Balanced Budget

2013-14

Budget Assumptions and Schedules

NOVA SCOTIA

Balanced Budget
2013-14

Budget Assumptions and Scheoules

Fiscal year 2013-2014

The Honourable Maureen MacDonald
Minister of Finance

NOVA SCOTIA

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Budgetary Information

Supplementary to the 2013-2014 Budget

NOVA SCOTIA

BUDGET SUMMARY - STATEMENT OF OPERATIONS

Schedule 1A

($ thousands)

	2012-2013 Estimate	2012-2013 Forecast	2013-2014 Estimate
General Revenue Fund			
Revenues			
Ordinary Revenue	8,350,830	8,296,803	**8,637,984**
Ordinary Recoveries	568,490	533,100	**492,876**
Net Income from Government Business Enterprises	350,993	350,431	**350,313**
	9,270,313	**9,180,334**	**9,481,173**
Expenses			
Departmental Expenses	8,534,646	8,481,165	**8,395,151**
Refundable Tax Credits	73,500	123,529	**129,356**
Pension Valuation Adjustment	71,485	104,062	**110,793**
Debt Servicing Costs	881,701	896,814	**888,891**
	9,561,332	**9,605,570**	**9,524,191**
	(291,019)	**(425,236)**	**(43,018)**
Consolidation and Accounting Adjustments for Government Units			
Consolidated Fund Consolidation Adjustments	81,550	68,200	**61,637**
Special Purpose Funds	(637)	(52)	**(1,062)**
Other Organizations	(1,094)	682	**(1,168)**
	79,819	**68,830**	**59,407**
Provincial Surplus (Deficit)	**(211,200)**	**(356,406)**	**16,389**

FISCAL PROJECTIONS 2012–2013 to 2016–2017

($millions)

Schedule 1B

	ESTIMATE *2012–2013*	**FORECAST** *2012–2013*	**ESTIMATE** *2013–2014*	**ESTIMATE** *2014–2015*	**ESTIMATE** *2015–2016*	**ESTIMATE** *2016–2017*
General Revenue Fund						
Revenue	8,919.3	8,829.9	9,130.9	9,278.5	9,460.1	9,666.3
Net Income Government Business Enterprises	351.0	350.4	350.3	357.4	362.9	368.2
Total Revenue	**9,270.3**	**9,180.3**	**9,481.2**	**9,635.9**	**9,823.0**	**10,034.5**
Expenses						
Departmental Expenses	8,534.6	8,481.1	8,395.1	8,509.7	8,654.7	8,848.5
Refundable Tax Credits	73.5	123.5	129.4	131.9	134.5	136.5
Pension Valuation Adjustment	71.5	104.1	110.8	125.2	156.7	170.8
Debt Servicing Costs	881.7	896.8	888.9	910.2	917.1	916.1
Total expense	9,561.3	9,605.5	9,524.2	9,677.0	9,863.0	10,071.9
	(291.0)	(425.2)	(43.0)	(41.1)	(40.0)	(37.5)
Consolidation Adjustments	79.8	68.8	59.4	59.4	59.4	59.4
Provincial Surplus (Deficit)	(211.2)	(356.4)	16.4	18.3	19.4	21.9
Net Debt	13,720.9	13,883.5	13,989.0	14,093.4	14,341.5	14,410.3
Nominal GDP	39,483.0	38,227.0	39,099.0	40,283.0	42,054.0	43,090.0
Debt-to-GDP Ratio	34.8%	36.3%	35.8%	35.0%	34.1%	33.4%

Overview

When Nova Scotia began its plan to get back to balance, the province was on an unsustainable path to an annual $1.4 billion deficit. Over the past four years, government has realigned, reorganized, and modernized the way it does business, allowing the province to reinvest savings in programs and services that Nova Scotians care most about—like front-line health care, education, and social services.

In the past, temporary increases in revenue meant permanent increases in spending. As a result, health spending went unchecked for years, growing at an unmanageable rate of 7.5 per cent.

The backbone of the Back to Balance Plan has been spending restraint, even in light of better-than-expected revenues, to eliminate the structural deficit.

Almost half of the province's budget is spent by third parties, such as school boards, universities, and district health authorities. Government has worked with those partners to help the province live within its means.

Government ended March madness, brought departmental spending in under budget for four successive years, and implemented the change and innovation fund.

The province also introduced a smarter purchasing project to analyze procurement, for the school boards and overall, achieving better prices and contracts for products and services, and saving the province millions.

New salary patterns have been implemented for government employees, and the civil service has been reduced by more than 600 positions.

There is still more work to do. But by returning the province to balance, government will be able to take full advantage of opportunities like shipbuilding, forestry, and the development of Muskrat Falls, and turn that into social prosperity for all Nova Scotians.

Medium-Term Revenue Outlook

(2013–2014 to 2016–2017)

Total revenues are expected to grow by approximately $0.5 billion over the next four years—increasing from $9.5 billion in 2013–2014 to $10.0 billion in 2016–2017. Personal income tax is projected to grow as a result of rebounding salaries and wages, pension income growth as well as higher yields on taxable income. Government expects personal income tax revenues to increase by approximately 7.0 per cent a year over the medium term.

Corporate income tax revenues have taken several years to return to levels experienced prior to the global economic downturn in 2008.

Significant growth in 2013–2014 over the 2012–2013 fiscal year will be followed by more moderate rates of growth, in the 3 to 5 per cent range, in the medium term. The impact of four consecutive annual decreases in the small business corporate income tax rate and the small business share of taxable corporate income remaining above historical levels tempers growth in corporate income tax revenues.

Revenues from the Harmonized Sales Tax (HST) will be primarily affected by government's commitment to reduce the rate by 1 percentage point in 2014 and again in 2015, returning the rate to 13 per cent by July 1, 2015. Each 1-point reduction in the rate of the HST represents approximately $195 million in foregone tax revenues—a significant factor to keep in mind when looking at the province's overall revenue growth in the medium term.

Growth in the HST tax base will partially offset HST revenues foregone by the rate reductions. Consumer expenditures account for approximately 70 per cent of HST revenues, and growth in consumer expenditures is expected to be over 3 per cent a year in the medium term. Growth in residential housing investment remains strong—over 4 per cent a year in the medium term.

Offshore royalty revenues from the Sable Offshore Energy Project have declined sharply since reaching peak levels in 2008–2009. This can be attributed to a number of factors—low market price for natural gas, declining levels of production, and the strength of the Canadian dollar relative to the U.S. dollar. Natural gas prices are expected to increase over the medium term; however, production volumes will continue to decline as the Sable Offshore Energy Project nears the end of its capacity. The accrual of abandonment costs that interest-holders can deduct against royalties has a significant downward impact on offshore royalty revenues.

Deep Panuke production is now scheduled to commence in mid-fiscal 2013. The province will receive approximately $3.2 million in offshore royalty revenues from Deep Panuke in 2013–2014. These will increase over the medium term, although they will not approach the revenues generated from the Sable Offshore Energy Project.

Revenues from tobacco tax and motive fuel taxes are expected to remain relatively stable over the medium term. Consumption of gasoline and diesel oil is forecast to remain near current levels in the face of increasing world oil prices. While gasoline consumption is more sensitive to price, diesel oil consumption is more closely related to the level of commercial projects and economic growth in the province. Tobacco consumption is forecast to slowly decline as a result of increasing prices and a continued cessation trend.

Growth in revenues from the equalization program is expected to be relatively strong over the next few years. This can be attributed to the growth in the size of the overall program—the 3-year average growth rate in national nominal GDP—as well as the impact of the province's reduced offshore natural resource revenues on the calculation of entitlements.

In 2011–2012, the province began receiving payments under the Cumulative Best-of Guarantee. The province is forecast to continue to receive significant annual payments over the medium term. While significant, these payments are projected to gradually decline over the medium term as the Expert Panel approach formula is currently expected to grow faster than the Interim approach formula. The "guarantee" essentially ensures that the province will do no worse under the equalization formula put in place in 2007–2008 than it would under the formula in place when the Offshore Accord was signed in 2005—the "interim" approach. The guarantee is in effect from 2008–2009 to the end of 2019–2020, to coincide with the term of the Offshore Accord.

The province's Offshore Accord payments are on the decline as lower offshore natural resource revenues are being included in the equalization formula. The first eight-year phase of the 2005 Offshore Accord ended in 2011–2012 with the province receiving $863.7 million, $830 million of which was paid in 2005 when the Offshore Accord was signed. The province is eligible to receive payments for the second phase of the accord, which runs from April 1, 2012, until March 31, 2020. Payments under the second phase are forecast to be significantly lower, given declining offshore royalty revenues.

In December 2011, the federal Minister of Finance announced his government's long-term plan with respect to the Canada Health Transfer (CHT). Presently, the national pool of cash available for the CHT is legislated to grow by 6 per cent a year until March 31, 2017. Commencing in 2017–2018 the national pool will grow at the rate of national nominal GDP growth, with a floor rate of growth being set at 3 per cent a year. The current long-term forecast of national nominal GDP growth rates is approximately 4 per cent.

The province's CHT payment is currently based upon a combination of tax points and share of national population. Commencing April 1, 2014, calculation of the CHT will be an equal per-capita cash transfer with no reference to tax points. This means that the growth rate of CHT revenues for the province will slow after April 1, 2014, as Nova Scotia's declining share of the national population places downward pressure on these revenues over the medium term.

Similar to the CHT, the national pool available for the Canada Social Transfer (CST) is also legislated to increase on an annual basis until March 31, 2024, at a rate of 3 per cent per year. The CST is based upon a province's share of the national population. Although Nova Scotia's share of national population is declining, the province will still see annual growth in CST payments until the program is renewed.

Medium-Term Spending Outlook

In fiscal 2010–2011 government introduced a four-year plan to get back to balance. The original plan was a $772 million expenditure reduction plan and other cost-control initiatives that included:

- a review of pharmaceutical expenditures
- a 5 per cent overall reduction in departmental budgets
- absorption of wage costs and inflationary pressures by departments, school boards, and district health authorities and agencies
- reductions in staffing levels in the civil service, school boards, and district health authorities
- a change in the wage mandate from 2.9 per cent to 1 per cent
- a review of university grants
- implemention of shared services and administrative reductions in the health authorities
- an adjustment of education budgets to reflect declining enrolment

The result of these changes has been to reduce historical spending growth levels.

Over the ten years from 2001 to 2010, Health and Wellness expenses increased at an average of 7 per cent per year. Over the last four years the average annual growth in health spending has been 3.2 per cent, and the department will see growth of 1.3 per cent in fiscal 2013–2014.

Over the ten years from 2001 to 2010, Community Services spending increased at an average rate of 5 per cent per year. Excluding the removal of the Housing Development Corporation, over the last four years the average growth in community services spending, has been 2.4 per cent, and the department will see growth of 3 per cent in fiscal 2013–2014.

Over the ten years from 2001 to 2010, education spending increased at an average rate of 4 per cent a year despite a continuing substantial enrolment decline. Over the last four years the average growth in education spending has been 0.1 per cent (after adjustment for the transfer of higher education to the Department of Labour and Advanced Education). The department will see a reduction of 1.2 per cent in spending and an anticipated enrolment decline of 1.9 per cent in fiscal 2013–2014.

Grants to universities will be reduced by 3 per cent, or $10.4 million, in 2013–2014, the final year of a three-year $34 million adjustment. Government remains committed to a $25 million investment over three years for the universities' Excellence and Innovation Program.

Departmental spending grew at an average annual rate of over 6 per cent from fiscal 2000–2001 to fiscal 2009–2010. Over the last four years the average annual growth rate in spending has been held virtually flat at 0.9 per cent and this year, year-over-year spending will decline by 1.6 per cent in fiscal 2013–2014.

Going forward, measures to control expenditures while maintaining government services will continue. Ongoing expenditure management initiatives over the short-to-medium term include:

- Smarter Purchasing Project
- Shared Services Review
- Universities' Excellence and Innovation Fund

The Smarter Purchasing Project, led by Treasury Board in collaboration with departments and school boards, identified smarter ways to buy goods and services. The province and its agencies, boards, and commissions spend upwards of $1 billion annually buying goods and services. The Smarter Purchasing Project will yield approximately $14 million in savings in 2013–2014 and $22 million in 2014–2015 and out years by purchasing many of these goods and services more effectively.

The Shared Services Review is part of the province's commitment to provide efficient and effective programs and services important to Nova Scotians. Building on and augmenting work underway in the health sector via the merged services, the shared services review will consider efficiencies and quality improvements in the provision of common administrative services across government departments, school boards, and health authorities. The province will look to find improvements in four key areas: information technology, financial services, human resources, and building infrastructure and asset management.

The health sector is continuing to implement service improvements and technology investments, identified in the merged services review, for the health-care sector in 2013–2014. Continued implementation of supply-chain efficiencies and the exploration of administrative reductions and efficiencies will save an additional $3.7 million in 2013–2014 on top of $3.4 million of savings in 2012–2013; this will continue while the larger review considers additional opportunities.

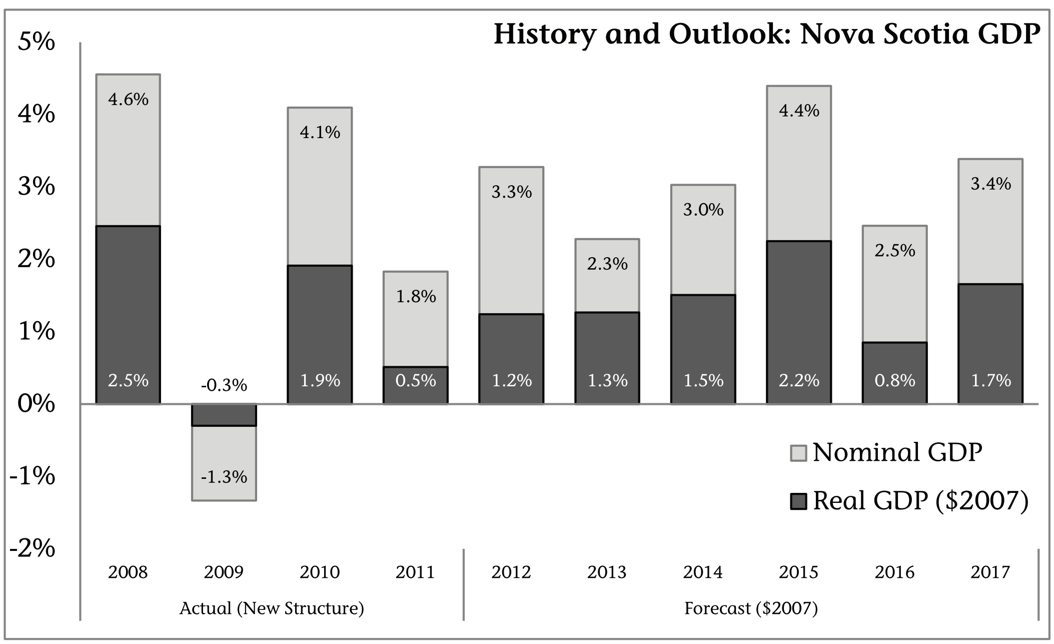
The final year of the Excellence and Innovation Fund will provide an additional $10 million to Nova Scotia's universities to collaborate in the realignment and transformation of operations while permanently reducing costs.

Medium-Term Economic Outlook

The province's medium-term economic outlook forms the basis for revenue projections as well as the benchmark for assessing government debt levels, policies, and expenditures. Any five-year economic projection is subject to forecast uncertainty, especially beyond the short term.

Nova Scotia has historically experienced GDP growth that lags behind the Canadian average. Nova Scotia's medium-term outlook features fiscal restraint and the restructuring of important sectors. Canada's federal and provincial governments are currently reducing deficits; this slows government spending's contribution to nominal GDP. The natural gas and forest industry investments that accelerated economic growth in the late 1990s are now facing their own challenges from weak conditions in their respective markets. Unlike the era of slow growth in the 1990s, Nova Scotia's medium-term outlook anticipates easy to neutral monetary policies, but without robust global economic growth and low currency values to absorb growing trade flows.

Nova Scotia Medium Term Economic Outlook



Source: Statistics Canada, CANSIM table 384-0038; NS Department of Finance Forecast

The economic impacts of shipbuilding activities emerge towards the end of this five-year forecast period, particularly in 2015 when ship construction is expected to begin. Nova Scotia may also expect substantial offshore energy activities (these have not yet been incorporated into the medium-term outlook). In the province's medium-term outlook, constrained existing labour supply is assumed to generate positive in-migration. Positive growth in labour supply is required in order for Nova

Scotia's economy to experience the types of economic impacts currently estimated from the shipbuilding project.

Medium-Term Debt Outlook

The Net Debt estimate for the fiscal year ending March 31, 2014, is $14.0 billion, an increase of $268 million from the level estimated for March 31, 2013. The increase in net debt in 2013–2014 arises from the net acquisition of tangible capital assets, offset somewhat by the budgetary surplus. In 2012–2013, net debt is forecast to have risen by $640.0 million, composed of the $356.4 million forecast budgetary deficit plus $283.6 million in the net acquisition of tangible capital assets. By 2016–2017, net debt is expected to rise to $14.4 billion, which will be entirely related to the further net acquisition of tangible capital assets. The fiscal plan is based on modest surpluses over the upcoming years.

Eliminating the budgetary deficit has significant positive implications on debt growth. Close to 60 per cent, or over $8.0 billion, of total net debt of the province has been accumulated from deficits over the years, with the remainder resulting from the acquisition of tangible capital assets—the purchase of assets such as roads, bridges, land, schools, hospitals, and government buildings. The increase in net debt over the next four years is expected to result solely from these acquisitions.

Gross Debt-Servicing Costs are estimated to be $888.9 million in 2013–2014, $7.2 million higher than 2012–2013 but $171.6 million lower than was projected for 2013–2014 in the 2010–2011 four-year fiscal plan presented in April 2010. Debt-servicing costs are expected to rise by $27.2 million over the next four years, with more than half of that increase related to interest on unfunded pension obligations and the rest related to the interest costs on the net acquisition of tangible capital assets.

The Debt to Nominal Gross Domestic Product (GDP) ratio is estimated to be 35.8 per cent at March 31, 2014, slightly higher than the value of 34.8 per cent estimated for 2012–2013, (lower than the 36.3 per cent forecast for 2012–2013). By 2016–2017 the ratio is expected to decline to 33.4 per cent.

