
Nova Scotia Department of Finance
Accountability Report
2005-2006

Department of Finance

Accountability Report for Fiscal Year 2005-2006

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Accountability Statement

The accountability report of the Department of Finance for the year ended March 31, 2006, is prepared pursuant to the Provincial Finance Act and government policies and guidelines. These authorities require the reporting of outcomes against the Department of Finance business plan information for the fiscal year 2005-2006. The reporting of the Department's outcomes necessarily includes estimates, judgments and opinions by Department of Finance management.

We acknowledge that this accountability report is the responsibility of department management. The report is, to the extent possible, a complete and accurate representation of outcomes relative to the goals and priorities set out in the Department's business plan for the year.

Honourable Michael Baker
Minister of Finance

Vicki Harnish
Deputy Minister

Message from the Minister

I am pleased to present the Department of Finance's accountability report for the fiscal year 2005-06. The department had a busy and productive year in 2005-2006, and this report outlines the highlights.

Finance played a key role in preparing the Province of Nova Scotia's very successful fiscal plan in 2005-2006. For the fourth consecutive year, the province introduced a balanced budget and ended the year in a surplus position. The \$228 million surplus was higher than expected, and \$167 million more than that required under the province's debt reduction plan.

The Nova Scotia Pension Agency was created in 2005-2006, to better meet the needs of members of pension plans for provincial employees and teachers.

Staff participated actively in federal-provincial activities on the fiscal imbalance issue. A discussion paper entitled *A Sustainable Approach to Equalization: Nova Scotia's Perspective* was completed, and the department supported the Premier and others in presenting Nova Scotia's position on the national scene.

The Department of Finance made HR a priority in 2005-2006, and staff and managers participated in career planning and succession management activities. We also moved forward with various administrative improvements throughout the department, including the implementation of the new HR-Payroll system. This will pay dividends for years to come.

I would like to thank staff of the Department of Finance for their efforts to meet their business plan targets, and contribute to the effective management of Nova Scotia taxpayer funds.

Honourable Michael Baker
Minister

Accountability Report, 2005-2006

This Accountability Report is based on the goals, priorities and intended outcomes that were included in the Department of Finance's Business Plan, 2005-2006. The purpose of the report is to account for progress made in achieving the goals and priorities, and to measure performance within key business areas. Historical and comparative information has been included within the performance measurement section to provide greater clarification and explanation of information for the reader.

Mission

Establish a fiscal climate conducive to economic growth and provide central agency support and policy direction for effective management of the Province's finances.

Core Business Areas

Financial Management

A core business that involves financial accountability in the management and control of the province's finances, expenditure monitoring and reporting (shared with Treasury & Policy Board), and accounting, payroll, and pension administration.

Investment and Treasury Management

A core business that includes the processes, policies and procedures that ensure effective money management, maximizing return on investments, and minimizing debt-servicing costs within risk tolerances acceptable to government. Specific business activities include managing the debt portfolio, provincial pension funds, and the treasury function.

Fiscal Planning and Policy

This core business includes: fiscal planning and budgeting (shared with Treasury and Policy Board), revenue and economic forecasting, and tax policy/analysis and federal fiscal policies and arrangements.

Central Agency Services

A core set of services that supports programs and public resources throughout the provincial government, including: corporate information systems, internal audit, statistics, and economic analysis.

Strategic Goals, 2005-2006

1. Develop fiscal and economic strategies to help government realise its fiscal, social and economic development objectives.
2. Create understandable and informative reporting on financial results while applying Public Sector Accounting Board (PSAB) recommendations.
3. Develop the province's position and strategy to promote an equitable and adequate share of resources relative to federal/provincial funding arrangements.
4. Continue to enhance the department's strategic focus, concentrating initially on effective risk management and workforce strategies (development of our people).

Progress and Accomplishments: Priorities for 2005-2006

Priorities included in the 2005-2006 Business Plan were grouped under the relevant Strategic Goal. The same format has been followed for the Accountability Report.

Strategic Goal #1: Develop fiscal and economic strategies to help government realise its fiscal, social and economic development objectives.

Priority #1

Lead the development of a fiscal plan that includes a balanced budget for 2005-2006 and adequate surplus funds to fulfill the requirements of the provincial debt reduction plan, and in partnership with Treasury and Policy Board (TPB) monitor, report and advise on the ongoing implementation of the fiscal plan.

Accomplishments, 2005-2006

- The 2005-2006 budget was tabled on April 26th, 2005 with a projected surplus of \$63.3 million dollars. An actual surplus of \$ 228.1 million was reported for 2005-2006. This represented the 4th consecutive provincial balanced budget.
- The 2005-2006 budget included \$61.1 million allocated to the debt to fulfill the requirements of the provincial debt reduction plan. This included a \$4.0 million debt retirement contingency and \$57.1 million in deferred revenue from the Offshore Offset Agreement, in keeping with the Premier's commitment that all monies from the Offshore Agreement with

December 13, 2006

- the federal government would be applied to the debt. The actual surplus of \$228.1 million was entirely applied to the debt.
- Public Budget Forecast updates were issued on August 31 and December 14, 2005, and with the 2006-2007 Budget.
- Monthly Presentations (in conjunction with TPB) were made to Executive Council to update the members on the 2005-2006 budget forecast.

