# Nova Scotia Budget
# ASSUMPTIONS AND SCHEDULES

For the fiscal year 2008–2009

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The Honourable Michael G. Baker, Q.C.
Minister of Finance

Nova Scotia
Finance

NOVA SCOTIA

# Nova Scotia Budget
# Assumptions and Schedules

For the fiscal year 2008–2009

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NOVA SCOTIA

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# Budget Overview

The Province of Nova Scotia is tabling its seventh consecutive balanced budget in fiscal 2008–2009, estimating a surplus of $189.7 million.

Total revenues for 2008–2009, including government business enterprises' net income of $358.2 million, are projected to be $8.5 billion, up from the $8.0 billion estimated in 2007–2008. This increase is attributed to a $276.1-million increase in provincial source revenues and a $170.4-million increase in federal source revenues.

Provincial source revenues have increased primarily as a result of increases to income taxes of $139.4 million, HST revenues of $55.2 million, and petroleum royalties of $93.3 million, offset by a decline in tobacco tax revenues of $12.8 million.

Despite equalization payments being flat, federal source revenues are up over 2007–2008 estimates due to increases in health and social transfers of $41.8 million, various federal trust revenues of $49.0 million, and tangible capital assets cost-shared revenue of $51.6 million.

The Offshore Agreement signed between the province and the Government of Canada on February 14, 2005, resulted in a lump sum payment of $830 million. Provincial legislation requires that the funding from the Offshore Agreement is applied to the province's debt and accounted for according to GAAP over the eight-year life of the agreement. The amount accrued in 2008–2009 and recorded under federal revenue sources is $105.9 million, $37.6 million more than the 2007–2008 estimate.

Total expenses for fiscal 2008–2009 are budgeted at $8.3 billion, up $392.8 million from a $7.9-billion total in 2007–2008. Major increases in spending for departments include Health and Health Promotion and Protection,

$189.0 million; Justice, $29.5 million; Community Services, $26.1 million; Service Nova Scotia and Municipal Relations, $27.3 million; Education, $24.1 million; and Transportation and Infrastructure Renewal, $21.8 million. In addition, the Department of Labour and Workforce Development has been created with an initial budget of $62.4 million.

Restructuring costs, a portion of which is for funding of wage negotiations, have increased to $177.7 million, $56.3 million higher than 2007–2008.

Partially offsetting these increases in program spending are gross debt-servicing costs, which are projected to be $904.5 million, down $49.8 million from 2007–2008 costs.

Authority for the annual cost to acquire provincially owned assets is reflected in tangible capital assets. Gross capital purchase requirements in 2008–2009 total $341.4 million, with net purchase requirements totalling $276.4 million (gross requirements less TCA cost-shared revenue). Gross capital funding includes an investment of $182.4 million in the highway system, $109.9 million for buildings, including schools, and $38.6 million for information technology.

In addition, capital funding has been provided to the following government units: $51.7 million for the district health authorities and IWK Health Centre, and $4.1 million in total for Trade Centre Ltd, Waterfront Development Corporation, and InNOVAcorp.

The province's net direct debt to GDP ratio continues its downward trend in fiscal 2008–2009, falling to 34.9 per cent, compared to 36.6 per cent in 2007–2008.

NOVA SCOTIA

# Budget Summary

Supplementary to the 2008-2009 Budget

## BUDGET SUMMARY - STATEMENT OF OPERATIONS

*Schedule 1A*

*($ thousands)*

| ESTIMATE 2006-2007 (Restated) | ACTUAL 2006-2007 | ESTIMATE 2007-2008 | FORECAST 2007-2008 | | ESTIMATE 2008-2009 |
|---|---|---|---|---|---|
| | | | | **Consolidated Fund** | |
| | | | | **Revenues** | |
| 6,612,304 | 6,676,852 | 7,029,569 | 7,297,188 | Ordinary Revenues | 7,476,037 |
| 58,903 | 64,682 | 60,883 | 57,821 | Fees and Other Charges | 60,834 |
| 429,426 | 430,409 | 469,662 | 456,306 | Ordinary Recoveries | 456,375 |
| 87,783 | 121,590 | 113,529 | 110,700 | Sinking Fund Earnings | 114,400 |
| **7,188,416** | **7,293,533** | **7,673,643** | **7,922,015** | | **8,107,646** |
| | | | | **Expenses** | |
| 6,483,836 | 6,495,389 | 6,917,294 | 7,076,789 | Departmental Expenses | 7,360,889 |
| 33,213 | 83,137 | 68,603 | 120,929 | Pension Valuation Adjustment | 67,590 |
| 963,998 | 929,828 | 954,338 | 929,983 | Debt Servicing Costs | 904,522 |
| **7,481,047** | **7,508,354** | **7,940,235** | **8,127,701** | | **8,333,001** |
| **(292,631)** | **(214,821)** | **(266,592)** | **(205,686)** | | **(225,355)** |
| | | | | **Consolidation and Accounting Adjustments for Governmental Units** | |
| 46,402 | 2,711,633 | 40,592 | 28,585 | Consolidated Fund Consolidation Adjustments | 54,499 |
| 4,100 | (1,636,246) | --- | --- | Health and Hospital Boards Operations | --- |
| --- | (887,048) | --- | (6,439) | School Boards Operations | (2,000) |
| (1,533) | 6,115 | 76 | 1,383 | Special Purpose Funds | 385 |
| 5,556 | (137,828) | 309 | (2,393) | Other Organizations | 3,916 |
| **54,525** | **56,626** | **40,977** | **21,136** | | **56,800** |
| | | | | **Net Income from Government Business Enterprises** | |
| 144,200 | 141,717 | 139,600 | 134,500 | Nova Scotia Gaming Corporation | 136,200 |
| 184,500 | 188,241 | 197,070 | 198,100 | Nova Scotia Liquor Corporation | 210,021 |
| 6,364 | 10,683 | 7,374 | 10,404 | Other Enterprises | 12,000 |
| **335,064** | **340,641** | **344,044** | **343,004** | | **358,221** |
| **96,958** | **182,446** | **118,429** | **158,454** | **Provincial Surplus** | **189,666** |

*($ thousands)*

| ***ESTIMATE*** *2006-2007* (Restated) | ***ACTUAL*** *2006-2007* | ***ESTIMATE*** *2007-2008* | ***FORECAST*** *2007-2008* | | ***ESTIMATE*** *2008-2009* |
|---|---|---|---|---|---|

**Note:** The following table provides information as to the various components of the Debt Reduction Plan.

**Components of the Debt Reduction Plan**

| | | | | | |
|---|---|---|---|---|---|
| 4,000 | 4,000 | 17,885 | 43,726 | Debt Retirement - Contingency | 6,365 |
| 57,421 | 57,421 | 68,238 | 68,238 | Offshore Offset Agreement | 105,884 |
| 23,466 | 22,546 | 16,882 | 37,329 | Restricted Surplus - TCA | 65,072 |
| 12,071 | 98,479 | 15,424 | 9,161 | Other | 12,345 |
| **96,958** | **182,446** | **118,429** | **158,454** | | **189,666** |

NOVA SCOTIA

# Fiscal Plan
## 2008–2009 to 2011–2012

Supplementary to the 2008-2009 Budget

## *FISCAL PLAN 2008-2009 to 2011-2012*

*Schedule 1B*

*($ millions)*

| | ESTIMATE 2007-2008 | FORECAST 2007-2008 | ESTIMATE 2008-2009 | ESTIMATE 2009-2010 | ESTIMATE 2010-2011 | ESTIMATE 2011-2012 |
|---|---|---|---|---|---|---|
| ***Consolidated Fund*** | | | | | | |
| ***Revenues*** | 7,673.6 | 7,922.0 | 8,107.7 | 8,455.5 | 8,795.9 | 9,103.9 |
| ***Expenses*** | 7,940.2 | 8,127.7 | 8,333.0 | 8,665.0 | 8,984.4 | 9,309.6 |
| | (266.6) | (205.7) | (225.3) | (209.5) | (188.5) | (205.7) |
| ***Consolidation Adjustments*** | 41.0 | 21.1 | 56.8 | 37.0 | 37.0 | 37.0 |
| ***Net Income Government Business Enterprises*** | 344.0 | 343.0 | 358.2 | 369.0 | 376.5 | 388.3 |
| ***Provincial Surplus*** | 118.4 | 158.4 | 189.7 | 196.5 | 225.0 | 219.6 |

NOVA SCOTIA

# Financial Statistics

Supplementary to the 2008-2009 Budget

## *REVENUES BY SOURCE*

*Schedule 1C*

*($ thousands)*

| | *ACTUAL 2004-2005* (Restated) | *ACTUAL 2005-2006* (Restated) | *ACTUAL 2006-2007* | *FORECAST 2007-2008* | *ESTIMATE 2008-2009* |
|---|---|---|---|---|---|
| **Consolidated Fund Revenues** | | | | | |
| **Provincial Sources** | | | | | |
| Corporate Income Tax | 329,075 | 361,508 | 392,585 | 389,223 | 415,902 |
| Harmonized Sales Tax | 1,031,066 | 1,057,772 | 1,090,758 | 1,078,030 | 1,151,027 |
| Individual Income Tax | 1,462,250 | 1,568,449 | 1,678,995 | 1,780,967 | 1,828,653 |
| Interest Revenues | 70,513 | 81,139 | 81,889 | 75,854 | 81,823 |
| Motive Fuel Taxes | 249,246 | 248,252 | 245,577 | 250,103 | 246,926 |
| Offshore Licenses Forfeitures | 61,000 | 43,208 | 4,227 | 108,808 | --- |
| Registry of Motor Vehicles | 86,688 | 88,173 | 91,996 | 96,343 | 98,122 |
| Royalties - Petroleum | 28,202 | 123,850 | 269,100 | 399,747 | 513,775 |
| Tobacco Tax | 178,285 | 163,617 | 145,091 | 145,357 | 138,127 |
| Other Provincial Sources | 246,900 | 299,445 | 277,140 | 299,074 | 284,338 |
| TCA Cost Shared Revenue | --- | --- | --- | 4,440 | 2,692 |
| Prior Years' Adjustments - Provincial Sources | (63,278) | 16,420 | 13,032 | 83,102 | --- |
| Fees and Other Charges | 60,553 | 60,928 | 64,682 | 57,821 | 60,834 |
| Ordinary Recoveries - Provincial Sources | 191,389 | 203,886 | 247,328 | 263,289 | 254,560 |
| Sinking Fund Earnings | 143,235 | 124,395 | 121,590 | 110,700 | 114,400 |
| **Total - Provincial Sources** | **4,075,124** | **4,441,042** | **4,723,990** | **5,142,858** | **5,191,179** |
| **Federal Sources** | | | | | |
| Canada Health Transfer | 484,528 | 581,015 | 610,477 | 638,954 | 664,185 |
| Canada Social Transfer | 244,867 | 254,964 | 264,304 | 280,412 | 296,869 |
| C48 Infrastructure Trust Funds | --- | --- | 2,468 | 44,168 | 38,767 |
| C52 Trust Funds | --- | --- | --- | 4,208 | 24,547 |
| Equalization Payments | 1,321,774 | 1,343,527 | 1,385,539 | 1,464,528 | 1,464,935 |
| Health Reform Fund | 44,035 | --- | --- | --- | --- |
| Offshore Offset | 34,000 | 4,000 | --- | --- | --- |
| Offshore Oil and Gas Payments | --- | 57,100 | 57,421 | 68,238 | 105,884 |
| Other Federal Sources | 18,348 | 18,201 | 36,985 | 40,466 | 57,085 |
| TCA Cost Shared Revenue | --- | --- | 22,546 | 32,889 | 62,380 |
| Prior Years' Adjustments - Federal Sources | 25,093 | 5,027 | 6,722 | 12,277 | --- |
| Ordinary Recoveries - Federal Sources | 154,592 | 161,954 | 183,081 | 193,017 | 201,815 |
| **Total - Federal Sources** | **2,327,237** | **2,425,788** | **2,569,543** | **2,779,157** | **2,916,467** |
| **Total - Revenues** | **6,402,361** | **6,866,830** | **7,293,533** | **7,922,015** | **8,107,646** |
| **Net Income from Government Business Enterprises** | | | | | |
| Nova Scotia Gaming Corporation | 170,031 | 155,335 | 141,717 | 134,500 | 136,200 |
| Nova Scotia Liquor Corporation | 170,034 | 181,217 | 188,241 | 198,100 | 210,021 |
| Other Government Business Enterprises | 9,442 | 8,867 | 10,683 | 10,404 | 12,000 |
| | **349,507** | **345,419** | **340,641** | **343,004** | **358,221** |
| **Total - Revenues** | **6,751,868** | **7,212,249** | **7,634,174** | **8,265,019** | **8,465,867** |

