Nova Scotia Budget
ASSUMPTIONS AND SCHEDULES

For the fiscal year 2009–2010

The Honourable Graham Steele
Minister of Finance

Finance

NOVA SCOTIA

Nova Scotia Budget
ASSUMPTIONS AND SCHEDULES

For the fiscal year 2009–2010

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NOVA SCOTIA

Budgetary Information

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Budget Overview

The Province of Nova Scotia is tabling a budget in fiscal 2009–2010 with a deficit of $592.1 million. Certain clauses of the Provincial Finance Act will be repealed to allow government to table a deficit budget and spend revenues related to Offshore Offset on programs and services.

Total revenues for 2009–2010, including government business enterprises' net income of $356.8 million, are projected to be $8.4 billion, a decrease of $54.1 million over the 2008–2009 estimates. Provincial source revenues are estimated to be down $421.5 million, offset by a $368.8 million increase in federal source revenues.

Provincial source revenues have decreased primarily as a result of decreases in income taxes of $141.2 million and petroleum royalties of $362.8 million offset by increases in HST revenues of $30.5 million and a $30.9-million increase in tobacco tax revenues. Interest revenues are up $11.4 million.

Despite equalization payments being flat, federal source revenues are up over the 2008–2009 estimates due to increases in infrastructure cost-shared revenues of $62.8 million, the Crown Share Adjustment Payment of $79.4 million, increases to the amount accrued for the Offshore Agreement of $74.2 million, and increases in the Canada Health and Social transfers of $43.2 million. These increases are offset by a decline in other federal sources of $15.2 million.

Total expenses for fiscal 2009–2010 before consolidation adjustments are budgeted at $9.1 billion, up $761.1 million from an $8.3-billion total in 2008–2009. Major increases in spending for department estimates include assistance to universities, $225.3 million; Health, $216.3 million; Labour and Workforce Development, $98.4 million; Community Services, $33.2 million; Service Nova Scotia and Municipal Relations,

$45.7 million; Transportation and Infrastructure Renewal, $23.5 million; and Education, $23.4 million.

The Chief Information Office was established in the Public Service effective April 2009 to centralize responsibility for information management and information and communications technology resources (IM/ICT). This office will be responsible for the development of corporate strategies, policies, architectures, standards and best practices, and the delivery of IM/ICT services to the provincial government. The initial budget of $17.5 million is a reallocation of existing dollars.

Restructuring costs, a portion of which is for funding of wage negotiations, wage reclassifications, and casual conversions, as well as funding for H1N1, remains relatively consistent with 2008–2009 levels with funding of $178.8 million

Authority for the annual cost to acquire provincially owned assets is reflected in the tangible capital assets appropriation. Gross capital purchase requirements in 2009–2010 total $674.2 million, which includes an investment of $325.0 million in the highway system; $207.2 million for buildings, including schools; $81.3 million for land and land improvements; $38.6 million for information technology; and $22.1 million for vehicles and equipment.

In addition, capital funding has been provided to the following government units: $87.9 million for the district health authorities and IWK Health Centre, $32.2 million for the Housing Development Corporation to leverage federal cost sharing for social housing projects, and $1.7 million in total for Trade Centre Limited and InNOVAcorp.

NOVA SCOTIA

Budget Summary

Supplementary to the 2009–2010 Budget

BUDGET SUMMARY - STATEMENT OF OPERATIONS

Schedule 1A

($ thousands)

ESTIMATE 2007-2008	ACTUAL 2007-2008 (Restated)	ESTIMATE 2008-2009	ACTUAL 2008-2009		ESTIMATE 2009-2010
				Consolidated Fund	
				Revenues	
7,029,569	7,541,393	7,476,037	7,497,663	Ordinary Revenues	7,295,210
60,883	56,410	60,834	61,980	Fees and Other Charges	61,235
469,662	468,585	456,375	458,755	Ordinary Recoveries	606,895
113,529	112,834	114,400	116,384	Sinking Fund Earnings	91,623
7,673,643	**8,179,222**	**8,107,646**	**8,134,782**		**8,054,963**
				Expenses	
6,917,294	7,100,620	7,360,889	7,568,688	Departmental Expenses	8,115,994
68,603	107,504	67,590	85,066	Pension Valuation Adjustment	88,990
954,338	924,889	904,522	867,338	Debt Servicing Costs	889,076
7,940,235	**8,133,013**	**8,333,001**	**8,521,092**		**9,094,060**
(266,592)	**46,209**	**(225,355)**	**(386,310)**		**(1,039,097)**
				Consolidation and Accounting Adjustments for Governmental Units	
40,592	2,789,900	54,499	2,861,482	Consolidated Fund Consolidation Adjustments	85,919
---	(1,711,976)	---	(1,685,801)	Health and Hospital Boards Operations	1,267
---	(940,677)	(2,000)	(999,952)	School Boards Operations	---
76	10,584	385	200	Special Purpose Funds	1,055
309	(119,269)	3,916	(129,498)	Other Organizations	1,966
40,977	**28,562**	**56,800**	**46,431**		**90,207**
				Net Income from Government Business Enterprises	
139,600	134,198	136,200	133,394	Nova Scotia Gaming Corporation	128,100
197,070	198,671	210,021	212,613	Nova Scotia Liquor Corporation	217,000
7,374	11,289	12,000	13,573	Other Enterprises	11,697
344,044	**344,158**	**358,221**	**359,580**		**356,797**
118,429	**418,929**	**189,666**	**19,701**	**Provincial Surplus (Deficit)**	**(592,093)**

Fiscal Projections
2009–2010 to 2012–2013

Supplementary to the 2009–2010 Budget

FISCAL PROJECTIONS 2009–2010 to 2012–2013

Schedule 1B

($millions)

	ESTIMATE *2008–2009*	**ACTUAL** *2008–2009*	**ESTIMATE** *2009–2010*	**ESTIMATE** *2010–2011*	**ESTIMATE** *2011–2012*	**ESTIMATE** *2012–2013*
Consolidated Fund						
Revenues	8,107.6	8,134.8	8,055.0	8,094.4	8,266.6	8,513.3
Expenses	8,333.0	8,521.1	9,094.1	8,524.3	8,665.1	8,923.1
	(225.4)	(386.3)	(1,039.1)	(429.9)	(398.5)	(409.8)
Consolidation Adjustments	56.8	46.4	90.2	68.5	31.4	31.4
Net Income Government Business Enterprises	358.2	359.6	356.8	361.4	367.1	378.4
Provincial Surplus (Deficit)	189.7	19.7	(592.1)	0.0	0.0	0.0

Medium-Term Challenges

Current Fiscal Situation

The serious fiscal challenges facing the Province of Nova Scotia in 2009–2010 are expected to persist in the medium term.

The Province of Nova Scotia Financial Review, prepared by Deloitte and issued in August 2009, suggests that if government continues the fiscal planning approach of the last few years, Nova Scotia faces a projected annual deficit of $1.3 billion and a net debt of $16.8 billion by 2012–2013.

Fiscal Trends

In the face of the global recession, Nova Scotia's traditional revenue sources are growing at a slower rate than in recent years. Revenue growth is not projected to recover until at least 2011–2012. In particular, revenues from offshore natural gas have dropped by well over 50 per cent this year due to declining energy prices and reduced production levels.

The growth of revenues from federal transfers has also been slowing. In November 2008, the Government of Canada limited the growth of equalization transfer payments to provinces. Equalization payments to Nova Scotia have remained flat for 2009–2010 and are expected to decline in the range of $200 million next year. At the same time, transfers for health and social spending are falling well short of rising expenses as the federal government moves to per capita funding formulas in both areas.

Over the last few years, government has introduced new programs and services that are now reaching full capacity and cost, while the revenues that originally supported the programs are diminishing. Government will proceed with almost all of the infrastructure improvement initiatives introduced by its predecessors to stimulate the economy during the recession. While this investment is expected to increase employment it will also increase capital expenses in the budget this year and next and add additional debt-servicing and amortization expenses in future years.

The cost of funding public-sector pensions is also going up. Funding levels for both the Public Service Superannuation Plan and the Teachers' Pension Plan have declined steeply in the last two years due to demographic trends as well as negative market performance for pension investments.

As the province moves from a surplus to a deficit position, debt-servicing costs are expected to rise in excess of $200 million by 2012–2013.

Fiscal Projections

The government has been taking stock of its fiscal situation since the election in June and is projecting a $592-million deficit for the 2009–2010 budget. This is Nova Scotia's first budgeted deficit since 2001–2002. It includes an additional $341-million payment to cover the remaining financial commitment to provincial universities under the Memorandum of Understanding on University Funding.

The government's agenda includes a commitment to "live within our means," and government remains focused on the goal of balancing the budget in 2010–2011—while recognizing the considerable challenges involved.

The medium-term fiscal projection, in the table above, indicates a balanced budget in 2010–2011. Given known trends for revenue, the assumption made is that expenses will be lowered from the 2009–2010 levels by $570 million to reach a balanced budget in 2010. In addition, several categories of spending must be held to zero per cent growth.

Balancing the budget, therefore, would require a significant reduction in the normal level of government spending, given that expenses have increased an average of 5 per cent over the last few years.

Planning for the 2010–2011 budget will start immediately after the passage of the 2009–2010 budget. This will include a review of economic and revenue assumptions and consideration of options to reduce expenses and/or increase revenue streams.

The Premier has also appointed an Economic Advisory Panel. Panel members are working to define fiscal policy challenges and make recommendations for government policy on expenditure management, revenue generators, economic growth, and ways to make life more affordable for Nova Scotians.

Revenues

On the revenue side, the province will be calling upon the Government of Canada to improve support for programs and services to Nova Scotians, such as health care and higher education.

Changes to the tax base will have to be considered in the context of the importance of maintaining a competitive system of taxation that attracts and retains the level of investment necessary to maintain or expand the economy in future. To assist with this analysis, government will resume work on the tax review project.

Expenses

Government is developing strategies to reduce expenses over both the short and the long term. The government will phase in changes needed to modernize government and secure cost savings to balance the budget in the future. A formal process will include:

- a comprehensive expenditure management initiative to achieve increased efficiencies in government departments and agencies
- a review of programs to ensure that they continue to meet government policy objectives
- a review of relationships and accountability arrangements with partner agencies

The government has increased contribution rates for public-sector pensions in recent years and will evaluate other options to improve pension funding and reduce liabilities in future.

Salaries form a large part of government's expenses for programs and services. Future wage agreements and adjustments for non-bargaining unit personnel will be consistent with the province's fiscal situation and the economic environment, while being fair to workers.

Economic Considerations

Keeping the province's budgets balanced and maintaining a reasonable debt level for the size of the economy are important priorities for the Province of Nova Scotia, which already has a very large debt per capita.

However, fiscal plans must be fairly broad in their outlook, and the government must be very careful to ensure that any actions taken to improve financial performance do not damage the economy in the long term. Nova Scotia's economy has continued to grow slightly during the recession, while other provinces have seen dramatic declines in growth.

The government must continue to pursue policies to strengthen the economy, promote employment, and ultimately ensure secure revenue streams to finance government programs and services.