Priority #2

Finalize the implementation of e-Merge, the human resource and payroll modules of the SAP enterprise resource planning system within government departments and agencies, and manage the transition from HRMS payroll system to the SAP-HR module in order to effectively generate payroll for all government employees, school board employees and pensioners. In collaboration with the Office of Economic Development and SNSMR, continue to implement the SAP Utilities and Tax Module (CCS) in the Municipal Sector, and in collaboration with the Office of Economic Development and the Department of Health, review options for financial and human resource management information systems in District Health Authorities (DHAs).

Accomplishments, 2005-2006

- The transformation of payroll to SAP-HR was implemented in April 2005 for all employees and pensioners.
- The Corporate Information Systems group at the Department of Finance have worked with the Public Service Commission and the HR business community to develop and test various system enhancements over the past year.
- Several system changes and enhancements have been made to respond to collective agreement awards. Other process and system problems were worked to address problems affecting employees, including some specific to certain union bargaining units such as CUPE.
- In 2005-2006, the Department of Health awarded a consulting contract to lead the development of a Blueprint for the DHA initiative. The Department of Finance sits on the Management Steering Committee for the DHA project. In addition, in 2005-2006, the Halifax Water Commission implemented SAP-based water billing (i.e, SAP Utilities and Tax Module).

Priority #3

Review the province's system of taxation and overall level of tax burden with a view to ensuring efficiency, promoting competitiveness and responding to the social needs of Nova Scotians within the fiscal resources available.

Accomplishments, 2005-2006

- Foundation research was carried out on the Province's tax competitiveness, efficiency and social responsiveness, including: acquiring detailed taxpayer profile information, reviewing Nova Scotia's tax competitiveness, stating principles of tax policy and scanning public positions on Nova Scotia's taxes.
- Focus groups and on-line surveys were conducted to gather perspectives from business leaders throughout the Province.
- This research enabled the Department to evaluate long-term tax measures in preparation for 2006-07 Budget announcements that amended basic deductions for Personal Income Taxes and phased out the Large Corporations Tax. It also informed the development of new tax measures for biofuels and the Graduate Tax Credit.

Strategic Goal #2: Create understandable and informative reporting on financial results while applying PSAB recommendations.

Priority #4

Support compliance with Generally Accepted Accounting Principles (GAAP) by revising Public Accounts reporting to reflect new Public Sector Accounting Board (PSAB) standards - the accounting guidelines for governments in Canada. In addition, effectively communicate emerging PSAB-related issues to stakeholders and interest groups, and improve other financial reports, such as the Estimates and quarterly forecasts.

Accomplishments, 2005-2006

- The Province's Public Accounts are completed in compliance to PSAB GAAP. For 2005-2006 the Province once again received an unqualified audit from the OAG.
- For 2005-2006 the Province completed the required reporting of Inventories as well as enhanced the content of the Financial Statement Discussion and Analysis section of the Public Accounts.
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- Improvement to other financial reports such as the Supplement to the Public Accounts and the Estimates was deferred until provincial comparisons and stakeholder consultations are completed.

Priority #5

Commence the consolidation of existing accounts receivable systems throughout government into one corporate Accounts Receivable (AR) by moving all or most of the AR accounts into SAP-AR. A corporate system will provide for improved data management, reporting and analysis functions, and the enhancement of internal controls, including relevant policies and procedures.

Accomplishments, 2005-2006

- Preparatory planning to enable a quick turn-around in 2006-2007 was undertaken in 2005-2006.

Strategic Goal #3: Develop the province's position and strategy to promote an equitable and adequate share of resources relative to federal/provincial funding arrangements.

Priority #6

Effectively analyze, provide advice to government and represent the province's position on key federal/provincial funding agreements. This will involve closely monitoring and contributing to the work of the Federal/Provincial Equalisation Plan and studying the allocation and future growth of the Equalisation transfer program to provinces. Similar work will be involved in monitoring and contributing to the work of the Council of the Federation Panel, studying the existence, implications and solutions to the issue of Fiscal Imbalance between the Federal government and the provinces. In addition, the province will continue to focus its efforts on the need for adequate Federal funding for the Canada Social Transfer (CST) for Post Secondary Education and Social Assistance.

Accomplishments, 2005-2006

- Nova Scotia officials met with both the Expert Panel and the Council of the Federation Panel to discuss Nova Scotia's views on how Equalization should be reformed and to explain the Province's position on the Offshore Accord and its relationship to the issues under discussion.