## *REVENUES BY SOURCE*

*Schedule 1C*

*(as a percentage of Total Revenue)*

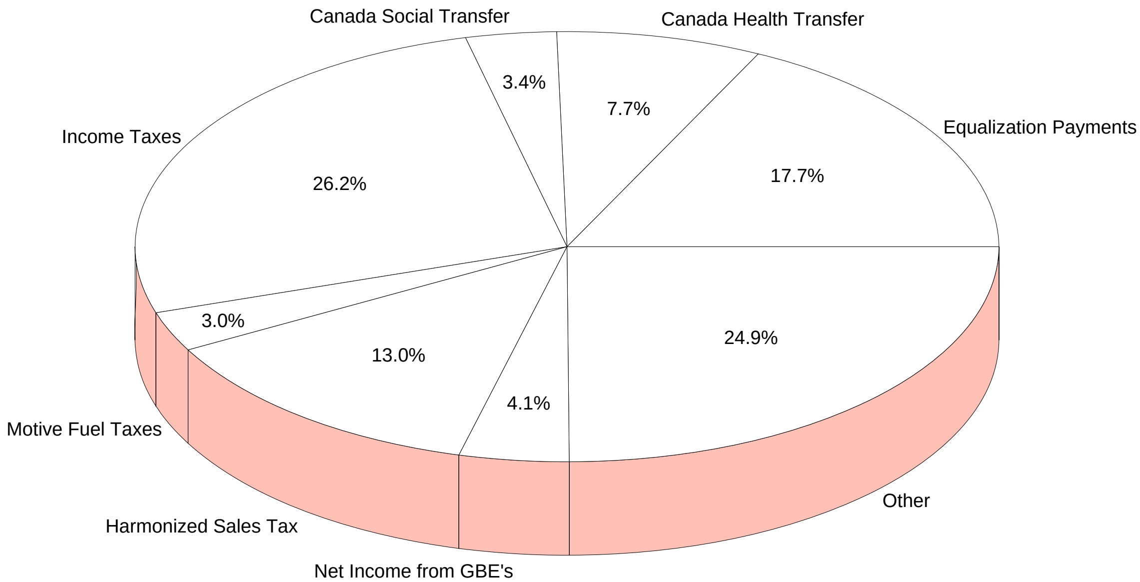
*(continued)*

| | ACTUAL 2004-2005 (Restated) | ACTUAL 2005-2006 (Restated) | ACTUAL 2006-2007 | FORECAST 2007-2008 | ESTIMATE 2008-2009 |
|---|---|---|---|---|---|
| **Consolidated Fund Revenues** | | | | | |
| **Provincial Sources** | | | | | |
| Corporate Income Tax | 4.9% | 5.0% | 5.1% | 4.7% | 4.9% |
| Harmonized Sales Tax | 15.3% | 14.7% | 14.3% | 13.0% | 13.6% |
| Individual Income Tax | 21.7% | 21.7% | 22.0% | 21.5% | 21.6% |
| Interest Revenues | 1.0% | 1.1% | 1.1% | 0.9% | 1.0% |
| Motive Fuel Taxes | 3.7% | 3.4% | 3.2% | 3.0% | 2.9% |
| Offshore Licenses Forfeitures | 0.9% | 0.6% | 0.1% | 1.3% | --- |
| Registry of Motor Vehicles | 1.3% | 1.2% | 1.2% | 1.2% | 1.2% |
| Royalties - Petroleum | 0.4% | 1.7% | 3.5% | 4.8% | 6.1% |
| Tobacco Tax | 2.5% | 2.3% | 1.9% | 1.8% | 1.6% |
| Other Provincial Sources | 3.7% | 4.2% | 3.6% | 3.6% | 3.4% |
| TCA Cost Shared Revenue | --- | --- | --- | 0.1% | --- |
| Prior Years' Adjustments - Provincial Sources | -0.9% | 0.2% | 0.2% | 1.0% | --- |
| Fees and Other Charges | 0.9% | 0.8% | 0.8% | 0.7% | 0.7% |
| Ordinary Recoveries - Provincial Sources | 2.8% | 2.8% | 3.2% | 3.2% | 3.0% |
| Sinking Fund Earnings | 2.1% | 1.7% | 1.6% | 1.3% | 1.4% |
| **Total - Provincial Sources** | **60.3%** | **61.4%** | **61.8%** | **62.1%** | **61.4%** |
| **Federal Sources** | | | | | |
| Canada Health Transfer | 7.2% | 8.1% | 8.0% | 7.7% | 7.8% |
| Canada Social Transfer | 3.6% | 3.5% | 3.5% | 3.4% | 3.5% |
| C48 Infrastructure Trust Funds | --- | --- | --- | 0.5% | 0.5% |
| C52 Trust Funds | --- | --- | --- | 0.1% | 0.3% |
| Equalization Payments | 19.6% | 18.6% | 18.1% | 17.7% | 17.3% |
| Health Reform Fund | 0.7% | --- | --- | --- | --- |
| Offshore Oil and Gas Payments | --- | 0.8% | 0.8% | 0.8% | 1.3% |
| Other Federal Sources | 0.3% | 0.3% | 0.6% | 0.5% | 0.7% |
| TCA Cost Shared Revenue | --- | --- | --- | 0.4% | 0.7% |
| Prior Years' Adjustments - Federal Sources | 0.4% | 0.1% | 0.1% | 0.1% | --- |
| Ordinary Recoveries - Federal Sources | 2.3% | 2.2% | 2.4% | 2.3% | 2.3% |
| **Total - Federal Sources** | **34.1%** | **33.6%** | **33.5%** | **33.5%** | **34.4%** |
| **Total - Revenues** | **94.4%** | **95.0%** | **95.3%** | **95.6%** | **95.8%** |
| **Net Income from Government Business Enterprises** | | | | | |
| Nova Scotia Gaming Corporation | 2.5% | 2.2% | 1.9% | 1.6% | 1.6% |
| Nova Scotia Liquor Corporation | 2.5% | 2.5% | 2.5% | 2.4% | 2.5% |
| Other Government Business Enterprises | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% |
| | **5.1%** | **4.8%** | **4.5%** | **4.1%** | **4.2%** |
| **Total Revenues** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |

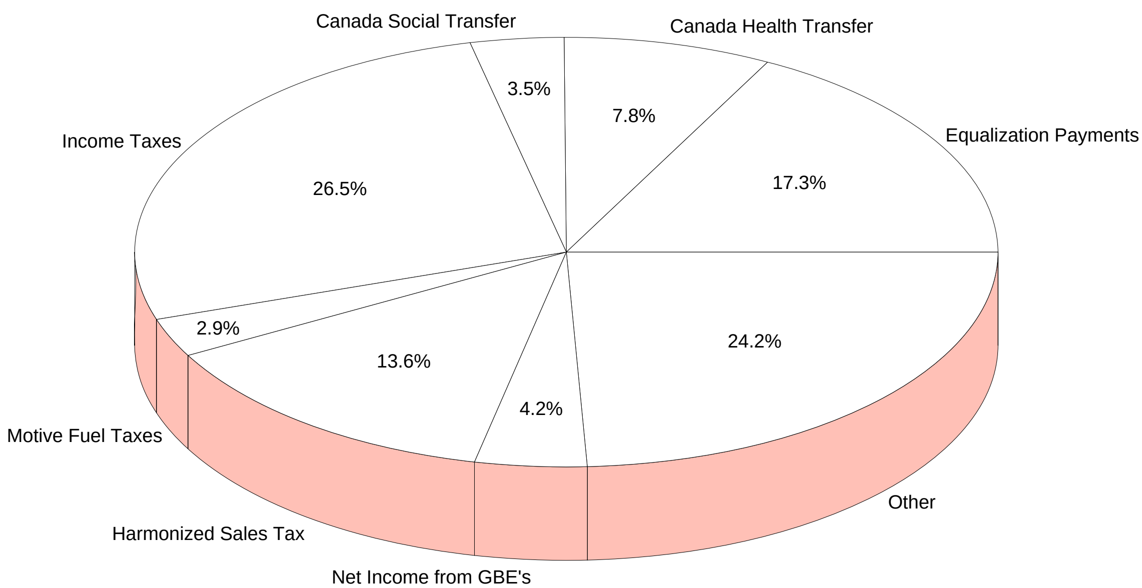
## *REVENUES BY SOURCE*

*Chart 1A*

### *2007-2008 FORECAST*




### *2008-2009 ESTIMATE*



## *EXPENSES BY DEPARTMENT* 

*Schedule 1D*

*($ thousands)*

| | ACTUAL 2004-2005 (Restated) | ACTUAL 2005-2006 (Restated) | ACTUAL 2006-2007 | FORECAST 2007-2008 | ESTIMATE 2008-2009 |
|---|---|---|---|---|---|
| Agriculture | 63,220 | 62,370 | 54,652 | 67,305 | 59,563 |
| Community Services | 776,918 | 792,747 | 817,962 | 867,488 | 912,570 |
| Economic Development | --- | --- | 71,730 | 100,512 | 91,645 |
| Education | 1,054,605 | 1,110,881 | 1,186,958 | 1,238,703 | 1,261,744 |
| Assistance to Universities | 235,195 | 231,958 | 268,710 | 400,312 | 230,511 |
| Energy | 8,439 | 21,686 | 17,003 | 20,900 | 21,817 |
| Environment | --- | --- | --- | --- | 44,607 |
| Environment and Labour | 39,267 | 39,841 | 40,940 | 50,032 | --- |
| Finance | 13,827 | 16,665 | 20,066 | 27,782 | 29,871 |
| Fisheries and Aquaculture | --- | --- | 6,168 | 7,091 | 7,463 |
| Health | 2,461,872 | 2,670,635 | 2,898,393 | 3,022,490 | 3,205,939 |
| Health Promotion and Protection | | --- | 50,290 | 68,252 | 87,526 |
| Justice | 192,986 | 206,672 | 215,487 | 234,727 | 262,244 |
| Labour and Workforce Development | --- | --- | --- | --- | 62,443 |
| Natural Resources | 62,271 | 66,678 | 69,107 | 86,957 | 84,638 |
| Public Service | 170,776 | 214,919 | 117,130 | 138,806 | 156,350 |
| Seniors | --- | --- | --- | --- | 2,127 |
| Service Nova Scotia and Municipal Relations | 135,228 | 138,937 | 194,661 | 241,683 | 254,539 |
| Tourism, Culture and Heritage | 59,231 | 51,728 | 54,717 | 57,584 | 56,727 |
| Transportation and Infrastructure Works | 262,030 | 277,021 | 297,361 | 361,138 | 350,875 |
| Restructuring Costs | 64,910 | 90,656 | 116,017 | 87,905 | 177,690 |
| Loss on the Disposal of Assets | (2,754) | (357) | (1,963) | (2,878) | --- |
| **Total Program Expenses** | **5,598,021** | **5,993,037** | **6,495,389** | **7,076,789** | **7,360,889** |
| Pension Valuation Adjustment | 6,221 | 30,327 | 83,137 | 120,929 | 67,590 |
| Debt Servicing Costs | 1,033,675 | 987,891 | 929,828 | 929,983 | 904,522 |
| **Total Expenses** | **6,637,917** | **7,011,255** | **7,508,354** | **8,127,701** | **8,333,001** |

## *EXPENSES BY DEPARTMENT*

*(as a percentage of Total Net Expenses)*

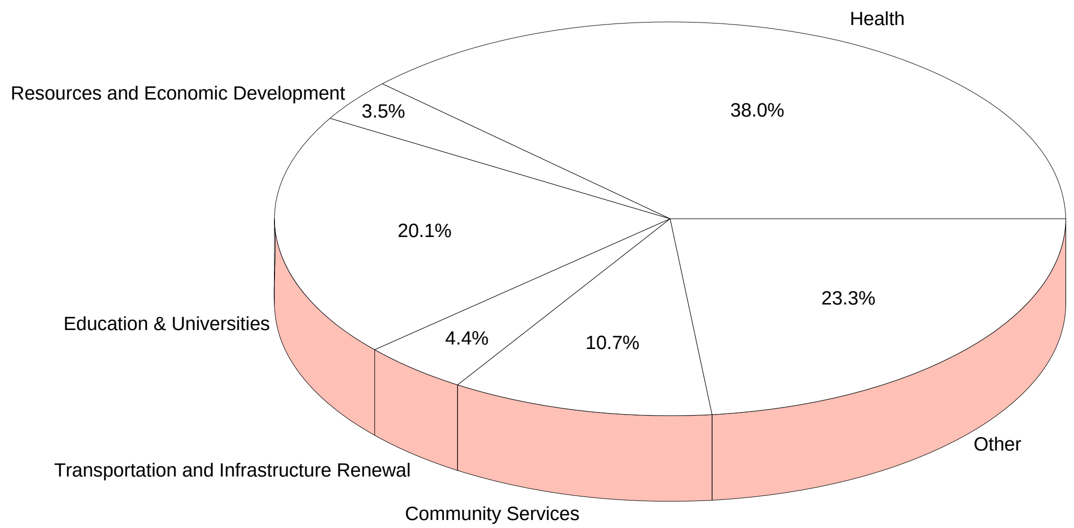
*Schedule 1D*
*(continued)*

| | ***ACTUAL*** *2004-2005* (Restated) | ***ACTUAL*** *2005-2006* (Restated) | ***ACTUAL*** *2006-2007* | ***FORECAST*** *2007-2008* | ***ESTIMATE*** *2008-2009* |
|---|---|---|---|---|---|
| Agriculture | 1.0% | 0.9% | 0.7% | 0.8% | 0.7% |
| Community Services | 11.7% | 11.3% | 10.9% | 10.7% | 11.0% |
| Economic Development | --- | --- | 1.0% | 1.2% | 1.1% |
| Education | 15.9% | 15.8% | 15.8% | 15.2% | 15.1% |
| Assistance to Universities | 3.5% | 3.3% | 3.6% | 4.9% | 2.8% |
| Energy | 0.1% | 0.3% | 0.2% | 0.3% | 0.3% |
| Environment | --- | --- | --- | --- | 0.5% |
| Environment and Labour | 0.6% | 0.6% | 0.5% | 0.6% | --- |
| Finance | 0.2% | 0.2% | 0.3% | 0.3% | 0.4% |
| Fisheries and Aquaculture | --- | --- | 0.1% | 0.1% | 0.1% |
| Health | 37.1% | 38.1% | 38.6% | 37.2% | 38.5% |
| Health Promotion and Protection | --- | --- | 0.7% | 0.8% | 1.1% |
| Justice | 2.9% | 2.9% | 2.9% | 2.9% | 3.1% |
| Labour and Workforce Development | --- | --- | --- | --- | 0.7% |
| Natural Resources | 0.9% | 1.0% | 0.9% | 1.1% | 1.0% |
| Public Service | 2.6% | 3.1% | 1.6% | 1.7% | 1.9% |
| Seniors | --- | --- | --- | --- | --- |
| Service Nova Scotia and Municipal Relations | 2.0% | 2.0% | 2.6% | 3.0% | 3.1% |
| Tourism, Culture and Heritage | 0.9% | 0.7% | 0.7% | 0.7% | 0.7% |
| Transportation and Infrastructure Renewal | 3.9% | 4.0% | 4.0% | 4.4% | 4.2% |
| Restructuring Costs | 1.0% | 1.3% | 1.5% | 1.1% | 2.1% |
| **Total Program Expenses** | **84.3%** | **85.5%** | **86.6%** | **87.0%** | **88.4%** |
| Pension Valuation Adjustment | 0.1% | 0.4% | 1.1% | 1.5% | 0.8% |
| Debt Servicing Costs | 15.6% | 14.1% | 12.5% | 11.4% | 10.9% |
| **Total Expenses** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |

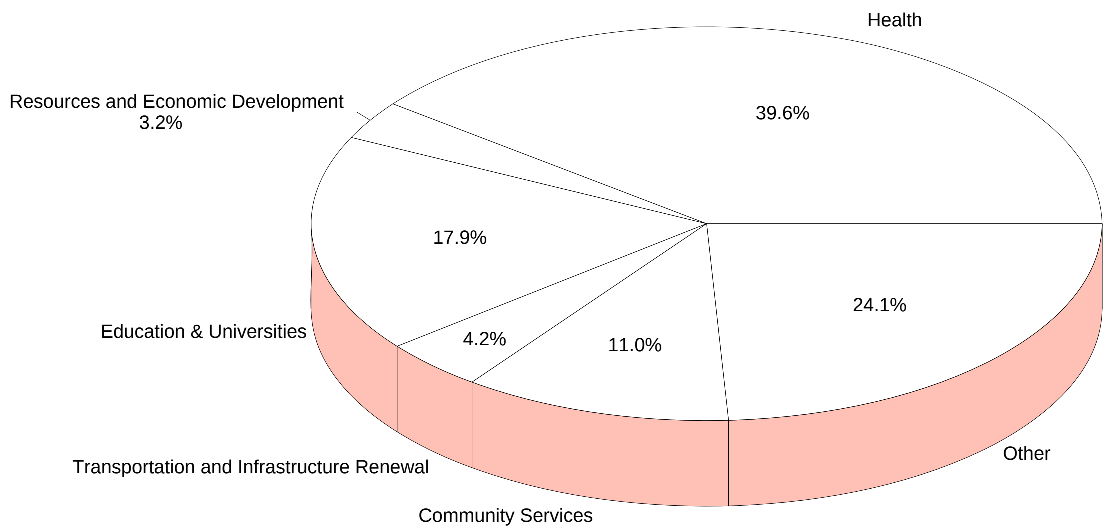
## *TOTAL EXPENSES BY DEPARTMENT*

*Chart 1B*

### *2007-2008 FORECAST*




### *2008-2009 ESTIMATE*



NOVA SCOTIA

# Report of the Auditor General

## on Estimates of Revenue

2008–2009

NOVA SCOTIA

## Office of the Auditor General

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**Report of the Auditor General to the House of Assembly on the Estimates of Revenue for the fiscal year ending March 31, 2009 used in the preparation of the April 29, 2008 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, 2009 are the responsibility of the Department of Finance and have been prepared by departmental management using assumptions with an effective date of March 26, 2008 or earlier. I have examined the support provided by departmental management for the assumptions and the preparation and presentation of the revenue estimates in the amount of $8,465,867,000 as described in the financial forecast of Revenues By Source (Schedule 2A of the Nova Scotia Budget Assumptions and Schedules) (the 2008-09 revenue estimates). My examination did not include, and my opinion does not cover, the budget speech or the 2008-09 expense estimates. My opinion also does not cover prior years' forecast or actual information provided for comparative purposes. Except as explained in the following paragraph, my examination was made in accordance with the applicable Assurance and Related Services 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.

Third party revenues of certain government units are excluded from the 2008-2009 revenue estimates. These revenues are included elsewhere in the budget as offsets against expenditures of the respective government units rather than as part of the revenue estimates. As a result, the revenue estimates are not presented on a basis consistent with the consolidated financial statements, a requirement of generally accepted accounting principles in such circumstances. To the extent of these exclusions, the 2008-09 revenue estimates are not presented in accordance with generally accepted accounting principles. In addition, management was unable to provide support for these third party revenues and therefore I was unable to complete my review of them or determine the amount of these revenues.

In my opinion, except that certain third party revenues have been excluded from the revenue estimates as noted in the preceding paragraph:

- as at the date of this report, the assumptions used by departmental management are suitably supported and consistent with the plans of the government, as described to us by department management, and provide a reasonable basis for the 2008-09 revenue estimates; and
- the 2008-09 revenue estimates as presented reflect fairly such assumptions; and
- the 2008-09 revenue estimates comply with presentation and disclosure standards established by the Canadian Institute of Chartered Accountants.

Since the 2008-09 revenue estimates are based on assumptions regarding future events, actual results will vary from the information presented and the variance may be material. Accordingly I express no opinion as to whether the revenue estimates will be achieved.

JR Lapointe

Jacques R. Lapointe, CA•CIA
Auditor General

Halifax, Nova Scotia
April 28, 2008

## *REVENUES BY SOURCE*

*Schedule 2A*

*($ thousands)*

| | ***ESTIMATE*** *2008-2009* |
|---|---|
| **Consolidated Fund Revenues** | |
| **Provincial Sources** | |
| Corporate Income Tax | 415,902 |
| Harmonized Sales Tax | 1,151,027 |
| Individual Income Tax | 1,828,653 |
| Interest Revenues | 81,823 |
| Motive Fuel Taxes | 246,926 |
| Registry of Motor Vehicles | 98,122 |
| Royalties - Petroleum | 513,775 |
| Tobacco Tax | 138,127 |
| Other Provincial Sources | 284,338 |
| TCA Cost Shared Revenue | 2,692 |
| Fees and Other Charges | 60,834 |
| Ordinary Recoveries - Provincial Sources | 254,560 |
| Sinking Fund Earnings | 114,400 |
| **Total - Provincial Sources** | **5,191,179** |
| **Federal Sources** | |
| Canada Health Transfer | 664,185 |
| Canada Social Transfer | 296,869 |
| C48 Infrastructure Trust Funds | 38,767 |
| C52 Trust Funds | 24,547 |
| Equalization Payments | 1,464,935 |
| Offshore Oil and Gas Payments | 105,884 |
| Other Federal Sources | 57,085 |
| TCA Cost Shared Revenue | 62,380 |
| Ordinary Recoveries - Federal Sources | 201,815 |
| **Total - Federal Sources** | **2,916,467** |
| **Total - Revenues** | **8,107,646** |
| **Net Income from Government Business Enterprises** | |
| Nova Scotia Gaming Corporation | 136,200 |
| Nova Scotia Liquor Corporation | 210,021 |
| Other Government Business Enterprises | 12,000 |
| | **358,221** |
| **Total - Revenues** | **8,465,867** |

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# BUDGET ASSUMPTIONS —
## April 29, 2008

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# Revenue Outlook

In 2008–2009, Nova Scotia's total ordinary revenues are estimated to be $8,107.6 million, an increase of $434.0 million or 5.7 per cent compared to the 2007–2008 budget estimate.

Provincial own-source revenues are expected to increase by $276.1 million or 6.2 per cent over the 2007–20008 budget estimate to $4,761.4 million in 2008–2009.

Federal source revenues will increase by $170.4 million or 6.7 per cent from the 2007–2008 budget estimate to $2,714.7 million in 2008–2009.

## *Provincial Own-Source Revenues*

### Personal Income Tax (PIT)

Nova Scotia's 2008–2009 estimate for personal income tax is $1,828.7 million, an increase of $110.4 million or 6.4 per cent over the 2007–2008 budget estimate.

National personal taxable income is projected to increase by 3 per cent in 2008, a significantly slower rate of growth than in 2007 but in line with historical trends. Taxable income in Nova Scotia is forecasted to expand by 3.3 per cent, but revenue growth will be offset by increases to the basic personal amount and non-refundable credit blocks announced in the 2006 budget, together with increases to the Graduate Tax Credit and Volunteer Firefighter Tax Credit and the introduction of a Volunteer Ground Search and Rescue Tax Credit.

Nova Scotia's share of national personal taxable income has been steadily declining since 2000 and is projected to be 2.46 percent in 2008–2009, down from 2.52 per cent for the 2007–2008 budget estimate. The province's yield of national personal taxable income is rising and is forecast to be 7.92 per cent in 2008–2009, up from 7.77 per cent in the 2007–2008 budget estimate. The 2008–2009 estimate is based

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upon Finance Canada's January 2008 forecast for national personal taxable income and the 2006 tax year Final Payment Books received from the federal government in March 2008.

**Corporate Income Tax (CIT)**

Nova Scotia's 2008–2009 estimate for corporate income tax is $415.9 million, an increase of $29.0 million or 7.5 per cent over the 2007–2008 budget estimate.

CIT is based primarily on federally forecasted national corporate taxable income, as well as forecasted corporate profits in the province. It is affected by other variables, such as business take-up of provincial tax credit programs and the provincial allocation of taxable income based on corporations' revenues and salaries paid in each province.

CIT also includes offshore corporate income tax, which is estimated to be higher in 2008–2009 than the 2007–2008 budget estimate. Growth in national corporate taxable income is expected to be 3.0 per cent in 2008, which is much slower growth than observed in the past few years.

Provincial corporate profits are projected to grow moderately in 2008 and outpace the growth rate in corporate profits on a national basis. The province's share of national corporate profit has been trending down each year since 2003 and is projected to be 1.45 per cent in 2008, compared to 2.0 per cent in the 2007–2008 budget estimate.

**Harmonized Sales Tax (HST)**

Gross HST is estimated to total $1,295.7 million in 2008–2009, up $28.9 million or 2.3 per cent from the 2007–2008 budget estimate.

HST rebates for public-sector bodies, new housing, printed books, volunteer fire departments, persons with disabilities, and Your Energy Rebate are projected to total $144.7 million, a decrease of $26.3 million or 15.4 per cent from the 2007–2008 budget estimate. This is due primarily to revisions in the Your Energy Rebate Program offset by increases in the other rebates.

Net HST is projected to total $1,151.0 million in 2008–2009, an increase of $55.2 million or 5.0 per cent over the 2007–2008 budget estimate. Growth in the consumer expenditure component remains the most influential factor of the increased revenues, with increases in the public sector, housing, and financial institutions bases also contributing to revenue growth.

**Tobacco Tax**

Tobacco tax revenues are projected to total $138.1 million in 2008–2009, down $12.8 million or 8.5 per cent from the 2007–2008 budget estimate.

Consumption of tobacco products continues to decline as a result of several factors: promotion of a healthy lifestyle by all levels of government, increased application of no-smoking laws in public spaces, and increases in prices. In addition, the increased distribution of illegal tobacco products has had a significant effect on revenues and the market penetration of illegal products has not yet stabilized.

**Motive Fuel Taxes**

Motive fuel taxes are projected to total $246.9 million in 2008–2009, down $5.3 million or 2.1 per cent from the 2007–2008 budget estimate.

High petroleum prices are expected to continue to prevail during the next fiscal year, having a slight negative impact on gasoline consumption (0.8 per cent), which accounts for approximately 73 per cent of revenue from motive fuel taxes. This impact will be offset by a projected rise in labour income of 5.6 per cent. In addition, diesel oil consumption is estimated to increase by 1.5 per cent, as it is more closely tied to economic activity than price movements.

### Offshore Petroleum Royalties

Offshore petroleum royalties are estimated to be $513.8 million in 2008–2009, an increase of $93.3 million or 22.2 per cent from the 2007–2008 budget estimate.

The increase is primarily a result of higher prices for natural gas, increased production volumes for the Sable Offshore Energy Project, and the project's interest holders achieving predetermined return thresholds that result in increasing royalty rates.

### Other Provincial Sources

Other provincial sources are estimated to be $467.0 million, an increase of $6.4 million or 1.4 per cent from the 2007–2008 budget estimate.

This revenue source includes such items as corporate capital taxes, tax on insurance premiums, Seniors' Pharmacare premiums, and the Casino Win Tax.

The increase is the result of higher revenues from the Registry of Motor Vehicles and increased interest revenue. These increases are somewhat offset by lower corporate registration fees and a reduction in the Casino Win Tax.

## *Federal Transfers*

### Equalization

Equalization revenues are estimated to increase by $0.4 million over the 2007–2008 budget estimate to $1,464.9 million.

The equalization estimate reflects the province's adoption of the Expert Panel formula for equalization. Growth in equalization revenues to the province are flat in 2008–2009 despite an enrichment of the national program from $13.0 billion to $13.8 billion. This is as a result of the clawback of payment to the province under a fiscal capacity cap provision.

As part of a clarification reached with the Government of Canada on October 10, 2007, Nova Scotia will receive an additional payment from the federal government if the cumulative value of the equalization formula in effect at the time the Offshore Accord was signed (the Interim approach) exceeds the cumulative value of the Expert Panel approach.

In 2008–2009 the value of the Expert Panel approach exceeds the value of the Interim approach, so no additional payment will be forthcoming. The arrangement is in effect until 2019–2020 to coincide with the term of the Offshore Accord.

Offshore Offset payments are estimated to be $105.9 million in 2008–2009, an increase of $37.6 million or 55.2 per cent over the 2007–2008 budget estimate. The increase reflects the inclusion of higher offshore royalties from recent years in the equalization formula. Under provincial legislation, the Offshore Offset payments are directed to debt repayment until the notional payments reach the $830-million advance payment made to the province in 2005.

**The Canada Health Transfer (CHT)**

In 2008–2009 the total provincial entitlement for CHT consists of the provincial allocation of a fixed national entitlement. The 2008–2009 national CHT amount that is available in cash and tax points is estimated to be $36.5 billion. The fixed national pool of cash to be distributed to provinces is $22.6 billion. Under an agreement reached in September 2004 the cash portion of CHT is legislated to grow by 6 per cent each year.

The CHT cash entitlement for Nova Scotia is estimated to be $664.2 million, which is $25.2 million or 3.9 per cent higher than the 2007–2008 budget estimate. The estimate of the province's cash entitlement reflects the federal government's calculation on the levels of population and personal and corporate income tax provided in January 2008.

**The Canada Social Transfer (CST)**

Nova Scotia's 2008–2009 cash entitlement for CST is estimated to be $296.9 million, $16.5 million or 5.9 per cent higher than the 2007–2008 budget estimate.

The provincial entitlement is based on a per capita cash provincial allocation of a fixed national entitlement, which stands at $10.5 billion. Effective with the 2007 federal budget, the CST no longer contains a tax point transfer component.