NOVA SCOTIA

Financial Statistics

Supplementary to the 2009–2010 Budget

REVENUES BY SOURCE

Schedule 1C

($ thousands)

	ACTUAL 2005-2006 (Restated)	ACTUAL 2006-2007 (Restated)	ACTUAL 2007-2008 (Restated)	ACTUAL 2008-2009	ESTIMATE 2009-2010
Consolidated Fund Revenues					
Provincial Sources					
Corporate Income Tax	361,508	392,585	389,473	352,476	322,325
Harmonized Sales Tax	1,057,772	1,090,758	1,074,875	1,174,966	1,181,534
Individual Income Tax	1,568,449	1,678,995	1,778,395	1,818,415	1,781,057
Interest Revenues	81,139	81,888	87,900	84,780	93,178
Motive Fuel Taxes	248,252	245,577	249,189	243,379	247,493
Offshore Licenses Forfeitures	43,208	4,227	107,059	2,063	---
Registry of Motor Vehicles	88,173	91,997	99,107	112,594	103,332
Royalties - Petroleum	123,850	269,100	399,679	451,795	151,011
Tobacco Tax	163,617	145,091	145,573	147,654	169,061
Other Provincial Sources	299,445	277,140	303,994	290,596	275,176
TCA Cost Shared Revenue	---	---	4,461	2,999	12,027
Prior Years' Adjustments - Provincial Sources	16,420	13,032	85,779	53,904	---
Fees and Other Charges	60,964	64,682	56,410	61,980	61,235
Ordinary Recoveries - Provincial Sources	254,094	247,327	261,443	274,032	280,653
Sinking Fund Earnings	124,395	121,591	112,834	116,384	91,623
Total - Provincial Sources	**4,491,286**	**4,723,990**	**5,156,171**	**5,188,017**	**4,769,705**
Federal Sources					
Canada Health Transfer	581,015	610,477	638,954	668,683	700,137
Canada Social Transfer	254,964	264,304	280,413	297,114	304,089
C48 Infrastructure Trust Funds	---	2,468	43,090	29,913	1,500
C52 Trust Funds	---	---	2,669	5,992	21,961
Crown Share	---	---	234,400	95,114	79,352
Equalization Payments	1,343,527	1,385,539	1,464,528	1,464,935	1,464,935
Knowledge Infrastructure Program	---	---	---	---	18,094
Offshore Offset	4,000	---	---	---	---
Offshore Oil and Gas Payments	57,100	57,421	68,238	105,884	180,072
Other Federal Sources	20,520	36,985	40,134	50,411	63,688
TCA Cost Shared Revenue	---	22,546	31,206	36,366	125,188
Prior Years' Adjustments - Federal Sources	5,027	6,722	12,277	7,630	---
Ordinary Recoveries - Federal Sources	162,050	183,081	207,142	184,723	326,242
Total - Federal Sources	**2,428,203**	**2,569,543**	**3,023,051**	**2,946,765**	**3,285,258**
Total - Revenues	**6,919,489**	**7,293,533**	**8,179,222**	**8,134,782**	**8,054,963**
Net Income from Government Business Enterprises					
Nova Scotia Gaming Corporation	155,335	141,717	134,198	133,394	128,100
Nova Scotia Liquor Corporation	181,217	188,241	198,671	212,613	217,000
Other Enterprises	8,867	10,683	11,289	13,573	11,697
	345,419	**340,641**	**344,158**	**359,580**	**356,797**
Total - Revenues	**7,264,908**	**7,634,174**	**8,523,380**	**8,494,362**	**8,411,760**

REVENUES BY SOURCE

(as a percentage of Total Revenue)

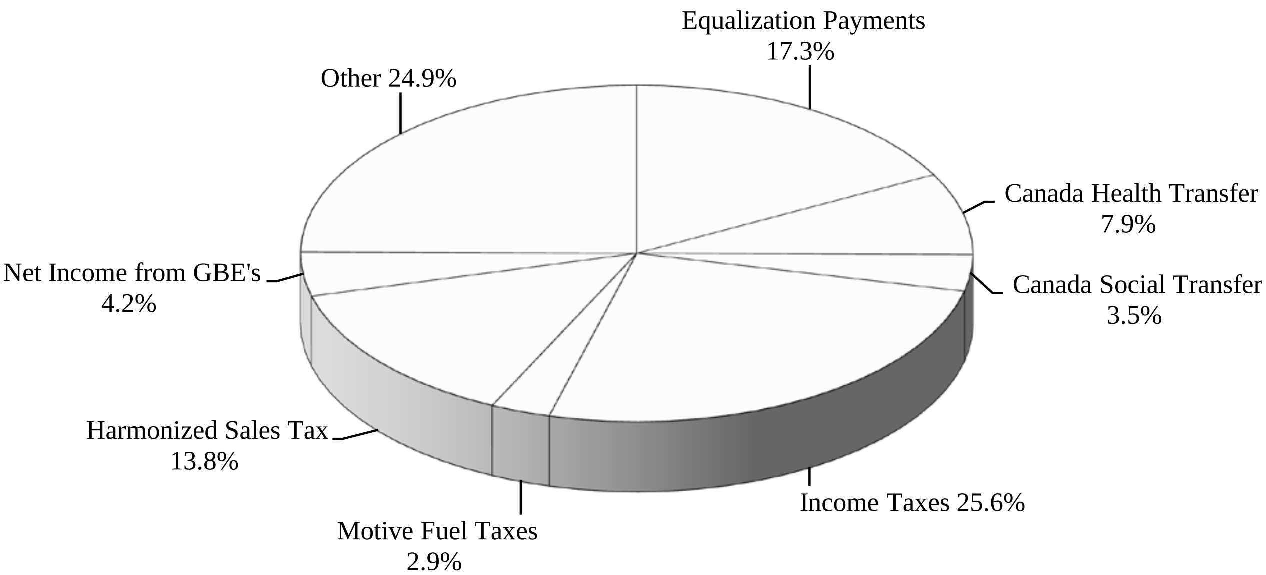
Schedule 1C
(continued)

	ACTUAL 2005-2006 (Restated)	ACTUAL 2006-2007 (Restated)	ACTUAL 2007-2008 (Restated)	ACTUAL 2008-2009	ESTIMATE 2009-2010
Consolidated Fund Revenues					
Provincial Sources					
Corporate Income Tax	5.0%	5.1%	4.6%	4.1%	3.8%
Harmonized Sales Tax	14.6%	14.3%	12.6%	13.8%	14.0%
Individual Income Tax	21.6%	22.0%	20.9%	21.4%	21.2%
Interest Revenues	1.1%	1.1%	1.0%	1.0%	1.1%
Motive Fuel Taxes	3.4%	3.2%	2.9%	2.9%	2.9%
Offshore Licenses Forfeitures	0.6%	0.1%	1.3%	0.0%	---
Registry of Motor Vehicles	1.2%	1.2%	1.2%	1.3%	1.2%
Royalties - Petroleum	1.7%	3.5%	4.7%	5.3%	1.8%
Tobacco Tax	2.3%	1.9%	1.7%	1.7%	2.0%
Other Provincial Sources	4.1%	3.6%	3.6%	3.4%	3.3%
TCA Cost Shared Revenue	---	---	0.1%	0.0%	0.1%
Prior Years' Adjustments - Provincial Sources	0.2%	0.2%	1.0%	0.6%	---
Fees and Other Charges	0.8%	0.8%	0.7%	0.7%	0.7%
Ordinary Recoveries - Provincial Sources	3.5%	3.2%	3.1%	3.2%	3.3%
Sinking Fund Earnings	1.7%	1.6%	1.3%	1.4%	1.1%
Total - Provincial Sources	**61.8%**	**61.9%**	**60.5%**	**61.1%**	**56.7%**
Federal Sources					
Canada Health Transfer	8.0%	8.0%	7.5%	7.9%	8.3%
Canada Social Transfer	3.5%	3.5%	3.3%	3.5%	3.6%
C48 Infrastructure Trust Funds	---	0.0%	0.5%	0.4%	0.0%
C52 Trust Funds	---	---	0.0%	0.1%	0.3%
Crown Share	---	---	2.8%	1.1%	0.9%
Equalization Payments	18.5%	18.1%	17.2%	17.2%	17.4%
Knowledge Infrastructure Program	---	---	---	---	0.2%
Offshore Offset	0.1%	---	---	---	---
Offshore Oil and Gas Payments	0.8%	0.8%	0.8%	1.2%	2.1%
Other Federal Sources	0.3%	0.5%	0.5%	0.6%	0.8%
TCA Cost Shared Revenue	---	0.3%	0.4%	0.4%	1.5%
Prior Years' Adjustments - Federal Sources	0.1%	0.1%	0.1%	0.1%	---
Ordinary Recoveries - Federal Sources	2.2%	2.4%	2.4%	2.2%	3.9%
Total - Federal Sources	**33.4%**	**33.7%**	**35.5%**	**34.7%**	**39.1%**
Total - Revenues	**95.2%**	**95.5%**	**96.0%**	**95.8%**	**95.8%**
Net Income from Government Business Enterprises					
Nova Scotia Gaming Corporation	2.1%	1.9%	1.6%	1.6%	1.5%
Nova Scotia Liquor Corporation	2.5%	2.5%	2.3%	2.5%	2.6%
Other Enterprises	0.1%	0.1%	0.1%	0.2%	0.1%
	4.8%	**4.5%**	**4.0%**	**4.2%**	**4.2%**
Total - Revenues	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

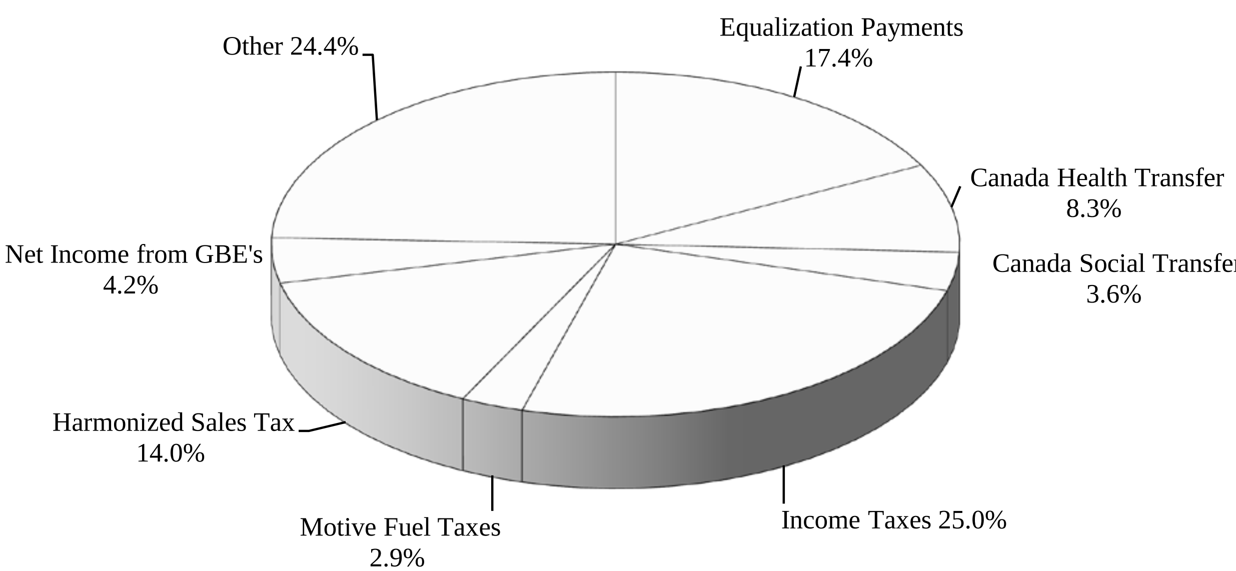
REVENUES BY SOURCE

Chart 1A

2008-2009 ACTUAL



2009-2010 ESTIMATE



EXPENSES BY DEPARTMENT

Schedule 1D

($ thousands)

	ACTUAL 2005-2006 (Restated)	ACTUAL 2006-2007 (Restated)	ACTUAL 2007-2008 (Restated)	ACTUAL 2008-2009	ESTIMATE 2009-2010
Agriculture	57,509	54,652	76,071	65,984	61,686
Community Services	792,748	817,962	870,324	890,631	945,813
Economic and Rural Development	---	71,730	99,713	91,012	95,243
Education	1,110,957	1,186,958	1,230,048	1,267,460	1,285,147
Assistance to Universities	231,958	268,710	422,589	485,468	455,802
Energy	21,686	17,003	44,282	35,881	40,090
Environment	---	---	---	27,907	44,334
Environment and Labour	39,932	40,940	71,968	---	---
Finance	30,113	20,066	28,016	27,085	30,399
Fisheries and Aquaculture	---	6,168	6,934	7,311	11,350
Health	2,720,349	2,898,393	3,013,902	3,165,806	3,422,276
Health Promotion and Protection	34,701	50,290	68,192	87,666	89,031
Justice	206,672	215,487	235,029	262,071	281,490
Labour and Workforce Development	---	---	---	67,410	160,859
Natural Resources	66,676	69,107	87,489	86,829	91,449
Public Service	185,079	117,130	132,770	157,602	182,702
Seniors	---	---	---	1,693	1,957
Service Nova Scotia and Municipal Relations	170,349	194,661	237,046	244,388	300,194
Tourism, Culture and Heritage	51,727	54,717	57,400	61,356	63,022
Transportation and Infrastructure Renewal	277,355	297,361	366,289	381,343	374,333
Restructuring Costs	90,655	116,017	56,727	154,861	178,817
Gain (Loss) on the Disposal of Assets	(357)	(1,963)	(4,169)	(1,076)	---
Total Program Expenses	**6,088,109**	**6,495,389**	**7,100,620**	**7,568,688**	**8,115,994**
Pension Valuation Adjustment	30,327	83,137	107,504	85,066	88,990
Debt Servicing Costs	987,891	929,828	924,889	867,338	889,076
Total Expenses	**7,106,327**	**7,508,354**	**8,133,013**	**8,521,092**	**9,094,060**

EXPENSES BY DEPARTMENT

Schedule 1D

(as a percentage of Total Expenses)