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- The Department participated in the Atlantic equalization consultation hosted by the Atlantic Provinces Economic Council in July 2005.
- The discussion paper “A Sustainable Approach to Equalization: Nova Scotia’s perspective” was completed by the Department. The paper put forth Nova Scotia’s recommendations for changes to the Equalization formula and corresponding treatment of the Canada-Nova Scotia Offshore Petroleum Resources Accord. This paper was officially submitted to the federal Expert Panel on Equalization.
- The Department provided support for the Premier’s in-person presentation to the federal Expert Panel on Equalization.
- The Department provided support for the Premier’s in-person presentation to the Council of the Federation Advisory Panel on Fiscal Imbalance.
- Working through the Council of the Federation, the Department participated in a special meeting for provincial/territorial departments responsible for post-secondary education, skills training, and finance.
- Ongoing analysis was conducted throughout the year analysing the issues and implications from a Nova Scotia perspective with briefing and advice provided to the Minister, Cabinet, and the Premier as they engaged in related Federal-Provincial discussions.

Priority #7

Work with the Federal government and other provinces to address issues that arise with respect to our Federal-Provincial Tax Agreements respecting Income Taxes, the Harmonized Sales Tax, as well as Reciprocal Taxation Agreements.

Accomplishments, 2005-2006

- The Province and the Federal government successfully concluded negotiations on a renewed Tax Collection Agreement for personal income taxes, corporate income taxes and the Large Corporations Tax.
- The Province began review of the Reciprocal Taxation Agreement with the Federal government.
- The Province began negotiations under the Comprehensive Integrated Tax Coordination Agreement (CITCA) to provide a point-of-sale rebate of the provincial portion of the HST on books containing CD-ROMs.
- The Province participated in the second review of the Revenue Allocation framework under CITCA.

Priority #8

Work with Inter-governmental Affairs and other relevant partners to strategically identify the key inter-governmental funding priorities for government, and promote a coordinated, corporate approach to federal/provincial negotiations and agreements.

Accomplishments, 2005-2006

- Participated in the Interdepartmental committee on Federal-Provincial Agreements to cooperatively identify recommended priorities that government should pursue.
- Worked closely with Intergovernmental Affairs to design a process whereby departments would review and prioritize their federal-provincial agreements with a view to integrating the related budget implications into a feasible strategy conducive to the province's fiscal plan.
- Worked closely with the Departments of Education and Community Services to assess and develop a recommendation for the renewal of the province's Labour Market Development Agreement.
- Worked closely with
- Worked with Intergovernmental Affairs and other departments to advise them of the fiscal implications and recommended position of the province in respect of the various issues under consideration as part of the Fiscal Imbalance discussions.

Strategic Goal #4: Continue to enhance the department's strategic focus overall, with immediate concentration on effective risk management and workforce strategies (development of our people).

Priority #9

Implement the audit recommendations of the Deloitte report by establishing a Middle Office function that will provide an ongoing auditing and compliance service for treasury services, investments and capital markets, enhanced governance and a more complete segregation of duties for transactions. Implement risk management strategies that include the development and implementation of business continuity plans and formalised policies and standards to strengthen internal management controls within the relevant divisions.

Accomplishments, 2005-2006

- Director, Middle Office was hired May 2005 and the recommendations of the Deloitte report were implemented, including authorized investment policies and processes for the Nova Scotia Pension Agency and the Department of Finance. The Middle Office now provides risk oversight for the Department of Finance and the Nova Scotia Pension Agency.

- The Department commenced business continuity planning (BCP). The BCP project team compiled a list of the Department's business functions and prioritized them based on the time sensitivity and the criticality of the service being available after a business interruption.
- The Corporate Information Services Division implemented a Section 5900/5970 audit process on an annual basis which includes nine Control Objectives for the SAP operating environment in subject areas such as: Physical Access Control; Computer Operations; Change Management; Backup and Recovery; and Technical Services. Over one hundred
- control procedures have been defined to support these objectives, which the audit will validate to ensure adequate controls are in place within the SAP operating environment.
- The Department participated in an SAP Application Control Audit, which looked at application controls in the financial portion of the SAP system. The results of this audit will be assessed by business workgroups, with the participation of department staff, to ensure a focus is applied to important system-based controls that form an integral part of the overall management controls.

Priority #10

Implement joint trusteeship for the Teachers' Pension Plan in consultation with the NSTU, and continue discussions with stakeholders regarding the Public Service Superannuation Plan with a view to exploring changes in plan governance and securing improvements in plan funding.

Accomplishments, 2005-2006

- An agreement was signed on June 22, 2005 between the Province of Nova Scotia and the Nova Scotia Teachers' Union (NSTU). This agreement made changes to the Teachers' Pension Plan (TPP) to improve its financial health. It also provided a framework for the TPP to be jointly trusted by the Province and the NSTU. The joint trust agreement was signed on March 31, 2006, and joint trusteeship became effective April 1, 2006.
- A working group on plan governance for the Public Service Superannuation Plan (PSSP), which included representatives from the Province of Nova Scotia, the Nova Scotia Government and General Employees Union (NSGEU), and the Canadian Union of Public Employees (CUPE), was established in 2004-2005. It continued to hold meetings in 2005-2006. These meetings ultimately led to the creation in early 2006 of the Public Service Pension Advisory Committee, consisting of representatives from the Province, the NSGEU and CUPE. Its purpose is to provide advice and recommendations to the Minister of Finance, in his capacity as Trustee of the PSSP, for consideration and input on decisions related to the administration and investments of the PSSP.