**Other Federal Sources**

Other federal sources are estimated to be $182.8 million in 2008-09, an increase of $90.6 million or 98.2 per cent over the 2007–2008 budget estimate:

- $24.5 million of the increase is the result of draw downs from federal trusts established in the 2007 federal budget for Patient Wait Times Guarantee, Human Papillomavirus (HPV) Immunization, and an ecoTrust for Clean Air and Climate Change

- $22.5 million of the increase is due to additional federal trusts funded from the 2008 federal budget, specifically, community development, police officer recruitment, and public transit capital

In 2008–2009 Nova Scotia will also start to receive base funding of $25.0 million per year for infrastructure. This was announced as part of the 2007 federal budget, but the program parameters were not finalized until the spring of 2008. Much of this funding will be used for tangible capital assets across government.

Other federal sources also include the federal Wait Times Reduction Fund. This funding is drawn down according to the notional allocation included in the Wait Times Agreement and provincial spending commitments. Nova Scotia has drawn down $34.4 million in 2007–2008, but the funding available in 2008–2009 is only $17.1 million.

## *Other*

### Recoveries

Recoveries are projected to total $456.4 million in 2008–2009, down $13.3 million or 2.8 per cent from the 2007–2008 budget estimate.

The decrease relates primarily to medical equipment funding being moved from recoveries to ordinary revenues.

### Fees and Other Charges

Fees and other charges are projected to total $60.8 million in 2008–2009, unchanged from the 2007–2008 budget estimate.

### Sinking Fund Earnings

Sinking fund earnings are projected to total $114.4 million in 2008–2009, an increase of $0.9 million or 0.8 per cent from the 2007–2008 budget estimate.

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## *Key Tax Measures—Personal Income Taxes*

### Basic Personal Amount and Other Non-refundable Credits

As announced in the 2006–2007 budget, the province is increasing the basic personal amount exempted from personal income taxes by $250 per year over a four-year period. This represents an increase of $1,000 or 13.83 per cent. The province's other non-refundable credits will also grow by 13.83 per cent over this period. The basic personal amount will increase from $7,481 to $7,731 effective January 1, 2008, and to $7,981 in January 2009. The province's other non-refundable tax credits will also grow by 3.46 per cent.

### Volunteer Firefighters Tax Credit

For the 2008 tax year, the Volunteer Firefighters Tax Credit will increase from $250 to $375 as announced in the 2007–2008 budget. This tax credit will increase to $500 in 2009.

### Volunteer Ground Search and Rescue Tax Credit

Budget 2008–2009 provides a new tax credit for eligible ground search and rescue volunteers commencing January 1, 2008. The tax credit will be equivalent to the Volunteer Firefighters Tax Credit for the 2008 tax year ($375) and will increase to $500 in 2009. Eligibility criteria will be developed this fiscal year.

### Healthy Living Tax Credit

Budget 2008–2009 provides for the extension of the Healthy Living Tax Credit to all Nova Scotians effective January 1, 2009. The tax credit for children's sport and recreational activity registration costs was introduced in 2005, and the maximum eligible expenditure was increased to $500 in 2006. The tax credit is being expanded to cover both adult and children's eligible expenditures to a maximum of $500 for each individual or child.

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### Transit Tax Credit

Budget 2008–2009 provides for a new Transit Tax Credit. Starting in 2009, Nova Scotians will be able to claim credits for their transit pass expenses. Eligible transit pass expenses in Nova Scotia will match the Federal definitions and be multiplied at the lowest personal income tax rate (8.79 per cent) to calculate a non-refundable provincial personal income tax credit.

### Graduate Tax Credit

For those individuals who graduate from eligible post-secondary programs after January 1, 2008, the province will increase its graduate tax credit from $1,000 to $2,000.

## *Key Tax Measures—Business Taxes*

Digital Media Tax Credit

The Digital Media Tax Credit announced in budget 2007–2008 will be increased starting on January 1, 2008. This measure will increase the refundable tax credit on eligible expenditures from 35 per cent to 50 per cent, as well as increase the tax credit cap on total production costs from 17.5 per cent to 25 per cent. In addition, the tax credit for production work completed outside the Halifax Regional Municipality will increase from 5 per cent to 10 per cent, with the corresponding total production cost cap increasing from 2.5 per cent to 5 per cent.

### Film Industry Tax Credit

As announced in September 2007, the Film Industry Tax Credit will be increased for productions starting after September 30, 2007. This measure will increase the refundable tax credit on eligible expenditures from 35 per cent to 50 per cent, as well as increase the tax credit cap on total production costs from 17.5 per cent to 25 per cent. In addition, the tax credit for production work completed outside the Halifax Regional

Municipality will increase from 5 per cent to 10 per cent, with the corresponding total production cost cap increasing from 2.5 per cent to 5 per cent.

### Large Corporations Tax

As previously announced, the province's Large Corporations Tax (LCT) on capital of non-financial institutions will decline from 0.225 per cent to 0.2 per cent on July 1, 2008. That tax rate will continue to decline on an annual basis until its elimination in 2012.

## Tax Relief in Nova Scotia
**($ millions)**

| | Estimated Tax Relief in 2008 | Estimated Tax Relief in 2009 | Fiscal Impact 2008-09 |
|---|---|---|---|
| **New Tax Measures** | | | |
| Volunteer Firefighters and Ground Search and Rescue Tax Credit | $3.9 | $5.3 | $4.1 |
| Healthy Living Tax Credit | $3.3 | $8.6 | $4.3 |
| Transit Tax Credit | — | $1.5 | $0.3 |
| Film & Digital Media Tax Credits | $15.5 | $17.3 | $15.7 |
| **Previously Announced Tax Measures** | | | |
| Basic Personal Amount and other credits | $32.3 | $48.4 | $35.3 |
| Graduate Tax Credit | $14.3 | $14.3 | $14.3 |
| Large Corporations Tax Reduction | $28.0 | $42.8 | $31.7 |

## *Sensitivity*

Revenue estimates that are in the form of a forecast are based on a number of economic, financial, tax assessment, and statistical values and assumptions. All of these reflect the province's planned course of action for the forecast period and judgment as to the most probable set of economic conditions.

As these variables change throughout the year and as more information becomes available, they may have an impact, either negative or positive, on the revenue forecasts, and these impacts could be material. The province intends to update the forecast periodically throughout the forecast period. It is also important to note that the above-referenced variables can move quite independently of each other and may have offsetting effects.

The following table lists the specific key economic assumptions and key variables that directly affect the calculation of provincial revenue estimate and forecast figures as included in this Revenue Outlook section and reflects assumptions developed by the province as at April 29, 2008.

| Revenue Source | Key Variables |
| --- | --- |
| Personal Income Taxes | • national level of personal taxable income as provided by Finance Canada<br>• Nova Scotia share of national levels of taxable income<br>• provincial taxable income yield<br>• tax credits uptake |
| Corporate Income Taxes | • national level of corporate taxable income level as provided by Finance Canada<br>• Nova Scotia share of national taxable income<br>• tax credit uptake<br>• national and provincial corporate profit levels |
| HST | • personal consumer expenditure levels<br>• provincial gross domestic product<br>• spending by exempt industries<br>• rebate levels<br>• housing investment |
| Tobacco, Gasoline and Diesel Taxes | • personal consumer expenditure levels<br>• tobacco and fuel consumption patterns<br>• tobacco and fuel prices<br>• labour income |
| Petroleum Royalties | • foreign exchange rates<br>• production levels<br>• world price of natural gas, subject to current market conditions |
| Equalization | • one-estimate, one-payment approach |
| CHT/CST | • annual increases in the national base amount<br>• changes in personal and corporate income taxes<br>• changes in population<br>• changes in tax point values |

# Additional Information

In addition to the key economic and fiscal assumptions contained in the 2008–2009 revenue estimates, the following information should also be taken into account when interpreting the revenue estimates.

The revenue estimates for 2008–2009 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, revenues for certain government service organizations that 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 2008–2009 using a combination of current internal and external models and other information available. Every effort has been made 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 forecasted 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 February 26, 2008. In addition, CHT and CST revenue estimates are, in part, based on Canadian national and provincial population estimates supplied by Statistics Canada.

As with past population estimates, there is a forecast risk that the data will be revised by Statistics Canada. 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 2007–2008.

Statistics Canada will be releasing results of Census 2006 in the fall of 2008. The province does not have any data at this time that could be reflected in the revenue estimates. Due to federal legislative provisions, transfers in respect of Equalization, CST, and CHT for 2007–2008 will not be affected by new census data, nor will the 2008–2009 estimates for Equalization and Offshore Offset payments.

## *Offshore Forfeiture Revenue*

The risk of a deposit forfeiture is inherent in the offshore exploration industry. While a forfeiture is not unusual given the unpredictable nature of this industry, any revenue projection based on past trends would be inappropriate. The province's accounting recognition policy is to record forfeiture revenue when a notice of forfeiture is given. As of today's date, no notice has been provided for 2008–2009.

To be consistent with our revenue recognition policy and to reflect the uncertainty of this revenue, no offshore forfeiture revenue is included in the 2008–2009 estimates. If, subsequent to the budget, forfeiture notice is provided, the amount will be reflected in future quarterly forecast updates and the Public Accounts for 2008–2009.

## *Tangible Capital Assets*

The 2008–2009 Estimates have been prepared using the revisions to Section 3150, Tangible Capital Assets, of the Public Sector Accounting Handbook. This standard, amongst other things, defines the cost of an asset as the gross amount to acquire, construct, develop, or better the asset. Previously, the province netted recoveries or cost-sharing contributions from others to determine the cost of an asset. All recoveries are recorded as revenue in the year when the related asset is acquired. Amortization expense is calculated based on the gross cost amount.

### *Crown Share Revenue*

The governments of Canada and Nova Scotia have agreed to allow an Expert Panel resolve the outstanding issue of Crown Share revenue owing to the Province. To date, the Expert Panel has not submitted its report. To be consistent with our revenue recognition policy and to reflect the uncertainty of this revenue, no Crown Share revenue is included in the 2008–2009 estimates.

## Government Business Enterprises—Net Income

### *Nova Scotia Liquor Corporation Net Income*

The Nova Scotia Liquor Corporation (NSLC) returns all of its net income to the Government of Nova Scotia as shareholder. The NSLC is budgeting net income of $210 million in 2008–2009. This is an increase of 6.6 per cent compared to the 2007–2008 estimated net income. The net income is projected on net sales of $554 million for 2008–2009 as compared to $524 million estimated for 2007–2008. The increase in net income is primarily attributable to the following factors:

1. net sales increase of 5.7 per cent, attributable to a combination of price, premiumization, and volume increases
2. continuing expenditure investment in enhancing the retail customer shopping experience and IT infrastructure
3. a new focus on serving the wholesale community
4. more aggressive and effective product promotion and marketing programs
5. increased employee capacity focused on customer assistance selling and product knowledge skills

## *Nova Scotia Gaming Corporation Net Income*

Nova Scotia Gaming Corporation's (NSGC) net income is budgeted to be $136.2 million in 2008–2009, $3.4 million lower than the 2007–2008 budget estimate and $1.7 million higher than the 2007–2008 forecast. Budgeted revenue growth in 2008–2009 will be offset by increased expenses, largely as a result of increased prize payout to ticket lottery players.

## *Net Income from Other Enterprises*

Net income from other enterprises is estimated at $12.0 million for 2008–2009. This includes $8.9 million from the Halifax-Dartmouth Bridge Commission and $3.1 million from the Highway 104 Western Alignment Corporation.

The 2007–2008 estimated net income from other enterprises was $7.4 million. The increase is primarily due to an accounting change at the bridge commission, changing from a calendar year reporting period to a fiscal year accounting period, ending March 31. The change brings the bridge commission in line with the provincial government's fiscal year reporting period.

# Overview of Treasury Management

The Department of Finance serves as the treasury function for most of the government entity, including managing daily banking functions (bank transfers, short-term investing and borrowing, and banking relationships) and short-term investments of special funds—sinking funds, Public Debt Management Fund (PDMF), and miscellaneous trust funds.

The Department of Finance is responsible for managing Nova Scotia's gross financial market debt portfolio, which stood at $11.9 billion as of March 31, 2008. Against this gross financial market debt are financial assets held in mandatory and discretionary sinking funds plus holdings of Nova Scotia Municipal Finance Corporation debt. These assets total $2.7 billion, resulting in a net debt of $9.2 billion. The management of this net financial market debt position consists of executing the borrowing program, investing sinking funds and the PDMF assets, and where cost-effective to do so, executing derivative transactions.

The government's budgetary policy sets the context for treasury management operations. The province's annual fiscal plan sets the context for debt management. The 2008–2009 budget shows that the government intends to achieve a surplus in each of the following four years. The *Provincial Finance Act* requires that the government table balanced budgets; and in the event of a deficit the government must take certain remedial actions.

In 2007–2008, the province had a $300-million decrease in net debt outstanding in financial markets due to gains in foreign exchange translation and numerous non-budgetary items that improved the short-term debt position.

Since March 31, 2005, net debt has declined by a total of $1.1 billion. In large part, this decline was due to the receipt by the province of $830 million in an upfront payment under the Offshore Offset Agreement. The full amount of this payment was applied to reduce debt outstanding in financial markets at that time.

The budget and Public Accounts, collectively referred to as financial statements or "books" of the province, are presented on a full accrual basis. In contrast, Treasury management is the cash side of government operations, and in this context, the borrowing requirements are a cash flow measure, representing actual cash transactions related to the current, past, and future budgetary transactions, as well as the cash flow implications of non-budgetary transactions, such as capital advances to governmental units, some contributions to pension plans, and net acquisition of tangible capital assets.

Under the full accrual basis of accounting, revenues and expenditures are recorded when they are incurred, regardless of when the cash flows occur. The Offshore Offset Agreement upfront payment of $830 million was recorded as deferred revenue and continues to be shown as revenue in the fiscal year in which it is "earned." In 2007–2008, the province recorded $68.2 million in revenues under the Offshore Accord Agreement, and the province will record $105.9 million in revenues in 2008–2009.

In recent years, even with budgetary surpluses being recorded, the net direct debt of the province has increased to $12.35 billion at March 31, 2008. Before 2007–2008 additions to the net direct debt of the province have continued under generally accepted accounting principles (GAAP) due to the treatment of the acquisition of tangible capital assets.