Financial Statistics

Supplementary to the 2013-2014 Budget

NOVA SCOTIA

REVENUES BY SOURCE

Schedule 1C

($ thousands)

	ACTUAL 2009-2010 (as restated)	ACTUAL 2010-2011 (as restated)	ACTUAL 2011-2012	FORECAST 2012-2013	ESTIMATE 2013-2014
General Revenue Fund: Revenues					
Ordinary Revenue - Provincial Sources					
Tax Revenue:					
Personal Income Tax	1,827,643	1,960,540	2,053,723	2,133,686	2,278,408
Corporate Income Tax	362,886	408,687	372,344	437,129	473,946
Harmonized Sales Tax	1,187,177	1,487,146	1,598,236	1,658,251	1,721,788
Motive Fuel Tax	248,128	255,395	250,186	246,633	251,019
Tobacco Tax	199,149	211,856	208,631	210,329	227,883
Other Tax Revenue	172,608	176,288	179,064	151,100	151,418
	3,997,591	4,499,912	4,662,184	4,837,128	5,104,462
Other Provincial Revenue:					
Registry of Motor Vehicles	111,763	112,281	117,084	117,527	121,239
Royalties - Petroleum	125,634	172,683	117,955	22,719	20,090
Other Provincial Sources	122,390	135,822	129,155	129,421	140,229
Offshore Licenses Forfeitures	14,789	433	---	---	---
TCA Cost Shared Revenue - Provincial Sources	12,027	11,462	3,433	4,305	8,260
Other Fees and Charges	68,666	70,103	70,842	66,208	61,707
Prior Years' Adjustments - Provincial Sources	47,415	219,271	(63,589)	42,407	---
Gain on Disposal of Crown Assets	14,943	---	2,144	---	---
	517,627	722,055	377,024	382,587	351,525
Investment Income:					
Interest Revenues	51,426	73,472	82,011	69,807	68,841
Sinking Fund Earnings	92,188	102,234	106,768	108,767	107,102
	143,614	175,706	188,779	178,574	175,943
Total - Provincial Sources	**4,658,832**	**5,397,673**	**5,227,987**	**5,398,289**	**5,631,930**
Ordinary Revenue - Federal Sources					
Equalization Payments	1,464,935	1,360,723	1,407,242	1,578,829	1,703,711
Canada Health Transfer	700,137	728,602	759,934	795,017	833,125
Canada Social Transfer	301,978	309,233	315,916	322,957	329,101
Offshore Oil and Gas Payments	180,072	227,225	167,755	146,059	89,461
Crown Share	79,386	29,717	30,053	11,696	9,358
Other Federal Sources	98,568	103,913	22,932	18,645	18,616
TCA Cost Shared Revenue - Federal Sources	108,772	95,002	38,995	26,151	22,682
Prior Years' Adjustments - Federal Sources	(5,831)	(1,710)	(436)	(840)	---
Total - Federal Sources	**2,928,017**	**2,852,705**	**2,742,391**	**2,898,514**	**3,006,054**
Total - Ordinary Revenue	**7,586,849**	**8,250,378**	**7,970,378**	**8,296,803**	**8,637,984**
Ordinary Recoveries -					
Provincial Sources	304,752	304,649	293,886	285,697	266,919
Federal Sources	312,224	302,699	306,963	247,403	225,957
Total - Ordinary Recoveries	**616,976**	**607,348**	**600,849**	**533,100**	**492,876**
Net Income from Government Business Enterprises					
Nova Scotia Liquor Corporation	219,363	223,159	221,615	224,819	229,385
Nova Scotia Provincial Lotteries and Casino Corporation	127,160	127,094	135,222	111,500	107,500
Halifax-Dartmouth Bridge Commission	6,426	7,260	11,679	12,245	11,755
Highway 104 Western Alignment Corporation	5,782	446	1,800	1,867	1,673
	358,731	**357,959**	**370,316**	**350,431**	**350,313**
Total - Revenues	**8,562,556**	**9,215,685**	**8,941,543**	**9,180,334**	**9,481,173**

REVENUES BY SOURCE

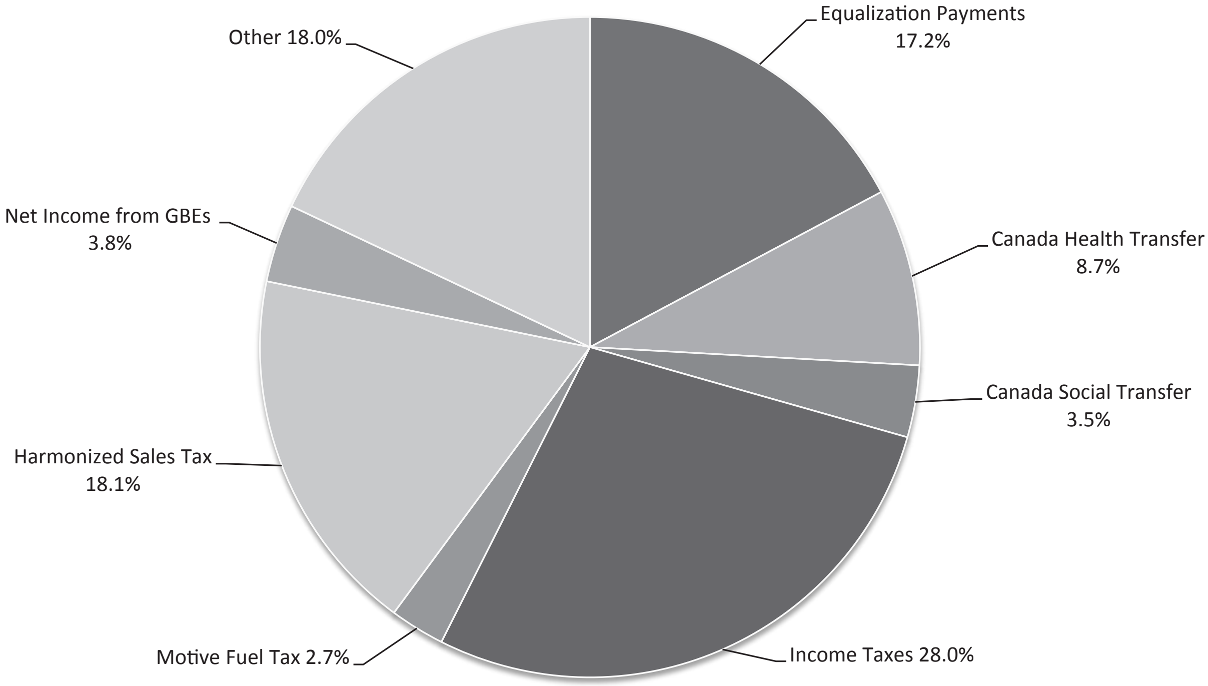
Schedule 1C

(as a percentage of Total Revenue)

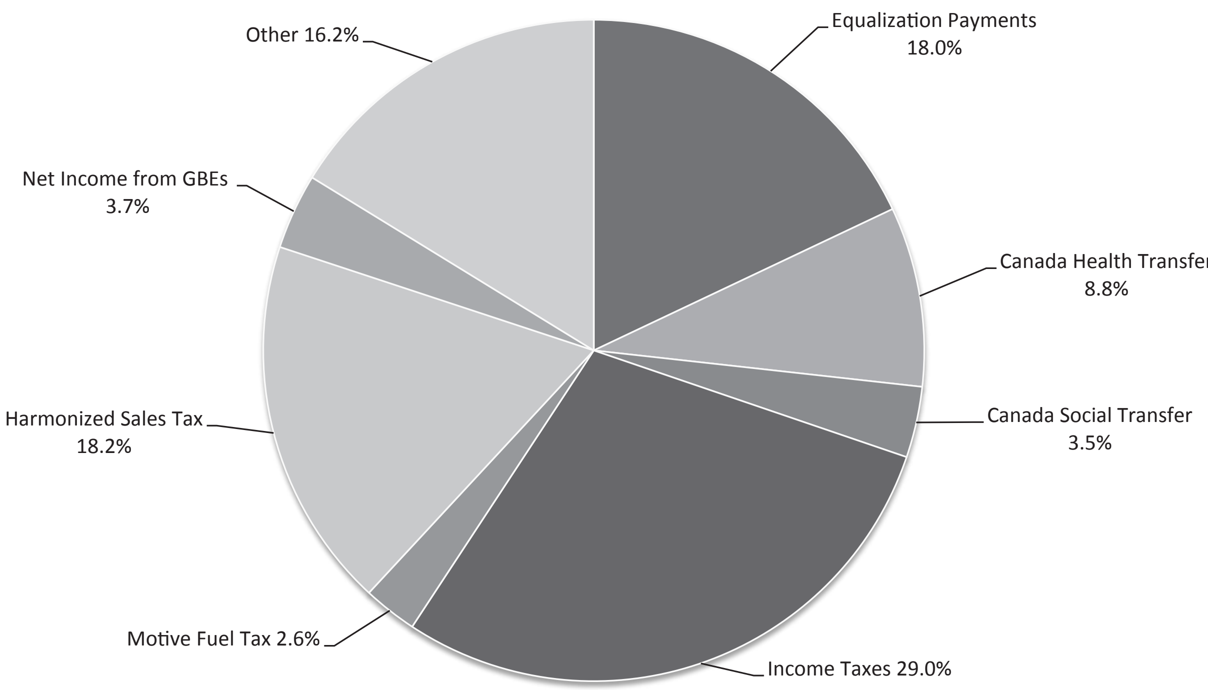
(continued)

	ACTUAL 2009-2010 (as restated)	ACTUAL 2010-2011 (Restated)	ACTUAL 2011-2012	FORECAST 2012-2013	ESTIMATE 2013-2014
General Revenue Fund: Revenues					
Ordinary Revenue - Provincial Sources					
Tax Revenue:					
Personal Income Tax	21.3%	21.3%	23.0%	23.2%	24.0%
Corporate Income Tax	4.2%	4.4%	4.2%	4.8%	5.0%
Harmonized Sales Tax	13.8%	16.1%	17.9%	18.1%	18.2%
Motive Fuel Tax	2.9%	2.8%	2.8%	2.7%	2.6%
Tobacco Tax	2.3%	2.3%	2.4%	2.3%	2.4%
Other Tax Revenue	2.0%	1.9%	2.0%	1.6%	1.6%
	46.6%	48.8%	52.3%	52.7%	53.8%
Other Provincial Revenue:					
Registry of Motor Vehicles	1.3%	1.2%	1.3%	1.3%	1.3%
Royalties - Petroleum	1.5%	1.9%	1.3%	0.2%	0.2%
Other Provincial Sources	1.4%	1.5%	1.5%	1.4%	1.5%
Offshore Licenses Forfeitures	0.2%	0.0%	---	---	---
TCA Cost Shared Revenue - Provincial Sources	0.1%	0.1%	0.0%	0.0%	0.1%
Other Fees and Charges	0.8%	0.7%	0.8%	0.7%	0.7%
Prior Years' Adjustments - Provincial Sources	0.6%	2.4%	-0.7%	0.5%	---
Gain on Disposal of Crown Assets	0.2%	---	0.0%	---	---
	6.1%	7.8%	4.2%	4.1%	3.8%
Investment Income:					
Interest Revenues	0.6%	0.8%	0.9%	0.8%	0.7%
Sinking Fund Earnings	1.1%	1.1%	1.2%	1.2%	1.1%
	1.7%	1.9%	2.1%	2.0%	1.8%
Total - Provincial Sources	**54.4%**	**58.5%**	**58.6%**	**58.8%**	**59.4%**
Ordinary Revenue - Federal Sources					
Equalization Payments	17.1%	14.8%	15.7%	17.2%	18.0%
Canada Health Transfer	8.2%	7.9%	8.5%	8.7%	8.8%
Canada Social Transfer	3.5%	3.4%	3.5%	3.5%	3.5%
Offshore Oil and Gas Payments	2.1%	2.5%	1.9%	1.6%	0.9%
Crown Share	0.9%	0.3%	0.3%	0.1%	0.1%
Other Federal Sources	1.2%	1.1%	0.3%	0.2%	0.2%
TCA Cost Shared Revenue - Federal Sources	1.3%	1.0%	0.4%	0.3%	0.2%
Prior Years' Adjustments - Federal Sources	-0.1%	0.0%	0.0%	0.0%	---
Total - Federal Sources	**34.2%**	**31.0%**	**30.6%**	**31.6%**	**31.7%**
Total - Ordinary Revenue	**88.6%**	**89.5%**	**89.2%**	**90.4%**	**91.1%**
Ordinary Recoveries -					
Provincial Sources	3.6%	3.3%	3.3%	3.1%	2.8%
Federal Sources	3.6%	3.3%	3.4%	2.7%	2.4%
Total - Ordinary Recoveries	**7.2%**	**6.6%**	**6.7%**	**5.8%**	**5.2%**
Net Income from Government Business Enterprises					
Nova Scotia Liquor Corporation	2.5%	2.4%	2.5%	2.5%	2.4%
Nova Scotia Provincial Lotteries and Casino Corporation	1.5%	1.4%	1.5%	1.2%	1.2%
Halifax-Dartmouth Bridge Commission	0.1%	0.1%	0.1%	0.1%	0.1%
Highway 104 Western Alignment Corporation	0.1%	0.0%	0.0%	0.0%	0.0%
	4.2%	**3.9%**	**4.1%**	**3.8%**	**3.7%**
Total - Revenues	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

2012-2013 FORECAST



2013-2014 ESTIMATE



EXPENSES BY DEPARTMENT

Schedule 1D

($ thousands)

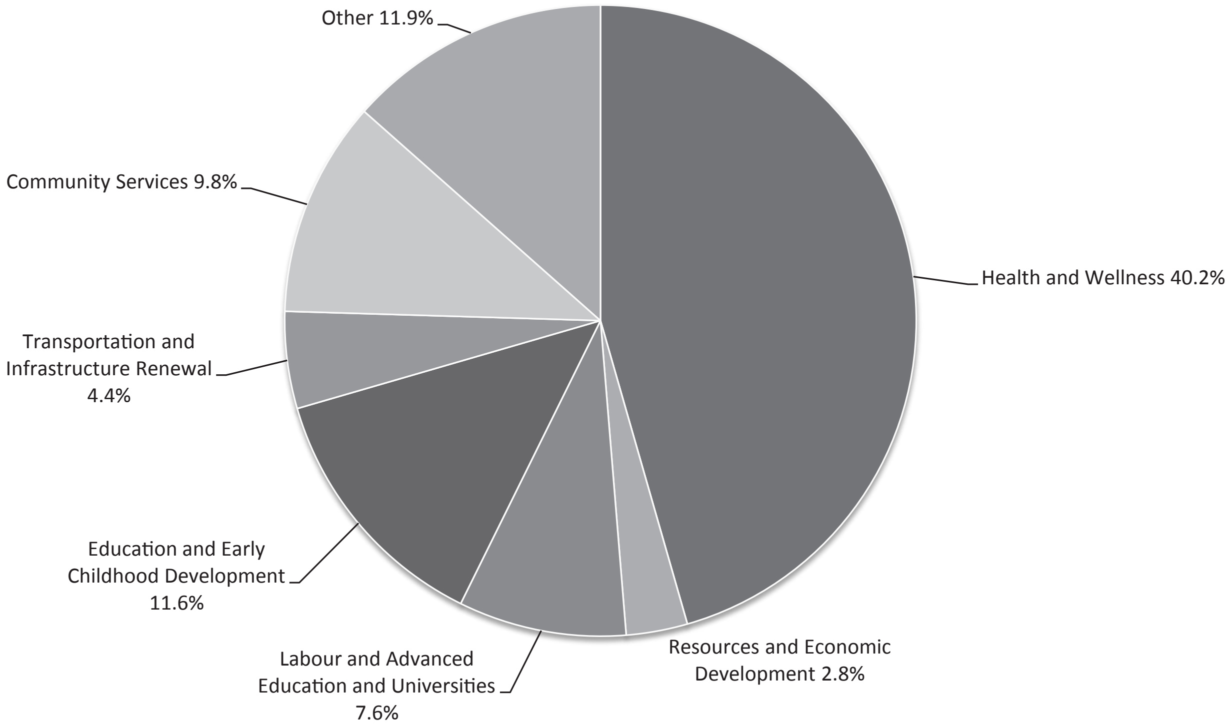
	ACTUAL 2009-2010 (as restated)	ACTUAL 2010-2011 (as restated)	ACTUAL 2011-2012	FORECAST 2012-2013	ESTIMATE 2013-2014
Agriculture	70,978	64,274	63,704	63,946	61,973
Communities, Culture and Heritage	---	---	54,236	57,305	60,009
Community Services	944,934	958,427	975,572	937,615	896,573
Economic and Rural Development	73,356	80,190	---	---	---
Economic and Rural Development and Tourism	---	---	107,709	176,106	130,060
Education and Early Childhood Development	1,279,286	1,312,490	1,131,055	1,118,807	1,105,659
Energy	24,677	30,110	30,202	29,568	26,136
Environment	42,581	47,427	26,652	24,734	24,954
Finance	27,123	31,076	33,552	38,557	41,444
Fisheries and Aquaculture	8,654	12,818	8,284	8,798	9,044
Health and Wellness	3,371,565	3,591,335	3,757,896	3,859,723	3,910,819
Health Promotion and Protection	85,042	104,691	---	---	---
Justice	277,805	278,922	295,490	311,749	309,801
Labour and Advanced Education	146,328	169,532	339,072	346,688	353,412
Assistance to Universities	450,359	93,545	387,215	381,697	337,152
Natural Resources	92,373	93,776	101,245	99,500	85,072
Public Service	184,026	165,905	165,803	163,614	165,931
Seniors	1,903	1,734	1,866	1,871	1,859
Service Nova Scotia and Municipal Relations	278,665	292,630	260,017	274,909	247,315
Tourism, Culture and Heritage	62,930	60,736	---	---	---
Transportation and Infrastructure Renewal	378,286	405,067	408,853	420,744	425,458
Restructuring Costs	159,594	78,667	86,949	165,234	202,480
Loss on Disposal of Crown Assets	---	370	---	---	---
Total Departmental Expenses	**7,960,465**	**7,873,722**	**8,235,372**	**8,481,165**	**8,395,151**
Refundable Tax Credits	---	48,860	68,320	123,529	129,356
Pension Valuation Adjustment	86,410	(24,728)	38,042	104,062	110,793
Debt Servicing Costs	822,744	848,236	840,172	896,814	888,891
Total Expenses	**8,869,619**	**8,746,090**	**9,181,906**	**9,605,570**	**9,524,191**