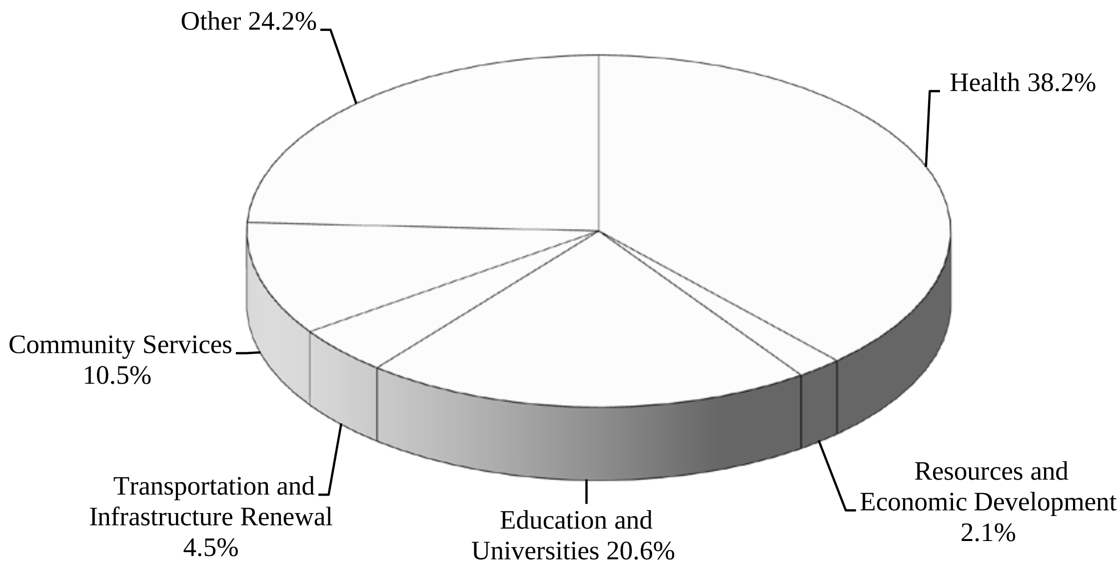
(continued)

	ACTUAL 2005-2006 (Restated)	ACTUAL 2006-2007 (Restated)	ACTUAL 2007-2008 (Restated)	ACTUAL 2008-2009	ESTIMATE 2009-2010
Agriculture	0.8%	0.7%	0.9%	0.8%	0.7%
Community Services	11.2%	10.9%	10.7%	10.5%	10.4%
Economic and Rural Development	---	1.0%	1.2%	1.1%	1.0%
Education	15.6%	15.8%	15.1%	14.9%	14.1%
Assistance to Universities	3.3%	3.6%	5.2%	5.7%	5.0%
Energy	0.3%	0.2%	0.5%	0.4%	0.4%
Environment	---	---	---	0.3%	0.5%
Environment and Labour	0.6%	0.5%	0.9%	---	---
Finance	0.4%	0.3%	0.3%	0.3%	0.3%
Fisheries and Aquaculture	---	0.1%	0.1%	0.1%	0.1%
Health	38.3%	38.6%	37.1%	37.2%	37.6%
Health Promotion and Protection	0.5%	0.7%	0.8%	1.0%	1.0%
Justice	2.9%	2.9%	2.9%	3.1%	3.1%
Labour and Workforce Development	---	---	---	0.8%	1.8%
Natural Resources	0.9%	0.9%	1.1%	1.0%	1.0%
Public Service	2.6%	1.6%	1.6%	1.8%	2.0%
Seniors	---	---	---	0.0%	0.0%
Service Nova Scotia and Municipal Relations	2.4%	2.6%	2.9%	2.9%	3.3%
Tourism, Culture and Heritage	0.7%	0.7%	0.7%	0.7%	0.7%
Transportation and Infrastructure Renewal	3.9%	4.0%	4.5%	4.5%	4.1%
Restructuring Costs	1.3%	1.5%	0.7%	1.8%	2.0%
Gain (Loss) on the Disposal of Assets	0.0%	0.0%	-0.1%	0.0%	---
Total Program Expenses	**85.7%**	**86.5%**	**87.3%**	**88.8%**	**89.2%**
Pension Valuation Adjustment	0.4%	1.1%	1.3%	1.0%	1.0%
Debt Servicing Costs	13.9%	12.4%	11.4%	10.2%	9.8%
Total Expenses	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

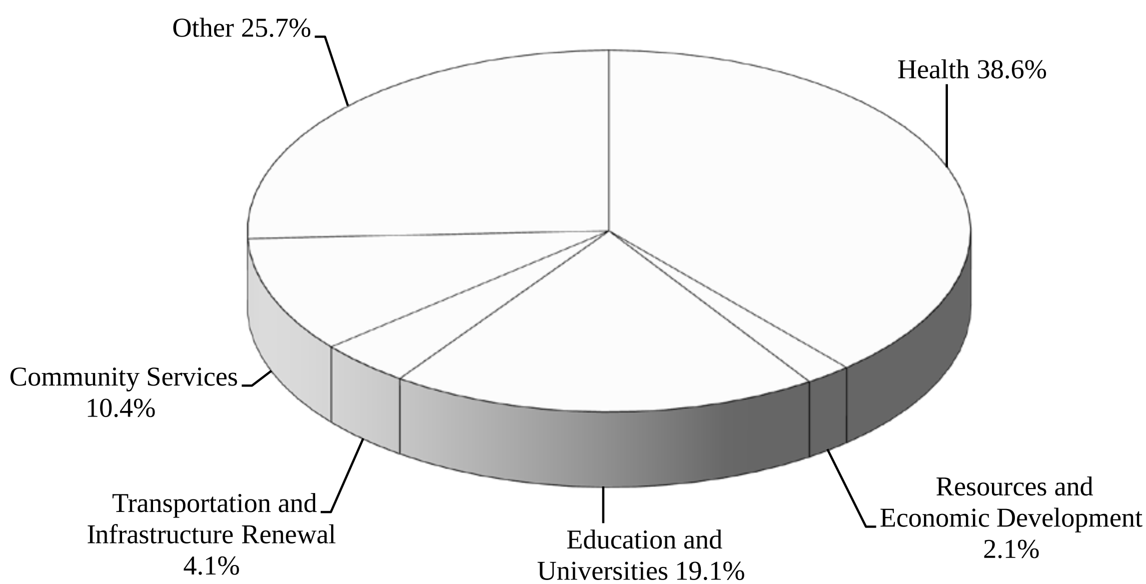
TOTAL EXPENSES BY DEPARTMENT

Chart 1B

2008-2009 ACTUAL



2009-2010 ESTIMATE



NOVA SCOTIA

Report of the Auditor General

on Estimates of Revenue

2009–2010

NOVA SCOTIA

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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, 2010 used in the preparation of the September 24, 2009 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, 2010 are the responsibility of the Department of Finance and have been prepared by departmental management using assumptions with an effective date of August 13, 2009 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 $8,411,760,000 as described in the financial forecast of Revenues By Source (Schedule 2A of the Nova Scotia Budget Assumptions and Schedules) (the 2009-10 revenue estimates). My examination did not include, and my opinion does not cover, the budget speech or the 2009-10 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 2009 -2010 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 2009-10 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 departmental management, and provide a reasonable basis for the 2009-10 revenue estimates; and
- the 2009-10 revenue estimates as presented reflect fairly such assumptions; and
- the 2009-10 revenue estimates comply with presentation and disclosure standards established by the Canadian Institute of Chartered Accountants.

Since the 2009-10 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
Auditor General

Halifax, Nova Scotia
September 21, 2009

REVENUES BY SOURCE

Schedule 2A

($ thousands)

	ESTIMATE 2009-2010
Consolidated Fund Revenues	
Provincial Sources	
Corporate Income Tax	322,325
Harmonized Sales Tax	1,181,534
Individual Income Tax	1,781,057
Interest Revenues	93,178
Motive Fuel Taxes	247,493
Registry of Motor Vehicles	103,332
Royalties - Petroleum	151,011
Tobacco Tax	169,061
Other Provincial Sources	275,176
TCA Cost Shared Revenue	12,027
Fees and Other Charges	61,235
Ordinary Recoveries - Provincial Sources	280,653
Sinking Fund Earnings	91,623
Total - Provincial Sources	**4,769,705**
Federal Sources	
Canada Health Transfer	700,137
Canada Social Transfer	304,089
C48 Infrastructure Trust Funds	1,500
C52 Trust Funds	21,961
Crown Share	79,352
Equalization Payments	1,464,935
Knowledge Infrastructure Program	18,094
Offshore Oil and Gas Payments	180,072
Other Federal Sources	63,688
TCA Cost Shared Revenue	125,188
Ordinary Recoveries - Federal Sources	326,242
Total - Federal Sources	**3,285,258**
Total - Revenues	**8,054,963**
Net Income from Government Business Enterprises	
Nova Scotia Gaming Corporation	128,100
Nova Scotia Liquor Corporation	217,000
Other Enterprises	11,697
	356,797
Total - Revenues	**8,411,760**

NOVA SCOTIA

BUDGET ASSUMPTIONS —
September 24, 2009

Revenue Outlook

In 2009–2010, Nova Scotia's total Consolidated Fund revenues are estimated to be $8,055.0 million, a decrease of $52.7 million, or 0.6 per cent, compared to the 2008–2009 budget estimate.

Provincial own-source revenues are expected to decrease by $421.5 million, or 8.1 per cent, from the 2008–2009 budget estimate to $4,769.7 million in 2009–2010.

Federal source revenues will increase by $368.8 million, or 12.6 per cent, from the 2008–2009 budget estimate to $3,285.3 million in 2009–2010.

Provincial Own-Source Revenues

Personal Income Tax (PIT)

Nova Scotia's 2009–2010 estimate for personal income tax is $1,781.1 million, down $47.6 million, or 2.6 per cent, from the 2008–2009 budget estimate.

National personal taxable income is projected to decline from 2008 levels. The decline is being driven by weaker growth in salaries and wages as a result of labour market conditions and significant capital losses related to the current global recession. Previously announced increases to the Basic Personal Exemption and non-refundable tax credits also contribute to the decline in revenues.

Nova Scotia's share of national personal taxable income has been steadily declining since 2000 and is projected to be 2.42 per cent in 2009–2010, down from 2.46 per cent for the 2008–2009 budget estimate. The province's yield of income tax is forecasted to be 7.90 per cent in 2009–2010, slightly lower than the 7.92 per cent forecasted in the 2008–2009 budget estimate. The 2009–2010 estimate is based upon Finance

Canada's August 2009 forecast for national personal taxable income and the 2007 tax year Final Payment Books received from the federal government in February 2009.

Corporate Income Tax (CIT)

Nova Scotia's 2009–2010 estimate for corporate income tax is $322.3 million, down $93.6 million, or 22.5 per cent, from the 2008–2009 budget estimate.

The substantial decline largely reflects the contraction in corporate taxable income, at both the provincial and the national level, as a result of the global economic recession and is partially offset by an increase in the province's share of national corporate taxable income. The revenue forecast also incorporates the extraordinary carry-back losses expected to be claimed by corporations in the 2009 and 2010 taxation years and a decline in offshore corporate income tax. In addition, provincial corporate profits are projected to decline by 25.4 per cent in 2009.

Harmonized Sales Tax (HST)

Gross HST is estimated to total $1,350.6 million in 2009–2010, up $54.8 million, or 4.2 per cent, from the 2008–2009 budget estimate.

HST rebates for public-sector bodies, new housing, printed books, volunteer fire departments, persons with disabilities, new home construction, and Your Energy Rebate are projected to total $169.0 million, an increase of $24.3 million, or 16.8 per cent, from the 2008–2009 budget estimate. This is due primarily to reimplementing the provincial portion of the HST rebate for basic residential electricity under Your Energy Rebate Program and the introduction of the New Home Construction Rebate.

Net HST is projected to total $1,181.5 million in 2009–2010, an increase of $30.5 million, or 2.7 per cent, over the 2008–2009 budget estimate. Growth in the consumer expenditure component offset by higher rebates accounts for the increase in revenues. Consumer expenditures are projected to grow 2.6 per cent in 2009, which represents the lowest growth since 2002. This reflects the slump in consumers' ability and willingness to spend, as well as dampening consumer confidence in the face of a global economic recession.

Tobacco Tax

Tobacco tax revenues are projected to total $169.1 million in 2009–2010, an increase of $30.9 million, or 22.4 per cent, over the 2008–2009 budget estimate.

The $0.05/unit increase in the tobacco tax rate effective June 23, 2009, is the primary factor for the higher revenue but is partially offset by a slight decrease in consumption as a result of higher prices for tobacco products. Legal consumption of tobacco products declined in the period 2005–2006 to 2008–2009, but has stabilized. The illegal tobacco market is projected to moderate in 2009–2010 as enforcement and compliance efforts continue to prove effective.