Nova Scotia's ratio of net direct debt to nominal gross domestic product at market prices continues to decline, and it is forecast to stand at 34.9 per cent at March 31, 2008, down from 36.6 per cent a year earlier.

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## *Debt Reduction Plan 2005*

The government introduced a Debt Reduction Plan in 2005 that built on the previous plans and incorporates the circumstances created by the Offshore Offset payment. The 2005 plan consists of the following measures:

- The $830-million Offshore Offset cash payment was used to retire outstanding debt in 2005–2006.
- Government will be required to produce surpluses at least equal to that portion of the $830 million recognized under GAAP as revenue earned from the Offshore Offset in each of the years between 2005–2006 and 2011–2012.
- Government will continue to be required to place extraordinary revenue on the debt.
- A Public Debt Management Fund will be maintained for the purpose of debt retirement and debt reduction.

The government passed the *Financial Measures Act* in 2000, requiring budgets to be balanced in 2002–2003 and beyond. The government adopted a more disciplined approach to fiscal management, and the 2008–2009 budget is balanced for the seventh consecutive year. The 2007–2008 budget included a reduction in net direct debt, and the government is committed to continuing this decline in the coming years.

## *Crown Share Adjustment*

In March 2008, the government announced its intentions related to the use of historical proceeds for the Crown Share Adjustment. By way of background, as part of the October 10, 2007 clarification agreement on equalization, the governments of Nova Scotia and Canada agreed to establish a joint independent panel to determine the value of the Crown Share Adjustment Payments due to the province.

Those payments arose under Canada's National Energy Program (NEP), enacted by the Government of Canada in 1980. That energy policy reserved to Canada a 25 per cent share interest with respect to oil and gas resource projects, referred to as the Federal Crown Share. In 1982, the Province of Nova Scotia agreed to set aside ownership claims regarding offshore resources in exchange for financial compensation. Nova Scotia, having entered into the 1982 Canada–Nova Scotia Offshore Agreement with Canada, would receive financial compensation in a 6.25 per cent and 12.5 per cent share of Canada's interest in oil and gas field projects, respectively. This was referred to as Nova Scotia's Crown Share.

With the dismantling of the NEP in 1985 and subsequent repeal of Nova Scotia's Crown Share interests, the Canada–Nova Scotia Offshore Petroleum Resources Accord, signed by Nova Scotia and Canada in 1986 introduced the Crown Share Adjustment Payments (CSAP). This was to ensure that Nova Scotia received financial benefits equivalent to those it would have achieved had it exercised its Crown Share options. With respect to CSAP, Part VIII of the 1988 federal legislation implementing the 1986 Accord provided that Canada would pay to Nova Scotia an amount equal to at least 75 per cent of the "deemed profit" in respect of a project.

With respect to the method of calculation of the CSAP, a joint independent three-member panel was established to determine how to calculate the obligation. The report is expected this spring.

The Nova Scotia government announced in March 2008 that at least 70 per cent of a potential Crown Share payment for 2007–2008 and past years would be applied to the debt. The remaining portion, to a maximum of $75 million, would go into legacy projects for the offshore, protected lands, and university infrastructure.

**Nova Scotia Credit Ratings**

Nova Scotia continues to communicate its improving fiscal position both to investors and to bond-rating agencies. Nova Scotia's budgetary surpluses over the past number of years and the improved fiscal outlook have been recognized, and in 2007 all three rating agencies confirmed the province's credit rating, and Standard & Poor's Ratings Services changed the outlook to positive from stable. The following table shows current provincial credit ratings.

## Canadian Provincial Ratings March 2008

| | DBRS | S&P | Moody's |
|---|---|---|---|
| British Columbia | AA(high) | AAA | Aaa |
| Alberta | AAA | AAA | Aaa |
| Saskatchewan | AA(low) | AA | Aa1 |
| Manitoba | A(high) | AA | Aa1 |
| Ontario | AA | AA | Aa1 |
| Quebec | A(high) | A+ | Aa2 |
| New Brunswick | A(high) | AA- | Aa1 |
| **Nova Scotia** | **A** | **A+** | **Aa2** |
| Prince Edward Island | A(low) | A | Aa2 |
| Newfoundland and Labrador | A(low) | A | Aa2 |

Nova Scotia files a Form 18-K Annual Report and other required documents with the Securities and Exchange Commission (SEC), which provides information to investors and the general public on the economic, fiscal, and debt situation of the province. This documentation is maintained to allow the province to borrow in

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the U.S. market. The most recent submission can be viewed on the Department of Finance website.

## *Structure of the Debt Portfolio*

The structure of the debt portfolio has been evolving over the past number of years with the intent of protecting the province's fiscal situation from unanticipated increases in interest rates or deterioration in the Canadian dollar and to manage the province's refinancing requirements for the long term.

The following five profiles are provided to describe the overall structure and risk profile of the province's debt portfolio: (1) primary issuance market activities, (2) the debt maturity schedule, (3) foreign currency exposure, (4) interest rate mix, and (5) derivative counterparty exposure.

### 1. Primary Issuance Market

The Province of Nova Scotia has enacted balanced budget legislation and has posted six consecutive balanced budgets including the 2007–2008 budget. This success does not, however, mean that the province does not need to borrow funds on an ongoing basis to refinance existing debt and for non-budgetary purposes.

The management of these debt maturities is enhanced by the use of discretionary sinking fund reserves held by the province. These discretionary funds represent an integral component of the treasury management strategy of the province.

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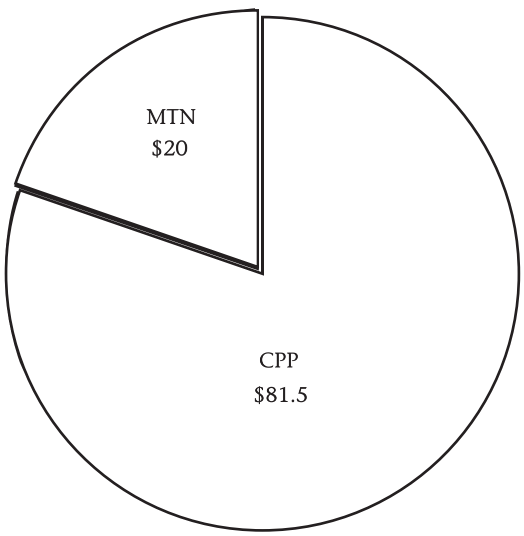
**Chart 3A: Consolidated Fund Debt Portfolio— Issuance Profile, 2007–2008**
(In $ millions)




In the fiscal year 2007–2008, the province borrowed $101 million, compared to borrowing requirements of $131 million estimated in the budget. The province met its borrowing requirements in fiscal year 2007–2008 by raising $20 million under the domestic Medium Term Note program and the rollover of an $81.5-million Canada Pension Plan issue for a 30-year term.

The last issue is part of the Canada Pension Plan Investment Board's assets that are invested in the provincial bond market and are transacted at market rates of interest.

Certain Crown agencies of the Province of Nova Scotia invest monies with the provincial Consolidated Fund on a short-term basis. This activity is an efficient use of funds that provides both security and market returns to Crown agencies while providing the Consolidated Fund with a market cost of funds.

At March 31, 2008, the Nova Scotia Nominee Program, Nova Scotia Business Inc., Nova Scotia Municipal Finance Corporation, Resource Recovery Fund Board, Nova Scotia Research and Innovation Trust, and Nova Scotia Crop and Livestock Insurance Commission invested a total of $95.8 million with the Consolidated Fund.

Projected term debt borrowing for fiscal year 2008–2009 is expected to be about $915 million. Schedule 3B also shows the projected borrowing program for 2009–2010 to 2011–2012. The borrowing program starts with the provincial budgetary surplus, which reduces requirements. There are numerous cash versus accrual adjustments (non-budgetary items) that need to be made to determine the actual cash requirements of the Consolidated Fund. There may be requirements for the excess of capital expenditure over capital amortization, referred to as the net acquisition of tangible capital assets. The remaining non-budgetary adjustments are primarily related to non-cash interest charges on unfunded pension liabilities and post-employment benefits.

The term debt borrowing program in 2008–2009 is primarily to refinance existing debt, to purchase the student loan portfolio from the Royal Bank ($120 million), and to provide capital advances to the Housing Development Corporation for the financing of certain long-term care facilities.

Although not accessed in fiscal year 2007–2008, the province has access to a diversity of borrowing sources, both domestically and in foreign markets. This factor is key in achieving lower financing costs and maintaining a broad demand for Nova Scotia debt issues.

The province maintains documentation with the Securities and Exchange Commission (SEC) in the United States to provide access to the U.S. and global bond markets. Although Nova Scotia maintains documentation to borrow in foreign markets, the domestic Canadian debt market is expected to be the primary source of funding for the province's borrowing program in 2008–2009. The province attempts to maintain a presence in the domestic public debt markets with liquid benchmark issues. The domestic Medium Term Note (MTN) program is maintained to add flexibility to the domestic borrowing programs.

**2. Maturity Schedule**

The Province of Nova Scotia's gross financial market debt consists of Canadian fixed-coupon marketable bonds, foreign currency–denominated fixed-coupon marketable bonds, Canada Pension Plan non-marketable bonds, floating interest rate notes, retail structured notes, capital leases, and short-term promissory notes. Chart 3B, titled Consolidated Fund Debt Portfolio—Maturity Schedule, displays the maturity profile of the province's gross financial market debt portfolio. The province's currency exposures are shown prior to the effect of derivative transactions. For example, the U.S. Global issue that was completed in January 2007 and matures in 2017 was swapped to Canadian dollars (CAD). Retail structures that are callable debt are shown in the year of final maturity as the call dates are somewhat uncertain. The province has no public debt issues outstanding with either call or put options.

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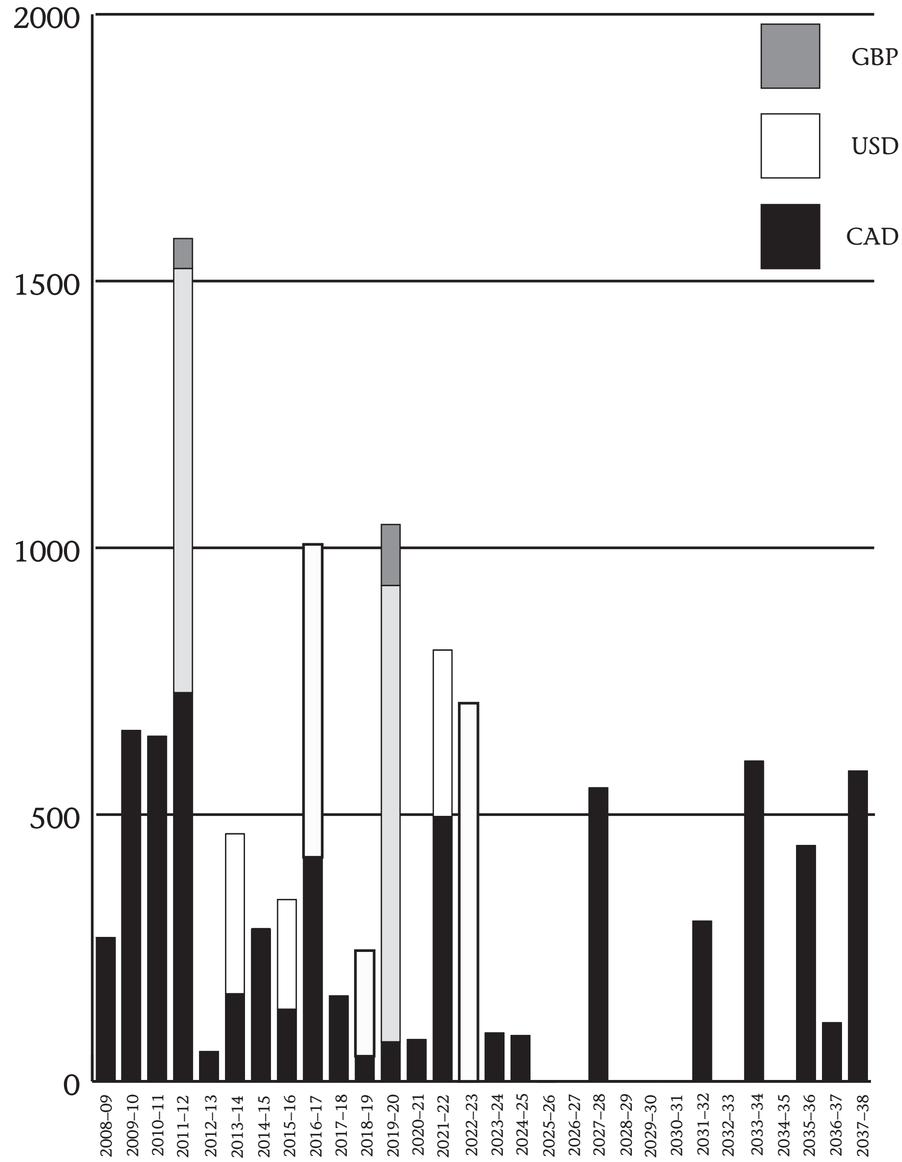
**Chart 3B: Consolidated Debt Portfolio Maturity Schedule**
(In $ millions)



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The Province of Nova Scotia has accumulated and actively manages a large offsetting asset position in discretionary sinking funds, primarily the Sinking Fund General and the Public Debt Management Fund (PDMF). These funds are available to smooth the maturity schedule by reducing the necessity to borrow in financial markets in any given year.

Debt maturities over the next two years are $346 million in the fiscal year 2008–2009 and $680 million in the fiscal year 2009–2010 (see Schedule 3B). The debt maturities in 2008–2009 are not expected to be offset by any change in the short-term debt position for the fiscal year 2008–2009.

There are sizable maturities in U.S. dollars in the fiscal years 2014 to 2023 that, by bond covenant, are fully funded with sinking funds at maturity. The province is required to contribute to the sinking fund of each such issue annually until such time as the full principal value of the bonds is accumulated. As such, the refinancing of these issues is spread over the entire life of each bond, and it is not necessary to refinance these issues in the year of maturity.