EXPENSES BY DEPARTMENT

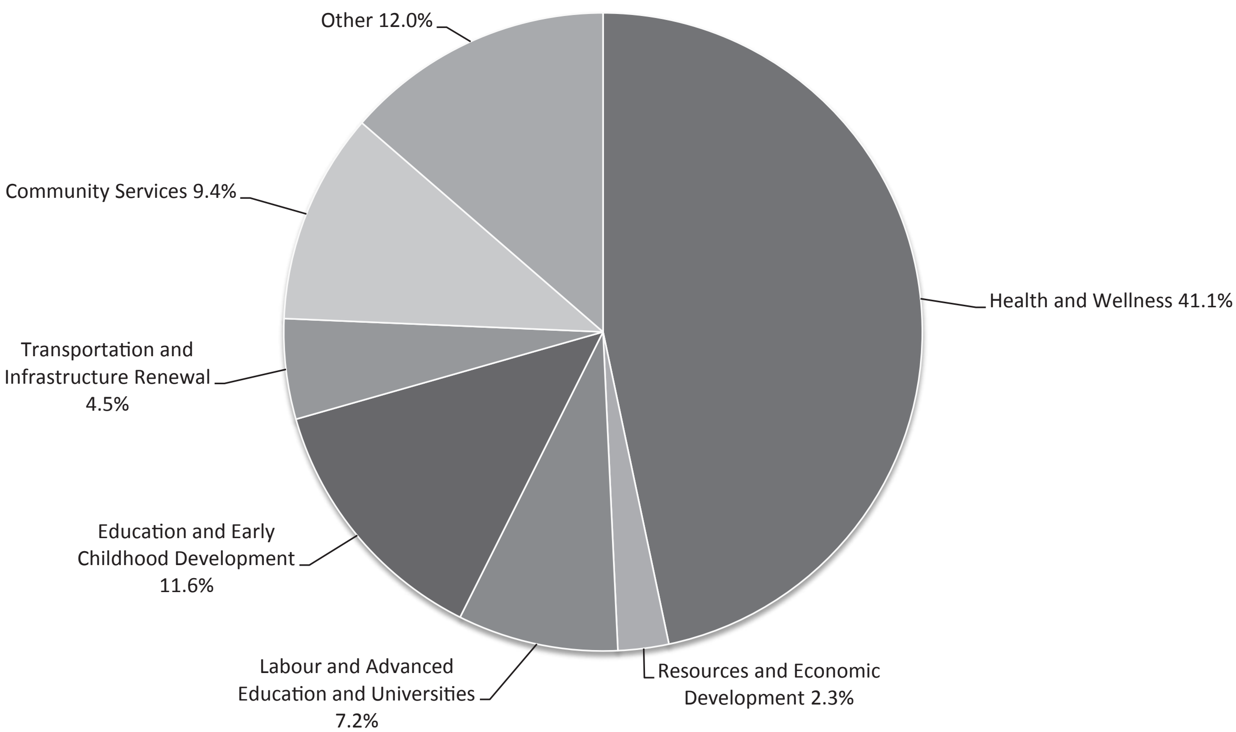
(as a percentage of Total Expenses)

	ACTUAL 2009-2010 (as restated)	ACTUAL 2010-2011 (as restated)	ACTUAL 2011-2012	FORECAST 2012-2013	ESTIMATE 2013-2014
Agriculture	0.8%	0.7%	0.7%	0.7%	0.6%
Communities, Culture and Heritage	---	---	0.6%	0.6%	0.6%
Community Services	10.7%	11.0%	10.6%	9.8%	9.4%
Economic and Rural Development	0.8%	0.9%	---	---	---
Economic and Rural Development and Tourism	---	---	1.2%	1.8%	1.4%
Education and Early Childhood Development	14.4%	15.0%	12.3%	11.6%	11.6%
Energy	0.3%	0.3%	0.3%	0.3%	0.3%
Environment	0.5%	0.5%	0.3%	0.3%	0.3%
Finance	0.3%	0.4%	0.4%	0.4%	0.4%
Fisheries and Aquaculture	0.1%	0.1%	0.1%	0.1%	0.1%
Health and Wellness	38.0%	41.1%	40.9%	40.2%	41.1%
Health Promotion and Protection	1.0%	1.2%	---	---	---
Justice	3.1%	3.2%	3.2%	3.2%	3.3%
Labour and Advanced Education	1.6%	1.9%	3.7%	3.6%	3.7%
Assistance to Universities	5.1%	1.1%	4.2%	4.0%	3.5%
Natural Resources	1.0%	1.1%	1.1%	1.0%	0.9%
Public Service	2.1%	1.9%	1.8%	1.7%	1.7%
Seniors	0.0%	0.0%	0.0%	0.0%	0.0%
Service Nova Scotia and Municipal Relations	3.1%	3.4%	2.8%	2.9%	2.6%
Tourism, Culture and Heritage	0.7%	0.7%	---	---	---
Transportation and Infrastructure Renewal	4.3%	4.6%	4.5%	4.4%	4.5%
Restructuring Costs	1.8%	0.9%	1.0%	1.7%	2.1%
Loss on Disposal of Crown Assets	---	0.0%	---	---	---
Total Departmental Expenses	**89.7%**	**90.0%**	**89.7%**	**88.3%**	**88.1%**
Refundable Tax Credits	---	0.6%	0.7%	1.3%	1.4%
Pension Valuation Adjustment	1.0%	-0.3%	0.4%	1.1%	1.2%
Debt Servicing Costs	9.3%	9.7%	9.2%	9.3%	9.3%
Total Expenses	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

2012-2013 FORECAST



2013-2014 ESTIMATE



Report of the Auditor General

On Estimates of Revenue 2013-2014 Budget

NOVA SCOTIA

Nova Scotia

Office of the Auditor General

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Report of the Auditor General to the House of Assembly on the Estimates of Revenue for the fiscal year ending March 31, 2014 used in the preparation of the April 4, 2013 Budget.

I am required by section 20 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, 2014 are the responsibility of the Department of Finance and have been prepared by departmental management using assumptions with an effective date of March 4, 2013 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 $10,334,860,000 as described in the financial forecast of Revenues By Source (Schedule 2A of the Nova Scotia Budget Assumptions and Schedules) (the 2013-14 revenue estimates), and which consists of revenue estimates of $9,481,173,000 in the General Revenue Fund, and an estimate of revenue from third parties in certain government entities of $853,687,000 (Schedule 2B). My examination did not include, and my opinion does not cover, the budget speech or the 2013-14 expense estimates. My opinion also does not cover prior years' forecast or actual information provided for comparative purposes. 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.

In my opinion:

- 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 2013-14 revenue estimates; and
- the 2013-14 revenue estimates as presented reflect fairly such assumptions; and
- the 2013-14 revenue estimates comply with presentation and disclosure standards established by the Canadian Institute of Chartered Accountants.

Since the 2013-14 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
April 2, 2013

($ thousands)

	ESTIMATE *2013-2014*
General Revenue Fund: Revenues	
Ordinary Revenue - Provincial Sources	
Tax Revenue:	
Personal Income Tax	2,278,408
Corporate Income Tax	473,946
Harmonized Sales Tax	1,721,788
Motive Fuel Tax	251,019
Tobacco Tax	227,883
Other Tax Revenue	151,418
	5,104,462
Other Provincial Revenue:	
Registry of Motor Vehicles	121,239
Royalties - Petroleum	20,090
Other Provincial Sources	140,229
TCA Cost Shared Revenue - Provincial Sources	8,260
Other Fees and Charges	61,707
	351,525
Investment Income:	
Interest Revenues	68,841
Sinking Fund Earnings	107,102
	175,943
Total - Provincial Sources	**5,631,930**
Ordinary Revenue - Federal Sources	
Equalization Payments	1,703,711
Canada Health Transfer	833,125
Canada Social Transfer	329,101
Offshore Oil and Gas Payments	89,461
Crown Share	9,358
Other Federal Sources	18,616
TCA Cost Shared Revenue Federal Sources	22,682
Total - Federal Sources	**3,006,054**
Total - Revenues	**8,637,984**
Ordinary Recoveries	
Provincial Sources	266,919
Federal Sources	225,957
Total - Ordinary Recoveries	**492,876**
Net Income from Government Business Enterprises	
Nova Scotia Liquor Corporation	229,385
Nova Scotia Provincial Lotteries and Casino Corporation	107,500
Halifax-Dartmouth Bridge Commission	11,755
Highway 104 Western Alignment Corporation	1,673
	350,313
Total - Revenues of the General Revenue Fund	**9,481,173** 1
Total Governmental Unit Third Party Revenues (Schedule 2B)	853,687
Total - Revenue of the Province	10,334,860

1: Total Revenue of the General Revenue Fund is the balance that is carried through the Estimates of the Province. It is the budget of the General Revenue Fund that is the responsibility of the House of Assembly. The activities of the Governmental Units are effectively presented as off-sets against the expenses of their respective governmental units within the "Consolidation and Accounting Adjustments for Governmental Units". See Schedule 2B for further explanation of the Total Governmental Unit Third Party Revenues.

GOVERNMENTAL UNIT THIRD PARTY REVENUES

($ thousands)

	ESTIMATE 2013-2014
Governmental Unit Third Party Revenues	
Regional School Boards and Nova Scotia Community College	371,055
District Health Authorities	188,690
Nova Scotia Housing Development Corporation	153,532
Nova Scotia Utility and Review Board	2,973
Nova Scotia E911	5,839
Nova Scotia Municipal Finance Corporation	33,235
Nova Scotia Business Incorporated	5,738
Trade Centre Limited	11,258
Waterfront Development Corporation	4,220
Resource Recovery Fund Board	48,711
Governmental Units with third party revenue less than $2.5 Million	28,436
Total Governmental Unit Third Party Revenues	**853,687** [2]

2: The governmental unit third party revenues are presented in this schedule to enable the total revenues of the Province to be presented on a basis consistent with the consolidated financial statements of the Province. The budgets of these organizations are subject to the approval of their respective board of directors.

Budget Assumptions

April 4, 2013

NOVA SCOTIA

Revenue Outlook

In 2013–2014, Nova Scotia's total General Revenue Fund revenues are estimated to be $9,481.2 million, an increase of $210.9 million or 2.3 per cent from the 2012–2013 budget estimate (an increase of $300.8 million or 3.3 per cent compared to the 2012–2013 forecast).

In 2013–2014, provincial own-source revenues are expected to be $5,631.9 million, an increase of $256.4 million or 4.8 per cent from the 2012–2013 budget estimate (an increase of $233.6 million or 4.3 per cent from the 2012–2013 forecast).

Federal source revenues are projected to be $3,006.1 million in 2013–2014, an increase of $30.8 million or 1.0 per cent from the 2012–2013 budget estimate (an increase of $ 107.5 million or 3.7 per cent from the 2012–2013 forecast).

Ordinary Recoveries from provincial sources are down $9.5 million or 3.4 per cent from the 2012–2013 budget estimate (down $18.8 million or 6.6 per cent compared to the 2012–2013 forecast). Ordinary Recoveries from federal sources are down $66.1 million or 22.6 per cent from the 2012–2013 budget estimate (down $21.4 million or 8.7 per cent from the 2012–2013 forecast).

Net income from Government Business Enterprises is down $0.7 million or 0.2 per cent from the 2012–2013 budget estimate (down $0.1 million or 0.0 per cent from the 2012–2013 forecast).

Provincial tax changes in 2013–2014 include an increase in tobacco taxes of $0.02 per unit, a further 0.5 per cent reduction in the small business tax rate, a reduction in the small business limit, and the introduction of a $1,000 non-refundable Age Amount tax credit to provide additional personal income tax relief for low-income seniors.

Provincial Own-Source Revenues

Personal Income Tax (PIT)

Nova Scotia's 2013–2014 estimate for personal income tax is $2,278.4 million, up $83.1 million or 3.8 per cent compared to the 2012–2013 budget estimate (an increase of $144.7 million or 6.8 per cent from the 2012–2013 forecast).

Personal taxable income is projected to grow by 4.4 per cent in both 2013 and 2014, primarily as a result of a rebound in salaries and wages from a slow-down in 2012 and continued growth in pension income.

Yield on personal taxable income is projected to be 8.4 per cent in 2013 and 8.6 per cent in 2014, which represents growth rates of 2.6 per cent and 2.4 per cent. Yield on personal taxable income in 2012 was 8.2 per cent, a growth rate of only 1.1 per cent over the 2011 tax year.

Growth in personal taxable income and yield is partially offset by an increase of approximately $6 million in the cost of the Graduate Retention Rebate as a new cohort of university and college graduates become eligible for the tax credit. Government has asked the department of finance to review the eligibility criteria for this rebate to ensure that, beginning in the 2014 tax year, it benefits only first-time graduates.

A change in the accounting for refundable tax credits as a result of the new Public Sector Accounting Board (PSAB) PS3510 Tax Revenue Standard means that the cost of the Volunteer Fire Fighter and Ground Search & Rescue Tax Credit will no longer be netted against personal income tax revenues. This will have no impact on credit recipients. The value of the credit in 2013–2014 is $4.0 million, and it will now be reported as an expenditure. The 2012–2013 budget estimate does not reflect this change in accounting standards; it is reflected in the estimate-to-estimate variance.

Corporate Income Tax (CIT)

Nova Scotia's 2013–2014 estimate for corporate income tax is $473.9 million, up $75.5 million or 18.9 per cent from the 2012–2013 budget estimate (up $36.8 million or 8.4 per cent compared to the 2012–2013 forecast).

National corporate taxable income is projected to grow by 7.8 per cent in 2013 and 5.7 per cent in 2014, while the province's share will grow by 2.8 per cent in 2013 and 1.0 per cent in 2014. The combination of these two factors results in growth of Nova Scotia's corporate taxable income by 10.8 per cent in 2013 and 6.8 per cent in 2014. These growth estimates take into account the impact of the 0.5 per cent reduction in the small business corporate income rate that went into effect January 1, 2013. A further decrease of 0.5 per cent will become effective January 1, 2014, bringing the small business corporate income tax rate to 3.0 per cent. The cost of this reduction will be offset by reducing the threshold for taxable income that is eligible for the small business rate. The threshold will be reduced from $400,000 to $350,000 effective January 1, 2014.

A change in the accounting for refundable tax credits as a result of the new Public Sector Accounting Board (PSAB) PS3510 Tax Revenue Standard means that the cost of the Film Industry, Digital Media, and Scientific Research & Experimental Development tax credits will no longer be netted against corporate income tax revenues. This will have no impact on credit recipients. The value of these credits in 2013–2014 is $51.5 million, and will be reported as an expenditure. The 2012–2013 budget estimate does not reflect this change in accounting standards; it is reflected in the estimate-to-estimate variance.

Harmonized Sales Tax (HST)

Net HST is estimated to total $1,721.8 million in 2013–2014, up $78.9 million or 4.8 per cent from the 2012–2013 budget estimate (up $63.5 million or 3.8 per cent compared to the 2012–2013 forecast).

The increase in HST revenues is attributable to growth in the consumer expenditure and housing tax bases. Growth in consumer expenditures is forecast to be 3.8 per cent in both 2013 and 2014. Consumer expenditures represent over 70 per cent of the HST tax base. Taxable residential housing expenditure growth is expected to grow by 5.3 per cent in 2013 and 5.2 per cent in 2014, building on significant growth since 2010.

Tobacco Tax

Tobacco tax revenues are projected to total $227.9 million in 2013–2014, an increase of $16.9 million or 8.0 per cent from the 2012–2013 budget estimate (up $17.6 million or 8.3 per cent over the 2012–2013 forecast).

A $0.02 per unit increase in tobacco tax will be effective on April 5, 2013, providing an additional $18.1 million in revenue for 2013–2014. The increased rate is partially offset as a result of cigarette consumption being projected to decline by 0.4 per cent from 2012–2013 levels.

Motive Fuel Taxes

Motive fuel taxes are projected to total $251.0 million in 2013–2014, a decline of $3.1 million or 1.2 per cent from the 2012–2013 budget estimate (an increase of $4.4 million or 1.8 per cent compared to the 2012–2013 forecast).

Gasoline consumption is estimated to rise by 0.8 per cent in 2013–2014, following a slight decline of 0.9 per cent in 2012–2013. Similarly, diesel oil consumption is estimated to increase by 1.6 per cent, following a decline of 0.2 per cent in 2012–2013.

Relative parity between the Canadian and U.S. dollars, moderating oil prices, and stronger growth in labour income all contribute to higher levels of consumption being projected.

Other Tax Revenue

Other Tax Revenue includes such items as Corporations Capital Tax, Capital Tax on Non-Financial Institutions, Casino Win Tax, Levy on Sale of Used Vehicles, and a Tax on Insurance Premiums. The total for these items is estimated at $151.4 million for 2013–2014 a decrease of $6.2 million or 3.9 per cent from the 2012-2013 budget estimate (up $0.3 million or 0.2 per cent from the 2012–2013 forecast).

Other Provincial Revenue

Registry of Motor Vehicles

Revenue generated by the Registry of Motor Vehicles is estimated at $121.2 million for 2013–2014 an increase of $11.0 million or 9.9 per cent from the 2012-2013 budget estimate (up $3.7 million or 3.2 per cent from the 2012–2013 forecast). The increase is primarily as a result of the 5.8 per cent increase in fees, partially offset by timing of renewals for driver's licenses and vehicle registrations that are renewed for multi-year terms.

Offshore Petroleum Royalties

Offshore petroleum royalties are estimated to be $20.1 million in 2013–2014, a decrease of $7.6 million or 27.4 per cent from the 2012–2013 budget estimate (down $2.6 million or 11.6 per cent from the 2012–2013 forecast).

World market prices for natural gas continue to be depressed, although prices are expected to rise above levels experienced in 2012. Production volume is projected to decline in 2013 and 2014. The accrual of abandonment costs estimated by Sable Offshore Energy Project interest holders continues to be a major factor contributing to lower revenues.

Production of Deep Panuke is now expected to commence in mid-fiscal 2013, and $3.2 million in petroleum royalties from Deep Panuke has been included in the 2013–2014 budget estimate.

Other Provincial Sources

Revenue from other provincial sources is estimated at $140.2 million for 2013–2014 an increase of $15.7 million or 12.6 per cent from the 2012-2013 budget estimate (up $10.8 million or 8.4 per cent from the 2012–2013 forecast).

This revenue source includes such items as: Nova Scotia Securities Commission; registrations revenues for deeds, companies, and property; various other licenses and permits; and timber licenses and revenue. The primary reasons for the increase are higher timber revenue generated at Natural Resources as a result of the Bowater land purchase and the Port Hawkesbury Mill operations, an increase in charges for land registration, and the 5.8 per cent increase to fees included in this category.

Tangible Capital Asset (TCA) Cost-Shared Revenue—Provincial Sources

TCA Cost-Shared Revenue is estimated at $8.3 million for 2013–2014, up $4.6 million from the 2012-2013 budget estimate (up $4.0 million from the 2012-2013 forecast). Funding comes primarily ($7.3 million) through the Department of Education for school construction, with the balance ($1.0 million) coming from Transportation and Infrastructure Renewal for municipal road projects. The increase is related to school construction recoveries at Education.

Other Fees and Charges

Revenue generated from Other Fees and Charges is estimated at $61.7 million for 2013–2014, a decrease of $5.9 million or 8.7 per cent from the 2012–2013 estimate (down $4.5 million or 6.8% compared to the 2012-2013 forecast). The decrease results from the transfer of the Nova Scotia Agricultural College to Dalhousie University, partially offset by a 5.8 per cent increase to fees. This category includes fees such as those for ambulances, probate, and ferries.

Investment Income

Interest Revenue

Interest revenue is estimated to be $68.8 million for 2013–2014 a decrease of $5.2 million or 7.1 per cent from the 2012-2013 budget estimate (down $1.0 million or 1.4 per cent from the 2012–2013 forecast). This decrease results partly from lower interest rates.

Sinking Fund Earnings

Sinking Fund Earnings are projected to total $107.1 million in 2013–2014 down $1.2 million or 1.2 per cent from the 2012-2013 budget estimate (a decrease of $1.7 million or 1.5 per cent from the 2012–2013 forecast).

Federal Transfers

Equalization

Equalization revenues in 2013–2014 are estimated to be $1,703.7 million, an increase of $109.9 million or 6.9 per cent from the 2012–2013 budget estimate (up $124.9 million or 7.9 per cent compared to the 2012–2013 forecast). It is made up of two separate fiscal equalization payments.