Motive Fuel Taxes

Motive fuel taxes are projected to total $247.5 million in 2009–2010, an increase of $0.6 million, or 0.2 per cent, from the 2008–2009 budget estimate.

Revenues from motive fuel taxes are essentially flat on a year-over-year basis as world prices for crude oil have been on the rise through 2009 following a steep decline in 2008 and are forecasted to be in line with estimates prepared for last year. On average, gasoline and diesel oil prices are forecast to be slightly lower than in 2008–2009, contributing to a marginally higher forecast in consumption for 2009–2010.

Offshore Petroleum Royalties

Offshore petroleum royalties are estimated to be $151.0 million in 2009–2010, a decrease of $362.8 million, or 70.6 per cent, from the 2008–2009 budget estimate.

The decrease is primarily a result of lower prices for natural gas, capital costs associated with a new well to be drilled in 2009, and increased operating costs and reduced production related to maintenance work performed on the Sable Offshore Energy Project during the summer of 2009.

Other Provincial Sources

Other provincial sources are estimated to be $483.7 million, an increase of $16.7 million, or 3.6 per cent, from the 2008–2009 budget estimate.

This revenue source includes such items as corporate capital taxes, tax on insurance premiums, seniors' pharmacare premiums, the Casino Win Tax, Registry of Motor Vehicles revenue, and interest revenue.

The increase is the result of higher revenues from the Registry of Motor Vehicles, increased interest revenue, and an increase in revenues from the levy on used vehicles. These increases are offset by the scheduled reduction in Large Corporation Capital Tax.

Federal Transfers

Equalization

Equalization revenues are estimated to be $1,464.9 million in 2009–2010, the same as the 2008–2009 budget estimate.

The Equalization estimate reflects the province's adoption of the Expert Panel formula for equalization. Changes to the formula were announced by the federal government in

November 2008 and will be implemented effective for the 2009–2010 fiscal year.

With the inclusion of the Province of Ontario in Equalization, the federal government made changes to reduce their program costs. Growth in the Equalization funding will now be set at the three-year average growth in national gross domestic product (GDP). The fiscal capacity cap is the average fiscal capacity of the Equalization-receiving provinces. The former cap was the lowest fiscal capacity of non-Equalization-receiving provinces.

In 2009–2010 the federal government will provide a transitional payment to ensure that the province does not receive less in Equalization payments than it did in 2008–2009.

As part of a clarification reached with the Government of Canada on October 10, 2007, Nova Scotia receives 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 2009–2010 the cumulative value of the Expert Panel exceeds the cumulative value of the Interim approach for the years 2008–2009 to 2009–2010. As a result, 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 $180.1 million in 2009–2010, an increase of $74.2 million, or 70.1 per cent, over the 2008–2009 budget estimate. The increase reflects the inclusion of higher offshore royalties from recent years in the Equalization formula. These payments are recorded on a notional basis until the payments reach the $830-million advance payment made to the province in 2005.

The Canada Health Transfer (CHT)

In 2009–2010 the total provincial entitlement for CHT consists of the provincial allocation of a fixed national entitlement. The 2009–2010 national CHT amount that is available in cash and tax points is estimated to be $37.9 billion. The fixed national pool of cash to be distributed to provinces is $24.0 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 $700.1 million in 2009–2010, an increase of $36.0 million, or 5.4 per cent higher than the 2008–2009 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 2009.

The cash and tax point transfers for 2009–2010 are set out in federal legislation and are not subject to change.

The Canada Social Transfer (CST)

Nova Scotia's 2009–2010 cash entitlement for CST is estimated to be $304.1 million, an increase of $7.2 million, or 2.4 per cent higher than the 2008–2009 budget estimate.

The provincial entitlement is based on a per capita cash provincial allocation of a fixed national entitlement, which stands at $10.9 billion. Effective with the 2007 federal budget, the CST no longer contains a tax point transfer component. The national pool of cash is legislated to grow by 3.0 per cent a year in 2009–2010 through to 2013–2014.

Crown Share Adjustment Payment

The Crown Share Adjustment Payment will be $79.4 million in 2009–2010. At the time the 2008–2009 budget estimate was prepared, the Expert Panel on Crown Share Adjustment Payments had not delivered their report and recommendation to the federal government, so no budget estimate was available.

Other Federal Sources

Other federal sources are estimated to be $230.4 million in 2009–2010, an increase of $47.7 million, or 26.1 per cent, over the 2008–2009 budget estimate.

There is an increase of $62.8 million in tangible capital asset (TCA) cost-shared revenue from the federal government compared to the 2008–2009 budget estimate, largely as a result of federal stimulus funding announced as part of the 2009 federal budget. The province will also draw down $26.0 million more in funding from the Build Canada Fund made available by the federal government and $18.1 million in new funding from the Knowledge Infrastructure Trust to address infrastructure funding for post-secondary institutions.

Offsets to these increases result from $37.3 million less in drawdowns from Bill C-48 infrastructure trusts, reflecting completion of drawdowns for public transit and reduced amounts for affordable housing and off-reserve aboriginal housing. Other federal sources also include the federal Wait Times Reduction transfer. This transfer is an equal per capita allocation based upon the province's share of national population. Nova Scotia's share of the $250.0 million national entitlement in 2009–2010 is $7.0 million, compared to funding of $17.1 million in 2008–2009 when the national entitlement was $600.0 million.

Other

Recoveries

Recoveries are projected to total $606.9 million in 2009–2010, an increase of $150.5 million, or 33.0 per cent higher than the 2008–2009 budget estimate.

The increase relates primarily to an additional $29.5 million in the federal government's Gas Tax Transfer to municipalities, $96 million in federal government funding as part of labour market development agreements, $19 million related to federal funding of housing projects through the Department of Community Services, and $3.5 million for silviculture funding.

Fees and Other Charges

Fees and other charges are projected to total $61.2 million in 2009–2010, an increase of $0.4 million, or 0.7 per cent higher than the 2008–2009 budget estimate.

Sinking Fund Earnings

Sinking fund earnings are projected to total $91.6 million in 2009–2010, a decrease of $22.8 million, or 19.9 per cent, from the 2008–2009 budget estimate.

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 $7,731 to $7,981 effective January 1, 2009, and to $8,231 in January 2010.

Volunteer Firefighters Tax Credit

For the 2009 tax year, the Volunteer Firefighters and Ground Search and Rescue Tax Credits will increase from $375 to $500 as announced in the 2007–2008 budget.

Healthy Living Tax Credit

Budget 2008–2009 announced the extension of the Healthy Living Tax Credit to all Nova Scotians effective January 1, 2009. The extension of this credit to adult recreation expenses has been deferred to maintain personal income tax revenues. For the 2009 and subsequent taxation years, up to $500 in expenses for children's sport and recreation registration fees are still eligible for a tax credit. Extension of the credit to adults will be revisited at a later date.

Transit Tax Credit

Budget 2008–2009 announced a new Transit Tax Credit, starting in 2009. This credit has been deferred to maintain personal income tax revenues. Implementation of a transit tax credit will be revisited at a later date.

Graduate Tax Credit/Graduate Retention Rebate

The graduate tax credit was introduced in 2006. For 2006 and 2007, graduates from eligible post-secondary programs were able to reduce their taxes by up to $1,000. For those who graduated in 2008 and beyond, the graduate tax credit was increased to $2,000.

Effective January 1, 2009 the current tax credit will be replaced with a Graduate Retention Rebate, which will provide an improved incentive for post-secondary graduates to work in Nova Scotia. Students graduating with a degree will be able to deduct a tax credit of up to $2,500 per year over a six-year period, thereby providing potential tax savings of up to $15,000. Students who graduate with a diploma or certificate will be able to deduct up to $1,250 per year over a six-year period—a potential tax savings of $7,500.

Lengthening the period in which the deduction can be made from three years to six years will also ensure that post-secondary students will be more likely to take advantage of the rebate.

Equity Tax Credit and Labour-Sponsored Venture Capital Tax Credit

Effective January 1, 2010, the Equity Tax Credit will be increased from a rate of 30 per cent to 35 per cent. The maximum annual credit will also increase from $15,000 to $17,500 to reflect the rate increase.

The Equity Tax Credit was scheduled to expire on December 31, 2009. This credit will be extended by two years to December 31, 2011.

Key Tax Measures—Business Taxes

Manufacturing and Processing

The province announced elimination of the Manufacturing and Processing Tax Credit in 2000. As announced in the 2006–2007 budget, the use of credits accumulated under this program will cease on December 31, 2009.

Large Corporations Tax

As announced in the 2006–2007 budget, the province's Large Corporations Tax (LCT) on capital of non-financial institutions declined from 0.2 per cent to 0.15 per cent on July 1, 2009. That tax rate will continue to decline on an annual basis until its elimination in 2012.

Key Tax Measures—Consumption Taxes

Your Energy Rebate

On October 1, 2009, the government will implement a rebate of the provincial portion of the Harmonized Sales Tax on residential electricity usage below the current 27.4 kWh per day threshold. Your Energy Rebate will now cover all residential electricity usage including the monthly basic charge and will cost an additional $15 million in 2009–2010.

New Home Construction Rebate

On July 7, 2009, the government announced a rebate of 50 per cent of the provincial portion of the Harmonized Sales Tax on new homes that began construction on or after January 1, 2009, and are substantially complete by March 31, 2010. The maximum rebate available is $7,000 and will be limited to 1,500 homes for a total cost in 2009–2010 of $10.5 million.

Tobacco Taxes

Effective at 12:01 am on June 23, 2009, the tobacco tax rate increased by 5 cents per cigarette, 5 cents per pre-proportioned tobacco stick, and 5 cents per gram of fine-cut tobacco.

Sensitivity

Revenue estimates, which 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 negatively or positively, 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 August 13, 2009.

Revenue Source	Key Variables
Personal Income Taxes	• national level of personal taxable income as provided by Finance Canada • Nova Scotia share of national levels of taxable income • provincial taxable income yield • tax credits uptake
Corporate Income Taxes	• national level of corporate taxable income level as provided by Finance Canada • Nova Scotia share of national taxable income • tax credit uptake • national and provincial corporate profit levels
HST	• personal consumer expenditure levels • provincial gross domestic product • spending by exempt industries • rebate levels • housing investment
Tobacco, Gasoline and Diesel Taxes	• personal consumer expenditure levels • tobacco and fuel consumption patterns • tobacco and fuel prices • labour income
Petroleum Royalties	• foreign exchange rates • production levels • capital and operating costs of interest holders • 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 • changes in personal and corporate income taxes • changes in population • changes in tax point values

Additional Information

In addition to the key economic and fiscal assumptions contained in the 2009–2010 revenue estimates, the following information should also be taken into account when interpreting the revenue estimates.

The revenue estimates for 2009–2010 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, which are consolidated for financial statement purposes, are not included in the province's revenue estimates.

The Department of Finance and other departments or agencies of the province have prepared their specific revenue estimates for 2009–2010 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 January 27, 2009. 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 final revenues for 2008–2009.

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 2009–2010.

To be consistent with our revenue recognition policy and to reflect the uncertainty of this revenue, no offshore forfeiture revenue is included in the 2009–2010 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 2009–2010.

Tangible Capital Assets

The 2009–2010 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.

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 $217 million in 2009–2010. This is an increase of 3.3 per cent compared to the 2008–2009 estimate of net income. The net income is projected on net sales of $573.5 million for 2009–2010 as compared to $554.0 million for 2008–2009. The increase in net income is primarily attributable to the following factors:

- net sales increase of 3.5 per cent attributable to a combination of price and volume increases.
- benefits that continue to be realized from investment in enhancing the retail customer shopping experience and its infrastructure
- ongoing efforts to continually refresh and serve the wholesale and licensee community more effectively
- strong category management, enhanced product promotion, and marketing programs that continue to drive vibrant sales
- a strong customer experience in-store that is supplemented by outreach programs such as community outreach and cause marketing programs
- continued focus on driving operating performance and expense management throughout the organization

Nova Scotia Gaming Corporation Net Income

The Nova Scotia Gaming Corporation's (NSGC) net income is budgeted to be $128.1 million in 2009–2010, $8.1 million lower than the 2008–2009 estimate. Budgeted revenue will decline, primarily due to the maturity of the ticket lottery business line. Budgeted expenses are lower, corresponding with the decline in ticket lottery revenue, as well as the introduction of costs associated with the video lottery Informed Player Choice System (IPCS) and the write-down of assets due to the elimination of the Keno Ticket Lottery product.

Net Income from Other Enterprises

Net income from other enterprises is estimated at $11.7 million for 2009–2010. This includes $6.7 million from the Halifax-Dartmouth Bridge Commission and $5.0 million from the Highway 104 Western Alignment Corporation.