Priority #11

Implement a revised governance and organisational structure for Internal Audit that will reflect a corporate business approach and will provide the required assurance for accountability and good internal management.

Accomplishments, 2005-2006

- The Charter for an interdepartmental Audit Committee was finalized and approved. The Charter outlines Committee membership (at least three, no less than seven Deputy Ministers or executive heads, including Deputy Ministers of Finance and Treasury and Policy Board), accountability (to Committee of Deputy Ministers), and range of responsibilities:
 - Annually approve risk assessments, audit priorities and audit plans; recommend budget for the Internal Audit function and approve an operating plan;
 - Hire an Internal Audit Director and regularly evaluate his/her performance;
 - Assess the adequacy and allocation of Internal Audit services across the Province and recommend improvements;
 - Resolve any disagreements between management and the Internal Audit function regarding audit findings, including assessment of management response to issues identified by audit activity;
 - Retain independent counsel, auditors, consultants, or others to advise the Audit Committee;
 - Seek any information it requires from employees—all of whom are directed to cooperate with the Audit Committee's requests—or external parties;
 - Meet with organization leaders, internal auditors, or counsel, as necessary; and
 - Report any matters to the Committee of Deputy Ministers annually, or more often as the Committee may deem appropriate.

- A Charter for the Internal Audit function was finalized and approved. The Internal Audit Charter outlines Internal Audit's primary role—to determine whether the Province's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning—and the roles, responsibilities and accountability (Audit Committee) of the Director of Internal Audit
- A revised Internal Audit Organization Chart was approved:
- Significant investments were made in staff professional development in order to support the level of good internal management. Achievements include:
 - Professional Certifications:
 - 1 Certified Internal Auditor (CIA)
 - 1 Certified Government Auditing Professional (CGAP) - the only CGAP designation in the Provincial Government
 - 2 Project Management Professional (PMP) designations
 - St. Mary's Professional Development Program:
 - 1 Certificate in Business Communications

- 1 Strategic Communications for Government Professionals
- Award:
 - NS CMA Society – Charles MacFadden Team Achievement Award

Priority #12

Introduce a series of Human Resource strategies to enhance employee career planning and development, support a department-wide approach to succession management and encourage diversity.

Accomplishments, 2005-2006

- All directors in the Department of Finance participated in a half-day session on “ Career Coaching” a lead in for “Career Development” sessions that were held for all departmental staff.
- All staff participated in Career Development sessions and were encouraged to complete a career path model that was used by the department in developing its succession management plan.
- The Management Team of the department conducted succession-planning sessions where critical positions in the department were identified. This session was followed up with a senior management meeting where succession planning results and career development plans for specific staff were reviewed. Risks and retention concerns were also noted.

Priority #13

Enhance the department’s OH&S efforts by broadening its focus to include wellness issues and to ensure departmental employees are kept informed of activities and progress on a regular basis.

Accomplishments, 2005-2006

- A representative from the Department’s Directors Forum was recruited to act as co-chair of the Occupational Health and Safety Committee (OHSC) with a mandate to broaden the committee’s activities to include a stronger wellness component
- Several new members with a broader wellness interest were added to the (OHSC)
- OHSC members participated on several provincial Healthy Workplace committees
- The OHSC advised department employees of Healthy Workplace activities and initiatives that were available to them, held regular meetings and posted minutes on all floors
- OHSC recommended that the transition to a Healthy Workplace Framework be included in the Department’s 2006-2007 Business Plan

Accountability Report Department of Finance

Budgeting Context FY 2005-06

	2004/05 Estimate (Per 2006/07 Estimates Book) (\$ thousands)	2004/05 Actual (Per 2006/07 Estimates Book) (\$ thousands)	2005/06 Estimate (Per 2006/07 Estimates Book) (\$ thousands)	2005/06 Actual (\$ thousands)
Total Program Expenses - GROSS (note 1)	\$28,530	\$30,307	\$34,759	\$35,720
Net Program Expenses - Net of Recoveries (note 2)	\$14,134	\$12,312	\$16,858	\$15,296
TCA Cash Flow (note 3)	\$6,759	\$5,819	\$4,700	\$5,213
Salaries & Benefits	\$13,838	\$13,674	\$15,575	\$14,533
Funded Staff - Gross FTEs	233.1	223.7	252.6	221.5
Funded Staff - Net FTEs	153.1	137.7	162	150.0

Significant Variance Explanations: 2005-2006 Estimate to 2005-2006 Actual

1. Total Program Expenses - Gross

An increase of \$961 thousand is attributed to professional services and consulting fees (including investment management fees for the provincial pension funds and consulting fees for the SAP HR payroll project) offset by salary savings due to vacancies, savings in amortization due to changes in capital project schedules and savings in general operating expenses.