First, the Equalization estimate reflects the province's adoption of the Expert Panel formula for equalization payments, estimated to be $1,457.9 million in 2013–2014, an increase of $176.4 million or 13.8 per cent above both the 2012–2013 budget estimate and the 2012–2013 forecast. This primarily reflects lower levels of Nova Scotia's offshore royalties being included in the equalization formula and growth in the pool of funds available for distribution.

Second, as part of a clarification reached with the Government of Canada on October 10, 2007, commencing with the 2008–2009 fiscal year Nova Scotia is entitled to receive an additional payment from the federal government if the cumulative value of the equalization formula in effect at the time the Offshore Accord was signed (the Interim approach) exceeds the cumulative value of the Expert Panel approach. This is known as the Cumulative Best-of Guarantee. The arrangement is in effect until 2019–2020, to coincide with the term of the Offshore Accord.

The Cumulative Best-of Guarantee payment is estimated to be $245.8 million in 2013–2014, a decrease of $66.5 million or 21.3 per cent from the 2012–2013 budget estimate (down $51.5 million or 17.3 per cent compared to the 2012–2013 forecast). This is the result of the Expert Panel approach growing at a faster rate than the Interim approach.

Offshore Offset Payments

Offshore Offset Payments are estimated to be $89.5 million in 2013–2014, a decrease of $56.6 million or 38.8 per cent from both the 2012–2013 budget estimate and the 2012–2013 forecast. The decrease reflects the declining offshore royalties included in the equalization formula. These payments are now recorded on a cash basis since prior payments have surpassed the $830 million advance payment made to the province in 2005. The province is eligible to receive offshore offset payments for the second phase of the 2005 Offshore Accord, which runs from 2012–2013 until the end of 2019–2020.

The Canada Health Transfer (CHT)

In 2013–2014, the total provincial entitlement for CHT comprises a provincial per-capita allocation of a fixed national entitlement. The 2013–2014 national CHT amount that is available in cash and tax points is estimated to be $45.3 billion. The fixed national pool of cash to be distributed to provinces is $30.3 billion. Under an agreement reached in September 2004, the cash portion of CHT was legislated to grow by 6 per cent each year until the end of the 2013–2014 fiscal year, at which time it will change to an equal per-capita cash distribution. The 6 per cent annual escalator mechanism will stay in place until the end of 2016–2017.

The CHT cash entitlement for Nova Scotia is estimated to be $833.1 million in 2013–2014, an increase of $36.2 million or 4.5 per cent from the 2012–2013 budget estimate (up $38.1 million or 4.8 per cent compared to the 2012–2013 forecast). The estimate of the province's cash entitlement reflects the federal government's calculation on the province's share of national population, and personal and corporate income tax bases.

The Canada Social Transfer (CST)

Nova Scotia's 2013–2014 cash entitlement for CST is estimated to be $329.1 million, an increase of $7.2 million or 2.2 per cent from the 2012–2013 budget estimate (up $6.1 million or 1.9 per cent from the 2012–2013 forecast).

The provincial entitlement is based on an equal per capita cash provincial allocation of a fixed national entitlement, which stands at $12.2 billion for 2013–2014. Effective with the 2007 federal budget, the CST no longer contains a tax point transfer component. The national pool is legislated to grow by 3 per cent a year through to the end of the 2023–2024 fiscal year.

Crown Share Adjustment Payment

The Crown Share Adjustment Payment is estimated to be $9.4 million in 2013–2014, a decrease of $10.3 million or 52.3 per cent from the 2012–2013 budget estimate (down $2.3 million or 20.0 per cent compared to the 2012–2013 forecast). The decrease reflects declining offshore natural resource royalty revenues.

Other Federal Sources

Other Federal Sources are estimated to be $18.6 million in 2013–2014, basically unchanged from the 2012–2013 forecast.

This revenue source includes such items as Building Canada funding, Wait Times Reduction transfer, Public Safety Trust, and Infoway funding.

The federal Wait Times Reduction transfer is an equal per-capita allocation based upon the province's share of the national population. Nova Scotia's share of the $250.0 million national entitlement in 2013–2014 is $6.7 million, down $0.1 million or 1.1 per cent from both the 2012–2013 budget estimate and the 2012–2013 forecast due to the province's declining share of national population.

Tangible Capital Asset (TCA) Cost-Shared Revenue—Federal Sources

The estimate of TCA cost-shared federal revenue is $22.7 million for 2013–2014. This represents a decrease of $50.5 million or 69.0 per cent compared to the 2012–2013 budget estimate (a decrease of $3.5 million or 13.3 per cent from the 2012–2013 forecast). The decrease from estimate is the result of deferring $36.6 million for the Nova Centre to 2015–2016.

The federal TCA funding for 2013–2014 comes primarily ($20.0 million) from Building Canada and Provincial Territorial Base funding for road projects at Transportation and Infrastructure Renewal, with the remainder for Electronic Health Record and Drug Information System project in Health and Wellness.

Other

Recoveries

Ordinary Recoveries are projected to total $492.9 million in 2013–2014, a decrease of $75.6 million or 13.3 per cent from the 2012–2013 budget estimate (down $40.2 million from the 2012–2013 forecast). Provincial source recoveries are down $9.5 million from estimate to $266.9 million, while federal sources are down $66.1 million from estimate to $226.0 million. The reduction in federal sources relates primarily to the transfer of $69.4 million in funding from Community Services to the Housing Development Corporation, offset by a corresppponding reduction in Department of Community Services departmental spending.

Key Tax Measures—Personal Income Taxes

Removal of Personal Income Tax for GIS Recipients

Continuing for 2013–2014, residents of Nova Scotia who receive the Guaranteed Income Supplement (GIS) will continue to be refunded their provincial personal income taxes paid. The GIS is an income transfer paid by the federal government to low-income seniors who meet certain eligibility criteria. This measure will save seniors approximately $8 million in taxes in 2013–2014.

$1,000 Non-Refundable Age Amount Tax Credit for Low-Income Seniors

Starting in 2014, government will introduce a $1,000 non-refundable Age Amount tax credit for seniors with taxable income under $24,000. Low-income seniors will save an additional $6 million in personal income taxes upon full implementation. In combination with the refund of personal income tax to GIS recipients, over 25,000 seniors will no longer pay provincial personal income tax.

Fifth Tax Bracket and Elimination of the Personal Income Tax Surtax

Effective January 1, 2010, government implemented a fifth personal income tax bracket of 21 per cent applicable to taxable income exceeding $150,000. To offset the impact of this measure, government removed the 10 per cent surtax applied to Nova Scotia residents with provincial personal income taxes payable of more than $10,000. These measures will remain in place for fiscal 2013–2014. The fifth personal income tax bracket will add $80.3 million in revenues in 2013–2014 and affect approximately 6,000 tax filers. The removal of the surtax will save 25,000 tax filers a total of $33.8 million in 2013–2014.

Key Tax Measures—Business Taxes

Small Business Corporate Income Tax

For the fourth consecutive year, government will reduce the small business corporate income tax rate by 0.5 per cent. Effective January 1, 2014, the rate will be reduced from 3.5 per cent to 3.0 per cent.

On January 1, 2011, the province reduced the rate of corporate income tax for small businesses from 5.0 per cent to 4.5 per cent. Effective January 1, 2012, the rate was further reduced to 4.0 per cent. On January 1, 2013, the rate was again reduced to 3.5 per cent. The combined impact of the rate decreases will save small businesses an additional $25.9 million in 2013–2014, and $33.4 million per year upon full implementation. Small businesses currently save more than $200 million per year in taxes relative to the general corporate income tax rate of 16.0 per cent.

Until December 31, 2013, small businesses are eligible for the reduced rate on the first $400,000 of taxable income, if they are Canadian Controlled Private Corporations with taxable capital of $10 million or less. Effective January 1, 2014, the threshold will be reduced to $350,000.

Key Tax Measures—Consumption Taxes

Affordable Living Tax Credit

The province will continue to offer an HST credit to low-income households. For the average low-income household the credit will more than offset the impact of the HST rate increase that took place July 1, 2010.

The credit is paid quarterly in July, October, January, and April of each year. Effective July 1, 2012, the maximum rebate for households earning less than $30,000 per year is $255 per household plus $60 per dependant child. Above $30,000, the credit will be reduced by $0.05 per $1 of income and will be completely phased out at a household income of $35,100. Similar to the federal government's Goods and Services Tax credit, individuals will need to file an income tax return to be eligible to receive the HST credit.

Tobacco Taxes

Effective at 12:01 am on April 5, 2013, the tobacco tax rate will increase by $0.02 per cigarette, $0.02 per gram of fine-cut tobacco, and $0.02 per pre-proportioned tobacco stick. The new rate will be $0.2352 per cigarette, an increase of $4 per carton. Tobacco tax on a carton of cigarettes will be $47.04. The tobacco tax rate increase will generate an additional $18.1 million in revenues for 2013–2014.

HST Rebate on New Homes for First-Time Home Buyers

The province currently provides a rebate of 18.75 per cent (to a maximum of $3,000) of the provincial portion of the HST on new homes purchased by first-time home buyers. First-time home buyers are defined as individuals who have not owned and occupied a home in the past five years.

The maximum rebate was increased to $3,000 where the Agreement of Purchase & Sale is entered into on or after April 1, 2012.

The rebate is also available on the purchase of land, services, and materials for owner-built homes.

Point-of-Sale (POS) Rebates of HST

In 2013–2014, point-of-sale rebates of the provincial portion of the HST on the following products will continue:

- children's clothing
- children's footwear
- children's diapers
- feminine hygiene products

These rebates are in addition to those currently in effect for books and residential energy (Your Energy Rebate Program).

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 professional judgment as to the most probable set of economic conditions.

As these variables change and more information becomes available throughout the year, they may have an impact, either negative or positive, on the revenue forecasts. These impacts could be material. The province intends to update the forecast periodically throughout the forecast period. The above-referenced variables can move independently and may have offsetting effects.

The following table lists the specific key economic assumptions and variables that directly affect the calculation of provincial revenue estimate and forecast figures as included in this Revenue Outlook section, and reflect assumptions developed by the province as at March 4, 2013.

Revenue Source	Key Variables
Personal Income Taxes	• personal taxable income levels • provincial taxable income yield • tax credits uptake
Corporate Income Taxes	• national corporate taxable income levels as provided by Finance Canada • Nova Scotia share of national taxable income • tax credits 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 2013–2014 revenue estimates, the following information should also be taken into account when interpreting the revenue estimates.

The revenue estimates for 2013–2014 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 General Revenue Fund. As a result, revenues for certain government service organizations, which are included in schedule 2B, are not included in the revenue estimates of the General Revenue Fund.

The Department of Finance and other departments or agencies of the province have prepared specific revenue estimates for 2013–2014 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 projected from federal transfer payment programs pursuant to the Federal–Provincial Fiscal Arrangements Act incorporates official information released by the federal government as of December 17, 2012. In addition, CHT & CST revenue estimates are, in part, based on Canadian national and provincial population estimates supplied 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 2012–2013.

Government Business Enterprises—Net Income

Nova Scotia Liquor Corporation

The Nova Scotia Liquor Corporation (NSLC) returns all of its income from operations ("income") to the Government of Nova Scotia as shareholder. The NSLC is budgeting comprehensive income of $229.4 million in 2013–2014. This is an increase of 2.2 per cent compared to the 2012–2013 estimate of $224.5 million. Income is projected on net sales of $608.1 million for 2013–2014 as compared to $593.9 million for 2012–2013.

Nova Scotia Provincial Lotteries and Casino Corporation

The net income of the Nova Scotia Provincial Lotteries and Casino Corporation (NSPLCC) is budgeted to be $107.5 million in 2013–2014, which is $5.1 million lower than the 2012–2013 estimate of $112.6 million. Revenue will decline in 2013–2014 by $8.8 million compared to the 2012–2013 estimate, due in part to declines in the video lottery business line and casino revenue.

Halifax–Dartmouth Bridge Commission

Budgeted comprehensive net income for the 2013–2014 fiscal year is $11.8 million. This represents a $0.2 million or 1.9 per cent increase over the 2012–2013 budget estimate. The relatively stable net income is driven primarily by a slight increase in toll revenue, which is partially offset by projected cost increases.

Highway 104 Western Alignment Corporation

Highway 104 Western Alignment Corporation's budget estimate for 2013–2014 of $1.7 million is $0.7 million lower than 2012–2013, mostly as a result of increasing amortization costs. Extensive road rehabilitation is to be undertaken during fiscal 2013–2014.

Overview of Treasury Management

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

The Department of Finance is responsible for managing Nova Scotia's gross financial market debt portfolio, which is estimated at $15.5 billion as of March 31, 2013. 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 ($762.9 million). These assets total $3.5 billion and are subtracted from gross financial market debt to result in a net financial market debt of $12.0 billion. The management of this net financial market debt position consists of executing the borrowing program, investing sinking funds and the PDMF, and, where cost-effective to do so, executing derivative transactions.

The government's budgetary policy sets the context for treasury management operations. The province's annual fiscal plan sets the context for debt management. This budget shows that the government intends to balance the budget in 2013–2014 and all subsequent years.

The management of the debt portfolio and borrowing program must consider the external financial and economic environment. Entering 2013–2014, global financial markets continue to face considerable uncertainty and the prospects of an extended period of slow economic growth. While recent progress in some areas in the Eurozone may provide optimism that the worst of the financial crisis is over, there continue to be challenges in southern European countries—the most recent being Cyprus. The United States continues to face budgetary and financial difficulties with no resolution apparent in the near term.

The Budget Estimates and Public Accounts 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 the net acquisition of tangible capital assets.

In 2012–2013, the province had a $239.4 million increase in net financial market debt outstanding in financial markets due to the budgetary deficit, net acquisition of tangible capital assets, and on-lending activities of the General Revenue Fund. The province estimates that net financial market debt in financial markets will increase by about $132 million in 2013–

2014, due to the net acquisition of tangible capital assets and on-lending to crown corporations.

Nova Scotia's ratio of net debt to nominal gross domestic product at market prices is estimated to have stood at 36.3 per cent at March 31, 2013, up from 35.8 per cent a year earlier.

Nova Scotia Credit Ratings

Nova Scotia maintains a policy of full disclosure and transparency with financial market participants.

Nova Scotia actively communicates its economic and fiscal position both to investors and to bond-rating agencies. The improved fiscal outlook has been recognized by credit rating agencies. Nova Scotia has generally posted budgetary surpluses over the past decade, interrupted with modest budgetary deficits in 2009–2010, 2011–2012, and 2012–2013. In 2012–2013 all three rating agencies confirmed the province's credit rating, and DBRS put the province's rating on positive outlook. The following table shows current provincial credit ratings (note that (neg) refers to a negative outlook / (pos) a positive outlook, indicating the rating agency may change the respective province's credit rating downward/upward over the next year or so).

Canadian Provincial Ratings March 2013

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

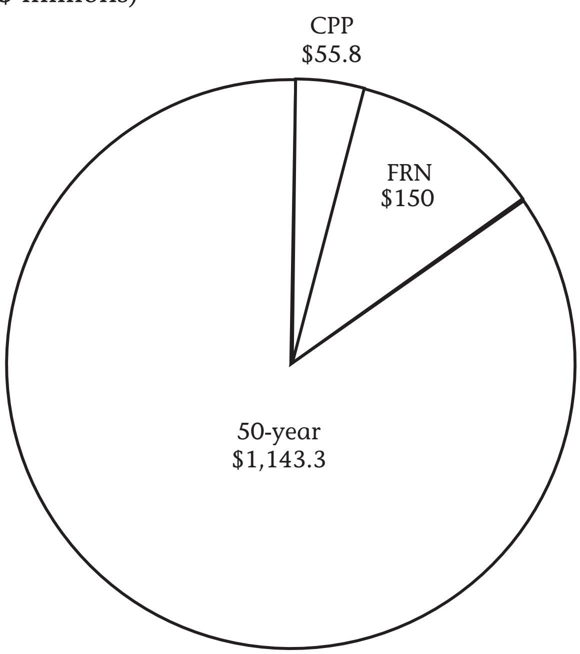
The structure of the debt portfolio has been evolving over the past number of years, with the intent of locking in historically low interest rates to protect the province's fiscal situation from unanticipated increases in interest rates, and managing the province's refinancing requirements for the long 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.

Primary Issuance Market

The Province of Nova Scotia expects to post a budgetary surplus of $16.4 million in 2013–2014. The Department of Finance will still have to borrow monies in capital markets for refinancing existing debt, funding the acquisition of tangible capital assets and on-lending to crown corporations, and other non-budgetary purposes.

Chart 3A: General Revenue Fund Debt Portfolio—Issuance Profile, 2012–2013
($ millions)



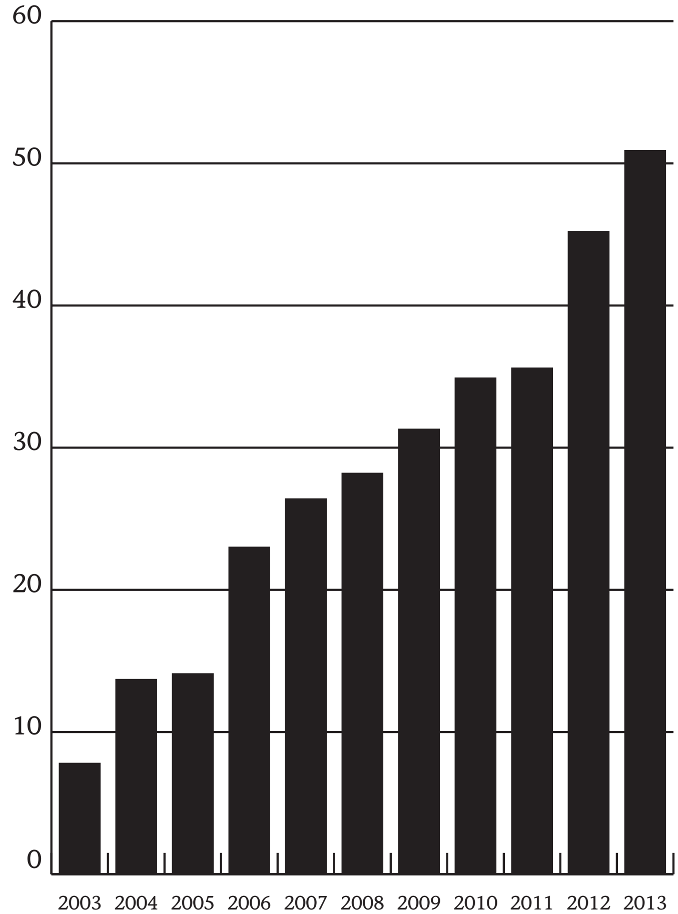
The management of the debt maturities and timing of new debt issuance is optimized by the use of discretionary sinking fund reserves held by the province. As noted below, these discretionary funds represent an integral component of the province's Treasury Management strategy, as their drawdown or replenishment can significantly alter the timing of debt issuance year-to-year.

