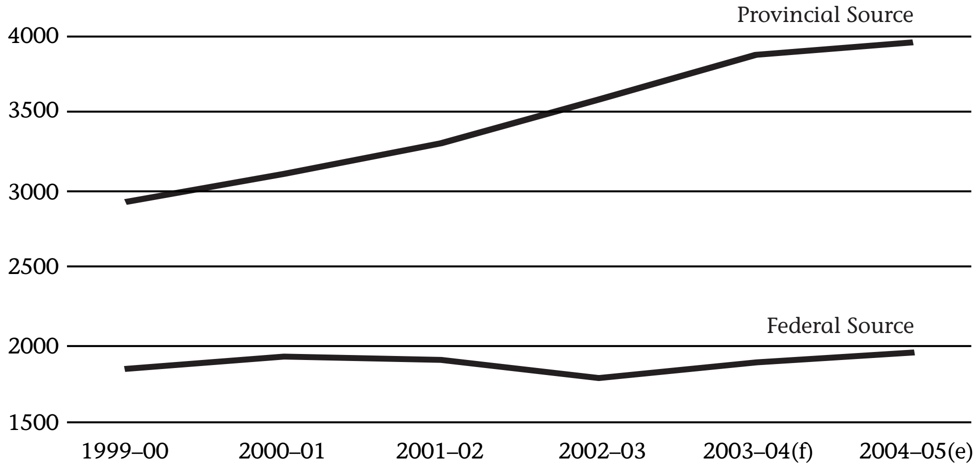
Mr. Speaker, this didn't happen as a result of magic, good luck, or wishful thinking. It happened because every day more and more Nova Scotians are going to work and generating the revenues needed to invest in better health care, better education, better roads, and a stronger, more diverse economy.

What this means is that we are no longer relying so much on others, as we are on ourselves.

What this means is that Nova Scotians can feel more secure, more confident in the province's ability to meet their needs in the future.

Nova Scotia stronger … more self-reliant

Federal Source vs. Provincial Source Revenue
(In $Millions)



(Source: Provincial Public Accounts for actuals, 2004–2005 Budget Address forecast and estimate)
(f) forecast, (e) estimate

Now, let's take a moment to look at our efforts as a government to help make this and so much more happen.

Progress on many fronts

Mr. Speaker, even before we take into account any new spending measures contained in this year's budget, Nova Scotians have witnessed considerable progress on many fronts.

The results of our efforts are not only measurable, they are clearly paying off.

The deficit is long gone.

Nova Scotia's debt-to-GDP ratio has improved.

Nova Scotia's credit rating has improved.

Nova Scotia's foreign currency exposure is now well below 20 per cent—and well beyond previous targets.

Wait times down

Wait times for cardiac care, cancer care, MRI, and bone densitometry services are all down.

There are more doctors and nurses at the bedside.

More students are receiving one-on-one time with their teacher.

Per student funding up

Funding for the public school system has increased by over $1,500 per student.

Record numbers of Nova Scotians are working; thousands more are no longer on welfare.

Over 55-hundred seniors no longer pay the full Pharmacare premium.

Two hundred and fifty more children are receiving subsidized day care.

Better, safer roads

Nova Scotians are driving on better, safer roads. We have more than doubled the new money spent on road and highway improvements.

And, Mr. Speaker, we did all of this and more using the most stringent and transparent accounting practices in the country.

Building on progress

This year's budget will build on that progress.

Mr. Speaker, it's clear, we delivered.

It's also clear, Ottawa failed to deliver.

It failed to deliver its fair share toward the rising costs of health care. It also failed, Mr. Speaker, to adjust and make fair its equalization formula.

And that, Mr. Speaker, has left us with little or no choice but to revise our tax reduction plan.

Before we look at the details, let's consider what the adjustments will mean to Nova Scotian families.

Almost everyone will continue to pay less

Mr. Speaker, our new tax plan means that more than half of all taxpayers, fully 53 per cent, will continue to receive their full 10 per cent income tax reduction.

It means that 96 per cent of all taxpayers will continue to pay less provincial income tax in the 2004 taxation year compared to the year before.

96% of Nova Scotians pay less tax

And, as promised in last year's budget, it means that 3,500 more Nova Scotians will not pay any provincial income tax this year. None whatsoever, Mr. Speaker.

Mr. Speaker, this government is protecting the full 10 per cent tax reduction for low-income families, those families with the least amount of disposable income, those families most likely to spend their tax savings at the local corner store, grocery store, or hardware store.

Make no mistake, this government has done everything it can to reduce the tax burden for as many Nova Scotians as we can, by as much as we can, and as fast as we can.

Committed to lower taxes

And make no mistake about this, this government will continue to work hard to find the means to continue to do so.

Because, Mr. Speaker, we believe lower taxes contribute to a more competitive economy. And because a more competitive economy is the only sure way of guaranteeing that the vital programs and services we all count on today will be there for our children and their children tomorrow.

Mr. Speaker, the adjustments to our personal income tax plan are as follows.

All taxpayers save 10% on first $29,590

Effective January 1, 2004, the rate on the first income bracket will remain at the reduced level, meaning that all taxpayers will receive the full 10 per cent tax savings on their first $29,590 in taxable earnings.

The tax rate on the second and third income brackets will return to 2003 levels.

And a fourth income bracket, starting at $93,000, will be introduced at a tax rate of 17.5 per cent.

Here are a few examples of what it means to working families.

For the average family of four with one earner making $30,000, it means they will realize a tax savings of approximately $140 this year.

For the average family of four with one earner making $50,000, the savings will be about $134.

Those at higher income levels will see either smaller savings or modest increases compared to 2003.

Personal Income Tax Changes

Income Level	Original Savings	Difference	Revised Savings
Single @ $25,000	$159	$0	$159
Married @ $30,000	$146	($6)	$140
Married @ $50,000	$413	($280)	$133
Married @ $100,000	$1,267	($1,183)	$84
Married @ $200,000	$2,916	($3,746)	($830)

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Additionally, we are making other notable and important changes that will benefit thousands more Nova Scotia families.

Nova Scotians with disabilities, caregivers, service men and women see additional savings

Mr. Speaker, we will match recently announced federal changes that benefit caregivers and Nova Scotians with disabilities. The medical expense deduction will be increased to allow caregivers to claim more of the medical or disability-related expenses they incur on behalf of dependant relatives.

Employees taking post-secondary education will benefit from an expansion of the tax credit on eligible non-tuition expenses.

As well, expenses incurred by persons with disabilities for employment or education purposes will now be treated as a deduction from income rather than a medical expense tax credit.

And, Mr. Speaker, we will tangibly demonstrate our gratitude to Nova Scotia's service men and women for putting their family lives on hold and their lives at risk by serving in areas of extreme conflict. We will adjust provincial taxes owing for our military personnel in keeping with recently announced federal changes.

Mr. Speaker, we are also making changes on the corporate side of the ledger.

Effective April 1, 2004 the Corporation Capital Tax, which applies to banks and trust companies, will increase from 3 per cent to 4 per cent.

As well, the Large Corporations Tax, which applies to about 1,400 of Nova Scotia's largest companies, will increase from 0.25 per cent to 0.3 per cent.

Together these measures are expected to raise $17 million.

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Enhanced savings for small, medium-sized business

Mr. Speaker, the small business tax threshold, which we planned to increase to $300,000 by 2005–2006, will now be implemented a full year earlier, enhancing the savings for small and medium-sized businesses this year. Mr. Speaker, this is just one of a number of initiatives contained in this budget to support small business growth within our province.

Taken altogether, the changes on both the personal and corporate side of the ledger add up to $118 million for fiscal 2004–2005. Every cent and more, in fact $112 million more, will go to improve health care for Nova Scotians.

We made the changes to our tax plan for one reason and one reason only: we are committed to meeting the growing healthcare needs of Nova Scotians. Needs that Ottawa has chosen to ignore.

Mr. Speaker, let me be clear, we are not abandoning our plan to grow our economy, to create new jobs, or to generate new wealth within our province; rather, Ottawa is interfering with it.

Nova Scotia takes $143-million federal hit in 2003–2004

In fact, Mr. Speaker, the combination of reduced equalization payments to Nova Scotia and no increase in federal healthcare base funding means Nova Scotia received $143 million less than expected in fiscal 2003–2004.

Mr. Speaker, it is important that Nova Scotians understand the full impact of reduced federal funding.

Ottawa and the missing decade

Mr. Speaker, more than 10 years ago, Ottawa began to drastically cut health and other vital program spending, leaving the provinces to absorb, not only more of the federal government's fair share, but the full share—the full share, Mr. Speaker—of rapidly rising healthcare costs.

Costs went up—way up—while the federal government's contribution went down.

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Consider, from 1992–93 to 2003–2004, provincial spending on key social programs grew by over $1,000 per capita.

Ottawa's per capita spending, on the other hand, fell in 1992, eventually came back up a bit, then fell back down again.

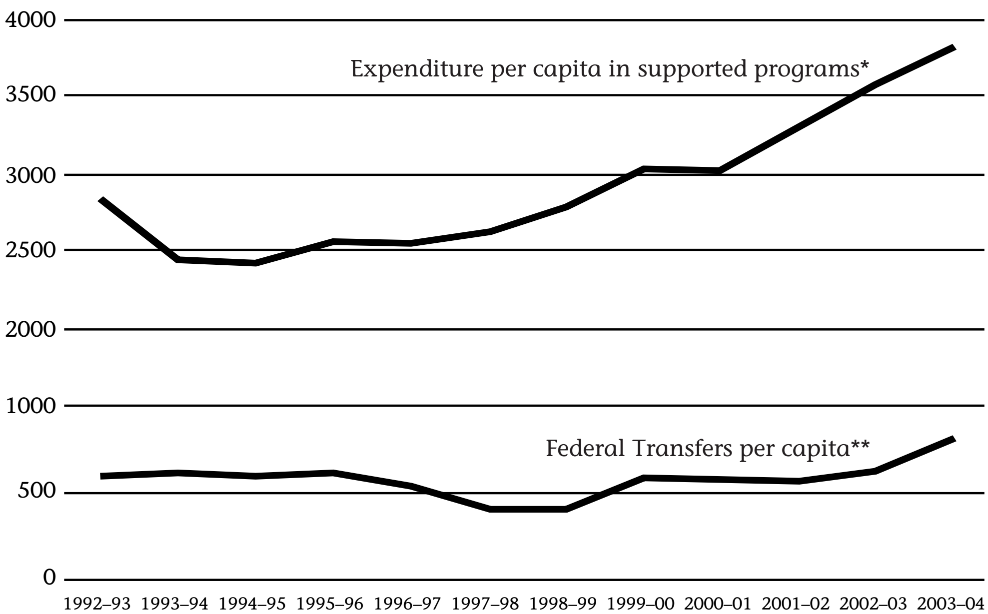
In the end, it cost Nova Scotians well over $900 million in lost federal dollars. Dollars that were desperately needed to support and sustain health and other vital programs.

Provincial dollars way up; federal dollars down

Only now, only now, Mr. Speaker, some 12 years after Ottawa began cutting transfers to the provinces, has federal support for health and other vital services finally climbed back up to the level it was at more than a decade ago.

Spending Grows but Federal Support Does Not

($ per capita)



* Supported programs–health care, social services, post secondary education

** Federal transfers–Canada Assistance Plan + Established Programs Financing (through 1996–97)

CHST (1996–97 on)

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Federal healthcare dollars already dried up

I ask all members of this House, indeed all Nova Scotians, to consider this. Federal funding to support Nova Scotians' healthcare needs in 2004 completely dried up well over a month ago. Mr. Speaker, that's a far cry from when Medicare was first established and funded on a 50/50 basis.

Mr. Speaker, we welcome the Prime Minister's promise of a meeting to discuss how we can all work together to make the kind of changes we know are needed to sustain our universal, accessible, and publicly funded healthcare system.

In fact, we're ready to go tomorrow.

But that meeting is not going to take place anytime soon. And Nova Scotians aren't very likely to see any new federal healthcare dollars, anytime soon.

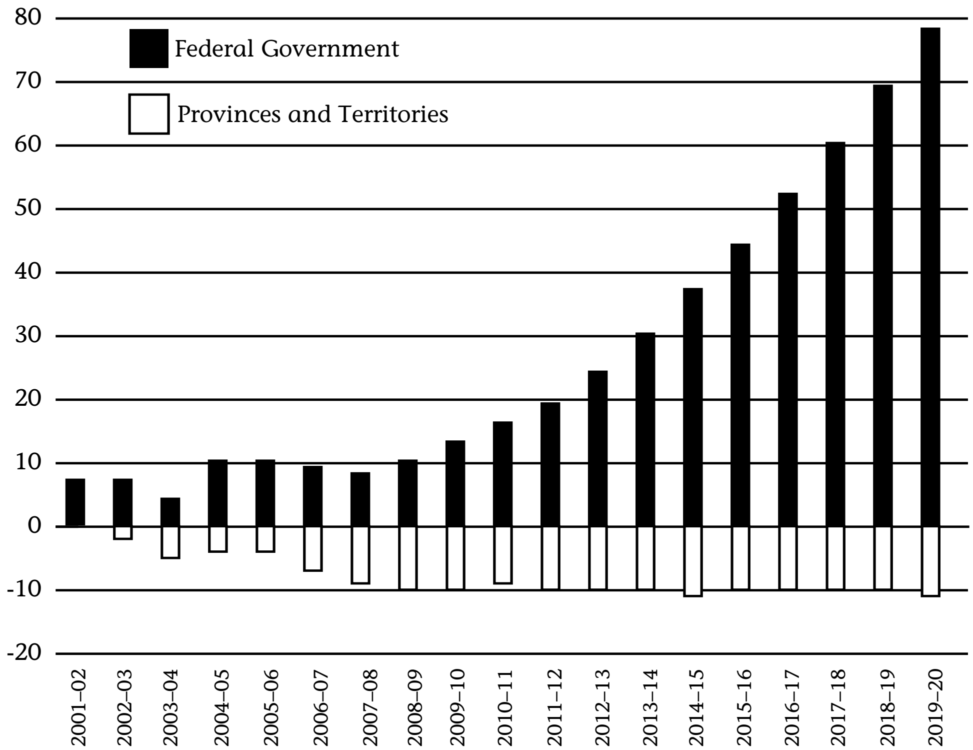
Mr. Speaker, what Ottawa fails to recognize, or refuses to accept, is that we're not facing a crunch, we're in it. And we're not in it alone.

Nova Scotia not in it alone … Look across the country

Look across the country. Provinces are slipping back into deficit, increasing taxes, or laying off hundreds, if not thousands, of public servants. In some cases it's a combination of all three.

Mr. Speaker, let me quote from a recent Conference Board of Canada study that proves my point. It said, "With current fiscal regimes in place, the different fiscal prospects [between the federal and provincial and territorial governments] will widen in the future, as only the federal government will have the financial capacity to pay down its debt or implement new initiatives, such as tax cuts and new discretionary spending. In contrast, without changing current fiscal policies, the provinces and territories will not have the capacity to implement new policy initiatives over the next seventeen years."

Federal and Provincial/Territorial Government Budgetary Balance 2001–2002 to 2019–2020
(In $Billions)



(source: The Conference Board of Canada; Finance Canada; Provincial and Territorial Public Accounts)

Fiscal imbalance threatening provincial programs

Mr. Speaker, the Conference Board of Canada attributes this fiscal imbalance to Ottawa's failure to respond to the number one priority of Canadians: quality health care.

The bottom line is, Ottawa has made the choice not to invest more in health care; and Nova Scotians, along with Newfoundlanders, New Brunswickers, Manitobans, and virtually every other Canadian, have no choice but to live with the consequences.

And those consequences pose huge challenges for all provinces, and the biggest by far is finding the new dollars needed to meet our growing healthcare needs.

Mr. Speaker, this budget demonstrates that this government is meeting that challenge.

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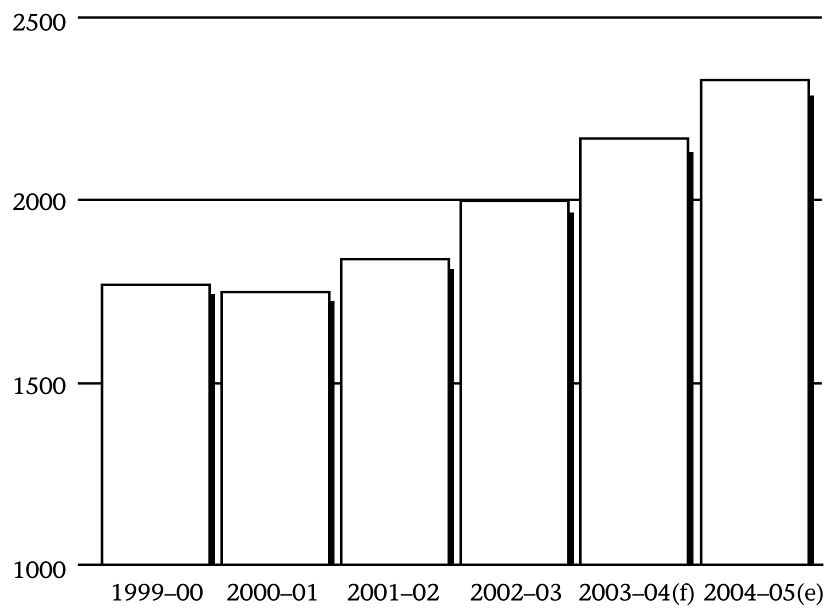
Health care spending up ... way up again

$230 million more to support better, faster care

Estimate to estimate, Mr. Speaker, this year's healthcare budget will increase by an additional $230 million, bringing it to over $2.3 billion. Add in the budget of the Office of Health Promotion, up $3.6 million to a total of $18.5 million, and the total dollars spent this year to treat the sick or to keep the well, healthy, amounts to $2.36 billion.

Increased Spending in Health Care
1999–2000 to 2004–2005
(In $Millions)



(f) forecast, (e) estimate

Mr. Speaker, that amounts to over $2,500 this year for every man, woman, and child in the province. Healthcare spending now accounts for almost 40 per cent of Nova Scotia's total operating budget, up from 28 per cent in 1993–94.

Spending where it counts

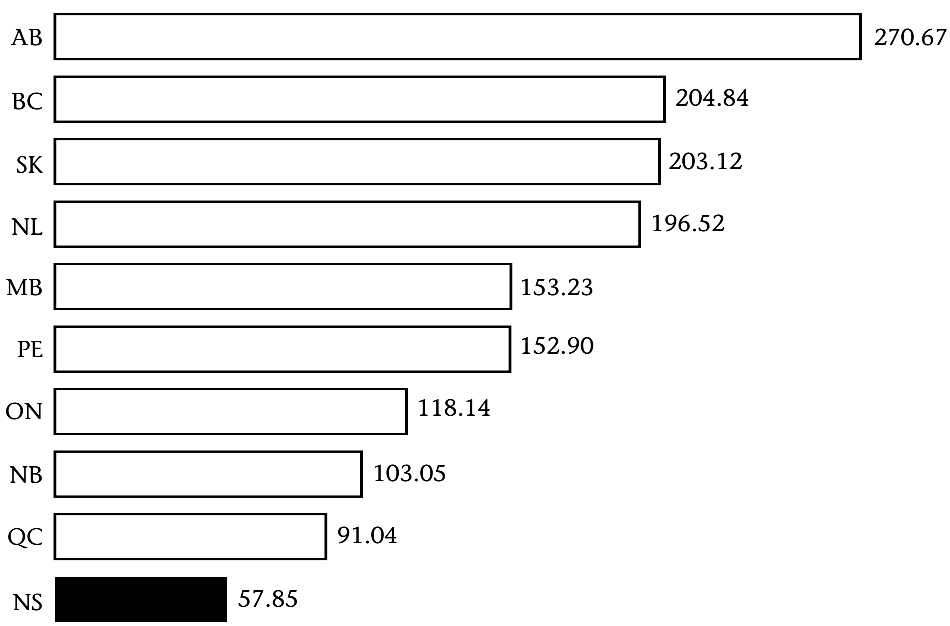
Mr. Speaker, this government, like all Nova Scotians, knows that it's not just how much you spend that counts, it's where you spend it and how you spend it.

That's why we're spending it on what matters most. On more doctors, nurses, and technologists. On reduced wait times. And on new efforts to promote health and fitness, particularly when it comes to young Nova Scotians.

More doctors, nurses; reduced wait times

Mr. Speaker, let me take a moment to address, hopefully put to bed, a popular myth. Nova Scotia does not have, as many believe, a bloated healthcare bureaucracy. In fact, independent studies have confirmed that Nova Scotia has the smallest healthcare bureaucracy in the country.

Health Administration per Capita
($ per capita)



(source: CIHI, National Health Expenditure Trends, 1975–2003 (2003))

With that said, let's review where the $2.36 billion we are investing in health care and wellness is going.

Our hospitals will receive an additional $78.5 million; medical payments account for $85.6 million more; long-term care increases by $24.1 million; and health promotion will see an additional $3.6 million.

Increased Funding for Health Care

(In $Millions)	Estimate 2003–04	Estimate 2004–05	$ Increase	%Increase
DHA's and IWK	$1,029.9	$1,108.4	$78.5	7.62%
Medical Payments	$425.7	$511.3	$85.6	20.11%
Continuing Care	$349.2	$373.7	$24.5	7.03%
Pharmacare Program	$95.7	$103.0	$7.3	7.59%
EHS	$65.6	$74.1	$8.5	12.90%
Capital Grants*	$1.5	$38.0	$36.5	2433.33%
Office of Health Promotion	$14.9	$18.5	$3.6	24.16%
Administration and Other Program Areas	$144.4	$132.9	($-11.5)	(-7.96%)
Total funding in Health and Health Promotion	$2,126.4	$2,359.9	$233.5	10.98%

** change in reporting*

Mr. Speaker, within the global numbers I just outlined, there are a number of very important and specific initiatives I want to highlight.