2. Net Program Expenses - Net of Recoveries

A decrease in expenses of \$1.6 million is attributed to savings achieved through the management of vacant positions, a reduction in amortization costs due to the delay in the implementation of the school board SAP HR project (JEM), as well as savings in general operating expenses.

3. TCA Cash Flow

An increase in TCA expenditures of \$513 thousand results from additional Cabinet approvals in July 2005 for the SAP HR payroll projects (provincial and school boards).

Measuring Our Performance, 2004-2005

The supporting data presented below reflect the measures included in the 2005-2006 Business Plan and the most recent information available.

Core Business: Financial Management
Measure: Surplus/Deficit Budget
Outcome: Effective management of the province's financial operating resources

What does the measure tell us?

This measure shows the status of the provincial budget. A balanced budget indicates government can accommodate provincial spending within its revenue sources.

Where are we now?

The province tabled another balanced budget on April 26, 2005 budget with a surplus of \$63.3 million.

Where do we want to go?

The target to meet the legislated requirement for a balanced budget was achieved again in 2005-2006. In addition, government legislated that all revenue from the Offshore offset agreement will be applied to the debt and a policy commitment was made to reduce the Net Direct Debt starting in 2007-2008.

To assist government in achieving the target of a balanced budget, the Department of Finance works closely with Treasury and Policy Board to ensure expenditures are closely monitored, and continually enhances its fiscal models to improve in-house revenue forecasting.

Core Business: Financial Management
Measure: Timeliness of Public Accounts documentation
Outcome: Open and transparent financial reporting

What does the measure tell us?

It tells us whether or not we are achieving our legislative requirement to release the Public Accounts by September 30th.

Where are we now?

We continue to achieve this measure: the 2005-2006 Public Accounts was released on September 27, 2006.

Where do we want to go?

We would like to further shorten the release date to better match the Public Account releases of other Provinces.

Core Business: Financial Management
Measure: Unqualified audit report
Outcome: Open and transparent financial reporting

What does the measure tell us?

It tells whether or not our Public Accounts are prepared using General Accepted Accounting Principles (GAAP).

Where are we now?

The Province of Nova Scotia continues to receive unqualified audit opinions from the OAG.

Where do we want to go?

To continue this trend by implementing GAAP changes/enhancements as required.

Core Business: Investment and Treasury Management

Measure: Net debt service cost expressed as a percentage of net debt outstanding

Outcome: N/A—this measure was discontinued, in consultation with Government Accounting

Rationale: This measure was removed and was replaced with “credit spread relative to Ontario”. The desired outcome is efficient and prudent management of the Province’s financial assets and liabilities. What has been found with the initial measure is that Nova Scotia’s calculated percentage cannot be compared to other provinces and another meaningful target could not be identified. Nova Scotia’s credit spread relative to Ontario’s relates to the desired outcome and can be independently verified, making it a more meaningful measure.

Core Business: Investment and Treasury Management
Measure: Percentage of foreign debt in debt portfolio
Outcome: Efficient and prudent management of the province's financial assets and liabilities

What does the measure tell us?

This measure indicates the level of foreign currency exposure and the inherent risk to net debt servicing costs where changes occur in the value of the Canadian dollar relative to the US dollar.

Where are we now?

Foreign currency exposure was 13.1% of the debt portfolio as at March 31, 2006. This represents a decline from March 31, 2005 when 16.2% of the province's debt portfolio was denominated in foreign currencies.

Where do we want to go?

Section 52A of the *Provincial Finance Act* requires the province to reduce foreign currency exposure to 20% or less and to refinance all maturities with a term greater than one year in Canadian dollars. The Department of Finance achieved the legislated 20 percent foreign currency exposure target, and continues to reduce foreign currency exposure.

Core Business: Investment and Treasury Management
Measure: Credit ratings by major rating agencies
Outcome: Efficient and prudent management of the province's financial assets and liabilities

What does the measure tell us?

A credit rating is an independent evaluation of a borrower's ability and willingness to pay interest and to repay principal. Rating firms provide investors with these measures of the credit quality of bonds of other financial instruments. A credit rating indirectly affects the borrower's debt servicing costs and the investor's expected rate of return since an investor will demand a higher return on a more risky, lower rated security.

Where are we now?

At March 31, 2006, the province's credit rating was under review with a positive outlook by all three major bond-rating agencies. Moody's Investor Services rated the province at "A2 with a positive outlook. Dominion Bond Rating Service placed the province at "A (low)" also with a positive outlook. The rating by Standard and Poor's stood at "A" with a positive outlook. All of these agencies are expected to upgrade the province by the end of the 2006-2007 fiscal year.

Where do we want to go?

The Department's objective is to maintain and improve upon these ratings.