In the fiscal year 2012–2013, the province borrowed $1,349 million compared to borrowing requirements of $1,171 million estimated in the budget. Market conditions and opportunities, particularly for long-term (50-year) debt issuance, were very favourable in 2012–2013. The borrowing completed in 2012–2013 includes $1,143 million of 50-year debt issued via private placement in four separate tranches during the fiscal year, a $150 million floating interest rate note, and $55.8 million rollover of debt held by the Canada Pension Plan Investment Board. 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. The province did pre-borrow for the 2013–2014 fiscal year. The increase in the borrowing requirements in 2012–2013 was primarily for the General Revenue Fund's purchase of $132 million in debt issued by the Nova Scotia Municipal Finance Corporation and a $64.1 million increase in acquisition of net tangible capital assets. Net capital advances to crown corporations were $149.1 million lower than the 2012–2013 Budget Estimates.

The Debt Management Committee, an advisory committee to the Minister of Finance, has had a policy guideline over the past number of years to increase the portion of long-term debt in the gross debt portfolio. The ultimate goal is to structure the maturity profile to withstand adverse changes in economic and fiscal circumstances. While long-term interest rates in Canada have generally been falling since peaking in the early 1990s, the province has only begun to issue long-term debt in recent years. Interest rates in Canada and the US fell during the 2008–2009 credit crisis and the European crisis in late 2010, and continued to fall even further in late 2011 and early 2012. In late 2011–2012 and in 2012–2013, the province took advantage of these very low long-term interest rates to borrow $1,489 million in the 50-year term by way of private placement (with a coupon rate of 3.50 per cent).

Treasury Management Strategy & Guidelines state that the province has an objective to have approximately 50 per cent of Net Financial Market Debt in issues longer than 15 years. Net Financial Market Debt at March 31, 2013, was about $12.0 billion. Over 2012–2013, the Department of Finance issued $1.2 billion in long-term debt, increasing the level of long-term debt to $6.1 billion. As the Department of Finance has met the objective of 50 per cent of long-term debt, the borrowing program going forward, based on the Strategy & Guidelines, will now be based on shorter-dated maturities.

Chart 3B: Per cent of Net Financial Market debt held as long-term debt (per cent)



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

At March 31, 2013, Nova Scotia Business Inc., Resource Recovery Fund Board, Nova Scotia Municipal Finance Corporation, Strategic Opportunities Fund, and Nova Scotia Crop and Livestock Insurance Commission had invested a total of $188.1 million with the General Revenue Fund.

Other entities that are not part of the Consolidated Entity invested $24.0 million with the General Revenue Fund. Those entities are the Nova Scotia Research and Innovation Trust, Nova Scotia Nominee Program, and Nova Scotia Crown Land Legacy Trust.

Projected term debt borrowing requirements for fiscal year 2013–2014 are expected to be $629.5 million. The Department of Finance does not anticipate drawing down discretionary sinking funds in 2013–2014. Schedule 3B also shows the projected borrowing program for 2014–2015 to 2016–2017. The borrowing program starts with the provincial budgetary surplus that decreases requirements. There are numerous cash versus accrual adjustments (non-budgetary items) that need to be made to determine the actual cash requirements of the General Revenue 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 2013–2014 are $121.9 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.

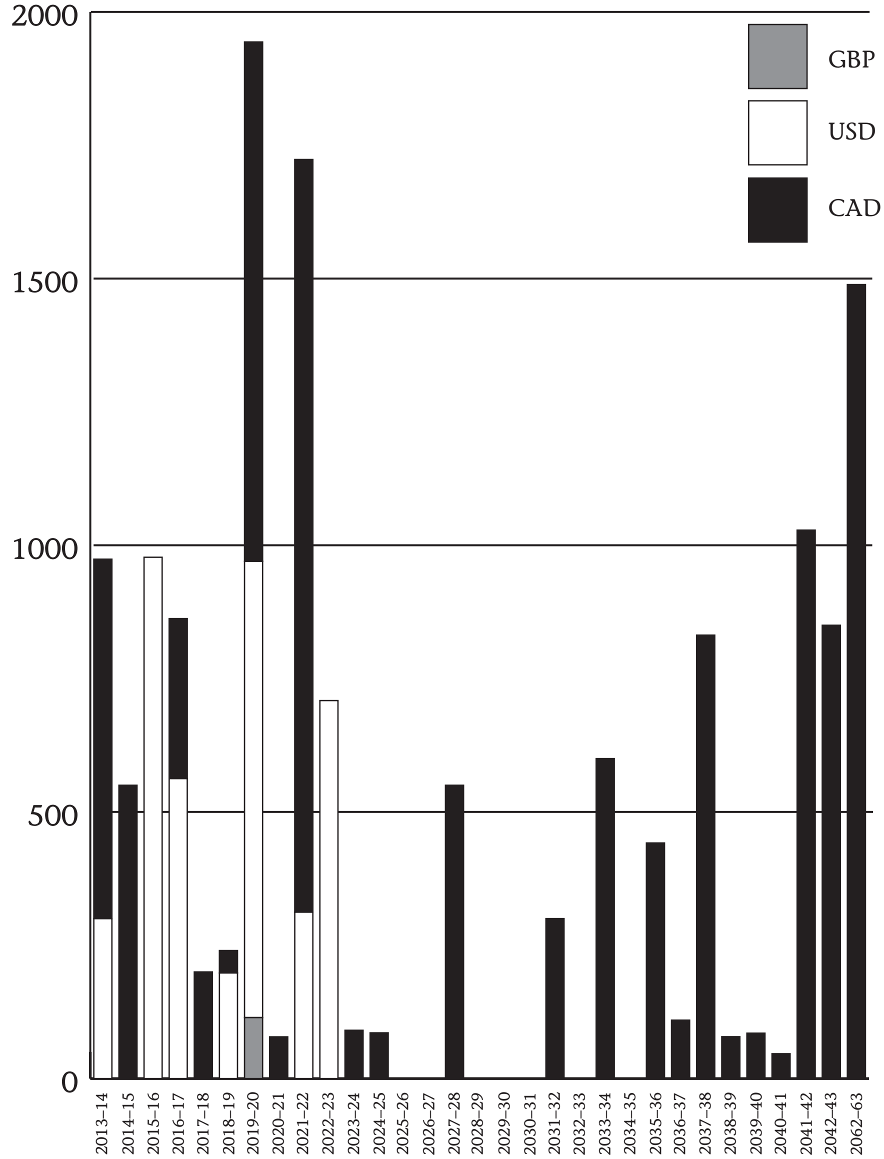
While the province demonstrated access to capital markets in fiscal year 2012–2013 by efficiently raising the monies through private placements, the province continues to maintain access to a diversity of borrowing sources, both domestically and in foreign markets. This access is a key factor in achieving 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 US 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 2013–2014. 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.

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 (all hedged to Canadian dollars), Canada Pension Plan non-marketable bonds, capital leases, and short-term promissory notes. Chart 3B, titled General Revenue Fund Debt Portfolio—Debenture Debt 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 US Global issue that was completed in July 2010 and matures in 2015 was swapped to Canadian dollars. The province has no debt issues outstanding with put options.

Chart 3C: General Revenue Fund Debt Portfolio—
Maturity Schedule
($ millions)



As at March 31, 2013, the average term to maturity of the gross debt portfolio was 16.2 years, up from 13.6 one year ago.

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, including principal repayments on capital leases, over the next three years are $999.7 million in the fiscal year 2013–2014, $578.1 million in the fiscal year 2014–2015, $1,007.6 million in the fiscal year 2015–2016, and $894.8 million in the fiscal year 2016–2017 (see Schedule 3B). In addition to the rollover of term debt, the borrowing program also includes the principal repayments under capital leases.

There are sizable maturities in US dollars in the fiscal years 2014 to 2023 that, by bond covenant, are fully funded with sinking funds at maturity. The first of these maturities is a US $300 million debt issue maturing on July 27, 2013. 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 for the province to refinance these issues in the year of maturity.

Foreign Currency Exposure

The Canadian dollar payable debt has represented 100 per cent of the debt portfolio since late 2007. The province currently has no foreign currency exposure, and Section 44 of the Finance Act continues to limit this exposure, stating: "Unless the foreign currency exposure of the public debt is less than twenty per cent, no further transactions that increase foreign currency exposure may be executed. No borrowing in a foreign currency may be executed that causes the foreign currency exposure of the public debt to exceed twenty per cent."

Interest Rate Mix

The debt portfolio's exposure to floating interest rates was increased over the past year, and ended the year at 9.6 per cent on March 31, 2013. 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.

The current level of floating interest rate debt is temporarily below the mid-point of the province's floating interest rate exposure policy, and the Department of Finance intends to raise the level of floating interest rate debt in 2013–2014. 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 zero to 35 per cent of total debt outstanding. The Department of Finance targets the mid-point of the policy range, which implies that a 1 per cent increase in interest rates relative to budget assumptions would increase debt servicing costs by $15 million.

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 often be more effective and done at a lower cost in derivative than would be possible in the cash market.

At March 31, 2013, 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 $5.2 billion notional face value of derivative transactions, down from a peak of $6.5 billion at March 31, 2011. The Department of Finance credit policy states that it executes derivative transactions only with well-rated counterparties. The Liability Management and Treasury Services divisions actively manage the credit risks of the derivative portfolio. The Debt Management Committee reviews all counterparty exposure and limits. When the counterparty has a split credit rating, the province considers the most conservative among the ratings.

Structure of Debt Management and Sinking Funds

Until March 31, 2002, the province provided sinking fund instalments 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 fund holdings 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 instalments for those debentures that contain sinking fund bond covenants. On those issues, annual sinking fund instalments generally range from 1 to 3 per cent of the par value of the original issue, but may vary slightly from year to year, based on actual and anticipated rates of return on sinking fund assets. Sinking fund payments relating to debentures payable in foreign currency are adjusted each year, as necessary, to reflect exchange rate movements since the date of issuance of the debentures. Sinking funds required by bond covenant are treated as restricted assets and are used solely for the retirement of specific debt issues.

At March 31, 2013, the estimated book value of the sinking funds was $2,691.8 million, of which $1,876.8 million was held in sinking funds established by way of bond covenant, and $815 million in the discretionary sinking funds that are held for policy purposes. 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 General Revenue Fund.

The assets of the sinking funds and PDMF are invested in high-quality investments. Those investment guidelines are subject to approval by the Debt Management Committee. All assets were invested in either federal or provincial debt obligations. Corporate bonds with a credit rating of at least “AA-” may be held in the sinking funds, but at March 31, 2013, there were no corporate bond holdings. The Sinking Fund General also holds $45 million of debt of the Halifax-Dartmouth Bridge Commission. The PDMF is typically invested in Government of Canada and provincial bonds. At March 31, 2013, cash and equivalents in the sinking fund were being held for a debt maturity in July 2013.

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 debenture issues in their entirety and at March 31, 2013, held a portfolio of $763 million NSMFC debentures in the General Revenue Fund, up from $730 million from a year earlier. The NSMFC asset portfolio held by the Department of Finance, along with sinking funds and the PDMF, are netted against the gross financial market debt of the province to arrive at net financial market 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

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

	Estimate 2012–13	Forecast 2012–13	Estimate 2013–14	Estimate 2014–15	Estimate 2015–16	Estimate 2016–17
Interest on Long-term Debt	735.1	731.5	724.8	740.9	739.5	729.7
General Interest	1.0	1.9	9.1	13.5	15.3	15.5
Interest on Pension, Retirement and Other Obligations	145.6	163.5	155.0	155.8	162.3	170.9
Gross Debt-Servicing Costs	881.7	896.8	888.9	910.2	917.1	916.1
Less: Sinking Fund Earnings	108.3	108.8	107.1	103.0	105.7	102.5
Net Debt-Servicing Costs	773.4	788.0	781.8	807.2	811.4	813.6

discounts/premiums, and short-term interest costs; and (3) the accrual of interest on the province's unfunded pension and post-retirement benefit obligations.

In 2013–2014, the province will incur $155.0 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, using 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 pensions and pension accounting, this is a more fiscally responsible approach and alleviates the effects of significant market fluctuations, both positive and negative, and assists in maintaining stability and predictability 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 General Revenue Fund's on-lending activities to crown corporation. That is, the General Revenue 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 General Revenue Fund earns interest on those monies lent to crown corporations and other investments, in the amounts of $69.8 million in the 2012–2013 forecast and $68.8 million in the 2013–2014 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 and ten-year Canada bond yields during the fiscal year. Sensitivity to these variables (the amount by which 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, and $2.5 million if ten-year Canada bond yields rose by one percentage point.

Risk Management

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

Schedule 3B: Projected Borrowing Requirements ($ millions)

	Estimate 2012–13	Forecast 2012–13	Estimate 2013–14	Estimate 2014–15	Estimate 2015–16	Estimate 2016–17
Budgetary (surplus)/deficit	211.2	356.4	(16.4)	(18.3)	(19.4)	(21.9)
Net Capital Advances	283.7	122.8	239.1	50.0	50.0	50.0
NSMFC Repayments	(98.7)	33.3	(92.4)	(88.3)	(90.7)	(80.0)
Tangible Capital Assets: Net Cash	219.5	283.7	121.9	122.7	267.5	90.7
Other Non-Budgetary Transactions[1]	(103.0)	(523.8)	(119.9)	(232.5)	(423.9)	(271.2)
Cash Operating Requirements	512.7	272.3	132.3	(166.4)	(216.5)	(232.4)
Cash Debt Retirement	**955.6**	**985.6**	**999.7**	**578.1**	**1,007.6**	**894.8**
Mandatory Sinking Fund (SF) Income	86.6	87.0	85.5	86.2	89.9	87.8
Mandatory SF Contributions	44.1	44.1	39.4	39.4	39.4	36.2
Mandatory SF Withdrawals	—	—	(299.9)	—	(205.7)	—
Net Mandatory SF Requirements	130.6	131.1	(175.0)	125.6	(76.4)	124.0
Discretionary Fund Income	21.8	21.8	22.5	17.3	16.7	16.7
Discretionary Fund Contributions	—	—	—	—	—	—
Discretionary Fund Withdrawals	—	—	—	—	—	—
Net Discretionary Fund Requirements	21.8	21.8	22.5	17.3	16.7	16.7
Total Requirements	1,620.7	1,410.8	979.5	554.7	731.3	803.0
Change in Short-Term Borrowing (inc)/dec	(450.0)	(62.0)	(350.0)	—	—	—
Total Borrowing Requirements	**1,170.7**	**1,348.8**	**629.5**	**554.7**	**731.3**	**803.0**

1. Non-budgetary Transactions consists 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 2012–13	Forecast 2012–13	Estimate 2013–14	Estimate 2014–15	Estimate 2015–16	Estimate 2016–17
Gross Debt						
Opening Balance	15,036.3	15,036.3	15,461.8	15,349.2	15,237.5	14,870.6
Borrowing Program	1,170.7	1,348.8	629.5	554.7	731.3	803.0
Debt Retirement	(955.6)	(985.6)	(999.7)	(578.1)	(1,007.6)	(894.8)
Change in Other Unfunded Debt1	450.0	62.3	257.6	(88.3)	(90.7)	(78.9)
Closing Balance	**15,701.4**	**15,461.8**	**15,349.2**	**15,237.5**	**14,870.6**	**14,699.8**
Mandatory Sinking Funds						
Opening Balance	1,745.8	1,745.8	1,876.8	1,701.9	1,827.5	1,751.0
Instalments	44.1	44.1	39.4	39.4	39.4	36.2
Earnings	86.6	87.0	85.5	86.2	89.9	87.8
Sinking Fund Withdrawals	—	—	(299.9)	—	(205.7)	—
Closing Balance	**1,876.5**	**1,876.8**	**1,701.9**	**1,827.5**	**1,751.0**	**1,875.0**
Discretionary Funds						
Opening Balance	793.2	793.2	815.0	837.5	854.8	871.5
Instalments	—	—	—	—	—	—
Earnings	21.8	21.8	22.5	17.3	16.7	16.7
Fund Withdrawals	—	—	—	—	—	—
Closing Balance	**815.0**	**815.0**	**837.5**	**854.8**	**871.5**	**888.2**
NSMFC Assets						
Opening Balance	729.5	729.5	762.8	670.4	582.1	491.4
Repayments	(98.7)	(98.7)	(92.4)	(88.3))	(90.7)	(78.9)
Advances	—	132.0	—	—	—	—
Closing Balance	**630.8**	**762.8**	**670.4**	**582.1**	**491.4**	**412.5**
Net Financial Market Debt	**12,379.2**	**12,007.2**	**12,139.5**	**11,973.1**	**11,756.6**	**11,524.2**

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 General Revenue Fund cash.

Schedule 3D: Projected Net Debt
($ millions)

	Estimate 2012–13	Forecast 2012–13	Estimate 2013–14	Estimate 2014–15	Estimate 2015–16	Estimate 2016–17
Net Debt – Opening Balance	**13,290.2**	**13,243.5**	**13,883.5**	**13,989.0**	**14,093.4**	**14,341.5**
Add (Deduct):						
Provincial Surplus on an Expense basis	211.2	356.4	(16.4)	(18.3)	(19.4)	(21.9)
Increase in the Net Book Value of Tangible Capital Assets	219.5	283.6	121.9	122.7	267.5	90.7
Inventories and prepaid expenses	—	—	—	—	—	—
Change in Net Debt	430.7	640.0	105.5	104.4	248.1	68.8
Net Debt—Closing Balance	**13,720.9**	**13,883.5**	**13,989.0**	**14,093.4**	**14,341.5**	**14,410.3**

Economic Assumptions

Highlights

The Nova Scotia economy has some insulation from global business cycles, but a small economy is exposed to the impacts of large local events. The recent economic performance and outlook have been more influenced by specific events rather than by broader global trends.

In the past two years, Nova Scotia's forest sector has shrunk. Monetary conditions remain easy in Canada, but fiscal restraint at both federal and provincial levels is expected to weigh on short-term growth. Deep Panuke production may strengthen output and exports this year, but not on a transformative scale. The opportunities for shipbuilding and other major project investments are medium-term growth drivers with little immediate impact on the economy.

Nova Scotia's economy is expected to grow at a slower pace than its long-run average. After growing by an expected 1.2 per cent in 2012, Nova Scotia's real GDP is expected to grow by 1.3 per cent in 2013 and by 1.5 per cent in 2014.

Global Economic Context

Despite its relative stability through the recent global recession, Nova Scotia's economy is still influenced by external conditions. The recession and financial crisis of 2008–2009 required extraordinary measures by governments in both advanced and emerging economies. While these fiscal, financial, and monetary interventions might have averted an economic collapse, they are still casting a shadow over the economic recovery.