As noted, our hospitals will receive an additional $78 million. Included in this amount is a 7 per cent increase to enhance front-line care, money we promised two years ago through our multi-year funding commitment. As well, an additional $5.8 million will help put into full effect our commitment to reduce both emergency room and orthopedic wait times.

94% of Nova Scotians have a family doctor

And, Mr. Speaker, despite the fact that 94 per cent of Nova Scotians have a family doctor, despite the fact we have the second best specialist-to-patient ratio in the country, and despite the fact that our nurse-to-patient ratio is above the national average, we are not prepared to let up as long as one community feels left out.

New efforts to recruit professionals

Recently we announced that Dr. Peter Vaughn, together with a broad range of professional organizations and community groups, will spearhead a renewed effort to secure the services of vital healthcare professionals, particularly for rural Nova Scotia where shortages are the most acute.

We will also continue our efforts to train, retrain, recruit, and retain more nurses through our very successful Nursing Strategy. Between 2001 and 2006 we will have invested $60 million to secure more nurses and to improve their working environment. And this year we will maintain our commitment with another $9.8-million investment.

Nova Scotia's Nursing Strategy working

Mr. Speaker, our Nursing Strategy is working and working well. The number of registered nurses is up, the number of graduate nurses is up, and so too, Mr. Speaker, is the number of graduate nurses choosing to stay, live, and work in Nova Scotia.

Mr. Speaker, last year we invested in eight new medical seats at Dalhousie University. That number will double this year as an additional eight new medical school seats are opened up.

Mr. Speaker, despite considerable investments in new medical equipment, such as renal dialysis and targeted funding to reduce cardiac, cancer, MRI, and emergency room wait times, more needs to be done.

And it will.

New efforts to reduce wait times

As we committed, we will move forward with the recommendations of the Wait List Monitoring Advisory Committee. We will continue to gather the information needed to launch a Wait List Information Database so that doctors and their patients know where specialty services can be accessed sooner rather than later.

Another highlight includes an additional $550,000 to improve Public Health Services so that Nova Scotia is fully prepared to deal with any new or unexpected outbreaks of potentially deadly or devastating diseases such as SARS or West Nile virus, as well as any terrorist-related chemical or biological events.

Other notable highlights include new investments to

- launch Nova Scotia's first Pediatric Rehabilitation Program
- help seniors better afford the high cost of prescription drugs

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- provide new vaccines for children and adolescents
- expand liver transplant and renal dialysis services
- improve First Responder services
- improve medical and statistical information collection and sharing
- advance the use of new medical technologies (Picture Archiving and Communications), enabling patients to access specialty care without the added time, cost, or frustration of travelling outside of their communities.

Advancing Nova Scotia's integrated stroke strategy

Mr. Speaker, this government is receiving national recognition for being a leader when it comes to laying the groundwork for a comprehensive, integrated stroke strategy. Over the course of the coming year, we will continue to advance the recommendations of the Stroke Strategy Committee with a view to reducing the incidence of stroke, improving treatment for stroke survivors, and keeping more Nova Scotians from prematurely going into long-term care.

Which, Mr. Speaker, leads me to perhaps the most talked-about and justifiable criticisms of Nova Scotia's healthcare system, and that is some seniors in Nova Scotia's long-term care facilities are paying for healthcare costs that are free in many other provinces.

Mr. Speaker, that's about to change.

Over the past year, we made good progress in our efforts to reduce the cost of nursing home care for seniors. We picked up more of the medical costs and excluded a number of assets considered in determining a senior's ability to pay. But, more needs to be done. And it will be. And it will be done as soon as possible

Effective January 1, 2005, seniors living in nursing homes will no longer pay for their medical costs.

As well, Mr. Speaker, they will no longer have to sell off any of their assets, the things they have worked so long and so hard to obtain or achieve.

Mr. Speaker, this is a full two years ahead of schedule.

Seniors will no longer pay for nursing home medical costs

This means that all seniors, regardless of their income or the value of their estate, will keep 15 per cent of their total monthly income and will pay for room and board costs only. This also means that every senior will keep more of their income, at least $150 per month, to spend on their own priorities.

A first for Atlantic Canada

Mr. Speaker, Nova Scotia is proud to be the first province in Atlantic Canada to take this important step forward.

Last year we opened 30 new long-term care beds. This year we will invest an additional $2.2 million to open at least 60 additional beds. There is also an additional $13 million to address a number of operational pressures in this sector, including the need for upgrades and renovations and for more hours of care and training. All totalled, funding for long-term care will increase by over $24 million this year.

Mr. Speaker, I've already spent a good deal of time talking about health care.

I'm going to take a bit more to talk about good health—and what we are doing as a government to support healthier living.

Mr. Speaker, Nova Scotians rightfully ask why successive governments spend so much on caring for the sick and comparatively little on promoting good health.

The truth be told, it's like turning a giant tanker around in a small lake.

Turning the tanker around

The very real, costly, and pressing demands on Nova Scotia's acute care system, as a result of having one of the country's oldest and sickest populations, combined with an antiquated federal healthcare funding formula, leave little room to manoeuvre.

Mr. Speaker, this government is determined to turn the tanker around and to point Nova Scotians toward healthier ground.

As mentioned, the budget for the Office of Health Promotion will increase by $3.6 million, bringing it to a total of $18.5 million.

New investments to support healthier living

This increased investment will enable government, along with its many professional, non-profit, and community-based partners, to build on the many initiatives already begun or help others get well under way. Among this year's priorities for the Office of Health Promotion are

- advancing chronic disease prevention
- funding to support the next steps of the Physical Activity Strategy for Children and Youth program
- developing a healthy food and nutrition policy for our schools
- increased funding for the KidSport program, effectively tripling the dollars available to help children from low-income families participate in organized sport. The added dollars in this program alone, Mr. Speaker, will help an additional 1,000 to 1,500 kids join their friends at the local hockey rink, on the ball field, or at the local gym.

KidSport funding tripled

And, Mr. Speaker, to ensure that Nova Scotians have better access to local recreation facilities, we are setting aside $2.1 million for recreation facility grants.

As well, Mr. Speaker, we are providing new dollars to put in effect Community Health Board priorities, to increase smoking cessation efforts, to launch a problem-drinking initiative, and to advance Nova Scotia's injury prevention strategy.

Mr. Speaker, these initiatives will be enhanced by other efforts well under way in both the Departments of Education and Community Services. For example, Mr. Speaker, legislation has already been introduced to allow community groups that promote physical activity free access to publicly owned schools.

Mr. Speaker, now that I am on the topic of schools, I'll stay on it.

Education spending up ... again

Mr. Speaker, two years ago, after extensive consultation with teachers, students, parents, school boards, and many others, this government released Learning for Life, Nova Scotia's first comprehensive, multi-year plan for students in grades primary to 12.

The title of our plan spoke to the need to help our students appreciate that learning is a lifelong commitment. The focus of our plan was on putting the student first and the basics first.

The student first … the basics first

Mr. Speaker, we stayed true to our plan.

We reduced class sizes in grade primary.

We put an additional one million books into the hands of our students.

We increased funding to support special needs students.

We also provided more resources and more support to help struggling young readers and writers, introduced, new professional development opportunities in priority areas, as well as new programs to help our students conquer math.

As the latest grade 6 literacy and writing test results show, we're beginning to see the benefits of our Learning for Life plan.

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Eighty-nine per cent of Nova Scotia students either met or exceeded expectations in literacy. Another 81 per cent either met or exceeded expectations in writing.

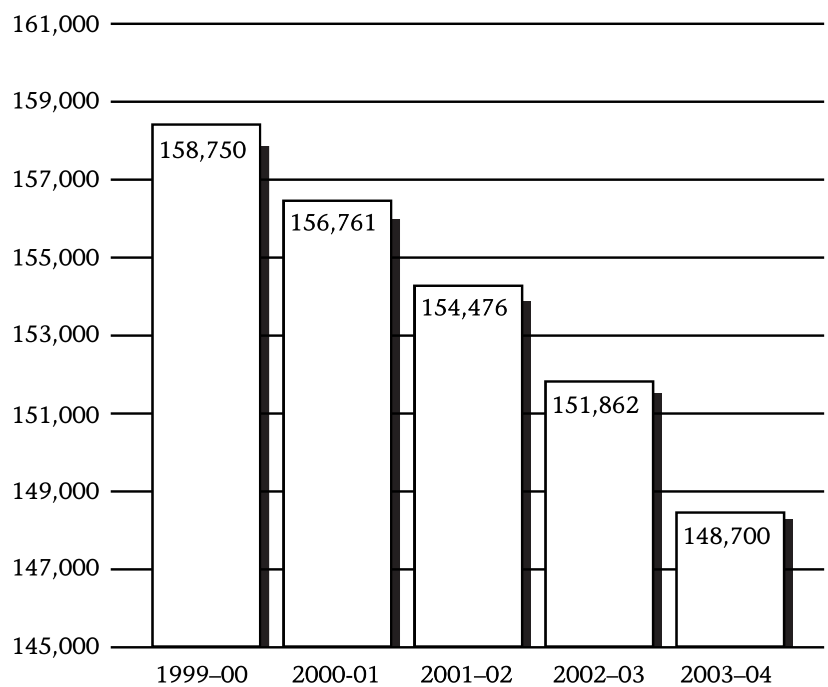
Good progress Mr. Speaker, but there's still a lot more to do.

Student enrolment down, but funding up

That is why, despite Nova Scotia's declining enrolment, funding for our public education system will increase by more than $20 million. Mr. Speaker, since 1999, total provincial funding for public education has increased by $89 million.

Salary and cost-of-living increases account for the lion's share of this year's increase, but we are also protecting or enhancing the investments already made.

Declining Student Enrollment 1999–2000 to 2003–2004



(Source: Provincial Funding Profile Sheets, Department of Education)

Let me summarize.

We will build on our plan to give more of our youngest learners more one-on-one time with their teachers by extending our smaller class size initiative into grade one.

Smaller class size extending to grade one

We will also increase funding for students with special needs by $3 million. This increase brings the total increase for special needs funding to $5.5 million since Learning for Life was first launched. In addition to this, we are providing $200,000 to fund tuition support for students with individual program plans, whose needs go beyond what the public school system can reasonably provide.

Special needs funding up

As well, for the second year in a row, we are increasing funding to libraries, and continuing to advance the recommendations of the Black Learners Advisory Committee (BLAC).

New dollars will also be made available to bring more Nova Scotia schools into our school accreditation program, which is specifically designed to help improve student learning and to more fully involve parents in the their child's education.

Mr. Speaker, the increased funding we are making available to Nova Scotia's public schools underscores this government's commitment to improve the test scores and learning outcomes for students from grade primary to grade 12.

Mr. Speaker, beyond the need to provide our students with a quality education is the need to provide them with a quality learning environment.

New schools to be built as promised, on time

Our multi-year capital construction plan for new schools will continue on time and as promised, with $45.9 million being spent this year.

As well, $13.4 million has been set aside for alterations and additions.

Mr. Speaker, this government knows the challenges in our public school system are formidable, not insurmountable.

We've made good progress, and with this budget we will make more.

Post-secondary education ... the money and the myth

Mr. Speaker, Nova Scotia is proud to be home to 11 degree-granting institutions, a number of which consistently rank among our country's best.

Because we have a relatively small population, and because our universities are so popular with out-of-province students, Nova Scotia is a net importer of over 5,000 post-secondary students.

Nova Scotia net importer of post-secondary students

And that's good, but there's a catch.

The federal government funds post-secondary education on the size of our population, not on the number of students attending university in our province. In other words, Ottawa sends the cheques elsewhere, and we pay the bill.

To put it simply, the money the province provides our universities is paying for the education of students from Alberta, from Ontario, or from elsewhere across the country.

Mr. Speaker, the federal government continues to resist all reason, refusing to amend its funding formula.

And Nova Scotia taxpayers are making up the difference.

So let me address another popular myth. Nova Scotia does not, as some have wrongly suggested, provide its students with the lowest per student funding in the country.

In fact, it is the exact opposite, Mr. Speaker.

Based on our population, we are at the top of the list when it comes to funding Nova Scotia's post-secondary students.

That's because, as a government, we've worked hard to find the dollars needed to restore the dollars lost to our universities during the deep funding cuts from 1993 through to 1999.

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As I noted earlier, we recently provided our universities with an additional $8 million.

Despite this, tuition fees continue to rise.

Working to contain tuitions

Mr. Speaker, this government is committed to working with our universities to contain the growing costs of a post-secondary education. In fact, we have already started discussions to arrive at a Memorandum of Understanding to do just that.

Closing the skills gap ... more money for community college

Mr. Speaker, our community college campuses are vital to our ongoing efforts to close the skills gap. Since 1999, we have invested $18.3 million to create over 1,000 additional seats, providing hundreds of young Nova Scotians with the opportunity to advance their education and their careers.

Community College Growth Plan advances

And last year, we announced $123 million over seven years, to support Nova Scotia's Community College Growth Plan. This plan, which will see major upgrades at campuses in every region across the province, will move forward with $25.5 million in capital expenditures this year.

We will also provide an additional $3.0 million in operating funding.

Mr. Speaker, we know this amount will not fully cover the costs of expanding the number of community college seats to expected levels. The Community College Board of Governors is currently considering a tuition increase. But, Mr. Speaker, when you look across the country, even with an increase, Nova Scotia's students are getting a top-notch education at a very reasonable cost.

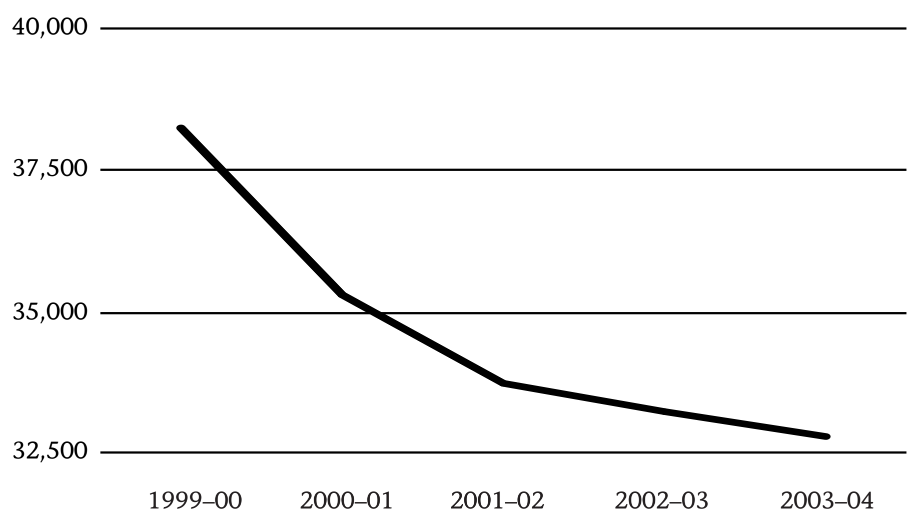
New funding for families in need

Mr. Speaker, beyond the need to help Nova Scotians access better, faster health care, and beyond the need to help our students do better, is the need to do more to support Nova Scotia families struggling to make ends meet.

And the best way to do that is to help them find a job.

This year marks the third anniversary of the implementation of the new Employment Support and Income Assistance Program. Since this program was launched, Mr. Speaker, hundreds more

Employment Supports and Income Assistance Program Caseloads 1999–2000 to 2003–2004
(total caseloads)



Nova Scotians have left welfare and have gone to work. In fact, since 1999 the welfare caseload dropped by more than 5,400.

Yet despite the drop in the welfare rolls, we continue to increase the dollars going to support families in need.

The budget for the Department of Community Services will increase by $27.7 million, bringing it to a total of $694 million.

Let me highlight some of the measures we are taking to support Nova Scotia families in need.

$3.7 million to expand programs for children

Through our Early Childhood Development Initiative with the federal government, we will spend $3.7 million more on a broad range of programs and services for children, including $1.3 million for enhanced childcare subsidies, 50 new daycare seats, and funding to enhance physical activities within our childcare centres.

As well, beginning in October, we will increase the personal allowance for welfare recipients at a cost of $1.0 million. This investment will increase to $2 million in 2005–2006.

Additionally, and in partnership with our Family Resource Centres, we will expand parent volunteer and parent education programs.

We will also enhance the Healthy Beginnings Home Visitation Program to ensure that parents of young children get the support they need to help their child get off to a healthy start.

Mr. Speaker, in partnership with the federal government and non-profit agencies, we will also continue to expand the number of affordable housing units available to low-income Nova Scotians.

Increased funding to support adults in care

Mr. Speaker, we will also increase the budget to support adults in care by $10 million, bringing the total budget for this program to $155 million, a 7 per cent increase over 2003–2004. Included in this year's funding is an additional $1 million to help expand supports for adults in care. A discussion paper on this challenging issue is now being circulated among our stakeholders with a view to finalizing a new approach that more effectively meets the needs of adults in care, as well as their families.

Mr. Speaker, I've spent most of my time today detailing funding increases in the big three: Health, Education, and Community Services.

Mr. Speaker, let me take a moment to summarize just some of the other spending priorities in this year's budget.

Spending that counts

Rural road funding … up again

An additional $2.5 million will be made available for maintenance on rural roads, for an annual total of $12.5 million.

Government will also increase capital spending for resurfacing, rehabilitating, restoring, and reconstructing our provincial highways and bridges by $6 million.

In addition, operating funding for the 4–R program will increase by $620,000.

Mr. Speaker, this provides me with an opportunity to dispel yet another myth.

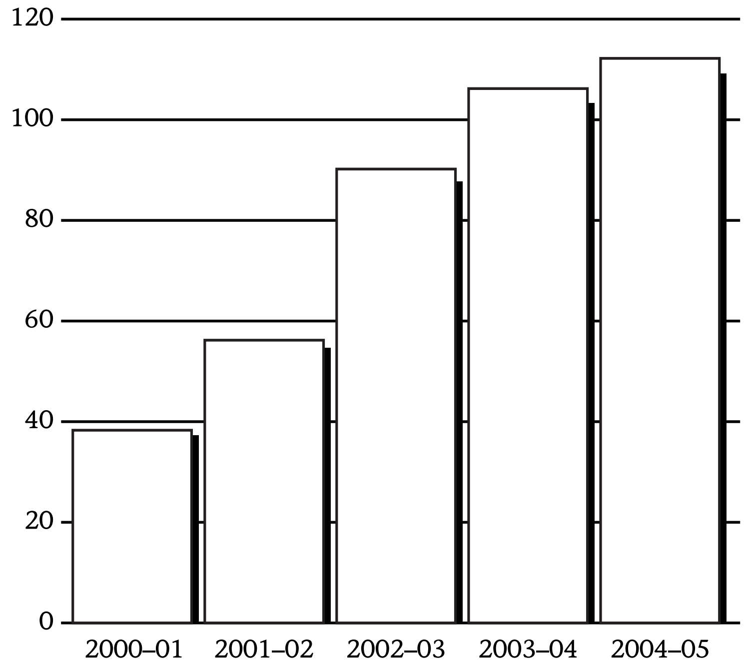
Contrary to popular belief, Nova Scotia is not taking in more money in gas taxes than it invests in roads.

All gas taxes go to roads and highways

In fact, every cent we collect in gas taxes and more goes to road and highway improvement—$6 million dollars more to be exact.

In addition to increased road spending, we will establish a new Small Business Growth Division within Nova Scotia Business Inc. This important investment will be complemented by a new Supplier Development Program designed to help Nova Scotia business identify new opportunities to sell more of their goods and services here at home.

Capital Highway Spending 2000–01 to 2004–05
(In $Millions)



Highways include roads, paving, equipment, bridges, ferries, and land.

New accountability measures

As well, Mr. Speaker, $750,000 will be provided to promote Nova Scotia's many talented singers, songwriters, and musicians through Nova Scotia's first music strategy.

New Supplier Development Program to support small business

To enhance police capacity to more effectively identify and respond to cases of family violence, we will provide an additional $100,000 to the Domestic Violence Case Coordination Program.

As well, Nova Scotia's Senior Citizens' Secretariat will receive an additional $150,000 to help set up Nova Scotia's first Task Force on Aging and to launch new efforts to prevent elder abuse.

Mr. Speaker, we will also provide an additional $100,000 to the Office of the Auditor General. Nova Scotia is the only province in the country where the Auditor General reviews and signs off on the reasonableness of revenue projections. Shortly, we will be introducing legislation that will require the province to complete its audited financial year-end statement by the end of September.

New accountability measures

This increase will assist the Auditor General's office meet this new measure of accountability, as well as to investigate and report on other priority areas.

Mr. Speaker, those are just some of the spending highlights contained in this budget.

Finding the dollars to reinvest in Nova Scotia's priorities

Mr. Speaker, it goes without saying, governments can't do everything; when you are investing significant new money in priority areas, when there are only so many dollars to go around, and when you are protecting a delicately balanced budget, adjustments must be made elsewhere.

In preparing this budget, Mr. Speaker, we took a long, hard look at the numbers and thought long and hard about our choices.

Protecting the programs and services most important to Nova Scotians

To the greatest extent possible, we worked hard to protect those programs and services that are most important to Nova Scotians. And, Mr. Speaker, to the greatest extent possible, we worked hard to find the dollars to support low-income families and the working poor. You see it in our tax plan. You see it in our income assistance plan. And you see it in our investment in the KidsSport program.