Core Business:	Investment and Treasury Management
Measure:	Funded ratio of the Public Service Superannuation Plan (PSSP) and the Teachers Pension Plan (TPP)
Outcome:	Effective management of the assets of the provincial pension plans

What does the measure tell us?

This is a standard measure used in the pension industry. It indicates the percentage of a pension plan's liabilities that are backed by assets, on a going-concern basis, as determined by an actuarial valuation (going-concern basis assumes the pension plan will be maintained indefinitely). It is an important indicator of the ability of a pension fund to meet obligations to its members. The closer the funded status is to 100%, the greater the level of confidence plan members (and by extension beneficiaries) have that the plan will be able to pay them the promised benefits upon retirement.

Where are we now?

The following table illustrates the recent funded positions of the PSSP and TPP.

Funded Ratios for the PSSP and TPP, 2002-2005

Date	PSSP	TPP
December 31, 2005	88.0%	93.6%
December 31, 2004	85.2%	81.7%
December 31, 2003	85.8%	81.0%
December 31, 2002	82.1%	76.8%

Source: Nova Scotia Pension Agency

Where do we want to go?

The ultimate goal of a pension plan is to be 100% funded, and this continues to be the long-term target for both pension plans. Investment returns are the most important factor in the ability of a pension plan to become 100% funded, and while returns have improved in recent years, they have not been sufficient to make up the entire shortfall. Other initiatives have therefore been undertaken to help improve the plans' financial positions.

In 2004, contribution rates for the PSSP, for both employees and the employer, were increased by one percentage point each. A cash flow study is being conducted in 2006 that will take a look at what might happen to the plan over the next 25-30 years under various scenarios. This will give stakeholders a clearer picture of what could happen in the future, and what decisions might be required to preserve the financial health of the plan, thereby protecting members' benefits.

The TPP took a significant step in 2005 to improve the financial health of the plan, with the signing of an agreement between the Province of Nova Scotia and the Nova Scotia Teachers' Union. In addition to providing the framework for joint trusteeship that became effective April

1, 2006, this agreement saw members give up the right to guaranteed indexing of their pension. Instead, indexing for future retirements will be contingent on the funded ratio of the plan. In return, the Province contributed \$144 million to the pension fund. The plan's funded ratio is now above 90% for the first time in several years, and the long-term outlook for becoming 100% funded is realistic.

Core Business: Investment and Treasury Management
Measure: Deloitte audit response on schedule; Independent assessment regarding the implementation status of Deloitte audit recommendations
Outcome: Enhanced risk management

What does the measure tell us?

Follow-up audit will report on our progress implementing the recommendations of the Deloitte report

Where are we now?

Director, Middle Office was hired May 2005 and the role of the middle office continues to develop for the Department of Finance and the Nova Scotia Pension Agency. By March 2006, nearly all recommendations of the Deloitte report were implemented, including applicable investment policies, except for the Debt Management Committee Processes that are currently in progress.

Where do we want to go?

Once the Debt Management Committee Processes is identified and approved, we will have completed implementation of the Deloitte report recommendations and will be able to proceed with an independent evaluation. The scope of engagement will be determined with the Internal Audit & Risk Management Center (IARM). IARM will determine if the assignment is to be completed internally (to IARM) or if it should be outsourced.

Core Business: Fiscal Planning and Policy
Measure: Provincial Government Debt (Net Direct Debt) as a percentage of GDP
Outcome: Prudent and sustainable fiscal plan

What does the measure tell us?

Net direct debt as a percentage of GDP is an indicator of the fiscal sustainability and flexibility of the province. The higher the ratio, the greater the debt burden on the residents of Nova Scotia. Due to accounting changes and corrections that must be made throughout the year, the Net Direct Debt is often restated in the year-end financial statements of the province, resulting in changes to this ratio. For information as to the actual accounting adjustments made, the reader is referred to *Public Accounts Volume 1 – Financial Statements, 2005-2006*.

Where are we now?

As at March 31, 2006 the Net Direct Debt to GDP ratio stood at 39.0%. This represents a decrease from the re-stated ratio of 41.2% as at March 31, 2005.

Where do we want to go?

A continued reduction in this ratio remains our target.

Core Business: Fiscal Planning and Policy
Measure: Overall Corporate Income and Capital Tax Rates
Outcome: Positive climate for investment that stimulates economic growth

What does the measure tell us?

Corporate income and capital tax rates measure the overall marginal taxes on Nova Scotia businesses. These rates are the most visible measure of the tax environment for businesses considering investment in Nova Scotia. This measure tells us the general tax rates applied to business income and to business capital. Comparing tax rates with other jurisdictions is a key indicator of Nova Scotia's competitiveness.

Where are we now?