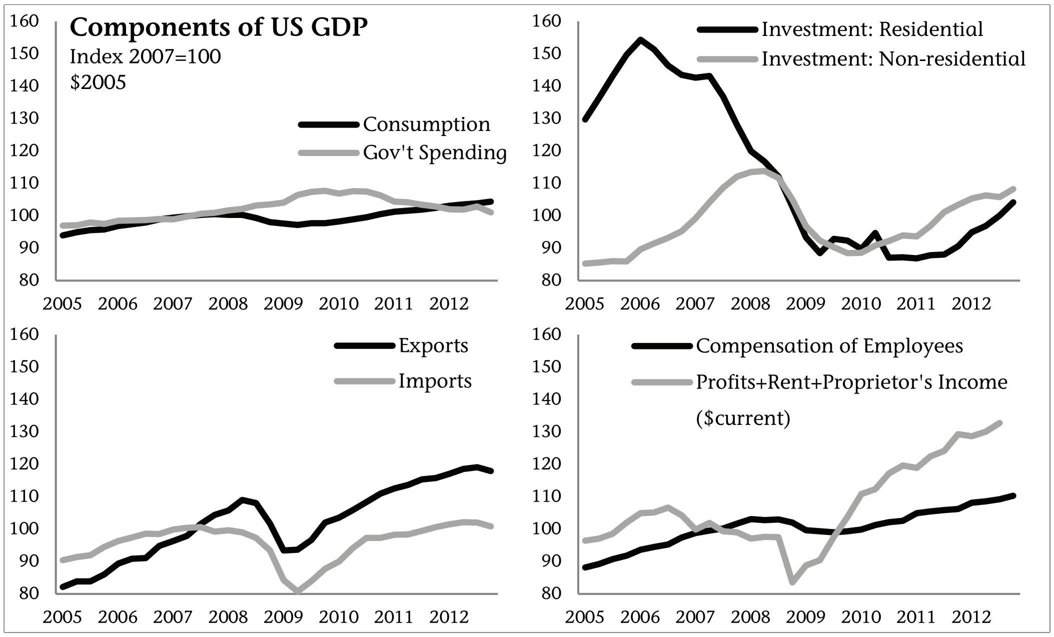
The IMF outlook for the global economy (January 2013) is slower than its previous forecast. The European economic outlook faces particular headwinds as governments balance pressures for fiscal austerity with the need to stimulate short-run economic growth. The US and the UK face steep budget deficits. Emerging and developing economies are again expected be the primary engines of global economic growth in the short term.

United States

US economic growth averaged 2.2 per cent through 2012, but economic growth slowed in North America through the latter half of 2012.

US personal consumer expenditures are recovering from their recessionary slump. However, government spending is waning as fiscal consolidation begins. The US housing sector was one of the primary causes of the global financial crisis, and its recovery has yet to reach the levels of real construction spending observed at its peak in 2006. Real private-sector non-residential investment has also improved, while export growth has outpaced import growth since the recession.

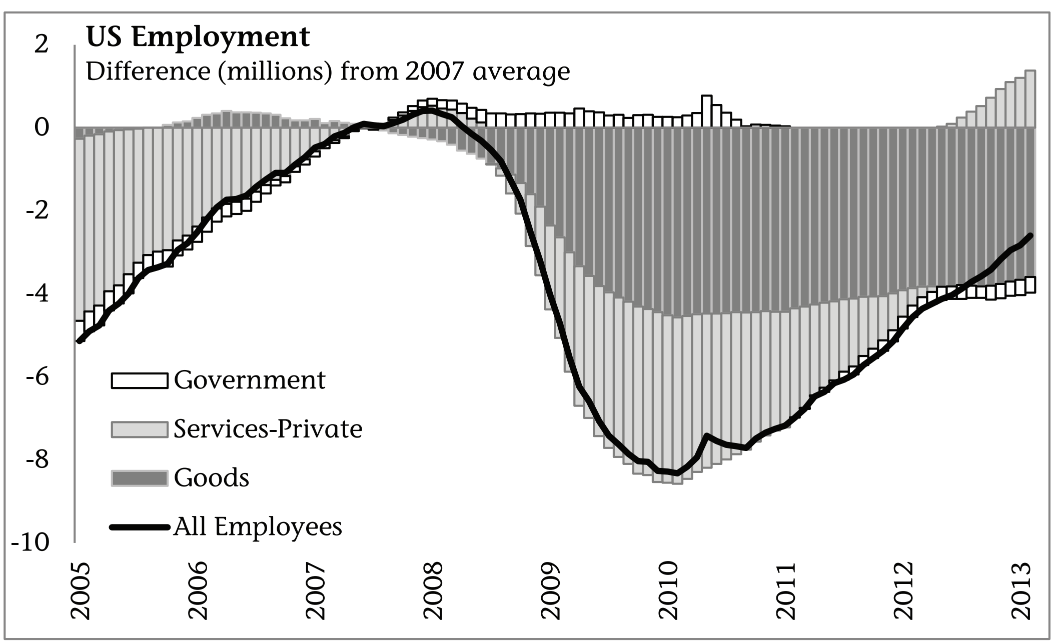
Figure 1 US Economic Growth in Recession and Recovery



Source: US Bureau of Economic Analysis, National Income and Product Account Table 1.1.6.

US job losses during the recession reached 8 million compared with their levels in 2007. Since their trough in 2010, US employment has recovered over one-half of the jobs lost, with growth primarily concentrated in private service-producing industries. Goods sector employment remains almost 4 million below the levels observed in 2007. US government employment has also declined through 2011 and 2012.

Figure 2 US Employment In Recession and Recovery



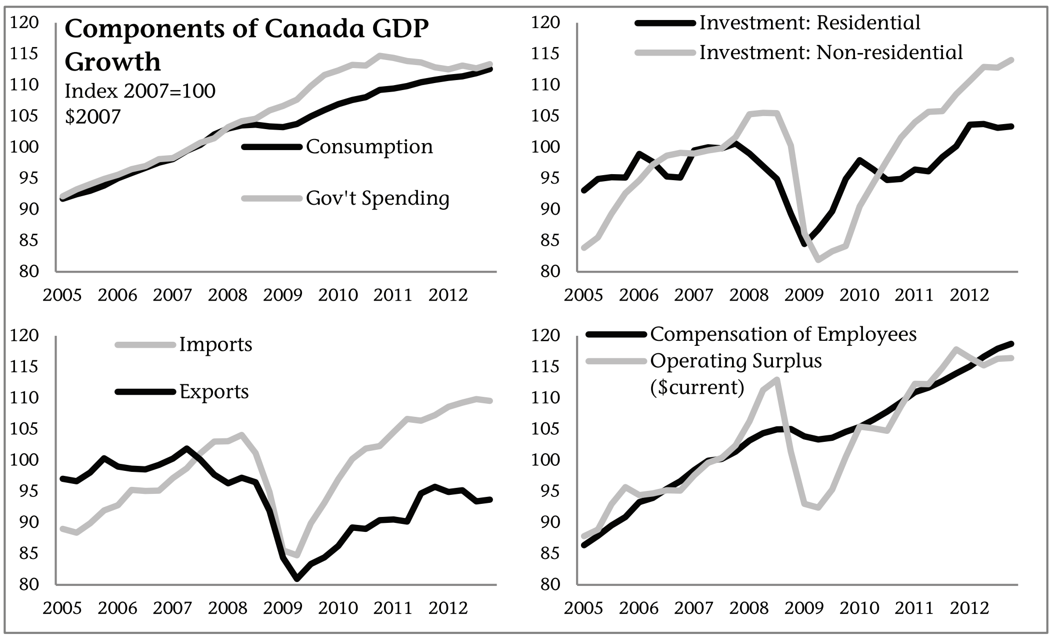
Source: US Bureau of Labor Statistics, Current Employment Statistics - Employment, Hours and Earnings (Natinal)

The Nova Scotia Budget uses an average of private-sector forecasters' projections for US real GDP: 2.0 per cent in 2013 and 3.0 per cent in 2014.

Canada

Canada's economy experienced a recession similar in duration and severity to that experienced in the US, though Canadian impacts on employment and residential investment were muted. Canadian economic stabilization and other policy interventions were much smaller than their US or European counterparts. Unlike the US, Canada's external balances (trade, current account) deteriorated during the recovery.

Figure 3 Canada Economic Growth in Recession and Recovery

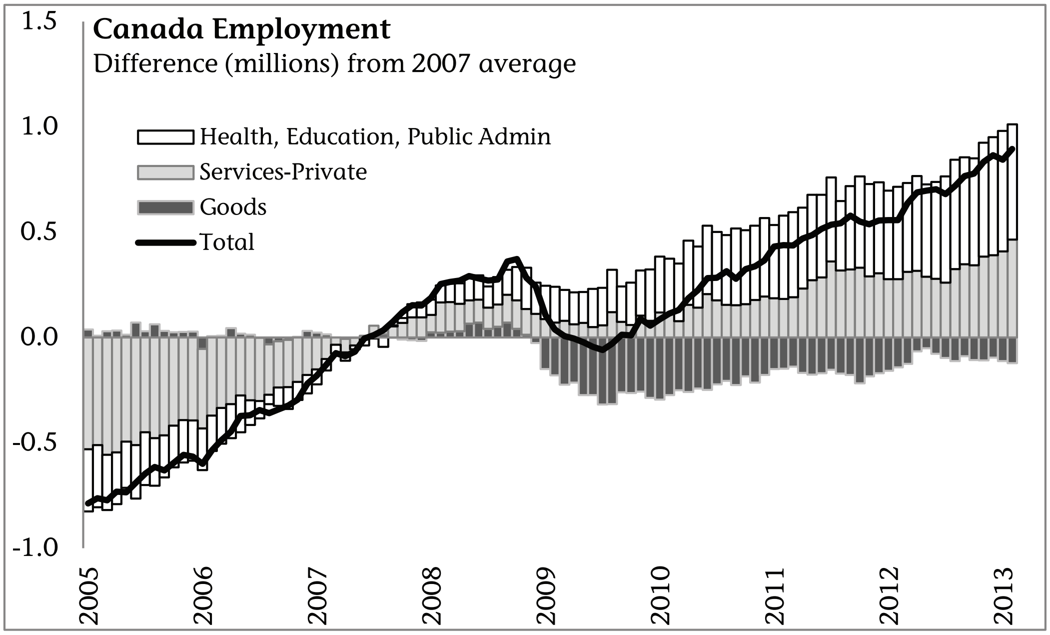


Source: Statistics Canada, CANSIM table 380-0064

Canada's economy grew by 1.8 per cent in 2012, the slowest pace since the recession. Private service-sector industries (apart from arts, entertainment, and recreation) experienced positive growth, but Canada's goods sector was weighed down by slow growth in primary industries: agriculture, forestry, fishing, mining, oil, and gas.

Compared with the average employment in 2007, Canada's economy has long since recovered any job losses observed during the recession. However, employment growth is entirely concentrated in service-sector industries, and of those more are in government-related sectors than private services. Goods employment in Canada still remains below pre-recession levels.

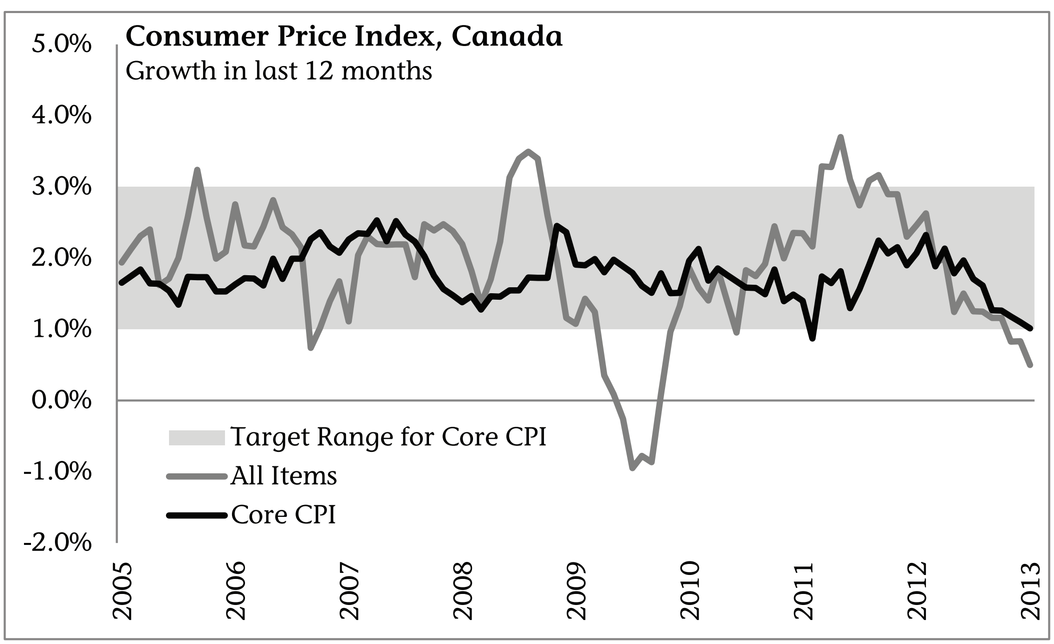
Figure 4 Canada Employment in Recession and Recovery



Source: Statistics Canada, CANSIM table 282-0088

With weak fourth-quarter economic growth as well as slowing inflation, the Canadian economy appears to be operating well below potential GDP.

Figure 5 Inflation in Canada



Source: Statistics Canada, CANSIM table 326-0020

The outlook for the Canadian economy remains modest, with real growth of 1.8 per cent projected for 2013 and 2.2 per cent for 2014. Canadian government and household spending are projected to remain sluggish as both attempt to improve balance sheets. In 2013 price growth is expected to remain muted, contributing to slow growth in nominal GDP (and likely in national tax bases).

The 2013–2014 Budget's exogenous assumptions are based on data, publications, and a survey of private-sector forecast publications available up to March 4, 2013.

Exogenous Assumptions

	2012[a]	2013	2014
US Real GDP	2.2	2.0	3.0
Canada Real GDP	1.8	1.8	2.2
Canada Nominal GDP	3.1	3.3	4.3
USD/CAD Exchange Rate	1.000	0.995	1.012
Natural Gas (USD/mmBTU, Henry Hub)	2.75	3.70	4.00
Crude Oil (USD/bbl, WTI)	94	90	90
Canadian Prime Lending Rate (%)	3.0	3.2	3.6
5 year Conventional Mortgage Rate (%)	5.3	5.0	5.6

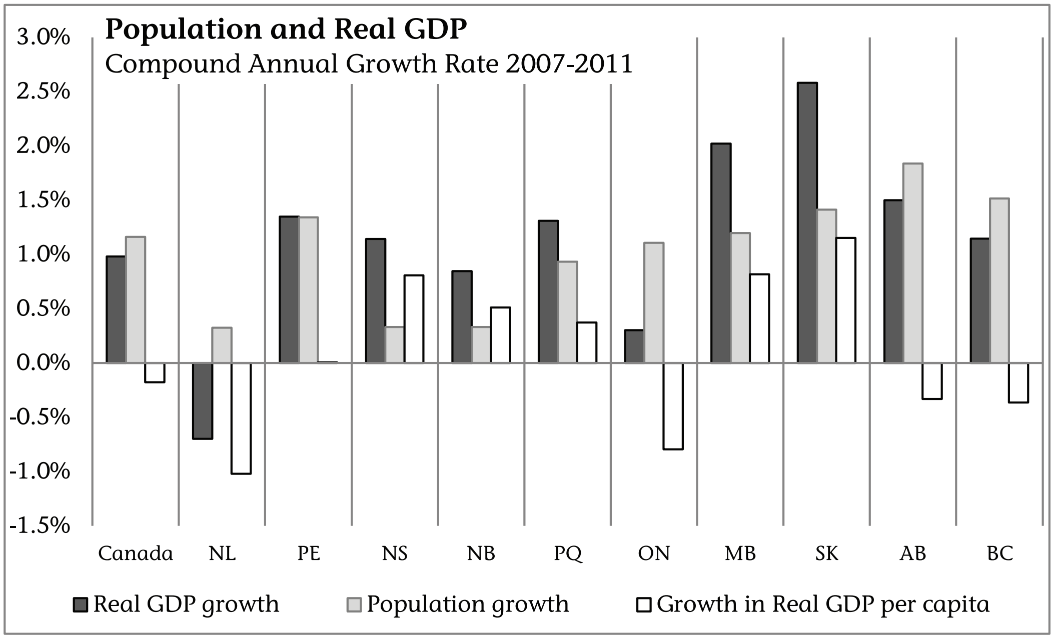
a~actual

Nova Scotia Economic Outlook

Recent Economic Performance

Nova Scotia experienced a recession in 2009. In the two years since that recession, Nova Scotia's economic growth has lagged that of other provinces. However, total economic growth has been stronger than population growth. Although Nova Scotia's real GDP has grown 0.2 percentage points faster than the national average from 2007 to 2011, its population growth has been among the slowest in the country over that period. With above-average economic growth and below-average population growth, Nova Scotia's real GDP per capita grew while national real GDP per capita actually declined from 2007 to 2011.

Figure 6 Population and Economic Growth



Source: Statistics Canada, CANSIM tables 051-0001, 384-0038, NS Department of Finance calculations

Recent data about Nova Scotia's economy give clear indications of the impacts of economic changes on the province.

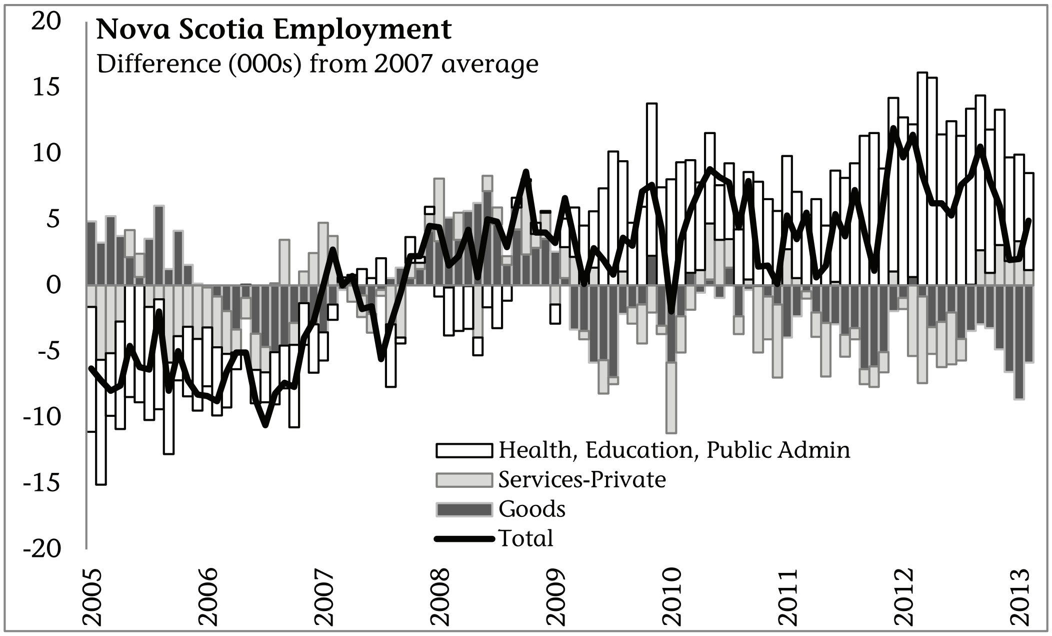
Nova Scotia's international exports were yet to recover to pre-recession levels when newsprint production ceased. With paper production declines in 2012, forest product exports were down 44 per cent from the previous year. At the same time, Nova Scotia's energy exports declined to less than 25 per cent of their previous levels as Nova Scotia's natural gas production was increasingly used within Canada.

Although employment was up 0.6 per cent in Nova Scotia last year, much of this was concentrated in part-time employment. As a result, labour income growth slowed to 2.0 per cent, a slower pace than was observed during the recession of 2009. Weak labour income growth translated into a 1.0 per cent growth in retail sales, the slowest pace of growth since the recession. Residential construction investments grew by 5.0 per cent in 2012.