The 2009–2010 Halifax-Dartmouth Bridge Commission estimate is $1.2 million lower than 2008–2009, primarily due to a change in accounting period from December 31 to March 31, resulting in a 15-month budget estimate for 2008–2009.

Highway 104 Western Alignment Corporation's budget estimate for 2009–2010 is $1.9 million higher than 2008–2009, mostly as a result of a subsidy payment from the province because of lower-than-targeted toll traffic.

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, the 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 $12.2 billion as of March 31, 2009. 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 $2.9 billion, resulting in net financial market debt of $9.3 billion. The management of this net financial market debt position consists of executing the borrowing program, investing sinking funds and the PDMF, and, where appropriate for risk-management and 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 2009–2010 budget shows that the government intends to incur a budgetary deficit for one year, followed by balanced budgets in the next four years, and embark on a significant capital expenditure program.

The management of the debt portfolio and borrowing program also must consider the external financial and economic environment. Over the past two years, the global economic situation and global financial markets have deteriorated, particularly in the United Kingdom, the United States, and the Eurozone. The challenges arising from the U.S. mortgage-backed securities markets, which began in mid-2007, continued into 2008 and 2009 and had significant negative effects on credit markets. Generally, there has been widening of credit spreads and a general lack of liquidity across a wide range of products. In addition, challenging capital market conditions intensified later in 2008 with the collapse of some global financial institutions. In response, governments of the major industrialized countries have introduced measures to stabilize their economies and restore public confidence in financial institutions. The announced measures include coordinated interest rate reductions, funding programs, capital injections into financial institutions, guarantees, and nationalization of financial institutions. The Government of Canada and the Bank of Canada have followed suit by cutting administered interest rates and injecting liquidity into the Canadian financial market.

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 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." The province will record $180.1 million in Offshore Accord Agreement revenues in 2009–2010, and as the cash was received in July 2005 and was used to pay down financial market debt at that time, this amount will be included in the borrowing program for the upcoming year.

In 2008–2009, the province had a $131.0 million increase in net debt outstanding in financial markets, primarily due to the net acquisition of tangible capital assets in 2008–2009. The province estimates that net debt in financial markets will increase by about $1.66 billion in 2009–2010 due to the budgetary deficit and provincial infrastructure spending plans and on-lending to the long-term care sector.

Nova Scotia's ratio of net debt to nominal gross domestic product at market prices continues to decline and stood at 35.4 per cent at March 31, 2009, down from 37 per cent a year earlier. It is expected to rise above 38 per cent for 2010–2011.

Nova Scotia Credit Ratings

Nova Scotia continues to communicate its economic and 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 by the credit-rating agencies. In 2008 all three rating agencies confirmed the province's credit rating, and Standard & Poor's Ratings Services and Dominion Bond Ratings Service continued the positive outlook. The following table shows current provincial credit ratings.

Canadian Provincial Ratings September 2009

	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-	Aa2
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. 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.

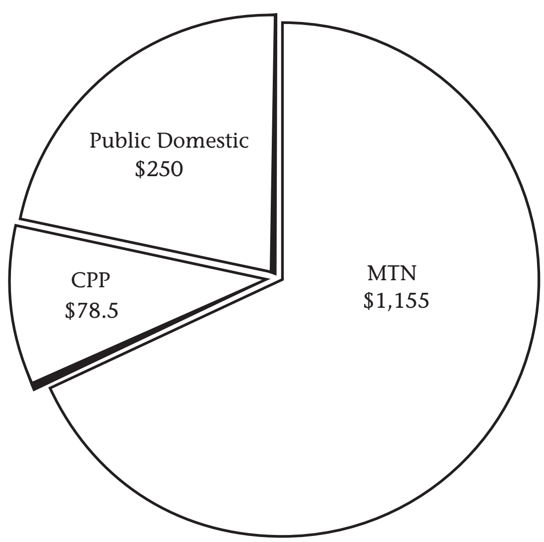
The following five profiles are provided to describe the overall structure and risk profile of the province's debt portfolio: (1) primary issuance market activities, (2) the debt maturity schedule, (3) foreign currency exposure, (4) interest rate mix, and (5) derivative counterparty exposure.

1. Primary Issuance Market

The Province of Nova Scotia expects to incur a budgetary deficit of $592.1 million in 2009–2010, monies that will be borrowed in capital markets. In addition to this amount, the province borrows further monies on an ongoing basis to refinance existing debt, to fund the acquisition of tangible capital assets, and for other non-budgetary purposes.

The management of the 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.

Chart 3A: Consolidated Fund Debt Portfolio—Issuance Profile, 2008–2009
($ millions)



In the fiscal year 2008–2009, the province borrowed $1,483.5 million, compared to borrowing requirements of $915 million estimated in the budget. The increase in the borrowing program in part was to refinance an additional $435 million in callable debt issued as "retail structured notes" and to pre-borrow for future years. The province met its borrowing requirements in fiscal year 2008–2009 by raising $1,155 million under the domestic Medium Term Note program, the reopening of an existing public debt issue for a further $250 million, and the rollover of a $78.5-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 funding at market cost of funds.

At March 31, 2009, Nova Scotia Business Inc., Resource Recovery Fund Board, Strategic Opportunities Fund, and Nova Scotia Crop and Livestock Insurance Commission invested a total of $67.9 million with the Consolidated Fund.

There were also entities that are not part of the Consolidated Entity that invested $128.4 with the Consolidated Fund. Those entities are the Nova Scotia Research and Innovation Trust, Nova Scotia Nominee Program, Nova Scotia Crown Share University Infrastructure Trust, Nova Scotia Crown Land Legacy Trust, and Nova Scotia University Student Bursary Trust.

Projected borrowing requirements for fiscal year 2009–2010 are expected to be about $1.968 billion. Schedule 3B also shows the projected borrowing program for 2010–2011 to 2012–2013.

The borrowing program starts with the provincial budgetary deficit, which increases requirements, or a 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. Each year there are requirements for the excess of capital expenditure over capital amortization, referred to as the net acquisition of tangible capital assets; those requirements in 2009–2010 are $577.1 million. The remaining non-budgetary adjustments are primarily related to non-cash interest charges on unfunded pension liabilities and post-employment benefits and the non-cash expense of the pension valuation adjustment.

The term debt borrowing program in 2009–2010 is primarily to fund the budgetary deficit, to refinance existing debt, to finance capital expenditure, and to provide capital advances to the Housing Development Corporation for the financing of certain long-term care facilities. The budget borrowing requirements of $2,308 million in 2009–2010 are expected to be partially funded by a $340-million increase in the short-term debt position for the fiscal year, while the remaining requirements of $1,968 million are expected to be funded in term debt markets. To date in 2009–2010, the province has not completed any term debt funding and drew $195 million from discretionary sinking funds for the June 1, 2009 debt maturity.

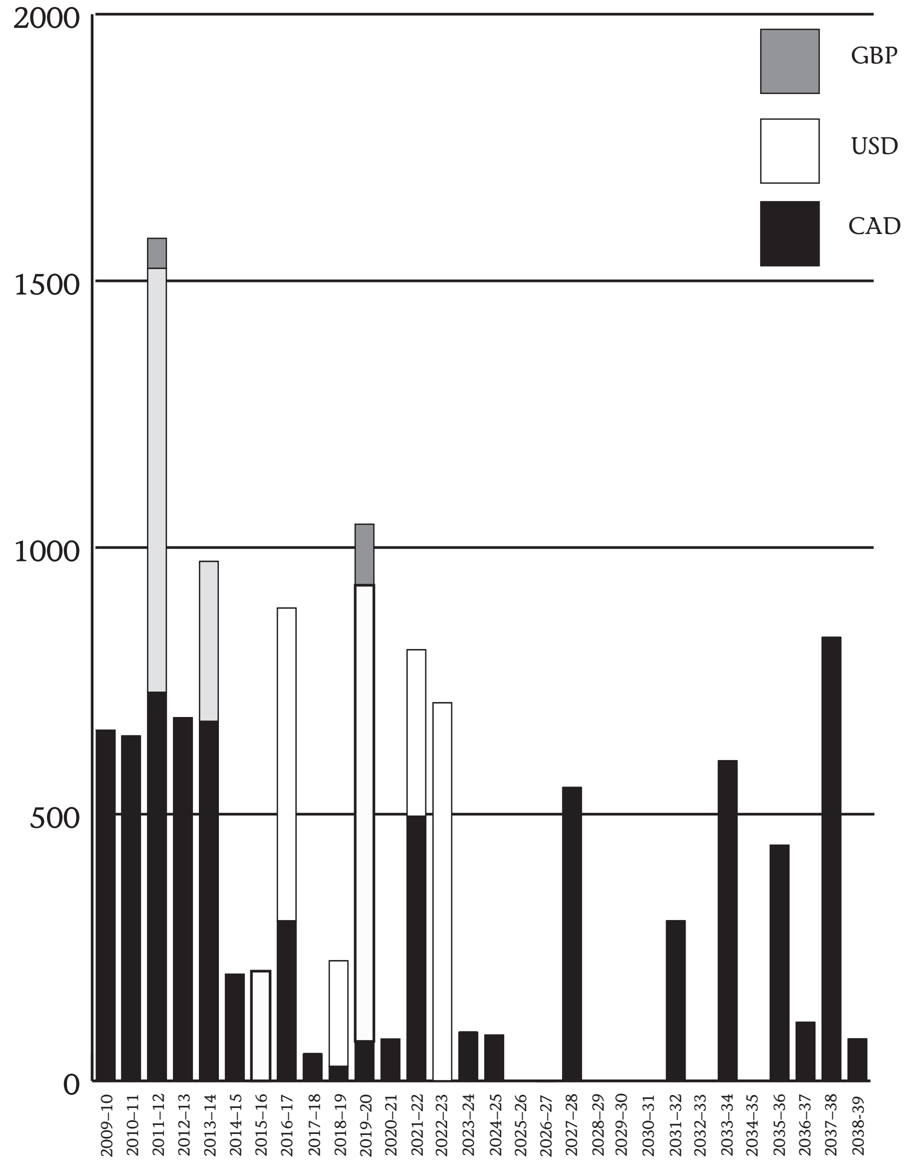
The province demonstrated access to capital in fiscal year 2008–2009 by raising the monies required to complete the borrowing program and refinance callable retail structured note debt and pre-borrow for 2009–2010. The province continues to maintain access to a diversity of borrowing sources, both domestically and in foreign markets. This access is a key factor 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 2009–2010. 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, 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). The province has no debt issues outstanding with either call or put options.

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



As at March 31, 2009, the average term to maturity of the gross debt portfolio was almost 11 years.

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.

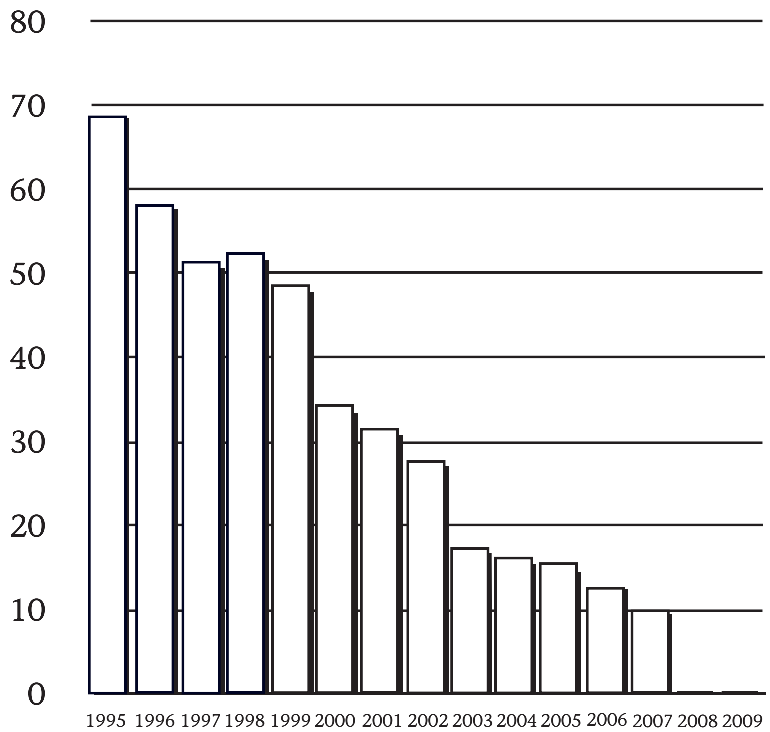
Debt maturities over the next two years are $679.6 million in the fiscal year 2009–2010 and $667.5 million in the fiscal year 2010–2011 (see Schedule 3B).