Mr. Speaker, to help make these and other investments possible, and to help find the dollars needed to address legitimate cost pressures across and throughout government, we reduced non-essential spending.

While most of the departments outside of the big three will see a small increase, some will see a modest decrease.

In some cases multi-year funding commitments have either come to an end or are drawing to a close. In others, we are eliminating or reducing discretionary grants; in still others we are taking longer to implement program improvements or taking the necessary steps to make programs and services more affordable for taxpayers.

These reductions, along with the adjustments we've made to our tax plan, increased user fees, and increased tobacco taxes, allow us to invest more in Nova Scotia's priorities, to make a multi-million dollar down payment on our debt and to post a modest $2.1-million surplus.

And while our operating budget remains in the black, Nova Scotia still faces a huge infrastructure deficit.

Mr. Speaker, we're tackling that too.

Better roads, schools, and hospitals

Once again, this year we will spend $250 million on roads and schools, and the Department of Health will provide $38 million in capital grants to the district health authorities.

Just as any responsible homeowner would borrow on their line of credit to fix a leaky roof and readjust their budget to pay for it over time, we are borrowing the capital dollars needed to fix old roads or build new ones, to replace or renovate old or sick schools, and to make badly needed upgrades to our hospitals.

A conscious decision, Mr. Speaker, made in good conscience.

While we know these capital investments will add to our debt, we also know Nova Scotia's ability to manage its debt is steadily improving. We also know these important investments add to our overall net worth as a province.

Capital spending …
a long-term investment

Improvements to our roads and highways add to our ability to attract visitors to our province and to get our products to market.

Improvements to our schools add to our ability to give our students a safe, healthy, and modern place to learn.

Improvements to our hospitals add to our ability to attract more doctors and nurses to our province and to better respond to the healthcare needs of Nova Scotians.

Capital Spending
(In $Millions)

Education	
New Schools	$45.9
Additions & Alterations	$13.4
Community Colleges	$25.5
Buses	$4.5
Justice	
Courthouses/Correctional Facilities	$9.9
Transportation	
Buildings	$8.1
Highways	$112.2
Other (vehicles & TMR)	$1.2
Other	
Ambulances	$5.4
Information Technology Projects	$14.0
Resorts	$2.6
Other	$5.4
Contingency	$1.9
Total	**$250.0**

(numbers are rounded)

And all of the above, Mr. Speaker, will help us be competitive and grow our economy, something that is vitally important to our long-term prosperity.

In fact, to this end, government will shortly be releasing a comprehensive strategy to encourage more people from around the world to make Nova Scotia their permanent home.

Managing the debt

Mr. Speaker, Nova Scotia's net debt-servicing costs in 2003–2004 came in $25 million less than expected.

This year, despite borrowing $250 million to pay for needed capital improvements, Nova Scotia's net debt-servicing costs will remain largely unchanged from the forecast, up just $10 million over last year and mostly due to unfunded pension interest.

Mr. Speaker, changes in debt-servicing costs are influenced by a long list of complicated factors and outside influences, including the value of the dollar, interest rates, credit ratings, and foreign exchange exposure, to name a few.

Ultimately, the question of how well we are managing the debt, which now amounts to $12.3 billion, comes down to whether or not we are improving our capacity to manage it over the long term.

And we are.

Debt-to-GDP ratio down again

The proof of this is in our improved credit rating.

The proof of this is in our reduced foreign currency exposure.

And the proof of this is Nova Scotia's net direct debt-to-GDP ratio, down for the third year in a row.

In 1999–2000, it was 48.7 per cent. Today it is 43.1 per cent, a 5.6 per cent improvement.

Another example, Mr. Speaker, of sound fiscal management.

Partnering with our municipalities

Mr. Speaker, despite the federal government downloading its costs onto the provinces, this government is committed to protecting municipal revenues.

Some municipalities have expressed concern that the province would take steps to recover the increased revenues they will receive through the HST rebate.

Mr. Speaker, this is not going to happen.

In fact, total provincial assistance to municipalities will increase slightly this year.

And, Mr. Speaker, we are pleased to provide Nova Scotia's capital city with its second $2-million installment for the Halifax Harbour Cleanup Project. We are also pleased to continue to advance the infrastructure priorities of municipalities throughout the province through the federal-provincial Municipal Infrastructure Agreement.

$2 million more for Halifax Harbour cleanup

Mr. Speaker, Nova Scotia's municipalities are a partner in funding public education, with the province paying 90 per cent and local governments paying the 10 per cent on incremental funding for public education.

Again, we are not changing the rate at which municipalities contribute to public education. It will stay exactly where it is.

We are, however, going to include teacher pension amounts in the basket of goods we are asking municipalities to help cover.

Mr. Speaker, growing assessment roles and increased assessments mean revenues for municipalities are up, in some cases, way up. This measure should not have any kind of measurable impact on either their tax rate or their efforts to improve local services.

Outlook for the future

As members know, government takes a host of economic indicators into account when preparing its budget: GDP, employment, retail sales, residential construction, and personal income growth to name a few.

Economy moving in the right direction

All of them, Mr. Speaker, are outlined in considerable detail in the documents accompanying my address.

Mr. Speaker, despite a challenging year as a result of a sluggish US economy, devastating weather events, and the economic impact of SARS and mad cow disease, Nova Scotia's economy continues to grow.

Nominal GDP grew 3.3 per cent in 2003. By 2005 it is expected to increase to 4.4 per cent.

Growth in retail sales, while coming in at less than 1 per cent in 2003, is expected to rebound in 2004 and 2005 and stay in the 4 to 5 per cent range.

Employment growth is expected to remain relatively stable at over 1 per cent through to 2005, while personal income growth is expected to grow to 3.5 per cent by 2005, up from 3.0 per cent in 2003.

Corporate profits are expected to continue to post healthy gains over the next two years.

Mr. Speaker, our economic indicators, as well as those prepared by private-sector forecasters, show steady growth over the next year. Barring a number of outside or unforeseen circumstances, Nova Scotia's economy should continue to grow at a steady pace through to the end of 2005.

In the end it all comes down to this

Mr. Speaker, let me wrap up by saying this.

It could be a lot different

If it wasn't for good management and the fact that Nova Scotia's economy continues to move in the right direction, Nova Scotians might well be looking at a much different budget and a much different future.

One where taxes were going up for everyone, as opposed to down for the vast majority.

One where there were deep cuts in priority areas, as opposed to significant new investments.

One where wage freezes, rollbacks, or massive layoffs were expected, as opposed to steadfastly rejected.

Perhaps, one where red ink flowed everywhere, as opposed to the black ink that for three years in a row has marked our progress.

Progress that can be easily measured on many fronts.

On the fiscal front.

On the economic front.

On the social front.

Mr. Speaker, every member in this House, to a person, has said they support a balanced budget. And we delivered.

Every member of this House knows of the need to invest in better health, better education, better roads, and stronger families. And we delivered.

Every member in this House understands that lower taxes make our economy more competitive. Again, we delivered.

And every member in this House should know that in order for working men and women to do more to support their families, they need to keep more of their hard-earned dollars. And, Mr. Speaker, 96 per cent of Nova Scotians will.

Mr. Speaker, this budget isn't just about dollars and cents.

It's about the values Nova Scotians believe in.

Living within our means.

Helping those in need.

Doing what's right, not just easy.

Faith in ourselves.

Fairness.

Mr. Speaker, this budget isn't just fiscally balanced, it is balanced in every sense of the word.

It is forthright and fair.

Reasonable and realistic.

Mr. Speaker, it's the right budget for Nova Scotia.

Thank you.

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Total Ordinary Revenues 2004–2005

Key Assumptions—March 1, 2004

NOVA SCOTIA
Auditor General

1888 Brunswick Street
Suite 302
Halifax, Nova Scotia
B3J 3J8

REPORT OF THE AUDITOR GENERAL TO THE HOUSE OF ASSEMBLY ON THE ESTIMATES OF REVENUE FOR THE FISCAL YEAR ENDING MARCH 31, 2005 USED IN THE PREPARATION OF THE APRIL 22, 2004 BUDGET ADDRESS

I am required by Section 9B of the Auditor General Act to provide an opinion on the reasonableness of the estimates of revenue used in the preparation of the annual budget address of the Minister of Finance to the House of Assembly.

The estimates of revenue for the fiscal year ending March 31, 2005 (the 2004-05 revenue estimates) are the responsibility of the Department of Finance and have been prepared by departmental management using assumptions with an effective date of March 1, 2004. I have examined the support provided by the department for the assumptions, and the preparation and presentation of the 2004-05 revenue estimates of $5,908,287,000 for total ordinary revenue. My opinion does not cover the budget address, the 2003-04 forecast, the 2004-05 spending estimates, sinking fund earnings, nor recoveries, user fees or other income netted for annual appropriation purposes. My examination was made in accordance with the applicable Auditing Guideline issued by the Canadian Institute of Chartered Accountants. I have no responsibility to update this report for events and circumstances occurring after the date of my report.

Commencing with the fiscal year ending March 31, 1999, the Government implemented consolidated financial statement reporting in accordance with Canadian generally accepted accounting principles for the public sector. Consistent with prior years, the 2004-05 revenue estimates have been presented including the total ordinary revenue of the Consolidated Fund established under the provisions of the Provincial Finance Act. As a result, sinking fund earnings and revenue of certain government organizations reported as revenue in the Province's consolidated financial statements are excluded from the 2004-05 revenue estimate for total ordinary revenue, but included elsewhere in the 2004-05 estimates, and have not been included in my examination.

The personal income taxes (PIT) revenue for 2004-05 was estimated based on national level taxable income and provincial share information determined by the federal government. The extent to which the economic and other assumptions used by the federal government to determine this information agrees to or differs from the Nova Scotia government's assumptions for 2004-05 has not been fully determined. As a result, the impact of any differences on the PIT estimate can not be adequately assessed.

Except for the effect of adjustments, if any, which might have been necessary as a result of the matters discussed in the preceding paragraphs, in my opinion,

- as at the date of this report, the assumptions used by the Department are suitably supported and consistent with the plans of the Government, as described to us by departmental management, and provide a reasonable basis for the 2004-05 revenue estimates; and

- the 2004-05 revenue estimates as presented reflect fairly such assumptions.

Since the 2004-05 revenue estimates are based on assumptions regarding future events, actual results will vary from the information presented and the variations may be material. Accordingly, although I consider, except for the matters discussed above, the 2004-05 revenue estimates to be reasonable, I express no opinion as to whether they will be achieved.

E.R. Salmon

E.R. Salmon, FCA
Auditor General

Halifax, Nova Scotia
April 19, 2004

NOVA SCOTIA

Key Assumptions

March 1, 2004

Economic Performance and Outlook

National Economic Assumptions

Canada achieved a real GDP growth rate of 1.7 per cent in 2003, compared to 3.3 per cent in 2002. The Canadian economy survived a multitude of shocks, including SARS, BSE, the Ontario blackout, forest fires in British Columbia, and other natural disasters. One of the largest shocks, however, was exchange rate appreciation. Through all this, the Canadian economy continued to expand.

The driving force behind Canada's 2003 economic performance was the strength in domestic demand of the economy, mainly due to consumer spending. Consumer strength was evident in personal expenditures on goods and services, which increased 5.1 per cent in 2003, and in retail sales, up 3.1 per cent. Driven by low interest rates, residential capital investment and housing starts were up 11.9 per cent and 6.5 per cent, respectively. Non-residential construction was up 2.8 per cent, partially as a result of 10.1 per cent growth in corporate profits before taxes. Also adding to growth in 2003 was government spending on goods and services, which increased 5.5 per cent, and government fixed capital formation, up 5.6 per cent. The only weakness in domestic demand was with respect to business machinery and equipment investment, which dipped 1.0 per cent in 2003.

The resilience and strength of the Canadian economy was a major factor in a strong labour market in 2003, producing 334,200 jobs. The unemployment rate fell marginally to 7.6 per cent in 2003, as the labour force grew at a slower pace than employment. The labour force expanded 2.1 per cent, while employment grew at 2.2 per cent in 2003. Employment growth is reflected in the 3.4 per cent increase in labour income.

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Personal income increased at a slower pace of 2.7 per cent in 2003, due mostly to declines in farm and investment income combined with on par growth in government transfers to persons.

Canada's main trading partner, the United States, had its economy gain momentum in the latter part of 2003, with real GDP growth of 8.2 per cent and 4.1 per cent in the third and fourth quarters of 2003, respectively. Overall, GDP growth in the US topped 3.1 per cent in 2003. However, US employment was slow to gather steam in 2003. Despite strong economic growth south of the border, Canada's exports of goods and services were down 3.1 per cent in 2003, as a result of a 12.1 per cent appreciation in the average value of the Canadian dollar in US dollar terms in 2003 versus its 2002 average.

Canadian real GDP growth is expected to strengthen to 2.8 per cent in 2004 and expand a further 3.4 per cent in 2005. There are several key factors behind Canada's economic performance in 2004 and 2005.

The improvement in the United States economy carries over into 2004, with US GDP predicted to increase by 4.5 per cent in 2004. Towards the end of 2003, the Canadian economy began to recover from a series of unexpected economic shocks in the earlier part of 2003. Canadian real GDP expanded 1.6 per cent in the fourth quarter of 2003, but this was still well below the rate of economic expansion in the US. Low inflation should pave the way for a low interest rate environment, which should stimulate business investment. A narrowing of the interest rate gap with the US in the latter part of 2004 should ensure that the exchange rate stabilizes below 80 cents US. While there will be some short-term adjustment in the first half of 2004, exporters should be able to adapt to the new economic realities by reducing costs and improving productivity via investments in machinery and equipment. Efforts to cool down the US economy into 2005 will slow the pace of US real GDP growth to 3.5 per cent in 2005.

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With the Canadian economy performing below its potential in 2004, there will be little chance for inflation to become a serious threat to monetary policy. While low interest rates should stimulate business investment in Canada in 2004, it will be difficult to maintain a high level of activity into 2005. Residential investment has been strong for a number of years and is expected to cool down over this year and into next. While corporate financials remain healthy, the pace of corporate profit growth should level off into 2005 as commodity prices plateau and exports keep pace with US nominal GDP growth. While consumer spending growth will remain strong, any reduction in housing demand will reduce the need for consumer durables. Weakness in new motor vehicle sales could also continue to put downward pressure on consumer durables, but low interest rates and industry incentives could easily offset this. Government spending on goods and services and capital investments will be modest in the next couple of years, as provincial governments struggle to deal with fiscal restraints imposed by the federal government.

There will be a modest slowdown in job creation in 2003 as businesses dealing in international markets attempt to reduce costs to make them more competitive in the current exchange rate environment. Given the potential for productivity gains due to the importation of machinery and equipment, employment growth will be muted this year. However, it should pick up in the following year as the benefits of productivity enhancements pay off. The forecast calls for employment growth of 2.0 per cent in 2004 and 2.3 per cent in 2005. The unemployment rate will fall to 7.3 per cent in 2004 and decline further to 6.5 per cent in 2005, as a result of a return to more-normal growth in the number of individuals entering the labour force. The Consumer Price Index is expected to grow at an annual rate of 2.0 per cent in 2004, before falling back to 1.7 per cent in 2005. This lies within the Bank of Canada’s 1–3 per cent target band for inflation.

There are several risks to the forecast. The key risk for economic growth in Canada is the performance of the US economy. Until very recently, employment growth in the US was slow to gather momentum. The current rate of job additions would have to be

NOVA SCOTIA

maintained for the next two quarters in order to return to the previous peak in US employment. Demand for Canadian exports is driven partially by US consumers. The pace of US employment growth will dictate the degree to which Canadian exports rebound. If adverse geopolitical conditions persist for an extended period of time, this could constrain consumer spending and business investment decisions. There is a perceived risk that renewed security issues could hamper the movement of individuals and goods at the international border between Canada and the US. This could slow economic growth in 2004 for Canada.

The forecast assumes that interest rates will ease in Canada in the second quarter of 2004 and remain stable thereafter. In the United States, the Federal Reserve will likely start to raise interest rates either in the third or fourth quarters of 2004 as the economic recovery takes root. Any narrowing of the Canada–US interest rate spread may put downward pressure on the exchange rate and stimulate Canadian exports.

Despite what happens to the Canada–US interest rate spread, the twin fiscal and trade deficits in the US will continue to put upward pressure on the Canadian exchange rate. Based on year-to-date performance in the exchange rate, there is a risk that the Canadian dollar will average above its previous year's level. This could weaken net exports.

On the domestic side, there is a possibility that residential investment could dip even in a low interest rate environment. Much of pent-up demand has been absorbed in the housing market over the last few years. The current economic forecast assumes that residential investment will grow 6.4 per cent in 2004 and decline by 4.0 per cent in 2005. If the slowdown is more abrupt, then this will put the forecast at risk of a downward revision. To some degree, the consumer spending forecast hinges on the outlook for income and employment growth. If either of these measures grows outside of expectations, this will change the economic outlook. In terms of the business outlook, corporate financials are healthy heading into 2004. High commodity prices will benefit the resource sector, but a high exchange rate may offset this benefit. The potential remains for strong business investment financed by continued profits, low interest rates, and a favourable exchange rate for those importing machinery and equipment. Federal stimulus as a result of Canadian and US elections will be an added cushion against any negative risks to the economic outlook.

The key national economic assumptions incorporated into the budget are displayed in the schedule below. The assumptions are based on data and information available as of March 1, 2004.

National Forecast Assumptions

	2003	2004	2005
Real gross domestic product, 1997$ (% change)	1.7	2.8	3.4
Employment (% change)	2.2	2.0	2.3
Unemployment rate (%)	7.6	7.3	6.5
Personal income (% change)	2.7	3.9	4.8
Consumer Price Index (% change)	2.8	2.0	1.7
Retail sales (% change)	3.1	5.3	5.6
Corporation profits before taxes (% change)	10.1	8.3	5.2
Exports of goods and services (% change)	–3.1	6.5	6.0

Sources: Statistics Canada for 2003; Nova Scotia Department of Finance projections for 2004 and 2005.

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Provincial Economic Assumptions

Like the Canadian economy, the Nova Scotia economy was subjected to a number of unexpected shocks last year. These shocks included SARS, BSE, and natural disasters, as well as the impact of the exchange rate appreciation. The Nova Scotia economy experienced a 0.4 per cent growth rate in real GDP in 2003, after a solid 4.4 per cent growth rate in 2002. Despite a slowdown in consumer spending and a decline in investment in machinery and equipment, the Nova Scotia economy was able to achieve positive real economic growth in an environment that was subjected to consumer price inflation above the national average. Nominal GDP, the GDP before adjustment for inflation, grew at 3.3 per cent. The engine of positive economic momentum was fueled by good income and employment growth, as well as strong residential and non-residential construction growth. While positive, growth in exports was below historical average growth over the previous 10 years.

Personal expenditures on goods and services increased an estimated 3.2 per cent, with retail sales increasing only 0.8 per cent. Spending on housing construction was 11.7 per cent higher, as housing-unit starts increased by 2.5 per cent. The tempo of consumer spending was in line with growth in personal income of 3.0 per cent, despite the fact that labour income expanded by 4.2 per cent. A dip in investment income and a slowdown in government transfers growth helped to offset some of the robust labour income growth. The former fell because of low interest rates, while the latter retrenched because of continued positive employment growth.

Construction of structures by governments and businesses increased substantially in 2003. Governments heightened their pace of construction by 27.0 per cent, while businesses added 7.8 per cent growth to their non-residential construction activity. This was offset by a slowdown in machinery and equipment investment in 2003. Governments reduced their machinery and equipment investment by 33.5 per cent, while businesses reduced their machinery and equipment investment by 22.2 per

NOVA SCOTIA

cent. The high 2002 machinery and equipment investment plateau was buoyed by the purchase of new submarines and a major modification to an oil and gas drilling rig. The 2003 performance was a return to a more normal level of activity.

These sources of economic strength helped to compensate for the weakness in Nova Scotia's non-energy exports, which dropped as a result of the appreciation of the Canadian dollar. Natural gas, tires, seafood products, fish, pulp and paper, and sawmill products accounted for 72 per cent of Nova Scotia's international merchandise exports of goods in 2003. For 2003, commercial production of natural gas was down 15.0 per cent over 2002. However, natural gas wellhead prices were up 68.8 per cent in US dollar terms, according to the United States Department of Energy. The value of natural gas exports to international markets was up 52.2 per cent in 2003. Overall, the total value of exports of goods and services was up 3.6 per cent in 2003. The value of Nova Scotia's merchandise exports to international markets increased by 2.6 per cent, with increases in natural gas, refined petroleum products, gypsum, frozen food, furniture, motor vehicle, confectionary, and aerospace manufacturing exports.

Corporation profits before taxes were up 4.6 per cent in 2003, in conjunction with increased exports from the province and high commodity prices. In the economic forecast, corporation profits before taxes relate to economic activity in the provincial economy and are not uniquely linked to the corporate income tax (CIT) estimates and forecast. CIT is based primarily on federally forecasted corporate taxable income and is affected by other variables, such as business take-up of provincial tax credit programs.

The limited real growth in Nova Scotia's economy in 2003 belies the true economic performance. Nominal GDP expanded 3.3 per cent in 2003. Real growth was much less because of inflation, as the GDP deflator increased 2.9 per cent in 2003. In the 10 years previous to 2003, only twice was real GDP growth below 1 per cent. In both of these years (1994 and 1996), personal income growth in Nova Scotia was also below 1 per cent.