Business Tax Rates as of March 31, 2006

	NS	NB	ON	AB	Federal
General income tax	16.0%	13.0%	14.0% ^a	11.5% ^b	21.0% ^c
Small business income tax	5.0%	2.0%	5.5%	3.0%	12.0%
Large Corporations Tax (Non-financial capital tax)	0.275%	0.25%	0.3%	0%	0%
Corporations Capital Tax (Financial capital tax)	4.0%	3.0%	0.6-0.9%	0%	1.0-1.25%

a - Ontario offers a 2% credit for manufacturing and processing profits, reducing the effective rates for these activities to 12%

b - Alberta's general corporate tax rate was reduced to 10 per cent on April 1, 2006

c - The Federal government also charges a corporate surtax with an effective rate of 1.12% on large corporations

Nova Scotia's business tax rates are generally higher than those of competing Provinces in Canada. Taxes are an important factor in the Province's overall competitive performance and the Province has taken steps to reduce the burden of taxes on the economy. However, the Federal government levies the majority the corporate tax burden in Canada.

Where do we want to go?

The 2006-2007 Budget introduced measures to continue the phase-out and eventual elimination of the Large Corporations Tax by 2012. This tax currently generates about \$60 million in annual revenues. The government's plan provides a prudent balance between business tax relief and the need for revenues to support public programs.

The Department of Finance will continue to review the Province's business taxes to assess their long-term competitiveness, efficiency, sustainability and fairness.

December 13, 2006

Core Business: Fiscal Planning and Policy
Measure: Personal Income Tax Rates and Brackets
Outcome: Positive climate for investment and economic growth

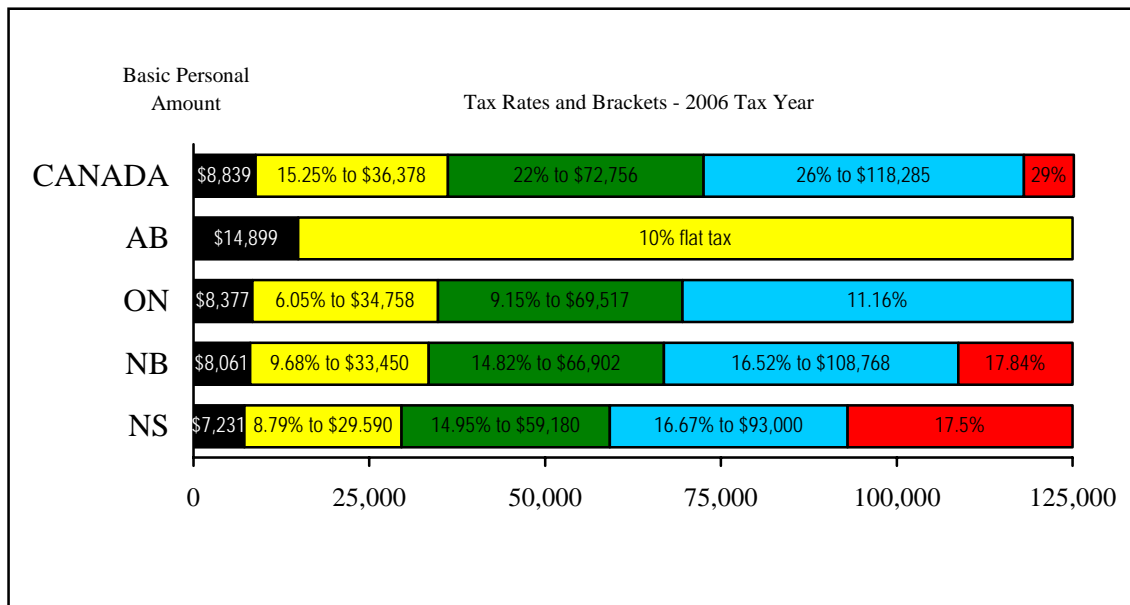
What does the measure tell us?

Personal income tax rates and brackets tell us how much provincial tax individuals in different income ranges would have to pay on their next dollar of taxable income. This measure allows for comparing the tax burden among Provinces at different income levels. Personal income tax rates do not measure the overall level of tax burden because they ignore how much taxable income Nova Scotians actually earn and how it is distributed among them.

Where are we now?

Personal Income Tax Rates and Brackets - 2006

Nova Scotia and Ontario also charge surtax on high-income earners. Nova Scotia's surtax is calculated at 10 per cent of the gross provincial taxes owing over \$10,000. Ontario has two surtaxes of 20 per cent on taxes over \$4,016 and 36 per cent over \$5,065; these are cumulative for a total surtax rate of 56 per cent.



Nova Scotia's personal tax rates are consistent with other Provinces in Atlantic Canada, but higher than in other competing jurisdictions.

Nova Scotia's tax brackets are not indexed. Most other Provinces have indexed tax brackets that grow every year to account for wage growth and inflation. In addition, the Province's Basic Personal Amount of \$7,231 is the lowest in the country; other Provinces increase their Basic Amounts every year. In comparison, the Alberta tax system charges a 10 per cent flat tax on incomes above the 2006 basic amount of \$14,899.

Where do we want to go?

The government has introduced a series of tax measures to reduce the burden on businesses and individuals. This tax relief is planned in a prudent way to ensure that the government can promote the Province's competitiveness with an efficient tax system that meets social needs within the fiscal resources available.