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 payable debt now represents 100 per cent of the 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 when the Canadian dollar and USD were at par.

Chart 3C: Foreign Currency Exposure
1995 to 2009
(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."
>
> Provincial Finance Act, Section 52A

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 reduced over the past year and ended the year at 5.0 per cent on March 31, 2009. The province includes fixed interest rate term debt and fixed income assets maturing in less than one year in its measure of floating interest rate debt to more accurately reflect exposure to resetting interest rates. In the past, the province has been able to exercise tight control of this variable in the portfolio by maintaining access to capital markets and through its extensive derivative capabilities. However, under the current market circumstances, the debt portfolio's floating interest rate exposure declined with the calls on retail structured notes (this debt was resetting at floating interest rates), and the Department of Finance chose to replace that debt with fixed interest rate debt issues.

The current level of floating interest rate debt is temporarily below the province's floating interest rate exposure policy, and the Department of Finance intends to raise the level of floating interest rate debt in 2009–2010. The interest rate exposure 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. The Department of Finance targets the mid-point of the policy range, and at present the province has some protection from unexpected increases in interest rates.

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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 done at a lower cost than would be possible in the cash market.

At March 31, 2009, the province's use of derivatives was for two purposes: (1) the hedging of foreign currency debt issues to Canadian dollars and (2) 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 $5.8 billion notional face value of derivative transactions, down from $6.2 billion a year earlier. Most of the decline is attributable to calls on retail structured notes. 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.

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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 funds required by bond covenant are treated as restricted assets and are used solely for the retirement of specific debt issues.

At March 31, 2009, the estimated book value of the sinking funds was $2.2 billion, of which $1.3 billion was held in covenanted sinking funds and over $900 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 either in 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, 2009, 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, 2009, held a portfolio of $707.1 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, are 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 and capital lease debt and the estimated interest cost of incremental borrowing; (2) general interest that provides for bank charges, bond issue expense, amortization of debenture discounts/premiums, and short-term interest costs; and (3) the accrual of interest of the province's unfunded pension and post-retirement benefit obligations.

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

	Estimate 2008–09	Actual 2008–09	Estimate 2009–10	Estimate 2010–11	Estimate 2011–12	Estimate 2012–13
Interest on Long-term Debt	737.7	681.7	693.3	766.2	798.6	814.5
General Interest	35.4	48.3	34.3	26.8	24.7	28.5
Interest on Pension, Retirement and Other Obligations	131.4	137.3	161.5	191.2	226.6	269.3
Gross Debt Servicing Costs	904.5	867.3	889.1	984.2	1,049.9	1,112.3
Less: Sinking Fund Earnings	114.4	116.4	91.6	96.5	98.4	97.5
Net Debt-Servicing Costs	790.1	750.9	797.5	887.7	951.5	1,014.8

In 2009–2010, the province will incur $161.5 million in debt-servicing costs related to the accrual of interest on pension, retirement, and other obligations. The province accounts for its pension obligations and related expenses on an accrual basis in accordance with PSAB Section 3250. In accordance with this section, the province uses a smoothed market value to value the plan assets of the pension plans and determine the expected return on plan assets. Asset smoothing involves using market-related values instead of market values to calculate the expected return on pension plan assets. Using market-related values entails recognizing changes in the actual fair value of the plan assets in a rational and systematic manner over a period of five years. This approach affects the pension expense in terms of the net debt-servicing costs and the amortization of actuarial gains and losses of the plan. Given the long-term nature of pension and pension accounting, this is a more fiscally responsible approach and alleviates the effects of huge market fluctuations, both positive and negative, and assists in maintaining stability and predictably in the budget process.

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 often netted against gross debt-servicing costs to arrive at net debt-servicing costs.

In addition, gross debt-servicing costs also support the Consolidated Fund's on-lending activities to Crown corporations. That is, the Consolidated Fund incurs interest charges on long-term debt obligations that have been borrowed on behalf of Crown corporations such as the Nova Scotia Municipal Finance Corporation and the Farm Loan Board. The Consolidated Fund earns interest on those monies lent to Crown corporations in amounts of $84.7 million in the 2008–2009 forecast and $93.2 million in the 2009–2010 budget estimate. Unlike the earnings on sinking fund assets, the income from the on-lending activity is not typically shown as netted against debt-servicing costs. To achieve a true picture of the actual interest cost on long-term indebtedness, these amounts should be subtracted from gross debt-servicing costs.

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 the overall level of Canadian short-term interest rates during the fiscal year. 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.

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.

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Schedule 3B: Projected Borrowing Requirements ($ millions)

	Estimate 2008–09	Actual 2008–09	Estimate 2009–10	Estimate 2010–11	Estimate 2011–12	Estimate 2012–13
Budgetary (surplus)/deficit	(189.7)	(19.7)	592.1	—	—	—
Net Capital Advances	264.3	74.3	429.0	243.8	104.8	15.0
Student Loan program	150.0	153.9	30.0	30.0	30.0	30.0
NSMFC Repayments	(84.9)	25.4	(25.0)	(87.1)	(82.2)	(78.2)
Tangible Capital Assets: Net Cash	181.0	222.9	577.1	353.4	104.6	93.1
Other Non-Budgetary Transactions[1]	72.7	(273.5)	33.1	34.2	(70.2)	(259.2)
Cash Operating Requirements	393.4	183.3	1,636.3	574.2	86.9	(199.3)
Cash Debt Retirement	345.6	782.3	679.6	667.5	1,601.4	704.4
Mandatory SF Requirements						
Mandatory SF Income	66.5	70.8	56.0	65.9	68.1	68.6
Mandatory SF Contributions	61.5	61.6	95.3	95.3	95.3	95.3
Mandatory SF Withdrawals	—	—	—	—	—	—
Net Mandatory SF Requirements	128.0	132.4	151.3	161.2	163.4	163.9
Discretionary Fund Requirements						
Discretionary Fund Income	47.9	45.6	35.7	30.6	30.3	28.9
Discretionary Fund Contributions	—	—	—	—	—	—
Discretionary Fund Withdrawals	—	—	(195.0)	—	—	—
Net Discretionary Fund Requirements	47.9	45.6	(159.3)	30.6	30.3	28.9
Total Requirements	914.9	1,143.5	2,307.8	1,433.6	1,882.1	697.8
Change in ST Borrowing (inc)/dec	—	340.0	(340.0)	—	—	—
Total Borrowing Requirements	914.9	1,483.5	1,967.8	1,433.6	1,882.1	697.8

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

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

	Estimate 2008–09	Actual 2008–09	Estimate 2009–10	Estimate 2010–11	Estimate 2011–12	Estimate 2012–13
Gross Financial Market Debt						
Opening Balance	11,980.2	11,861.6	12,218.1	13,846.3	14,612.4	14,893.0
Borrowing Program	101.5	1,483.5	1,967.8	1,433.6	1,882.1	697.8
Debt Retirement	(599.7)	(782.3)	(679.6)	(667.5)	(1601.4)	(704.4)
Foreign Exchange (Gain)/Loss	(171.8)	—	—	—	—	—
Change in Other Unfunded Debt1	564.1	(344.6)	340.0	—	—	—
Closing Balance	11,874.3	12,218.1	13,846.3	14,612.4	14,893.0	14,886.5
Mandatory Sinking Funds						
Opening Balance	1,077.9	1,137.5	1,294.4	1,445.7	1,606.9	1,770.4
Installments	55.9	61.6	95.3	95.3	95.3	95.3
Earnings	67.4	70.8	56.0	65.9	68.1	68.6
Foreign Exchange Gain / (Loss)	(63.7)	24.5	—	—	—	—
Sinking Fund Withdrawals	—	—	—	—	—	—
Closing Balance	1,137.5	1,294.4	1,445.7	1,606.9	1,770.4	1,934.3
Discretionary Funds						
Opening Balance	828.9	874.4	919.9	760.6	791.2	821.6
Installments	—	—	—	—	—	—
Earnings	45.5	45.6	35.7	30.6	30.3	28.9
Fund Withdrawals	—	—	(195.0)	—	—	—
Closing Balance	874.4	919.9	760.6	791.2	821.6	850.5
NSMFC Assets						
Opening Balance	611.3	681.8	707.1	682.0	594.9	512.7
Repayments	(88.5)	(84.7)	(95.2)	(87.1)	(82.2)	(78.2)
Advances	140.0	110.0	70.2	—	—	—
Net Advances to Harbour Solutions	18.9	—	—	—	—	—
Closing Balance	681.8	707.1	682.0	594.9	512.7	434.4
Net Financial Market Debt	9,180.6	9,296.7	10,958.0	11,619.3	11,788.5	11,667.4

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 Debt ($ millions)

	Actual 2007–08	Estimate 2008–09	Actual 2008–09	Estimate 2009–10	Estimate 2010–11	Estimate 2011–12	Estimate 2012–13
Net Debt – Opening Balance	**12,357.2**	**12,348.0**	**12,114.8**	**12,323.5**	**13,492.7**	**13,846.1**	**13,950.7**
Add (Deduct):							
Provincial Surplus on an Expense basis	(418.9)	(189.7)	(19.7)	592.1	0.0	0.0	0.0
Increase in the Net Book Value of Tangible Capital Assets	162.3	177.4	219.2	577.1	353.4	104.6	93.1
Inventories and prepaid expenses	14.2	—	9.2	—	—	—	—
Change in Net Debt	(242.4)	(12.3)	208.7	1,169.2	353.4	104.6	93.1
Net Debt—Closing Balance	**12,114.8**	**12,335.7**	**12,323.5**	**13,492.7**	**13,846.1**	**13,950.7**	**14,043.8**

Economic Performance and Outlook

National Economic Assumptions

The outlook for the Canadian economy reflects declining exports, shrinking corporate profits, and falling business investment. Job losses have driven national unemployment up by over two percentage points. Deteriorating household wealth, weak consumer confidence, and stagnating labour incomes have led to slower growth in consumer expenditures. Poor economic prospects and limited liquidity in the financial system have prompted significant monetary and fiscal policy responses. Indeed, monetary and fiscal policy were the key drivers for the economy to date in 2009.

A gradual recovery is expected to take root during the second half of 2009, resulting in moderate growth in 2010. This outlook is based on recent data that shows that economic decline is slowing in the second quarter. In addition, the impacts of monetary and fiscal policy responses are expected to continue through the rest of the year. Economic recovery in the United States is expected to support Canadian recovery in 2010.

After maintaining positive growth longer than most developed countries, the Canadian economy has succumbed to a global recession. After a slight increase of 0.4 per cent in the third quarter of 2008, annualized real GDP fell by 3.7 per cent in the fourth quarter of 2008, followed by a further decline of 6.1 per cent during the first quarter of 2009. While real GDP continued to fall in the second quarter of 2009, the rate of decline was much slower at minus 3.4 per cent.

Canadian real GDP is expected to fall by 2.7 per cent in 2009. Recovery is expected in the second half of the year, leading to an increase in Canada's real GDP of 2.8 per cent in 2010. Canada's short-term economic prospects mirror those in the United States: a 2.7 per cent decline in real GDP for 2009.

However, United States real GDP is expected to post a slower recovery of 1.6 per cent in 2010.

A review of the second quarter Canadian Economic Accounts reveals early signs of economic recovery in Canada: real GDP growth was positive in June, the first monthly increase since July 2008.

Aggregate demand in Canada has suffered from numerous, but interdependent declines observed in the national economic accounts. Exports of goods and services continued to fall during the first half of 2009 but at a slower pace in the second quarter compared to the first quarter. The steep recession in the United States is expected to drag exports down by over 20 per cent in 2009. Recovery in Canada's largest trading partner is expected to return exports to positive growth of 3.8 per cent in 2010. Corporate profits before taxes are down 37.0 per cent in the first half of 2009, compared to the same period in 2008. This decline was more pronounced in the first quarter than in the second quarter.

Falling export sales and corporate profits, compounded by weak consumer expenditures, have reduced business capital investments. Business current dollar investments on structures, equipment, and machinery are down 9.5 per cent for the first half of 2009; however, the pace of the decline eased in the second quarter. After falling through the end of 2009, business investment is expected to recover with moderate growth in 2010.

Canada's labour markets have also suffered considerably during the recession. Fewer jobs along with a slight increase in the labour force have pushed national unemployment to 8.2 per cent for the first eight months of 2009, well above the 6.1 per cent rate for the same period in 2008.

With job declines, labour income has grown by only 0.7 per cent in the first half of 2009 over the same period in 2008. Overall personal income grew by only 0.5 per cent for the same period. This is well below the 4.9 per cent increase in labour income and the 4.8 per cent increase in personal income observed in 2008.

One impact of fewer jobs has been the 40.2 per cent increase in employment insurance benefit payments during the first half of 2009 compared to the first half of 2008.