### 3. Foreign Currency Exposure

The Canadian dollar–denominated debt now represents 100 per cent of the gross financial market debt portfolio. In 2007, the Canadian dollar rose above par for the first time in 31 years. At that time the Department of Finance decided to eliminate the remaining foreign currency exposure on United States debt by hedging this USD exposure. These transactions were executed at levels of the Canadian dollar at parity with the USD.

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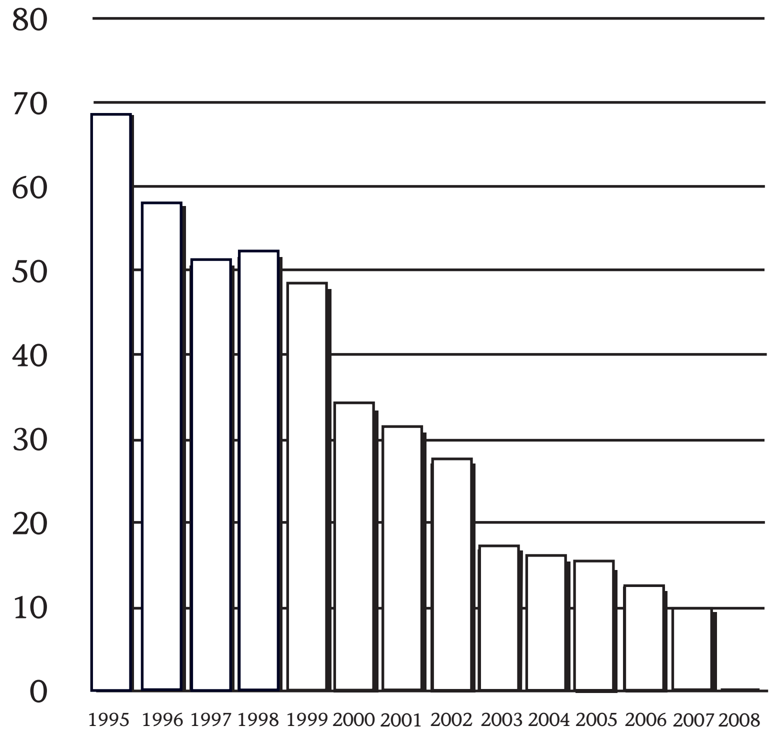
**Chart 3C: Foreign Currency Exposure**
**1995 to 2008**
(per cent)




By way of background, the province historically carried large foreign currency exposures. Foreign currency exposure peaked at 72 per cent at March 31, 1995. The province enacted legislation in 1996 to address the foreign currency challenge: "Until the amount of public debt of the province represented by securities or obligations in currencies other than Canada is twenty per cent or less of the total public debt, (a) no financial transaction or series of financial transactions directly affecting the public debt of the Province shall be completed that increases the percentage of the public debt of the Province represented by securities or obligations in currencies other than Canada." (Section 52A, *Provincial Finance Act*) The province met the requirements of the *Provincial Finance Act* in 2003 and continued beyond that requirement with the complete elimination of the province's foreign currency exposure.

### 4. Interest Rate Mix

The debt portfolio's exposure to floating interest rates was maintained over the past year, at 14.5 per cent on March 31, 2008. The province includes fixed interest rate term debt maturing in less than one year in its measure of floating interest rate debt to more accurately reflect exposure to resetting interest rates. The province is able to exercise tight control on this variable in the portfolio by maintaining access to capital markets and through its extensive derivative capabilities.

The current level of floating interest rate debt is towards the midpoint of the province's floating interest rate exposure policy. That policy sets the dollar volatility of debt-servicing costs, and the implied floating interest rate exposure is in the range of 10 to 30 per cent of total debt outstanding. With 85.5 per cent of the total principal in fixed interest rate form, the province has some protection from unexpected increases in interest rates, yet derives a benefit from the lower expected cost of short-term interest rate debt.

### 5. Derivative Exposure

Derivative is a broadly used term for any financial contract where future cash flows (and thus its value) are derived from a specific benchmark, for example, interest rate, foreign currency rate, financial asset, index, forward, future, or any other agreed-upon reference point. Derivatives allow the Province of Nova Scotia to identify, isolate, and manage separately the market risks in financial instruments for the purpose of hedging, risk transfer, arbitraging interest rate differences, and adjusting portfolio risks. These transactions can be more effective and at a lower cost than would be possible in the cash market.

At March 31, 2008, the province's use of derivatives was for three purposes: (1) the hedging of foreign currency debt issues to Canadian or U.S. dollars, (2) interest rate swaps to hedge certain aspects of retail structured notes, and (3) asset-liability management purposes. The latter derivative transactions are designed to protect the provincial budgetary surplus from changes in interest rates associated with the Department of Finance's on-lending program to Crown corporations.

Currently, the province is party to approximately $6.2 billion notional face value of derivative transactions, up from $4.9 billion a year earlier. The Department of Finance credit policy states that it executes derivative transactions only with well-rated counterparties. The Liability Management and Treasury Services division actively manages the credit risks of the derivative portfolio. The Debt Management Committee reviews all counterparty exposure and limits. When the counterparty has a split credit rating, the province considers the most conservative among the ratings.

## *Structure of Debt Management and Sinking Funds*

Until March 31, 2002, the province provided sinking fund installments for all its term debt issues including Canada Pension Plan (CPP) and Medium Term Notes (MTN) issues. These funds were held against each specific bond for the bond's principal repayment at maturity. The province ceased sinking fund contributions to these debt maturities in 2002–2003 and reassigned the existing sinking funds held to the Sinking Fund General. The latter is available to retire debt at the discretion of the Minister of Finance.

As of March 31, 2003, funds held for public issues without a sinking fund bond covenant were also moved to the Sinking Fund General. The province continues to make sinking fund installments for those debentures that contain sinking fund bond covenants. On those issues, annual sinking fund installments generally range from 1 to 3 per cent of the original issue, but may vary slightly from year to year, based on actual and anticipated rates of return on sinking fund assets. Sinking fund payments relating to debentures payable in foreign currency are adjusted each year, as necessary, to reflect exchange rate movements since the date of issuance of the debentures. Sinking funds required by bond covenant are treated as restricted assets and are used solely for the retirement of specific debt issues.

At March 31, 2004, the estimated book value of the sinking funds was $2,014 million, of which $1,141 million was held in covenanted sinking funds and $873 million in the discretionary sinking funds. The policy objectives of both discretionary funds (the Sinking Fund General and the PDMF) are to manage interest rates, manage short-term liquidity, and assist in the refunding of maturing debt, while at the same time providing an appropriate level of investment return to the Consolidated Fund.

The assets of the sinking funds and PDMF are invested in high-quality investments. Those investment guidelines are subject to approval by the Debt Management Committee. All assets were invested in either federal or provincial debt obligations. The Sinking Fund General also holds the debt of the Halifax-Dartmouth Bridge Commission. The PDMF is typically invested in Government of Canada and provincial bonds. At March 31, 2008, cash and equivalents in the sinking fund and PDMF were negligible.

The Nova Scotia Municipal Finance Corporation (NSMFC), a provincial Crown corporation, acts as a central borrowing agency for municipalities and municipal enterprises in Nova Scotia. Under the incorporating legislation, municipalities and municipal enterprises are required to raise their long-term capital requirements through the NSMFC except for borrowings from the federal government, the province, another municipality, or their agencies. The NSMFC issues serial debentures to fund these cash requirements. There has never been a default by the NSMFC on any of its obligations.

In recent years, the province has purchased all NSMFC issues in their entirety and at March 31, 2008, held a portfolio of $682 million NSMFC debentures in the provincial Consolidated Fund. The NSMFC asset portfolio held by the Department of Finance, along with sinking funds and Public Debt Management Fund, is netted against the gross financial market debt of the province to arrive at net debt.

## *Debt-Servicing Costs*

Gross debt-servicing costs comprise the following items: (1) interest on existing long-term debenture debt and the estimated interest cost of incremental borrowing; (2) interest on other long-term debt that is primarily P3 capital leases; (3) general interest that provides for bank charges, bond issue expense, amortization of debenture discounts/premiums, and short-term interest costs; and (4) the accrual of interest of the province's unfunded pension and post-retirement benefit obligations.

As noted above, the province has established mandatory sinking funds on some debt issues and maintains discretionary sinking funds for liability management purposes. The interest on those sinking funds is netted against gross debt-servicing costs to arrive at net debt-servicing costs.

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## Schedule 3A: Projected Debt-Servicing Costs ($ thousands)

| | Estimate 2007–08 | Forecast 2007–08 | Estimate 2008–09 | Estimate 2009–10 | Estimate 2010–11 | Estimate 2011–12 |
|---|---|---|---|---|---|---|
| Gross Debt-Servicing Costs | 954,338 | 929,983 | 904,522 | 919,940 | 933,862 | 941,384 |
| Less: Sinking Fund Earnings | 113,529 | 110,700 | 114,400 | 119,534 | 124,747 | 130,302 |
| Net Debt-Servicing Costs | 840,809 | 819,283 | 790,122 | 800,406 | 809,115 | 811,082 |

### Debt-Servicing Costs—Assumptions and 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.

With the elimination of the province's foreign currency exposure, the main factor in debt-servicing cost sensitivity is Canadian short-term interest rates. This budget assumes that three-month Canada Treasury Bills will average 2.85 per cent in 2008–2009. Sensitivity to this variable (how much debt-servicing costs would change if a variable changed from the assumed level for a full year) is $15 million if Canada Treasury Bills were a full percentage point higher relative to the assumed level.

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## *Risk Management*

The Debt Management Committee (DMC), an advisory committee to the Minister of Finance, carries out the governance and oversight function for the debt management of the Province of Nova Scotia. The committee ensures that the province's treasury management is based on sound financial principles and is conducted in a prudent manner, balancing the costs and risks within acceptable control standards. The committee has responsibilities for the following key governance roles: strategic planning, risk management, internal control, and communications. These functions ensure that the governance and oversight roles of treasury management operations are independent of operational staff.

## Schedule 3B: Projected Borrowing Requirements ($ millions)

| | Estimate 2007–08 | Forecast 2007–08 | Estimate 2008–09 | Estimate 2009–10 | Estimate 2010–11 | Estimate 2011–12 |
|---|---|---|---|---|---|---|
| Budgetary (surplus)/deficit | (118.4) | (158.5) | (189.7) | (196.5) | (225.0) | (219.6) |
| Net Capital Advances | 44.9 | 51.7 | 414.3 | 203.5 | 87.8 | 50.0 |
| NSMFC Repayments | (88.5) | 51.6 | (84.9) | (85.8) | (72.1) | (67.3) |
| NSMFC Advances for Harbour Solutions | 18.9 | 18.9 | — | — | — | — |
| Tangible Capital Assets: Net Cash | 103.0 | 138.7 | 181.0 | 68.0 | 48.0 | 28.0 |
| Other Non-Budgetary Transactions[1] | (35.3) | (252.4) | 72.7 | 88.0 | 116.4 | 106.4 |
| **Cash Operating Requirements** | **(75.3)** | **(149.9)** | **393.5** | **77.2** | **(44.9)** | **(102.5)** |
| Cash Debt Retirement | 614.3 | 614.3 | 345.6 | 680.3 | 669.5 | 1,601.4 |
| Mandatory SF Income | 74.7 | 66.8 | 66.5 | 70.5 | 74.6 | 79.0 |
| Mandatory SF Contributions | 59.4 | 57.0 | 61.5 | 61.5 | 61.5 | 61.5 |
| Mandatory SF Withdrawals | — | — | — | — | — | — |
| Net Mandatory SF Requirements | 134.1 | 123.7 | 128.0 | 132.0 | 136.1 | 140.5 |
| Discretionary Fund Income | 38.8 | 43.9 | 47.9 | 49.1 | 50.1 | 51.3 |
| Discretionary Fund Contributions | — | — | — | — | — | — |
| Discretionary Fund Withdrawals | — | — | — | — | — | (795.0) |
| Net Discretionary Fund Requirements | 38.8 | 43.9 | 47.9 | 49.1 | 50.1 | (743.7) |
| Total Requirements | 711.9 | 632.1 | 914.9 | 938.5 | 810.9 | 895.7 |
| Change in ST Borrowing (inc)/dec | (580.9) | (530.6) | — | — | — | — |
| Total Borrowing Requirements | 131.0 | 101.5 | 914.9 | 938.5 | 810.9 | 895.7 |

1. Non-budgetary requirements consists of the following items: foreign currency amortization, amortization of debenture discounts, pension valuation adjustment, Offshore Accord offset monies, Sysco pension and environmental costs.