The 2006-07 Budget introduced measures to improve the competitiveness of the personal tax system. Starting in 2007, the government will increase the basic personal amount by \$1,000 over four years. The government will also increase other credits (age, pension, disability, etc.) by 13.8 per cent over the same period. Starting in 2011, the government will index the personal tax system at a prescribed rate.

The government will also provide tax relief to Nova Scotians through the Household Energy Rebate, equal to the Provincial portion of Harmonized Sales Taxes (8 per cent) of home energy purchases.

The Department of Finance will continue to review the Province's personal taxes to assess their long-term competitiveness, efficiency, sustainability and fairness.

Core Business: Central Agency Services
Measure: The number of electronic downloads of statistical publications (internet and intranet web sites)
Outcome: More informed program delivery and policy development

What does the measure tell us?

This is a measure of the number of times electronic publications were downloaded from the Economics and Statistics Division's web sites. The Economics and Statistics Division is responsible for providing government departments and agencies with advice on and access to a wide range of social and economic statistics to support evidence-based decision-making and policy development. We are making a logical link between the downloading of statistics by users and their subsequent use of the statistics, which should contribute to the eventual achievement of the intended outcome - more informed program delivery and policy development.

Where are we now?

In 2005, downloads of statistical publications decreased 26.3 per cent over the 2004 level – compared to a 35.3% increase experienced between 2004 and 2003. The production of an updated Trade publication and an updated Business Statistics publication in the summer of 2005 was expected to boost statistical downloads. The introduction of the new Manufacturing Profile publication in the fall of 2005 was expected to boost downloads also. In February 2006, the Labour Market and Employment Situation reports were combined into one new report, the Labour Market Monthly. Downloads from January-September 2006 are up 39.0%, compared to the same period in 2005, suggesting the trend has reversed itself as a result of these changes.

Where do we want to go?

The target is to increase statistical downloads. While continued increased usage of the statistical information is preferred, the rate of growth is dependent on several factors, including the content and quality of the existing publications, the addition of new publications that add value to the policy decision-making process and the capacity to promote the website to other provincial government departments and agencies.

Core Business: Central Agency Services
Measure: Proportion of District Health Authorities (DHAs) with financial systems in place to monitor spending
Outcome: Enhanced financial accountability

What does the measure tell us?

It tells us which DHAs have the capabilities to manage their financial resources and provide meaningful and timely information to the Province of Nova Scotia.

Where are we now?

The financial systems in place at DHAs vary from basic to robust; some of the basic systems could potentially become unserviceable. Progress towards establishing a comprehensive and timely reporting mechanism to the Province has been limited to date.

Where do we want to go?

The Department of Finance has planned on removing this measure from future Business Plans: the measure does not quantify financial accountability in a direct way and, therefore, is not meaningful in this context. The Department would prefer to have a common system across the DHAs that is compatible with the Province's that could lead to better information and decisions in the health sector.

Core Business: Central Agency Services
Measure: Proportion of MASH sector with systems in place to enhance service delivery
Outcome: Enhanced financial accountability

What does the measure tell us?

It tells us which organizations in the MASH sector have the capabilities to manage their financial resources and provide meaningful and timely information to the Province of Nova Scotia.

Where are we now?

The financial systems in place in the MASH sector vary from basic to robust; some of the basic systems could potentially become unserviceable. Progress towards establishing a comprehensive and timely reporting mechanism to the Province has been limited to date.

Where do we want to go?

The Department of Finance has planned on removing this measure from future Business Plans: the measure does not quantify financial accountability in a direct way and, therefore, is not meaningful in this context. The Department would prefer to have a common system across the MASH sector that is compatible with the Province's that could lead to better information and decisions in the health sector.

Core Business:	Department wide
Measure:	Proportion of staff participating in career development/succession management training programs
Outcome:	Strategic Management

What does the measure tell us?

The level of interest in, and support for staff to pursue initiatives designed to develop and enhance career opportunities for the long-term. This measure is targeted at capturing the personal level of interest, both among staff (as participants) and managers (as catalysts/champions), as opposed to efficiency or effectiveness of programs. In this way, it can also be viewed as a measure of the organizational culture or attitude towards career development and succession management.

Where are we now?

All directors in the Department of Finance participated in a half-day session on “ Career Coaching” a lead in for the “Career Development” sessions that were attended by all departmental staff. The Career Development sessions were designed to encourage staff to complete career path models to be used by the department in developing its succession management plan. As of March 31, 2006, 32 (21.3%) departmental staff had completed career path models.

Where do we want to go?

The department is actively recruiting an HR Development professional for a one-year contract to develop programs and initiatives based in a departmental-wide needs assessment. In order to instill a culture that supports career development and succession management, a focus will be placed on ensuring that new staff are introduced to succession management training and have an opportunity to participate. Maintaining constant communication with staff about training opportunities will also play a key part in strengthening the organizational commitment to career development and succession planning.