Average employment was up 0.6 per cent in 2012 after stalling at 2008 levels for three years. Nova Scotia's labour markets are characterized by monthly volatility. Labour force growth outpaced employment growth in 2012, resulting in an increase in the annual average unemployment rate to 9.0 per cent.

Since the recession, Nova Scotia's employment has returned to pre-recession peaks for brief periods, but this has not been sustained. Compared with the 2007 levels, overall employment in Nova Scotia is up, but this is primarily attributable to rising health-care employment. Goods sector employment remains below 2007 levels, particularly over the last year.

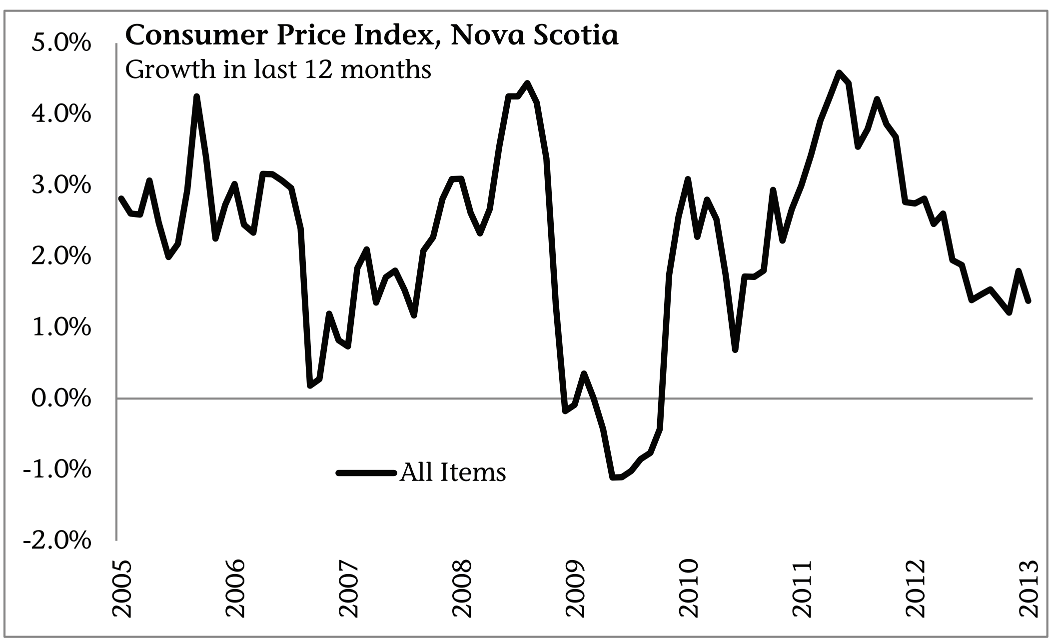
Figure 7 NS Employment in Recession and Recovery



Source: Statistics Canada, CANSIM table 282-0087

In the past several years, Nova Scotia's inflation has exceeded the national average whenever world oil prices rise. CPI Inflation slowed through much of last year, though it was faster than the national average.

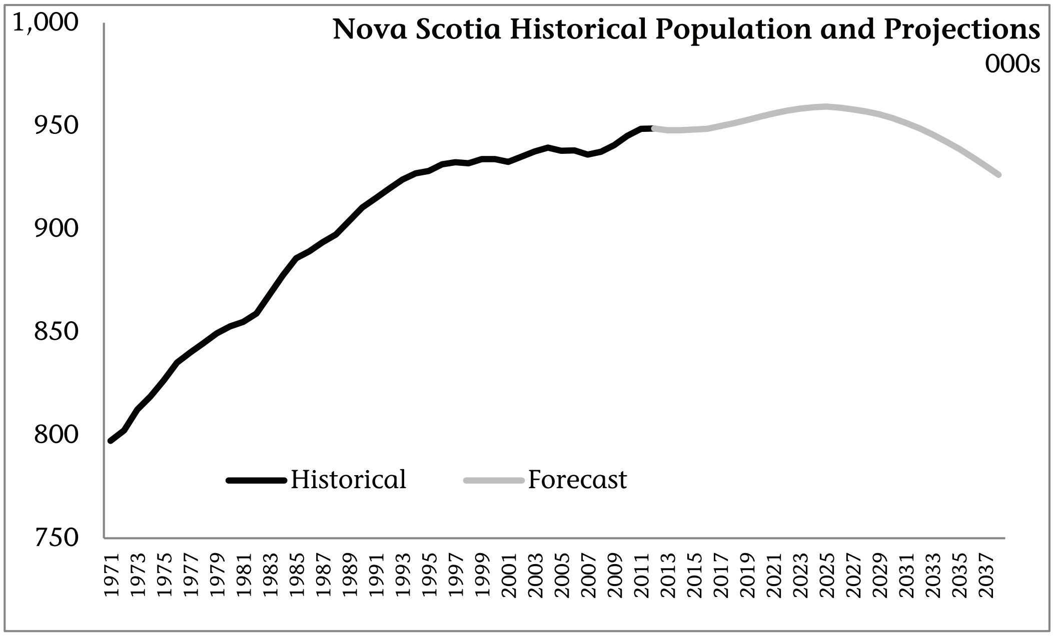
Figure 8 NS Inflation



Source: Statistics Canada, CANSIM table 326-0020

Demographic Outlook

Figure 9 Demographic Outlook



Source: Statistics Canada, CANSIM table 051-0001, NS Department of Finance projections

Nova Scotia's recent population growth lags behind the rest of the country.

Over the medium term, the national shipbuilding project is expected to get substantially underway. In modeling the economic impacts of these events, it is clear that additional labour supply is required. The economic impacts as assessed require greater labour supply than anticipated under current population projections and participation rates. As a result, the Department of Finance has adjusted its assumptions about net interprovincial migration in the medium term to fit with the scale of economic impacts associated with medium-term economic events like the shipbuilding project.

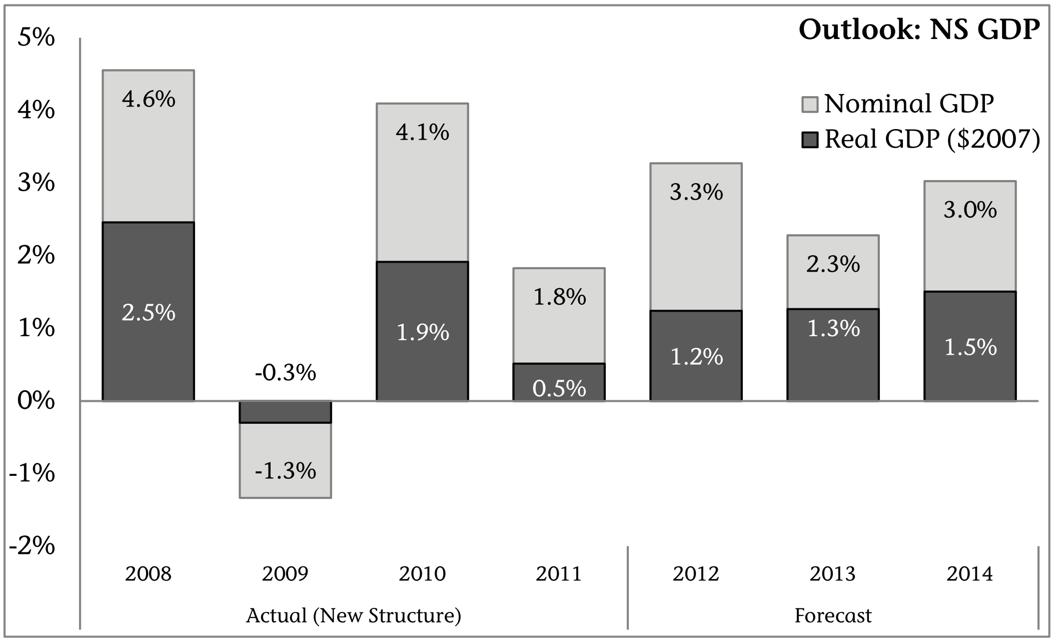
The Department of Finance's long-term demographic model assumes that net interprovincial migration will become positive from 2017 to 2021. This is a speculative assumption and constitutes a risk for the medium-term outlook, though not for the assumptions affecting 2013 and 2014.

If this migration assumption does not hold, then the economic impacts of major projects may not materialize as currently estimated. A medium-term labour constraint could result in different labour content for shipbuilding or restructuring other parts of the economy to focus on serving the shipbuilding labour requirements.

Nova Scotia's long-term demographic outlook follows a pattern similar to previous forecasts. Towards the end of the long-term forecast horizon, Nova Scotia's demographics still generate a population that will be substantially older, with far fewer citizens of prime working age (18–64) and a seniors' age cohort (65+) that will be just reaching its peak.

Economic Outlook

Figure 10 Nova Scotia Short Term Economic Outlook: GDP

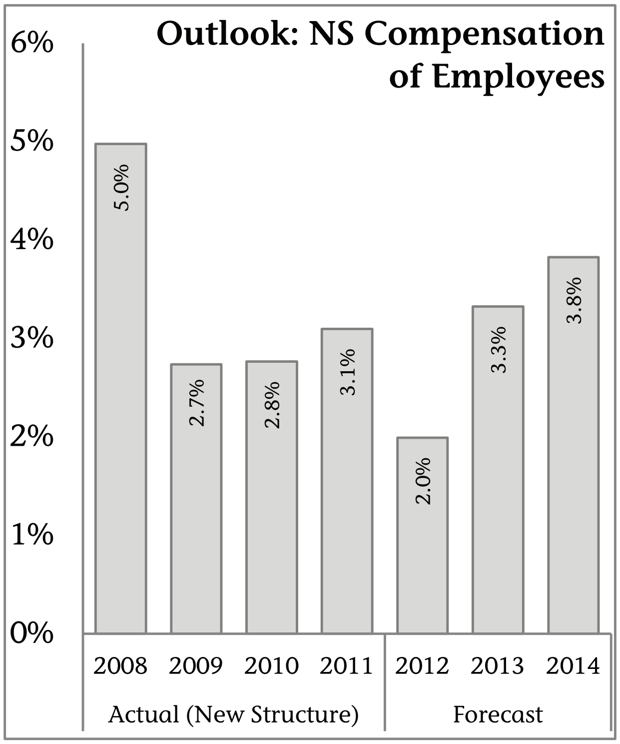


Source: Statistics Canada, CANSIM table 384-0038, NS Department of Finance foreast

Nova Scotia's economic outlook for the 2013–2014 Budget Assumptions has been tempered by closures in the forest sector and short-term restraint in government spending. With limited price inflation (low GDP deflators) in the short term, growth in nominal GDP is expected to be 2.3 per cent in 2013 and to quicken to 3.0 per cent in 2014.

The influence of Nova Scotia's economic outlook on the province's fiscal planning assumptions depends on several key components of GDP accounts. Many of these items are strongly correlated with important tax bases, and these economic indicators are used in projecting growth in own-source revenues.

Figure 11 Nova Scotia Short Term Economic Outlook: Compensation of Employees

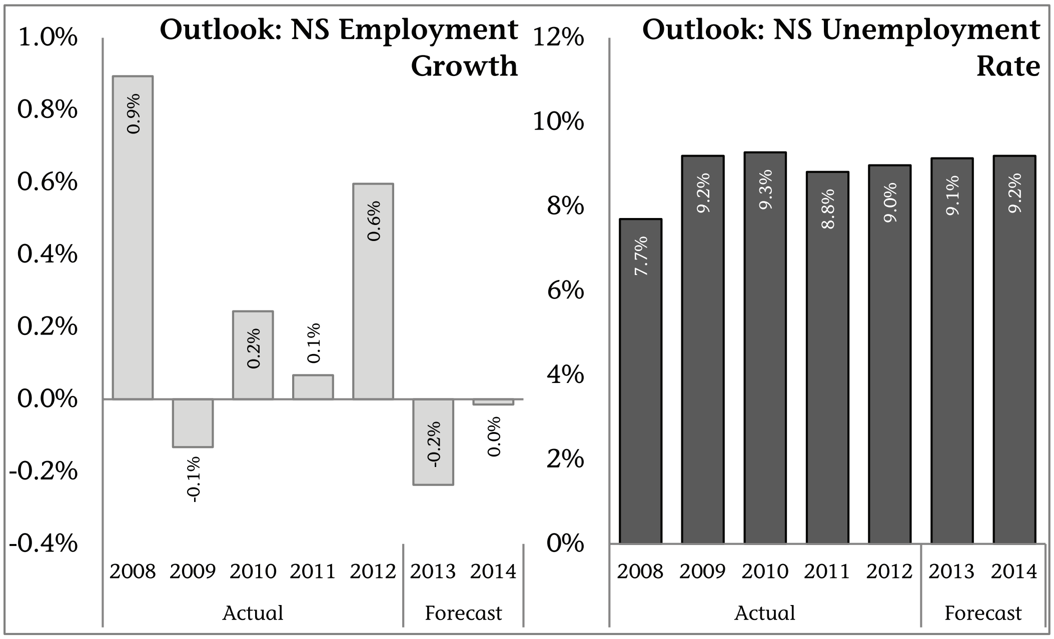


Source: Statistics Canada, CANSIM table 384-0037, NS Department of Finance foreast

Labour income has recently slowed, resulting in downward revisions to personal income tax forecasts. As part of its recent overhaul of the Provincial Economic Accounts in November, Statistics Canada reduced the 2010 growth of labour income from 4.8 per cent to 2.8 per cent.

Preliminary indications suggest that in 2012 labour income grew at a pace of only 2.0 per cent, mainly attributable to declines in three sectors: manufacturing, public administration, and mining/oil/gas. In 2013, labour income is expected to recover to a growth of 3.3 per cent, reflecting ongoing drag from forest industry and public sector restraint. This pace is marginally faster than labour income growth observed through the recession. In 2014, as the impacts of fiscal restraint are fading and some forest production returns, labour income growth is expected to strengthen to 3.8 per cent.

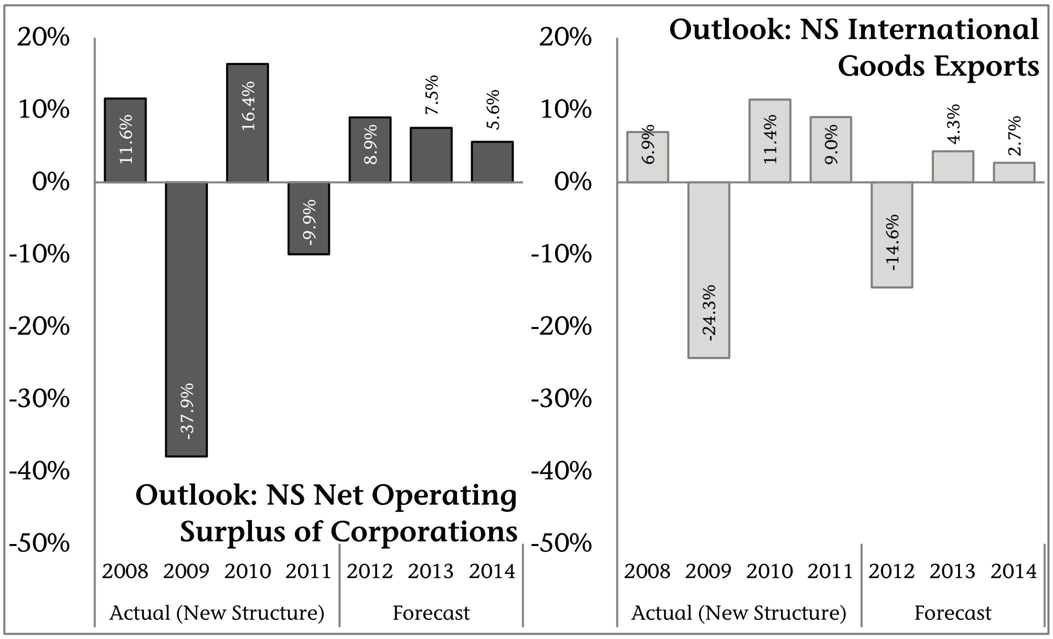
Figure 12 Nova Scotia Short Term Economic Outlook: Labour Markets



Source: Statistics Canada, CANSIM table 282-0002, NS Department of Finance foreast

In the coming two years, Nova Scotia's economic growth is expected to fall below its long-run average. During this time, there is little expectation of employment increase or improvement in unemployment rates. Nova Scotia's economic and labour market conditions will face headwinds from global uncertainties and ongoing fiscal consolidation.

Figure 13 Nova Scotia Short Term Economic Outlook: Profits and Exports



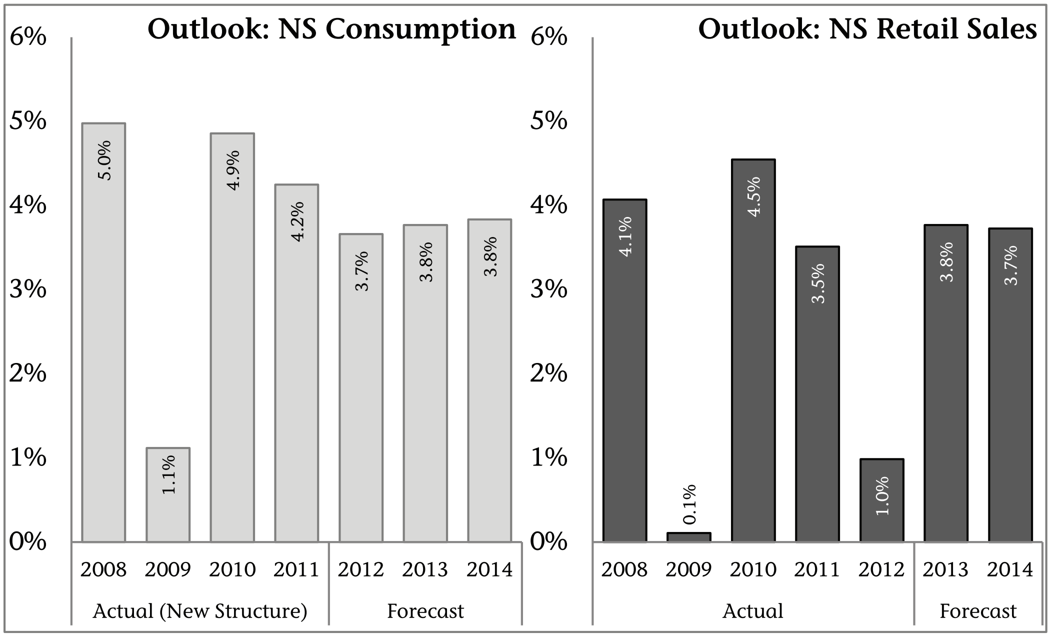
Source: Statistics Canada, CANSIM table 384-0037, 384-0038, NS Department of Finance foreast

The Nova Scotia Budget assumes that net operating surplus of corporations will rebound from a loss of 9.9 per cent in 2011 to gains of 8.9 per cent in 2012, 7.5 per cent in 2013, and 5.6 per cent in 2014.