This time around, inflation was the cause of the slow growth, since personal income expanded a healthy 3.0 per cent in 2003. Likewise, the labour market was also vigorous in 2003. Employment increased 1.6 per cent, and the unemployment rate fell from 9.7 per cent in 2002 to 9.3 per cent in 2003. Nova Scotia posted a net gain of 7,000 jobs for the year. Employment growth was mostly concentrated in the forestry, fishing, and mining, oil and gas; manufacturing; business, building and other support services; health care and social assistance; and public administration sectors. In geographical terms, the Halifax Regional Municipality, the South Shore, and the North Shore reported healthy employment increases in 2003. The Annapolis Valley and Cape Breton Island had a decline in their employment levels in 2003.

Factors affecting Nova Scotia's economic outlook in 2004 and 2005 relate primarily to the performance of the US and Canadian economies, in concert with the rate of domestic activity. The outlook for 2004 and 2005 is for 2.0 per cent and 2.6 per cent growth in real GDP and for employment to increase by 1.1 per cent and 1.5 per cent in 2004 and 2005, respectively.

Close to 50 per cent of Nova Scotia's GDP is directly attributed to the export of goods and services. To a large degree, the economic outlook for Nova Scotia depends on conditions prevailing in the economies of its principal trading partners, the United States and the rest of Canada. In the economic outlook for the province in 2004, the economic expansion in the Canadian and US economies should help stimulate Nova Scotia's economic growth in 2004. However, Canadian economic growth in 2004 is forecast to remain below potential, so Nova Scotia's return to more stable real economic growth will be prolonged until next year. The exchange rate will not impose a major problem for those Nova Scotian businesses exporting to the United States because of the robust growth in US real GDP predicted for 2004. Overall, the economic outlook suggests positive real growth in a low interest and inflation rate environment.

Total exports of goods and services are expected to increase 6.8 per cent in 2004, mainly as a result of continuing high natural gas prices and strong nominal US GDP growth. Corporation profits will also expand in 2004 as commodity prices and exports help elevate profits.

The consumer is expected to continue supporting economic growth in 2004, as a result of even lower interest rates than in 2003. Personal expenditures on consumer goods and services are expected to grow 4.0 per cent in 2004. Consumer spending rebounds in 2004, supported by positive employment growth, low interest and inflation rates, and stable personal income growth. Retail sales are anticipated to return to healthy growth of 4.5 per cent in 2004. Consumer price inflation in 2004 is expected to remain below the Bank of Canada's target of 2 per cent.

Offshore energy exploration and development investment spending continues to add to GDP and employment growth in the economy. In addition, capital investment over the next few years reflects other major projects, including the Halifax Harbour clean-up. The construction phase for Deep Panuke has been put on hold, but expenditures continue to flow from the development of Tier II of the Sable Offshore Energy Project (SOEP). This includes bringing the South Venture gas field on stream and the fabrication of a compression deck to be installed on the Thebaud gas field.

Offshore energy development and production affect the Nova Scotia economy in different ways. The impact of SOEP production on GDP growth occurs primarily through exports and corporation profits before tax. Natural gas and natural gas liquids production is expected to return to planned capacity in 2004. Natural gas output is forecast to increase 15.9 per cent, and natural gas liquids 16.0 per cent, in 2004. With the price of natural gas expected to remain high in 2004, the value of exports and corporation profits before tax should continue to increase.

In total, business capital investment in Nova Scotia is expected to increase 0.4 per cent in 2004, after declining 3.7 per cent the previous year. Investment intentions data from Statistics

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Canada supports modest growth in business capital investment in 2004, with more robust growth in public capital spending in 2004 of 7.5 per cent. Residential construction is expected to post lower growth because of market absorption of pent-up demand in prior years. Likewise, non-residential construction is expected to post lower growth because of fewer mega-projects compared to prior years.

Employment growth is forecast to increase 1.1 per cent and 1.5 per cent in 2004 and 2005, respectively, supported by real economic growth that is brought about by a low interest and inflation rate environment combined with a pickup in exports as a result of Canadian and US economic growth. With the labour force anticipated to grow at a slightly higher pace than employment growth in 2004, the unemployment rate will increase marginally to 9.4 per cent in 2004. A reversal of this trend will reduce the unemployment rate to 9.1 per cent in 2005. Softer employment growth in 2004 will lead to modest personal income growth of 2.9 per cent in 2004. Higher employment growth in 2005 will lead to higher personal income growth of 3.5 per cent in 2005.

Nova Scotia's real GDP is forecast to grow 2.0 per cent in 2004, followed by 2.6 per cent in 2005. This forecast is toward the low end of the range of private-sector forecasters as indicated in the table below.

Private-Sector Forecasts for Nova Scotia Real GDP Growth

	2004	2005
High (% increase)	2.9	3.3
Average (% increase)	2.7	2.8
Low (% increase)	2.2	2.3

The private-sector forecasters, surveyed and updated as of March 1, 2004, are Bank of Montreal, Bank of Nova Scotia, CIBC World Markets, Royal Bank of Canada, Toronto-Dominion Bank, Atlantic Provinces Economic Council, and Conference Board of Canada.

Risks to the outlook identified with respect to the Canadian economy also apply to Nova Scotia, especially related to the economic performance of the US economy. A slower pace than expected would lower economic growth for Nova Scotia. Similarly, any perceived risks attached to household spending in Canada will also apply in Nova Scotia. For instance, housing starts could come off further from high levels if incomes and employment end up below the forecast. This would also dampen consumer spending, especially on big-ticket items. In particular, the continuation of the moratorium on new large-scale housing developments in the Halifax Regional Municipality could place a downward risk on the housing outlook.

The assumptions concerning the pace of offshore energy exploration in the short term could be tempered by the reassessment of drilling programs from recent exploration results, which will reduce capital investment and lower economic growth. Also, should energy prices move lower than assumed, SOEP production revenues would drop in step. This would be negative for corporation profits and the value of exports.

The key provincial economic assumptions incorporated into the budget are displayed in the following schedule. The assumptions are based on data and information available as of March 1, 2004.

Provincial Forecast Assumptions

	2003	2004	2005
Real gross domestic product, 1997$ (% change)	0.4	2.0	2.6
Nominal gross domestic product (% change)	3.3	3.4	4.4
Employment (% change)	1.6*	1.1	1.5
Unemployment rate (%)	9.3*	9.4	9.1
Personal income (% change)	3.0	2.9	3.5
Consumer Price Index (% change)	3.4*	1.5	1.8
Retail sales (% change)	0.8*	4.5	5.8
Corporation profits before taxes (% change)	4.6	4.8	4.6
Exports of goods and services (% change)	3.6	6.8	7.0

Sources: Statistics Canada, actual (*); Nova Scotia Department of Finance projections

Revenue Outlook—April 1, 2004

In 2004–2005, total ordinary revenues are estimated to be $5,908.3 million, an increase of 4.1 per cent over the 2003–2004 forecast. This includes the $5,557.6 million in schedule 2 plus the profits of Nova Scotia Liquor Corp. and NSGC of $350.7 million. Own-source revenues are expected to increase by $231.1 million over the 2003–2004 forecast to $3,925.5 million in 2004–2005. Federal transfers will increase by $149.5 million from 2003–2004 forecast levels.

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Revenue Sources

($ Thousands)	Actual 2002–2003	Forecast 2003–2004	Estimate 2004–2005	Change Fore. to Est.
Provincial Sources				
Personal income taxes	1,353,675	1,355,512	1,465,695	110,183
Corporate income taxes	204,950	232,710	263,753	31,043
Sales tax (HST)	905,120	975,204	1,015,336	40,132
Tobacco Tax	145,425	162,217	180,217	18,000
Gasoline and Diesel Tax	246,283	248,886	255,872	6,986
Liquor Corporation Profits	157,865	166,800	181,715	14,915
Gaming Corporation Profits	187,165	174,500	169,000	(5,500)
Interest revenues	60,675	69,368	64,898	(4,470)
Registry of Motor Vehicles	75,933	73,677	80,381	6,704
Other provincial sources	206,980	235,563	248,675	13,112
Total provincial sources	**3,544,071**	**3,694,437**	**3,925,542**	**231,105**

Federal Sources				
Equalization	1,125,088	1,114,487	1,202,851	88,364
CHT/CST	605,117	612,406	645,398	32,992
CHST Supplement		74,447	58,600	(15,847)
Other federal sources	2,299	31,941	75,896	43,955
Federal Tax Collection Agreement Error	**35,000**			0
Total federal sources	**1,767,504**	**1,833,281**	**1,982,745**	**149,464**
Prior years' adjustments				
Provincial sources	(23,833)	152,039		(152,039)
Federal sources	1,924	(2,623)		2,623
Total ordinary revenue	**5,289,666**	**5,677,134**	**5,908,287**	**231,153**

Provincial Own-Source

Income Taxes

Personal Income Tax (PIT)

The 2004–2005 estimate for personal income tax on a fiscal year basis rises 8.1 per cent over the 2003–2004 fiscal year forecast. The 2003–2004 fiscal year forecast includes the Nova Scotia Taxpayer Refund, a one-time reduction to personal income tax revenue of about $73 million. Adjusting for this one-time payment, personal income tax revenues on a fiscal year basis show growth of about 2.7 per cent. Nova Scotia's share of national taxable income is expected to grow about 4.6 per cent over 2003–2004 based on national level taxable income supplied by the federal government as of January 28, 2004. This growth is partially offset by the personal income tax reduction to the first income bracket. The forecast for the 2003–04 fiscal year also reflects the affect of the personal income tax reduction.

Nova Scotia uses federally determined taxable income as its base and has maintained the non-refundable tax credits in effect for the 2003 tax year.

Corporate Income Tax (CIT)

Corporate income tax, on a fiscal year basis, is expected to rise significantly by 13.3 per cent or $31.0 million over 2003–2004. As mentioned in the economic section of this document, corporate profits before tax relate to economic activity in the provincial economy and are not uniquely linked to the CIT estimates and forecast. CIT is based primarily on federally forecasted corporate taxable income, as of January 28, 2004, and is affected by other variables, such as business take-up of provincial tax credit programs. While provincial level corporate profits are expected to rise by 4.7 per cent, estimated provincial corporate taxable income is expected to increase by 8.8 per cent, reflecting strong national growth in corporate taxable income. Expected credit take-up in 2004 is significantly lower than in 2003, with credits falling to $34.9 million from $42.5 million primarily due to the sunset of the manufacturing investment tax credit.

Consumption Taxes

Harmonized Sales Tax (HST)

Gross HST is estimated to total $1,099.8 million in 2004–2005, a 4.1 per cent increase over 2003–2004. Sales tax rebates for public-sector bodies, new housing, printed books, volunteer fire departments, persons with disabilities, and segregated funds are projected to total $84.5 million, resulting in net HST of $1,015.3 million in 2004–2005, a 4.1 per cent increase over the previous fiscal year. The growth in gross HST revenues between 2003–2004 and 2004–2005 is due to continued growth in personal consumer expenditures on goods and services.

Tobacco Tax

Revenues from this source are estimated to total $180.2 million in 2004–2005, an 11.1 per cent increase over the forecast for 2003–2004. The increase is primarily due to the tobacco tax increases that came into effect on March 17, 2004, including a $5 per carton cigarette tax increase. It is anticipated that federal and provincial governments will continue to undertake efforts to discourage smoking, especially amongst youth. The Government of Nova Scotia, in conjunction with the federal and other provincial governments, will continue to explore initiatives such as improved compliance to ensure the integrity of this revenue source.

Motive Fuel Taxes

Motive fuel tax revenues are projected to total $255.9 million in 2004–2005, a 2.8 per cent increase over the forecast for 2003–2004. This is primarily due to continued increases in consumer consumption as a result of increasing labour income. The Province of Nova Scotia has committed itself to increasing the allocation of motive fuel tax revenues towards highway and bridge construction and maintenance in an effort to improve public safety and transportation.

Profits of Crown Corporations

Nova Scotia Liquor Corporation Profits

Beverage alcohol revenues are estimated to be $181.7 million in 2004–2005, an 8.9 per cent increase over the 2003–2004 forecast. Building on improved economic conditions, this increase will be driven by the implementation of new and renewed retail store facilities, new marketing initiatives, and increased product selection. Specifically, the added convenience for customers of locating new stores next to major grocery retailers is providing an average 15 per cent improvement in NSLC sales. In addition, an increased focus on new marketing initiatives promoting improved product selection continues to generate positive sales activity. Shifts in product mix will also affect revenues/gross profit. Seasonality does play a major role in volumes and revenues, as it is difficult to predict with any degree of certainty. Alternative retailing such as agency stores and the newly created private wine and specialty shops will produce incremental revenue for the NSLC.

Nova Scotia Gaming Corporation

The Nova Scotia Gaming Corporation's (NSGC) payment to the Province of Nova Scotia is budgeted to be $169.0 million in 2004–2005. This is 3.2 per cent less than the 2003–2004 forecast, as growth in all business lines is expected to decline or level off in the upcoming fiscal year. This anticipated drop is consistent with performance in other Canadian gaming jurisdictions and can be attributed to a number of factors, including maturation of some gaming products, increased competition for the entertainment dollar, and responsible gaming awareness activities.

Federal Transfers

Equalization

Equalization revenues are estimated to increase by $88.4 million over forecast 2003–2004 to $1.2 billion. Equalization reflects revised tax base and revenue information as of March 31, 2004. The estimate uses Nova Scotia's economic assumptions as well as other national economic indicators.

Nova Scotia's Equalization estimate is different than the federal estimate for 2004–2005. The federal government must rely on historical data supplied from Statistics Canada and the provinces; as such it is not a forward-looking estimate. Nova Scotia forecasts forward using the most current economic and tax information available at the time of budget, as the province is attempting to forecast the final entitlements Nova Scotia will receive.

The 2004 federal budget announced an additional $150 million for the national Equalization program to be distributed to Equalization-receiving provinces on an equal per capita basis. Nova Scotia's Equalization estimate includes the province's share of this additional funding.

For 2000–2001 and subsequent years, the province has elected to have offshore revenues included in the Equalization formula rather than the Offshore Accord Offset mechanism.

The Canada Health Transfer (CHT) and the Canada Social Transfer (CST)

The Canada Health and Social Transfer (CHST) was restructured in the 2003 federal budget. Effective April 1, 2004, two new transfers have been created: the Canada Health Transfer (CHT) and the Canada Social Transfer (CST).

In 2004–2005, the combined CHT and CST cash entitlement for Nova Scotia is estimated to be $645.4 million, $33.0 million higher than the 2003–2004 CHST forecast. The total provincial entitlement consists of the provincial allocation of a fixed national entitlement. The 2004–2005 national CHT/CST amount that is available in cash and tax points is forecast to be $38.0 billion. The cash estimate reflects internal assumptions on the levels of personal and corporate income tax. Starting in 2001–2002, the cash portion of the CHST is based totally on an equal per capita formula.

In February 2003, First Ministers agreed to increased funding to support the healthcare sector. Part of this funding included a one-time cash supplement of $2.0 billion nationally, contingent on a federal surplus adequate to support an increased supplement. On January 30, 2004, the $2.0 billion was confirmed and will provide Nova Scotia with $58.6 million in 2004–2005.

Other Federal Sources

In addition to the CHT and the supplement, funding has also been provided to facilitate change within the healthcare sector. The Health Reform Fund provides Nova Scotia with an additional $44.1 million in 2004–2005.

Other Revenue Adjustment

On March 23, 2004 the federal government announced in its budget documents a proposed change to the Equalization offset provision of the Canada–Nova Scotia Offshore Petroleum Resources Accord. This change was to recognize that Nova Scotia did not receive the expected benefits of this provision

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when it was originally triggered. Bill C-30 authorizes the payment of $21.0 million to the Province of Nova Scotia plus 20 per cent of offshore revenue in 2004–2005. The federal government will make an additional payment equal to 10 per cent of Nova Scotia's offshore revenue in 2005–2006.

Sensitivity

Revenue estimates are based on a number of economic, financial, tax assessment, and statistical values and assumptions. As these variables change throughout the year and as more information becomes available, they may have an impact, either negatively or positively, on the revenue forecasts. It is important to note that these variables can move quite independently from each other and may have offsetting effects. The following table lists the major revenue sources of the province and indicates some of the key variables that affect the forecasts of those sources throughout the year.

Revenue Source	**Key Variables**
Personal income taxes	• national level of taxable income • Nova Scotia share of national levels of taxable income • provincial taxable income yield
Corporate income taxes	• corporate taxable income level (national) • Nova Scotia share of national taxable income • tax credit uptake • national and provincial corporate profit levels

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HST	• personal consumer expenditure levels • spending by exempt industries • rebate levels • housing investment
Tobacco, Gasoline, Diesel Taxes	• personal consumer and expenditure levels • tobacco and fuel consumption patterns • tobacco and fuel prices
Liquor Corporation profits	• personal consumer expenditure levels • consumption patterns
Gaming Corporation profits	• personal consumer expenditure levels • gaming patterns
Equalization	• changes in data as it relates to 33 different tax bases • changes in population • economic activity in NS vs. the standard provinces
CHT/CST	• changes in personal and corporate income taxes • changes in population • changes in tax point values

Additional Information

In addition to the key economic and fiscal assumptions contained in the 2004–2005 revenue estimates, the following information should also be taken into account when interpreting the revenue estimates.

The revenue estimates for 2004–2005 are considered to have been prepared on a basis consistent with accounting policies currently used by the province to record and/or recognize revenue for purposes of its consolidated fund. As a result, revenue for certain government service organizations, which are consolidated for financial statement purposes, are not included in the province's revenue estimates.

The Department of Finance and other departments or agencies of the province have prepared their specific revenue estimates for 2004–2005 using a combination of current internal and external models and other information available. Every effort has been taken to ensure the integrity of the results of the models and other information. As actual or more current information becomes available, adjustments may be necessary to the projection of revenues.

The revenue forecast to be received through federal transfer payment programs pursuant to the Federal-Provincial Fiscal Arrangements Act incorporates official information released by the federal government as of March 30, 2004. Prior years' adjustments (PYAs) are normally made to federal transfers and to income tax revenues. All PYAs known to date have been included in the forecast for 2003–2004.

Recoveries of expenditures under various federal-provincial agreements or from other departments or entities, user fees, and income on sinking fund investments have been estimated and are netted against departmental expenditures for purposes of approval of appropriations for 2004–2005.

Financial and Supplementary Information

To the Budget Address 2004–2005

BUDGETARY SUMMARY

($ thousands)

Schedule 1

ESTIMATE 2002-2003 (as restated)	ACTUAL 2002-2003 (as restated)	ESTIMATE 2003-2004 (as restated)	FORECAST 2003-2004 (as restated)		ESTIMATE 2004-2005
				Consolidated Fund	
4,985,629	**4,944,636**	**5,284,216**	**5,335,834**	**Ordinary Revenue (1)**	**5,557,572**
				Net Expenses	
4,512,724	4,567,492	4,756,480	4,817,137	Net Program Expenses	5,077,630
(50,000)	(150,042)	(13,600)	(18,123)	Pension Valuation Adjustment	(9,400)
890,313	846,844	892,793	867,455	Net Debt Servicing Costs	877,821
5,353,037	**5,264,294**	**5,635,673**	**5,666,469**		**5,946,051**
				Debt Retirement Plan	
---	---	---	---	Debt Retirement Contingency	4,000
---	---	---	---	Debt Retirement Fund	6,000
---	**---**	**---**	**---**		**10,000**
(367,408)	**(319,658)**	**(351,457)**	**(330,635)**		**(398,479)**
				Consolidation and Accounting Adjustments for Governmental Units	
---	2,026,474	---	---	Consolidated Fund Consolidation Adjustments	36,000
---	(1,217,623)	---	(1,500)	Health and Hospital Boards Operations	1,500
---	(740,565)	---	---	School Boards Operations	---
---	(56,323)	---	(2,636)	Other Organizations	4,395
---	**11,963**	**---**	**(4,136)**		**41,895**
				Net Income (Loss) for Government Business Enterprises	
186,000	172,982	177,500	174,500	Nova Scotia Gaming Corporation (1)	169,000
160,208	157,866	166,800	166,800	Nova Scotia Liquor Corporation (1)	181,715
22,500	7,551	10,000	8,000	Other Enterprises	8,000
368,708	**338,399**	**354,300**	**349,300**		**358,715**
1,300	**30,704**	**2,843**	**14,529**	**Provincial Surplus (Deficit) before Unusual Items**	**2,131**
				Unusual Items	
---	(456)	---	---	Nova Scotia Innovation Corporation	---
---	1,358	---	---	Nova Scotia Resources Limited	---
---	**902**	**---**	**---**		**---**
1,300	**31,606**	**2,843**	**14,529**	**Provincial Surplus (Deficit)**	**2,131**

(1) - See Note 1, Page B5.

FINANCIAL REPORTING AND ACCOUNTING POLICIES

The 2004-2005 Budget has been prepared following accounting policies consistent with those used to prepare the 2002-2003 Public Accounts. The Public Accounts were prepared in accordance with Canadian generally accepted accounting principles for the public sector, which for purposes of the Province's financial statements represented by accounting recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA), supplemented where appropriate by other CICA or accounting standards or pronouncements.

Comparative Figures

Comparative figures for estimates are based on the accounting policies in effect at the time the Estimates were prepared. Estimates are not adjusted for subsequent accounting policy changes once the appropriation votes are finalized. The following is a summary of accounting policy changes made in the past two years which impact the comparability of figures.