Household net wealth declined through the last two quarters of 2008 and the first quarter of 2009. Deteriorating household wealth, job losses, stagnant income, and weak consumer confidence during the first half of 2009 all coincided to limit growth in consumer spending on goods and services. Retail sales for the first half of 2009 are down 5.2 per cent over the same period last year. As consumers rebuild savings and reduce debt, the pace of consumer spending is expected to remain low over the next two years. Spending on residential structures remains negative in 2009, with a moderate gain expected in 2010.

Government spending for capital investments (current dollars) is up 14.4 per cent, while government spending on goods and services has increased by 5.3 per cent over the first half of 2009 compared to the same period in 2008. Led by historic lows in the Bank of Canada's benchmark overnight rates, lower interest rates have improved financial market stability and liquidity, notably helping housing resales and residential capital investments during the second quarter.

Although Canada's economic performance exhibits signs of recovery on the horizon, foreign and domestic factors could put this recovery at risk.

One key risk for economic growth in Canada is the performance of the United States economy. Demand for Canadian exports is driven partially by United States consumers. A deeper and longer recession in the United States or continued erosion in the value of the United States dollar would further reduce exports and delay the start of Canada's recovery. Such possibilities hinge on how long it takes to restore confidence in the United States and world financial systems in order to get consumers and businesses spending again.

On the domestic side, the risk of a further drop in consumer confidence could reduce domestic demand further than anticipated. Continued uncertainty surrounding the restructuring of key manufacturing sectors may also inhibit Canada's economic recovery.

Finally, the effectiveness of monetary and fiscal policies remains uncertain, creating the risk that the economy may not respond quickly or strongly enough to sustain a robust recovery.

The key national economic assumptions incorporated into the budget are displayed in the schedule below. The assumptions are based on data and information available as of July 14, 2009.

National Forecast Assumptions

	2008*	2009	2010
Real Gross Domestic Product, 2002$ (% change)	0.4	(2.7)	2.8
Nominal Gross Domestic Product	4.4	(4.7)	4.8
Employment (% change)	1.5	(1.9)	0.5
Unemployment Rate (%)	6.1	8.6	9.4
Personal Income (% change)	4.8	1.1	2.8
Consumer Price Index (% change)	2.4	(0.2)	1.2
Retail Sales (% change)	3.4	(4.8)	3.8
Corporation Profits before Taxes (% change)	5.7	(35.2)	21.9
Exports of Goods and Services (% change)	5.2	(20.2)	3.8

Sources: Statistics Canada Actual (*), Nova Scotia Department of Finance Projections.

Provincial Economic Assumptions

Just as Canada's economy has suffered under global economic pressures, Nova Scotia appears to be facing external economic shocks. Despite worrying signs in the export sectors, Nova Scotia's economic outlook appears to be somewhat resilient because of government spending, employment in cyclically insensitive industries, and continued development of Deep Panuke.

The provincial economic forecast calls for real GDP growth of 0.3 per cent in 2009 and 1.8 per cent in 2010. Employment is expected to increase by 1.3 per cent in 2009 and by 0.3 per cent in 2010.

While Nova Scotia has not escaped the global recession, the impact has not been as great as in some other provinces. From the October 2008 collapse of financial and equity markets to August 2009, employment has dropped 0.9 per cent in Nova Scotia, compared to 2.3 per cent for Canada. Ontario experienced the most-severe job losses in the country; while Manitoba is the only province with positive employment growth.

The impact of the recession on Nova Scotia may be milder than in other provinces because a larger portion of economic output in Nova Scotia is concentrated in non-cyclical industries. Statistics Canada has identified industries whose real output is less exposed to the ups and downs of the global business cycle, including public services (health, education), financial industries, food and electronic product manufacturing, oil and gas production, and utilities. One half of Nova Scotia's industrial output is produced by these non-cyclical industries. More manufacturing-intensive provinces like Ontario (43 per cent), Quebec (44 per cent), and New Brunswick (45 per cent) have economic structures that may expose them to greater volatility through the business cycle.

The province's positive economic outlook reflects the balance between weaker aggregate demand and positive stimulus from government expenditures.

Government stimulus investments are projected to stabilize Nova Scotia's domestic demand. The provincial government's discretionary stimulus expenditures will be in excess of $500 million over the next two years. Total capital expenditiure for the next two years will exceed $1.4 billion.

These stimulus investments are critical at a time when the external environment threatens key provincial economic drivers. Although less exposed to external shocks, about 44 per cent of Nova Scotia's GDP is still directly attributable to the export of goods and services, so Nova Scotia's economic outlook depends on conditions in its principal trading partners: the United States and the rest of Canada. Recession in the Canadian and United States economies are projected to reduce Nova Scotia's economic growth by lowering export sales.

In the first half of 2009, exports of goods to other countries were down 21.5 per cent compared to the same period in 2008. Much of this decline is attributable to falling prices and volumes for Nova Scotia's number one commodity export: natural gas. However, other exports have fallen by 7.3 per cent in the same period. Tires, lumber, wood pulp, gypsum, fine paper, frozen lobster and shrimp, and parts for airplanes or helicopters account for most of the decline in other exports. In comparison, exports of goods and services grew by 8.1 per cent in 2008. Total provincial exports (including those bound for the rest of Canada) are expected to fall 14.8 per cent in 2009, mostly due to a weaker first half. A gradual recovery in the United States and Canada is anticipated to return Nova Scotia's exports to positive growth of 5.4 per cent in 2010.

Nova Scotia's corporate profits before taxes are expected to follow a more exaggerated pattern than exports, falling by 25.4 per cent in 2009 and then recovering by 11.6 per cent in 2010.

Investment in non-residential building construction projects has remained resilient, with a 16.0 per cent increase for the first half of 2009, mostly due to government and institutional spending. Capital investments by Nova Scotia's businesses are expected to post a slight decline in 2009.

The global credit crisis appears to have stalled key investment projects. The proponents of the Keltic Petrochemical project announced that they expect to delay financing until credit conditions improve in 2010. The fish-processing sector has adjusted its credit demand due to the collapse of Icelandic banks (major global players in financing seafood operations). Some wind power projects have also been put on hold because of financing concerns. Still, the Deep Panuke project and public infrastructure spending (including the Sydney Tar Ponds cleanup) are anticipated to sustain investment levels over the next two years.

Positive employment growth so far this year has buoyed Nova Scotia's labour markets in 2009. However, the labour force is currently increasing faster than employment, possibly as workers return to Nova Scotia from other provinces. Consequently, the unemployment rate rose to 9.1 per cent for the first eight months of 2009. The number of people active in the labour market increased by 1.7 per cent in the first eight months of 2009 over the same period in 2008. As employment growth was only 0.2 per cent, the unemployment rate grew by 1.4 percentage points over the annual unemployment rate for 2008.

Employment through all of 2009 is anticipated to increase by 1.3 per cent with support from stimulus investments. Labour supply is expected to increase by 1.6 per cent through all of 2009 before moderating to 0.4 per cent in 2010. With labour supply continuing to outstrip labour demand, the number of unemployed workers is projected to rise in 2009, and the unemployment rate is expected to be 8.0 per cent for the entire year.

Unlike previous periods of slow growth, Nova Scotia's recent employment growth has been concentrated among full-time jobs: 0.5 per cent growth in the first eight months of 2009 over the same period last year. This was offset by a decline in part-time employees of 1.2 per cent over the same period. The trend is usually the opposite: contraction concentrates employment among part-time workers as employers adjust their labour demands to meet the slower pace. Relatively stable full-time employment growth could reflect labour hoarding by employers fearing future labour shortages for some skilled workers. Some employers have been reducing hours with further income support from the employment insurance program.

Nova Scotia's employment growth was concentrated in the service sector, with a 1.9 per cent increase in the first eight months of 2009 over the same period in 2008. Growth in the goods-producing sector is down 6.4 per cent for the first eight months of 2009 due to declines in almost all sectors except agriculture.

As in most provinces, employment in the manufacturing sector has suffered in the current recession, declining by 11.9 per cent in the first eight months of 2009. This continues a steady decline in manufacturing employment that has been observed for several months. Loss of manufacturing employment is consistent with falling values of manufacturing shipments, down 17.2 per cent (seasonally adjusted) for the first half of 2009 compared to the same period in 2008.

Employment in the construction sector is down 3.1 per cent for the first eight months of 2009, reflecting the decline in residential capital investments.

Throughout Nova Scotia, all regions have exhibited higher unemployment rates in the first eight months of 2009 (3-month moving average). Employment growth has been concentrated in the Annapolis Valley (0.1 per cent) and Halifax Regional Municipality (3.8 per cent) for the first eight months of 2009 as compared to the same period last year. Strong employment growth for HRM may encourage more people to look for work in the area, actually pushing up the HRM unemployment rate despite employment growth.

Labour income for the first half of 2009 has increased by 2.1 per cent over the first half of 2008. With only a marginal increase in employment, most of the increase comes from wages. For the first half of 2009, average weekly wages have increased by 3.0 per cent.

Moderate growth in labour income and transfer payments to persons (employment insurance) offset some of the expected declines in investment income, leading to a moderate 2.1 per cent growth in personal income for 2009. For 2008, there was a 4.7 per cent increase in personal income.

Investment losses, weaker employment and wage growth, and general lack of consumer confidence are expected to moderate growth in personal expenditures on consumer goods and services from 4.9 per cent in 2008 down to 2.6 per cent in 2009.

Retail sales (accounts for one-half of consumer spending) are expected to drop by 2.7 per cent in 2009 as people purchase fewer big-ticket items. In the first half of 2009, Nova Scotia's retail sales fell by 2.2 per cent compared to the same period in 2008. In comparison, 2008 retail sales grew by 4.2 per cent. A breakdown of monthly sales data for 2009 reveals positive signs. In fact, Nova Scotia is the only province where retail sales rose between October 2008 and June 2009. Retail sales for June 2009 sales were up 1.8 per cent over May 2009, building on a 1.1 per cent increase in May over April.

Nova Scotians appear to have responded particularly well to auto dealer incentives; the dollar value of new vehicle sales has increased almost every month since February (except June).

Lower consumer confidence is also reflected in the 8.5 per cent decline in residential investment for the first half of 2009 over the same period in 2008. Most of this decline comes from a drop in the value of new home construction. Two government programs may reverse some of this decline. The new Home Construction Rebate Program is intended to stimulate more new home construction, and to date there have been over 700 applications for the rebate. The federal home renovations tax credit program also appears to be having an effect, as expenditures on home renovations grew by 4.7 per cent during the first half of 2009 over the same period in 2008.

A slower economy typically eases growth in the cost of living, and for the first seven months of 2009 the Consumer Price Index (CPI) has dropped by 0.5 per cent over the same period in 2008. This compares well with a 2008 inflation rate of 2.9 per cent. Through all of 2009, lower consumer demand is expected to reduce the CPI by 0.5 per cent. As the economy recovers in 2010, CPI is expected to rebound to 1.8 per cent.

In summary, 2009 is expected to be highlighted by a major reduction in economic growth, with nominal GDP posting only a 0.2 per cent increase following a 5.3 per cent growth in 2008. With a GDP inflation rate of minus 0.1 per cent, real GDP growth will increase to 0.3 per cent. As global economic performance and domestic demand recover in 2010, Nova Scotia's real GDP is expected to grow 1.8 per cent.

The Province of Nova Scotia's economic outlook is above the average of private-sector forecasters for 2009 and close to the average of private-sector forecasters for 2010, as shown in the table below:

Private-Sector Forecasts for Nova Scotia Real GDP Growth

	2009	2010
High (% increase)	0.3	2.5
Average (% increase)	(0.6)	1.9
Low (% increase)	(1.7)	1.2

The private-sector forecasters surveyed and updated as of August 10, 2009, are Bank of Montreal, Bank of Nova Scotia, CIBC World Markets, Royal Bank of Canada, Toronto-Dominion Bank, National Bank, and Conference Board of Canada.

The wide range around the average should be viewed with caution, as there is considerable uncertainty among the private-sector forecasters. Most of these private-sector forecasts at that time had limited information about provincial stimulus spending plans. Their estimates on stimulus spending were based on assumptions of Nova Scotia's participation in the Government of Canada's Action Plan.

The risks to the provincial economic outlook are largely the same as those identified for the national economic outlook.

The emergence of the United States from recession depends on how long it takes to restore confidence in the United States and the global financial systems. There will be no substantial recovery until reasonable access to credit at stable prices is restored.

Consumers could further reduce their spending in order to address high debt loads and restore wealth losses from recent months. The forecast of lower interest rates will help the consumer support their debt loads through lower debt-servicing charges.

A major delay in either federal or provincial infrastructure investments could slow Nova Scotia's recovery by pushing stimulus impacts into later years.