Nova Scotia's international goods exports declined by almost 15 per cent in 2012 as newsprint and other forest sector production ceased. In addition, natural gas production was increasingly used by customers within Canada. In 2013, some forest producers will return to full output, and Deep Panuke gas production will come onstream. This output is expected to generate gains of 4.3 per cent in international goods exports for 2013 and 2.7 per cent in 2014.

Nova Scotia's consumption expenditures are expected to grow at a pace of 3.8 per cent per year, about the same as the average pace observed from 2007 to 2011. Slower growth of retail sales observed in 2012 is not expected to repeat in 2013 and 2014.

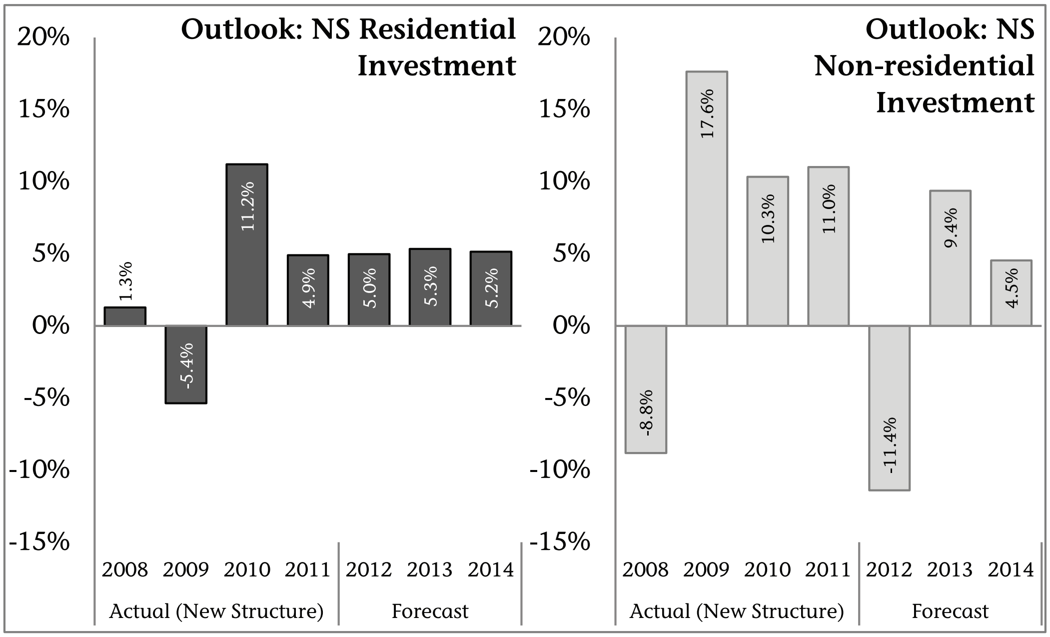
Figure 14 Nova Scotia Short Term Economic Outlook: Consumption and Retail Sales



Source: Statistics Canada, CANSIM table 080-0020, 384-0038, NS Department of Finance foreast

Total non-residential investment (in structures and in machinery and equipment) experienced growth through three of the last four years. Many of these investments can be attributed to specific projects such as the development of the Deep Panuke offshore field and investments in wind energy.

Figure 15 Nova Scotia Short Term Economic Outlook: Investment

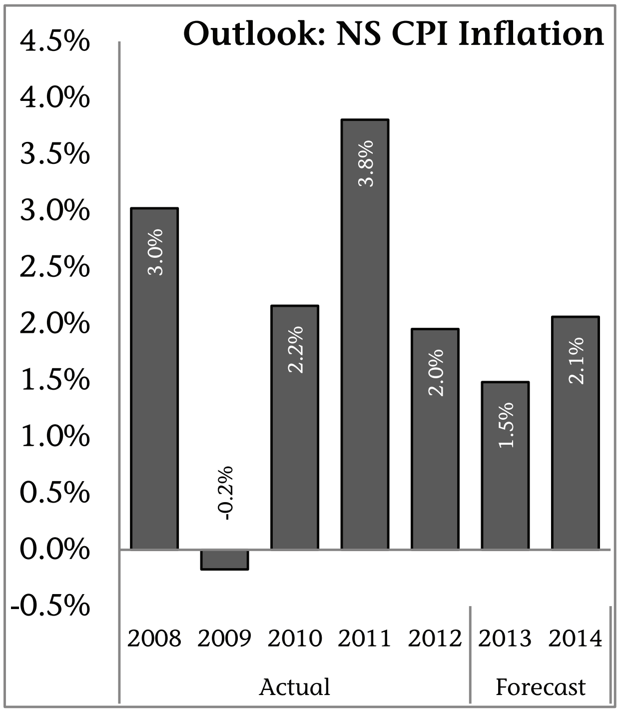


Source: Statistics Canada, CANSIM table 384-0038, NS Department of Finance foreast

Early indications suggest that investment in non-residential structures are down by 11.4 per cent in 2012. In the coming years, the Department of Finance has identified a range of larger and smaller projects that are expected to keep non-residential investment growing at a pace closer to that observed from 2009 to 2012.

This economic forecast includes expected upgrades at Halifax Shipyard over the next two years in anticipation of ship construction beginning at the middle of the decade.

Figure 16 Nova Scotia Short Term Economic Outlook: Inflation



Source: Statistics Canada, CANSIM table 326-0021, NS Department of Finance foreast

Despite slow economic growth and an aging population, preliminary indications suggest residential investment expanded by 5.0 per cent in 2012. This growth is expected to continue at a similar pace in 2013 and 2014.

Inflation is slowing across most advanced economies and monetary authorities have indicated little concern about price inflation in the short run. The Nova Scotia Budget assumes consumer price inflation to be 1.5 per cent in 2013, returning to a more typical pace of 2.1 per cent in 2014.

The Nova Scotia economic forecast contains data and information up to and including March 4, 2013.

Nova Scotia Economic Forecast

Per cent change, except where noted	2012	2013	2014
Real GDP ($2007, chained)	1.2	1.3	1.5
Nominal GDP	3.3	2.3	3.0
Compensation of Employees	2.0	3.3	3.8
Household Final Consumption	3.7	3.8	3.8
Retail Sales	1.0[a]	3.8	3.7
Consumer Price Index	2.0[a]	1.5	2.1
Residential Investment	5.0	5.3	5.2
Net Operating Surplus: Corporations	8.9	7.5	5.6
Exports of Goods to Other Countries	-14.6	4.3	2.7
Population (000s)	948.7[a]	947.9	947.8
Employment	0.6[a]	-0.2	0.0
Unemployment Rate	9.0[a]	9.1	9.2

Private Sector Consensus, NS Real GDP

(as of March 4, 2013)

High	1.5	1.9	2.5
Average	1.1	1.6	2.1
Low	0.6	1.3	1.5

a~actual

With the November 19, 2012, historical revisions to the Provincial Economic Accounts, Statistics Canada has changed the structure of Nova Scotia's accounts. The forecasts are presented under the new structure and definitions, while older Budget Assumptions were based on the previous structure of the Provincial Economic Accounts.

Real GDP growth is now reported in chained 2007 dollars; the Budget Assumption is in chained 2002 dollars.

Real GDP and Nominal GDP in the updated forecast reflect revised treatment of military weapons systems and research and development. Both are treated as capital assets in the updated Provincial Economic Accounts.

Under the new structure of the economic accounts, Statistics Canada no longer reports personal income; instead it reports household income.

Instead of household income, the Department of Finance will now report its forecast summary based on compensation of employees (which is available quarterly, allowing for better in-year monitoring of the forecast).

Under the new structure of the economic accounts, household final consumption does not include final consumption expenditures of non-profit organizations serving households and aboriginal general governments.

Under the new structure of the accounts, net operating surplus of corporations is defined as total output less intermediate inputs and compensation of employees, with inventory valuation adjustments. The prior structure reported the closely related concept of corporate profits. Corporate profits were adjusted for net interest income as well as royalties and did not adjust for inventory valuation.

Although there is no change to trade items under the new structure of the Provincial Economic Accounts, the Department of Finance will now summarize its forecast for trade based only on international exports of goods. Comparison of this assumption against monthly merchandise trade data allows for some in-year monitoring of the forecast.

Risks to the Economic Forecast

The Nova Scotia Budget's economic assumptions constitute a forward-looking assessment of economic conditions for the province, based on information up to March 4, 2013. As new information is revealed subsequent to March 4, 2013, the results of this forecast are subject to change. When substantial deviations are observed after publication of the Budget Assumptions, the Department of Finance will revise its economic outlook.

Global economic uncertainties have apparently settled in recent months, though economic events in the past five years have shaken confidence in global prospects. This confidence will take time to repair and could be further eroded by unforeseen crises.

Recovery in the US and Europe is still vulnerable to fears of fiscal paralysis. The US government could deliver an adverse shock to recovery by undertaking severe expenditure cuts and tax increases that overwhelm economic recovery. European financial markets have settled for the time being, but the threat of weak growth and further instability in sovereign debt markets could re-emerge quickly. Additional geopolitical instability always threatens to destabilize commodities, trade, and financial markets.

Canada's economy is expected to post weaker growth in the coming years while it waits for better global circumstances. Households and governments in Canada are both in the process of improving balance sheets. If Canadians undertake severe household and government austerity at the same time, it could stifle domestic demand in Canada before the trade outlook improves. This risk would be exacerbated by a faster increase in interest rates than assumed in this forecast. Even within Canada's trade outlook, there are increasing risks that energy production is vulnerable to increased competition from unconventional US supplies.

Nova Scotia's economic risks are biased to the negative side in the short term. Nova Scotia's economy remains vulnerable to as-yet-unknown impacts associated with federal fiscal restraint. This forecast assumes that federal fiscal austerity will affect Nova Scotia in proportion to the province's share of federal government spending. This may not be consistent with actual expenditure plans.

Over the medium term Nova Scotia's fiscal planning assumptions generally have upside risk, as the Department of Finance does not incorporate the outlook for a number of major investment projects. When details and plans become firmer for these projects, the province's economic forecast will likely be affected. This forecast does include assumptions around investment in the Halifax Shipyard and subsequent vessel construction, but these impacts may not materialize as planned.

Finally, Statistics Canada's recent restructuring and revisions to the Provincial Economic Accounts are only available from 2007 to 2011.

With only a limited time series on which to base forecast models, the Department of Finance has made a number of adjustments to its forecast processes. Being deviations from the ordinary forecast procedure, these adjustments may themselves elevate the level of uncertainty in this economic forecast.

Economic Forecasting Process

Section 56(3)(b) of the Finance Act requires the Minister of Finance to present the major economic assumptions made in preparing the fiscal plan. The Nova Scotia Department of Finance prepares economic forecasts as part of the fiscal planning process. The provincial forecast results are generated in Statistics Canada's revised income and expenditure account format.

Economic forecasts help inform the Minister of Finance and the Treasury Board of the potential size of tax bases. The economic forecast also provides the Minister and the Treasury Board with context on the size of government expenditures relative to the entire value of production in the province. Nominal GDP growth is the broadest indicator of the size of the tax base and of the dollar value of production in the province. However, it is generally the sub-components of nominal GDP that are directly incorporated into the Budget revenue forecast.

The Department of Finance uses a proprietary econometric forecasting model to project the key indicators of Nova Scotia's economy. The model builds future projections on historical trends as well as a number of exogenous (i.e., external) assumptions about global conditions that affect the performance of Nova Scotia's economy. The demographic and economic outlooks presented in this document are based on data, fiscal plans, and information available up to March 4, 2013. This leads to a forecast prepared, reviewed, and approved for use in fiscal planning as of March 26, 2013.

Nevertheless, unforeseen and unforeseeable events will undermine the accuracy of any forward-looking statement such as an economic forecast, and the results of the provincial economic forecast are only intended to provide a reasonable basis for fiscal planning.

In the process of generating an economic forecast, staff identify conditions that are expected to deviate from historical trends, and make appropriate adjustments to reflect these events. Because forecasting is a difficult but important part of the budget planning process, the Department of Finance conducts challenge and review sessions to validate the economic forecast. Before using economic assumptions and forecasts for budget planning, the Department of Finance presents them to members of the academic community and leading private-sector forecasters. These experts evaluate whether the exogenous assumptions and resulting economic forecasts form a reasonable and internally coherent basis for fiscal planning. Department staff note any challenges to the economic forecast and determine whether further adjustments are necessary. Senior management of the Department of Finance participate in challenge sessions, so that they can hear credible, objective advice on whether the economic forecast is a reasonable basis for fiscal planning.

After the economic forecast has been challenged, reviewed, and approved, it is shared with the Office of the Auditor General for further review as part of the OAG's review of revenue estimates. In addition to scrutinizing the reasonableness of the forecast itself, the OAG ensures that the economic forecast reflects consistent process, full disclosure of assumptions, and appropriate approvals.

The OAG's review of economic forecasts is a unique procedure in Canada, providing an additional layer of transparency in the budget process.

Economic Performance and Outlook - Key Indicators

Supplementary to the 2013-2014 Budget

NOVA SCOTIA

Schedule 3E
Nova Scotia Economic Performance and Outlook, Key Indicators

		ACTUAL			
		2008	2009	2010	2011
Gross domestic product at market prices ($ millions)		35,392	34,921	36,351	37,016
	(% change)	*4.6%*	*-1.3%*	*4.1%*	*1.8%*
Gross domestic product at market prices ($2007, chained millions)		34,685	34,581	35,243	35,424
	(% change)	*2.5%*	*-0.3%*	*1.9%*	*0.5%*
Compensation of employees ($ millions)		18,404	18,908	19,431	20,033
	(% change)	*5.0%*	*2.7%*	*2.8%*	*3.1%*
Primary household income ($ millions)		24,835	25,397	26,160	26,966
	(% change)	*3.8%*	*2.3%*	*3.0%*	*3.1%*
Household final consumption expenditure ($ millions)		23,332	23,593	24,739	25,790
	(% change)	*5.0%*	*1.1%*	*4.9%*	*4.2%*
Retail Sales ($ millions)		12,089	12,102	12,652	13,097
	(% change)	*4.1%*	*0.1%*	*4.5%*	*3.5%*
Consumer Price Index (2002=100)		115.9	115.7	118.2	122.7
	(% change)	*3.0%*	*-0.2%*	*2.2%*	*3.8%*
Business gross fixed capital formation: residential structures ($ millions)		2,389	2,261	2,514	2,637
	(% change)	*1.3%*	*-5.4%*	*11.2%*	*4.9%*
Business gross fixed capital formation: non-res.,M&E($ millions)		2,526	2,971	3,278	3,639
	(% change)	*-8.8%*	*17.6%*	*10.3%*	*11.0%*
Net operating surplus: corporations ($ millions)		3,868	2,402	2,795	2,517
	(% change)	*11.6%*	*-37.9%*	*16.4%*	*-9.9%*
Exports of goods and services ($ millions)		16,151	13,591	14,934	15,836
	(% change)	*6.2%*	*-15.9%*	*9.9%*	*6.0%*
Exports of goods to other countries ($ millions)		6,754	5,112	5,696	6,210
	(% change)	*6.9%*	*-24.3%*	*11.4%*	*9.0%*
Less: imports of goods and services ($ millions)		22,688	21,744	23,367	25,820
	(% change)	*3.5%*	*-4.2%*	*7.5%*	*10.5%*
Population (000s July 1)		937.5	940.6	945.2	948.5
	(% change)	*0.2%*	*0.3%*	*0.5%*	*0.3%*
Labour Force (000s annual average)		489.4	497.0	498.8	496.6
	(% change)	*0.6%*	*1.6%*	*0.4%*	*-0.4%*
Participation rate (per cent, annual average)		63.6%	64.3%	64.2%	63.7%
	(change)	*0.1%*	*0.7%*	*-0.1%*	*-0.4%*
Employment (000s annual average)		452.0	451.4	452.5	452.8
	(% change)	*0.9%*	*-0.1%*	*0.2%*	*0.1%*
Unemployment rate (per cent, annual average)		7.7%	9.2%	9.3%	8.8%
	(change)	*-0.3%*	*1.5%*	*0.1%*	*-0.5%*

Schedule 3E
Nova Scotia Economic Performance and Outlook, Key Indicators

		FORECAST			Annual Average (CAGR)	
		2012	2013	2014	2008-2011	2011-2014
Gross domestic product at market prices ($ millions)		38,227	39,099	40,283	1.5%	2.9%
	(% change)	*3.3%*	*2.3%*	*3.0%*		
Gross domestic product at market prices ($2007, chained millions)		35,864	36,318	36,865	0.7%	1.3%
	(% change)	*1.2%*	*1.3%*	*1.5%*		
Compensation of employees ($ millions)		20,432	21,112	21,920	2.9%	3.0%
	(% change)	*2.0%*	*3.3%*	*3.8%*		
Primary household income ($ millions)		27,510	28,521	29,545	2.8%	3.1%
	(% change)	*2.0%*	*3.7%*	*3.6%*		
Household final consumption expenditure ($ millions)		26,734	27,741	28,804	3.4%	3.8%
	(% change)	*3.7%*	*3.8%*	*3.8%*		
Retail Sales ($ millions)		13,225	13,724	14,235	2.7%	2.8%
	(% change)	*1.0%*	*3.8%*	*3.7%*		
Consumer Price Index (2002=100)		125.1	127.0	129.6	1.9%	1.8%
	(% change)	*2.0%*	*1.5%*	*2.1%*		
Business gross fixed capital formation: residential structures ($ millions)		2,768	2,915	3,065	3.3%	5.1%
	(% change)	*5.0%*	*5.3%*	*5.2%*		
Business gross fixed capital formation: non-res.,M&E($ millions)		3,224	3,526	3,686	12.9%	0.4%
	(% change)	*-11.4%*	*9.4%*	*4.5%*		
Net operating surplus: corporations ($ millions)		2,742	2,948	3,113	-13.3%	7.3%
	(% change)	*8.9%*	*7.5%*	*5.6%*		
Exports of goods and services ($ millions)		15,242	15,855	16,530	-0.7%	1.4%
	(% change)	*-3.8%*	*4.0%*	*4.3%*		
Exports of goods to other countries ($ millions)		5,305	5,534	5,682	-2.8%	-2.9%
	(% change)	*-14.6%*	*4.3%*	*2.7%*		
Less: imports of goods and services ($ millions)		24,985	26,124	27,118	4.4%	1.6%
	(% change)	*-3.2%*	*4.6%*	*3.8%*		
Population (000s July 1)		948.7	947.9	947.8	0.4%	0.0%
	(% change)	*0.0%*	*-0.1%*	*0.0%*		
Labour Force (000s annual average)		500.4	500.1	500.4	0.5%	0.3%
	(% change)	*0.8%*	*-0.1%*	*0.0%*		
Participation rate (per cent, annual average)		64.1%	64.1%	64.1%	*64.0%	*64.0%
	(change)	*0.4%*	*0.0%*	*0.0%*		
Employment (000s annual average)		455.5	454.4	454.4	0.1%	0.1%
	(% change)	*0.6%*	*-0.2%*	*0.0%*		
Unemployment rate (per cent, annual average)		9.0%	9.1%	9.2%	*8.8%	*9.0%
	(change)	*0.2%*	*0.2%*	*0.1%*		

*average level, not growth rate