Figures shown for 2002-2003 - Estimates not restated, Actuals restated for the following:

- calculation of the Pension Valuation Allowance as per PSAB recommendations, which increased the actual Provincial Surplus by $130.2 million;
- valuation of pension fund assets at market related values instead of market values, which increased the actual Provincial Surplus by $56.7 million;
- inclusion of retirement health benefits expense and liabilities for the first time, which decreased the actual Provincial Surplus by $34.3 million; and,
- consolidation of Special Purpose Funds for the first time, which increased the actual Provincial Surplus by $1.6 million.

Figures shown for 2002-2003 - Estimates restated, Actuals restated for the following:

- in past years, net earnings from Nova Scotia Gaming Corporation and Nova Scotia Liquor Corporation were traditionally included in and voted as Ordinary Revenue; for purposes of these Estimates, the net earnings have been removed from the Estimates and Actuals for Ordinary Revenue and the Actuals for Consolidated Fund Consolidation Adjustments; these net earnings have been moved to Net Income from Government Business Enterprises.

Figures shown for 2003-2004 - Estimates not restated, Forecast restated for the following:

- inclusion of retirement health benefits expense and liabilities for the first time, which decreased the forecasted Provincial Surplus by $43.9 million;
- consolidation of Special Purpose Funds for the first time, which had no impact on the forecasted Provincial Surplus; and,
- amended the Tangible Capital Asset thresholds and amortization rates as recommended by the recently completed policy review, which increased the forecasted Provincial Surplus by $25.1 million; these changes are implemented prospectively so restatement of prior years figures is not required.

Figures shown for 2003-2004 - Estimates restated, Forecast restated for the following:

- in past years, net earnings from Nova Scotia Gaming Corporation and Nova Scotia Liquor Corporation were traditionally included in Ordinary Revenue; for purposes of these Estimates, the net earnings have been removed from the Estimates and Forecast for Ordinary Revenue and the Forecast for Consolidated Fund Consolidation Adjustments; these net earnings have been moved to Net Income from Government Business Enterprises.

ORDINARY REVENUE - SUMMARY

Schedule 2

By Revenue Source

($ thousands)

ESTIMATE 2002-2003 (as restated)	*ACTUAL* 2002-2003 (as restated)	*ESTIMATE* 2003-2004 (as restated)	*FORECAST* 2003-2004 (as restated)		*ESTIMATE* 2004-2005
				Provincial Sources	
1,315,144	1,353,675	1,317,200	1,355,512	Personal Income Tax	1,465,695
183,632	204,950	270,385	232,710	Corporate Income Tax	263,753
888,917	905,120	942,150	975,204	Harmonized Sales Tax	1,015,336
138,508	145,425	166,720	162,217	Tobacco Tax	180,217
239,350	246,283	254,197	248,886	Motive Fuel Taxes	255,872
60,216	60,675	69,390	69,368	Interest Revenues	64,898
75,162	75,933	73,704	73,677	Registry of Motor Vehicles	80,381
10,000	11,115	27,000	23,000	Royalties - Petroleum	20,000
160,834	195,865	187,119	212,563	Other Provincial Sources	228,675
---	(23,833)	---	152,039	Prior Years' Adjustments - Provincial Sources	---
3,071,763	**3,175,208**	**3,307,865**	**3,505,176**		**3,574,827**
				Federal Sources	
1,320,177	1,125,088	1,242,870	1,114,487	Equalization	1,202,851
591,359	605,117	701,151	686,853	Canada Health and Social Transfer	703,998
---	---	30,000	29,611	Health Reform Fund	44,109
2,330	2,299	2,330	2,330	Other Federal Sources	31,787
---	1,924	---	(2,623)	Prior Years' Adjustments - Federal Sources	---
---	35,000	---	---	Federal Tax Collection Agreement Error	---
1,913,866	**1,769,428**	**1,976,351**	**1,830,658**		**1,982,745**
4,985,629	**4,944,636**	**5,284,216**	**5,335,834**		**5,557,572**

Notes:

1) In order to provide a better comparison with the Consolidated Financial Statements, the net revenues from the Nova Scotia Gaming Corporation and the Nova Scotia Liquor Corporation have been reclassified from Ordinary Revenue to Net Income (Loss) for Government Business Enterprises in the 2004-2005 Estimates. The 2002-2003 Estimate and Actual and 2003-2004 Estimate and Forecast have been restated in the new format.

2) Interest Revenues have been restated in the 2002-2003 Estimate and Actual to include Short-Term Interest revenue, which was formerly netted against General Interest expenses in the Debt Servicing Costs appropriation. The amount of Short-Term Interest revenue is $25.179 million and $31.643 million in the 2002-2003 Estimate and Actual respectively.

NET PROGRAM EXPENSES - SUMMARY

Schedule 3

($ thousands)

ESTIMATE 2002-2003	ACTUAL 2002-2003	ESTIMATE 2003-2004	FORECAST 2003-2004		ESTIMATE 2004-2005
39,273	41,440	40,118	42,529	Agriculture and Fisheries	40,796
648,995	668,306	666,414	660,491	Community Services	694,145
30,785	27,391	---	---	Economic Development	---
928,733	930,205	980,241	981,953	Education	1,002,848
201,732	206,762	205,805	212,805	Assistance to Universities	206,531
---	---	7,614	7,190	Energy	7,350
26,743	25,604	27,558	26,659	Environment and Labour	26,152
13,329	12,902	13,235	12,996	Finance	14,134
1,980,235	1,996,005	2,111,454	2,168,419	Health	2,341,690
91,753	90,771	99,417	95,917	Justice	99,626
57,028	55,291	59,160	57,346	Natural Resources	59,322
107,448	106,517	143,220	176,388	Public Service	154,146
92,298	96,533	93,161	89,844	Service Nova Scotia and Municipal Relations	92,352
38,847	39,895	40,805	39,562	Tourism, Culture and Heritage	41,055
239,411	253,626	246,654	227,676	Transportation and Public Works	241,009
16,114	15,557	21,624	17,362	Restructuring Costs	56,474
---	687	---	---	Loss on the Sale of Crown Assets	---
4,512,724	**4,567,492**	**4,756,480**	**4,817,137**		**5,077,630**

NET DEBT SERVICING COSTS - SUMMARY

Schedule 4

($ thousands)

ESTIMATE *2002-2003* (as restated)	***ACTUAL*** *2002-2003*	***ESTIMATE*** *2003-2004*	***FORECAST*** *2003-2004*		***ESTIMATE*** *2004-2005*
				Debt Servicing Costs	
1,002,184	950,479	947,678	933,942	Interest on Long-Term Debt	863,287
38,146	36,610	30,038	31,497	General Interest	44,641
40,335	58,209	84,600	88,289	Interest on Pensions and Other Obligations	99,184
1,080,665	**1,045,298**	**1,062,316**	**1,053,728**	**Gross Debt Servicing Costs**	**1,007,112**
(190,352)	(198,454)	(169,523)	(186,273)	Less: Sinking Fund Earnings	(129,291)
890,313	**846,844**	**892,793**	**867,455**	**Net Debt Servicing Costs**	**877,821**

Notes:

1) Short-Term Interest revenue, which was formerly netted against General Interest expenses in Gross Debt Servicing Costs, is now included in Interest Revenues in Ordinary Revenue. Also, Debt Retirement Fund Earnings, which were formerly included in Gross Debt Servicing Costs, are now included in Sinking Fund Earnings.

2) For further details on the underlying assumptions that support the Debt Servicing Costs projections, see Schedule 15, Page B39 and Schedule 16, Page B40.

STATUTORY CAPITAL ITEMS - SUMMARY *Schedule 5*

($ thousands)

ACTUAL 2002-2003	*ESTIMATE 2003-2004*	*FORECAST 2003-2004*		*ESTIMATE 2004-2005*
			CAPITAL ADVANCES AND INVESTMENTS The following is given for information as to the proposed program.	
			Additional Advances and Investments (A)	
20,552	25,000	22,000	Fisheries Development Fund	23,000
10,313	10,000	4,698	Industrial Development Act	18,000
22,409	25,000	27,000	Nova Scotia Farm Loan Board	30,000
---	8,000	8,000	Nova Scotia First Fund	---
14,707	35,000	12,100	Nova Scotia Fund	20,000
20,576	40,000	35,240	Nova Scotia Housing Development Corporation	42,000
88,557	**143,000**	**109,038**		**133,000**
			Repayments (A)	
11,951	11,000	16,500	Fisheries Development Fund	12,000
6,353	5,000	5,453	Industrial Development Act	3,487
274	210	210	Municipal Loan and Building Fund Act	140
23,884	18,000	21,500	Nova Scotia Farm Loan Board	18,000
15,736	15,000	15,000	Nova Scotia Fund	12,000
17,296	15,920	17,965	Nova Scotia Housing Development Corporation	18,241
149	---	---	Miscellaneous	---
75,643	**65,130**	**76,628**		**63,868**
12,914	**77,870**	**32,410**	**Net Capital Advances and Investments**	**69,132**

(A) - Capital Advances and Investments for which no Vote is required under the Appropriations Act. The Spending Authority is contained in the respective Statutes. Borrowing provided for under the Appropriations Act.

NOVA SCOTIA

Financial Statistics

To the Budget Address 2004–2005

HISTORICAL ANALYSIS OF REVENUES BY SOURCE

Schedule 6

	2000-2001 (as restated)	*2001-2002* (as restated)	*2002-2003* (as restated)	***FORECAST*** *2003-2004* (as restated)	***ESTIMATE*** *2004-2005*
REVENUE BY SOURCE *($ thousands)*					
Provincial Sources (1)					
Personal Income Tax	1,228,672	1,274,481	1,353,675	1,355,512	1,465,695
Corporate Income Tax	169,232	194,439	204,950	232,710	263,753
Sales Tax	804,280	852,797	905,120	975,204	1,015,336
Tobacco Tax	75,577	105,751	145,425	162,217	180,217
Motive Fuel Taxes	201,669	207,951	246,283	248,886	255,872
Interest Revenues	67,177	66,724	60,675	69,368	64,898
Registry of Motor Vehicles	61,979	65,051	75,933	73,677	80,381
Royalties - Petroleum	9,269	17,329	11,115	23,000	20,000
Other Provincial Sources	168,267	165,048	195,865	212,563	228,675
Prior Years' Adjustments - Provincial Sources	78,156	83,282	(23,833)	152,039	---
Nova Scotia Gaming Corporation	155,543	159,372	172,982	174,500	169,000
Nova Scotia Liquor Corporation	137,183	143,858	157,866	166,800	181,715
Other Government Business Enterprises	(46,618)	5,668	7,551	8,000	8,000
Federal Sources					
Equalization	1,395,500	1,321,100	1,125,088	1,114,487	1,202,851
Canada Health and Social Transfer	526,054	553,375	605,117	686,853	703,998
Health Reform Fund	---	---	---	29,611	44,109
Other Federal Sources	2,330	2,306	2,299	2,330	31,787
Prior Years' Adjustments - Federal Sources	21,758	11,893	36,924	(2,623)	---
Total Revenues	**5,056,028**	**5,230,425**	**5,283,035**	**5,685,134**	**5,916,287**

Note 1: In order to provide a better comparison with the Consolidated Financial Statements, the net revenues from the Nova Scotia Gaming Corporation and the Nova Scotia Liquor Corporation have been reclassified from Ordinary Revenue to Net Income (Loss) for Government Business Enterprises in the 2004-2005 Estimates. The 2002-2003 Estimate and Actual and 2003-2004 Estimate and Forecast have been restated in the new format.

HISTORICAL ANALYSIS OF REVENUES BY SOURCE

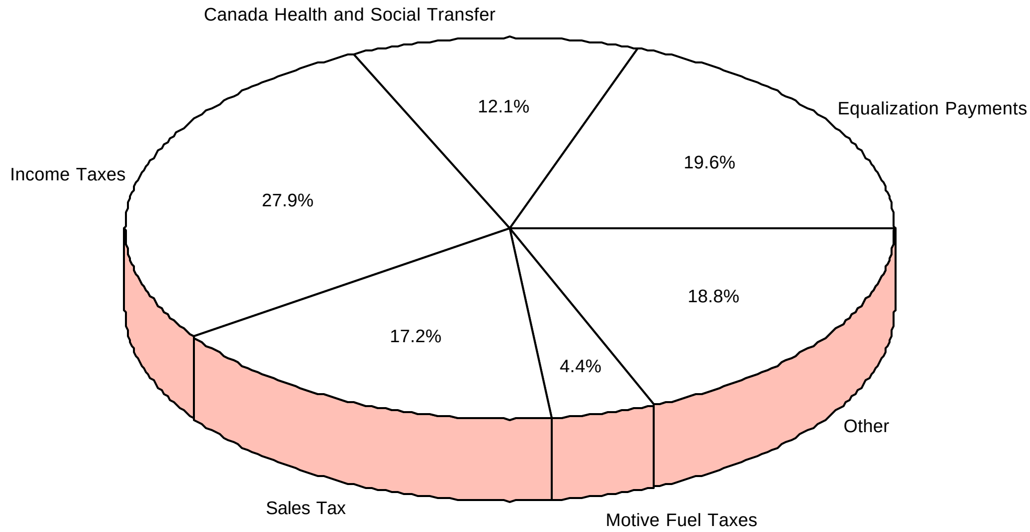
Schedule 6
(continued)

	2000-2001 (as restated)	*2001-2002* (as restated)	*2002-2003* (as restated)	***FORECAST*** *2003-2004* (as restated)	***ESTIMATE*** *2004-2005*
REVENUE BY SOURCE *(as a percentage of Total Revenues)*					
Provincial Sources					
Personal Income Tax	24.3%	24.4%	25.6%	23.8%	24.8%
Corporate Income Tax	3.3%	3.7%	3.9%	4.1%	4.5%
Sales Tax	15.9%	16.3%	17.1%	17.2%	17.2%
Tobacco Tax	1.5%	2.0%	2.8%	2.9%	3.0%
Motive Fuel Taxes	4.0%	4.0%	4.7%	4.4%	4.3%
Interest Revenues	1.3%	1.3%	1.1%	1.2%	1.1%
Registry of Motor Vehicles	1.2%	1.2%	1.4%	1.3%	1.4%
Royalties - Petroleum	0.2%	0.3%	0.2%	0.4%	0.3%
Other Provincial Sources	3.3%	3.2%	3.7%	3.7%	3.9%
Prior Years' Adjustments - Provincial Sources	1.5%	1.6%	-0.5%	2.7%	---
Nova Scotia Gaming Corporation	3.1%	3.0%	3.3%	3.1%	2.9%
Nova Scotia Liquor Corporation	2.7%	2.8%	3.0%	2.9%	3.1%
Other Government Business Enterprises	-0.9%	0.1%	0.1%	0.1%	0.1%
Total - Provincial Sources	**61.5%**	**63.9%**	**66.5%**	**67.8%**	**66.5%**
Federal Sources					
Equalization	27.6%	25.3%	21.3%	19.6%	20.3%
Canada Health and Social Transfer	10.4%	10.6%	11.5%	12.1%	11.9%
Health Reform Fund	---	---	---	0.5%	0.7%
Other Federal Sources	0.0%	0.0%	0.0%	0.0%	0.5%
Prior Years' Adjustments - Federal Sources	0.4%	0.2%	0.7%	-0.0%	---
Total - Federal Sources	**38.5%**	**36.1%**	**33.5%**	**32.2%**	**33.5%**
Total Revenues	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

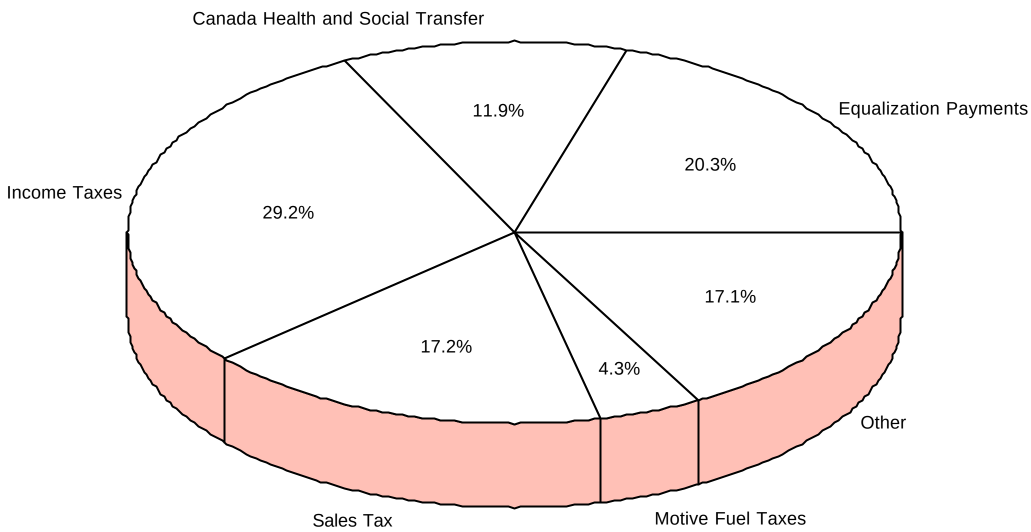
REVENUES BY SOURCE

Chart 1

2003-2004 FORECAST



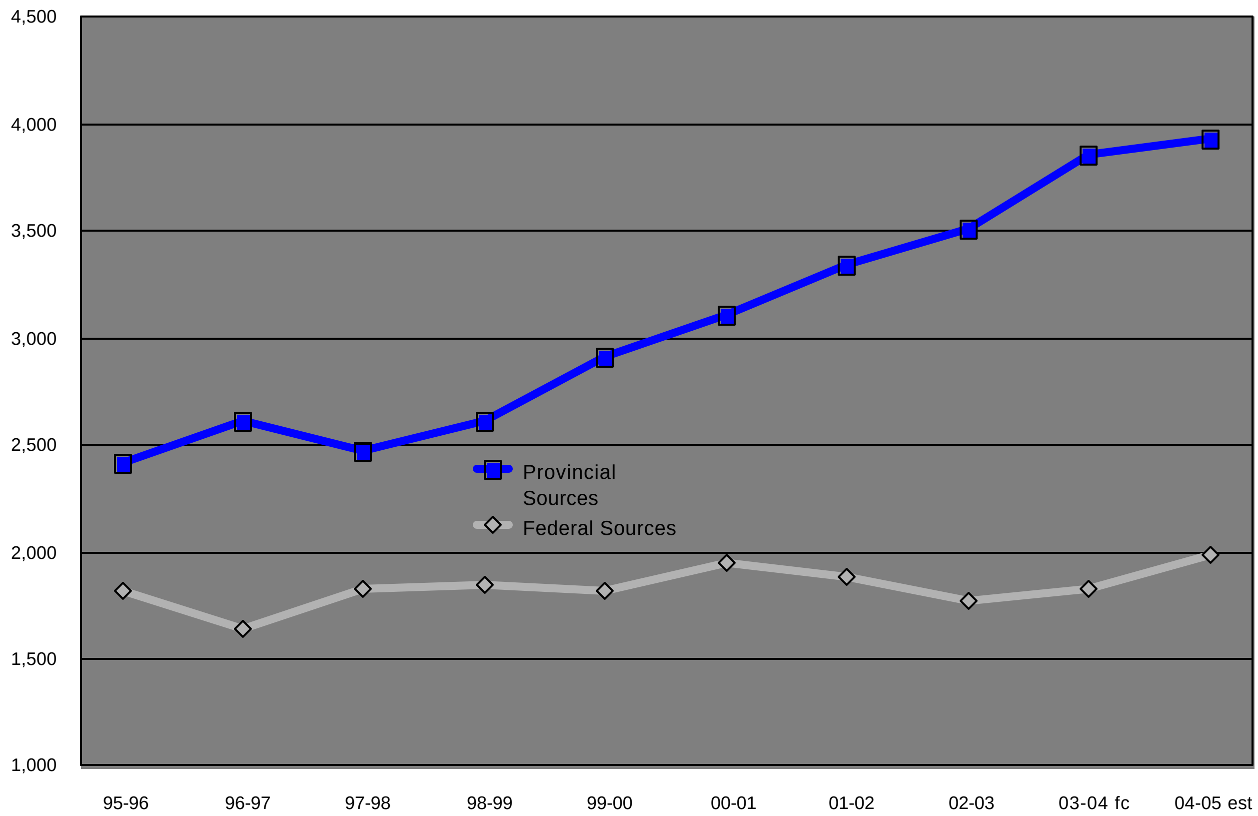
2004-2005 ESTIMATE



REVENUES BY SOURCE *Chart 2*

PROVINCIAL vs FEDERAL SOURCES

($ millions)