Finally, positive announcements regarding liquefied natural gas (LNG) and petrochemical projects or a new underground coal mine on Cape Breton Island would be upside risks to the forecast.

The key provincial economic assumptions incorporated into the budget are displayed in the schedule below. The assumptions are based on data and information available as of August 13, 2009.

Provincial Forecast Assumptions

	2008	2009	2010
Real Gross Domestic Product, 2002$ (% change)	2.8	0.3	1.8
Nominal Gross Domestic Product (% change)	5.3	0.2	3.1
Employment (% change)	1.3*	1.3	0.3
Unemployment Rate (%)	7.7*	8.0	8.1
Personal Income (% change)	4.7	2.1	3.1
Consumer Price Index (% change)	2.9*	(0.5)	1.8
Retail Sales (% change)	4.2*	(2.7)	3.5
Corporation Profits before Taxes (% change)	7.8	(25.4)	11.6
Exports of Goods and Services (% change)	8.1	(14.8)	5.4
Exchange Rates (US$/Cdn$)	0.938	0.875	0.929
Natural Gas–Henry Hub (USD/mmbtu)	9.00	3.70	5.00
WTI Oil (USD/bbl)	100.00	60.00	68.00

Sources: Statistics Canada Actual (*), Nova Scotia Department of Finance Projections.

NOVA SCOTIA

Economic Schedules

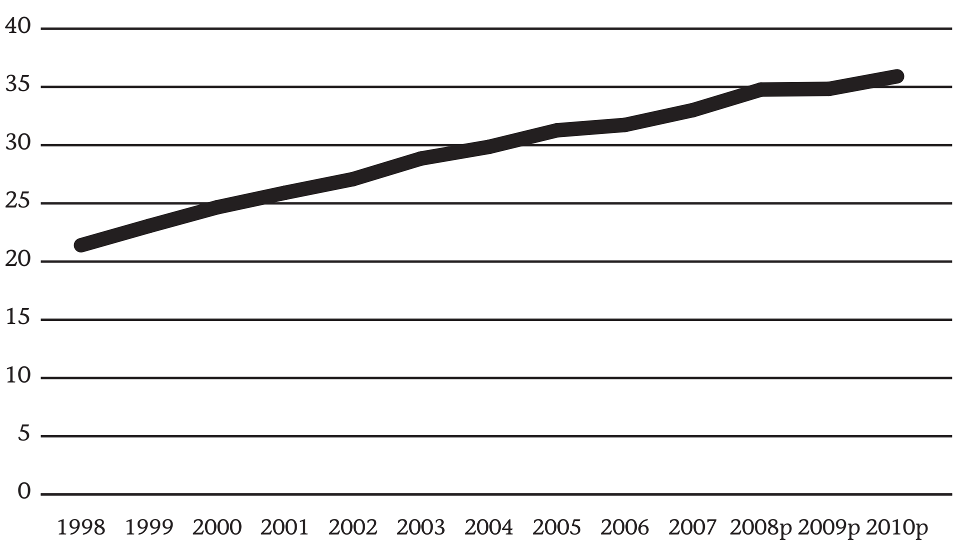
Supplementary to the 2009–2010 Budget

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	29,853	3.5	1,290,906	6.4
2005	31,275	4.8	1,373,845	6.4
2006	31,737	1.5	1,449,215	5.5
2007	33,010	4.0	1,532,944	5.8
2008	34,774	5.3 p	1,600,081	4.4
2009	34,833	0.2 p	1,524,249	(4.7) p
2010	35,910	3.1 p	1,597,726	4.8 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

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



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

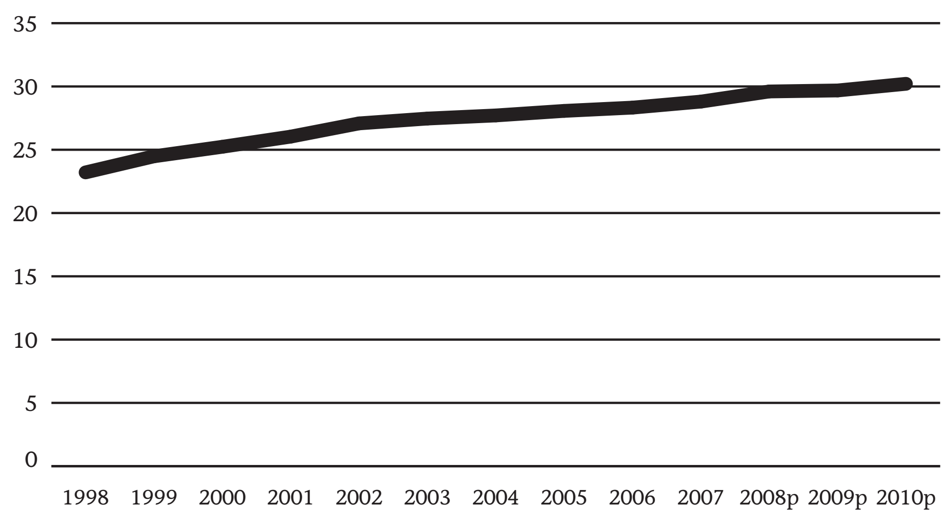
Schedule 3F
Gross Domestic Product at Market Prices
(chained 2002 $ millions)

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	27,710	0.9	1,211,239	3.1
2005	28,069	1.3	1,247,807	3.0
2006	28,328	0.9	1,283,419	2.9
2007	28,803	1.7	1,315,907	2.5
2008	29,604	2.8 p	1,321,360	0.4
2009	29,684	0.3 p	1,285,163	(2.7) p
2010	30,209	1.8 p	1,320,701	2.8 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)



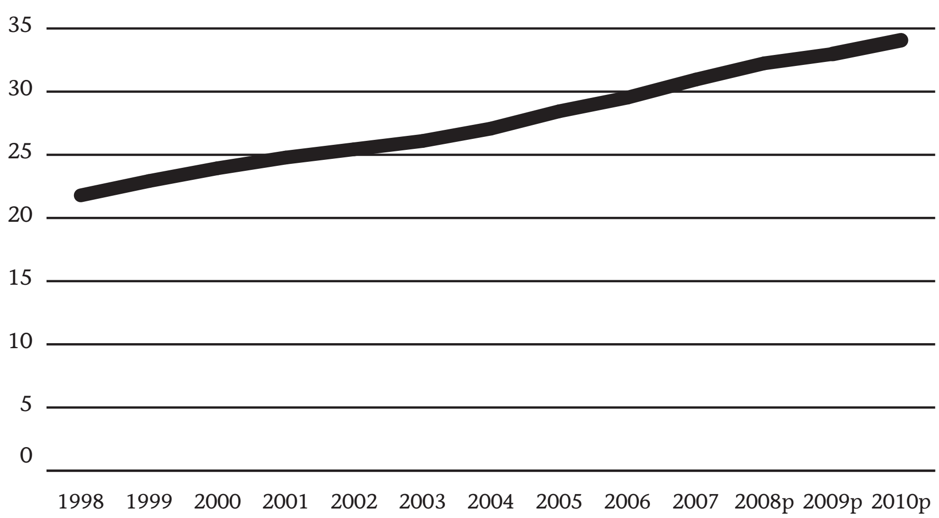
Source: Statistics Canada, Provincial Economic Accounts, Cat. No. 13-213-PPB

Schedule 3G
Personal Income Per Capita
(dollars)

Year	Nova Scotia (1)	% Change	Canada (1)	% Change
1998	21,789	5.1	24,814	3.7
1999	22,926	5.2	25,755	3.8
2000	23,936	4.4	27,384	6.3
2001	24,783	3.5	28,254	3.2
2002	25,439	2.6	28,651	1.4
2003	26,094	2.6	29,416	2.7
2004	27,074	3.8	30,760	4.6
2005	28,446	5.1	32,027	4.1
2006	29,530	3.8	33,789	5.5
2007	30,956	4.8	35,533	5.2
2008	32,243	4.2 p	37,063	4.3 p
2009	32,981	2.3 p	37,157	0.3 p
2010	34,067	3.3 p	37,884	2.0 p

1 Source: Statistics Canada, Provincial Economic Accounts, Cat. No. 13-213-PP.
p Preliminary Projections; Source: Nova Scotia Department of Finance. (Projections calculated using Nova Scotia Budget 2009 Forecast for personal income, Nova Scotia Department of Finance population projections for Nova Scotia, and Statistics Canada, Cat. No. 91-520 for population estimates for Canada.)

Personal Income Per Capita in Nova Scotia
($ thousands)



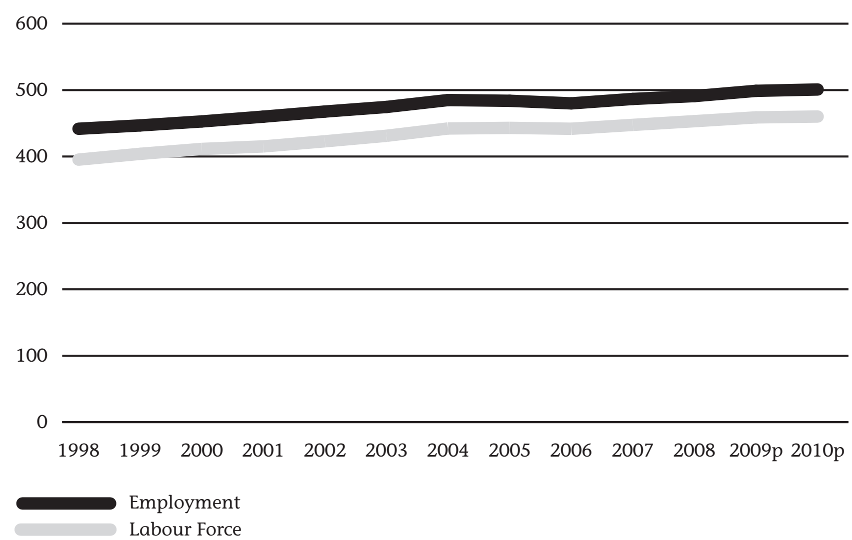
Source: Statistics Canada, Cat. Nos. 13-001-PPB, 13-213-PPB, 91-215-XIE
(Statistics Canada Annual Demographic Statistics) and Nova Scotia Department of Finance

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	491.0	0.9	453.2	1.3
2009	498.9	1.6 p	458.9	1.3 p
2010	500.9	0.4 p	460.2	0.3 p

1 Source: Statistics Canada 2009, Labour Force Historical Review, 71F0004XCB, March 2009.
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

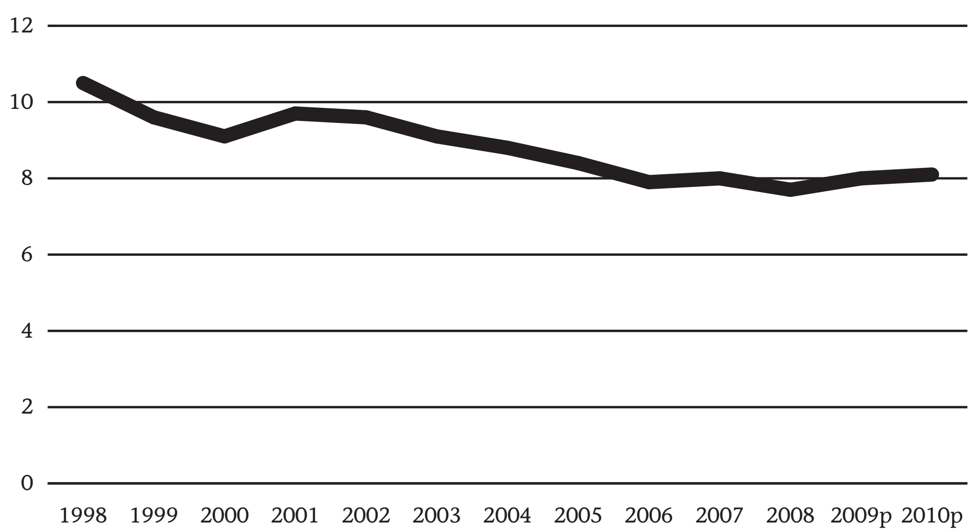
Schedule 3I
Unemployment (thousands of persons)

Year	Nova Scotia (1) Unemployed	Nova Scotia (1) Unemployment Rate (%)	Canada (1) Unemployed	Canada (1) 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	37.8	7.7	1,119.3	6.1
2009	39.9	8.0 p	1,590.7	8.6 p
2010	40.6	8.1 p	1,745.7	9.4 p

1 Source: Statistics Canada 2009, Labour Force Historical Review, 71F0004XCB, March 2009.
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 2009, Labour Force Historical Review, 71F0004XCB, March 2009