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## Schedule 3C: Projected Gross and Net Debt ($ millions)

| | Actual 2006–07 | Estimate 2007–08 | Forecast 2007–08 | Estimate 2008–09 | Estimate 2009–10 | Estimate 2010–11 | Estimate 2011–12 |
|---|---|---|---|---|---|---|---|
| **Gross Debt** | | | | | | | |
| Opening Balance | 12,154.6 | 12,063.8 | 11,980.2 | 11,859.6 | 12,428.9 | 12,687.2 | 12,828.5 |
| Borrowing Program | 1,531.1 | 131.1 | 101.5 | 914.9 | 938.5 | 810.9 | 895.7 |
| Debt Retirement | (1,124.6) | (614.3) | (614.3) | (345.6) | (680.3) | (669.5) | (1,601.4) |
| Foreign Exchange (Gain)/Loss | (38.1) | 23.0 | (171.8) | — | — | — | — |
| Change in Other Unfunded Debt[1] | (542.9) | 580.9 | 564.1 | — | — | — | — |
| Closing Balance | 11,980.2 | 12,184.4 | 11,859.6 | 12,428.9 | 12,687.2 | 12,828.5 | 12,122.8 |
| **Mandatory Sinking Funds** | | | | | | | |
| Opening Balance | 960.1 | 1,092.6 | 1,077.9 | 1,141.5 | 1,269.5 | 1,401.4 | 1,537.6 |
| Installments | 65.0 | 59.4 | 57.0 | 61.5 | 61.5 | 61.5 | 61.5 |
| Earnings | 63.6 | 74.7 | 66.8 | 66.5 | 70.5 | 74.6 | 79.0 |
| Foreign Exchange (gain)/loss | (10.8) | 10.5 | (60.1) | — | — | — | — |
| Sinking Fund Withdrawals | — | — | — | — | — | — | — |
| Closing Balance | 1,077.9 | 1,237.2 | 1,141.5 | 1,269.5 | 1,401.4 | 1,537.6 | 1,678.1 |
| **Discretionary Funds** | | | | | | | |
| Opening Balance | 1,134.7 | 824.8 | 828.9 | 872.8 | 920.6 | 969.7 | 1,019.8 |
| Installments | — | — | — | — | — | — | — |
| Earnings | 54.3 | 38.8 | 43.9 | 47.9 | 49.1 | 50.1 | 51.3 |
| Fund Withdrawals | (360) | — | — | — | — | — | (795.0) |
| Closing Balance | 828.9 | 863.6 | 872.8 | 920.6 | 969.7 | 1,019.8 | 276.1 |
| **NSMFC Assets** | | | | | | | |
| Opening Balance | 533.5 | 611.3 | 611.3 | 681.7 | 596.8 | 511.0 | 438.9 |
| Repayments | (77.3) | (88.5) | (88.5) | (84.9) | (85.8) | (72.1) | (67.3) |
| Advances | 107.2 | — | 140.0 | — | — | — | — |
| Net Advances to Harbour Solutions | 47.9 | 18.9 | 18.9 | — | — | — | — |
| Closing Balance | 611.3 | 541.7 | 681.7 | 596.8 | 511.0 | 438.9 | 371.6 |
| **Net Debt** | **9,462.1** | **9,541.9** | **9,163.6** | **9,642.0** | **9,805.0** | **9,832.2** | **9,797.0** |

1. The Change in Other Unfunded Debt arises due to the province's use of accrual accounting for budgetary purposes, and net debt is a cash debt concept. As such, balance sheet items such as accounts payable and accounts receivable have an impact on the level of Consolidated Fund cash.

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## Schedule 3D: Net Direct Debt ($ millions)

| | Actual 2006–07 | Estimate 2007–08 | Forecast 2007–08 | Estimate 2008–09 |
|---|---|---|---|---|
| **Net Direct Debt – Beginning of Year** | 12,239.2 | 12,429.4 | 12,357.2 | 12,348.0 |
| Add (Deduct): | — | — | — | — |
| Provincial Surplus, on an expense basis | (182.4) | (118.4) | (158.5) | (189.7) |
| Increase in Net Book Value of Tangible Capital Assets | 300.8 | 94.0 | 138.9 | 149.5 |
| Increase in Net Book Value of the Capital of Consolidated Entities | inc | 9.0 | 8.7 | 27.9 |
| Other | (0.4) | — | 1.7 | — |
| Change in Net Direct Debt | 118.0 | (15.4) | (9.2) | (12.3) |
| **NDD—Closing Balance** | **12,357.2** | **12,414.0** | **12,348.0** | **12,335.7** |

NOVA SCOTIA

# Economic Performance and Outlook

## *National Economic Assumptions*

Canada's real GDP maintained steady growth in 2007 of 2.7 per cent, despite the weakening US economy.

After a strong first quarter, the economy slowed through the year, with the lowest growth recorded in the fourth quarter.

Commodity prices and the exchange rate continued to rise in 2007. The net result of this was a strong performance in the energy and resource sectors, especially in Western Canada, and a slower pace for the manufacturing sector in Eastern Canada.

The driving force behind Canada's 2007 economic performance was strong domestic demand, mainly due to consumer spending and business investment. On the international side, growth in imports outstripped growth in exports. The high dollar helped to drive import prices down, leading to an increased demand for foreign goods and services.

Canadian real GDP growth is expected to slow to 1.9 per cent in 2008 and rise again to 2.2 per cent in 2009. This forecast assumes continued growth in domestic demand with exports rebounding in 2009. The United States economy is expected to slow in 2008, with real GDP predicted to increase by 2.4 per cent in 2009. A slower global economy may lower commodity prices, taking some of the pressure off the exchange rate.

The Canadian economy is expected to benefit in 2008 from continued strength in consumer spending and more business investment. The key risk is the performance of the United States economy, as U.S. consumers drive demand for Canadian exports. A collapse of consumer spending could push the United States economy into a recession.

On the domestic side, there is a possibility that residential investment could dip even in a low interest rate environment. Pent-up demand has been absorbed in the housing market over the last few years, and more rigid credit restrictions are possible.

Consumer debt loads also represent a large risk. At the end of 2007, household debt in the form of mortgages, bank loans, and consumer credit was 118.9 per cent of personal disposable income. The anticipation of lower interest rates will lower debt-servicing charges. However, the recent downward price adjustments in equity markets due to the collapse of the sub-prime mortgage market could further dampen consumer and business confidence.

Key national economic assumptions, displayed in the schedule below, are based on data and information available as of March 3, 2008.

## National Forecast Assumptions

| | 2007 | 2008 | 2009 |
|---|---|---|---|
| Real Gross Domestic Product, 2002$ (% change) | 2.7* | 1.9 | 2.2 |
| Employment (% change) | 2.3* | 1.3 | 1.4 |
| Unemployment Rate (%) | 6.0* | 6.0 | 6.0 |
| Personal Income (% change) | 6.1* | 5.4 | 4.4 |
| Consumer Price Index (% change) | 2.2* | 2.1 | 1.3 |
| Retail Sales (% change) | 5.8* | 5.7 | 4.7 |
| Corporation Profits before Taxes (% change) | 5.8* | 4.2 | 3.5 |
| Exports of Goods and Services (% change) | 1.9* | 1.3 | 3.1 |

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

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## *Provincial Economic Assumptions*

Like the Canadian economy, Nova Scotia's economy was affected in 2007 by high commodity prices and an appreciating exchange rate.

Real GDP increased an estimated 1.7 per cent in 2007, compared to 0.9 per cent growth in 2006.

Growth was driven by consumer spending and exports. The return to newsprint production by Stora Enso and growth in tire and natural gas exports helped to keep total exports positive, with an estimated increase of 5.4 per cent (nominal dollars).

Nominal GDP expanded 5.4 per cent in 2007. Real growth was lower because of inflation, as the GDP deflator increased 3.6 per cent in 2007. The GDP deflator increased in line with commodity prices.

Final domestic demand for 2007 is estimated to be 2.6 per cent higher. Growth in consumer spending was 4.2 per cent, with retail sales increasing 4.0 per cent. Spending on housing construction was up 5.3 per cent, largely related to a 7.4 per cent increase in spending on home renovations. Housing starts were down 3.0 per cent.

The increase in consumer spending was supported by moderate income growth and employment growth of 1.3 per cent in 2007. Personal income growth, up 3.5 per cent, reflects the healthy gain of 4.4 per cent for labour income and an increase of 2.7 per cent in government transfer payments to persons. Average weekly wages, including overtime, increased 2.2 per cent in Nova Scotia in 2007.

Capital investments were down in 2007, with business capital investments and public investments decreasing at 1.3 and 2.8 per cent, respectively. According to Statistics Canada's Investment Intentions survey, government investment in structures and machinery and equipment were both down in 2007, along with business investments in non-residential construction and machinery and equipment.

The collapse of the U.S. housing market coupled with the high Canadian dollar had an impact on the economy in 2007. Nova Scotia's exports of lumber, gypsum, fresh or chilled fish products, and wood pulp were down. The province saw closures of sawmills, a gypsum board plant, a rail car plant, and a chocolate candy plant.

The value of total imports was down slightly, as imports from other countries declined 3.4 per cent.

Corporation profits before taxes were up 4.6 per cent in 2007, in conjunction with increased exports from the province and high commodity prices. Despite higher energy and food prices at home, the higher exchange rate on the Canadian dollar helped lower prices on imported goods and services. This feature helped keep the increase in the Consumer Price Index to only 1.9 per cent in 2007.

With the labour force increasing at a slightly faster pace than employment, unemployment increased marginally to 8 per cent. The number of people active in the labour market in 2007 increased by 1.4 per cent, while employment went up 1.3 per cent.

The slower pace of the U.S. and Canadian economies will continue to affect Nova Scotia's economic outlook in 2008 and 2009. Close to half of Nova Scotia's GDP is directly attributed to the export of goods and services.

Total exports of goods and services are expected to increase 3.9 per cent in 2008 after posting 5.4 per cent growth in 2007. Corporate profits before taxes are expected to expand 4.0 per cent in 2008, following the trend in exports and a lower exchange rate.

Government of Canada reductions in personal and GST taxes are expected to contribute to higher spending in 2008. Personal expenditure on consumer goods and services is expected to grow 4.3 per cent, and retail sales are anticipated to follow their historical share of total spending with growth of 4.4 per cent. Consumer price inflation should remain within the Bank of Canada's 2.0 per cent growth target in 2008

Offshore energy exploration and development investment spending are contributing to Nova Scotia's GDP and employment growth. EnCana's Deep Panuke offshore natural gas project will be a major boost to the economy. Nova Scotia should see construction of at least one supply vessel; work on the sub-sea protection structures, export pipelines, and the accommodation unit; plus engineering, procurement, and management activities.

Other activities include the development and production of the gold mine in Gays River and construction on the Sydney Tar Ponds clean-up and remediation project.

These major capital investment projects are reflected in a projected increase of 24 per cent in 2008 and 13 per cent in 2009 for non-residential capital investments. In total, business capital investment in Nova Scotia is expected to increase 6.7 per cent in 2008.

Residential investments in 2008 are expected to grow at a slower pace than 2007, while machinery and equipment investment is not expected to change.

Nova Scotia's population has begun to decline, partly as a result of the Alberta effect and partly due to an aging population. This means fewer people in the working age population (ages 15 years and older), which grew by only 0.2 per cent in 2007 compared to 0.7 per cent five years before. This will result in lower unemployment rates and a challenge for employers to find the workers they need.

With employment anticipated to grow at the same pace as the labour force in 2008, the unemployment rate should hold steady at 8.1 per cent in 2008. Employment growth is expected to outpace the labour supply in 2009, lowering the unemployment rate to 7.5 per cent. Employment growth combined with increases in labour income per employee should lead to modest personal income growth of 4.2 per cent in 2008 and 2009.

Nova Scotia's real GDP is forecast to grow 1.7 per cent in 2008, followed by 2.5 per cent in 2009. This forecast is at the low end of the range for 2008 and around the average of private-sector forecasters for 2009, as shown in the table below:

**Private-Sector Forecasts for Nova Scotia Real GDP Growth**

| | 2008 | 2009 |
|---|---|---|
| High (% increase) | 2.8 | 3.5 |
| Average (% increase) | 2.2 | 2.6 |
| Low (% increase) | 1.7 | 2.1 |

The private-sector forecasters, surveyed and updated as of March 13, 2008, are Bank of Montreal, Bank of Nova Scotia, CIBC World Markets, Royal Bank of Canada, Toronto-Dominion Bank, Atlantic Provinces Economic Council, Nesbitt Burns, National Bank, and Conference Board of Canada.

Such a wide range highlights the uncertainty in the forecasts among the private-sector forecasters. Those forecasting a real GDP growth close to the high range have included major capital projects not included by the Nova Scotia Department of Finance.

Risks to the outlook for the Canadian economy also apply to Nova Scotia, especially related to the economic performance of the United States. A major recession would greatly reduce growth in both Canada and Nova Scotia. Higher exchange rates than anticipated could result in more plant closures and lay-offs.

Consumers might be inclined to reduce their spending due to high debt loads coupled with falling equity prices. Lower interest rates will help the consumer support high debt loads.

Finally, positive announcements regarding the liquified natural gas (LNG)/petrochemical project and/or a new underground coal mine on Cape Breton Island would be upside risks to the forecast. More aggressive interest rate cuts in both Canada and the U.S. could also add to growth.

The economic assumptions displayed in the schedule below are based on data and information available as of March 13, 2008.

## Provincial Forecast Assumptions

| | 2007 | 2008 | 2009 |
|---|---|---|---|
| Real Gross Domestic Product, 1997$ (% change) | 1.7 | 1.7 | 2.5 |
| Nominal Gross Domestic Product (% change) | 5.4 | 4.9 | 4.2 |
| Employment (% change) | 1.3* | 0.9 | 1.3 |
| Personal Income (% change) | 3.5 | 4.2 | 4.2 |
| Consumer Price Index (% change) | 1.9* | 2.0 | 2.0 |
| Retail Sales (% change) | 4.0* | 4.4 | 4.9 |
| Corporation Profits before Taxes (% change) | 4.6 | 4.0 | 4.1 |
| Exports of Goods and Services (% change) | 5.4 | 3.9 | 8.5 |

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

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# Economic Schedules

## Supplementary to the 2008-2009 Budget

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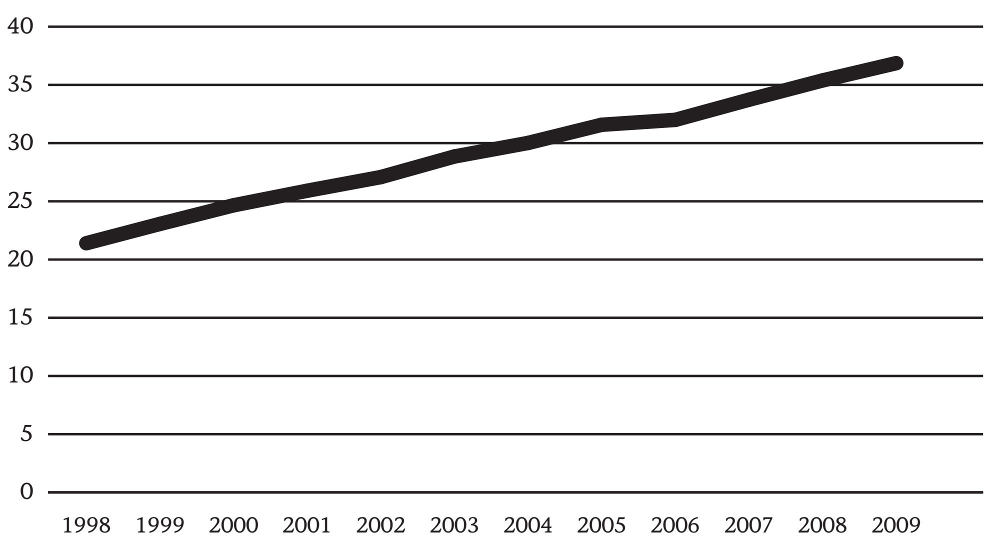
## Schedule 3E
## Nominal Gross Domestic Product at Market Prices
## ($ millions)

| Year | Nova Scotia (1) | Growth Rate % | Canada (2) | Growth Rate % |
|---|---|---|---|---|
| 1998 | 21,401 | 5.1 | 914,973 | 3.7 |
| 1999 | 23,059 | 7.7 | 982,441 | 7.4 |
| 2000 | 24,658 | 6.9 | 1,076,577 | 9.6 |
| 2001 | 25,909 | 5.1 | 1,108,048 | 2.9 |
| 2002 | 27,082 | 4.5 | 1,152,905 | 4.0 |
| 2003 | 28,851 | 6.5 | 1,213,175 | 5.2 |
| 2004 | 30,014 | 4.0 | 1,290,828 | 6.4 |
| 2005 | 31,575 | 5.2 | 1,375,080 | 6.5 |
| 2006 | 31,997 | 1.3 | 1,446,307 | 5.2 |
| 2007 | 33,727 | 5.4 p | 1,531,427 | 5.9 |
| 2008 | 35,383 | 4.9 p | 1,590,836 | 3.9 p |
| 2009 | 36,866 | 4.2 p | 1,654,878 | 4.0 p |