HISTORICAL ANALYSIS OF TOTAL NET EXPENSES BY FUNCTION

Schedule 7

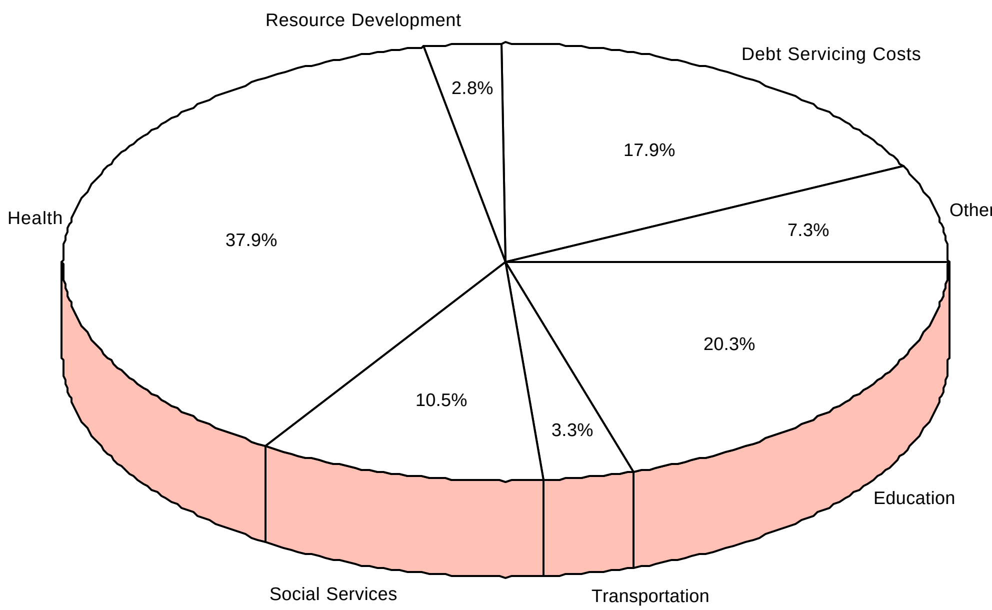
FUNCTION *($ thousands)*	2000-2001	2001-2002	2002-2003	FORECAST 2003-2004	ESTIMATE 2004-2005
General Government	180,495	177,095	140,587	155,253	169,164
Public Protection	149,304	169,135	169,737	179,597	177,446
Transportation	196,187	195,132	210,708	193,888	203,339
Resource Development	174,980	173,579	152,546	162,924	163,330
Health	1,806,716	1,937,641	2,033,437	2,225,996	2,414,216
Social Services	561,014	603,597	630,629	614,739	645,683
Education	1,078,144	1,118,422	1,138,866	1,190,656	1,209,061
Culture and Recreation	41,238	43,720	40,538	48,201	44,728
Municipal Affairs	63,396	43,261	50,444	45,883	50,663
Total Net Program Expenses	**4,251,474**	**4,461,582**	**4,567,492**	**4,817,137**	**5,077,630**
Debt Servicing Costs	1,115,473	1,160,647	1,045,298	1,053,728	1,007,112
Total Net Expenses	**5,366,947**	**5,622,229**	**5,612,790**	**5,870,865**	**6,084,742**

FUNCTION *(as a percentage of Total Net Expenses)*	2000-2001	2001-2002	2002-2003	FORECAST 2003-2004	ESTIMATE 2004-2005
General Government	3.3%	3.1%	2.5%	2.6%	2.8%
Public Protection	2.8%	3.0%	3.0%	3.1%	2.9%
Transportation	3.6%	3.5%	3.8%	3.3%	3.3%
Resource Development	3.3%	3.1%	2.7%	2.8%	2.7%
Health	33.7%	34.5%	36.2%	37.9%	39.7%
Social Services	10.4%	10.7%	11.2%	10.5%	10.6%
Education	20.1%	19.9%	20.3%	20.3%	19.9%
Culture and Recreation	0.8%	0.8%	0.7%	0.8%	0.7%
Municipal Affairs	1.2%	0.8%	0.9%	0.8%	0.8%
Total Net Program Expenses	**79.2%**	**79.4%**	**81.3%**	**82.1%**	**83.4%**
Debt Servicing Costs	20.8%	20.6%	18.6%	17.9%	16.6%
Total Net Expenses	**100.0%**	**100.0%**	**99.9%**	**100.0%**	**100.0%**

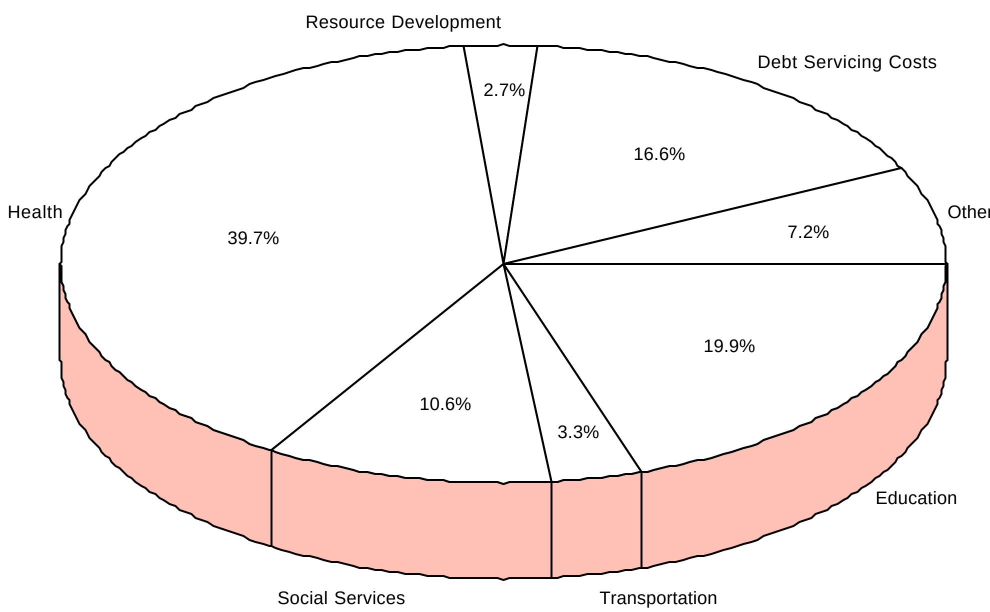
TOTAL NET EXPENSES BY FUNCTION

Chart 3

2003-2004 FORECAST



2004-2005 ESTIMATE



SUMMARY OF REVENUES AND EXPENSES BY SOURCE AND FUNCTION

Schedule 8

($ thousands)

ESTIMATE *2003-2004* (as restated)	*FORECAST* *2003-2004* (as restated)	*CHANGE FROM ESTIMATE* *2003-2004*		*ESTIMATE* *2004-2005*
			Consolidated Fund	
			Ordinary Revenues by Source	
			Provincial Sources	
1,317,200	1,355,512	38,312	Personal Income Tax	1,465,695
270,385	232,710	(37,675)	Corporate Income Tax	263,753
942,150	975,204	33,054	Harmonized Sales Tax	1,015,336
166,720	162,217	(4,503)	Tobacco Tax	180,217
254,197	248,886	(5,311)	Motive Fuel Taxes	255,872
69,390	69,368	(22)	Interest Revenues	64,898
73,704	73,677	(27)	Registry of Motor Vehicles	80,381
27,000	23,000	(4,000)	Royalties - Petroleum	20,000
187,119	212,563	25,444	Other Provincial Sources	228,675
			Federal Sources	
1,242,870	1,114,487	(128,383)	Equalization	1,202,851
701,151	686,853	(14,298)	Canada Health and Social Transfer	703,998
30,000	29,611	(389)	Health Reform Fund	44,109
2,330	2,330	---	Other Federal Sources	31,787
---	149,416	149,416	Prior Years' Adjustments - Federal-Provincial Fiscal Arrangements	---
5,284,216	**5,335,834**	**51,618**	**Total - Ordinary Revenues**	**5,557,572**
			Net Expenses by Function	
149,857	155,253	5,396	General Government	169,164
174,572	179,597	5,025	Public Protection	177,446
210,660	193,888	(16,772)	Transportation	203,339
162,511	162,924	413	Resource Development	163,330
2,164,393	2,225,996	61,603	Health	2,414,216
624,420	614,739	(9,681)	Social Services	645,683
1,181,726	1,190,656	8,930	Education	1,209,061
41,454	48,201	6,747	Culture and Recreation	44,728
46,887	45,883	(1,004)	Municipal Affairs	50,663
4,756,480	**4,817,137**	**60,657**	**Total - Net Program Expenses**	**5,077,630**
(13,600)	**(18,123)**	**(4,523)**	**Pension Valuation Adjustment**	**(9,400)**
892,793	**867,455**	**(25,338)**	**Net Debt Servicing Costs**	**877,821**
5,635,673	**5,666,469**	**30,796**	**Total - Net Expenses**	**5,946,051**
---	**---**	**---**	**Debt Retirement Plan**	**10,000**
(351,457)	**(330,635)**	**51,618**		**(398,479)**
354,300	**345,164**	**(9,136)**	**Consolidation and Accounting Adjustments for Governmental Units and Net Income (Loss) Business Enterprises**	**400,610**
2,843	**14,529**	**42,482**	**Provincial Surplus (Deficit)**	**2,131**

Note: See Page B4 for information on the Financial Reporting and Accounting Policies used in this budget.

NOVA SCOTIA

Economic Indicators

To the Budget Address 2004–2005

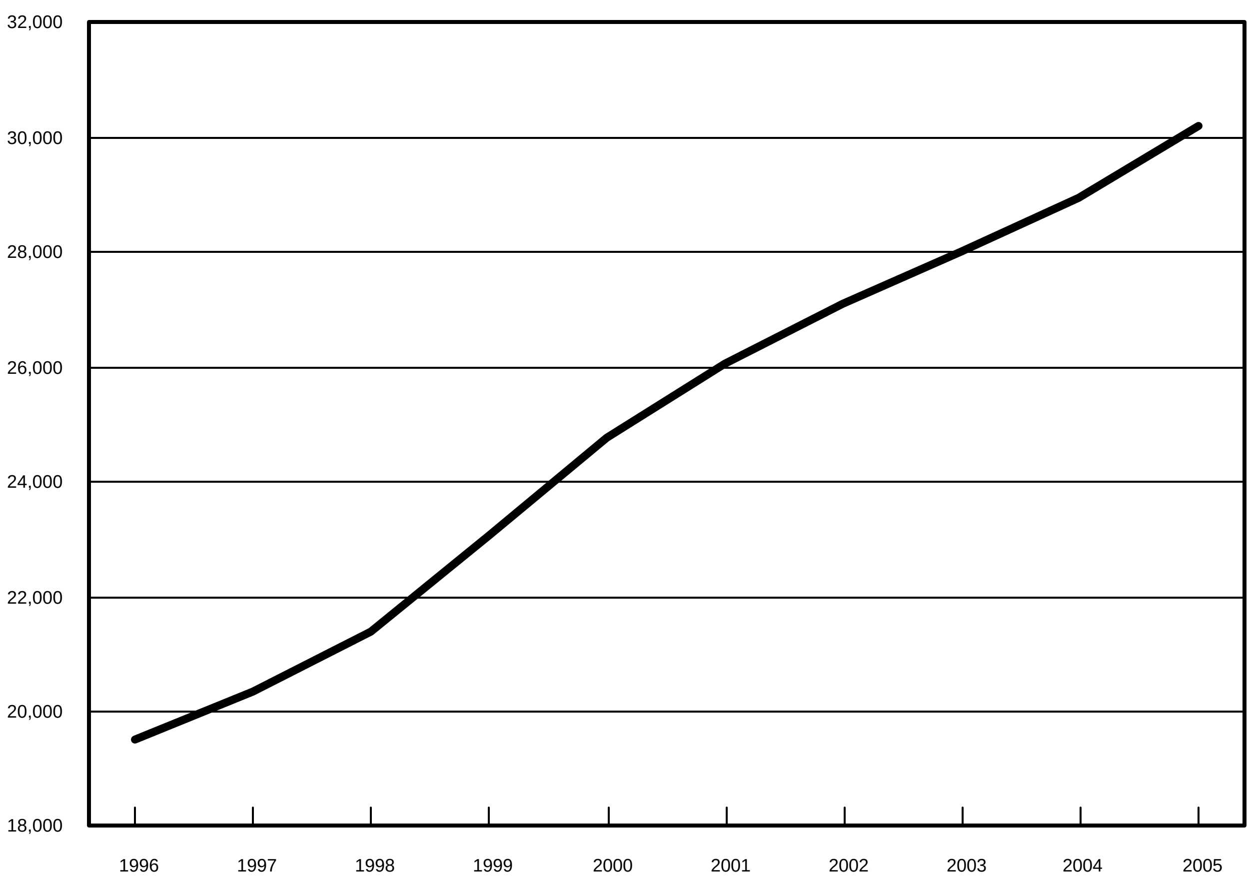
NOMINAL GROSS DOMESTIC PRODUCT
at MARKET PRICES
($ millions)

Schedule 9

YEAR	NOVA SCOTIA (1)	GROWTH RATE %	CANADA (2)	GROWTH RATE %
1996	19,512	1.1	836,864	3.3
1997	20,368	4.4	882,733	5.5
1998	21,401	5.1	914,973	3.7
1999	23,059	7.7	982,441	7.4
2000	24,770	7.4	1,075,566	9.5
2001	26,070	5.2	1,107,459	3.0
2002	27,102	4.0	1,154,949	4.3
2003	27,997 p	3.3	1,214,601	5.2
2004	28,937 p	3.4	1,275,823 p	5.0
2005	30,223 p	4.4	1,341,067 p	5.1

1 Source: Statistics Canada, Provincial Economic Accounts, Cat. No. 13-213-PPB
2 Source: Statistics Canada, National Income and Expenditure Accounts, Cat. No. 13-001-PPB
p Preliminary Projections; Source: Nova Scotia Department of Finance

Nova Scotia Nominal Gross Domestic Product at Market Prices
($ millions)



REAL GROSS DOMESTIC PRODUCT at MARKET PRICES

Schedule 10

(Chained 1997$ millions)

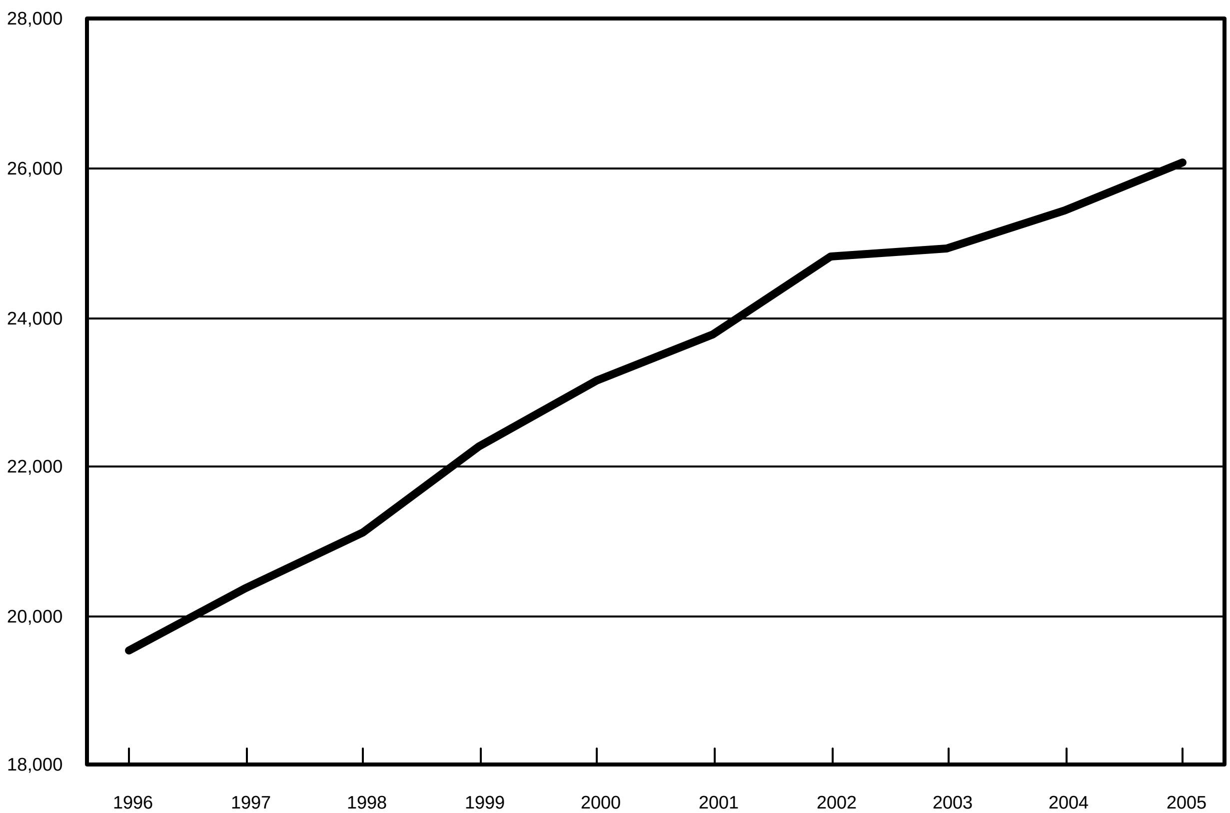
YEAR	NOVA SCOTIA (1)	GROWTH RATE %	CANADA (2)	GROWTH RATE %
1996	19,529	0.6	846,952	1.6
1997	20,368	4.3	882,733	4.2
1998	21,127	3.7	918,910	4.1
1999	22,285	5.5	969,750	5.5
2000	23,174	4.0	1,020,786	5.3
2001	23,783	2.6	1,040,388	1.9
2002	24,825	4.4	1,074,516	3.3
2003	24,923 p	0.4	1,092,891	1.7
2004	25,428 p	2.0	1,123,724 p	2.8
2005	26,089 p	2.6	1,161,446 p	3.4

1 Source: Statistics Canada, Provincial Economic Accounts, Cat. No. 13-213-PPB
2 Source: Statistics Canada, National Income and Expenditure Accounts, Cat. No. 13-001-PPB
p Preliminary Projections; Source: Nova Scotia Department of Finance

Note: The Chained 1997$ million is the Fisher Volume Index formula (1997 = 100) used to project Gross Domestic Product in constant dollars.

Nova Scotia Real Gross Domestic Product at Market Prices

(Chained 1997$ millions)



PERSONAL INCOME PER CAPITA *Schedule 11*

(dollars)

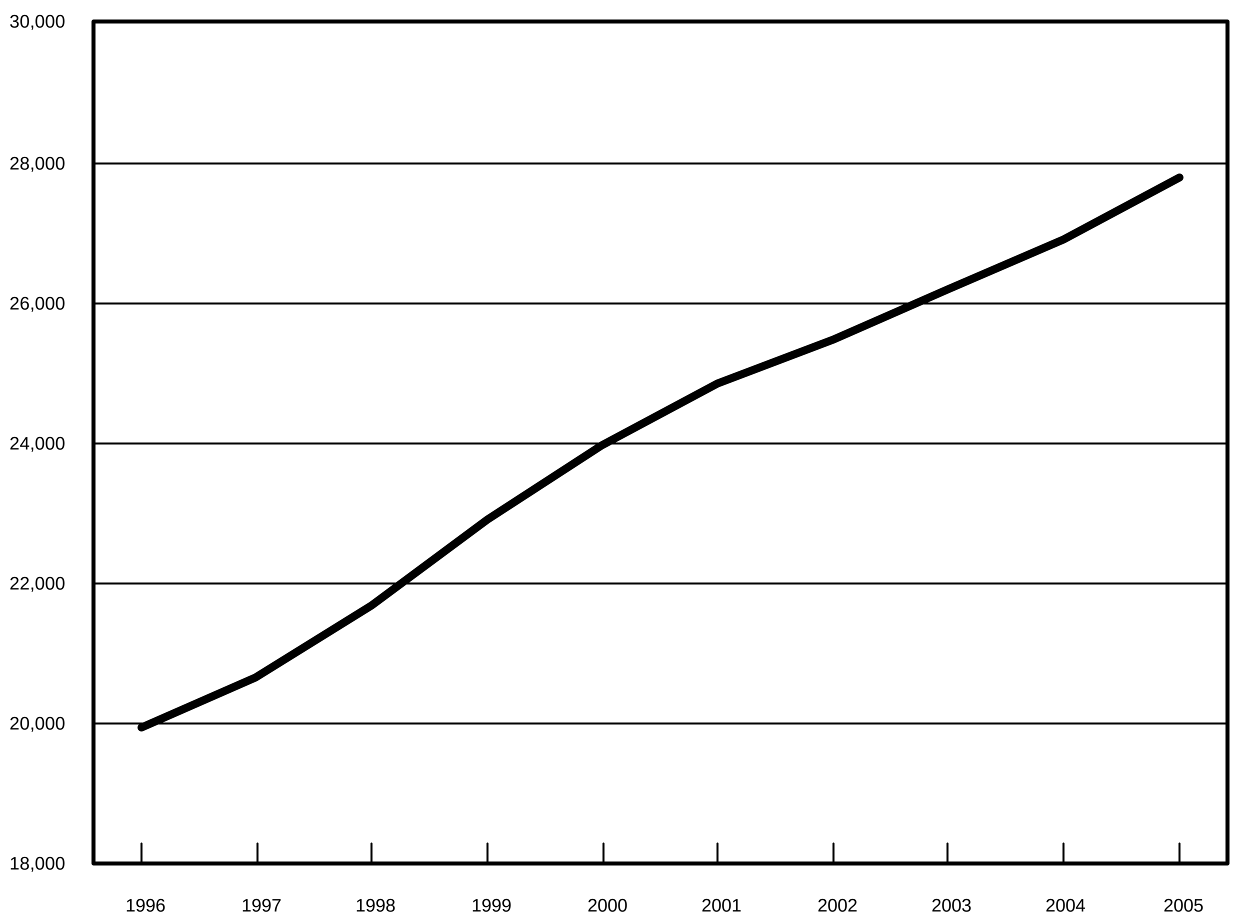
YEAR	*NOVA SCOTIA (1)*	*% CHANGE*	*CANADA (1)*	*% CHANGE*
1996	19,951	0.2	23,160	1.1
1997	20,656	3.5	23,860	3.0
1998	21,693	5.0	24,740	3.7
1999	22,922	5.7	25,755	4.1
2000	23,966	4.6	27,377	6.3
2001	24,864	3.7	28,177	2.9
2002	25,485	2.5	28,802	2.2
2003	26,198 p	2.8	29,342	1.9
2004	26,916 p	2.7	30,229 p	3.0
2005	27,803 p	3.3	31,390 p	3.8

1 Source: Statistics Canada, Cat. Nos. 13-001-PPB, 13-213-PPB, 91-213-XPB (Statistics Canada, Annual Demographic Statistics) and Nova Scotia Department of Finance

p Preliminary Projections; Source: Nova Scotia Department of Finance

Personal Income Per Capita in Nova Scotia

(dollars)



NOVA SCOTIA LABOUR MARKET

Schedule 12

(thousands of persons)

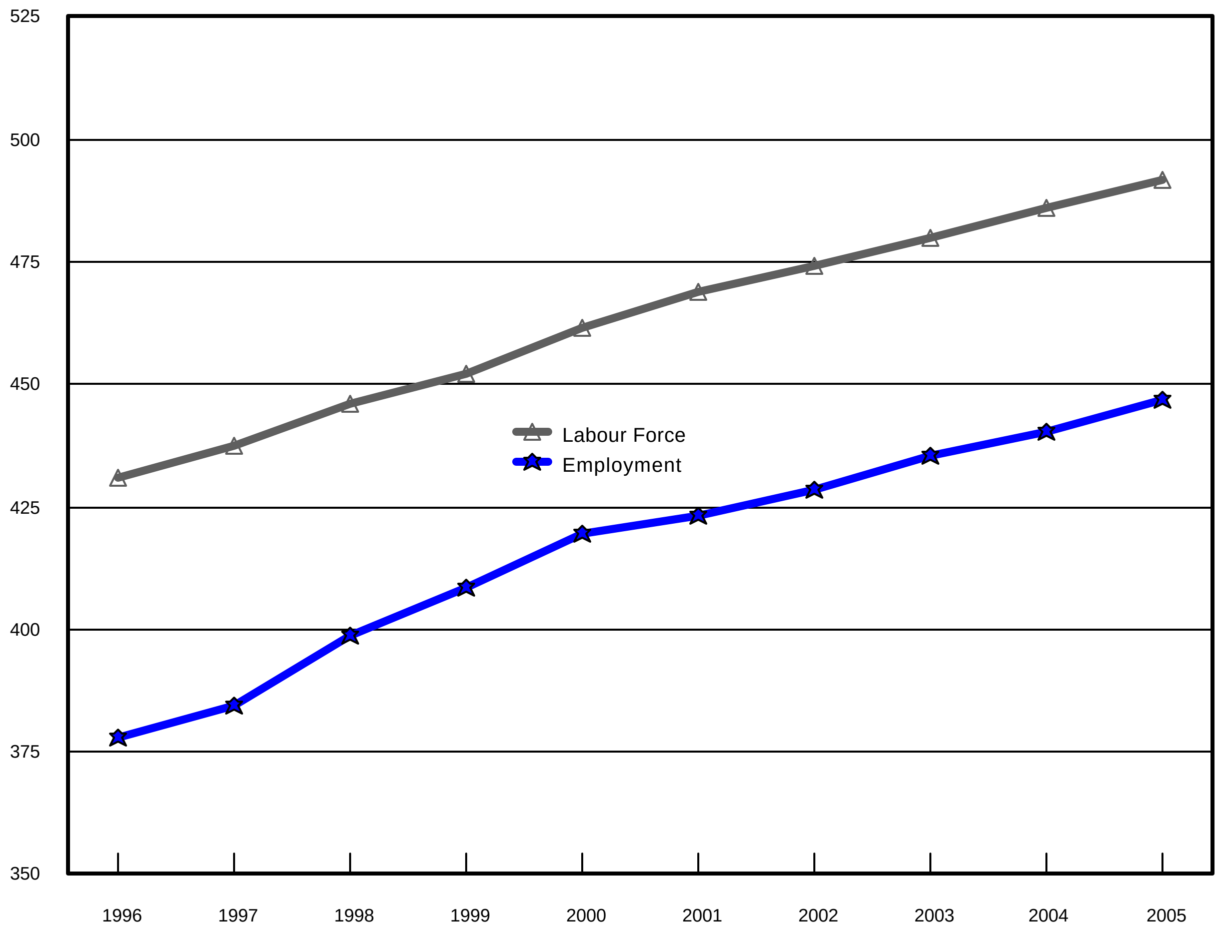
YEAR	*LABOUR FORCE (1)*	*% CHANGE*	*EMPLOYMENT (1)*	*% CHANGE*
1996	431.1	0.5	378.1	0.3
1997	437.4	1.5	384.3	1.6
1998	445.9	1.9	398.9	3.8
1999	452.0	1.4	408.6	2.4
2000	461.6	2.1	419.5	2.7
2001	468.9	1.6	423.3	0.9
2002	474.2	1.1	428.4	1.2
2003	480.1	1.2	435.4	1.6
2004	485.9 p	1.2	440.2 p	1.1
2005	491.7 p	1.2	446.8 p	1.5

1 Source: Statistics Canada, 2003 Labour Force Historical Review, 71F0004XCB, February 2004

p Preliminary Projections; Source: Nova Scotia Department of Finance

Nova Scotia Labour Market

(thousands of persons)



UNEMPLOYMENT

Schedule 13

(thousands of persons)

	NOVA SCOTIA (1)		CANADA (1)	
YEAR	***UNEMPLOYED***	***UNEMPLOYMENT RATE %***	***UNEMPLOYED***	***UNEMPLOYMENT RATE %***
1996	53.0	12.3	1,436.9	9.6
1997	53.1	12.1	1,378.6	9.1
1998	46.9	10.5	1,277.3	8.3
1999	43.3	9.6	1,190.1	7.6
2000	42.0	9.1	1,089.6	6.8
2001	45.6	9.7	1,169.6	7.2
2002	45.8	9.7	1,277.6	7.7
2003	44.7	9.3	1,300.9	7.6
2004	45.7 p	9.4 p	1,259.0 p	7.3 p
2005	44.9 p	9.1 p	1,149.0 p	6.5 p

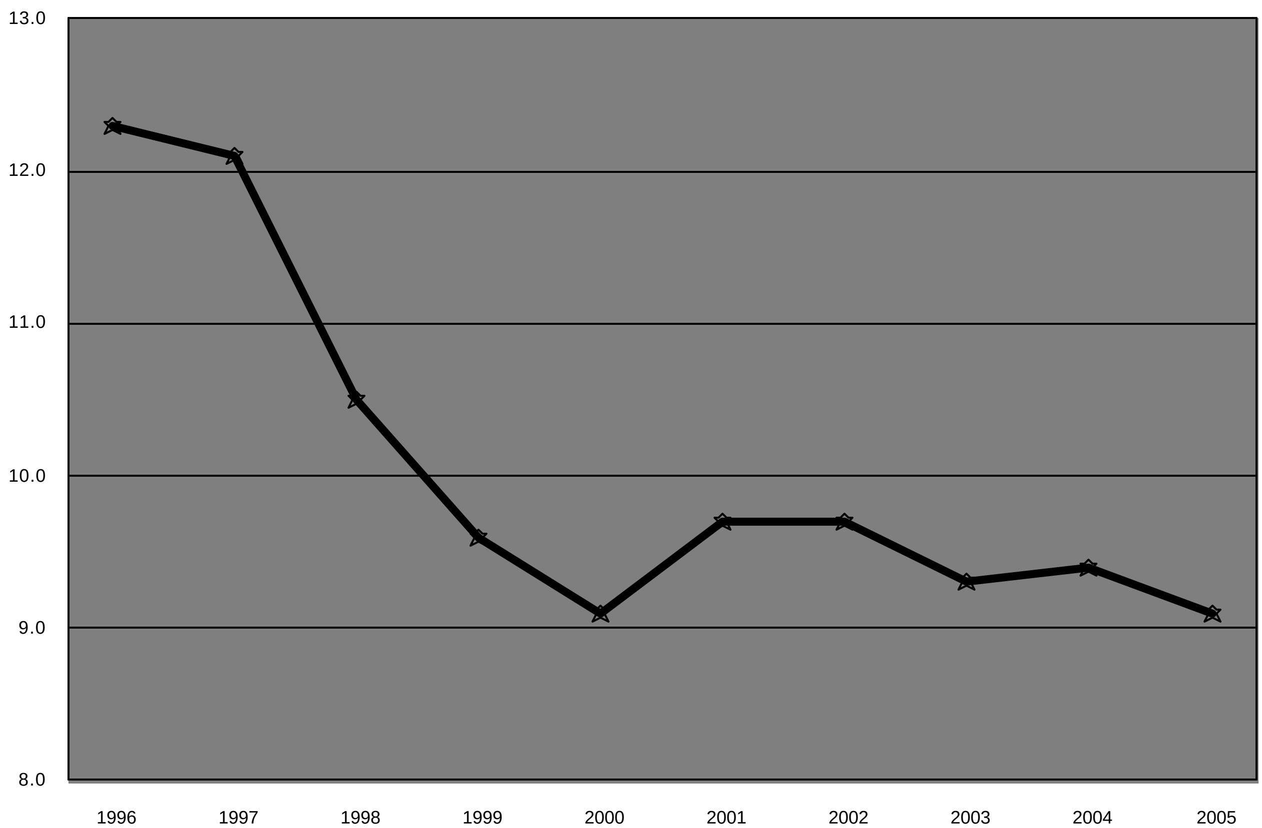
1 Source: Statistics Canada, 2003 Labour Force Historical Review, 71F0004XCB, February 2004

p Preliminary Projections; Source: Nova Scotia Department of Finance

Note: The unemployment statistics shown in this table are annual averages of the monthly indices.

Unemployment Rate in Nova Scotia

(Per Cent)



NOVA SCOTIA

Fiscal Plan 2004–2005 to 2007–2008

To the Budget Address 2004–2005

FISCAL PLAN 2004-2005 to 2007-2008

Schedule 14

($ millions)

	ESTIMATE 2003-2004	FORECAST 2003-2004	ESTIMATE 2004-2005	ESTIMATE 2005-2006	ESTIMATE 2006-2007	ESTIMATE 2007-2008
Revenue	**5,284.2**	**5,335.8**	**5,557.6**	**5,698.7**	**5,816.0**	**6,061.5**
Expenses						
Net Program Expenses	**4,742.9**	**4,799.0**	**5,068.3**	**5,120.1**	**5,208.2**	**5,389.1**
Debt Servicing Costs	1,062.3	1,053.7	1,007.1	1,053.7	1,050.3	1,054.1
Less: Sinking Fund Earnings	(169.5)	(186.3)	(129.3)	(117.2)	(96.5)	(85.7)
Net Debt Servicing Costs	**892.8**	**867.5**	**877.8**	**936.5**	**953.8**	**968.4**
Net Expenses	**5,635.7**	**5,666.5**	**5,946.1**	**6,056.6**	**6,162.0**	**6,357.5**
Debt Retirement Plan						
Debt Retirement Contingency	---	---	4.0	25.0	50.0	100.0
Debt Retirement Fund	---	---	6.0	6.0	6.0	6.0
Debt Retirement Plan	**---**	**---**	**10.0**	**31.0**	**56.0**	**106.0**
Consolidation Adjustments	**---**	**(4.1)**	**41.9**	**---**	**---**	**---**
Net Income (Loss) Government Business Enterprises	**354.3**	**349.3**	**358.7**	**388.9**	**402.0**	**402.0**
Provincial Surplus	**2.8**	**14.5**	**2.1**	**---**	**---**	**---**

Note: See Page B4 for information on the Financial Reporting and Accounting Policies for the accounting policies that have been used in the preparation of this Fiscal Plan.

The Province of Nova Scotia is tabling its third consecutive balanced budget in fiscal 2004-2005, estimating a modest surplus of $2.1 million. This follows a larger than anticipated surplus of $14.5 million in fiscal 2003-2004.

Personal income tax relief for those who need it most is continuing. Nova Scotia's lowest income earners will continue to benefit as the 2004 tax rates are maintained. The middle and high income tax brackets are reverting to 2003 levels. A fourth bracket is being added for Nova Scotia's highest income earners, which includes only four per cent of all earners.

Legislation will bring the government's Debt Retirement Plan into effect in fiscal 2004-2005 and $10.0 million will be directed to the Plan to help reduce the debt. The Plan calls for significant infusions of funding over the next three fiscal years and $106.0 million will be required in fiscal 2007-2008 for the debt to begin its scheduled decline.

As an indicator of debt, the province's net direct debt to GDP continues its downward trend. For fiscal 2004-2005, the ratio of net direct debt to GDP has fallen to 43.1 per cent, a decline of one per cent.

Foreign currency exposure also continues to drop, and is now at 16.9 per cent.

Capital spending for fiscal 2004-2005 is maintained at $250.0 million. An additional $8.0 million will be available in fiscal 2004-2005 to the district health authorities, increasing their capital spending to $38.0 million.

NOVA SCOTIA

Treasury Management Information

To the Budget Address 2004–2005

Overview of Treasury Management in Fiscal 2003-2004

The Debt Management Committee (DMC), an executive committee of the Department of Finance, oversees the debt management function of the Province of Nova Scotia by providing staff with strategic objectives and guidelines for financial risk management and capital market activities. The Deputy Minister of Finance is the chair of the DMC. The Committee exercises its authority by delegating certain functional tasks through sub-committees such as the Credit Sub-Committee, ISDA Sub-Committee, Cash Forecasting Sub-Committee, Capital Strategy Sub-Committee, and the Internal Audit Sub-Committee.

In fiscal 2003-2004, the Province borrowed $1.116 billion compared to Budget borrowing requirements of $597.3 million, and actual requirements of $861.7 million. The Province took advantage of favourable domestic market conditions to complete the year's borrowing needs, and to pre-borrow for the refinancing of existing debt in the next fiscal year.

The Government announced a Debt Reduction Plan in June 2003. That plan consists of three parts:

- commit to a yearly budgetary contingency for debt reduction that must exceed the increase in the Net Book Value of Tangible Capital Assets by the fiscal year 2007–2008;
- create a fund specifically for debt retirement; and,
- enact legislation that commits extraordinary revenues to the Province, as well as money from the sale of provincially owned assets, to the debt retirement fund.

The objective of the Debt Reduction Plan is to lower debt so that annual interest charges will be reduced. Furthermore, the benefit of debt reduction will be apparent much sooner and the impact will be magnified as the financial world sees the Province's fiscal position continue to improve. Ultimately, Nova Scotia will become a better credit risk in financial markets.

The Debt Reduction Plan is focussed on Net Direct Debt as the financial measure of debt. In that regard, under the balanced budgets that have been achieved for a number of years, the excess of Tangible Capital Asset (TCA) cash outlays over TCA amortization has been adding to the debt of the Province. To address this challenge, the government has established a $250.0 million annual TCA allocation for capital spending. Capital spending at this level will allow for prudent investment in much-needed capital infrastructure, have a positive impact on the province, and still provide the foundation for debt reduction.

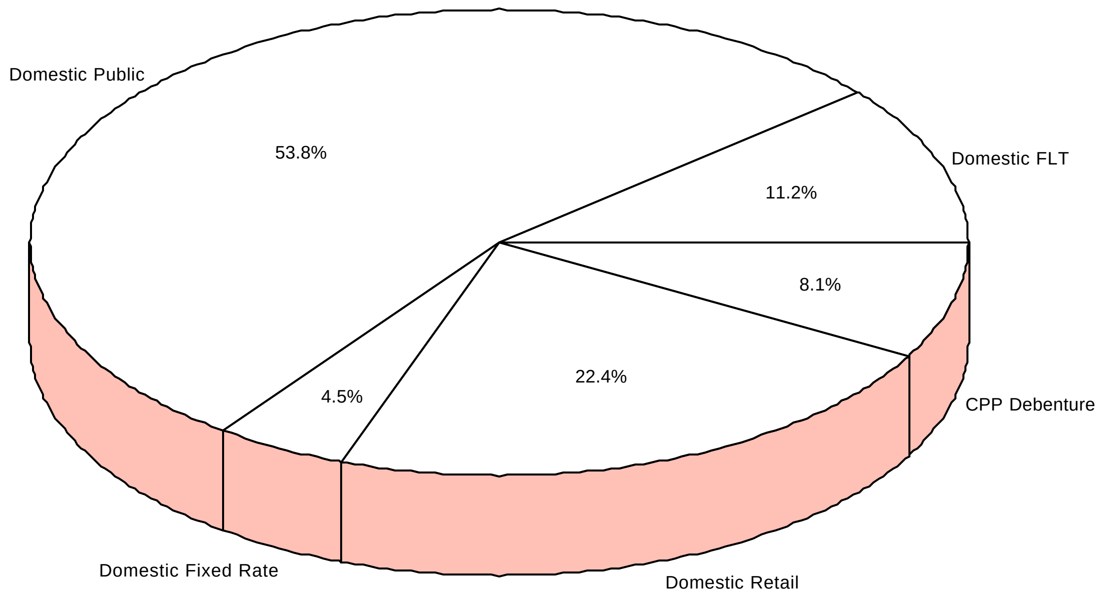
Structure of the Debt Portfolio

The following five profiles help describe the overall structure and risk profile of the Province's Debt Portfolio: 1) primary issuance market; 2) maturity schedule; 3) foreign currency exposure; 4) interest rate mix; and, 5) derivative counterparty exposure.

1) Primary Issuance Market

In the 2003-2004 fiscal year, the Province met its borrowing requirements in the domestic financial market through the following: three 30 year domestic public issues for a total of $600.0 million; eleven domestic Medium Term Notes (MTNs) including nine retail structured notes totaling $250.0 million, one floating rate note for $125.0 million, and one fixed rate debt issue for $50.0 million; and, the roll-over of a $90.6 million Canada Pension Plan issue.

CONSOLIDATED FUND DEBT PORTFOLIO - Issuance Profile, 2003-2004 *Chart 4*



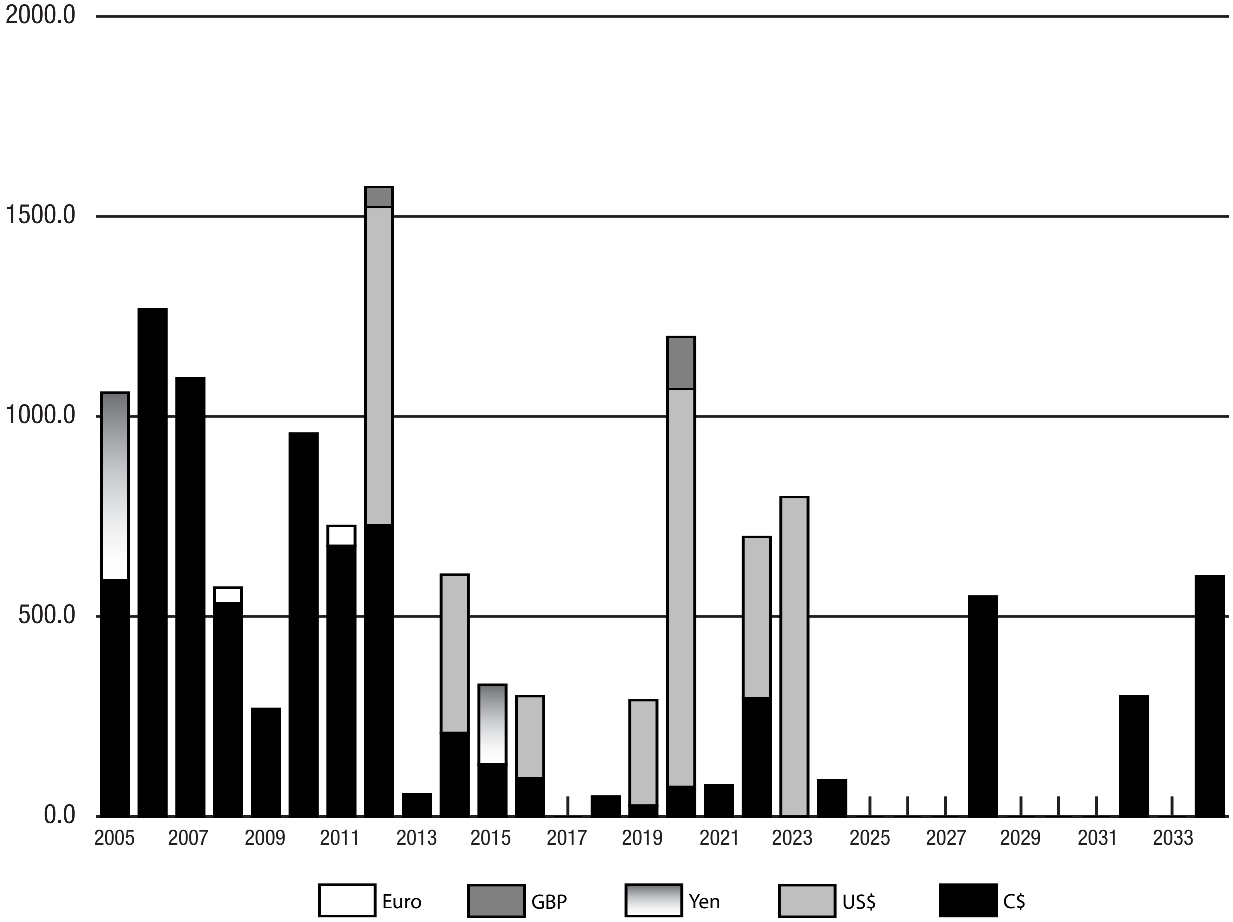
The overall size of the borrowing program increased to $1.116 billion from its original forecast of $597.5 million. This increase in borrowing was due to pre-borrowing for future years, the department's funding of various crown corporation activities, in particular the funding of $84.0 million for the Nova Scotia Municipal Finance Corporation, and $162.0 million of debt issues called during the fiscal year. The Province pre-borrowed approximately $400.0 million for future years given the favourable domestic market conditions experienced during the fiscal year. Chart 4, titled "Consolidated Fund Debt Portfolio-Issuance Profile" outlines the composition of debt issued in the 2003-2004 fiscal year.