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

**Nominal Gross Domestic Product at Market Prices**
($billions)




(Source: Statistics Canada, Provincial Economic Accounts, Cat. No. 13-213-PPB)

NOVA SCOTIA

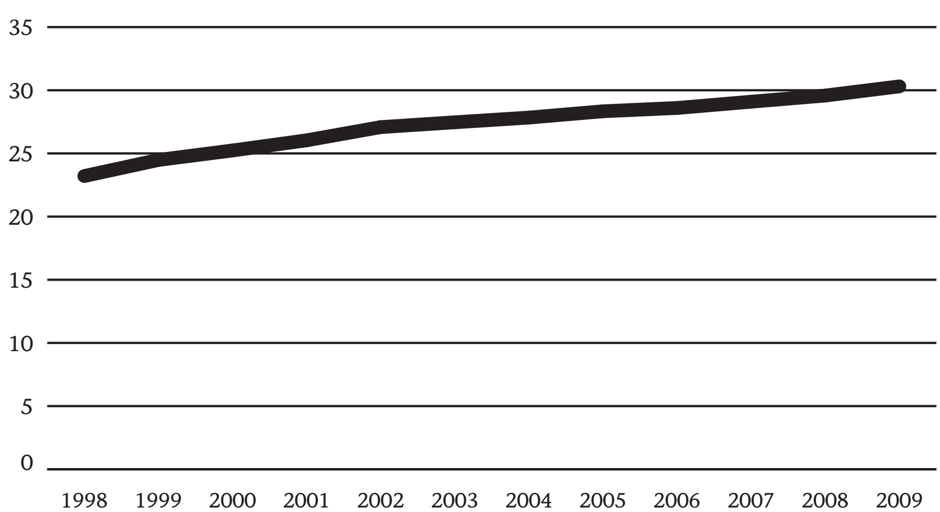
## Schedule 3F
## Gross Domestic Product at Market Prices
## (chained 2002 $ millions)

| Year | Nova Scotia (1) | Growth Rate % | Canada (2) | Growth Rate % |
|---|---|---|---|---|
| 1998 | 23,210 | 3.7 | 990,968 | 4.1 |
| 1999 | 24,482 | 5.5 | 1,045,786 | 5.5 |
| 2000 | 25,234 | 3.1 | 1,100,515 | 5.2 |
| 2001 | 26,036 | 3.2 | 1,120,146 | 1.8 |
| 2002 | 27,082 | 4.0 | 1,152,905 | 2.9 |
| 2003 | 27,464 | 1.4 | 1,174,592 | 1.9 |
| 2004 | 27,836 | 1.4 | 1,210,656 | 3.1 |
| 2005 | 28,336 | 1.8 | 1,247,780 | 3.1 |
| 2006 | 28,597 | 0.9 | 1,282,204 | 2.8 |
| 2007 | 29,093 | 1.7 p | 1,316,219 | 2.7 |
| 2008 | 29,581 | 1.7 p | 1,340,577 | 1.9 p |
| 2009 | 30,306 | 2.5 p | 1,369,887 | 2.2 p |

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 2002$ millions is the Fisher Volume Index formula (2002 = 100) used to project Gross Domestic Product in constant dollars.

**Nova Scotia Real Gross Domestic Product at Market Prices**
(chained 2002 $ billions)




(Source: Statistics Canada, Provincial Economic Accounts, Cat. No. 13-213-PPB)

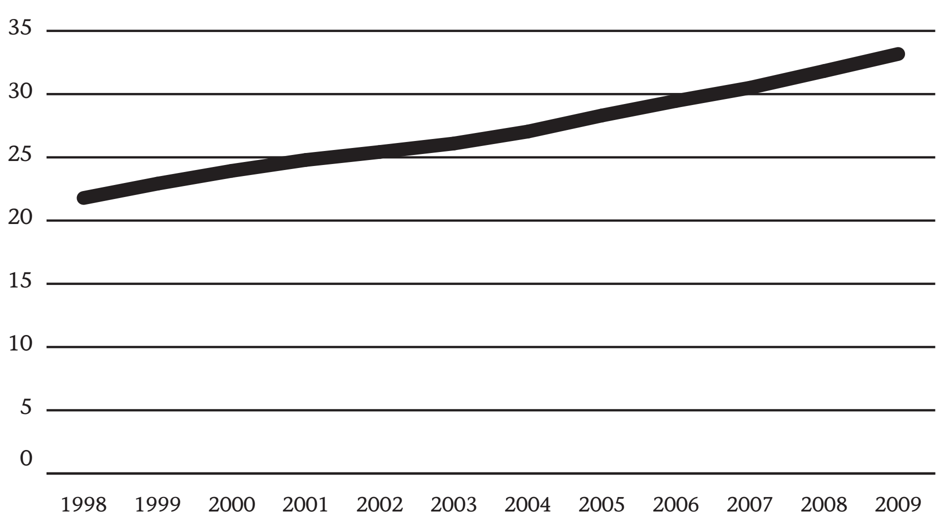
## Schedule 3G
## Personal Income Per Capita
## (dollars)

| Year | Nova Scotia (1) | % Change | Canada (1) | % Change |
|---|---|---|---|---|
| 1998 | 21,786 | 5.1 | 24,814 | 3.7 |
| 1999 | 22,922 | 5.2 | 25,755 | 3.8 |
| 2000 | 23,933 | 4.4 | 27,384 | 6.3 |
| 2001 | 24,793 | 3.6 | 28,254 | 3.2 |
| 2002 | 25,426 | 2.6 | 28,650 | 1.4 |
| 2003 | 26,094 | 2.6 | 29,416 | 2.7 |
| 2004 | 27,041 | 3.6 | 30,703 | 4.4 |
| 2005 | 28,311 | 4.7 | 31,959 | 4.1 |
| 2006 | 29,459 | 4.1 | 33,530 | 4.9 |
| 2007 | 30,505 | 3.6 p | 35,221 | 5.0 p |
| 2008 | 31,825 | 4.3 p | 36,996 | 5.0 p |
| 2009 | 33,174 | 4.2 p | 38,301 | 3.5 p |

1 Source: Statistics Canada, Cat. Nos. 13-001-PPB, 13-213-PPB, 91-215-XIE (Statistics Canada Annual Demographic Statistics) and Nova Scotia Department of Finance

p Preliminary Projections; Source: Nova Scotia Department of Finance (Projections calculated using NS Budget 08 Forecast for Personal Income and Cat no. 91-520 for Population Estimates)

**Personal Income Per Capita in Nova Scotia**
($ thousands)




Source: Statistics Canada, Cat. Nos. 13-001-PPB, 13-213-PPB, 91-215-XIE
(Statistics Canada Annual Demographic Statistics) and Nova Scotia Department of Finance

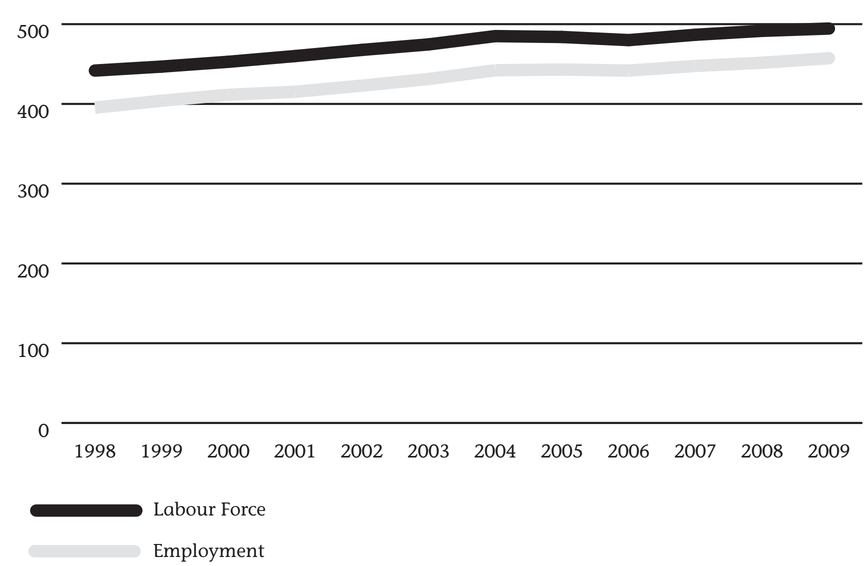
## Schedule 3H
## Nova Scotia Labour Market
## (thousands of persons)

| Year | Labour Force (1) | % Change | Employment (1) | % Change |
|---|---|---|---|---|
| 1998 | 441.8 | 1.5 | 395.3 | 3.5 |
| 1999 | 446.8 | 1.1 | 404.0 | 2.2 |
| 2000 | 452.8 | 1.3 | 411.4 | 1.8 |
| 2001 | 460.0 | 1.6 | 415.2 | 0.9 |
| 2002 | 467.7 | 1.7 | 422.9 | 1.9 |
| 2003 | 474.6 | 1.5 | 431.2 | 2.0 |
| 2004 | 485.0 | 2.2 | 442.2 | 2.6 |
| 2005 | 483.9 | (0.2) | 443.1 | 0.2 |
| 2006 | 480.0 | (0.8) | 441.8 | (0.3) |
| 2007 | 486.7 | 1.4 | 447.6 | 1.3 |
| 2008 | 491.6 | 1.0 p | 451.6 | 0.9 p |
| 2009 | 494.5 | 0.6 p | 457.3 | 1.3 p |

1 Source: Statistics Canada 2007, Labour Force Historical Review, 71F0004XCB, February 2008

p Preliminary Projections; Source: Nova Scotia Department of Finance

**Nova Scotia Labour Market**
(thousands of persons)




Source: Statistics Canada, Cat. Nos. 13-001-PPB, 13-213-PPB, 91-215-XIE
(Statistics Canada Annual Demographic Statistics) and Nova Scotia Department of Finance

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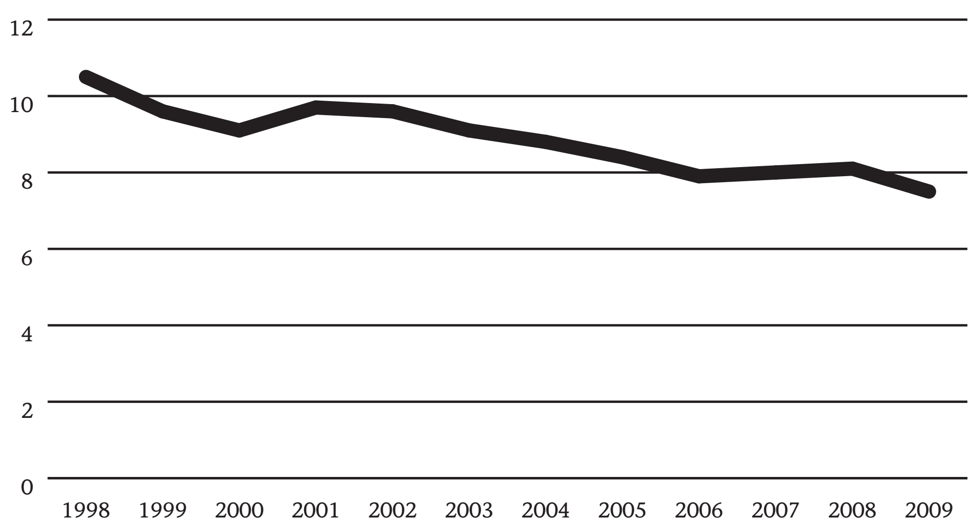
## Schedule 3I
## Unemployment (thousands of persons)

| | Nova Scotia (1) | | Canada (1) | |
|---|---|---|---|---|
| Year | Unemployed | Unemployment Rate (%) | Unemployed | Unemployment Rate (%) |
| 1998 | 46.6 | 10.5 | 1,270.1 | 8.3 |
| 1999 | 42.9 | 9.6 | 1,181.6 | 7.6 |
| 2000 | 41.4 | 9.1 | 1,082.8 | 6.8 |
| 2001 | 44.8 | 9.7 | 1,163.6 | 7.2 |
| 2002 | 44.8 | 9.6 | 1,268.9 | 7.7 |
| 2003 | 43.4 | 9.1 | 1,286.2 | 7.6 |
| 2004 | 42.8 | 8.8 | 1,235.3 | 7.2 |
| 2005 | 40.8 | 8.4 | 1,172.8 | 6.8 |
| 2006 | 38.1 | 7.9 | 1,108.4 | 6.3 |
| 2007 | 39.1 | 8.0 | 1,079.4 | 6.0 |
| 2008 | 40.0 | 8.1 p | 1,093.4 | 6.0 p |
| 2009 | 37.2 | 7.5 p | 1,108.7 | 6.0 p |

1 Source: Statistics Canada 2007, Labour Force Historical Review, 71F0004XCB, February 2008
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)




Source: Statistics Canada 2007, Labour Force Historical Review, 71F0004XCB, February 2008