The Province has a diversity of borrowing sources, as this is a key factor in lower financing costs and maintaining a broad demand for Nova Scotia debt issues. The Province maintains documentation in order to issue securities in both the United States and the Japanese markets. In early 2000, the Province established a Euro Medium Term Note (EMTN) program to provide more timely and efficient access to European institutional and retail markets. In fiscal 2003-2004, the Province did not access international capital markets.

Certain Crown agencies of the Province of Nova Scotia have lent monies to the consolidated fund on a short-term basis. At March 31, 2004, a total of $76.2 million was invested by the Nova Scotia Government Fund, the Workers' Compensation Board of Nova Scotia, the Nova Scotia Gaming Corporation, the Nova Scotia Municipal Finance Corporation, the Nova Scotia Research and Innovation Trust, and the Nova Scotia Crop and Livestock Insurance Commission.

CONSOLIDATED FUND DEBT PORTFOLIO - *Chart 5*

Maturity Schedule
(in C$ millions)



2) Maturity Schedule

Chart 5, titled "Consolidated Fund Debt Portfolio - Maturity Schedule", displays the maturity profile of the Province's gross debt portfolio. The Province's currency exposures are shown prior to the effect of derivative transactions, and callable debt is shown in the year of final maturity. Debt maturities over the next two years are $1.3 billion in both fiscal 2004–2005 and fiscal 2005–2006 (see Schedule 18). These amounts are partially offset by drawing down the Public Debt Retirement Fund (PDRF) and the Sinking Fund General to retire this debt.

3) Foreign Currency Exposure

The Canadian dollar denominated debt represented the largest share of the gross debt portfolio at 83.1 per cent, excluding Sinking Funds and Public Debt Retirement Funds, based on the face value in Canadian dollars, up from 81.9 per cent a year earlier. Reduction in foreign currency exposure during fiscal 2003-2004 was due to improvement in the Canadian dollar. As this figure is calculated as a percentage of the gross debt portfolio, the size of the portfolio is an aspect of the ratio. At March 31, 2004, the overall size of the gross debt portfolio was approximately $712.0 million smaller than a year earlier.

The Province of Nova Scotia's remaining foreign currency debt is entirely in US dollars. The Province established US dollar sinking funds for all USD debt issued in the late 1980's and early 1990's. As such, there are significant US dollar assets to offset gross foreign currency exposure. Thus, on a net basis, at March 31, 2004, the Province's foreign currency exposure was only 13.1 per cent. The Nova Scotia Provincial Finance Act requires that the Province maintain its foreign currency exposure at less than 20.0 per cent, and that all maturities of greater than one year are refinanced net in Canadian dollars.

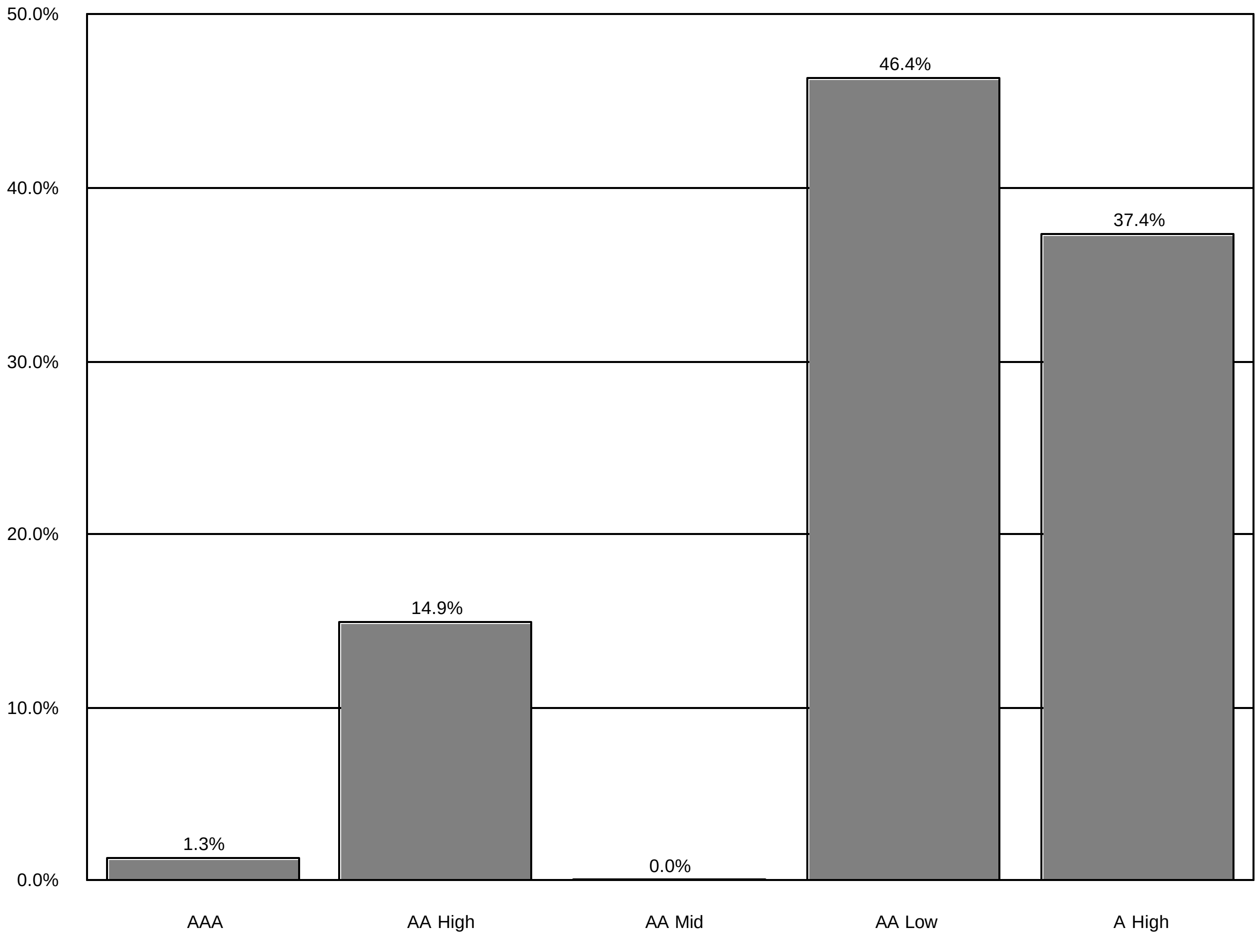
In fiscal 2003-2004, the value of the Canadian dollar improved against the US dollar, on a year-over-year basis, to $1.3105 CAD/USD from $1.4693 a year earlier, to the benefit of the Province.

4) Interest Rate Mix

The debt portfolio's exposure to floating interest rates rose slightly over the past year to 21.1 per cent for the fiscal year ended March 31, 2004. The Province includes debt maturing in under one year as floating interest rate debt. This level is at the low end of the Province's floating rate exposure policy, which has a floating rate exposure in the range of 15.0 to 35.0 per cent of debt outstanding. With 78.9 per cent of the total principal in fixed rate form, there will be stability in debt servicing costs in future years.

CONSOLIDATED FUND DEBT PORTFOLIO - Derivative Counterparty Rating *Chart 6*

(Per Cent)

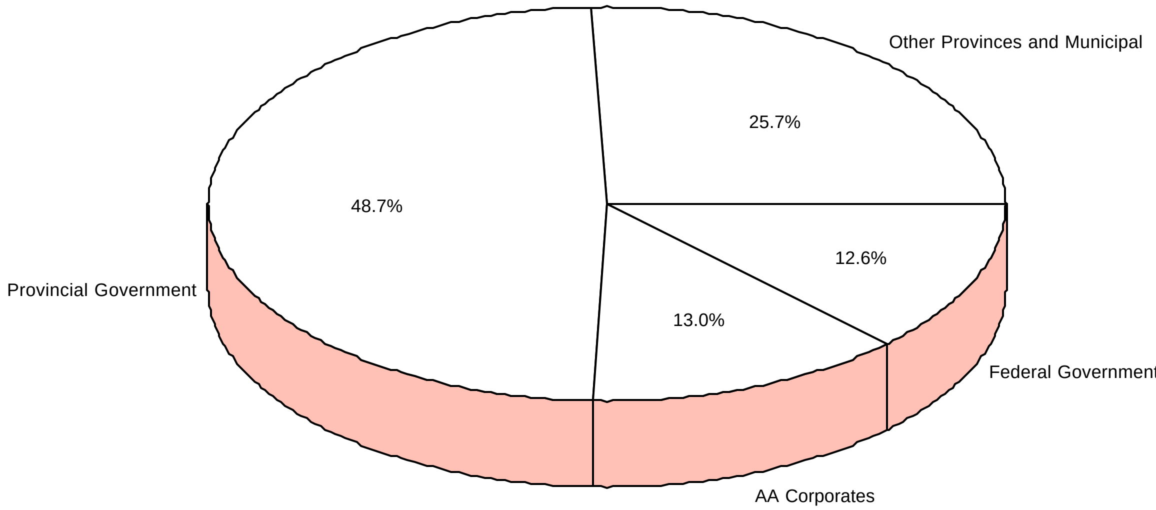


5) Derivative Counterparty Exposure

The Province is currently party to approximately $4.7 billion notional face value of derivative transactions. The Province's credit policy states that it only executes derivative transactions with well rated counterparties. As per this policy, all counterparties are rated equal to or better than the Province. The Liability Management Division actively manages credit risks of the derivative portfolio. All counterparty exposure and limits are reviewed by the Credit Sub-Committee of the Debt Management Committee. Chart 6, titled "Consolidated Fund Debt Portfolio - Derivative Counterpart Rating" displays the percentage exposure with counterparties of various ratings. When a counterpart has a split rating, the Province uses the lowest among the ratings.

Sinking and Public Debt Retirement Funds - Investments by Type of Issuer *Chart 7*

(on a Book Value Basis)



Structure of Sinking Funds and Public Debt Retirement Fund

At March 31, 2002, Sinking Funds that were held for Canada Pension Plan and Medium Term Notes (MTN's) were moved to the "Sinking Fund General". Sinking Funds, totaling $696.8 million, that were held for public issues without a sinking fund bond covenant, as of March 31, 2003, were also moved to the "Sinking Fund General". These monies are available at the discretion of the Minister of Finance to retire maturing debt issues.

At March 31, 2004, the estimated book value of the Sinking Funds was $2.026 billion and the Public Debt Retirement Funds (PDRF) was $946.0 million (see Schedule 19). The policy objectives of the Sinking Fund and the PDRF are to manage interest rate and currency exposure, manage short-term liquidity, and assist in the refunding of maturing debt, while at the same time providing a long-term investment return to the Province.

The assets of the Sinking Fund and PDRF are invested in high quality investments subject to approval by the Credit Sub-Committee of the Debt Management Committee. All assets were invested in either federal or provincial debt obligations, or corporate holdings with an AA rating. There are no debenture holdings of Canadian Chartered Banks. The PDRF is typically invested in Government of Canada and provincial bonds other than those of the Province of Nova Scotia. At March 31, 2004, the PDRF held no Nova Scotia bonds. Cash and equivalents in the Sinking Fund and PDRF are 10.7 per cent of total assets. Chart 7, titled "Sinking and Public Debt Retirement Funds - Investment by Type of Issuer" details the breakdown of investments held by the Sinking Funds and the PDRF.

DEBT SERVICING COSTS - Sensitivity Analysis

Schedule 15

Change in Financial Market Variables	***Change in Debt Servicing Costs*** *(Cdn $ millions)*
1% change in Canada - 3 Month Treasury Bill	14.7
1% change in US - 3 Month Treasury Bill	1.5
1 Canadian cent change per 1 US dollar	1.1

Debt Servicing Costs - Sensitivity Analysis

Actual debt servicing costs will vary from estimated amounts due to the dependence of debt servicing costs on certain financial market variables and changes in the amount borrowed. Assumed levels for financial market variables are listed in Schedule 16. The sensitivity of debt servicing costs estimates for the key variables is noted in Schedule 15.

Sensitivities show how much debt servicing costs would change if a variable changed from an assumed level for a full year. For example, if the Canadian dollar was 1 cent stronger relative to the assumed level of $1.3500 for the entire period from April 1, 2004 to March 31, 2005, then debt servicing costs would decrease by $1.1 million, if all other factors held constant.

INTEREST RATE and FOREIGN EXCHANGE RATE ASSUMPTIONS

Schedule 16

	ESTIMATE *2003-2004*	***AVERAGE*** *2003-2004* ***Actual***	Assumptions ***ACTUAL*** *31-Mar-2004*	***ESTIMATE*** *2004-2005*	***ESTIMATE*** *2005-2006*	***ESTIMATE*** *2006-2007*	***ESTIMATE*** *2007-2008*
Foreign Exchange Rates							
United States Dollar							
CAD/USD	1.5500	1.3531	1.3105	1.3500	1.3500	1.3500	1.3500
USD/CAD	0.6452	0.7390	0.7631	0.7407	0.7407	0.7407	0.7407
10-Year Government Rates							
Canada	5.55%	4.70%	4.32%	4.75%	5.00%	5.25%	5.75%
3-Month Treasury Bill Rates							
Canada	3.30%	2.69%	1.98%	2.65%	3.50%	4.10%	4.75%
United States	1.80%	0.96%	0.94%	1.90%	3.00%	3.75%	4.25%

All assumptions are shown as average levels for the relevant fiscal year.

Interest Rate and Foreign Exchange Rate Assumptions

The interest rate and foreign exchange rate assumptions used to estimate Debt Servicing Costs in fiscal are shown in the column "Estimate, 2004-2005" in Schedule 15, which also shows the assumptions used to estimate debt servicing costs in fiscal 2003-2004 and the actual levels achieved in that fiscal year. The column "Average, 2003-2004, Actual" shows the average actual level for the period from April 1, 2003 to March 31, 2004. The column "Actual, 31-Mar-2004" shows the actual level at 12:00 p.m. on March 31, 2004.

PROJECTED DEBT SERVICING COSTS *Schedule 17*

($ millions)

	ESTIMATE *2003-2004*	***FORECAST*** *2003-2004*	***ESTIMATE*** *2004-2005*	***ESTIMATE*** *2005-2006*	***ESTIMATE*** *2006-2007*	***ESTIMATE*** *2007-2008*
Gross Debt Servicing Costs	1,062.3	1,053.7	1,007.1	1,053.7	1,050.3	1,054.1
Less: Sinking Fund Earnings	(169.5)	(186.3)	(129.3)	(117.2)	(96.5)	(85.7)
Net Debt Servicing Costs	**892.8**	**867.5**	**877.8**	**936.5**	**953.8**	**968.4**

PROJECTED BORROWING REQUIREMENTS *Schedule 18*

($ millions)

	ESTIMATE *2003-2004*	***FORECAST*** *2003-2004*	***ESTIMATE*** *2004-2005*	***ESTIMATE*** *2005-2006*	***ESTIMATE*** *2006-2007*	***ESTIMATE*** *2007-2008*
Government Operations	(2.8)	(14.5)	(2.1)	---	---	---
Net Capital Advances	77.9	32.4	69.1	70.0	70.0	70.0
Net Tangible Capital Assets	120.8	148.1	131.8	116.8	101.8	86.8
Non-Budgetary Transactions	(132.0)	(110.0)	(138.6)	(165.5)	(197.7)	(222.8)
Cash Operating Requirements	**63.9**	**56.0**	**60.2**	**21.3**	**(25.9)**	**(66.0)**
Debt Retirement	**1,113.5**	**1,277.4**	**1,297.9**	**1,300.3**	**1,125.3**	**614.4**
Public Debt Retirement Fund Income (1)	47.2	42.2	20.0	9.1	---	---
Public Debt Retirement Fund Withdrawals	(492.4)	(500.0)	(500.0)	(475.1)	---	---
Net PDRF Requirements	**(445.2)**	**(457.8)**	**(480.0)**	**(466.0)**	**---**	**---**
Sinking Fund Instalments (2)	63.0	60.6	71.5	72.4	73.1	73.6
Sinking Fund Income (1)	122.3	144.1	115.2	108.1	99.0	85.7
Sinking Fund Withdrawals	(320.0)	(218.6)	(325.0)	(375.0)	(250.0)	---
Net Sinking Fund Requirements	**(134.7)**	**(13.9)**	**(138.3)**	**(194.5)**	**(77.9)**	**159.3**
Total Requirements	**597.5**	**861.7**	**739.8**	**661.1**	**1,021.5**	**707.7**
Change in Short-Term Borrowing (Increase)/Decrease	**(165.0)**	**253.9**	**(400.0)**	**---**	**---**	**---**
Year-to-Date Borrowing	**---**	**---**	**(110.0)**	**---**	**---**	**---**
Total Borrowing Requirements	**432.5**	**1,115.6**	**229.8**	**661.1**	**1,021.5**	**707.7**

Term Debt Borrowing (Proceeds):		
CPP		90.6
Domestic Syndicated		600.0
Floating Rate Notes		125.0
Medium Term Notes - Other		50.0
Structured Retail		250.0
Total - Term Debt Borrowing		**1,115.6**

(1) - Sinking Fund and Public Debt Retirement Fund income is included in the calculation of the provincial (surplus)/deficit but retained in the funds and therefore is not available for consolidated fund operating activities. Thus, it is shown as a borrowing requirement.

(2) - Sinking funds are required to be maintained for certain debt issues in accordance with debenture covenants. Public Debt Retirement Funds are designed to help manage short-term liquidity and pre-funding.

PROJECTED GROSS and NET DEBT — *Schedule 19*

($ millions)

	ACTUAL 2002-2003	*FORECAST 2003-2004*	*ESTIMATE 2004-2005*	*ESTIMATE 2005-2006*	*ESTIMATE 2006-2007*	*ESTIMATE 2007-2008*
Gross Debt						
Opening Balance	**14,474.3**	**14,198.6**	**13,487.3**	**13,002.7**	**12,363.5**	**12,259.7**
Borrowing Program	932.0	1,115.6	339.8	661.1	1,021.5	707.7
Debt Retirement	(1,350.8)	(1,277.4)	(1,297.9)	(1,300.3)	(1,125.3)	(614.4)
Foreign Exchange (Gain)/Loss	(41.9)	(295.5)	73.5	---	---	---
Change in Other Unfunded Debt	185.0	(254.0)	400.0	---	---	---
Closing Balance	**14,198.6**	**13,487.3**	**13,002.7**	**12,363.5**	**12,259.7**	**12,353.0**
Less: Public Debt Retirement Funds						
Opening Balance	**1,794.8**	**1,403.8**	**946.0**	**466.0**	**---**	**---**
Earnings	55.0	42.2	20.0	9.1	---	---
Debt Retirement	(446.0)	(500.0)	(500.0)	(475.1)	---	---
Closing Balance	**1,403.8**	**946.0**	**466.0**	**---**	**---**	**---**
Less: Sinking Funds						
Opening Balance	**2,171.0**	**2,042.7**	**2,026.4**	**1,888.1**	**1,693.6**	**1,615.7**
Instalments	239.1	60.6	71.5	72.4	73.1	73.6
Earnings	137.6	144.1	115.2	108.1	99.0	85.7
Debt Retirement	(505.0)	(221.0)	(325.0)	(375.0)	(250.0)	---
Closing Balance	**2,042.7**	**2,026.4**	**1,888.1**	**1,693.6**	**1,615.7**	**1,775.0**
Net Debt	**10,752.1**	**10,514.9**	**10,648.6**	**10,669.9**	**10,644.0**	**10,578.0**

Gross Debt includes outstanding debentures, short-term promissory notes net of related investments, debt associated with hospitals and public schools, and debt assumed for Teachers' Pension Fund, less on-lending to the Nova Scotia Municipal Finance Corporation.

PROJECTED CONSOLIDATED STATEMENT of NET DIRECT DEBT

Schedule 20

($ millions)

	ACTUAL 2002-2003	*FORECAST* 2003-2004	*ESTIMATE* 2004-2005	*ESTIMATE* 2005-2006	*ESTIMATE* 2006-2007	*ESTIMATE* 2007-2008
Opening Balance	**12,128.0**	**12,205.9**	**12,339.5**	**12,459.2**	**12,545.0**	**12,590.8**
Add (Deduct):						
Provincial (Surplus) Deficit	(31.6)	(14.5)	(2.1)	---	---	---
Debt Retirement Plan	---	---	(10.0)	(31.0)	(56.0)	(106.0)
Increase (Decrease) in the Net Book Value of Tangible Capital Assets	109.4	148.1	131.8	116.8	101.8	86.8
Increase (Decrease) in Inventories of Supplies	0.3	---	---	---	---	---
Increase (Decrease) in Prepaid Expenses	(0.2)	---	---	---	---	---
Increase (Decrease) in Net Direct Debt	**77.9**	**133.6**	**119.7**	**85.8**	**45.8**	**(19.2)**
Closing Balance	**12,205.9**	**12,339.5**	**12,459.2**	**12,545.0**	**12,590.8**	**12,571.6**

Net Direct Debt

Net Direct Debt is the accumulated Provincial (Surpluses) Deficits plus the change in the Net Book Value of Tangible Capital Assets.